THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this prospectus or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, together with copies of the provisional allotment letter and the form of application for excess Rights Shares (as defined herein), have been registered by the Registrar of Companies in Hong Kong as required by section 38D of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of any documents referred to above.

The Rights Issue Documents (as defined herein) have not been and will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. No action has been taken in any territory other than Hong Kong to permit the offering of the Rights Shares or the distribution of the Rights Issue Documents. Accordingly, no provisions or allotment of Right Shares will be made to the Non-Qualifying Shareholders (as defined herein) and no PAL (as defined herein) and EAF (as defined herein) will be transferable by or accepted from a Non-Qualifying Shareholder.

If you have sold or transferred all your shares in the Company (as defined herein), you should at once hand this prospectus and accompanying PAL and EAF to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, such accompanying forms should not be forwarded or transferred to the Non-Qualifying Shareholders.

Dealings in the shares of the Company may be settled through CCASS (as defined herein) and you should consult your stockbroker or other persons licensed to deal in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange (as defined herein), the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC (as defined herein) for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Melco

Melco International Development Limited

新濠國際發展有限公司

(Incorporated in Hong Kong with limited liability)

RIGHTS ISSUE
OF 72,643,567 RIGHTS SHARES
OF HK$1.00 EACH AT HK$1.45 PER RIGHTS SHARE
ON THE BASIS OF ONE RIGHTS SHARE
FOR EVERY TWO SHARES IN ISSUE ON THE RECORD DATE
PAYABLE IN FULL ON ACCEPTANCE

Financial Adviser to Melco International Development Limited

VC CEF CAPITAL LIMITED
滙盈加怡融資有限公司
A wholly-owned subsidiary of Value Convergence Holdings Limited

Underwriter

KIM ENG
SECURITIES

Kim Eng Securities (Hong Kong) Limited

The latest time for acceptance of, and payment for, the Rights Shares is 4:00 p.m. on Friday, 19th September 2003. The procedure for acceptance or transfer of the Rights Shares is set out on pages 18 and 19 of this prospectus.

The Underwriter (as defined herein) may terminate the arrangements set out in the Underwriting Agreement (as defined herein), after consultation with the Company, by notice in writing given to the Company at any time at or prior to the Latest Time For Termination, being 4:00 p.m. on the second Business Day immediately after Friday, 19th September 2003 if, in the reasonable opinion of and at the discretion of the Underwriter:

(1) the success of the Rights Issue would be adversely affected by:

(a) the introduction of any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter in its discretion materially adversely affect the financial position of the Group (as defined herein) taken as a whole; or

(b) the occurrence, happening, coming into effect, change or becoming public knowledge of any event or circumstances of a local, national or international nature or change (whether or not forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, market or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets or the occurrence of any combination of circumstances which materially adversely affects the business or the financial position of the Group as a whole or materially adversely prejudices the success of the Rights Issue or otherwise makes it inadvisable for the Company or the Underwriter to proceed with the Rights Issue; or

(2) any change in market conditions or combination of circumstances in Hong Kong or elsewhere (including without limitation suspension of or material restriction on trading in securities) occurs which in the reasonable opinion of the Underwriter in its discretion may materially adversely affect the success of the Rights Issue or makes it inadvisable for the Underwriter and the Company to proceed with the Rights Issue; or

(3) any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will materially and adversely affect the business or financial position of the Company, including without limiting the generality of the foregoing the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or

(4) the Prospectus when published contains information (either as to the business or financial condition of the Group or as to its compliance with any laws or the Listing Rules (as defined herein) or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which in the reasonable opinion of the Underwriter is material to the Group as a whole and might materially and adversely affect the success of the Rights Issue.

If the Underwriting Agreement is terminated by the Underwriter on or before the above deadline or does not become unconditional, the Rights Issue will not proceed.

It should be noted that the existing Shares (as defined herein) have been dealt in on an ex-rights basis from Friday, 22nd August 2003 and that the Rights Shares will be dealt in their nil-paid form from Tuesday, 2nd September 2003 to Tuesday, 16th September 2003 (both days inclusive). Such dealings will take place when the conditions to which the Rights Issue is subject remain unfulfilled and before the lapse of the right of the Underwriter to terminate the Underwriting Agreement. Any Shareholders (as defined herein) or other persons contemplating any dealings in the Shares from the date of this prospectus up to the date on which the right of the Underwriter to terminate the Underwriting Agreement lapses (currently expected to be on Tuesday, 23rd September 2003), and any persons dealing in the Rights Shares in their nil-paid form between Tuesday, 2nd September 2003 to Tuesday, 16th September 2003 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or the Rights Shares in their nil-paid form during such period are recommended to consult their own professional advisers.

29th August 2003

CONTENTS

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

"Acceptance Date"	Friday, 19th September 2003 or such other date as the Underwriter may agree in writing with the Company
"associate(s)"	has the meaning given to it in the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than Saturday) on which banks are generally open for business in Hong Kong
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Company"	Melco International Development Limited, a company incorporated in Hong Kong with limited liability and the securities of which are listed on the Stock Exchange
"Director(s)"	director(s) of the Company
"Dr. Stanley Ho"	Dr. Ho Hung Sun, Stanley
"EAF(s)"	form(s) of application for excess Rights Shares
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	Tuesday, 26th August 2003, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
"Latest Time For Termination"	4:00 p.m. on the second Business Day immediately after the Acceptance Date
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Major Shareholders"	(a) Shun Tak Shipping Company, Limited, Dr. Stanley Ho and Madam Lucina Laam King Ying and (b) Lasting Legend Limited, a company wholly owned by Mr. Lawrence Ho, who are together beneficially interested in 72,745,210 Shares, representing about 50.1% of the issued share capital of the Company

"Major Shareholders Undertakings"	irrevocable undertaking from each of the Major Shareholders to remain as the beneficial owner of not less than the number of Shares registered in their respective names or in the names of their respective nominees on 11th August 2003, being 72,745,210 Shares in aggregate, on the Record Date and to accept or procure the acceptance of the Rights Shares to be provisionally allotted to them pursuant to the Rights Issue
"Mr. Frank Tsui"	Mr. Tsui Che Yin, Frank
"Mr. Lawrence Ho"	Mr. Ho Yau Lung, Lawrence
"Mr. Peter So"	Mr. So Wing Hung, Peter
"Non-Permitted Jurisdictions"	any jurisdiction where the making of the offer to participate in the Rights Issue is not permitted by the law of that place
"Non-Qualifying Shareholder(s)"	the Shareholder(s) whose names appear on the register of members of the Company as at the close of the business on the Record Date and whose addresses as shown on such register are in Non-Permitted Jurisdictions
"PAL(s)"	provisional allotment letter(s) to be issued to Qualifying Shareholders in respect of the Rights Shares
"PRC"	the People's Republic of China which for the purpose of this prospectus excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Prospectus"	this prospectus issued by the Company in relation to the Rights Issue
"Qualifying Shareholder(s)"	the Shareholder(s) other than the Non-Qualifying Shareholder(s) whose names appear on the register of members of the Company as at the close of business on the Record Date
"Record Date"	Friday, 29th August 2003, the record date by reference to which entitlements to the Rights Issue will be determined
"Registrar"	the Company's share registrar, Standard Registrars Limited
"Rights Issue"	the issue of 72,643,567 Rights Shares at the Subscription Price on the basis of one Rights Share for every two Shares in issue on the Record Date payable in full on acceptance
"Rights Issue Documents"	this prospectus, PALs and EAFs

"Rights Share(s)"	new Share(s) to be issued and allotted pursuant to the Rights Issue
"SFO"	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of HK$1.00 each in the share capital of the Company
"Share Option(s)"	option(s) to subscribe for Share(s) granted by the Company under the Share Option Scheme
"Share Option Scheme"	the existing share option scheme of the Company which was adopted by the Company on 8th March 2002
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of HK$1.45 per Rights Share
"Underwriter"	Kim Eng Securities (Hong Kong) Limited, a deemed licensed corporation to carry out regulated activities of dealing in securities, advising on securities and corporate finance and asset management under the SFO
"Underwriting Agreement"	the underwriting agreement dated 11th August 2003 entered into between the Company and the Underwriter in relation to the Rights Issue
"Underwritten Shares"	not less than 36,270,962 Rights Shares and not more than 42,325,318 Rights Shares, being the Rights Shares other than those to be taken up by Major Shareholders under the Major Shareholders Undertakings, underwritten by the Underwriter pursuant to the Underwriting Agreement
"Value Convergence"	Value Convergence Holdings Limited (formerly known as iAsia Technology Limited), the securities of which are listed on the growth enterprise market of the Stock Exchange and a 67.6% owned subsidiary of the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

	2003
Last day of dealings in the Shares on a cum-rights basis	Thursday, 21st August
First day of dealings in the Shares on an ex-rights basis	Friday, 22nd August
Latest time for lodging transfers of the Shares in order to qualify for the Rights Issue	4:00 p.m. on Monday, 25th August
Register of members closes (both days inclusive)	Tuesday, 26th August to Friday, 29th August
Record Date	Friday, 29th August
Despatch of Rights Issue Documents	Friday, 29th August
Register of members re-opens	Monday, 1st September
First day of dealings in nil-paid Rights Shares	Tuesday, 2nd September
Latest time for splitting nil-paid Rights Shares	4:00 p.m. on Wednesday, 10th September
Last day of dealings in nil-paid Rights Shares	Tuesday, 16th September
Latest time for acceptance of, payment for, the Rights Shares and application for excess Rights Shares	4:00 p.m. on Friday, 19th September
Latest time for the Rights Issue to become unconditional	4:00 p.m. on Tuesday, 23rd September
Announcement of results of the Rights Issue in newspapers	Wednesday, 24th September
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be despatched on or before	Wednesday, 24th September
Certificates for the fully-paid Rights Shares expected to be despatched on or before	Wednesday, 24th September
Dealings in fully-paid Rights Shares on the Stock Exchange expected to commence on	9:30 a.m. on Friday, 26th September

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter may terminate the arrangements set out in the Underwriting Agreement, after consultation with the Company, by notice in writing given to the Company at any time at or prior to the Latest Time For Termination if, in the reasonable opinion of and at the discretion of the Underwriter:

(1) the success of the Rights Issue would be adversely affected by:

(a) the introduction of any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter in its discretion materially adversely affect the financial position of the Group taken as a whole; or

(b) the occurrence, happening, coming into effect, change or becoming public knowledge of any event or circumstances of a local, national or international nature or change (whether or not forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, market or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets or the occurrence of any combination of circumstances which materially adversely affects the business or the financial position of the Group as a whole or materially adversely prejudices the success of the Rights Issue or otherwise makes it inadvisable for the Company or the Underwriter to proceed with the Rights Issue; or

(2) any change in market conditions or combination of circumstances in Hong Kong or elsewhere (including without limitation suspension of or material restriction on trading in securities) occurs which in the reasonable opinion of the Underwriter in its discretion may materially adversely affect the success of the Rights Issue or makes it inadvisable for the Underwriter and the Company to proceed with the Rights Issue; or

(3) any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will materially and adversely affect the business or financial position of the Company, including without limiting the generality of the foregoing the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or

(4) the Prospectus when published contains information (either as to the business or financial condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which in the reasonable opinion of the Underwriter is material to the Group as a whole and might materially and adversely affect the success of the Rights Issue.

If the Underwriting Agreement is terminated by the Underwriter on or before the above deadline or does not become unconditional, the Rights Issue will not proceed.

The following information is derived from, and should be read in conjunction with and subject to, the full text of this Prospectus:

Number of Rights Shares to be issued	72,643,567 Rights Shares
Amount to be raised	approximately HK$105.3 million before expenses (assuming no Share Options are exercised before the Record Date)
Subscription Price and the latest time for acceptance of, and payment for, the Rights Shares	HK$1.45 per Rights Share payable in full on acceptance at or prior to 4:00 p.m. on Acceptance Date
Basis of the Rights Issue	one Rights Share for every two Shares in issue on the Record Date
Status of the Rights Shares	the Rights Shares (when allotted, issued and fully paid) will rank pari passu in all respects with the then existing Shares in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of issue of the fully-paid Rights Shares, which is expected to be on or before Wednesday, 24th September 2003
Rights of excess applications	Qualifying Shareholders shall be entitled to apply for any unsold entitlements of Non-Qualifying Shareholders, any unsold Rights Shares created by adding together fractions of Rights Shares and any Rights Shares provisionally allotted but not accepted by Qualifying Shareholders
Non-Qualifying Shareholders	in the circumstances where the law of the place of the address of Non-Qualifying Shareholder permits the distribution to such Non-Qualifying Shareholder of the net proceeds of sale of the Rights Shares referred to in this paragraph, the Company will make arrangements for the Rights Shares which would otherwise have been provisionally allotted to Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of all costs and expenses) can be obtained. Where permitted by applicable law, as referred to above, the proceeds from the sale of individual Non-Qualifying Shareholders' nil paid Rights Shares, less all costs and expenses, will be paid in Hong Kong dollars to Non-Qualifying Shareholders. Amounts of less than HK$100 will be retained for the benefit of the Company
Undertakings from the Major Shareholders	each of the Major Shareholders has irrevocably undertaken to take up and accept in full their respective entitlements under the Rights Issue pursuant to the Major Shareholders Undertaking

Melco International Development Limited

新濠國際發展有限公司

(Incorporated in Hong Kong with limited liability)

Directors:
Dr. Stanley Ho *(Chairman)*
Sir Roger Lobo*
Mr. Robert Kwan*
Mr. Ng Ching Wo*
Mr. Ho Cheuk Yuet**
Mr. Peter So**
Mr. Lawrence Ho *(Managing Director)*
Mr. Frank Tsui

Registered Office:
Penthouse
38th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

* *Independent non-executive Director*
** *Non-executive Director*

29th August 2003

To Qualifying Shareholders and to Non-Qualifying Shareholders, for information only

Dear Sir or Madam,

RIGHTS ISSUE
OF 72,643,567 RIGHTS SHARES
AT HK$1.45 PER RIGHTS SHARE ON THE BASIS OF ONE RIGHTS SHARE
FOR EVERY TWO SHARES IN ISSUE ON THE RECORD DATE
PAYABLE IN FULL ON ACCEPTANCE

INTRODUCTION

On 11th August 2003, the Directors announced that the Company proposed to raise approximately HK$105.3 million before expenses by way of a rights issue of not less than 72,643,566 and not more than 78,697,922 Rights Shares at a price of HK$1.45 per Rights Share on the basis of one Rights Share for every two Shares in issue on the Record Date.

Pursuant to the Rights Issue, Qualifying Shareholders will be provisionally allotted one Rights Share in nil-paid form for every two Shares in issue on the Record Date. The Rights Shares will not be provisionally allotted to Non-Qualifying Shareholders. The Rights Shares other than the Rights Shares to be taken up by Major Shareholders under the Major Shareholders Undertakings are fully underwritten by the Underwriter on the terms and subject to the conditions of the Underwriting Agreement.

This prospectus sets out the details of the Rights Issue, including information on dealings in and transfer and acceptance of the Rights Shares, and certain financial and other information in respect of the Group. Your attention is drawn to the appendices to this prospectus which contain, amongst other things, financial and other information on the Group.

TERMS OF THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	One Rights Share for every two Shares in issue on the Record Date
Number of existing Shares in issue:	145,287,134 Shares as at the Latest Practicable Date
Number of Rights Shares:	72,643,567 Rights Shares
Subscription Price:	HK$1.45 each, payable in full upon acceptance

As at the Latest Practicable Date, there were outstanding Share Options entitling holders thereof to subscribe for up to 5,343,484 Shares and 6,765,229 Shares at an exercise price of HK$1.38 and HK$1.66 per Share respectively. Based on 145,287,134 Shares in issue as at the Latest Practicable Date, an aggregate of 72,643,567 Rights Shares will be issued pursuant to the Rights Issue. Save as aforesaid, the Company has no other Share Options, warrants or other securities convertible into or exchangeable for Shares outstanding as at the Latest Practicable Date.

Qualifying Shareholders

This prospectus, the PALs and the EAFs are sent to Qualifying Shareholders only.

To qualify for the Rights Issue, a Shareholder must:

1. be registered as a member of the Company on the Record Date; and

2. have an address which appears on the register of members of the Company on the Record Date in a place where the making of the offer to participate in the Rights Issue is permitted under the laws of that place.

Subscription Price

HK$1.45 per Rights Share is payable in full by Qualifying Shareholders upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

1. a discount of about 19.0% to the closing price of HK$1.79 per Share quoted on the Stock Exchange on 8th August 2003, being the last trading date of the Shares prior to the release of the announcement regarding the Rights Issue;

2. a discount of about 19.4% to the average closing price of HK$1.80 per Share quoted on the Stock Exchange for the 10 consecutive trading days up to and including 8th August 2003;

3. a discount of about 13.7% to the theoretical ex-rights price of HK$1.68 per Share based on the closing price of HK$1.79 per Share as quoted on the Stock Exchange on 8th August 2003;

4. a discount of approximately 34.8% over the closing price of HK$2.225 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

5. a discount of about 44.0% to the audited consolidated net tangible assets per Share of the Group of about HK$2.59 as at 31st December 2002.

The subscription price of HK$1.45 was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions. The Board considers the terms of the Rights Issue to be fair and reasonable and in the best interests of the Shareholders.

Basis of provisional allotments

One Rights Share (in nil-paid form) for every two Shares in issue on the Record Date.

Status of the Rights Shares

The Rights Shares (when allotted, issued and fully paid) will rank pari passu in all respects with the then existing Shares in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of issue of the fully-paid Rights Shares, which is expected to be on or before Wednesday, 24th September 2003.

Rights of Non-Qualifying Shareholders

No action (including registration under any applicable legislation of any territory or jurisdiction other than Hong Kong) has been taken to permit the offering of the Rights Shares in any territory or jurisdiction outside Hong Kong. The offer of the Rights Shares pursuant to the Rights Issue is being made only to Qualifying Shareholders and no provisional allotment of Right Shares will be made to Non-Qualifying Shareholders.

In the circumstances where the law of the place of the address of Non-Qualifying Shareholder permits the distribution to such Non-Qualifying Shareholder of the net proceeds of sale of the Rights Shares referred to in this paragraph, the Company will make arrangements for the Rights Shares which would otherwise have been provisionally allotted to such persons to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of all costs and expenses) can be obtained. Where permitted by applicable law, as referred to above, the proceeds of such sale, less all costs and expenses, will be distributed in Hong Kong dollars to such Shareholders at their own risk pro rata to their respective shareholdings except that individual amounts of less than HK$100 will be retained for the benefit of the Company.

Receipt of a copy of this prospectus, a PAL and/or an EAF does not and will not constitute an offer to any persons in any territory or jurisdiction in which it would be unlawful to make an offer, and in such circumstances, this prospectus, a PAL and/or an EAF are/is or will be sent for information only. It is the responsibility of any person (including, without limitation, nominee, agent and trustee) receiving a copy of this prospectus, a PAL and/or an EAF outside Hong Kong and wishing to take up the Rights Shares under the Rights Issue to satisfy himself as to the full observance of the laws of the relevant territory including the obtaining of any governmental or other consents which may be required for observing any other formalities needed to be observed in such territory or jurisdiction, and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. **Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been complied with. If you are in any doubt as to your position, you should consult your professional advisers.**

Any person (including, without limitation, nominee, agent and trustee) receiving this prospectus, a PAL and/or an EAF should not distribute or send it to any territory or jurisdiction where to do so would or might contravene local securities laws or regulations. If a PAL and/or an EAF are/is received by any person in any such territory or jurisdiction or by the agent or nominee of such a person, he must not seek to take up the Rights Shares, or he must renounce such PAL and/or EAF except with the express agreement of the Company. Any person who does forward a PAL and/or an EAF to any such territory or jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this section.

The Company reserves the right to treat as invalid, any purported acceptance of the allotment of the Rights Shares comprised in a PAL and/or an EAF or to refuse to register any purported renunciation of the rights represented if it appears to the Company or its agents that acceptance of such allotment or renunciation or the registration of such renunciation may involve a breach of the laws or regulations of any territory or jurisdiction or if in respect thereof the Shareholder or its agent has not given the declaration set out in the PAL and/or the EAF in respect of such matters.

Application for excess Rights Shares

Qualifying Shareholders shall be entitled to apply for any unsold entitlements of Non-Qualifying Shareholders, any unsold Rights Shares created by adding together fractions of the Rights Shares and any Rights Shares provisionally allotted but not accepted by Qualifying Shareholders. Application may be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Board will allocate the excess Rights Shares at their discretion, but on a fair and reasonable basis as far as practicable, and will give preference to topping-up odd lots to whole board lots.

Fractions of the Rights Shares

The Company will not provisionally allot and issue and will not accept application for any fraction of the Rights Shares. The Company will sell any nil-paid Rights Shares created by adding fractions of the Rights Shares in the market, if any, and will keep the net proceeds for its own benefit. Any unsold fractions of the Rights Shares will be available for excess applications, as described above.

UNDERWRITING ARRANGEMENTS

Underwriting Agreement dated 11th August 2003

Underwriter:	Kim Eng Securities (Hong Kong) Limited
Number of Underwritten Shares:	Not less than 36,270,962 Rights Shares and not more than 42,325,318 Rights Shares
Commission:	2.5% of the subscription price multiplied by the actual number of Rights Shares underwritten by the Underwriter subject to fulfillment of the conditions set out in the Underwriting Agreement

The Underwriter is independent of and not connected with the directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates.

The Rights Shares, other than those to be taken up by the Major Shareholders pursuant to the Major Shareholders Undertakings, will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement.

Undertakings from the Major Shareholders

As at the Latest Practicable Date, the Major Shareholders are together beneficially interested in an aggregate of 72,745,210 Shares representing about 50.1% of the existing issued share capital of the Company. Each of the Major Shareholders has irrevocably undertaken to both the Company and the

Underwriter to remain as the beneficial owner of not less than the number of Shares registered in their respective names or in the names of their respective nominees on 11th August 2003, being 72,745,210 Shares in aggregate, on the Record Date and to accept or procure the acceptance of the Rights Shares to be provisionally allotted to them pursuant to the Rights Issue. The Major Shareholders may consider applying for excess Rights Shares subject to compliance with the relevant regulatory requirements.

Conditions of the Rights Issue

The Rights Issue is conditional upon, among other things, the following:

1. the Listing Committee of the Stock Exchange having granted or agreed to grant and not revoked listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms;

2. the delivery to the Stock Exchange and registration and filing with the Registrar of Companies in Hong Kong of the relevant documents in accordance with the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);

3. the posting of the Rights Issue Documents to the Qualifying Shareholders by the date of despatch of this Prospectus; and

4. the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated by the Underwriter in accordance with its terms.

As the Rights Issue is subject to the above conditions, it may or may not proceed.

In the event that the conditions of the Rights Issue are not fulfilled and/or waived in whole or in part by 4:00 p.m. on Tuesday, 23rd September 2003 (or such later dates as the Underwriter may agree with the Company), or the Underwriting Agreement has been terminated in accordance with its terms, then the Rights Issue will not proceed.

Termination of the Underwriting Agreement

The Underwriter may terminate the arrangements set out in the Underwriting Agreement, after consultation with the Company, by notice in writing given to the Company at any time at or prior to the Latest Time For Termination if, in the reasonable opinion of and at the discretion of the Underwriter:

(1) the success of the Rights Issue would be adversely affected by:

  (a) the introduction of any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter in its discretion materially adversely affect the financial position of the Group taken as a whole; or

(b) the occurrence, happening, coming into effect, change or becoming public knowledge of any event or circumstances of a local, national or international nature or change (whether or not forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, market or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets or the occurrence of any combination of circumstances which materially adversely affects the business or the financial position of the Group as a whole or materially adversely prejudices the success of the Rights Issue or otherwise makes it inadvisable for the Company or the Underwriter to proceed with the Rights Issue; or

(2) any change in market conditions or combination of circumstances in Hong Kong or elsewhere (including without limitation suspension of or material restriction on trading in securities) occurs which in the reasonable opinion of the Underwriter in its discretion may materially adversely affect the success of the Rights Issue or makes it inadvisable for the Underwriter and the Company to proceed with the Rights Issue; or

(3) any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will materially and adversely affect the business or financial position of the Company, including without limiting the generality of the foregoing the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or

(4) this Prospectus when published contains information (either as to the business or financial condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which in the reasonable opinion of the Underwriter is material to the Group as a whole and might materially and adversely affect the success of the Rights Issue.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Rights Issue will not proceed.

BUSINESS REVIEW AND PROSPECTS

Business review of the Group

The Company is an investment holding company. Currently, the Group's businesses are divided into 5 divisions: (i) investment banking and financial services; (ii) technology; (iii) fine-dining, leisure and tourism; (iv) property investment; and (v) investment and energy.

Investment Banking and Financial Services Division

Through Value Convergence, the Group carries on securities brokerage, commodities trading and corporate finance business under the "VC CFN" and "VC CEF" brand names via traditional means and the internet. The Group offers a broad and comprehensive range of investment banking services and strategic advices to regional and international clients.

After a thorough review and evaluation of the brokerage business, VC CEF Brokerage Limited and VC CEF Futures Limited now offer one-stop financial services to institutional, corporate, high net worth and private clients with a comprehensive range of products, including local and overseas securities dealing, securities margin financing, placement and sub-underwriting, securities borrowing and lending, short selling, futures and options trading, forex trading, derivatives trading, structured products and advisory services. In addition, a proficient team of research professionals has been reinforced to provide independent insightful research and analytic reports to clients to help them seize market opportunities.

In respect of the corporate finance advisory services, through its subsidiary, VC CEF Capital Limited, the Group has helped clients gain access to equity capital markets, mergers and acquisitions opportunities, debt financing arrangements and project finance solutions in the Greater China region.

In August 2003, VC CFN Corporation Limited, a subsidiary of Value Convergence, filed an application with the relevant Macau authority for a financial service licence to conduct securities and futures trading and brokerage business in Macau. However, at this stage, it is not known when and/or whether such licence will be granted. The Directors anticipate that if the license is granted, Value Convergence can expand its financial services business to Macau.

Technology Division

Through Value Convergence, the Group customizes and sells trading and back office systems and solutions to financial institutions and intermediaries in Asia under the "iAsia" brand name.

The Group is determined to carry out research and development works consistently so as to keep expanding its products range and improving its trading solutions services. Its ongoing enhancements and proven systems and services to meet the changing needs of the capital market have gained the confidence of new clients purchasing and subscribing its products and services.

One of the subsidiaries of the Company, Elixir Group Limited, is one of the leading systems integrators and supplies computer hardware equipment, intelligent surveillance system, enterprise portal solutions, business process workflow re-engineering, information technology consultancy services and ecommerce infrastructure to clients in the Pearl River Delta Area of the PRC. Elixir Group Limited and another subsidiary of the Company, Elixir Group (Macau) Limited, have formed strategic alliances with certain famous hardware suppliers and have secured certain prominent companies in Macau, e.g. Sociedade de Jogos de Macau, S.A., Companhia de Electricidao de Macau — CEM, S.A. and Seng Heng Bank Limited, as their clients.

Fine-Dining, Leisure and Tourism Division

In view of the mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA), the Directors expects the number of tourists from China would increase significantly. Therefore, the Group is in the process of transforming the Group's Jumbo and Tai-Pak floating restaurants into a modern complex of fine dining, shopping, sightseeing and cultural attraction to be named "Jumbo Kingdom". With its strategic position, special design and architecture and worldwide reputation, "Jumbo Kingdom" is expected to become a more popular tourist, recreational and leisure spot after its rebirth.

Property Investment Division

Due to the sluggish condition of the local rental property market, the Group faces a challenging task in maintaining full occupancy and existing rentals of its investment properties. Such investment properties include 509 carparking spaces at Jumbo Court Public Carpark and one residential building, namely, Art Court, situated at 5 Tung Shan Terrace in Hong Kong.

Investment and Energy Division

With China's accession to WTO, and the consequential rapid economic growth, the demand for energy in China should increase significantly. Because of its environmental friendliness, cost-effectiveness and Government's support, natural gas is generally viewed to benefit most from this increase.

In anticipation of a growing demand for energy and natural gas in the PRC, the Group is actively pursuing energy, environmental and natural gas distribution and supply projects in the PRC. A subsidiary of the Company, Melco Energy Limited, has been designated to undertake such projects. If any of such projects is materalised, the Company will make appropriate disclosure and/or obtain shareholders' approval in accordance with the provisions of the Listing Rules.

Future prospects of the Group

With prudence as its guiding principle, the Group has been consistently implementing its development strategy with determination and dedication.

Renovation work on the "Jumbo Kingdom" has already started and will be completed by the first quarter of 2004 to cope with the recovery of the Hong Kong tourism industry. "Jumbo Kingdom" is expected to benefit from China's policy of relaxing the travel requirements for local individual travellers who have always been the major patrons of the business of the Group. Local customers will also find "Jumbo Kingdom" a place to have fun and dine at, given the variety of attractions offered by the Group.

The Group will also increase its presence in China by establishing more offices. The Group is considering to set up offices in the key strategic cities of Beijing, Shanghai and Shenzhen. This will help promote the Group's core businesses.

More resources will be committed in the investment banking and technology businesses of the Group. These businesses provide the backbone and a solid foundation for the geographical expansion of the Group. The Group has already established a solid foothold in the home base of Hong Kong. Parallel to the expansion into China, the Group has recently set up an office in Macau where the Group's history goes a long way back. Indeed, the technology division has already established a recognized reputation in Macau through its subsidiary, Elixir Group Limited. It has entered into contracts with some gaming companies to install intelligent surveillance systems and other technology solutions packages. It will continue to expand its services and coverage in the gaming industry and other commercial areas.

The Group's application for a financial intermediary licence in Macau is underway. At this stage, it is not yet known when and/or whether such licence will be granted. If successful, it will be the first time the Macau government has ever granted such licence to a financial entity. With a licence, the Group will be in a unique position to provide investment banking services to companies in Macau. So far, this market is largely untapped. Through the Macau financial subsidiary, the Group will offer full-fledged financial services to investors and clients in Macau.

The Group sees the Macau office as an important milestone in completing the corporate development map for the Pearl River Delta Area, Macau and Hong Kong. Substantial resources will be set aside to implement this development strategy. With the Group's historical link with and the unique position of the Group in Macau, it is expected that business opportunities will continue to emerge from this area.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Directors are of the view that it is beneficial for the Company to strengthen its equity base, to improve its financial gearing and to obtain additional cash resources to support the continuing development of the Group's existing business activities and new business growth. The Rights Issue enables the Company to carry out the capital raising exercise while Qualifying Shareholders are given the opportunity to maintain their respective pro rata shareholding interests in the Company by participating in the Rights Issue. As such, the Directors consider that the implementation of the Rights Issue is in the interests of the Company and its Shareholders as a whole.

The estimated net proceeds of the Rights Issue is about HK$102.8 million (assuming no Share Options are exercised before the Record Date), which are currently intended to be utilized as to about (i) 30% for financing development of the Group's investment banking and financial services businesses, (ii) 20% for financing development of the Group's fine-dining and leisure businesses, (iii) 40% for financing the Group's future investments and (iv) 10% for the Group's general working capital purposes. As at the Latest Practicable Date, no investment opportunity had yet been identified. If any of such investments is materialised, the Company will make appropriate disclosure and/or obtain shareholders' approval in accordance with the provisions of the Listing Rules.

LISTING AND DEALINGS

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. Provisional allotments of the Rights Shares made to Qualifying Shareholders will be transferable.

It is expected that dealings in the Rights Shares in their fully-paid form on the Stock Exchange will commence on Friday, 26th September 2003. The Rights Shares in both their nil-paid and fully-paid forms will be traded in board lots of 2,000 Rights Shares each. No securities of the Company are listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed to be sought for the securities of the Company or the Rights Shares to be listed or dealt in on any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

It should be noted that the existing Shares have been dealt in on an ex-rights basis from Friday, 22nd August 2003 and that the Rights Shares will be dealt in their nil-paid form from Tuesday, 2nd September 2003 to Tuesday, 16th September 2003 (both days inclusive). Such dealings will take place when the conditions to which the Rights Issue is subject remain unfulfilled and before the lapse of the right of the Underwriter to terminate the Underwriting Agreement. Any Shareholders or other persons contemplating any dealings in the Shares from the date of this prospectus up to the date on which the right of the Underwriter to terminate the Underwriting Agreement lapses (currently expected to be 4:00 p.m. on Tuesday, 23rd September 2003), and any persons dealing in the Rights Shares in their nil-paid form between Tuesday, 2nd September 2003 to Tuesday, 16th September 2003 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or the Rights Shares in their nil-paid form are recommended to consult their own professional advisers.

Dealings in the Rights Shares in their nil-paid and fully-paid forms will be subject to the payment of stamp duty in Hong Kong.

ADJUSTMENTS TO EXERCISE PRICE AND NUMBER OF THE SHARE OPTIONS

Pursuant to the Share Option Scheme, the Company has granted the Share Options to, among others, the Directors and employees of the Company and there were outstanding Share Options entitling the holders thereof to subscribe for up to 12,108,713 Shares as at the Latest Practicable Date. Pursuant to the provisions of the Share Option Scheme, the Rights Issue will constitute an event giving rise to an adjustment to both the exercise price and the number of Shares for which the holders of the Share Options are eligible to subscribe. Details of the respective exercise prices and number of Share Options and their respective adjustments (assuming no outstanding Share Options have been exercised or lapsed subsequent to the Latest Practicable Date) are set out in the section headed "Share Capital and Options" in Appendix III to this prospectus.

The adjustments to the exercise price and the number of the outstanding Share Options are subject to the Rights Issue becoming unconditional. The Company's auditors have confirmed to the Directors that the computation of the adjustments has been made in accordance with the relevant provisions of the Share Option Scheme and following the adjustments, each holder of the Share Options will be entitled to the same proportion of equity capital of the Company as that to which they were previously entitled. No adjustment will be made to the method of exercise of the Share Options.

PROCEDURE FOR ACCEPTANCE OR TRANSFER

A PAL is enclosed with this prospectus which entitles the Qualifying Shareholder to subscribe for the number of Rights Shares shown therein. If you wish to exercise your rights to subscribe for all the Rights Shares provisionally allotted to you as specified in the enclosed PAL, you must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by not later than 4:00 p.m. on the Acceptance Date. All remittances must be made by cheques or cashier's orders in Hong Kong dollars. Cheque must be drawn on an account with, and cashier's order must be issued by, a bank in Hong Kong and made payable to "MELCO INTERNATIONAL DEVELOPMENT LIMITED — RIGHTS ISSUE ACCOUNT" and crossed "ACCOUNT PAYEE ONLY".

It should be noted that unless the PAL, together with the appropriate remittance, has been lodged with the Registrar by 4:00 p.m. on the Acceptance Date, whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

The PAL contains full information regarding the procedure to be followed if you wish to accept only part of your provisional allotment or if you wish to renounce all or part of your provisional allotment.

If you wish to accept only part of your provisional allotment or transfer part of your rights to subscribe for the Rights Shares provisionally allotted thereunder, or to transfer your rights to more than one person, the entire PAL must be surrendered and lodged for cancellation by not later than 4:00 p.m. on Wednesday, 10th September 2003 to the Registrar which will cancel the original PAL and issue new PAL in the denominations required.

It should be noted that by your acceptance and submission of the PAL, you represent and warrant that you are not, and are not acting for the account or benefit of, a US person or a person who is located within the United States (as such terms are defined in Regulation S under the US Securities Act 1933), in the exercise of your rights relating to the Rights Shares provisionally allotted to you under the PAL and that you understand that the Company is issuing and selling the Rights Shares to or for your account in reliance of such representation and warranty.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such moneys shall be retained for the benefit of the Company. Any PAL in respect of which the accompanying cheque is dishonoured on first presentation is liable to be rejected, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement at any time before the Latest Time For Termination and/or if any of the conditions of the Rights Issue is not fulfilled, the moneys received in respect of acceptances of the Rights Shares will be returned to Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form shall have been validly transferred without interest, by means of cheques despatched in the ordinary post to the addresses specified in the respective PALs or, in the case of joint applicants, to the registered address of the applicant whose name first appears on the register of members of the Company or the transfer form at the risk of such Qualifying Shareholders or such other persons on or about Wednesday, 24th September 2003.

APPLICATION FOR EXCESS RIGHTS SHARES

Under the terms of the Rights Issue, Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotments by way of an EAF. Excess Rights Shares, if any, will be allotted at the discretion of the Directors on a fair and reasonable basis as far as practicable. Preference will be given to topping-up odd lots to whole board lots.

Any Rights Shares to which Non-Qualifying Shareholders would otherwise have been entitled and which are not sold as referred to in the paragraph headed "Rights of Non-Qualifying Shareholders" above, any unsold Rights Shares created by adding together fractions of the Rights Shares and any Rights Shares allotted provisionally but not accepted will be available for application by Qualifying Shareholders.

If you wish to apply for any Rights Shares in addition to your provisional allotment under the Rights Issue, you must complete and sign the enclosed EAF as indicated therein and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Registrar at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by not later than 4:00 p.m. on the Acceptance Date. All remittances must be made by cheques or cashier's orders in Hong Kong dollars. Cheque must be drawn on an account with, and cashier's order must be issued by, a bank in Hong Kong and made payable to "MELCO INTERNATIONAL DEVELOPMENT LIMITED — EXCESS APPLICATION ACCOUNT" and crossed "ACCOUNT PAYEE ONLY". The Registrar will notify you of any allotment of excess Rights Shares made to you, which allotment will be allocated on a fair and reasonable basis to be decided at the discretion of the Directors as far as practicable, and will give preference to topping-up odd lots to whole board lots.

It should be noted that by your submission of the EAF, you represent and warrant that you are not, and are not acting for the account or benefit of, a US person or a person who is located with the United States (as such terms are defined in Regulation S under the US Securities Act 1933), in your application for excess Rights Shares under the EAF and that you understand that the Company is issuing and selling the Rights Shares to or for your account in reliance of such representation and warranty.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such moneys shall be retained for the benefit of the Company. Any EAF in respect of which the accompanying cheque is dishonoured on first presentation is liable to be rejected.

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement at any time before the Latest Time For Termination and/or if any of the conditions of the Rights Issue is not fulfilled, the moneys received in respect of applications for excess Rights Shares will be returned to applicants without interest, by means of cheques despatched in the ordinary post at the risk of such applicants on or before Wednesday, 24th September 2003.

If no excess Rights Shares are allotted to you, a refund cheque for the full amount without interest tendered on application for excess Rights Shares is expected to be posted to you at your own risk on or before Wednesday, 24th September 2003. If the number of excess Rights Shares allotted to you is less than that applied for, a cheque for the surplus application moneys without interest is expected to be posted to you at your own risk on or about Wednesday, 24th September 2003.

The EAF is for use only by the Qualifying Shareholder to whom it is addressed and is not transferable.

SHARE CERTIFICATES

Subject to the fulfillment or the waiver in whole or in part by the Underwriter of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted by Wednesday, 24th September 2003 to the persons who have accepted and paid for the Rights Shares and those successful applicants for the excess Rights Shares to the registered addresses or, in the case of joint applicants, to the registered address of the applicant whose name first appears in the register of members of the Company or the transfer form.

All documents, including cheques for amounts due, will be sent by ordinary post at the risk of the persons entitled thereto to their registered or nominated addresses.

TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding or disposal of, or dealing in the Rights Shares and, as regards the Non-Qualifying Shareholders, their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasised that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liability of holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices hereto.

Yours faithfully,
For and on behalf of
Melco International Development Limited
Lawrence Ho
Managing Director

1. AUDITED CONSOLIDATED ACCOUNTS

Set out below is an extract from the audited accounts of the Group for the year ended 31st December 2002 (the date to which the latest audited accounts were made up), together with the comparative figures for the years ended 31st December 2000 and 2001 respectively and relevant notes to the audited accounts of the Group for the year ended 31st December 2002:

Consolidated Profit and Loss Account

		For the year ended 31st December		
		2002	**2001**	**2000**
	Notes	*HK$*	*HK$*	*HK$*
TURNOVER	5	86,375,709	99,408,954	109,175,462
Other revenue and gains	5	545,662	290,880	2,807,498
Cost of food and beverages		(21,989,196)	(25,430,905)	(25,579,573)
Consumable stores used		(2,170,186)	(2,881,306)	(2,824,638)
Staff costs (not including director's remuneration)		(51,975,843)	(55,244,404)	(55,737,334)
Depreciation expense		(5,927,225)	(6,039,904)	(5,619,459)
Fixed assets written off		(3,857,649)	—	—
Impairment of fixed assets		(142,441)	—	—
Impairment of long term investments		(8,911,880)	—	—
Provision against deposit paid		(3,500,000)	—	—
Other operating expenses		(26,577,231)	(31,195,431)	(30,437,319)
Total operating expenses		(125,051,651)	(120,791,950)	(120,198,323)
OPERATING LOSS BEFORE TAX	6	(38,130,280)	(21,092,116)	(8,215,363)
Tax	7	—	—	(4,395)
LOSS BEFORE MINORITY INTERESTS		(38,130,280)	(21,092,116)	(8,219,758)
Minority interests		2,533,972	2,457,484	1,651,999
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	8	(35,596,308)	(18,634,632)	(6,567,759)
LOSS PER SHARE				
Basic	9	HK27.1 cents	HK15.4 cents	HK5.4 cents
Diluted		N/A	N/A	N/A

Consolidated Balance Sheet

	Notes	As at 31st December 2002 *HK$*	2001 *HK$*
NON-CURRENT ASSETS			
Investment properties	11	155,000,000	152,000,000
Property, plant and equipment	12	22,325,890	31,256,754
Long term investments	14	—	4,661,880
Pledged bank deposits	26	1,100,000	911,000
		178,425,890	188,829,634
CURRENT ASSETS			
Inventories	15	2,986,105	3,152,114
Accounts receivable	16	2,782,511	2,997,248
Prepayments, deposits and other receivables		8,938,688	2,991,904
Amounts due from related companies	17	2,407,011	446,000
Other investment	18	4,000,000	—
Cash and cash equivalents	19	219,228,964	212,543,223
		240,343,279	222,130,489
CURRENT LIABILITIES			
Accounts payable	20	2,356,253	2,574,010
Accrued liabilities and other payables	21	15,229,845	6,773,053
Rental deposits due within one year		581,997	396,178
		18,168,095	9,743,241
NET CURRENT ASSETS		222,175,184	212,387,248
TOTAL ASSETS LESS CURRENT LIABILITIES		400,601,074	401,216,882
NON-CURRENT LIABILITIES			
Rental deposits due after one year		218,892	355,870
MINORITY INTERESTS		24,257,664	26,392,112
		376,124,518	374,468,900
CAPITAL AND RESERVES			
Issued capital	22	145,287,134	121,087,134
Reserves	24	230,837,384	253,381,766
		376,124,518	374,468,900

Notes to Financial Statements

1. CORPORATE INFORMATION

The registered office of Melco International Development Limited is located at Penthouse 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

During the year, the Company's principal activity was investment holding. The principal activities of the Company's principal subsidiaries are set out in note 13 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

2. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 15 (Revised) prescribes the revised format for consolidated cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, the definition of cash equivalents for the purpose of the cash flow statement has been revised.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 23 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the adoption of this SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) restaurant operations, when catering services are rendered;

(b) rental income, on the straight-line basis over the lease terms; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years.

SSAP 30 "Business Combinations" was adopted as at 1st January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. As further explained in note 24 to the financial statements, a prior year adjustment was made in the year ended 31st December 2001, following which the goodwill previously eliminated against consolidated reserves was retrospectively restated and had been fully amortised prior to 1st January 2001 on a straight-line basis over a period of not more than 20 years. Goodwill on acquisition subsequent to 1st January 2001 is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

SSAP 30 "Business combinations" was adopted as at 1st January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. As further explained in note 24 to the financial statements, a prior year adjustment was made in the year ended 31st December 2001, following which the negative goodwill previously credited to the capital reserve was transferred to opening retained profits. Negative goodwill on acquisitions subsequent to 1st January 2001 is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the consolidated profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of the reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Property, plant and equipment

Property, plant and equipment, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Restaurant vessels, ferries and pontoons	5% to 10%
Long term leasehold land	Over the lease terms
Long term leasehold buildings	2.5%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10% to 20%

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

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held for a continuing long term purpose.

Long term investments are stated at cost less any impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether their fair values have declined below the carrying amounts. When a decline which is other than temporary in nature has occurred, the carrying amount of the investment is reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account for the period in which it arises.

Other investment

Other investment is investment in unlisted securities, other than long term investment, and is stated at its fair value at the balance sheet date, on an individual investment basis. The fair value of unlisted securities is estimated by the directors having regard to the prices of the most recent reported sales or purchases of the securities, with allowance made for the lower liquidity of the unlisted securities. The gains or losses arising from changes in the fair value of other investments are credited or charged to the profit and loss account for the period in which they arise. Other investment is initially included in non-current or current assets depending on their expected holding period at the time of their acquisition.

Inventories

Inventories comprise mainly food, beverages and consumable stores and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is determined on the basis of estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated profit and loss account.

Related parties

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. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the consolidated profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the consolidated profit and loss account on the straight-line basis over the lease terms.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentive and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employee's salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting in full, in accordance with the rules of the MPF Scheme.

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. For the purpose of the balance sheet classification, cash and cash equivalents comprise cash on hand and at banks including term deposits and assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations, products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the restaurant segment, which engages in restaurant operation and related activities;

(b) the property segment, which engages in property investment and related activities; and

(c) the investment segment, which engages in investment and related activities.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There are no material intersegment sales and transfers between the business segments.

(a) **Business segments**

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments.

	Restaurant			Property			Investment			Consolidated		
	2002	**2001**	**2000**	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Segment revenue:												
Turnover	77,929,043	86,778,267	91,225,789	5,097,822	4,679,929	4,441,139	3,348,844	7,950,758	13,508,534	86,375,709	99,408,954	109,175,462
Other revenue	307,202	272,015	893,932	140,000	9,022	—	98,460	—	—	545,662	281,037	893,932
Gains	—	9,843	1,913,566	—	—	—	—	—	—	—	9,843	1,913,566
	78,236,245	87,060,125	94,033,287	5,237,822	4,688,951	4,441,139	3,447,304	7,950,758	13,508,534	86,921,371	99,699,834	111,982,960
Segment results	(21,395,159)	(22,866,392)	(19,123,093)	3,447,016	2,821,433	3,326,298	(12,131,022)	(1,047,157)	7,581,432	(30,079,165)	(21,092,116)	(8,215,363)
Unallocated expenses										(8,051,115)	—	—
Operating loss before tax										(38,130,280)	(21,092,116)	(8,215,363)
Tax										—	—	(4,395)
Loss before minority interests										(38,130,280)	(21,092,116)	(8,219,758)
Minority interests										2,533,972	2,457,484	1,651,999
Net loss from ordinary activities attributable to shareholders										(35,596,308)	(18,634,632)	(6,567,759)
Segment assets	36,482,338	44,379,206	51,920,872	158,825,607	155,613,576	162,713,070	223,461,224	210,967,341	231,021,089	418,769,169	410,960,123	445,655,031
Segment liabilities	12,367,284	7,036,958	12,246,527	2,546,766	2,678,043	2,555,596	3,472,937	384,110	899,780	18,386,987	10,099,111	15,701,903
Other segment information:												
Depreciation	5,580,164	5,698,959	5,384,209	345,921	339,805	235,250	1,140	1,140	—	5,927,225	6,039,904	5,619,459
Capital expenditures	206,686	498,155	11,145,021	30,580	522,778	3,139,143	759,185	200,041	—	996,451	1,220,974	14,284,164
Impairment of fixed assets recognised in the profit and loss account	—	—	—	—	—	—	142,441	—	—	142,441	—	—
Impairment of long term investments recognised in the profit and loss account	—	—	—	—	—	—	8,911,880	—	—	8,911,880	—	—
Other non-cash expenses	3,857,649	385,000	—	—	—	—	3,500,000	—	—	7,357,649	385,000	—

(b) **Geographical segments**

The Group's revenue, assets and liabilities are principally derived from operations carried out in Hong Kong.

5. TURNOVER, REVENUE AND GAINS

Turnover represents revenue from restaurant operations together with gross rental income received and receivable from investment properties, and interest income received and receivable during the year.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Group		
	2002	**2001**	**2000**
	HK$	*HK$*	*HK$*
Turnover			
Catering income	76,657,376	85,391,767	89,755,890
Gross rental income	6,180,025	6,013,465	5,856,802
Interest income	3,538,308	8,003,722	13,562,770
	86,375,709	99,408,954	109,175,462
Other revenue			
Proceeds from insurance claim	177,051	202,020	893,932
Others	368,611	79,017	—
	545,662	281,037	893,932
Gains			
Gain on disposal of vessels	—	—	1,776,588
Gain on disposal of property, plant and equipment	—	9,843	136,978
	—	9,843	1,913,566
Total other revenue and gains	545,662	290,880	2,807,498

6. OPERATING LOSS BEFORE TAX

The Group's operating loss before tax is arrived at after charging/(crediting):

	2002	2001	2000
	HK$	*HK$*	*HK$*
Cost of inventories sold	24,159,382	28,312,211	28,404,211
Depreciation	5,927,225	6,039,904	—
Auditors' remuneration	437,000	442,000	464,400
Retirement benefits scheme contributions, net	1,783,009	1,913,150	1,771,457
Rental income:			
Gross	(6,180,025)	(6,013,465)	(5,856,802)
Outgoings	300,360	455,039	527,598
Net of outgoings	(5,879,665)	(5,558,426)	(5,329,204)
Minimum lease payments under operating leases in respect of land and buildings	375,000	375,000	—

7. TAX

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits arising in Hong Kong during the year (2001: Nil). The tax charge for the year ended 31st December 2000 represented under provision of profit tax in the prior year.

The components of deferred tax liabilities/(assets) provided/not provided for at the balance sheet date are as follows:

	Group						Company		
	Provided			Not provided			Not provided		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Accelerated depreciation allowances	1,140,000	2,260,000	2,700,000	582,042	703,000	1,076,000	(403)	—	—
Tax losses carried forward	(1,140,000)	(2,260,000)	(2,700,000)	(20,258,079)	(15,918,000)	(11,746,000)	(2,268,460)	(1,352,000)	(696,000)
	—	—	—	(19,676,037)	(15,215,000)	(10,670,000)	(2,268,863)	(1,352,000)	(696,000)

There are no significant potential deferred tax liabilities for which provision has not been made by the Company or the Group.

The revaluation of the Group's investment properties does not constitute a timing difference and consequently, the amount of potential deferred tax thereon has not been quantified.

8. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31st December 2002 was HK$10,933,684 (2001: HK$301,546,564 and restated 2000: HK$2,922,113).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$35,596,308 (2001: HK$18,634,632 and 2000: HK$6,567,759) and the weighted average of 131,231,244 (2001 and 2000: 121,087,134) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31st December 2002 has not been disclosed as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

A diluted loss per share amount for the year ended 31st December 2001 has not been disclosed as no dilutive events existed during that year.

As the exercise price of the share options of the Company was greater than the average market price of the Company's shares during 2000, no diluted loss per share was calculated and presented for the year ended 31st December 2000.

10. DIRECTORS' REMUNERATION AND EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

		Group	
	2002	**2001**	**2000**
	HK$	*HK$*	*HK$*
Fees:			
Executive directors	790,000	463,424	470,000
Non-executive directors	355,384	20,000	20,000
Independent non-executive directors	600,000	418,904	420,000
	1,745,384	902,328	910,000
Other emoluments:			
Basic salaries, housing, other allowances and benefits in kind			
Executive directors	1,847,895	3,812,656	1,566,540
Non-executive directors	135,714	—	—
Independent non-executive directors	—	300,000	300,000
Retirement benefits scheme contributions			
Executive directors	39,000	127,107	5,802
Non-executive directors	3,000	—	—
	2,025,609	4,239,763	1,872,342
	3,770,993	5,142,091	2,782,342

The number of directors whose remuneration fell within the bands set out below is as follows:

	2002	2001	2000
	Number of directors	*Number of directors*	*Number of directors*
Nil - HK$1,000,000	9	15	12
HK$1,000,001 - HK$1,500,000	1	1	—
HK$1,500,001 - HK$2,000,000	—	1	—

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 4,843,484 share options were granted to certain directors of the Company in respect of their services provided to the Group, further details of which are set out in note 23 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosure.

Employee costs

The five highest paid individuals during the year included two (2001: two and 2000: one) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2001: three and 2000: four) non-director, highest paid individuals are analysed as to nature and bands of remuneration below.

	2002	2001	2000
	HK$	*HK$*	*HK$*
Basic salaries, housing, other allowances and benefits in kind	2,111,570	1,788,735	2,941,545
Retirement benefits scheme contributions	42,020	49,836	85,131
	2,153,590	1,838,571	3,026,676

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	2002	2001	2000
	Number of employees	*Number of employees*	*Number of employees*
Nil - HK$1,000,000	3	3	3
HK$1,000,001 - HK$1,500,000	—	—	1

11. INVESTMENT PROPERTIES

	Group	
	2002	**2001**
	HK$	*HK$*
At valuation:		
At beginning of year	152,000,000	160,000,000
Surplus/(deficit) on revaluation - note 24	3,000,000	(8,000,000)
At 31st December	155,000,000	152,000,000

The investment properties are held in Hong Kong under long term leases.

The investment properties include a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong which was revalued on an open market, existing tenancy basis by CB Richard Ellis Ltd., an independent firm of professional valuers, as at 31st December 2002 at HK$80,000,000 (2001: HK$80,000,000).

In addition, the investment properties of 509 car parking spaces located on the lower basement, basement and G/F to 5/F of Jumbo Court Public Carpark, 3 Welfare Road, Aberdeen, Hong Kong, was revalued on an open market, existing tenancy basis by Vigers Hong Kong Limited, an independent firm of professional valuers, as at 31st December 2002 at HK$75,000,000 (2001: HK$72,000,000).

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 27(a) to the financial statements.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Restaurant vessels, ferries and pontoons	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Cost:					
At beginning of year	43,300,969	613,996	194,343	58,903,059	103,012,367
Additions	195,746	—	491,759	308,946	996,451
Write off	—	—	—	(8,251,161)	(8,251,161)
At 31st December 2002	43,496,715	613,996	686,102	50,960,844	95,757,657
Accumulated depreciation and impairment:					
At beginning of year	31,406,596	170,390	—	40,178,627	71,755,613
Provided during the year	1,786,326	9,526	222,957	3,908,416	5,927,225
Write back	—	—	—	(4,393,512)	(4,393,512)
Impairment	—	—	142,441	—	142,441
At 31st December 2002	33,192,922	179,916	365,398	39,693,531	73,431,767
Net book value:					
At 31st December 2002	10,303,793	434,080	320,704	11,267,313	22,325,890
At 31st December 2001	11,894,373	443,606	194,343	18,724,432	31,256,754

The Group's leasehold land and buildings are located in Hong Kong and are held under long term leases.

Company

	Furniture, fixtures and equipment
	HK$
Cost:	
At beginning of year and at 31st December 2002	5,698
Accumulated depreciation:	
At beginning of year	1,140
Provided during the year	1,140
At 31st December 2002	2,280
Net book value:	
At 31st December 2002	3,418
At 31st December 2001	4,558

13. INTERESTS IN SUBSIDIARIES

	Company	
	2002	**2001**
	HK$	*HK$*
Unlisted shares, at cost	390,033	390,026
Provision for impairment	(390,000)	(390,000)
	33	26
Due from subsidiaries	603,551,296	579,541,483
Due to a subsidiary	(8)	—
Provision	(300,000,000)	(300,000,000)
	303,551,321	279,541,509

The balances with subsidiaries are unsecured and interest-free. In respect of all the balances due from subsidiaries, the Company has undertaken not to demand repayment within a two-year period from the balance sheet date and only when the subsidiaries have sufficient working capital in excess of their respective normal requirements.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity interest attributable to the Group	Principal activities
Held directly				
Double Crown Limited	Hong Kong	HK$2	100	Property investment
Palmsville Developments Limited	British Virgin Islands	US$1	100	Investment holding
Proven Success Limited	British Virgin Islands	US$1	100	Investment holding
Melco Services Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Held indirectly				
Aberdeen Restaurant Enterprises Limited*	Hong Kong	HK$25,025,000	86.68	Restaurant operations and property investment
Sea Palace, Limited*	Hong Kong	HK$1,950,000	86.46	Dormant
Tai Pak Sea-Food Restaurant Limited*	Hong Kong	HK$1,350,000	84.76	Catering, restaurant vessel holding and letting

* *Audited by certified public accountants other than Ernst & Young.*

The above table lists the subsidiaries of the Company as at 31st December 2002 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14. LONG TERM INVESTMENTS

	Group	
	2002	**2001**
	HK$	*HK$*
Unlisted equity investment, at cost	4,661,880	4,661,880
Provision for impairment	(4,661,880)	—
	—	4,661,880
Listed equity investment in Hong Kong, at cost	4,250,000	—
Provision for impairment	(4,250,000)	—
	—	—
Total	—	4,661,880

The market value of the Group's long term listed equity investment at 31st December 2002 was approximately HK$4,280,000. Subsequent to the balance sheet date, trading of the listed equity investment has been suspended since mid-February 2003. The market value of the listed equity investment was approximately HK$1,340,000 at the date of trading suspension. Having regard to the circumstances behind the suspension and the fact that the trading of the listed equity investment was still suspended at the date of this report, the directors considered that a full provision for impairment is necessary.

15. INVENTORIES

	Group	
	2002	**2001**
	HK$	*HK$*
Food and beverages	2,947,147	3,056,467
Consumable stores	38,958	95,647
	2,986,105	3,152,114

No inventories were carried at net realisable value at 31st December 2002 (2001: Nil).

16. ACCOUNTS RECEIVABLE

The aged analysis of the accounts receivable is as follows:

	Group	
	2002	**2001**
	HK$	*HK$*
Outstanding balances aged:		
Within 30 days	1,770,388	1,996,239
Between 31 to 60 days	859,616	815,511
Between 61 to 180 days	141,217	185,498
Over 180 days	11,290	—
	2,782,511	2,997,248

The Group's restaurant and property leasing operations are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms are granted. The Group generally allows normal terms of credit of 30 to 60 days to its well-established customers.

17. AMOUNTS DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Notes	**At 31st December 2002** *HK$*	**Maximum amount outstanding during the year** *HK$*	**At 1st January 2002** *HK$*
Sociedade Turismo e Diversões de Macau	(a)	424,604	446,000	446,000
iAsia Services Limited	(b)	1,982,407	1,982,407	—
		2,407,011		446,000

Notes:

(a) The amount due from Sociedade de Turismo e Diversões de Macau ("STDM"), a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director and/or have direct and/or indirect beneficial interests, represented receivables in respect of the sales of souvenirs by the Group and remains unsettled (note 29(v)). The balance with STDM is unsecured, interest-free and has no fixed terms of repayment.

(b) The amount due from iAsia Services Limited ("iAsia Services") as at 31st December 2002, a related company of which Mr. Lawrence Ho and Dr. Stanley Ho are directors and Mr. Lawrence Ho, Dr. Stanley Ho, and Mr. Peter So are beneficial shareholders, represented payments for leasehold improvements and rental deposits paid by the Group on behalf of iAsia Services (note 29(x)). The amount due from iAsia Services is unsecured, bears interest at 2% per annum and has no fixed terms of repayment.

18. OTHER INVESTMENT

	Group 2002	Group 2001
	HK$	*HK$*
Unlisted debt securities, at fair value	4,000,000	—

Subsequent to the balance sheet date, on 23rd January 2003, the Group disposed of the entire unlisted debt securities (including the accrued interest income of HK$142,000) to an independent third party for a total consideration HK$4,142,000.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	2002	2001
	HK$	*HK$*	*HK$*	*HK$*
Cash and bank balances	14,393,804	4,990,332	3,174,641	585,346
Short term bank deposits	204,835,160	207,552,891	—	—
	219,228,964	212,543,223	3,174,641	585,346

20. ACCOUNTS PAYABLE

The aged analysis of the accounts payable is as follows:

	Group 2002	Group 2001
	HK$	*HK$*
Outstanding balances aged within 30 days	2,356,253	2,574,010

21. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2002	2001	2002	2001
	HK$	*HK$*	*HK$*	*HK$*
Other payables	3,670,251	4,910,510	1,724,485	—
Accrued liabilities	11,559,594	1,862,543	1,737,577	367,546
	15,229,845	6,773,053	3,462,062	367,546

In particular, the provision for long services payments included in accrued liabilities above is set out below:

	Group	
	2002	**2001**
	HK$	*HK$*
Provision for the year and balance at 31st December	3,600,000	—
Portion classified as current liabilities	(3,600,000)	—
Long term portion	—	—

The Group provides for the probable future long service payments to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements, pursuant to a reorganisation of the Group's operations. The long service payments have been settled subsequent to the balance sheet date. The provision is based on the future payments which have been earned by the employees from their service to the Group up to the balance sheet date. Provision for the future long service payments has not been recognised in previous years as the directors did not consider that the situation would result in a material future outflow of resources for the Group.

22. SHARE CAPITAL

	2002	**2001**
	HK$	*HK$*
Authorised:		
480,000,000 shares of HK$1.00 each	480,000,000	480,000,000
Issued and fully paid:		
145,287,134 (2001: 121,087,134) shares of HK$1.00 each	145,287,134	121,087,134

On 1st August 2002, 24,200,000 ordinary shares of HK$1.00 each in the capital of the Company were issued by way of placement for HK$1.45 per share for a total cash consideration of HK$35,090,000, before related expenses.

The excess of the consideration received over the nominal value of the shares issued, in the amount of HK$10,451,450, net of issue expenses, was credited to the share premium account (note 24).

The net proceeds from the placement is to be used as either general working capital of the Group or to finance the possible acquisition of a 70% equity interest in Tongda Energy Corporation Limited ("Tongda") (a PRC joint stock limited company and independent to the Group), details of which were set out in an announcement of the Company dated 10th July 2002. All of such net proceeds will be used as general working capital of the Group if the acquisition of Tongda does not proceed. As at the balance sheet date, the conditions stated in the agreement in respect of the acquisition of Tongda had not been satisfied and the Company had not made a decision whether to proceed with the acquisition of Tongda.

23. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, executives, employees, consultants, professional and other advisers of the Group. The Scheme became effective on 8th March 2002 following its approval by the Company's shareholders at an extraordinary general meeting on the same date and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 8th March 2002, i.e. 12,108,713 shares of HK$1.00 each. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon the exercise of all options granted to such person within any 12-month period being more than 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than the expiry date of the Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer of the share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders meetings.

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1st January 2002	Granted during the year	At 31st December 2002#	Date of grant of share options*	Share price of the Company at grant date**	Exercise price of share options***	Exercise period of share options
Directors							
Mr. Lawrence Ho	—	605,435	605,435	8th March 2002	HK$1.23	HK$1.38	8th September 2002 to 7th March 2012
	—	605,436	605,436	8th March 2002	HK$1.23	HK$1.38	8th March 2003 to 7th March 2012
	—	1,210,871	1,210,871				
Mr. Frank Tsui	—	1,210,871	1,210,871	8th March 2002	HK$1.23	HK$1.38	8th September 2002 to 7th March 2012
Mr. Peter So	—	1,210,871	1,210,871	8th March 2002	HK$1.23	HK$1.38	8th September 2002 to 7th March 2012
Mr. Ho Cheuk Yuet	—	1,210,871	1,210,871	8th March 2002	HK$1.23	HK$1.38	8th September 2002 to 7th March 2012
Sub-total	—	4,843,484	4,843,484				
Employees							
In aggregate	—	250,000	250,000	8th March 2002	HK$1.23	HK$1.38	8th March 2003 to 7th March 2012
	—	250,000	250,000	8th March 2002	HK$1.23	HK$1.38	8th March 2004 to 7th March 2012
	—	1,492,557	1,492,557	13th September 2002	HK$1.66	HK$1.66	13th September 2002 to 7th March 2012
	—	1,492,557	1,492,557	13th September 2002	HK$1.66	HK$1.66	13th March 2003 to 7th March 2012
	—	410,000	410,000	13th September 2002	HK$1.66	HK$1.66	13th September 2003 to 7th March 2012

Name or category of participant	Number of share options: At 1st January 2002	Granted during the year	At 31st December 2002#	Date of grant of share options*	Share price of the Company at grant date**	Exercise price of share options***	Exercise period of share options
	—	410,000	410,000	13th September 2002	HK$1.66	HK$1.66	13th September 2004 to 7th March 2012
Sub-total	—	4,305,114	4,305,114				
Others							
In aggregate	—	1,480,057	1,480,057	13th September 2002	HK$1.66	HK$1.66	13th September 2003 to 7th March 2012
	—	1,480,058	1,480,058	13th September 2002	HK$1.66	HK$1.66	13th September 2004 to 7th March 2012
Sub-total	—	2,960,115	2,960,115				
Total	—	12,108,713	12,108,713				

* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*

** *The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.*

*** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

\# *No share option has been exercised, lapsed or cancelled during the year.*

At the balance sheet date, the Company had 12,108,713 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,108,713 additional ordinary shares of the Company and additional share capital of HK$12,108,713 and share premium of HK$6,495,575, before issue expenses.

24. RESERVES

Group

	Share premium account	Capital reserve account@	Investment property revaluation reserve	Retained profits/ (accumulated losses)	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
At 1st January 2001					
As previously reported	8,737,833	117,476,852	84,480,758	69,187,781	279,883,224
Prior year adjustment*	—	240,307,881	—	(240,307,881)	—
As restated	8,737,833	357,784,733	84,480,758	(171,120,100)	279,883,224
Deficit on revaluation of investment properties *(note 11)*	—	—	(8,000,000)	—	(8,000,000)
Revaluation deficit attributable to minority shareholders	—	—	133,174	—	133,174
Net loss for the year	—	—	—	(18,634,632)	(18,634,632)
At 31st December 2001 and 1st January 2002	8,737,833	357,784,733	76,613,932	(189,754,732)	253,381,766
Issue of shares *(note 22)*	10,890,000	—	—	—	10,890,000
Share issue expenses	(438,550)	—	—	—	(438,550)
Surplus on revaluation of investment properties *(note 11)*	—	—	3,000,000	—	3,000,000
Revaluation surplus attributable to minority shareholders	—	—	(399,524)	—	(399,524)
Net loss for the year	—	—	—	(35,596,308)	(35,596,308)
At 31st December 2002	19,189,283	357,784,733	79,214,408	(225,351,040)	230,837,384

Company

	Share premium account	Capital reserve account@	Retained profits/ (accumulated losses)	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1st January 2001				
As previously reported	8,737,833	357,784,733	98,700,731	465,223,297
Prior year adjustment#	—	—	(5,000,000)	(5,000,000)
As restated	8,737,833	357,784,733	93,700,731	460,223,297
Net loss for the year	—	—	(301,546,564)	(301,546,564)
At 31st December 2001 and 1st January 2002	8,737,833	357,784,733	(207,845,833)	158,676,733
Issue of shares *(note 22)*	10,890,000	—	—	10,890,000
Share issue expenses	(438,550)	—	—	(438,550)
Net loss for the year	—	—	(10,933,684)	(10,933,684)
Net 31st December 2002	19,189,283	357,784,733	(218,779,517)	158,194,499

* *In prior years, goodwill and negative goodwill arising on consolidation of subsidiaries were eliminated against and credited to the capital reserve, respectively, in the year in which they arose. During the year ended 31st December 2001, the Group adopted SSAP 30 "Business combinations". Goodwill was retrospectively restated and had been fully amortised prior to 1st January 2001 on a straight-line basis over a period of not more than 20 years. In addition, negative goodwill had been recognised as an income immediately in the year of acquisition. Accordingly, prior year adjustments were made in the financial statements for the year ended 31st December 2001, the principal effect of which was to reduce the Group's retained profits and increase the Group's capital reserve previously reported as at 1st January 2001, by HK$240,307,881.*

\# *During the year ended 31st December 2001, the Group adopted the revised SSAP 18 "Revenue". To comply with the revised SSAP, a prior year adjustment was made to the amount of the Company's financial statements for the year ended 31st December 2000, resulting in a debit of HK$5,000,000 to the Company's net profit for year ended 31st December 2000, and a net credit of the same amount to the dividend receivable in the Company's balance sheet as at 31st December 2000. The prior year adjustment reversed a dividend from a subsidiary which was declared and approved by the subsidiary after the 31st December 2000, which was previously recognised by the Company as revenue in its financial statements for the year ended 31st December 2000.*

The effect of this change in accounting policy on the Company's net profit for the year ended 31st December 2001, was to reduce the net loss by HK$5,000,000 to HK$301,546,564, representing the effect of recognising the dividend of HK$5,000,000 declared by the subsidiary after 31st December 2000 as revenue in the financial statements for the year ended 31st December 2001.

@ *Pursuant to a scheme of capital reduction, which became effective on 29th June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK$357,784,733 were transferred to a capital reserve account. The capital reserve account is not freely distributable to the shareholders of the Company unless the conditions set out in the undertaking given to the Supreme Court of Hong Kong in respect of the capital reserve account at the date of the capital reduction have been fulfilled. The undertaking provides that the reserve shall not be treated as realised profits and shall be treated as an undistributable reserve of the Company for so long as there shall remain outstanding any debt or claim against the Company which was in existence on the effective date of the capital reduction. If those conditions are fulfilled, the reserve could be treated as realised profits for the purpose of calculating the distributable reserve of the Company in accordance with the provisions of Section 79B of the Companies Ordinance.*

25. RESERVES AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS

Save as disclosed in note 24 to these financial statements, as at 31st December 2002, the Company had no reserves available for distribution to shareholders, as calculated under the provisions of Section 79B of the Companies Ordinance.

26. PLEDGE OF ASSETS

As at 31st December 2002, the Group's bank deposits amounting to HK$1,100,000 (2001: HK$911,000) were pledged to secure a letter of guarantee to the extent of HK$1,031,000 (2001: HK$911,000) granted by a bank for the Group's water and electricity deposits.

27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 11) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31st December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	**2001**
	HK$	*HK$*
Within one year	3,353,366	2,048,712
In the second to fifth years, inclusive	454,871	834,488
	3,808,237	2,883,200

(b) **As lessee**

The Group leases certain of its office properties and furniture under operating lease arrangements. Leases for properties and furniture are negotiated for a term of 3 years and 2 years, respectively.

At 31st December 2002, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2002	**2001**	**2002**	**2001**
	HK$	*HK$*	*HK$*	*HK$*
Within one year	373,152	379,800	—	375,000
In the second to fifth years, inclusive	1,349,088	2,227	—	—
	1,722,240	382,027	—	375,000

28. COMMITMENTS

In addition to the operating lease commitments detailed in note 27(b) above, the Company and the Group had the following commitment at the balance sheet date.

On 28th September 2002, the Company entered into an underwriting agreement (the "Underwriting Agreement") to fully underwrite the proposed rights issue (the "Rights Issue") of Value Convergence Holdings Limited ("VCHL") (formerly iAsia Technology Limited). The Underwriting Agreement is conditional upon certain conditions and pursuant to which the Company is required to acquire, at a maximum, approximately 79.86% issued share capital of VCHL for a total consideration of HK$102,066,428.

Mr. Lawrence Ho and Dr. Stanley Ho, two of the directors and major shareholders of Melco, are also directors and shareholders of VCHL. As a result, the Underwriting Agreement entered into between Melco and VCHL, when completed, would constitute a connected transaction under the Listing Rules. Further details of the transaction were set out in the circular from the Company to its shareholders dated 16th November 2002. The transaction was approved by independent shareholders of the Company on 10th December 2002. The Underwriting Agreement became unconditional and was completed subsequent to the balance sheet date (note 30).

29. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

In addition to the transaction disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2002 HK$	2001 HK$	2000 HK$
Catering income received from directors and related companies	(i)	3,600,887	3,103,592	3,124,449
Insurance premiums paid to a related company	(ii)	954,076	930,014	1,019,973
Management fees paid to a related company	(iii)	441,572	406,657	160,969
Agency services fee paid to a related company	(iv)	55,000	198,142	10,702
Souvenirs sold to a related company	(v)	416,400	478,500	442,000
Technical support service fees paid to a related company	(vi)	77,745	55,800	—
Purchase of office equipment from a related company	(vii)	147,998	—	—
Rental income and management fee received from a related company	(viii)	188,047	—	—
Reception service fee paid to a related company	(ix)	35,277	—	—
Expenditure for leasehold improvements and rental deposit paid on behalf of a related company	(x)	1,982,407	—	—
Disposal of the vessels to a related company	(xi)	—	—	62,200,00

Notes:

(i) The Group received catering income in respect of restaurant operations from certain directors and related companies for services provided at a discount ranging between 15% and 40%.

(ii) The Group paid insurance premiums to Jardine Shun Tak Insurance Brokers Limited, an associate of Shun Tak Holdings Limited ("STHL"), to insure the properties and employees of the Group under the terms and conditions applicable to customers of comparable standing. Dr. Stanley Ho and Madam Winnie Ho Yuen Ki, a director and an ex-director of the Company, are also a director and an ex-director and/or have direct and/or indirect beneficial interests in STHL.

(iii) The Group paid management fees to Shun Tak Property Management Limited ("STPML"), a subsidiary of STHL, on a reimbursement basis for building management expenditure paid by STPML on behalf of the Group.

(iv) An agency services fee was paid by the Group to Shun Tak Real Estate Limited ("STREL"), a subsidiary of STHL, on a basis determined between the Group and STREL for the introduction of tenants to lease the Group's investment properties.

(v) The sales of souvenirs to Sociedade de Turismo e Diversões de Macau ("STDM"), a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director, respectively, and/or have direct and/or indirect beneficial interests, were made according to the published prices and conditions offered to customers of the Group, except that a longer credit period was normally granted. The balance due from STDM at 31st December 2002 was HK$424,604 (2001: HK$446,000) (note 17).

(vi) A service fee was paid to VCHL for the technical support services in respect of the Group's computer system and was determined on the basis agreed between the Group and VCHL. Dr. Stanley Ho and Mr. Lawrence Ho, two directors of the Company, are also directors and beneficial shareholders of VCHL.

(vii) Purchase of office equipment from CFN Hong Kong Limited ("CFNHK"), a wholly-owned subsidiary of VCHL, was made at prices and terms agreed between the Group and CFNHK. Dr. Stanley Ho and Mr. Lawrence Ho, two directors of the Company, are also beneficial shareholders and/or director of CFNHK.

(viii) The Group received rental income and management fee income from iAsia Services, a subsidiary of VCHL, for occupying part of the Group office premises, on a reimbursement basis.

(ix) Reception service fee was paid by the Group to iAsia Services on a basis determined between the Group and iAsia Services for the use of reception service.

(x) The amounts were paid by the Group on behalf of iAsia Services. The amount due from iAsia is unsecured, bears interest at 2% per annum and has no fixed terms of repayment (note 17). The interest income earned by the Group in respect of the amount due from iAsia Services amounted to HK$861 for the year ended 31st December 2002.

(xi) The Group disposed of its Jumbo Palace Restaurant Boat and Sea Palace Kitchen Boat and their operational assets (the "Vessels") to Gold Carousel Investments Limited, an associate of Dr. Stanley Ho, for an aggregate consideration of US$8 million (equivalent to HK$62,200,000), which was inclusive of the consideration for any relocation works. The sale and purchase agreement was approved by the independent shareholders of the Company on 21st January 2000. The consideration was determined by reference to an independent valuation of the Vessels as at 7th December 1999 made by Vigers Hong Kong Ltd., an independent firm of professional valuers, and the estimated expenses to be incurred for the relocation works were calculated by reference to the quotations obtained therefor. A profit of HK$1,776,588 (note 6) which resulted from the disposal was credited to the profit and loss account for the year ended 31st December 2000. Further details of the disposal are set out in a circular issued by the Company dated 4th January 2000.

30. POST BALANCE SHEET EVENTS

(a) On 17th January 2003, the Company's wholly-owned subsidiary, Palmsville Developments Limited entered into a loan agreement with a non-wholly owned subsidiary. The principal amount is HK$50,000,000 and the loan is unsecured, bears interest at market rate and has no fixed terms of repayment.

(b) On 20th January 2003, the Company entered into another loan agreement with VCHL with a principal of HK$23,000,000 (the "VCHL Loan"). The VCHL Loan is unsecured, bears interest at market rate and shall be repayable on or before 30th January 2003. The VCHL loan was used to set off against part of the consideration of subscription of VCHL's shares by the Company.

(c) Subsequent to the balance sheet date on 29th January 2003, the Underwriting Agreement, as detailed in note 28, became unconditional and the Company subscribed for the Rights Issue for 1,007,582,287 shares of HK$0.1 each in the share capital of VCHL for a total consideration of HK$100,758,229 pursuant to the Underwriting Agreement.

Following the Rights Issue of VCHL, a total of 1,679,303,811 shares of VCHL (including the bonus shares of VCHL issued under the terms of the Rights Issue) were issued to the Company by VCHL. As a result, the Company held 70.51% in the then share capital of VCHL. As at the date of this report, the Company held 67.57% in the share capital of VCHL. In the opinion of the directors, VCHL is a subsidiary of the Company. As at the date of this report, the Group is unable to estimate the goodwill arising on the acquisition of VCHL.

31. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 2nd April 2003.

2. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the pro forma combined financial information of the enlarged Group (please refer to Section C for the composition of the enlarged Group) for the three years ended 31st December 2002 (the "Relevant Periods"), prepared on the basis set out in Section C below.

For illustrative purposes only, the pro forma combined profit and loss accounts of the enlarged Group for the Relevant Periods, and the pro forma combined balance sheets as at 31st December 2001 and 2002 as set out on pages 53 to 54 have been prepared on a combination basis to present the aggregate results and financial position of the enlarged Group as if the enlarged Group had been in existence throughout the Relevant Periods.

Because of its nature, the pro forma combined financial information of the enlarged Group may not give an indicative financial position or results of the enlarged Group had Value Convergence and its subsidiaries been actually acquired at the beginning of the Relevant Periods.

A. Pro forma combined profit and loss accounts of the enlarged Group:

The following is the pro forma combined profit and loss accounts of the enlarged Group for the Relevant Periods, prepared on the basis set out in Section C below:

	For the year ended 31st December		
	2000	**2001**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	113,433	105,217	106,184
Other revenues	3,214	1,540	1,203
Change in work-in-progress	563	(530)	368
Cost of sales of hardware solutions	—	—	(8,761)
Cost of food and beverages	(25,580)	(25,431)	(21,989)
Consumable stores used	(2,825)	(2,881)	(2,170)
Staff costs	(71,523)	(74,865)	(71,425)
Depreciation	(7,547)	(12,491)	(15,928)
Fixed assets written off	—	—	(3,858)
Impairment of fixed assets	—	—	(11,676)
Impairment of long-term investments	—	—	(8,912)
Impairment of goodwill	—	—	(46,396)
Provision against deposits paid	—	—	(3,500)
Amortisation of goodwill	—	(586)	(1,752)
Provision for receivables	—	(3,907)	(158)
Commission expense	—	—	(241)
Other operating expenses	(37,327)	(38,947)	(39,582)
Cost of work capitalised under fixed assets	3,209	1,912	—
Total operating expenses	(141,030)	(157,726)	(235,980)
Finance costs	(40)	(72)	(16)
Share of losses of associated companies	—	(568)	—
Operating loss before tax	(24,423)	(51,609)	(128,609)
Taxation	(4)	—	—
Loss before minority interests	(24,427)	(51,609)	(128,609)
Minority interests	6,907	12,353	32,073
Net loss	(17,520)	(39,256)	(96,536)

B. Pro forma combined balance sheets of the enlarged Group

The following is the pro forma combined balance sheets of the enlarged Group as at 31st December 2001 and 2002, prepared on the basis set out in Section C below:

	As at 31st December	
	2001	**2002**
	HK$'000	*HK$'000*
Non-current assets		
Property plant and equipment	62,362	39,997
Investment properties	152,000	155,000
Pledged bank deposits	911	1,100
Long-term investment	4,662	—
Intangible assets	48,037	28,015
Other assets	—	4,485
Non-trading securities — unlisted	—	2,000
Current assets		
Inventories	3,152	2,986
Work-in-progress	33	402
Trade receivables, prepayments, deposits and other receivables	12,103	100,082
Amount due from related companies	446	2,407
Amount due from an investee company	—	4
Other investments	—	4,000
Bank balances and cash	260,418	270,028
	276,152	379,909
Current liabilities		
Trade payables, accruals, deposits received and other payables	18,548	73,047
Rental deposits due within one year	396	582
Interest-bearing bank borrowings	—	86,500
	18,944	160,129
Net current assets	257,208	219,780
Total assets less current liabilities	525,180	450,377
Financed by:		
Shareholders' funds	458,234	409,808
Minority interests	66,590	40,350
Long term liability		
Rental deposits due after one year	356	219
	525,180	450,377

C. **Basis of preparation**

For the purposes of the pro forma combined financial information, the enlarged Group referred to hereinafter includes:

i) the Group; and

ii) Value Convergence Holdings Limited (formerly known as iAsia Technology Limited) ("VC") and its subsidiaries (the "VC group"). On completion of the rights issue of the VC group on 5th February 2003, the Company had an approximate 70.51% interest in VC. On 3rd March 2003, the Group disposed of part of its shareholdings in VC to certain independent third parties. Thereafter, the Company holds an approximate 67.57% interest in VC.

For illustrative purposes only, the pro forma combined profit and loss accounts of the enlarged Group for the Relevant Periods, and the pro forma combined balance sheets as at 31st December 2001 and 2002 as set out on pages 53 to 54 have been prepared on a combination basis to present the aggregate results and financial position of the enlarged Group as if the enlarged Group had been in existence throughout the Relevant Periods.

The pro forma combined financial information of the enlarged Group for the years ended 31st December 2000 and 2001 has been prepared based on the financial information of the Group as set out on pages 22 to 52 in this Prospectus and the Accountants' Report of the VC group as set out on pages 83 to 115 in the circular of the VC group for "very substantial acquisition" dated 16th November 2002, after giving effect to the adjustments to account for the minority shareholders' interests (32.43%) in the net assets and profit or loss of the VC group.

The pro forma combined financial information of the enlarged Group for the year ended 31st December 2002 has been prepared based on the financial information of the Group as set out on pages 22 to 52 in this Prospectus, the financial information of the VC group as set out on pages 61 to 87 in this Prospectus, the quarterly reports of the VC group for the three months ended 31st December 2001 and 2002 and the management accounts of the VC group, after giving effect to the adjustments to account for the minority shareholders' interests (32.43%) in the net assets and profit or loss of the VC group.

Because of its nature, the pro forma combined financial information of the enlarged Group may not give an indicative financial position or results of the enlarged Group had the VC group been actually acquired at the beginning of the Relevant Periods.

The pro forma combined financial information of the enlarged Group is provided for information only and should not be construed as being indicative of the enlarged Group's financial performance in any future periods. In particular, the pro forma combined financial information of the enlarged Group is prepared on a combination basis whereas the acquisition will be accounted for under acquisition accounting in the consolidated accounts of the enlarged Group. Under acquisition accounting, the consolidated accounts of the enlarged Group will be adjusted as follows:

(a) The results of the VC group will only be reflected in the consolidated profit and loss accounts of the enlarged Group since the date of acquisition;

(b) All assets and liabilities of the VC group will be recorded at their respective fair values as at the date of acquisition;

(c) The results of the VC group to the date of acquisition will be treated as pre-acquisition reserves. The pre-acquisition reserves and the share capital and other reserves of the VC group as at the date of acquisition will be eliminated against the cost of investment of the Group. The Directors estimated that the goodwill generated from the completion of the acquisition is approximately HK$598,000.

3. UNAUDITED STATEMENT OF PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an unaudited statement of pro forma adjusted consolidated net tangible assets of the Group following the underwriting of the rights issue shares of Value Convergence Holdings Limited ("VC") by the Group completed on 5th February 2003 (the "Underwriting of VC Shares") as detailed in the circular of VC (formerly known as iAsia Technology Limited) dated 9th January 2003, and the Rights Issue. It is prepared based on the audited consolidated net assets of the Group as at 31st December 2002, adjusted to reflect the effect of the Underwriting of VC Shares and the Rights Issue:

	HK$'000	HK$'000 (except for per share data)
Audited consolidated net assets of the Group as at 31st December 2002		376,125
Intangible asset of the Group as at 31st December 2002		—
Consolidated net tangible assets of the Group as at 31st December 2002		376,125
Add: The Group's share of unaudited consolidated net assets of the VC Group as at the date of the completion of the Underwriting of VC Shares *(Note 1)*	100,160	
Less: Considerations for the Underwriting of VC Shares *(Note 2)*	(100,758)	
Net decrease in net assets arising from the Underwriting of VC Shares		(598)
Less: The Group's share of unaudited net loss of the VC Group during the period from the date of the completion of the Underwriting of VC Shares to 30th June 2003 *(Note 3)*		(9,829)
Less: Unaudited intangible assets of the Group as at 30th June 2003 *(Note 4)*		(24,351)
Unaudited pro forma adjusted consolidated net tangible assets of the enlarged Group following the Underwriting of VC Shares but before the Rights Issue		341,347
Add: Estimated net proceeds from the Rights Issue *(Note 5)*		102,833

	HK$'000 (except for per share data)
Unaudited pro forma adjusted consolidated net tangible assets of the enlarged Group following the Underwriting of VC Shares and the Rights Issue	444,180
Consolidated net tangible assets per share of the Group as at 31st December 2002 *(Note 6)*	2.59
Unaudited pro forma adjusted consolidated net tangible assets per share of the enlarged Group following the Underwriting of VC Shares but before the Rights Issue *(Note 6)*	2.35
Unaudited pro forma adjusted consolidated net tangible assets per share of the enlarged Group following the Underwriting of VC Shares and the Rights Issue *(Note 7)*	2.04

Notes:

(1) This represents the Group's share of the unaudited consolidated net assets of the VC Group (after taking into account the issuance of right shares which were underwritten by the Group) of approximately HK$142,045,000. This information is extracted from the unaudited management account of the VC Group as at 5th February 2003, being the date of the completion of the Underwriting of VC Shares.

(2) This represents the consideration for the underwriting of the 1,007,582,587 shares of VC at HK$0.1 each as detailed in the "Connected and Discloseable Transaction" announcement dated 4th February 2003 by the Group.

(3) This represents the Group's share of the unaudited net loss of the VC Group during the period from the date of completion of the Underwriting of VC Shares to 30th June 2003, being the period end date of the latest quarterly report of the VC Group, of approximately HK$14,359,000. This information is extracted from the unaudited management accounts of the VC Group for the period ended 30th June 2003.

(4) This information is extracted from the unaudited consolidated management account of the Group as at 30th June 2003. The intangible assets represent the net book value of (i) the trading rights owned by VC CEF Brokerage Limited and VC CEF Futures Limited, subsidiaries of VC, amounting to approximately HK$3,546,000; and (ii) goodwill arising from acquisition of VC CEF Brokerage Limited, VC CEF Futures Limited and VC CEF Capital Limited by VC amounting to approximately HK$20,805,000 as at 30th June 2003.

(5) This represents the estimated proceeds from the issuance of 72,643,567 Right Shares, assuming none of the options are exercised prior to the record date, less the estimated direct expenses payable.

(6) This is calculated based on 145,287,134 shares in issue by the Group as at the close of business on 31st December 2002.

(7) This is calculated on the basis of 217,930,701 shares, being the 145,287,134 shares in issue by the Group as at the close of business on 31st December 2002, and the 72,643,567 Rights Shares to be issued.

4. INDEBTEDNESS

(a) Borrowings

As at the close of business on 30th June 2003, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement, the Group had total outstanding borrowings of approximately HK$44.4 million, comprising secured bank borrowings and overdrafts of approximately HK$40.4 million and unsecured bank borrowings and overdrafts of approximately HK$4.0 million. The secured bank borrowings and overdrafts were secured by margin clients' listed securities with market value of approximately HK$15.0 million as at 30th June 2003 and a corporate guarantee by a subsidiary of the Company.

(b) Contingent liabilities

Set out below are contingent liabilities of the Group as at 30th June 2003:

(i) One of Value Convergence's third party suppliers (the "Supplier") charged Value Convergence a sum of approximately HK$8.6 million in respect of work performed by the Supplier of which approximately HK$2.6 million has been paid. A threatened claim was made by the Supplier against Value Convergence on 30th November 2000 for the unpaid invoices for the work done between April and September 2000. As at 30th June 2003, Value Convergence had not made any provision for the outstanding service fee of approximately £489,000 (approximately HK$6 million) which was the subject of dispute with the Supplier. On the basis of Value Convergence's own assessment of the services rendered by the Supplier and the professional legal advice obtained, the directors of Value Convergence are of the opinion that such charges are unreasonable and not justifiable under the agreement with the Supplier and Value Convergence had in early 2001 issued legal letters to the Supplier challenging the charges on the above grounds. Since then, Value Convergence did not hear further from the Supplier.

(ii) On 11th January 2001, legal proceedings were initiated by Lane Ventures Limited (the "Claimant") alleging that Value Convergence had promised to pay a monthly remuneration to the Claimant, to reimburse the Claimant's related travelling expenses and to grant certain options to the Claimant to purchase shares in Value Convergence in consideration of the Claimant rendering its consultancy services to Value Convergence. In the said proceedings, the Claimant is claiming from Value Convergence, among other things, an amount of approximately HK$0.5 million and an order that Value Convergence grants to the Claimant the options as mentioned above. A defence has been filed by Value Convergence. On the basis of legal advice received, Value Convergence's directors are of the view that no agreement exists between the Claimant and Value Convergence and Value Convergence has a reasonable chance to successfully defend itself against the allegation. After filing of the defence by Value Convergence on 8th February 2001, no further action has been taken by the Claimant up to 30th June 2003.

(iii) One of the subsidiaries of the Company, VC CEF Brokerage Limited ("VCCEFB"), was involved in a litigation in which a client of VCCEFB alleged that in 1997, VCCEFB had failed to make enforceable contract or contracts for such client. The client claimed for loss of profit of approximately HK$8.9 million plus interest. Pursuant to the share sale and purchase agreement relating to the acquisition of, among others, VCCEFB, VCCEFB's former ultimate holding company has undertaken to assume the responsibility for all legal and financial liabilities in connection with any actions, matters or proceedings relating to this claim and to indemnify VCCEFB and Value Convergence for all loss, damages and costs suffered or incurred in relation to this claim.

Certain shareholders of Value Convergence had, pursuant to a deed of indemnity dated 22nd March 2001, given joint and several indemnities in favour of Value Convergence and its subsidiaries in relation to any loss and damages suffered by the Group in connection with the threatened claim and the legal proceedings mentioned in (i) and (ii) above.

(c) **Capital commitments**

As at 30th June 2003, the Group did not have any material capital commitments.

(d) **Guarantees**

As at 30th June 2003, Value Convergence had provided corporate guarantees for its subsidiaries, Elixir Group Limited, Elixir Group (Macau) Limited and VC CEF Brokerage Limited, to a supplier and a bank respectively for obtaining credit and banking facilities granted to these subsidiaries.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, debentures, loan capital issued and outstanding or agreed to be issued, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances or acceptance credits, guarantees or other material contingent liabilities outstanding as at the close of business on 30th June 2003.

Foreign currency amounts for the purpose of the calculations in respect of the indebtedness have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30th June 2003.

5. WORKING CAPITAL

The Directors are of the opinion that taking into account the existing banking facilities available, the existing cash and bank balances, the expected net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements.

6. MATERIAL ADVERSE CHANGE

Save as disclosed herein, the Directors are not aware of any material adverse change in the financial condition of the Group since 31st December 2002, the date to which the latest published audited financial statements of the Group were made up.

AUDITED CONSOLIDATED ACCOUNTS

Set out below is an extract from the audited accounts of Value Convergence and its subsidiaries ("VC Group") for the year ended 30th September 2002 (the date to which the latest audited accounts were made up), together with the comparative figures for the year ended 30th September 2001 and the period from 24th September 1999 (date of incorporation) to 30th September 2000 and relevant notes to the audited accounts of the VC Group for the year ended 30th September 2002:

Consolidated Profit and Loss Account
For the year ended 30th September 2002

		For the year ended 30th September		Period from 24th September 1999 (date of incorporation) to 30th September
		2002	**2001**	**2000**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	2	10,313	3,634	4,146
Other revenues	2	846	1,166	195
Changes in work-in-progress		(72)	(98)	351
Work performed by the Group and capitalised under fixed assets		—	2,904	2,343
Staff costs		(19,350)	(19,659)	(11,161)
Depreciation		(10,125)	(5,039)	(980)
Amortisation of goodwill		(2,227)	—	—
Provision for receivables		(40)	(3,907)	—
Impairment of fixed assets	11	(11,534)	—	—
Impairment of goodwill	12	(46,396)	—	—
Other operating expenses		(12,162)	(7,297)	(5,427)
Operating loss	4(a)	(90,747)	(28,296)	(10,533)
Finance costs	4(b)	(1)	(84)	(29)
Share of losses of associated companies		(568)	—	—
Loss for the year		(91,316)	(28,380)	(10,562)
Minority interests		155	—	—
Loss attributable to shareholders	6	(91,161)	(28,380)	(10,562)
Basic loss per share *(HK cents)*	8	(16.0)	(7.9)	(3.2)

Consolidated Balance Sheet

	Note	As at 30th September 2002 HK$'000	2001 HK$'000
Fixed assets	11	13,232	15,729
Non-trading securities			
— unlisted at fair value		2,000	—
Goodwill	12	—	—
Current assets			
Inventories	16	916	253
Trade receivables, prepayments, deposits and other receivables	14	14,840	6,829
Amount due from an investee company	19	4	—
Bank balances and cash		30,219	37,926
		45,979	45,008
Current liabilities			
Trade payables, accruals and other payables	15	3,994	6,190
		3,994	6,190
Net current assets		41,985	38,818
Total assets less current liabilities		57,217	54,547
Financed by:			
Share capital	17	68,044	45,000
Reserves	18	(10,897)	9,547
Shareholders' funds		57,147	54,547
Minority interests		70	—
		57,217	54,547

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

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

(a) **Basis of preparation**

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

In the current year, the Group early adopted the following revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which will be effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 15 (revised):	Cash flow statements
SSAP 34 (revised):	Employee benefits

The principal accounting policies below have adopted these new standards.

(b) **Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th September. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company 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 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) **Associated companies**

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill net of accumulated amortisation on acquisition.

(e) **Goodwill**

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

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 3 to 10 years.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

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

(f) **Revenue recognition**

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

Hook up fees, sales of trading and back office systems and sales of computer hardware and software are recognised upon satisfactory delivery and installation of the systems/hardware and software to the customers.

System customisation fees and network support fees are recognised upon satisfactory completion of work including post delivery service support.

Revenues from content subscription, data management, hosting services and ASP licence fees are recognised when the services are rendered.

Revenue from provision of maintenance services is recognised on a straight-line basis over the period of the related agreement.

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

(g) **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents purchase price and any directly 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	33⅓-60%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised 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.

(h) **Non-trading securities**

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investments are impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

(i) **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.

(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. Work-in-progress comprises staff costs incurred with respect to system customisation services rendered plus attributable profit less progress billings.

(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.

(n) **Deferred taxation**

Deferred taxation is accounted for at the current tax 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 is 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 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 accounts of subsidiaries expressed in foreign currencies are translated 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 and development costs are expensed as incurred unless the development costs satisfy the criteria for recognition of such costs as assets. The development work performed by the Group represents staff costs incurred for customisation and modification of software which are an integral part of the related hardware and satisfy the criteria for recognition as assets are capitalised under fixed assets.

(r) **Employee benefits**

(i) *Retirement benefits*

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

(ii) *Employee leave entitlement*

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

(s) **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 amortisation of goodwill and impairment of goodwill. Segment assets consist primarily of fixed assets, non-trading securities, inventories, trade receivables, prepayments, deposits and other receivables, amount due from an investee company and bank balances and cash. 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.

2. REVENUES AND TURNOVER

The Group is principally engaged in the provision of comprehensive online trading and related systems to licensed financial institutions and intermediaries principally in Asia, and investment holding. Revenues recognised during the year are as follows:

	2002	**2001**	**Period from 24th September 1999 (date of incorporation) to 30th September 2000**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
System customisation and network support fees	2,678	461	3,502
Sales of trading and back office systems	5,039	1,880	378
Maintenance fees	1,263	458	—
Hook up fees	365	335	260
Data management and hosting fees	46	31	—
Messaging fees	180	219	6
Content management and subscription fees	456	250	—
Sales of hardware and software	56	—	—
ASP licence fees	230	—	—
	10,313	3,634	4,146
Other revenues			
Interest income on bank deposits	789	1,148	195
Other	57	18	—
	846	1,166	195
Total revenues	11,159	4,800	4,341

3. SEGMENT INFORMATION

Primary reporting format — business segments

No business segment analysis is presented as over 90% of the Group's turnover and contribution to the operating loss during the year ended 30th September 2002 are attributable to the provision of comprehensive online trading and related systems to licensed financial institutions and intermediaries.

Secondary reporting format — geographical segments

	Year ended/as at 30th September 2002			
	Turnover	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
	10,313	(42,124)	59,211	22,060
Unallocated costs		(48,623)		
Operating loss		(90,747)		
Non-trading securities			2,000	
Total assets			61,211	

	Year ended/as at 30th September 2001			
	Turnover	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	3,634	(27,316)	60,307	11,811
Philippines	—	(980)	430	—
	3,634	(28,296)	60,737	11,811
Unallocated costs		—		
Operating loss		(28,296)		

4. OPERATING LOSS

(a) **Operating loss is stated after charging the following:**

	2002	**2001**	**Period from 24th September 1999 (date of incorporation) to 30th September 2000**
	HK$'000	*HK$'000*	*HK$'000*
Auditors' remuneration	411	300	59
Depreciation			
Owned fixed assets	10,125	4,876	766
Leased fixed assets	—	163	214
Cost of services	8,881	4,477	2,729
Operating leases			
Land and buildings	2,074	1,070	871
Office equipment	—	18	110
Retirement benefit costs *(note 9)*	596	398	—
Loss on disposal of fixed assets	434	46	—
Exchange losses	18	94	—

(b) **Finance costs**

	2002	**2001**	**Period from 24th September 1999 (date of incorporation) to 30th September 2000**
	HK$'000	*HK$'000*	*HK$'000*
Interest element of finance leases	—	84	28
Other interest	1	—	1
	1	84	29

5. TAXATION

(a) 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 year (2001: HK$Nil; period ended 30th September 2000: HK$Nil).

(b) No provision for deferred taxation has been made as the Group and the Company have net potential deferred tax asset at the balance sheet date, the crystallisation of the asset in the foreseeable future was uncertain.

The major components of the net deferred asset not recognised are as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Accelerated depreciation allowances	(1,757)	(2,428)
Tax losses	15,137	8,881
	13,380	6,453

	Company	
	2002	**2001**
	HK$'000	*HK$'000*
Accelerated depreciation allowances	—	—
Tax losses	6,287	5,625
	6,287	5,625

As at 30th September 2002, the above tax losses of the Group and the Company were available for carry forward but subject to the approval of the Hong Kong Inland Revenue Department.

6. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$66,547,000 (2001: HK$23,362,000; period ended 30th September 2000: HK$10,562,000).

7. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2001: HK$Nil; period ended 30th September 2000: HK$Nil).

8. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the Group's loss attributable to shareholders of HK$91,161,000 and the weighted average of 568,829,100 ordinary shares in issue during the year.

The last year's loss per share was calculated on the Group's loss attributable to shareholders of HK$28,380,000 (period ended 30th September 2000: HK$10,562,000) and the weighted average of 358,765,088 (period ended 30th September 2000: HK$329,903,695) ordinary shares in issue in last year, which was adjusted for the effect of the assumption as if the capitalisation issue of shares of the Company in March 2001 was made at the beginning of the last year.

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

9. RETIREMENT BENEFIT SCHEMES AND COSTS

On 1st December 2000, a Mandatory Provident Fund Scheme (the "MPF") was set up under the Mandatory Provident Fund Schemes Ordinance for all eligible employees of the Group. Under the MPF, the Group and the eligible employees are required to contribute 5% of the monthly gross salaries of the respective employees with a maximum monthly contribution of HK$1,000, except for one of the subsidiaries of the Group, which is not subject to such HK$1,000 maximum contribution limit. The contributions are fully and immediately vested with employees as accrued benefits once they are paid. The assets of the MPF are held separately from those of the Group in an independently administered fund. Details of the contributions to the MPF are as follows:

	2002	**2001**	**Period from 24th September 1999 (date of incorporation) to 30th September 2000**
	HK$'000	*HK$'000*	*HK$'000*
Employers' contributions incurred	272	398	—
Contributions payable as at the end of the year	51	—	—
Forfeited contributions available to offset employers' contributions payable in future years as at the end of year	14	—	—

In addition, one of the Group's subsidiaries in the United Kingdom operates a defined contribution retirement scheme. Contributions to the fund are calculated as a percentage of employees' basic salaries. The assets of the scheme are held separately from those of the subsidiary in an independently administered fund. Details of the contributions to this defined contribution retirement scheme are as follows:

	2002	**2001**	**Period from 24th September 1999 (date of incorporation) to 30th September 2000**
	HK$'000	*HK$'000*	*HK$'000*
Employers' contributions incurred	324	—	—
Contributions payable as at the end of the year	—	—	—
Forfeited contributions available to offset employers' contributions payable in future years as at the end of year	—	—	—

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

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

	2002	2001	Period from 24th September 1999 (date of incorporation) to 30th September 2000
	HK$'000	*HK$'000*	*HK$'000*
Fees	167	—	—
Salaries, allowances and benefits in kind	3,107	2,783	729
Retirement benefit costs	33	30	—
	3,307	2,813	729

None of the independent non-executive directors received any emoluments except for director fees of approximately HK$84,000 and HK$83,000 which were paid to each of the two independent non-executive directors respectively for the year ended 30th September 2002 and were included in the directors' emoluments as disclosed above.

One director of the Company received emoluments during the period ended 30th September 2000. Three executive directors of the Company received emoluments of approximately HK$1,272,000, HK$999,000 and HK$869,000 (2001: HK$1,167,000, HK$1,048,000 and HK$598,000) respectively for the year ended 30th September 2002. Save as disclosed in note 20, no other emoluments were received by the directors during the year ended 30th September 2002.

(b) **Five highest paid individuals**

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

	2002	**2001**	**Period from 24th September 1999 (date of incorporation) to 30th September 2000**
Directors	3	2	1
Employees	2	3	4
	5	5	5

The emoluments payable to directors are reflected in note (a) above. The emoluments payable to employees during the year are as follows:

	2002	**2001**	**Period from 24th September 1999 (date of incorporation) to 30th September 2000**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and benefits in kind	1,776	2,658	2,425
Retirement benefit costs	55	30	—
	1,831	2,688	2,425

The emoluments of the above employees fall within the emolument bands of nil to HK$1,000,000 for the year.

(c) During the year, no directors or the above highest paid individuals waived or agreed to waive any emoluments. No 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.

11. FIXED ASSETS

	Group			
	Leasehold improvements	Office furniture and equipment	Computer equipment and software	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1st October 2001	426	422	20,843	21,691
Acquisition of subsidiaries	956	449	13,569	14,974
Additions	1,007	149	5,930	7,086
Disposals	(671)	(175)	(614)	(1,460)
Exchange translation	75	22	16	113
At 30th September 2002	1,793	867	39,744	42,404
Accumulated depreciation				
At 1st October 2001	229	129	5,604	5,962
Acquisition of subsidiaries	328	154	1,778	2,260
Charge for the year	463	198	9,464	10,125
Impairment charge *(note a)*	—	—	11,534	11,534
Disposals	(420)	(65)	(282)	(767)
Exchange translation	32	10	16	58
At 30th September 2002	632	426	28,114	29,172
Net book value				
At 30th September 2002	1,161	441	11,630	13,232
At 30th September 2001	197	293	15,239	15,729

Notes:

(a) During the year, the Group performed an assessment of the carrying value of certain computer software. In light of the rapid change of technology, the Group considered that there was an impairment to the computer software, taking into consideration their recoverable amounts which were based on their value in use. As a result, an impairment charge of approximately HK$11,534,000 was recorded during the year.

(b) During the year ended 30th September 2001, all the fixed assets of the Company were transferred, at net book values, to its subsidiaries. No fixed assets have been acquired by the Company since then.

12. GOODWILL

	HK$'000
Cost	
At 1st October 2001	—
Acquisition of subsidiaries *(note 21d)*	48,623
At 30th September 2002	48,623
Accumulated amortisation	
At 1st October 2001	—
Amortisation charge	(2,227)
Impairment charge *(note a)*	(46,396)
At 30th September 2002	(48,623)
Net book value	
At 30th September 2002	—
At 30th September 2001	—

Note:

(a) The Group acquired 35% and 35.25% effective equity interest in two associated companies respectively on 9th November 2001 and further acquired the remaining 65% and 64.75% effective equity interest in these associated companies on 5th December 2001, which have become wholly-owned subsidiaries of the Group since then. Subsequent to the acquisitions, the Group performed an assessment of the carrying value of goodwill arising from the acquisition of these two companies. In light of the economic downturn, the Group has adopted a cautious approach for expansion to the financial industry. Based on the current assessment, the directors of the Group were uncertain as to the ultimate recoverability of this goodwill. Therefore, an impairment loss of approximately HK$46,396,000 was recorded to write off the remaining unamortised balance of goodwill in the profit and loss account for the year ended 30th September 2002.

13. INVESTMENTS IN SUBSIDIARIES

	Company 2002	Company 2001
	HK$'000	*HK$'000*
Investments at cost:		
Unlisted shares	4,785	4,010
Amounts due from subsidiaries *(note a)*	120,526	17,515
Provision for amount due from a subsidiary	(63,686)	—
	56,840	17,515
	61,625	21,525

Notes:

(a) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(b) The following is a list of the principal subsidiaries of the Company at 30th September 2002:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
iAsia Network Solutions Limited (formerly known as iAsia Technology International 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%
iAsia Online Systems Limited*	British Virgin Islands	Online trading software provider in Hong Kong	1 ordinary share of US$1 each	100%
iAsia Solutions Limited (formerly known as Bostonian Investments Limited)*	British Virgin Islands	Online trading software provider in Hong Kong	100 ordinary shares of US$1 each	100%
Global Financial Services Group Limited*	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
iAsia Services Limited*	Hong Kong	Provision of management services in Hong Kong	10,000 ordinary shares of HK$1 each	100%

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
CFN Hongkong Limited	Hong Kong	Provision of online securities trading solutions to financial institutions in Hong Kong	238,903,368 ordinary shares of HK$0.1 each	100%
CFN (UK) Limited	England & Wales	Provision of services on financial markets in the United Kingdom	10,000 ordinary shares of 1 pence each	100%
Elixir Group Limited*	Hong Kong	Hardware and software provider in Hong Kong	833,333 ordinary shares of HK$1 each	77.5%
Elixir Group (Macau) Limited	Macau	Hardware and software provider in Macau	2 ordinary shares of MOP450,000 and MOP50,000 each respectively	77.5%

* Shares held directly by the Company

14. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Trade receivables		
Current	1,074	849
31-90 days	380	100
Over 90 days	517	1,375
	1,971	2,324
Prepayments, deposits and other receivables	12,909	8,412
	14,880	10,736
Less: Provision for receivables	(40)	(3,907)
	14,840	6,829

	Company	
	2002	**2001**
	HK$'000	*HK$'000*
Trade receivables		
Current	10	483
31-90 days	—	—
Over 90 days	—	980
	10	1,463
Prepayments, deposits and other receivables	11,540	8,324
	11,550	9,787
Less: Provision for receivables	—	(3,907)
	11,550	5,880

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.

15. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Trade payables		
Current	698	59
31-90 days	—	—
Over 90 days	—	5
	698	64
Accruals and other payables	3,296	6,126
	3,994	6,190

	Company	
	2002	**2001**
	HK$'000	*HK$'000*
Trade payables		
Current	—	—
31-90 days	—	—
Over 90 days	—	5
	—	5
Accruals and other payables	1,649	5,032
	1,649	5,037

16. INVENTORIES

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Merchandise	735	—
Work-in-progress	181	253
	916	253

17. SHARE CAPITAL

	No. of shares	*HK$'000*
Authorised:		
At 1st October 2000, ordinary shares of HK$1.0 each	1,000,000,000	1,000,000
Sub-division of shares into HK$0.1 each	9,000,000,000	—
At 30th September 2001, ordinary shares of HK$0.1 each	10,000,000,000	1,000,000
At 30th September 2002, ordinary shares of HK$0.1 each	10,000,000,000	1,000,000
Issued and fully paid:		
At 1st October 2000, ordinary shares of HK$1.0 each	28,400,300	28,400
Issue of shares	812,815	813
Sub-division of shares into HK$0.1 each	262,918,035	—
Issue of shares by capitalisation of the share premium account	67,868,850	6,787
Placing and public offer	90,000,000	9,000
At 30th September 2001, ordinary shares of HK$0.1 each	450,000,000	45,000
At 1st October 2001, ordinary shares of HK$0.1 each	450,000,000	45,000
Issue of shares *(note a)*	230,442,858	23,044
At 30th September 2002, ordinary shares of HK$0.1 each	680,442,858	68,044

Note:

(a) On 9th November 2001, Global Financial Services Group Limited ("GFS"), a wholly-owned subsidiary of the Company acquired 35% effective interest in CFN Hongkong Limited ("CFN HK"), 35.25% effective interest in CFN (UK) Limited ("CFN UK") and 100% interest in Capital Connection Limited ("CCL") for a total consideration of HK$28,740,000, which was satisfied in full by the allotment and issue of 41,057,143 ordinary shares of the Company of HK$0.1 each at an issue price of HK$0.7 per share.

On 5th December 2001, GFS acquired 65% effective interest in CFN HK, 64.75% effective interest in CFN UK and 100% interest in London Technology Limited ("LTL") for a total consideration of HK$53,215,000, which was satisfied in full by the allotment and issue of 76,021,429 ordinary shares of the Company of HK$0.1 each at an issue price of HK$0.7 per share. Upon acquisition of the aforesaid interests, CFN HK, CFN UK, CCL and LTL became wholly-owned subsidiaries of the Group.

On 10th June 2002, in lieu of cash payment of HK$5,015,000 payable for certain software to one of the Group's suppliers, the Company issued 7,164,286 ordinary shares of the Company of HK$0.1 each at an issue price of HK$0.7 per share.

On 15th July 2002, the Company entered into a placing agreement with Ong Asia Securities (HK) Limited which agreed to procure on the placing of the Company's shares. On 23rd July 2002, the placing agent successfully placed on behalf of the Company a total of 106,200,000 new shares of HK$0.1 each at par, ranking pari passu with the existing ordinary shares. The Placing was completed on 2nd August 2002 in accordance with the terms of the placing agreement.

18. RESERVES

	Group			
	Share premium	**Accumulated losses**	**Exchange reserves**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st October 2000	6,000	(10,562)	—	(4,562)
Premium on issue of shares	60,987	—	—	60,987
Expenses incurred in connection with issue of shares	(11,711)	—	—	(11,711)
Capitalisation issue	(6,787)	—	—	(6,787)
Loss for the year	—	(28,380)	—	(28,380)
At 30th September 2001	48,489	(38,942)	—	9,547
At 1st October 2001	48,489	(38,942)	—	9,547
Premium on issue of shares *(note 17a)*	74,546	—	—	74,546
Expenses incurred in connection with issue of shares	(4,673)	—	—	(4,673)
Loss attributable to shareholders	—	(91,161)	—	(91,161)
Exchange differences arising on translation of accounts of an overseas subsidiary	—	—	844	844
At 30th September 2002	118,362	(130,103)	844	(10,897)

	Company		
	Share premium	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st October 2000	6,000	(10,562)	(4,562)
Premium on issue of shares	60,987	—	60,987
Expenses incurred in connection with issue of shares	(11,711)	—	(11,711)
Capitalisation issue	(6,787)	—	(6,787)
Loss for the year	—	(23,362)	(23,362)
At 30th September 2001	48,489	(33,924)	14,565
At 1st October 2001	48,489	(33,924)	14,565
Premium on issue of shares *(note 17a)*	74,546	—	74,546
Expenses incurred in connection with issue of shares	(4,673)	—	(4,673)
Loss for the year	—	(66,547)	(66,547)
At 30th September 2002	118,362	(100,471)	17,891

19. 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.

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

		Group	
		2002	**2001**
	Note	*HK$'000*	*HK$'000*
Sales of fixed assets to related companies	(a)	155	—
Rental paid to a related company	(b)	127	—
Technical, network and other services fees charged to a related company	(c)	142	56
Sales of computer hardware to related companies	(c)	56	—

Notes:

(a) Fixed assets were sold to related companies at net book value with certain profit margins, totalling approximately HK$23,000.

(b) The Company leased certain office space from a related company. The lease rental was charged according to actual floor space utilised at normal commercial terms.

(c) Services provided and computer hardware 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 third party customers of the Group.

(d) The amount due from an investee company is unsecured, interest free and has no fixed terms of repayment.

20. SHARE OPTIONS

(i) Pre-IPO share option plan

As at 30th September 2002, options comprising an aggregate of 29,306,249 underlying shares granted on 6th April 2001 ("Pre-IPO Share Options") pursuant to the Pre-IPO share option plan adopted by the Company on 14th March 2001 ("Pre-IPO Share Option Plan") at an exercise price of HK$0.49 per share were outstanding, which represents 4.3% of the shares of the Company in issue as at 30th September 2002. The exercise price represents a discount of 30% of the IPO offer price. The Pre-IPO Share Options have duration of approximately 4.5 years from the date of grant. 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 30th September 2002:

Categories of grantees	**Total no. of grantees**	**No. of underlying Shares comprised in the Pre-IPO Share Options**	**Exercise price per Share**	**Pre-IPO Share Share Options duration**
			HK$	
Directors of the Group	6	27,045,832	0.49	6th April 2001 to 8th October 2005
Employees	3	2,260,417	0.49	6th April 2001 to 8th October 2005
Total		29,306,249		

Since 18th December 2001, being the date of issue of the Company's annual report 2001 ("Annual Report") and up to 30th September 2002, certain Pre-IPO Share Options comprising a total of 2,100,000 and 12,810,417 underlying shares respectively granted to one director and four employees lapsed as the relevant director/employees failed to exercise the same within 3 months after the relevant director/employees ceased to be the director/employees of the Group. Since the date of the grant of the Pre-IPO Share Options up to 30th September 2002, none of the Pre-IPO Share Options were exercised.

(ii) New share option scheme

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

As at 30th September 2002, options comprising an aggregate of 49,105,714 underlying Shares granted on 9th July 2002 ("New Share Options") pursuant to the New Share Option Scheme at an exercise price of HK$0.1 per Share were outstanding, which represents 7.2% of the shares of the Company in issue as at 30th September 2002. The closing price of the Company's shares immediately before 9th July 2002 was HK$0.088. The New Share Options have duration of 10 years from the date of grant. According to the New Share Option Scheme, any New Share Option 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 New Share Options:

Categories of grantees	Total no. of grantees	No. of underlying Shares comprised in the New Share Options	Exercise price per Share	New Share Options duration
			HK$	
Directors of the Group	4	17,186,999	0.1	9th July 2002 to 8th July 2012
Employees	35	22,588,631	0.1	9th July 2002 to 8th July 2012
Other eligible persons	5	9,330,084	0.1	9th July 2002 to 8th July 2012
Total		49,105,714		

Since the date of the grant of the New Share Options up to 30th September 2002, none of the New Share Options were exercised, cancelled or lapsed.

21. COMMITMENTS

(i) Operating lease commitments

At 30th September 2002, 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 2002	Company 2002	Group and Company 2001
	HK$'000	*HK$'000*	*HK$'000*
Within one year	2,418	607	1,052
In the second to fifth year inclusive	2,252	—	631
	4,670	607	1,683

(ii) **Financial commitments**

Pursuant to the pre-incorporation agreement entered into between the Company and Computershare Systems Phils., Inc. on 27th 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 amount of HK$430,000 into the proposed joint venture. Due to the adverse market environment in Asia countries, the parties are now considering of entering into a termination agreement in the next few months terminating the pre-incorporation agreement and thereby releasing both parties' obligations with respect to any further commitments to the joint venture.

22. CONTINGENT LIABILITIES

(i) One of the Company's third party suppliers ("Supplier") charged the Company a sum of approximately HK$8.6 million in respect of work performed by the Supplier of which approximately HK$2.6 million has been paid. A threatened claim was made by the Supplier against the Company on 30th November 2000 for the unpaid invoices for the work done between April and September 2000. As at 30th September 2002, the Company has not provided for the outstanding service fee of approximately £489,000 (approximately HK$6 million) which is in dispute with the Supplier. On the basis of the Company's own assessment of the services rendered by the Supplier and professional legal advice, the directors of the Company are of the opinion that such charges are unreasonable and not justifiable under the agreement with the Supplier and the Company had indeed in early 2001 issued legal letters to the Supplier challenging the charges on the above grounds. Since then, the Company did not hear further from the Supplier and consequently, no provision has been made by the Group as at 30th September 2002.

(ii) On 11th January 2001, legal proceedings were initiated by Lane Ventures Limited ("Claimant") alleging that the Company had promised to pay a monthly remuneration to the Claimant, to reimburse the Claimant's related travelling expenses and to grant certain options to the Claimant to purchase shares in the Company in consideration of the Claimant rendering its consultancy services to the Company. In the said proceedings, the Claimant is, among other things, claiming from the Company an amount of HK$0.5 million and an order that the Company grant the options as mentioned above to the Claimant. A defence has been filed by the Company. On the basis of legal advice received, the Company's directors are of the view that no agreement exists between the Claimant and the Company. The Company has a reasonable chance to defend itself against the allegation successfully. Indeed after filing of the defence by the Company, no further action has been taken by the Claimant up to now and consequently, no provision has been made by the Group as at 30th September 2002.

(iii) As disclosed in the paragraphs headed "Contingent Liabilities" in the Company's interim report 2002 dated 13th May 2002 (the "Interim Report") and the announcement regarding supplemental information on the Interim Report of the Company dated 20th June 2002, the Company had a dispute with a Singaporean company, 3rd Frontier Solutions Pte Ltd. ("3F") concerning the termination of a software supply and development agreement dated 21st July 2001 and in relation thereto, the Company had commenced legal proceedings in Hong Kong to recover US$325,000 paid to 3F as a deposit and in turn, 3F had commenced arbitration proceedings in Singapore claiming the outstanding balance of the contract price of US$3,175,000. After considering the factors of legal cost and the management effort to be spent in this case, the Company and 3F finally entered into a settlement agreement dated 23rd August 2002. Pursuant to the terms of the said settlement agreement, each of the Company and 3F agreed to waive all claims against the other and accordingly, both the legal proceedings in Hong Kong and the Singaporean arbitration had been withdrawn.

Certain shareholders of the Company had, pursuant to a deed of indemnity dated 22nd March 2001, given joint and several indemnities in favour of the Group in relation to any loss and damages suffered by the Group in connection with the threatened claim and the legal proceedings mentioned in (i) and (ii) above.

23. POST BALANCE SHEET DATE EVENTS

The following significant events took place subsequent to 30th September 2002:

(i) On 4th October 2002, the Company obtained from a bank, a banking facility offering the Company of not exceeding HK$90 million for the purpose of financing the acquisition as stated in (iii) below.

(ii) On 28th September 2002 and subsequently on 9th October 2002, the Company has entered into an underwriting agreement and a supplemental agreement to the underwriting agreement (the "Underwriting Agreement") with Melco International Development Limited ("Melco"), under which Melco will act as the underwriter of the rights issue mentioned in (iii) below.

(iii) On 28th September 2002, the Company entered into a sale and purchase agreement with CEF Brokerage Holdings Limited and CEF Holdings Limited, under which the Company has conditionally agreed to acquire from them the entire issued share capital of three of their respective subsidiaries, namely CEF Brokerage Limited, CEF Futures Limited and CEF Capital Limited (the "CEF companies").

On 16th November 2002, the circular relating to (i) a conditional acquisition by the Company of the entire issued share capital of CEF companies; (ii) a proposed rights issue and bonus issue of shares in the Company; (iii) underwriting of the rights issue of shares in the Company; and (iv) a whitewash waiver sought by Melco, was despatched to the shareholders of the Company (the "Circular").

On 10th December 2002, the shareholders of the Company have passed the relevant resolutions at the extraordinary general meeting approving the following transactions or matters:

(a) The issue by way of rights (the "Rights Issue") of not less than 1,020,664,287 and not more than 1,138,282,230 new shares of HK$0.1 each ("Rights Share") at HK$0.1 per Rights Share to shareholders ("Qualifying Shareholders") whose names appear on the register of members of the Company at the close of business on 31st December 2002 ("Record Date") whose addresses are in Hong Kong for subscription, in the proportion of three Rights Shares for every two existing shares of the Company then held and on the terms and conditions set out in the Circular. An appropriate amount being equal to the aggregate nominal value of the Bonus Shares from the share premium account of the Company and the directors of the Company be and are hereby authorised to apply such amount in paying up in full at par not less than 680,442,858 and not more than 758,854,820 shares ("Bonus Shares"), such Bonus Shares to be issued and allotted and credited as fully paid to those Qualifying Shareholders who subscribe for the Rights Shares in the proportion of two Bonus Shares for every three subscribed and fully paid Rights Shares ("Bonus Issue"), and that the Bonus Shares will rank pari passu in all respects with the then existing shares in the Company from the date of their issue;

(b) The contents of and the transactions contemplated under the Underwriting Agreement was approved and the directors be and are hereby authorised to issue and allot the Rights Shares and the Bonus Shares pursuant to or in connection with the Rights Issue and the Bonus Issue notwithstanding that the same may be offered, issued or allotted otherwise than pro rata to the existing shareholders of the Company and, in particular, the directors may make such exclusions or other arrangements in relation to shareholders whose addresses as shown in the register of members of the Company as at the close of business on the Record Date are outside Hong Kong as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory other than Hong Kong; and

(c) Upon the approval of the Registrar of Companies in Hong Kong, the English name of the Company will be changed to "Value Convergence Holdings Limited" and the Chinese name of the Company will be changed to "滙盈控股有限公司" with effect from the date of issue of the relevant certificate of incorporation on change of name.

(iv) On 18th December 2002, the acquisition of the CEF companies was completed and the Company announced that it would change its financial year end date from 30th September to 31st December from year 2003 onwards. Accordingly, the Company would issue its next annual report for the 15 months ending 31st December 2003.

24. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 18th December 2002.

1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. PARTICULARS OF DIRECTORS

Name	Address
Executive Directors	
Dr. Stanley Ho, O.B.E.	No. 1 Repulse Bay Road Hong Kong
Mr. Lawrence Ho	35 Black's Link Hong Kong
Mr. Frank Tsui	13A, Block 4 Braemar Hill Mansions 21 Braemar Hill Road Hong Kong
Non-executive Directors	
Mr. Ho Cheuk Yuet	12A, Kenville Building 32 Kennedy Road Hong Kong
Mr. Peter So	Flat B, 19th Floor Village Garden 17 Village Road Happy Valley Hong Kong
Independent non-executive Directors	
Sir Roger Lobo, C.B.E., LL.D., J.P.	Woodland Heights, E1, 2 Wongneichung Gap Road Happy Valley Hong Kong
Mr. Robert Kwan, M.A. (CANTAB), F.C.A., F.H.K.S.A., C.P.A., J.P.	Flat 4A, MacDonnell House 6-8 MacDonnell Road Hong Kong

Mr. Ng Ching Wo	13B, Elegant Garden 11 Conduit Road Mid-levels Hong Kong

Qualifications

Executive Directors:

Dr. Stanley Ho, O.B.E

Dr. Ho, an outstanding entrepreneur in Asia, is actively involved in strategic decision-making processes for numerous companies. In Hong Kong, he holds the positions of group executive chairman of Shun Tak Holdings Limited, chairman of Value Convergence and president of The Real Estate Developers Association of Hong Kong. In Macau, he is the managing director of both Sociedade de Turismo e Diversões de Macau, S.A.R.L. and Sociedade de Jogos de Macau, S.A., vice-chairman of CAM — Macau International Airport Company Limited, chairman of Seng Heng Bank Limited and chairman of Macau Jockey Club.

Dr. Ho holds a number of key positions in the following academic and political bodies: Standing Committee Member, the 10th National Committee of the Chinese People's Political Consultative Conference; Member, Court and Council of The University of Hong Kong; Chairman, The University of Hong Kong Foundation for Educational Development; and Research Member, Court, The Hong Kong Polytechnic University.

Dr. Ho is also a vice patron of the Community Chest of Hong Kong, a member of the board of trustees of the Better Hong Kong Foundation, and a patron of the Society of the Academy for Performing Arts.

Dr. Ho has been the Company's Chairman since 1987.

Mr. Lawrence Ho

Mr. Ho is the son of Dr. Stanley Ho. Mr. Ho was appointed the Managing Director of the Company in November 2001, after he made and completed a general offer for shares of the Company. As Managing Director of the Company, Mr. Ho oversees and is responsible for the overall strategic development, management and operations of the Company.

Mr. Ho has been an executive director of Value Convergence since October 2000, and the president and vice-chairman of Value Convergence since August 2002. Before joining the Company and Value Convergence, Mr. Ho worked at Jardine Fleming in the Asian derivative group, where he was responsible for marketing and structuring of Asian derivative products. Prior to that, he worked in the credit risk management department of Citibank N.A.

Mr. Ho is a graduate of the University of Toronto, Canada and holds a bachelor of arts degree, majoring in commerce.

Mr. Ho is a member of The Chinese People's Political Consultative Conference, Shanghai Committee, a vice-chairman of The Chamber of Hong Kong Listed Companies Limited, a member of Science and Technology Council of Macau Special Administrative Region and a director of Guangzhou Luhu Golf & Country Club.

Mr. Frank Tsui

Mr. Tsui has more than 20 years of experience in direct investment and investment banking, having held senior management positions at James Capel (Far East) Limited (Managing Director, China Fund), Citicorp International Limited (Vice President) and Canadian Imperial Bank of Commerce (Manager, China Operations Group). Prior to joining the Company, he was the president of China Assets Investment Management Limited which is the investment manager of China Assets (Holdings) Limited, a listed investment holding company in Hong Kong.

Mr. Tsui holds a bachelor's and a master's degree in business administration from the Chinese University of Hong Kong and a law degree from the University of London. He is a member of the Certified General Accountants Association of Canada and the Hong Kong Securities Institute.

Mr. Tsui has been an executive Director of the Company since November 2001.

Non-executive Directors:

Mr. Ho Cheuk Yuet

With 18 years of experience in economic & stockbroking research and sales, Mr. Ho was previously managing director & head of research with BOC International; head of Greater China sales and research with HSBC Securities; head of Greater China Equities with UBS Warburg; and head of New Markets with CLSA.

Mr. Ho has been a non-executive Director of the Company since February 2002.

Mr. Peter So

Mr. So is a professional management accountant and is an associate member of both Chartered Institute of Management Accountants and Institute of Financial Services.

Mr. So has extensive experiences in banking and finance and has headed a global institutional sales department in a leading international securities brokerage group, Wardley James Capel Limited, a member of the HSBC Group. He has held senior management positions in Hang Seng Bank Limited, Citicorp International Limited, and Jinhui Holdings Company Limited. He is currently an executive director and the chief operating officer of Pacific Century Insurance Holdings Limited (Hong Kong listed) and a non-executive director of Jinhui Holdings Company Limited (Hong Kong listed) and Jinhui Shipping and Transportation Limited (Oslo listed).

Mr. So has been a non-executive Director of the Company since May 2003.

Independent Non-Executive Directors:

Sir Roger Lobo, C.B.E., LL.D., J.P.

Sir Roger was appointed as an independent non-executive Director of the Company in February 1998.

Sir Roger is a prominent figure in Hong Kong and Macau and has served in numerous public offices in the past. He was an Executive Council member between 1967 and 1985, a Legislative Council member between 1972 and 1985 (Senior Legislative Council member between 1980 and 1985) and a member of the Urban Council (1965-1978). In addition, he was the chairman of the Advisory Committee on Post-Retirement Employment (1987-1998), the chairman of Hong Kong Broadcasting Authority (1989-1997) and chairman and member of various committees of the Independent Commission Against Corruption (1975-1985).

Sir Roger is currently serving on many civic and social services offices. These offices include vice-patron of the Community Chest of Hong Kong and The Society of Rehabilitation and Crime Prevention, Hong Kong; member of the Board of Trustees of Business and Professionals Federation of Hong Kong; council member of Caritas Hong Kong; and the Honorary Commissioner of Civil Aid Services.

Sir Roger sits on the board of a number of other companies, including Shun Tak Holdings Limited and PCCW Limited (both Hong Kong listed) and Johnson & Johnson (HK) Limited.

Mr. Robert Kwan, M.A. (CANTAB), F.C.A., F.H.K.S.A., C.P.A., J.P.

Mr. Kwan was appointed as an independent non-executive Director of the Company in February 1998.

Mr. Kwan is a retired certified public accountant. He graduated with a master of arts degree at Cambridge University and qualified as a Fellow of the Institute of Chartered Accountants in England and Wales and Fellow of the Hong Kong Society of Accountants. He is a past chairman of Deloitte Touche Tohmatsu, Certified Public Accountants and Ocean Park Corporation.

Mr. Kwan has been active in community services and has served on numerous committees and public offices. He is currently serving as a member of the Office of The Ombudsman, a voting member of the Tung Wah Group of Hospitals Advisory Board, a founding voting member of The University of Hong Kong Foundation for Educational Development and Research and an independent non-executive director of Shun Tak Holdings Limited.

Mr. Ng Ching Wo

Mr. Ng was appointed as an independent non-executive Director of the Company in February 2003.

Mr. Ng is a partner of Messrs. Fong & Ng, Solicitors. Mr. Ng received his L.L.B. from the University of Alberta in Canada and was admitted to practise as a barrister and solicitor in Alberta in 1981. He is qualified as a solicitor in both the United Kingdom and Hong Kong. Mr. Ng's practice focuses primarily in the area of cross-border corporate and commercial work and he has experience in mergers and acquisitions, take-overs of private and listed companies, cross-border initial public offerings, tax planning, large-scale international joint ventures and technology transfer.

Mr. Ng sits on the board of a number of other listed companies.

3. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered office	Penthouse 38th Floor The Centrium 60 Wyndham Street Central Hong Kong
Principal place of business in Hong Kong	Penthouse 38th Floor The Centrium 60 Wyndham Street Central Hong Kong
Website address	*www.melco.hk.cn*
Financial adviser to the Company	VC CEF Capital Limited 38th Floor The Centrium 60 Wyndham Street Central Hong Kong
Underwriter	Kim Eng Securities (Hong Kong) Limited Room 1901 Bank of America Tower 12 Harcourt Road Central Hong Kong

Legal adviser to the Underwriter	Richards Butler 20th Floor, Alexandra House 16-20 Chater Road Central Hong Kong
Auditors	PricewaterhouseCoopers *Certified Public Accountants* 33rd Floor Cheung Kong Centre 2 Queen's Road Central Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited Crédit Agricole Indosuez
Hong Kong share register and transfer office	Standard Registrars Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Authorized representatives to the Stock Exchange	Mr. Lawrence Ho Mr. Samuel Tsang

4. SHARE CAPITAL AND OPTIONS

(a) Share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Rights Issue (assuming no outstanding Share Options have been exercised subsequent to the Latest Practicable Date) will be, as follows:

Authorised:		*HK$*
480,000,000	Shares of HK$1.00 each in the share capital of the Company	480,000,000
Issued and fully paid and to be issued		
145,287,134	Shares as at the Latest Practicable Date	145,287,134
72,643,567	Shares to be issued pursuant to the Rights Issue	72,643,567
217,930,701		217,930,701

All the Shares presently in issue rank pari passu in all respects as regards voting, dividends and return of capital. The Rights Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

(b) Share Options

(i) Details of the Share Options as at the Latest Practicable Date were as follows:

Name and category of grantee	Number of Shares to be issued upon exercise of the Share Options	Date of grant of Share Options*	Exercise price of Share Options** *HK$*	Exercise period of Share Options
Directors				
Mr. Lawrence Ho	605,435	8th March 2002	1.38	8th September 2002 to 7th March 2012
	605,436	8th March 2002	1.38	8th March 2003 to 7th March 2012
	1,210,871			
Mr. Frank Tsui	1,210,871	8th March 2002	1.38	8th September 2002 to 7th March 2012
Mr. Peter So	1,210,871	8th March 2002	1.38	8th September 2002 to 7th March 2012

Name and category of grantee	Number of Shares to be issued upon exercise of the Share Options	Date of grant of Share Options*	Exercise price of Share Options**	Exercise period of Share Options
			HK$	
Mr. Ho Cheuk Yuet	1,210,871	8th March 2002	1.38	8th September 2002 to 7th March 2012
Sub-total	4,843,484			
Employees				
In aggregate	250,000	8th March 2002	1.38	8th March 2003 to 7th March 2012
	250,000	8th March 2002	1.38	8th March 2003 to 7th March 2012
	1,492,557	13th September 2002	1.66	13th September 2002 to 7th March 2012
	1,492,557	13th September 2002	1.66	13th March 2003 to 7th March 2012
	410,000	13th September 2002	1.66	13th September 2003 to 7th March 2012
	410,000	13th September 2002	1.66	13th September 2004 to 7th March 2012
Sub-total	4,305,114			
Others				
In aggregate	1,480,057	13th September 2002	1.66	13th September 2003 to 7th March 2012
	1,480,058	13th September 2002	1.66	13th September 2004 to 7th March 2012
Sub-total	2,960,115			
Total	12,108,713			

* The vesting period of Share Options is from the date of the grant until the commencement of the exercise period.

** The exercise price of Share Options is subject to adjustment in the cases of rights or bonus issues, or other similar changes in the Company's share capital.

Upon the Rights Issue becoming unconditional, the exercise price and the number of Shares to be issued upon exercise of the Share Options will be adjusted as follows (assuming no outstanding Share Options have been exercised or lapsed subsequent to the Latest Practicable Date):

	Before the Rights Issue		After the Rights Issue	
Date of grant	**Exercise price per Share** *HK$*	**Number of outstanding Share Options**	**Adjusted exercise price per Share** *HK$*	**Adjusted number of outstanding Share Options**
8th March 2002	1.38	5,343,484	1.00	8,015,226
13th September 2002	1.66	6,765,229	1.1067	10,147,843
Total		12,108,713		18,163,069

(ii) Details of the share options of Value Convergence as at the Latest Practicable Date were as follows:

(A) **Pre-IPO share option plan**

Name and category of grantee	**No. of shares of Value Convergence to be issued upon the exercise of the Pre-IPO share options***	**Date of grant of share options**	**Exercise price of share options *** *HK$*	**Exercise period of share options**
Dr. Stanley Ho	735,000	6th April 2001	3.6	6th April 2001 to 8th October 2005
Mr. Lawrence Ho	735,000	6th April 2001	3.6	6th April 2001 to 8th October 2005
Dr. Lee Jun Sing	3,136,510	6th April 2001	3.6	6th April 2001 to 8th October 2005
Mr. Ko Chun Fung, Henry	3,136,510	6th April 2001	3.6	6th April 2001 to 8th October 2005
Mr. Cheng Kar Shing, Peter	735,000	6th April 2001	3.6	6th April 2001 to 8th October 2005
Employees	1,262,188	6th April 2001	3.6	6th April 2001 to 8th October 2005
Total	9,740,208			

* As disclosed in the circular of Value Convergence concerning the capital reorganization, involving capital reduction, share consolidation and diminution and increase dated 13th March 2003, the exercise price and the number of the share of Value Convergence issuable on the exercise of the outstanding options granted pursuant to the Pre-IPO share option plan were adjusted as a result of the share consolidation which took place on 28th May 2003.

(B) **Share option scheme**

Name of category of grantee	**No. of shares of Value Convergence to be issued upon the exercise of the share options***	**Date of grant of share options**	**Exercise price of share options*** *HK$*	**Exercise period of share options**
Mr. Lawrence Ho	491,057	9th July 2003	1.0	9th July 2002 to 8th July 2012
Dr. Lee Jun Sing	491,057	9th July 2003	1.0	9th July 2002 to 8th July 2012
Mr. Ko Chun Fung, Henry	491,057	9th July 2003	1.0	9th July 2002 to 8th July 2012
Employees	1,821,823	9th July 2003	1.0	9th July 2002 to 8th July 2012
Other eligible persons	933,008	9th July 2003	1.0	9th July 2002 to 8th July 2012
Total	4,228,002			

* As disclosed in the circular of Value Convergence concerning the capital reorganization, involving capital reduction, share consolidation and diminution and increase dated 13th March 2003, the exercise price and the number of the shares of Value Convergence issuable on the exercise of the outstanding options granted pursuant to the share option scheme were adjusted as a result of the share consolidation which took place on 28th May 2003.

5. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which (a) 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 the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(i) **Interests in Shares of the Company**

Name of Director	Nature of interest	Notes	Number and approximate percentage of Shares interested
Dr. Stanley Ho	Corporate	1	1,585,000 (1.09%)
	Personal	1	8,216,185 (5.66%)
	Family	1	214,727 (0.15%)
Mr. Lawrence Ho	Corporate	2	36,525,675 (25.14%)

Notes:-

1. Dr. Stanley Ho is taken to be interested in 1,585,000 Shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited and Dareset Limited which in turn hold an aggregate of approximately 1.09% of the issued share capital of the Company. Apart from that, Dr. Ho and his spouse personally hold 8,216,185 and 214,727 Shares respectively.

2. Mr. Lawrence Ho is taken to be interested in 36,525,675 Shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Limited which in turn holds approximately 25.14% of the issued share capital of the Company.

(ii) **Interests in equity derivatives of the Company**

Name of Director	**Date of grant**	**Expiry date**	**Exercise price** *HK$*	**Number of underlying Shares comprised in the options outstanding**
Mr. Lawrence Ho	8th March 2002	7th March 2012	1.38	1,210,871
Mr. Frank Tsui	8th March 2002	7th March 2012	1.38	1,210,871
Mr. Peter So	8th March 2002	7th March 2012	1.38	1,210,871
Mr. Ho Cheuk Yuet	8th March 2002	7th March 2012	1.38	1,210,871

(iii) **Interests in shares of Value Convergence**

Name of Directors	**Nature of interests**	**Notes**	**Number and approximate percentage interested**
Dr. Stanley Ho	Corporate	1	7,384,651 (3.10%)
Mr. Lawrence Ho	Corporate	2	4,232,627 (1.78%)
Mr. Peter So	Personal	3	305,772 (0.13%)

Notes:-

1. Dr. Stanley Ho is taken to be interested in 7,384,651 shares of Value Convergence 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 Value Convergence.

2. Mr. Lawrence Ho is taken to be interested in 4,232,627 shares of Value Convergence 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 Value Convergence.

3. Mr. Peter So personally holds 305,772 shares of Value Convergence.

(iv) **Interests in equity derivatives of Value Convergence**

Name of Directors	Nature of interests	Notes	Number and approximate percentage interested
Dr. Stanley Ho	Personal	1	735,000 (0.31%)
Mr. Lawrence Ho	Personal	2	1,226,057 (0.51%)
Mr. Frank Tsui	Personal	3	491,057 (0.21%)
Mr. Peter So	Personal	4	147,317 (0.06%)

Notes:-

1. The personal interest of Dr. Stanley Ho represents his derivative interest in Value Convergence comprising the physically settled options which were granted on 6th April 2001 and may be exercised during the period from 6th April 2001 to 8th October 2005 at an exercise price of HK$3.60 per Value Convergence's share.

2. The personal interest of Mr. Lawrence Ho represents his derivative interest in Value Convergence comprising the physically settled options as follows:-

   (i) 735,000 physically settled options which were granted on 6th April 2001 and may be exercised during the period from 6th April 2001 to 8th October 2005 at an exercise price of HK$3.60 per Value Convergence's share; and

   (ii) 491,057 physically settled options which were granted on 9th July 2002 and may be exercised during the period from 9th July 2002 to 8th July 2012 at an exercise price of HK$1.00 per Value Convergence's share.

3. The personal interest of Mr. Frank Tsui represents his derivative interest in Value Convergence comprising the physically settled options which were granted on 9th July 2002 and may be exercised during the period from 9th July 2002 to 8th July 2012 at an exercise price of HK$1.00 per Value Convergence's share.

4. The personal interest of Mr. Peter So represents his derivative interest in Value Convergence comprising 147,317 physically settled options which were granted on 9th July 2002 and may be exercised during the period from 9th July 2002 to 8th July 2012 at an exercise price of HK$1.00 per Value Convergence's share.

(b) No Director at any time since 31st December 2002, being the date to which the latest published audited financial statements of the Group were made up, have been directly or indirectly, interested in any assets acquired by, disposed of by, or leased to any member of the Group or proposed to be acquired by, disposed of by, or leased to any member of the Group.

(c) Save as disclosed herein, as at the Latest Practicable Date:

(i) none of the Directors and the chief executive of the Company had any interests in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which (a) 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 the Director is taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange;

(ii) none of the Directors had any direct or indirect interest in any assets which had been, since 31st December 2002, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group;

(iii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this prospectus which was significant in relation to the business of the Group; and

(iv) none of the Directors had service contract with the Company or any of its subsidiaries not terminable by the employing company within one year without payment of compensation (other than statutory compensation).

6. SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at the Latest Practicable Date, the interests and short positions of substantial shareholders of the Company and other persons in the Shares, underlying Shares and debentures of the Company which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein; or (c) were directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Number of Shares	Approximate percentage of the total issued share capital of the Company
		%
Lasting Legend Limited *(Note 1)*	36,525,675	25.14
Mr. Lawrence Ho *(Note 1)*	36,525,675	25.14
Shun Tak Shipping Company Limited	26,055,432	17.93
Mr. Li Chi Keung *(Note 2)*	10,342,505	7.12
Dr. Stanley Ho	10,015,912	6.89
Rich Talent Limited *(Note 3)*	9,340,000	6.43

Notes:

1. Mr. Lawrence Ho is taken to be interested in these Shares by virtue of the fact that Lasting Legend Limited is wholly owned by Mr. Ho.

2. Mr. Li Chi Keung is taken to be interested in these Shares by virtue of the fact that Rich Talent Limited is wholly owned by Mr. Li. The 10,342,505 Shares are held as to 9,340,000 Shares by Rich Talent Limited, as to 1,001,305 Shares by Gold Future Nominees Limited and as to 1,200 Shares by Ingold Limited. The said Rich Talent Limited, Gold Future Nominees Limited and Ingold Limited are companies wholly-owned and/or controlled by Mr. Li Chi Keung.

3. Rich Talent Limited is a company wholly owned by Mr. Li Chi Keung. The 9,340,000 Shares held by Rich Talent Limited are included in the Shares held by Mr. Li Chi Keung disclosed above, and are therefore duplicated between Rich Talent Limited and Mr. Li Chi Keung.

Pursuant to the Underwriting Agreement, the Underwriter has agreed to underwrite not more than 42,325,318 Rights Shares, representing approximately 17.93% of the enlarged issued share capital of the Company upon completion of Rights Issue and on the assumption that the Share Options are exercised prior to the Record Date. Kim Eng Securities Holdings Limited, through its wholly owned subsidiary, Kim Eng Investment Limited, is deemed to be interested in the Underwriter's interest in the Company.

Save as disclosed herein, so far as the Directors were aware, as at the Latest Practicable Date, no other persons had interests or short positions in the Shares, underlying Shares and debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, nor were there any other persons, required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, or directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

7. MATERIAL CONTRACTS

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

(a) a sale and purchase agreement dated 31st August 2001 between, inter alia, Global Financial Services Group Limited ("Global Financial"), a wholly-owned subsidiary of Value Convergence, and Value Convergence in respect of the acquisition of 35% of the issued share capital of CFN Hongkong Limited by Global Financial in consideration of the allotment and issue of 31,500,000 shares of Value Convergence to various vendors including UFO Solutions Limited;

(b) a sale and purchase agreement dated 31st August 2001 between Global Financial, enterpriseAsia.com Limited and Value Convergence in respect of the acquisition by Global Financial of the entire issued share capital of Capital Connection Limited in consideration of the allotment and issue of 7,645,714 shares of Value Convergence to enterpriseAsia.com;

(c) a sale and purchase agreement dated 31st August 2001 between Global Financial, Startit.com plc, London Technology Limited and Value Convergence in respect of the acquisition by Global Financial of 6% of the issued share capital of CFN (UK) Limited in consideration of the allotment and issue of 1,911,429 shares of Value Convergence to Startit.com plc.

(d) a sale and purchase agreement dated 17th October 2001 between, inter alia, Global Financial and Value Convergence in respect of the acquisition by Global Financial of 65% of the issued share capital of CFN Hongkong Limited in consideration of the allotment and issue of an aggregate of 58,500,000 shares of Value Convergence to various vendors including UFO Solutions Limited;

(e) a sale and purchase agreement dated 17th October 2001 between Global Financial, enterpriseAsia.com and Value Convergence in respect of the acquisition by Global Financial of the entire issued share capital of London Technology Limited in consideration of the allotment and issue of 14,017,143 shares of Value Convergence to Startit.com plc;

(f) a sale and purchase agreement dated 17th October 2001 between Global Financial, Startit.com plc and Value Convergence in respect of the acquisition by Global Financial of 11% of the issued share capital of CFN (UK) Limited in consideration of the allotment and issue of 3,504,286 shares of Value Convergence to Startit.com plc;

(g) an agreement in principle dated 10th July 2002 entered into between the Company, Mr. Zhang Jiping and Tongda Energy Corporation Limited whereby the Company agreed to, subject to fulfillment of certain conditions precedent, acquire 70% equity interest in Tongda Energy Corporation Limited for a consideration of RMB160 million (HK$151.15 million);

(h) a placing agreement dated 11th July 2002 entered into between the Company and Ong Asia Securities (HK) Limited whereby Ong Asia Securities (HK) Limited agreed to place 24,200,000 new shares of the Company at HK$1.45 each;

(i) a placing agreement dated 15th July 2002 between Value Convergence and Ong Asia Securities (HK) Limited as placing agent, relating to the placing of 106,200,000 new shares of Value Convergence at HK$0.1 each by the placing agent to independent investors;

(j) a sale and purchase agreement dated 28th September 2002 entered into between Value Convergence 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;

(k) an underwriting agreement and a supplemental agreement dated 28th September 2002 and 9th October 2002 respectively entered into between the Company and Value Convergence, whereby the Company agreed to underwrite the rights issue of not less than 1,020,664,287 new ordinary shares of Value Convergence at HK$0.1 each;

(l) a banking facility letter issued by Standard Chartered Bank dated 4th October 2002 offering to grant to Value Convergence 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;

(m) an additional capital injection agreement dated 16th January 2003 entered into between Jafco Co., Limited and Zonic Technology Limited, a subsidiary of the Company, pursuant to which Zonic Technology Limited agreed to inject a sum of 300,000,000 yens in, and became a limited liability partner of, JAFCO-G9(A) Investment Enterprise (Limited) Partnership; and

(n) the Underwriting Agreement.

8. LITIGATION

As at the Latest Practicable Date, the Group was engaged in the following litigation:

(i) One of Value Convergence's third party suppliers ("the Supplier") charged Value Convergence a sum of approximately HK$8.6 million in respect of work performed by the Supplier of which approximately HK$2.6 million has been paid. A threatened claim was made by the Supplier against Value Convergence on 30th November 2000 for the unpaid invoices for the work done between April and September 2000. As at the Latest Practicable Date, Value Convergence had not made may provision for the outstanding service fee of approximately £489,000 (approximately HK$6 million) which was the subject of dispute with the Supplier. On the basis of Value Convergence's own assessment of the services rendered by the Supplier and the professional legal advice obtained, the directors of Value Convergence are of the opinion that such charges are unreasonable and not justifiable under the agreement with the Supplier and Value Convergence had in early 2001 issued legal letters to the Supplier challenging the charges on the above grounds. Since then, Value Convergence did not hear further from the Supplier.

(ii) On 11th January 2001, legal proceedings were initiated by Lane Ventures Limited (the "Claimant") alleging that Value Convergence had promised to pay a monthly remuneration to the Claimant, to reimburse the Claimant's related travelling expenses and to grant certain options to the Claimant to purchase shares in Value Convergence in consideration of the Claimant rendering its consultancy services to Value Convergence. In the said proceedings, the Claimant is claiming from Value Convergence, among other things, an amount of approximately HK$0.5 million and an order that Value Convergence grants to the Claimant the options as mentioned above. A defence has been filed by Value Convergence. On the basis of legal advice received, Value Convergence's directors are of the view that no agreement exists between the Claimant and Value Convergence and Value Convergence has a reasonable chance to successfully defend itself against the allegation. After filing of the defence by Value Convergence on 8th February 2001, no further action has been taken by the Claimant up to the Latest Practicable Date.

(iii) One of the subsidiaries of the Company, VC CEF Brokerage Limited ("VCCEFB"), was involved in a litigation in which a client of VCCEFB alleged that in 1997, VCCEFB had failed to make enforceable contract or contracts for such client. The client claimed for loss of profit of approximately HK$8.9 million plus interest. Pursuant to the share sale and purchase agreement relating to the acquisition of, among others, VCCEFB, VCCEFB's former ultimate holding company has undertaken to assume the responsibility for all legal and financial liabilities in connection with any actions, matters or proceedings relating to this claim and to indemnify VCCEFB and Value Convergence for all loss, damages and costs suffered or incurred in relation to this claim.

Certain shareholders of Value Convergence had, pursuant to a deed of indemnity dated 22nd March 2001, given joint and several indemnities in favour of Value Convergence and its subsidiaries in relation to any loss and damages suffered by the Group in connection with the threatened claim and the legal proceedings mentioned in (i) and (ii) above.

Saved as aforesaid or otherwise 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.

9. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fee, underwriting commission, printing, registration, translation, legal and accounting charges are estimated to be approximately HK$2.5 million and are payable by the Company.

10. LEGAL EFFECT

The Rights Issue Documents and all acceptances of any offer or application contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of sections 44A and 44B of the Companies Ordinance of Hong Kong, so far as applicable.

11. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

Copies of the Rights Issue Documents have been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance of Hong Kong.

12. GENERAL

(a) The secretary of the Company is Samuel Tsang, a solicitor admitted in Hong Kong, England and Wales and Australia.

(b) The share registrars and transfer office of the Company in Hong Kong is Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(c) In the event of inconsistency, the English text of this prospectus shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong during normal business hours on any weekday, except public holidays, from the date hereof up to and including Friday, 19th September 2003:

— the memorandum and articles of association of the Company;

— the material contracts referred to in the section headed "Material Contracts" in this Appendix;

— the annual reports of the Group for the years ended 31st December 2000, 31st December 2001 and 31st December 2002;

— the annual reports of Value Convergence for the years ended 30th September 2001 and 30th September 2002; and

— the Share Option Scheme document.