# THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

Dealings in the shares of iAsia Technology Limited ("iAsia") may be settled through CCASS, as defined herein, and you should consult your stockbroker or other registered dealer 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.

**If you have sold or transferred all** your securities in iAsia, you should at once hand this prospectus 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.

A copy of this prospectus, together with the documents specified in the section headed "Documents registered with the Registrar of Companies in Hong Kong" in appendix IV, has been registered with the Registrar of Companies in Hong Kong as required by section 38D of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission take no responsibility as to the contents of any of the documents referred to above.

The Stock Exchange, as defined herein, and HKSCC, as defined herein, take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

No provisional allotment of rights shares has been made to overseas shareholders and no provisional allotment letters, as defined herein, or application forms for excess rights shares, are being sent to overseas shareholders. No action, including registration under any applicable legislation of any territory or jurisdiction outside Hong Kong, has been taken to permit the offering of the rights shares, as defined herein, or the distribution of this prospectus or the provisional allotment letters or the application forms for excess rights shares, in any territory or jurisdiction other than Hong Kong. Accordingly, no person receiving any of this prospectus or the provisional allotment letters or the application forms for excess rights shares in any territory or jurisdiction other than Hong Kong may treat it as an offer of or invitation to apply for the rights shares.

@sia

# iAsia Technology Limited

*(incorporated in Hong Kong with limited liability)*

## RIGHTS ISSUE OF
## 1,020,664,287 RIGHTS SHARES OF HK$0.10 EACH
## ON THE BASIS OF THREE RIGHTS SHARES
## FOR EVERY TWO EXISTING SHARES HELD
## PAYABLE IN FULL ON ACCEPTANCE
## WITH BONUS SHARES TO BE ISSUED IN THE PROPORTION OF
## TWO BONUS SHARES FOR EVERY THREE RIGHTS SHARES SUBSCRIBED

**Financial adviser to iAsia Technology Limited**

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

**Underwriter**

**Melco International Development Limited**

The latest time for acceptance of the rights shares is 4:00 p.m. on Friday, 24th January, 2003. The procedures for acceptance of the rights shares are set out on pages 21 to 22 of this prospectus and in the provisional allotment letter.

**Shareholders should note that the underwriting agreement in respect of the rights issue contains provisions entitling Melco International Development Limited to terminate its obligations thereunder on the occurrence of certain events, including force majeure and an unremedied breach of the representations and warranties contained in the underwriting agreement up to 4:00 p.m. on the third business day after the last day for acceptance of provisional allotments in respect of the rights issue. Force majeure occurs if there develops, occurs or comes into force: (i) any new law or government regulation or other occurrence of any nature whatsoever which in the reasonable opinion of Melco International Development Limited will materially and adversely affect the business or financial or trading position or prospect of iAsia Technology Limited or its subsidiaries or any part thereof or the rights issue; or (ii) any event 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) in local, national, international, financial, political, military, economic 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 which in the reasonable opinion of Melco International Development Limited will materially and adversely affect the business or financial or trading position or prospect of iAsia Technology Limited or its subsidiaries or any part thereof or the rights issue; or (iii) any adverse change in the market conditions (including without limitation suspension or material restriction on trading in securities generally) which in the reasonable opinion of Melco International Development Limited materially and prejudicially affects the rights issue and makes it inadvisable or inexpedient to proceed therewith. If Melco International Development Limited exercises such right, the obligations of Melco International Development Limited under the underwriting agreement shall cease and the rights issue and the issue of bonus shares will not proceed.**

**It should be noted that the rights shares in their nil-paid form (carrying entitlements to the issue of bonus shares) will be dealt in from 13th January, 2003 to 21st January, 2003, both dates inclusive, and that dealings in such shares will take place whilst the conditions to which the rights issue is subject remain unfulfilled. Any shareholder or other person dealing in shares up to the date on which all conditions to which the rights issue is subject are fulfilled (which is expected to be 29th January, 2003), will accordingly bear the risk that the rights issue may not become unconditional or may not proceed. Any shareholder or other person contemplating selling or purchasing shares and, or rights shares in their nil-paid form during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.**

Subject to the granting of listing of, and permission to deal in, the rights shares in both their nil-paid and fully paid forms and bonus shares on GEM, as defined herein, and compliance with the stock admission requirements of HKSCC, the rights shares in both their nil-paid and fully paid forms and bonus shares 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 and bonus shares on GEM 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.

This prospectus will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

9th January, 2003

# CHARACTERISTICS OF GEM

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

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

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

# CONTENTS


| | Page |
|---|---|
| **Summary of the rights issue** | 1 |
| **Expected timetable** | 2 |
| **Definitions** | 3 |
| **Letter from the board** | |
| Introduction | 8 |
| Terms of the rights issue | 9 |
| Basis of allotment | 9 |
| Qualifying shareholders under the rights issue | 9 |
| Rights of overseas shareholders of iAsia | 9 |
| Subscription price | 10 |
| Bonus issue | 11 |
| Status of the rights shares and bonus shares | 11 |
| Fractional entitlements | 11 |
| Application for excess rights shares | 11 |
| Application for listing | 12 |
| Underwriting agreement | 12 |
| Underwriting | 12 |
| Termination of the underwriting agreement | 14 |
| Conditions of the rights issue and the underwriting agreement | 15 |
| Warning of the risks of dealing in shares and rights shares | 16 |
| Changes in the shareholding structure of iAsia as a result of the rights issue | 17 |
| Reasons for the rights issue and use of proceeds | 18 |
| Business review of the enlarged iAsia group | 19 |
| iAsia group | 19 |
| CEF companies | 19 |
| Prospects and future plans of the enlarged iAsia group | 20 |
| Prospects | 20 |
| Future plans | 20 |
| Financial effects of the acquisition and rights issue on iAsia | 21 |
| Procedures for acceptance and transfer | 21 |
| Application for the excess rights shares | 23 |
| Certificates for the rights shares and the bonus shares | 23 |
| Adjustment to the exercise price and the number of outstanding share options | 24 |
| Closure of register | 24 |
| Odd lot arrangements | 25 |
| General | 25 |
| **Appendix I – Financial information on iAsia group** | 26 |
| **Appendix II – Financial information on CEF companies** | 53 |
| **Appendix III – Financial information on the enlarged iAsia group** | 76 |
| **Appendix IV – General information** | 84 |

*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** | 1,020,664,287 rights shares, on the basis of 680,442,858 shares in issue on the record date |
| **Number of bonus shares to be issued** | 680,442,858 bonus shares, on the basis of 680,442,858 shares in issue on the record date |
| **Amount to be raised** | approximately HK$102 million from the rights issue, before expenses and on the basis of 680,442,858 shares in issue on the record date |
| **Subscription price and acceptance date** | HK$0.10 per rights share payable in full on acceptance at or prior to 4:00 p.m. on Friday, 24th January, 2003 |
| **Basis of allotment** | three rights shares for every two existing shares held on the record date, together with bonus shares in the proportion of two bonus shares for every three rights shares subscribed |
| **Status of the rights shares and the bonus shares** | the rights shares when issued and fully paid and the bonus shares when credited as fully paid, will rank pari passu in all respects with the then existing shares in issue. Holders of the rights shares and the bonus shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after their respective dates of issue and allotment |
| **Excess applications** | qualifying shareholders may apply for the rights shares in excess of their provisional allotments. Successful applicants for excess rights shares will be allotted bonus shares in the proportion of two bonus shares for every three rights shares subscribed |
| **Overseas shareholders** | rights shares which represent entitlements of overseas shareholders will be sold for their benefit in the market in nil-paid form as soon as reasonably practicable after dealings in the nil-paid rights shares commence if a premium, net of expenses, can be obtained, except that any amount of HK$100 or less will be retained for the benefit of iAsia. Any such entitlements not sold in the market will be made available for application by qualifying shareholders using the excess application forms for rights shares |

# EXPECTED TIMETABLE

| | |
|---|---|
| First day of dealings in nil-paid rights shares | 13th January, 2003 |
| Latest time for splitting nil-paid rights shares | 4:00 p.m., 16th January, 2003 |
| Last day of dealings in nil-paid rights shares | 21st January, 2003 |
| Latest time for acceptance of rights shares and payment thereof | 4:00 p.m., 24th January, 2003 |
| Underwriting agreement becomes unconditional | 4:00 p.m., 29th January, 2003 |
| Announcement of the results of the rights issue on the GEM website on or before | 5th February, 2003 |
| Refund cheques for wholly and partially unsuccessful excess applications to be posted on or before | 5th February, 2003 |
| Share certificates for rights shares and bonus shares to be posted on or before | 5th February, 2003 |
| Dealings in the fully paid rights shares and bonus shares commence on | 10th February, 2003 |
| Announcement of proposed changes of board lot size and name of iAsia on the GEM website on or before | 24th February, 2003 |

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

| | |
|---|---|
| "acquisition" | the acquisition by iAsia pursuant to the sale and purchase agreement; |
| "amendments" | the amendments to the articles to, amongst other things, allow bonus shares to be issued only to the subscribers of the rights shares; |
| "Anglo Chinese" | Anglo Chinese Corporate Finance, Limited, an investment adviser and dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the financial adviser to iAsia; |
| "articles" | articles of association of iAsia; |
| "associate(s)" | has the meaning ascribed to it under the main board listing rules or the GEM listing rules, as the case maybe; |
| "Bailey Development" | Bailey Development Limited, which was incorporated in Hong Kong and the issued shares of which are owned as to 65% by Dr. Ho, 5% by Dr. Lee, 15% by Mrs. Lee Wong Fun Chong, the mother of Dr. Lee, 5% by Mr. Lee Sing Man, the father of Dr. Lee, 5% by Ms. Leong On Kei, Angela, a non-executive director of iAsia, and the remaining 5% by two independent persons. Bailey Development is a substantial shareholder holding approximately 10.85% of the issued share capital of iAsia. The registered office of Bailey Development is situated at Room 1616-17, 16th floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong; |
| "Best Summit" | Best Summit International Limited, an investment holding company incorporated in Hong Kong and the issued shares of which are wholly beneficially owned by Dr. Lee; |
| "board" | the board of directors; |
| "bonus issue" | a bonus issue of shares on the basis of two bonus shares for every three subscribed and fully paid rights shares; |
| "bonus shares" | the bonus shares to be issued to subscribers of the rights shares pursuant to the bonus issue; |
| "business day" | a day (other than a Saturday or Sunday) on which banks are open for general interbank business in Hong Kong; |

| | |
|---|---|
| "CCASS" | Central Clearing and Settlement System established and operated by HKSCC; |
| "CEF Brokerage" | CEF Brokerage Limited (which has been renamed to VC CEF Brokerage Limited following the Completion on 18th December, 2002), a company incorporated in Hong Kong on 5th March, 1992 and registered as a securities dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong); |
| "CEF Capital" | CEF Capital Limited (which has been renamed to VC CEF Capital Limited following the Completion on 18th December, 2002), a company incorporated in Hong Kong on 8th July, 1986 and registered as a securities dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong); |
| "CEF companies" | CEF Brokerage, CEF Futures and CEF Capital; |
| "CEF Futures" | CEF Futures Limited (which has been renamed to VC CEF Futures Limited following the Completion on 18th December, 2002), a company incorporated in Hong Kong on 12th December, 1995 and registered as a commodity dealer under the Commodities Trading Ordinance (Chapter 250 of the Laws of Hong Kong); |
| "circular" | the circular issued by iAsia on 16th November, 2002 in connection with, amongst other things, the acquisition, the rights issue and the bonus issue; |
| "Companies Ordinance" | the Companies Ordinance (Chapter 32, Laws of Hong Kong); |
| "completion" | completion of the acquisition; |
| "connected persons" and/ or "connected with" | have the meaning ascribed to it under the main board listing rules or the GEM listing rules, as the case maybe; |
| "consideration" | the aggregate consideration for the sale and purchase of the entire issued share capital of CEF Brokerage, CEF Futures and CEF Capital pursuant to the sale and purchase agreement, being HK$126,000,000; |
| "directors" | directors of iAsia; |
| "Dr. Ho" | Dr. Stanley Ho, an executive director of iAsia and Melco, and the father of Mr. Lawrence Ho; |
| "Dr. Lee" | Dr. Lee Jun Sing, an executive director of iAsia; |

| | |
|---|---|
| "enlarged iAsia group" | iAsia group as enlarged immediately after completion; |
| "Executive" | the Executive Director of the Corporate Finance Division of the SFC and any delegates of the Executive Director; |
| "extraordinary general meeting" | the extraordinary general meeting of the shareholders convened on 10th December, 2002 where, amongst other things, the sale and purchase agreement, the rights issue and the bonus issue, the whitewash waiver and the amendments and the change of name of iAsia were approved; |
| "GEM" | Growth Enterprise Market operated by the Stock Exchange; |
| "GEM listing rules" | the rules governing the listing of securities on GEM; |
| "Golden Mate" | Golden Mate Co., Ltd., which was incorporated in the British Virgin Islands and the issued shares of which are wholly beneficially owned by Mr. Lawrence Ho. The registered office of Golden Mate is situated at Tropic Isle Building, Po Bok 438 Road Town, Tortola, British Virgin Islands; |
| "HKEX" | Hong Kong Exchanges and Clearing Limited; |
| "HKSCC" | Hong Kong Securities Clearing Company Limited; |
| "HK$" and "cents" | Hong Kong dollars and cents, the lawful currency of Hong Kong; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC; |
| "iAsia" | iAsia Technology Limited, a company incorporated in Hong Kong and the securities of which are listed on GEM; |
| "iAsia group" | iAsia and its subsidiaries from time to time; |
| "independent shareholders" | shareholders other than Bailey Development, Golden Mate, Best Summit, Capital Speed Limited, Newtop Limited, Pioneer Asset, Longson Limited, Mr. Robin Miles, Mr. So Wing Hung, Peter, their respective associates and parties acting in concert with each of them; |
| "independent third party(ies)" | person(s) who are independent of and not connected with the directors, chief executive and substantial shareholders of iAsia or any of its subsidiaries or the associates of any of them; |
| "latest practicable date" | 6th January, 2003, the latest practicable date for ascertaining certain information for inclusion in this prospectus; |

| | |
|---|---|
| "main board listing rules" | the Rules Governing the Listing of Securities on the Stock Exchange; |
| "Melco" | Melco International Development Limited, a company incorporated in Hong Kong and the securities of which are listed on the main board of the Stock Exchange; |
| "Mr. Lawrence Ho" or "Mr. Ho, Lawrence" | Mr. Ho Yau Lung, Lawrence, as executive director of iAsia and Melco, and the son of Dr. Ho; |
| "option(s)" | a right to subscribe for shares granted under (i) the pre-IPO share option plan adopted on 14th March, 2001, and (ii) the share option scheme adopted on 29th November, 2001; |
| "overseas shareholders" | holders of shares whose addresses on the register of members of iAsia on the record date are outside Hong Kong; |
| "Pioneer Asset" | Pioneer Asset Investment Limited, an investment holding company which is beneficially owned as to 25% by Dr. Lee and 75% by his family members; |
| "PRC" or "China" | the People's Republic of China; |
| "pre-IPO share option plan" | the share option scheme adopted by iAsia on 14th March, 2001; |
| "prospectus" | this prospectus containing details of, amongst other things, the rights issue and the bonus issue; |
| "qualifying shareholders" | the shareholders whose names appear on the register of members of iAsia at the close of business on the record date and which are not overseas shareholders; |
| "record date" | 31st December, 2002, being the date by reference to which entitlements under the rights issue will be determined; |
| "register" | register of members of iAsia; |
| "registrar" | iAsia's share registrar, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, or Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with effect from 13th January, 2003; |
| "rights issue" | the issue of the rights shares at the subscription price in the proportion of three rights shares for every two existing shares held on the record date subject to the terms and conditions set out in this prospectus; |

| | |
|---|---|
| "rights issue documents" | this prospectus, the excess application forms and the provisional allotment letters; |
| "rights share(s)" | share(s) to be offered to qualifying shareholders under the rights issue; |
| "sale and purchase agreement" | the conditional sale and purchase agreement dated 28th September, 2002 entered into between iAsia and the vendors in relation to the sale and purchase of the entire issued share capital of CEF Brokerage, CEF Futures and CEF Capital; |
| "SDI Ordinance" | Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong); |
| "SFC" | The Securities and Futures Commission of Hong Kong; |
| "share(s)" | share(s) of HK$0.10 each in the capital of iAsia; |
| "shareholder(s)" | holder(s) of share(s); |
| "share option scheme" | the share option scheme adopted by iAsia on 29th November, 2001; |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |
| "subscription price" | HK$0.10 per rights share; |
| "Takeovers Code" | the Codes on Takeovers and Mergers issued by the SFC; |
| "underwriting agreement" | the underwriting agreement dated 28th September, 2002 entered into between iAsia and Melco; |
| "vendors" | CEF Brokerage Holdings Limited and CEF Holdings Limited; and |
| "whitewash waiver" | a waiver by the Executive pursuant to note 1 on dispensations from rule 26 of the Takeovers Code from the obligations of Melco and parties acting in concert with it, to make a general offer for all securities in iAsia not already owned or agreed to be acquired by them which might otherwise arise as a result of Melco subscribing for the rights shares under the underwriting agreement. |

# iAsia Technology Limited

*(incorporated in Hong Kong with limited liability)*

*Executive directors:*
Dr. Ho
Mr. Ho, Lawrence
Dr. Lee
Mr. Ko Chun Fung, Henry

*Non-executive directors:*
Mr. Cheng Kar Shing, Peter
Mr. Fung Hoo Wing, Thomas
Ms. Leong On Kei, Angela

*Independent non-executive directors:*
Mr. Tsui Yiu Wa, Alec
Attorney Patajo-Kapunan, Lorna

*Registered office, head office and principal place of business:*
28th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

9th January, 2003

*To the shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE OF**
**1,020,664,287 RIGHTS SHARES OF HK$0.10 EACH**
**ON THE BASIS OF THREE RIGHTS SHARES**
**FOR EVERY TWO EXISTING SHARES HELD**
**PAYABLE IN FULL ON ACCEPTANCE**
**WITH BONUS SHARES TO BE ISSUED IN THE PROPORTION OF**
**TWO BONUS SHARES FOR EVERY THREE RIGHTS SHARES SUBSCRIBED**

## 1. INTRODUCTION

Further to the announcement and circular of iAsia dated 12th October, 2002 and 16th November, 2002 respectively in respect of, amongst other things, the acquisition, the rights issue, the bonus issue and the amendments, and following the passing of the resolutions to approve, amongst other things, the rights issue, the bonus issue and the amendment at the extraordinary general meeting and the completion that took place on 18th December, 2002, iAsia will, subject to satisfaction of certain conditions set out below in the section entitled "Conditions of the rights issue and the underwriting agreement", allot and issue the rights shares on the basis of three rights shares for every two existing shares held by the qualifying shareholders as at the record date at the subscription price to raise approximately

HK$97,897,000, after expenses. It was also proposed that the subscriber of the rights shares will receive bonus shares in the proportion of two bonus shares for every three fully-paid rights shares subscribed.

A copy of the circular is available for inspection during normal business hours on any weekday other than public holidays at the registered office of iAsia at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong from the date of this prospectus up to and including 10th February, 2003. This prospectus sets out details of the rights issue and the bonus issue, including information on dealings, transfer and acceptance thereof together with financial and other information in respect of iAsia.

**TERMS OF THE RIGHTS ISSUE**

As at the latest practicable date, the authorised share capital of iAsia is HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each. Of these, 680,442,858 shares have been issued and are fully paid or credited as fully paid. iAsia has a total of 76,443,823 outstanding options which are exercisable during the period from 10th October, 2001 to 8th July, 2012 and as to 27,829,166 outstanding options granted pursuant to the pre-IPO share option plan, the exercise price is HK$0.49 per share and as to 48,614,657 outstanding options granted pursuant to the share option scheme, the exercise price is HK$0.10 per share. As at the record date and the latest practicable date respectively, none of the outstanding options had been exercised.

**Basis of allotment**

Subject to the fulfilment of the conditions of the rights issue set out below, qualifying shareholders will be provisionally allotted rights shares in the proportion of three rights shares for every two existing shares held on the record date, at the subscription price of HK$0.10 per rights share, payable in full on acceptance. The rights shares, once fully paid, will be issued with bonus shares in the proportion of two bonus shares for every three rights shares subscribed with no additional payment.

Melco has agreed to underwrite all the rights shares, details of which are set out in the section headed "Underwriting agreement" below.

**Qualifying shareholders under the rights issue**

iAsia will send provisional allotment letters and excess applications forms to the qualifying shareholders of iAsia only. The qualifying shareholders are those who are registered as a member of iAsia on the record date and are not overseas shareholders. The qualifying shareholders include, amongst others, Bailey Development, Golden Mate, Best Summit and Pioneer Asset.

**Rights of overseas shareholders of iAsia**

Documents to be issued in connection with the rights issue will not be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Accordingly, no provisional allotment of the rights shares or excess applications will be available to overseas shareholders. This prospectus, however, is sent to the overseas shareholders for information only.

Arrangements will be made for the rights shares which would otherwise have been provisionally allotted to the overseas 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 on the Stock Exchange, if a premium (net of all costs and expenses) can be obtained. The proceeds of sale of individual overseas shareholder's nil-paid rights shares, less all dealing costs, of HK$100 or more will be paid to the relevant overseas shareholder in Hong Kong dollars. iAsia will retain individual amounts of less than HK$100 for its benefit.

As at the record date, there were a total of 7 shareholders having addresses outside Hong Kong, and these shareholders held a total of 7,341,471 shares.

**Subscription price**

The subscription price of HK$0.10 per rights share, is payable in full when a qualifying shareholder accepts the provisional allotment of rights shares or applies for excess rights shares or when a transferee of nil-paid rights shares applies for the relevant rights shares.

The subscription price represents:

(a) a premium of approximately 5.3% to the closing price of HK$0.095 per share as quoted on the Stock Exchange on 27th September, 2002 (being the last trading day prior to the date of the underwriting agreement and the release of the joint announcement of iAsia and Melco dated 12th October, 2002);

(b) a premium of approximately 5.3% to the average closing price of HK$0.095 per share as quoted on the Stock Exchange for the ten trading days ended 27th September, 2002; and

(c) a premium of approximately 19.0% to the audited net asset value of HK$0.084 per share as at 30th September, 2002.

As every three rights shares carry entitlement to two bonus shares, the theoretical ex-all subscription price of HK$0.06 (note 1) represents:

(a) a discount of approximately 14.3% to the theoretical ex-all price of HK$0.07 per share (note 2); and

(b) a discount of approximately 36.8% to the closing price of HK$0.095 per share as quoted on the Stock Exchange on 27th September, 2002.

The subscription price was agreed based on arm's length negotiations between iAsia and Melco. The nominal value of the share is HK$0.10 per share.

*Notes:*

1. Theoretical ex-all subscription price
   = [3 rights shares to be issued by iAsia X HK$0.10 (subscription price)] ÷ [3 rights shares + 2 bonus shares]

2. Theoretical ex-all price
   = [2 shares X HK$0.095 (closing price on 27th September, 2002) + 3 rights shares to be issued by iAsia X HK$0.10 (subscription price)] ÷ [2 shares + 3 rights shares + 2 bonus shares]

**Bonus issue**

The bonus issue will be credited as fully paid by way of capitalisation of an appropriate amount (being equal to the aggregate nominal value of the bonus shares issued) from the share premium account of iAsia. Based on the 1,020,664,287 rights shares to be issued, 680,442,858 bonus shares will be issued. Relevant resolutions regarding the bonus issue were passed at the extraordinary general meeting by the independent shareholders.

**Status of the rights shares and bonus shares**

The rights shares when allotted and fully paid, and the bonus shares when credited as fully paid, will rank pari passu in all respects with the then existing shares. Holders of the rights shares and the bonus shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the rights shares in their fully paid form and the bonus shares.

**Fractional entitlements**

Fractional entitlements to the rights shares will not be issued but will be aggregated and sold for the benefit of iAsia.

**Application for excess rights shares**

Qualifying shareholders may apply for any unsold entitlements of overseas shareholders and any rights shares provisionally allotted but not accepted by other qualifying shareholders or otherwise subscribed for by transferees of nil-paid rights shares. **If you wish to apply for any rights shares in addition to your provisional allotment, you must complete and sign the enclosed excess application form in accordance with the instructions printed thereon and lodge it, together with a separate remittance for the full amount payable on application in respect of the excess rights shares applied for, with the registrar, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong *(or Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with effect from 13th January, 2003)* by no later than 4:00 p.m. on Friday, 24th January, 2003. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, and banker's cashier orders must be issued by, a bank in Hong Kong and made payable to "iAsia Technology 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 will be at the sole discretion of the directors on a fair and equitable basis.

iAsia will allocate the excess rights shares at their discretion and on a fair and equitable basis and will give preference to topping up odd lots to whole board lots.

If no excess rights shares are allotted to you, the amount tendered on application is expected to be returned to you in full without interest, by means of cheques despatched in ordinary post at your own risk on or before Wednesday, 5th February, 2003. If the number of excess rights shares allotted to you is less than that applied for, the surplus application monies are also expected to be returned to you without interest by ordinary post at your own risk on or before Wednesday, 5th February, 2003.

### Application for listing

iAsia has applied to the GEM listing committee of the Stock Exchange for the listing of, and permission to deal in, the rights shares in both nil-paid and fully paid forms, and the bonus shares.

Subject to the granting of listing of, and permission to deal in, the rights shares in both nil-paid and fully paid forms, and the bonus shares on GEM and compliance with the stock admission requirements of HKSCC, the rights shares in both nil-paid and fully paid forms and the bonus shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective dates of commencement of dealings in the rights shares in both nil-paid and fully paid forms, and the bonus shares on GEM 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. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made for the rights shares in both nil-paid and fully paid forms, and the bonus shares to be admitted into CCASS.

None of the rights shares in both nil-paid and fully paid forms nor the bonus shares will be listed or dealt in on any other stock exchange outside Hong Kong. None of the securities of iAsia is listed or dealt in, nor is any listing of or permission to deal in securities of iAsia being or proposed to be sought, on any stock exchange other than the Stock Exchange.

The rights shares in both nil-paid and fully paid forms and the bonus shares will be traded in board lots of 4,000 shares. Dealings in nil-paid and fully paid rights shares will be subject to the payment of stamp duty in Hong Kong.

## UNDERWRITING AGREEMENT

### Underwriting

Melco will act as the underwriter of the rights issue and will receive an underwriting commission of 3.5% of the value of securities underwritten. The maximum amount that Melco will incur in taking up the rights shares underwritten is approximately HK$102 million. Melco is an investment holding company and its subsidiaries are principally engaged in the operation of floating restaurants and property investment in Hong Kong, and have an investment in a travel services website operating in Hong Kong and other parts of Asia, as well as investments in listed and unlisted companies which have operations in Hong Kong and China. The ordinary business of Melco does not include underwriting of securities.

On 10th December, 2002, the independent shareholders passed the relevant resolutions to approve, amongst other things, the rights issue, the bonus issue and the whitewash waiver at the extraordinary general meeting.

The underwriting of the rights issue by Melco constitutes a connected and possible discloseable transaction for Melco and is subject to approval by the independent shareholders of Melco. The resolution approving the underwriting agreement was passed at the extraordinary general meeting of Melco on 10th December, 2002. If none of the shareholders takes up any provisional allotments of the rights shares and Melco fails to procure other independent parties to take up such rights shares not taken up by the qualifying shareholders, the provisional allotments of the rights shares to all qualifying shareholders will be taken up by Melco in its capacity as the underwriter.

Melco intends to procure independent investors to take up rights shares not taken up by the qualifying shareholders, failing which Melco will take up such rights shares itself. Subject to the fulfilment of the conditions contained in the underwriting agreement, the balance of the rights shares amounting to 1,020,664,287 rights shares (with entitlement to the bonus shares) will be underwritten by Melco.

As at the latest practicable date, iAsia has not received any undertaking from the shareholders that they will or will not take up their entitlements provisionally allotted or offered to them under the rights issue.

In the event that all the rights shares underwritten are taken up by Melco, Melco and its associates (being Dr. Ho, Mr. Lawrence Ho, Bailey Development, Dr. Lee, Golden Mate and Mr. So Wing Hung, Peter who is an executive director of Melco) will be interested in an aggregate of 1,900,483,878 shares representing approximately 79.80% of the enlarged issued share capital of iAsia upon completion of the rights issue and the bonus issue and if all of the qualifying shareholders take up their entitlements under the rights issue, Melco and such parties acting in concert with it will be interested in an aggregate of 697,818,563 shares representing approximately 29.30% of the enlarged issued share capital of iAsia upon completion of the rights issue and bonus issue.

In the event that less than 20% of the issued share capital of iAsia should be held by the public after the rights issue, Melco has undertaken to take steps as soon as practicable following the close of the rights issue to place down the shares held so that the public float of iAsia is not less than 20% of the enlarged issued share capital of iAsia.

Melco and each of the vendors involved in the acquisition are not parties acting in concert in relation to the control of iAsia. Melco is independent of, and not connected with the vendors, and vice versa.

**Termination of the underwriting agreement**

**Melco may terminate the underwriting agreement up to 4:00 p.m. on 29th January, 2003 (being the third business day after the last day for acceptance of provisional allotments) in respect of the rights issue if,**

**(a) there develops, occurs or comes into force:**

**(i) any new law or government regulation or other occurrence of any nature whatsoever which in the reasonable opinion of Melco will materially and adversely affect the business or financial or trading position or prospect of iAsia or its subsidiaries or any part thereof or the rights issue; or**

**(ii) any event 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) in local, national, international, financial, political, military, economic 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 which in the reasonable opinion of Melco will materially and adversely affect the business or financial or trading position or prospect of iAsia or its subsidiaries or any part thereof or the rights issue; or**

**(iii) any adverse change in the market conditions (including without limitation suspension or material restriction on trading in securities generally) which in the reasonable opinion of Melco materially and prejudicially affects the rights issue and makes it inadvisable or inexpedient to proceed therewith; or**

**(b) the imposition by the relevant authorities of any suspension or material restriction on trading of shares of iAsia generally on the Stock Exchange for more than 10 consecutive trading days (save and except for the clearance of the announcements, circulars and, or other listing documents in relation to the transactions as contemplated under the sale and purchase agreement and, or the rights issue) or the withdrawal of the listing status of iAsia by such relevant authorities including but not limited to the Stock Exchange; or**

**(c) there comes to the notice of Melco any breach by iAsia of any of the representations and warranties contained in the underwriting agreement, and, where the breach is capable of remedy, iAsia has failed to remedy the same.**

**Conditions of the rights issue and the underwriting agreement**

The rights issue and the underwriting agreement are respectively conditional upon:

a. the signing by or on behalf of the directors of not less than six copies of each of the rights issue documents on or prior to the prospectus posting date;

b. the delivery of one such copy of each of the rights issue documents to Melco and the Stock Exchange on or prior to the prospectus posting date;

c. the filing with and registration of one copy of each of the rights issue documents (and all documents required to be attached thereto) by the Registrar of Companies in Hong Kong prior to the prospectus posting date in compliance with the Companies Ordinance;

d. the passing by the shareholders at the extraordinary general meeting of the special resolutions to amend articles 10, 62, 78, 83, 101 and 142 of the articles to permit the exclusion of the overseas shareholders from subscription of the rights shares, the dealing by iAsia with the fractional entitlements to the rights shares and the issue of the bonus shares to the subscribers of the rights shares respectively in accordance with the GEM listing rules and the Takeovers Code;

e. approval by the independent shareholders of iAsia at the extraordinary general meeting in respect of the rights issue, the issue of bonus shares and the underwriting agreement, if required, and the transactions contemplated thereunder in accordance with the GEM listing rules and the Takeovers Code. Bailey Development, Golden Mate, Best Summit, Capital Speed Limited, Newtop Limited, Pioneer Asset, Longson Limited, Mr. Robin Miles, Mr. So Wing Hung, Peter and their respective associates and parties acting in concert with it and any other persons required under the GEM listing rules will abstain from voting at the meeting;

f. approval by the independent shareholders of Melco (who are not connected with the directors, chief executives and substantial shareholders of Melco) at an extraordinary general meeting of Melco of the entry into and performance of the underwriting agreement and the transactions contemplated thereunder in accordance with the main board listing rules and the Takeovers Code, if required;

g. the posting of the prospectus to the qualifying shareholders and the posting of the provisional allotment letters and the excess application forms to the qualifying shareholders (other than the overseas holders) on the prospectus posting date;

h. the GEM listing committee granting or agreeing to grant (subject to allotment and/or despatch of certificates for the rights shares and the bonus shares) listings of and permission to deal in the rights shares, in nil-paid and fully paid forms, and the bonus shares on or prior to the final acceptance date;

i. the Executive granting the whitewash waiver; and

j. completion taking place in accordance with the terms of the sale and purchase agreement.

As at the latest practicable date, save for conditions (d), (e), (f), (i) and (j) above, none of the conditions above had been fulfilled. According to the terms of the underwriting agreement and the subsequent written agreement between iAsia and Melco, if any of the above conditions have not been fulfilled on or before 31st January, 2003 (which was extended from the original long stop date on 20th December, 2002 pursuant to a letter dated 20th December, 2002 issued by iAsia to Melco confirming the mutual consent of iAsia and Melco to such extension) (or such other date as Melco may agree with iAsia), all liabilities of iAsia and Melco under the underwriting agreement shall cease and determine and the rights issue and the bonus issue will not proceed.

In respect of condition (i), on 20th November, 2002 the Executive has granted Melco the whitewash waiver subject to the approval of the independent shareholders voting by way of poll at the extraordinary general meeting and such approval was obtained on 10th December, 2002.

**Warning of the risks of dealing in shares and rights shares**

**It should be noted that shares have been dealt in on an ex-entitlements basis as from 23rd December, 2002, and the rights shares in their nil-paid form (carrying entitlements to the issue of bonus shares) will be dealt in from 13th January, 2003 to 21st January, 2003 and that dealing in such shares will take place whilst the conditions to which the rights issue is subject remain unfulfilled. Any shareholder or other person dealing in shares up to the date on which all conditions to which the rights issue is subject are fulfilled (which is expected to be 29th January, 2003), will accordingly bear the risk that the rights issue may not become unconditional or may not proceed. Any shareholder or other person contemplating selling or purchasing shares and, or rights shares in their nil-paid form during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.**

Share certificates for all fully-paid rights shares and the allotted bonus shares are expected to be posted on or before 5th February, 2003.

## CHANGES IN THE SHAREHOLDING STRUCTURE OF IASIA AS A RESULT OF THE RIGHTS ISSUE

The following table shows the changes in the shareholding structure of iAsia arising from the rights issue:

| | Number of shares held prior to the rights issue | Shareholding percentage | Number of shares held after the rights issue and bonus issue *(Note 1)* | Shareholding percentage | Number of shares held after the rights issue and bonus issue *(Note 2)* | Shareholding percentage |
|---|---|---|---|---|---|---|
| Bailey Development *(Note 3)* | 73,846,513 | 10.85% | 73,846,513 | 3.10% | 73,846,513 | 3.10% |
| Golden Mate *(Note 4)* | 42,326,273 | 6.22% | 42,326,273 | 1.78% | 42,326,273 | 1.78% |
| Best Summit *(Note 5)* | 62,997,029 | 9.26% | 62,997,029 | 2.65% | 62,997,029 | 2.65% |
| Pioneer Asset *(Note 6)* | 17,149,195 | 2.52% | 17,149,195 | 0.72% | 17,149,195 | 0.72% |
| Dr. Ho *(Note 12)* | – | – | – | – | – | – |
| Mr. Lawrence Ho *(Note 12)* | – | – | – | – | – | – |
| Dr. Lee *(Note 12)* | – | – | – | – | – | – |
| Mr. So Wing Hung, Peter *(Note 12)* | 3,057,723 | 0.45% | 3,057,723 | 0.13% | 3,057,723 | 0.13% |
| Rights shares underwritten and bonus shares acquired by Melco | – | – | 858,788,250 | 36.06% | 1,701,107,145 | 71.43% |
| **Total number of shares held by Melco and parties acting in concert with it** *(Note 12)* | **199,376,733** | **29.30%** | **1,058,164,983** | **44.44%** | **1,900,483,878** | **79.80%** |
| Capital Speed Limited *(Note 7)* | 42,370,251 | 6.23% | 42,370,251 | 1.78% | 42,370,251 | 1.78% |
| Newtop Limited *(Note 8)* | 52,809,819 | 7.76% | 52,809,819 | 2.22% | 52,809,819 | 2.22% |
| Longson Limited *(Note 9)* | 36,378,847 | 5.35% | 36,378,847 | 1.53% | 36,378,847 | 1.53% |
| JAFCO Investments Limited *(Note 10)* | 10,016,508 | 1.47% | 10,016,508 | 0.42% | 10,016,508 | 0.42% |
| Mr. Robin Miles *(Note 11)* | 2,563,141 | 0.38% | 2,563,141 | 0.11% | 2,563,141 | 0.11% |
| Option holders *(Note 12)* | – | – | – | – | – | – |
| Public shareholders | 336,927,559 | 49.52% | 1,179,246,454 | 49.52% | 336,927,559 | 14.15% |
| **Total number of shares** | **680,442,858** | **100%** | **2,381,550,003** | **100%** | **2,381,550,003** | **100%** |

*Notes:*

1. On the basis that only the public shareholders have taken up their provisional allotments of the rights shares in full.

2. On the basis that (i) none of the shareholders has taken up any provisional allotments of the rights shares and (ii) the provisional allotments of the rights shares to all shareholders are taken up by Melco in its capacity as the underwriter.

3. Bailey Development is owned as to 65% by Dr. Ho, an executive director of iAsia, as to 5% by Dr. Lee, an executive director of iAsia, as to 5% by Ms. Leong On Kei, Angela, a non-executive director of iAsia, as to 15% by the mother of Dr. Lee and as to 5% by the father of Dr. Lee, and the remaining 5% by two independent persons.

4. Golden Mate is wholly beneficially owned by Mr. Lawrence Ho, an executive director.

5. Best Summit is wholly beneficially owned by Dr. Lee, an executive director.

6. Pioneer Asset is beneficially owned as to 25% by Dr. Lee, an executive director of iAsia, and as to 75% by his family members.

7. Capital Speed Limited is beneficially owned as to 51% by Mr. Ko Chun Fung, Henry, who is the chief executive officer and an executive director of iAsia and 49% by Mr. Yuen Tien Yau, Gordon who was formerly an executive director of iAsia and resigned on 26th July, 2002.

8. Newtop Limited is owned as to 50% by Kateman International Limited and as to 50% by Potassium Corporation. Each of Mr. Fung Ho Sum, Joseph (an initial management shareholder of iAsia), Mr. Fung Hoo Wing, Thomas (a non-executive director of iAsia) and Mr. Yeung Ming Kwong, Tony (an initial management shareholder of iAsia) beneficially owns or has control over $33^1/_3$% of the issued share capital of Kateman International Limited. The entire issued share capital of Potassium Corporation is beneficially owned by Mr. Cheng Kar Shing, Peter (a non-executive director of iAsia).

9. Longson Limited is wholly beneficially owned by Yu Ming Investments Limited, a company incorporated in Hong Kong with limited liability, whose securities are listed on the main board of the Stock Exchange.

10. JAFCO Investments Limited consists of four partnerships, all of which are established in Japan, and is a fund managed by Jafco Company Limited.

11. Mr. Robin Miles was formerly the chief operating officer of iAsia. Mr. Miles resigned on 21st August, 2002.

12. As at the latest practicable date, iAsia had granted options to certain individuals entitling them to subscribe for a maximum of 76,443,823 shares. Dr. Ho, Mr. Lawrence Ho, Dr. Lee and Mr. So Wing Hung, Peter, being parties acting in concert with Melco, are entitled to subscribe for a total of 2,100,000, 7,010,571, 13,872,029 and 1,473,171 shares, respectively. Please refer to the sections headed "Interest in Securities of iAsia" and "Outstanding Share Options" in appendix IV to this prospectus for details of the entitlements of other option holders.

## REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

On 28th September, 2002, iAsia entered into the sale and purchase agreement with the vendors under which iAsia has conditionally agreed to acquire from the vendors the entire issued share capital of three of their respective subsidiaries, namely CEF Brokerage, CEF Futures and CEF Capital engaged in brokerage and dealing of securities listed on the Stock Exchange and overseas stock exchanges, brokerage and dealing of futures and related products traded on the Hong Kong Futures Exchange Limited and dealings and advisory activities relating to corporate finance matters and custodian and agency services, respectively.

The consideration is HK$126 million, subject to adjustment. The consideration will be satisfied in cash. A deposit of HK$10,500,000 has been paid by iAsia upon the signing of the sale and purchase agreement. A further sum of HK$84,000,000 was paid on 18th December, 2002, being the date of completion. Such amount was funded as to HK$70,000,000 from bank borrowings and the remaining from internal resources. The final instalment of HK$31,500,000 (subject to adjustment, if any) will be payable on or before 35 days after the date of completion.

Completion is not conditional upon the rights issue taking place.

To finance the acquisition, iAsia has proposed a rights issue of not less than 1,020,664,287 rights shares at HK$0.10 per rights share in the proportion of three rights shares for every two existing shares held with a bonus issue in the proportion of two bonus shares for every three subscribed and fully paid rights shares. The rights issue will raise approximately HK$97,897,000 after expenses.

It is proposed that the consideration for the acquisition will be funded by the net proceeds of the rights issue and internal resources of iAsia. The entire net proceeds of HK$97,897,000 will be applied to repay the bank borrowings of HK$70,000,000 and the relevant interest expense thereon with the remaining balance to settle the final installment or part thereof mentioned above so as not to increase the gearing of iAsia.

## BUSINESS REVIEW OF THE ENLARGED IASIA GROUP

### iAsia group

The principal activities of iAsia group are the provision of comprehensive online trading and related systems to financial institutions and intermediaries principally in Asia. Its principal revenue includes sales of trading and back office systems, after-sales maintenance fees, system customization and network support fees from IT consultancy work for clients.

Since the worldwide downturn in the Internet industry and capital markets in mid 2000, iAsia group had been operating under an ongoing difficult market condition and the consolidation of the financial trading industry had slowed down the capital spending in the broker community. Despite the adverse market conditions, the management had devoted great efforts in the expansion of the financial trading services technology and network. During the past three years, iAsia group's business development proceeded along with three main directions: expanding the revenue base of existing businesses profitably; continuously improving the quality products and services and at the same time expanding the product range; and exploring new business opportunities through organic growth and strategic acquisitions. As such, the total turnover of iAsia group increased significantly from approximately HK$3.6 million for the year ended 30th September, 2001 to approximately HK$10.3 million for the year ended 30th September, 2002.

### CEF companies

The principal activities of CEF companies consisted of investment holding, securities, futures and options brokerage and trading on the Hong Kong and overseas stock exchange, capital market and corporate finance advisory services. CEF Capital is also an approved GEM sponsor and holds a chief underwriter qualification certificate with respect to the PRC B shares.

Since the worldwide downturn in the capital markets in mid 2000, CEF companies have been operating under an difficult market with a significant decline in both the commission and brokerage income on securities and the corporate finance advisory fee in 2001. The total turnover of CEF companies dropped from approximately HK$127.5 million for the year ended 31st December, 2000 to approximately HK$58.6 million for the year ended 31st December, 2001 and further to approximately HK$25.5 million for the six months ended 30th June, 2002. As such, CEF companies recorded a profit of approximately HK$32.1 million, which included gain on disposal of non-trading securities of approximately HK$28.5 million, for the year ended 31st December, 2000, a loss of approximately HK$41.5 million for the year ended 31st December, 2001 and a loss of approximately HK$11.7 million for the six months ended 30th June, 2002.

## PROSPECTS AND FUTURE PLANS OF THE ENLARGED IASIA GROUP

### Prospects

Hong Kong is renowned as an international financial centre and this status will be further reinforced in the long-term. The needs for capital markets always exist and so do the needs for brokerage services. Cyclical upturns and downturns is a normal market phenomenon. The directors believe by entering the market at downturns will allow iAsia group to capture the opportunities at market upturns and pave the path for a steady growth of business. The directors believe that it is now the right time to enlarge the existing scope of business of iAsia group, which will bring iAsia group long-term sustainable returns.

### Future Plans

*Summary*

iAsia group aims to diversify its business in the financial services and investment banking industry to generate new source of income and complement its existing business. High degree of synergy is expected to be achieved through these complementary businesses.

Meanwhile, with iAsia group's investment and expertise in technology, the operation of CEF companies will be more rationalised to achieve better operational and cost efficiency, enabling it to expand faster and generate stronger returns. iAsia group will continue to be committed to research and development works to further improve and enhance its trading solutions services to cope with the needs of both existing and potential clients.

In the long run, iAsia group aims to become a regional premier investment banking group offering a wide range of services for a niche market focusing in China, Hong Kong and Macau. Its services will cover investment banking, corporate finance, securities and futures trading and brokerage, as well as wealth management and insurance and other financial related services.

*Technology business*

The technology based financial trading solutions services will remain as an integral part of the overall business strategy of iAsia group. Indeed, the online and settlement solutions business offered by iAsia group and the brokerage and corporate finance business offered by CEF companies will be run separately within the enlarged iAsia group.

iAsia group intends to utilise its existing technology platform to improve the operational and cost efficiency and enhance the competitiveness of the brokerage business following the acquisition.

In relation to product development, iAsia group will continue to expand its product range relating to financial services applications, in addition to launching the front office and back office systems for futures and options, insurance broking system, foreign exchange margin trading system and mutual fund settlement solutions.

*Brokerage and corporate finance businesses*

With the proven business track record of iAsia group, sound management, established experience in corporate finance, the acquisition provides a solid foundation for iAsia group to expand into the financial services market in Hong Kong and China in addition to its existing online trading systems and services and enables iAsia group to provide its customers with a comprehensive range of financial services.

The directors believe that the operational efficiency of brokerage business brought in by CEF companies will be strengthened by adopting the information technology applications of iAsia group. The directors further believe that by keeping abreast of the changing needs of the market, iAsia group is well positioned to provide to its customers enhanced financial products and services which are supported by iAsia group's state-of-the-art technology platform.

*China market*

The directors intend to leverage on the established market position of the CEF companies to expand the scope of services offered by iAsia group.

The investment in Top Growth is one of iAsia's first steps to enter into the China market. This reflects iAsia's early commitment and far-sighted planning in grasping opportunities in the financial services industry in China. In line with the acquisition, iAsia group will strive to actively participate in the investment banking business in China. The directors are optimistic about the future of brokerage and corporate finance services in Asia, and especially in the Greater China Region.

## FINANCIAL EFFECTS OF THE ACQUISITION AND RIGHTS ISSUE ON IASIA GROUP

The directors are of the opinion that, upon completion having regard to the expected cash flows, the estimated net proceeds from the rights issue and the bank and other facilities available to the enlarged iAsia group, the enlarged iAsia group will have sufficient working capital for its present requirements.

Appendix III contains an unaudited pro forma statement of adjusted net tangible assets of the enlarged iAsia group upon completion of the rights issue, the issue of bonus shares and the acquisition.

## PROCEDURES FOR ACCEPTANCE AND TRANSFER

A provisional allotment letter is enclosed with this prospectus which entitles qualifying shareholders to subscribe for the number of rights shares shown thereon. **If you wish to accept all the rights shares, with bonus shares, provisionally allotted to you as specified in the enclosed provisional allotment letter, you must lodge the provisional allotment letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the registrar of iAsia, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong *(or Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with effect from 13th January, 2003)* by no later than 4:00 p.m. on Friday, 24th January, 2003. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, and banker's cashier orders must be issued by, a bank in Hong Kong and made**

**payable to "iAsia Technology Limited – provisional allotment account" and crossed "account payee only".**

It should be noted that unless the provisional allotment letter, together with the appropriate remittances, have been lodged with the registrar of iAsia, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong *(or Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with effect from 13th January, 2003)*, by 4:00 p.m. on Friday, 24th January, 2003, whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights to subscribe for rights shares with bonus shares thereunder will be deemed to have been declined and will be cancelled.

If you wish to accept only part of your provisional allotment or transfer a part of your rights to subscribe for the rights shares, with bonus shares, provisionally allotted to you under the provisional allotment letter or to transfer your rights to more than one person, the original provisional allotment letter must be surrendered by no later than 4:00 p.m. on Thursday, 16th January, 2003 to the registrar of iAsia, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong *(or Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with effect from 13th January, 2003)* which will cancel the original provisional allotment letter and issue new provisional allotment letters in the denominations required.

All cheques or banker's cashier orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of iAsia. Any provisional allotment letter in respect of which the cheque or banker's cashier order 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. In the event that the rights issue is not capable of becoming unconditional, the amount tendered on subscription is expected to be returned to you without interest, by means of cheques despatched by ordinary post at your own risk on or before Wednesday, 5th February 2003.

No action has been taken to permit the offering of the rights shares, bonus shares or the distribution any of the rights issue documents in any territory other than Hong Kong. Accordingly, no person receiving any of the rights issue documents in any territory outside Hong Kong may treat it as an offer or invitation to apply for the rights shares or bonus shares unless in the relevant territory such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements. Subject as referred to below, it is the responsibility of anyone outside Hong Kong wishing to make an application for the rights shares to satisfy himself as to the observance of the laws and regulations of all relevant territories, including the obtaining of any government or other consents, and to pay any taxes and duties required to be paid in such territory in connection therewith. No application for the rights shares will be accepted from any person whose registered address is outside Hong Kong. iAsia reserves the right to refuse to accept any application for the rights shares where it believes that doing so would violate the applicable securities legislation or other laws or regulations of the territory of residence of the applicant.

## APPLICATION FOR THE EXCESS RIGHTS SHARES

For each qualifying shareholder, an application form for excess rights shares is enclosed with this document which entitles the qualifying shareholders to apply for excess rights shares.

**If you wish to apply for any rights shares, in addition to your provisional allotment, you must complete and sign the enclosed application form for excess rights shares in accordance with the instructions printed thereon and lodge it, together with a separate remittance for the full amount payable on application in respect of the excess rights shares applied for, with the registrar of iAsia, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong *(with effect from 13th January, 2003, the office of Abacus Share Registrars Limited will be moved to Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong)* by no later than 4:00 p.m. on Friday, 24th January, 2003. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, and banker's cashier orders must be issued by, a bank in Hong Kong and made payable to "iAsia Technology Limited – excess application account" and crossed "account payee only".** Abacus Share Registrars Limited will notify the successful applicants of any allotment of excess rights shares, with bonus shares.

The directors will allocate the excess rights shares at their sole discretion but on a fair and equitable basis. Applications for the same number of excess rights shares, will be treated equally. Preference will be given to excess applications calculated to "top up" odd lots of rights shares.

If no excess rights shares are allotted to you, the amount tendered on application is expected to be returned to you in full without interest, by means of cheques despatched by ordinary post at your own risk on or before Wednesday, 5th February, 2003. If the number of excess rights shares allotted to you is less than that applied for, the surplus application monies are also expected to be returned to you without interest by ordinary post at your own risk on or before Wednesday, 5th February, 2003.

All cheques or banker's cashier orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of iAsia. Any application form for excess rights shares in respect of which a cheque or a cashier's order is dishonoured on first presentation is liable to be rejected and cancelled.

The application form for excess rights shares is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques or banker's cashier orders for amounts due, will be sent by ordinary post at the risk of the persons entitled thereto to their registered addresses by the registrar of iAsia.

## CERTIFICATES FOR THE RIGHTS SHARES AND THE BONUS SHARES

Share certificates for all fully paid rights shares, together with certificates for all bonus shares, are expected to be posted by Wednesday, 5th February, 2003 to the persons who have accepted and paid for the rights shares and those successful applicants for the excess rights shares.

Where entitlements to rights shares and bonus shares exceed one board lot, it is proposed, so far as is practicable, to issue certificates for share in board lots of 4,000 shares with a certificate for the balance, if any.

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

## ADJUSTMENT TO THE EXERCISE PRICE AND THE NUMBER OF OUTSTANDING SHARE OPTIONS

According to the respective terms of the pre-IPO share option plan and the share option scheme of iAsia, the subscription prices of the shares issuable and the number of shares issuable on the exercise of the outstanding share options as at the latest practicable date will be adjusted as a result of the issue of the fully paid rights shares upon the rights issue becoming unconditional as follows:

| Number of underlying shares comprised in the outstanding share options before adjustment | Subscription price per share before adjustment | Adjusted number of underlying shares comprised in the outstanding share options | Adjusted subscription price per share | Option period |
|---|---|---|---|---|
| | *HK$* | | *HK$* | |
| **Pre-IPO share option scheme** | | | | |
| 27,829,166 | 0.49 | 97,402,081 | 0.36 | 10th October, 2001 to 8th October, 2005 |
| **Share option scheme** | | | | |
| 48,614,657 | 0.10 | 48,614,657 | 0.10 | 9th July, 2001 to 8th July, 2012 |

Upon the rights issue becoming unconditional, the number of new shares issuable will be calculated on the basis of the adjusted subscription prices of the options. If the rights issue does not become unconditional or lapses, the number of new shares issuable will be calculated on the basis of the original subscription prices.

The calculation of such adjustments in accordance with the terms of the pre-IPO share option plan and the share option scheme has been reviewed by the auditors of iAsia.

## CLOSURE OF REGISTER

The register was closed from 30th to 31st December, 2002 both dates inclusive, in order to determine entitlements to the rights issue, during which period no transfer of the securities in iAsia was registered. The last day of dealings in the existing shares cum entitlements to the rights shares was on 20th December, 2002.

**ODD LOT ARRANGEMENTS**

iAsia has appointed VC CEF Brokerage Limited to stand in the market to provide matching services for odd lots of shares on a "best effort" basis during the period from 5th February, 2003 to 4th March, 2003, both days inclusive. Shareholders who wish to take advantage of this matching facility either to dispose of their odd lots of shares or to top up board lots to 4,000 shares each may contact Mr. Mak Chin Keung, Jimmy of VC CEF Brokerage Limited at Suite 2001, 20/F Cheung Kong Center, 2 Queen's Road Central, Hong Kong (or 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong with effect from 7th February, 2003), at telephone number (852) 3150 2992.

**GENERAL**

The shares are currently trading in board lot size of 4,000 shares. Following the rights issue, the board intends to take steps to increase the monetary value of each board lot of shares to approximately HK$2,000. It is expected that details of such changes, together with the proposed change of the English name of iAsia to "Value Convergence Holdings Limited" and its Chinese name of "亞洲網上交易科技有限公司" to "滙盈控股有限公司", will be announced on or before 24th February, 2003.

Your attention is drawn to the appendices to this prospectus.

By order of the board
**iAsia Technology Limited**
**Ko Chun Fung, Henry**
*Executive Director*

## 1. SHARE CAPITAL

The authorised and issued share capital of iAsia as at the latest practicable date and following completion, are as follows:

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 10,000,000,000 | shares as at the latest practicable date | 1,000,000,000.00 |
| *Issued and fully paid:* | | |
| 680,442,858 | shares in issue as at the latest practicable date | 68,044,285.80 |
| 1,020,664,287 | Rights shares to be issued | 102,066,428.70 |
| 680,442,858 | Bonus shares to be issued | 68,044,285.80 |
| 2,381,550,003 | | 238,155,000.30 |

All shares in issue and to be issued rank and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

As at the latest practicable date, iAsia had an outstanding amount of HK$18,497,757.04 of options which are exercisable, as to 27,829,166 outstanding options granted pursuant to the pre-IPO share option plan, during the period from 10th October, 2001 to 8th October, 2005 with an exercise price of HK$0.49 per share and as to 48,614,657 outstanding options granted pursuant to the share option scheme, during the period from 9th July, 2002 to 8th July, 2012 with an exercise price of HK$0.10 per share.

No share or loan capital of iAsia has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

For the options described under the section headed "Outstanding share options" in appendix IV to this prospectus, iAsia has no other options, warrants and conversion rights convertible into the shares. No share or loan capital of iAsia has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

The securities of iAsia are listed on the GEM. No part of the securities of iAsia is listed or dealt in, nor is listing or permission to deal in the securities of iAsia being or proposed to be sought, on any other stock exchange.

## 2. SUMMARY OF FINANCIAL INFORMATION

(a) The following is a summary of the audited consolidated results of the iAsia Group for each of the three years/period ended 30th September, 2002.

| | Year ended 30th September, 2002 | Year ended 30th September, 2001 | Period from 24th September, 1999 (date of incorporation) to 30th September, 2000 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 10,313 | 3,634 | 4,146 |
| Other revenues | 846 | 1,166 | 195 |
| Changes in work-in-progress | (72) | (98) | 351 |
| Work performed by iAsia 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 | (11,534) | – | – |
| Impairment of goodwill | (46,396) | – | – |
| Other operating expenses | (12,162) | (7,297) | (5,427) |
| Operating loss | (90,747) | (28,296) | (10,533) |
| Finance costs | (1) | (84) | (29) |
| Share of losses of associated companies | (568) | – | – |
| Loss for the year/period | (91,316) | (28,380) | (10,562) |
| Minority interests | 155 | – | – |
| Loss attributable to shareholders | (91,161) | (28,380) | (10,562) |
| Basic loss per share (HK cents) | (16.0) | (7.9) | (3.2) |

(b) The following is the full text of the audited consolidated accounts of the iAsia group for the year ended 30th September 2002:

**Consolidated Profit and Loss Account**

*For the year ended 30th September, 2002*

| | Note | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Turnover | *2* | 10,313 | 3,634 |
| Other revenues | *2* | 846 | 1,166 |
| Changes in work-in-progress | | (72) | (98) |
| Work performed by iAsia group and capitalised under fixed assets | | – | 2,904 |
| Staff costs | | (19,350) | (19,659) |
| Depreciation | | (10,125) | (5,039) |
| 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) |
| Operating loss | *4(a)* | (90,747) | (28,296) |
| Finance costs | *4(b)* | (1) | (84) |
| Share of losses of associated companies | | (568) | – |
| Loss for the year | | (91,316) | (28,380) |
| Minority interests | | 155 | – |
| Loss attributable to shareholders | *6* | (91,161) | (28,380) |
| Basic loss per share (HK cents) | *8* | (16.0) | (7.9) |

**Consolidated Balance Sheet**

*As at 30th September, 2002*

| | Note | 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 |

**Balance Sheet**

*As at 30th September, 2002*

| | Note | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Investments in subsidiaries | 13 | 61,625 | 21,525 |
| Current assets | | | |
| Trade receivables, prepayments, deposits and other receivables | 14 | 11,550 | 5,880 |
| Bank balances and cash | | 14,409 | 37,197 |
| | | 25,959 | 43,077 |
| Current liabilities | | | |
| Trade payables, accruals and other payables | 15 | 1,649 | 5,037 |
| | | 1,649 | 5,037 |
| Net current assets | | 24,310 | 38,040 |
| Total assets less current liabilities | | 85,935 | 59,565 |
| Financed by: | | | |
| Share capital | 17 | 68,044 | 45,000 |
| Reserves | 18 | 17,891 | 14,565 |
| Shareholders' funds | | 85,935 | 59,565 |

**Consolidated Cash Flow Statement**

*For the year ended 30th September, 2002*

| | Note | 2002<br>HK$'000 | 2001<br>HK$'000 |
|---|---|---|---|
| Net cash outflow from operating activities | 21(a) | (22,379) | (20,845) |
| Investing activities | | | |
| Purchase of subsidiaries, net of cash and cash equivalents acquired | 21(d) | 19,965 | (4,000) |
| Expenses paid in connection with acquisition of subsidiaries | | (3,585) | (1,137) |
| Deposits for acquisition of subsidiaries | | (10,500) | – |
| Interest received | | 849 | 1,098 |
| Purchase of fixed assets | | (2,071) | (11,276) |
| Sale of fixed assets | | 259 | – |
| Decrease in pledged bank deposit | | – | 700 |
| Purchase of non-trading securities | | (2,000) | – |
| Net cash inflow/(outflow) from investing activities | | 2,917 | (14,615) |
| Financing activities | 21(b) | | |
| Contribution from minority shareholders | | 225 | – |
| Net proceeds from issue of shares | | 10,412 | 73,669 |
| Payments of capital element of finance leases | | – | (826) |
| Interest element of finance leases | | – | (84) |
| Net cash inflow from financing | | 10,637 | 72,759 |
| (Decrease)/increase in cash and cash equivalents | | (8,825) | 37,299 |
| Cash and cash equivalents at the beginning of year | | 37,926 | 627 |
| Effect of change in foreign currency translation | | 1,118 | – |
| Cash and cash equivalents at the end of year | | 30,219 | 37,926 |
| Analysis of balances of cash and cash equivalents: | | | |
| Bank balances and cash | | 30,219 | 37,926 |

**Consolidated Statement of Changes in Equity**
*For the year ended 30th September, 2002*

| | Note | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Total equity balance at the beginning of the year | | 54,547 | 23,838 |
| Loss attributable to shareholders | *18* | (91,161) | (28,380) |
| Issue of shares | *17&18* | 97,590 | 70,800 |
| Expenses incurred with issue of shares | *18* | (4,673) | (11,711) |
| Exchange differences arising on translation of accounts of an overseas subsidiary | | 844 | – |
| Total equity balance at the end of the year | | 57,147 | 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 | $33^1/_3$-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** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Turnover | | |
| System customisation and network support fees | 2,678 | 461 |
| Sales of trading and back office systems | 5,039 | 1,880 |
| Maintenance fees | 1,263 | 458 |
| Hook up fees | 365 | 335 |
| Data management and hosting fees | 46 | 31 |
| Messaging fees | 180 | 219 |
| Content management and subscription fees | 456 | 250 |
| Sales of hardware and software | 56 | – |
| ASP licence fees | 230 | – |
| | 10,313 | 3,634 |
| Other revenues | | |
| Interest income on bank deposits | 789 | 1,148 |
| Other | 57 | 18 |
| | 846 | 1,166 |
| Total revenues | 11,159 | 4,800 |

## 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** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Auditors' remuneration | 411 | 300 |
| Depreciation | | |
| Owned fixed assets | 10,125 | 4,876 |
| Leased fixed assets | – | 163 |
| Cost of services | 8,881 | 4,477 |
| Operating leases | | |
| Land and buildings | 2,074 | 1,070 |
| Office equipment | – | 18 |
| Retirement benefit costs *(note 9)* | 596 | 398 |
| Loss on disposal of fixed assets | 434 | 46 |
| Exchange losses | 18 | 94 |

(b) Finance costs

| | **2002** | **2001** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest element of finance leases | – | 84 |
| Other interest | 1 | – |
| | 1 | 84 |

## 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).

(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).

## 7. Dividends

No dividends have been paid or declared by the Company during the year (2001: 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 and the weighted average of 358,765,088 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** |
|---|---|---|
| | *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** |
|---|---|---|
| | *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 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Fees | 167 | – |
| Salaries, allowances and benefits in kind | 3,107 | 2,783 |
| Retirement benefit costs | 33 | 30 |
| | 3,307 | 2,813 |

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.

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 |
|---|---|---|
| Directors | 3 | 2 |
| Employees | 2 | 3 |
| | 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 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries, allowances and benefits in kind | 1,776 | 2,658 |
| Retirement benefit costs | 55 | 30 |
| | 1,831 | 2,688 |

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** *HK$'000* | **Office furniture and equipment** *HK$'000* | **Computer equipment and software** *HK$'000* | **Total** *HK$'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** | **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% |
| 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 HK$'000 | Group 2001 HK$'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 HK$'000 | Company 2001 HK$'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 HK$'000 | Group 2001 HK$'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) |

| | Share premium HK$'000 | Company Accumulated losses HK$'000 | Total 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 | |
|---|---|---|---|
| | *Note* | 2002 *HK$'000* | 2001 *HK$'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 *HK$* | Pre-IPO Share Share Options duration |
|---|---|---|---|---|
| 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 *HK$* | New Share Options duration |
|---|---|---|---|---|
| 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. Notes to the consolidated cash flow statement

### (a) Reconciliation of the loss for the year to net cash outflow from operating activities

| | 2002<br>*HK$'000* | 2001<br>*HK$'000* |
|---|---|---|
| Loss for the year | (91,316) | (28,380) |
| Share of losses of associated companies | 568 | – |
| Impairment of goodwill | 46,396 | – |
| Impairment of fixed assets | 11,534 | – |
| Amortisation of goodwill | 2,227 | – |
| Depreciation | 10,125 | 5,039 |
| Loss on disposal of fixed assets | 434 | 46 |
| Interest income | (789) | (1,148) |
| Interest element of finance leases | – | 84 |
| Provision for receivables | 40 | 3,907 |
| (Increase)/decrease in inventories | (663) | 98 |
| Decrease/(increase) in trade receivables, prepayments, deposits and other receivables | 258 | (2,212) |
| Increase in amount due from an investee company | (4) | – |
| (Decrease)/increase in trade payables, accruals and other payables | (1,189) | 1,721 |
| Net cash outflow from operating activities | (22,379) | (20,845) |

### (b) Analysis of changes in financing during the year

| | Share capital including premium | | Obligations under finance leases | | Minority interests | |
|---|---|---|---|---|---|---|
| | 2002<br>*HK$'000* | 2001<br>*HK$'000* | 2002<br>*HK$'000* | 2001<br>*HK$'000* | 2002<br>*HK$'000* | 2001<br>*HK$'000* |
| At the beginning of the year | 93,489 | 34,400 | – | 826 | – | – |
| Cash inflows/(outflows) from financing | 10,412 | 73,669 | – | (826) | – | – |
| Decrease in amounts due from shareholders | – | (14,580) | – | – | – | – |
| Contribution from minority shareholders | – | – | – | – | 225 | |
| Minority interests in share of loss | – | – | – | – | (155) | – |
| Issue of shares for acquisition of subsidiaries, net of expenses | 77,504 | – | – | – | – | – |
| Issue of shares for settlement to a supplier, net of expenses | 5,001 | – | – | – | – | – |
| At the end of the year | 186,406 | 93,489 | – | – | 70 | – |

### (c) Major non-cash transactions

(i) The consideration for the purchase of subsidiaries during the year ended 30th September, 2002 was settled by way of issue of 117,078,572 ordinary shares in the Company of HK$0.1 each.

(ii) Part of the consideration for the purchase of certain software during the year ended 30th September, 2002 comprised 7,164,286 ordinary shares in the Company of HK$0.1 each.

**(d) Acquisition of subsidiaries**

| | **2002** *HK$'000* | **2001** *HK$'000* |
|---|---|---|
| Net assets acquired | | |
| Goodwill | 6,730 | – |
| Fixed assets | 12,714 | 4,000 |
| Trade receivables, prepayments, deposits and other receivables | 1,539 | – |
| Bank balances and cash | 19,965 | – |
| Trade payables, accruals and other payables | (1,557) | – |
| | 39,391 | 4,000 |
| Goodwill | 32,344 | – |
| Carrying value of interest in associated companies* | 10,117 | – |
| Effect of change in foreign currency translation | 103 | – |
| | 81,955 | 4,000 |
| Satisfied by: | | |
| Issuance of shares of the Company | 81,955 | – |
| Cash | – | 4,000 |

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

| | **2002** *HK$'000* | **2001** *HK$'000* |
|---|---|---|
| Cash consideration | – | (4,000) |
| Bank balances and cash acquired | 19,965 | – |
| Net cash inflow/(outflow) in respect of the acquisition of subsidiaries | 19,965 | (4,000) |

* As at 5th December, 2001, the carrying value of interest in associated companies included the unamortised balance of goodwill amounted to approximately HK$9,549,000 arising from the acquisition of associated companies on 9th November, 2001.

## 22. 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** *HK$'000* | **Company 2002** *HK$'000* | **Group and Company 2001** *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.

## 23. 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.

## 24. 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.

## 25. Approval of accounts

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

## I. AUDITED FINANCIAL INFORMATION OF CEF COMPANIES

Subsequent to 30th September, 2002, the date to which the latest published audited financial statements of iAsia group were made up, iAsia group has completed the acquisition of the entire issued share capital of CEF companies on 18th December, 2002 at a consideration of HK$126 million, subject to adjustment. Details of the acquisition are contained in the circular.

The following is audited financial information of CEF companies for the three years ended 31st December, 2001 and the six months ended 30th June, 2002 (the "Relevant Periods") extracted from the circular:

### A. Financial information on the profit and loss accounts of CEF companies

The following is the profit and loss accounts of the CEF companies for the Relevant Periods, prepared on the basis set out in note E(1) below, and after making such adjustments as are appropriate:

| | Section I | Year ended 31st December, | | | Six months ended 30th June, |
|---|---|---|---|---|---|
| | | 1999 | 2000 | 2001 | 2002 |
| | *note E* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 3 | 92,816 | 127,546 | 58,570 | 25,467 |
| Other revenues | 3 | 1,981 | 2,555 | 2,772 | 1,731 |
| | | 94,797 | 130,101 | 61,342 | 27,198 |
| Staff costs | | (38,824) | (44,492) | (41,692) | (16,979) |
| Commission expenses | | (19,358) | (30,898) | (13,749) | (7,217) |
| Reversal of/(provision for) bad and doubtful debts | | 4,192 | 3,683 | (1,691) | 5,666 |
| Rent and rates | | | | | |
| – Operating leases | | (2,347) | (1,848) | (3,799) | (2,058) |
| – Lease expenses recharged by the ultimate holding company | 27 | (4,211) | (5,024) | (5,728) | (3,013) |
| Other operating expenses | 5 | (43,838) | (44,367) | (34,875) | (14,812) |
| Operating (loss)/profit | | (9,589) | 7,155 | (40,192) | (11,215) |
| Finance costs | 6 | (1,318) | (3,581) | (1,300) | (484) |
| | | (10,907) | 3,574 | (41,492) | (11,699) |
| Gain on disposal of non-trading securities | 15 | – | 28,521 | – | – |
| (Loss)/profit before taxation | | (10,907) | 32,095 | (41,492) | (11,699) |
| Taxation | 7 | 3,638 | – | – | – |
| (Loss)/profit attributable to shareholders | 4 | (7,269) | 32,095 | (41,492) | (11,699) |

## I. AUDITED FINANCIAL INFORMATION OF CEF COMPANIES (CONTINUED)

### B. Financial information on the balance sheets of CEF companies

The following is the balance sheets of the CEF companies as at 31st December, 1999, 2000 and 2001; and 30th June, 2002, prepared on the basis as set out in note E(1) below, after making such adjustments as are appropriate:

| | Section I | As at 31st December, | | | As at 30th June, |
|---|---|---|---|---|---|
| | | 1999 | 2000 | 2001 | 2002 |
| | *note E* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Investment* | 11 | 101,001 | 101,001 | 101,001 | 101,001 |
| Fixed assets | 12 | 4,142 | 9,170 | 12,211 | 10,872 |
| Intangible assets | 13 | – | 4,813 | 4,306 | 4,053 |
| Non-trading securities* | 14 | – | 43,202 | 28,600 | 31,013 |
| Long-term portion of amount due from a former director | 18 | 1,075 | 800 | 725 | 688 |
| Other assets | 15 | 17,357 | 4,879 | 3,825 | 3,775 |
| Current assets | | | | | |
| Accounts receivable | 16 | 256,023 | 83,493 | 59,289 | 94,293 |
| Amounts due from related companies | 17 | 50 | 71 | 21 | 83 |
| Amount due from the ultimate holding company | 17 | – | 31,507 | 9,622 | 918 |
| Amounts due from a former director and a former officer | 18 | 75 | 75 | 75 | 75 |
| Prepayments, deposits and other receivables | | 2,682 | 3,721 | 3,310 | 2,821 |
| Cash and bank balances – own funds | 19 | 52,081 | 49,252 | 59,588 | 52,936 |
| | | 310,911 | 168,119 | 131,905 | 151,126 |
| Current liabilities | | | | | |
| Accounts payable | 20 | 164,160 | 41,100 | 21,958 | 27,674 |
| Amounts due to related companies | 17 | 3,456 | 269 | – | – |
| Amount due to the ultimate holding company* | 17 | 8,820 | 11,271 | 21,658 | 23,805 |
| Accruals and other payables | | 13,585 | 11,459 | 8,531 | 8,544 |
| Bank loans and overdrafts | 21 | 47,360 | – | 18,635 | 40,000 |
| | | 237,381 | 64,099 | 70,782 | 100,023 |
| Net current assets | | 73,530 | 104,020 | 61,123 | 51,103 |
| Total assets less current liabilities | | 197,105 | 267,885 | 211,791 | 202,505 |
| Financed by: | | | | | |
| Share capital | 22 | 100,000 | 100,000 | 100,000 | 100,000 |
| Retained profits | | 97,105 | 129,200 | 87,708 | 76,009 |
| Investment revaluation reserve | | – | 38,685 | 24,083 | 26,496 |
| Shareholders' funds | | 197,105 | 267,885 | 211,791 | 202,505 |

* *Material assets and liabilities not to be acquired in the acquisition.*

## I. AUDITED FINANCIAL INFORMATION OF CEF COMPANIES (CONTINUED)

### C. Financial information on the cash flow statements of CEF companies

The following is the cash flow statements of the CEF companies for the Relevant Periods, prepared on the basis as set out in note E(1) below, and after making such adjustments as are appropriate:

| | Section I | Year ended 31st December, 1999 | 2000 | 2001 | Six months ended 30th June, 2002 |
|---|---|---|---|---|---|
| | *note E* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Net cash (outflow)/inflow from operating activities | 24(a) | (53,815) | 18,505 | (12,891) | (30,048) |
| Investing activities | | | | | |
| Purchase of fixed assets | | (4,345) | (8,124) | (9,038) | (737) |
| Sale of fixed assets | | – | – | 2,446 | 18 |
| Sale of non-trading securities | | – | 31,507 | – | – |
| Dividend received | | – | 192 | 797 | 603 |
| Advance to an investee company *(note E(11))* | | (21,000) | – | – | – |
| Net cash (outflow)/inflow from investing activities | | (25,345) | 23,575 | (5,795) | (116) |
| Net cash (outflow)/inflow before financing | | (79,160) | 42,080 | (18,686) | (30,164) |
| Financing activities | | | | | |
| (Repayment to)/advance from the ultimate holding company | | (16,715) | 2,451 | 10,387 | 2,147 |
| Net proceeds from/(repayment of) short-term bank loans | | 45,000 | (45,000) | 18,000 | 22,000 |
| Net cash (outflow)/inflow from financing activities | | 28,285 | (42,549) | 28,387 | 24,147 |
| (Decrease)/increase in cash and cash equivalents | | (50,875) | (469) | 9,701 | (6,017) |
| Cash and cash equivalents at the beginning of the year/period | | 100,596 | 49,721 | 49,252 | 58,953 |
| Cash and cash equivalents at the end of the year/period | | 49,721 | 49,252 | 58,953 | 52,936 |
| Analysis of balances of cash and cash equivalents: | | | | | |
| Cash and bank balances – own funds | | 52,081 | 49,252 | 59,588 | 52,936 |
| Bank overdrafts | | (2,360) | – | (635) | – |
| Cash and cash equivalents at the end of the year/period | | 49,721 | 49,252 | 58,953 | 52,936 |

## I. AUDITED FINANCIAL INFORMATION OF CEF COMPANIES (CONTINUED)

### D. Financial information on the statements of changes in equity of CEF companies

The following is the statements of changes in equity of the CEF companies for the Relevant Periods, prepared on the basis as set out in note E(1) below:

| | Share capital | Investment revaluation reserve | Retained profits | Total |
|---|---|---|---|---|
| | note E(22) | | | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| As at 1st January, 1999 | 100,000 | – | 104,374 | 204,374 |
| Loss for the year attributable to shareholders | – | – | (7,269) | (7,269) |
| As at 31st December, 1999 and 1st January, 2000 | 100,000 | – | 97,105 | 197,105 |
| Profit for the year attributable to shareholders | – | – | 32,095 | 32,095 |
| Surplus on revaluation of non-trading securities | – | 38,685 | – | 38,685 |
| As at 31st December, 2000 and 1st January, 2001 | 100,000 | 38,685 | 129,200 | 267,885 |
| Loss for the year attributable to shareholders | – | – | (41,492) | (41,492) |
| Deficit on revaluation of non-trading securities | – | (14,602) | – | (14,602) |
| As at 31st December, 2001 and 1st January, 2002 | 100,000 | 24,083 | 87,708 | 211,791 |
| Loss for the period attributable to shareholders | – | – | (11,699) | (11,699) |
| Surplus on revaluation of non-trading securities | – | 2,413 | – | 2,413 |
| As at 30th June, 2002 | 100,000 | 26,496 | 76,009 | 202,505 |

# I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies

### 1. Basis of preparation

For the purpose of this section I, the financial information of CEF Brokerage Limited, CEF Futures Limited and CEF Capital Limited concerning the acquisition represents the aggregation of the profit and loss items, cash flows and changes in equity of the respective CEF companies for the Relevant Periods; and the aggregation of the respective balance sheet of the respective CEF companies as at 31st December, 1999, 2000 and 2001; and 30th June, 2002. All significant intra-company transactions and balances have been eliminated.

As set forth in note E(11), the acquisition does not include the CEF companies' 100% equity interest in an investee company and an intercompany loan to such company. Accordingly, such company is not consolidated in the Financial Information of the CEF companies.

### 2. Principal accounting policies

The principal accounting policies adopted in preparing the Financial Information included in this section are set out below. These policies conform with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA") and accounting principles generally accepted in Hong Kong. The Financial Information is prepared under the historical cost convention as modified by the revaluation of non-trading securities.

#### (a) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight line basis. The principal annual rates used for this purpose are:

| | |
|---|---|
| Furniture and fixtures | 25% |
| Office equipment | 20% |
| Computer equipment | 25-33$^1/_3$% |
| Leasehold improvements | The shorter of 5 years or the remaining term of the lease |

Improvements are capitalised and depreciated over their expected useful lives to the CEF companies.

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.

#### (b) Intangible assets

The trading rights on The Stock Exchange of Hong Kong Limited ("HKEx") and Hong Kong Futures Exchange Limited ("HKFE") are recognised as intangible assets on the balance sheet. They are stated at cost and amortised using the straight-line method over ten years.

#### (c) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets including fixed, intangible and other 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.

#### (d) 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. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

**(e) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(f) Other assets**

Other assets held for long term purposes are stated at cost less provision for diminution in value other than temporary deemed necessary on an individual basis.

**(g) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks within three months of maturity when acquired, and bank overdrafts.

**(h) Provisions and contingent liabilities**

Provisions are recognised when the CEF companies have 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 a provision is expected to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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 CEF companies. 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 Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

**(i) Deferred taxation**

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purpose 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.

**(j) Retirement benefit costs**

The CEF companies contribute to a defined contribution retirement scheme through the Occupational Retirement Scheme Ordinance (“ORSO”); and participate in a Mandatory Provident Fund Scheme (“MPF scheme”) with effect from 1st December, 2000. Contributions to both schemes by the CEF companies are calculated as a percentage of employees’ basic salaries or wages.

No contributions are made by employees to the ORSO scheme and contributions by employees under the MPF scheme are subject to a maximum of $1,000 per month per employee. Contributions by the CEF companies are expensed as incurred and are reduced by contributions forfeited by those relevant employees who leave both schemes prior to vesting fully in the contributions.

The assets of the schemes are held separately from those of the CEF companies.

**(k) Borrowing costs**

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

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

**(l) Translation of foreign currencies**

Transactions in foreign currencies are translated at applicable rates of exchange 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. All exchange differences are dealt with in the profit and loss account.

**(m) 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 received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

**(n) Revenue recognition**

All transactions related to securities trading and commission income are recorded in the Financial Information based on trade days. Accordingly, only those transactions whose trade dates fall within the Relevant Periods have been taken into account.

Underwriting, sub-underwriting, placement and sub-placing commission, arrangement, management, advisory and other fee income are recognised in the profit and loss account in accordance with the terms of the underlying agreement or deal mandate when the relevant services are rendered.

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

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

**(o) Segment reporting**

Business segments are presented as the primary reporting format and geographical as the secondary reporting format in this report.

Segment assets consist primarily of fixed assets, intangible assets, receivables and operating cash; and exclude investment and non-trading securities. Segment liabilities comprise operating liabilities including payables and bank loans and overdrafts. Capital expenditure comprises additions to fixed assets (note E(12)) and intangible assets (note E(13)).

In respect of geographical segment reporting, revenues are based on the country in which the business activities are based. Total assets and capital expenditure are where the assets are located.

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 3. Revenues and turnover

The CEF companies are principally engaged in broking and dealing in securities and future and option contracts for their clients mainly on the HKEx and HKFE. The CEF companies also provide other related financial services including margin financing, securities underwriting, and placing, arrangement, management and advisory.

Revenues recognised during the year/period are as follows:

| | Year ended 31st December, 1999 | 2000 | 2001 | Six months ended 30th June, 2002 |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | | | | |
| Brokerage commission from dealing in: | | | | |
| – securities on HKEx and overseas exchanges | 49,113 | 81,209 | 35,623 | 15,116 |
| – future and option contracts on HKFE | 2,553 | 1,043 | 770 | 759 |
| Underwriting, sub-underwriting, placing and sub-placing commission on HKEx and overseas exchanges | 5,225 | 7,960 | 3,060 | 1,227 |
| Arrangement, management, advisory and other fee income | 26,523 | 20,101 | 12,608 | 5,843 |
| Interest income: | | | | |
| – Authorised institutions | 2,766 | 2,680 | 1,624 | 417 |
| – Clients and others | 6,286 | 14,718 | 5,024 | 2,107 |
| Other | 350 | (165) | (139) | (2) |
| | 92,816 | 127,546 | 58,570 | 25,467 |
| Other revenues | | | | |
| Dividend income | – | 192 | 797 | 603 |
| Exchange gain, net | 113 | 64 | 43 | 13 |
| Other | 1,868 | 2,299 | 1,932 | 1,115 |
| | 1,981 | 2,555 | 2,772 | 1,731 |
| Total revenues | 94,797 | 130,101 | 61,342 | 27,198 |

# I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 4. Segment information

**Primary reporting format – business segments**

| | Year ended/as at 31st December, 1999 | | | |
|---|---|---|---|---|
| | **Securities brokerage and dealing** | **Futures and options dealing** | **Capital market and corporate finance services** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenues | | | | |
| Turnover | 57,577 | 3,230 | 32,009 | 92,816 |
| Other revenues | 1,419 | – | 562 | 1,981 |
| | 58,996 | 3,230 | 32,571 | 94,797 |
| Segment results and (loss)/profit before taxation | (14,928) | (162) | 4,183 | (10,907) |
| Taxation | | | | 3,638 |
| Loss for the year | | | | (7,269) |
| **Other Information** | | | | |
| Segment assets | 279,041 | 19,595 | 34,849 | 333,485 |
| Investment | | | | 101,001 |
| **Total assets** | | | | 434,486 |
| Segment liabilities | 226,042 | 384 | 10,955 | 237,381 |
| **Total liabilities** | | | | |
| Capital expenditure | 4,308 | 37 | – | 4,345 |
| Depreciation and amortisation | 1,814 | 152 | – | 1,966 |

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 4. Segment information (continued)

**Primary reporting format – business segments (continued)**

| | Year ended/as at 31st December, 2000 | | | |
|---|---|---|---|---|
| | **Securities brokerage and dealing** | **Futures and options dealing** | **Capital market and corporate finance services** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenues | | | | |
| Turnover | 98,483 | 1,794 | 27,269 | 127,546 |
| Other revenues | 2,389 | 112 | 54 | 2,555 |
| | 100,872 | 1,906 | 27,323 | 130,101 |
| Segment results and (loss)/profit before taxation | 3,681 | (574) | 467 | 3,574 |
| Gain on disposal of non-trading securities | | | | 28,521 |
| Profit before taxation | | | | 32,095 |
| Taxation | | | | – |
| Profit for the year | | | | 32,095 |
| **Other Information** | | | | |
| Segment assets | 134,746 | 15,491 | 37,544 | 187,781 |
| Investment | | | | 101,001 |
| Non-trading securities | | | | 43,202 |
| **Total assets** | | | | 331,984 |
| Segment liabilities | 50,411 | 505 | 13,183 | 64,099 |
| **Total liabilities** | | | | |
| Capital expenditure | 7,912 | 212 | – | 8,124 |
| Depreciation and amortisation | 3,224 | 124 | – | 3,348 |

# I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 4. Segment information (continued)

**Primary reporting format – business segments (continued)**

| | Year ended/as at 31st December, 2001 | | | |
|---|---|---|---|---|
| | **Securities brokerage and dealing** | **Futures and options dealing** | **Capital market and corporate finance services** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenues | | | | |
| Turnover | 41,245 | 1,210 | 16,115 | 58,570 |
| Other revenues | 2,302 | 459 | 11 | 2,772 |
| | 43,547 | 1,669 | 16,126 | 61,342 |
| Segment results and loss before taxation | (33,663) | (323) | (7,506) | (41,492) |
| Taxation | | | | – |
| Loss for the year | | | | (41,492) |
| **Other Information** | | | | |
| Segment assets | 96,687 | 14,974 | 41,311 | 152,972 |
| Investment | | | | 101,001 |
| Non-trading securities | | | | 28,600 |
| **Total assets** | | | | 282,573 |
| Segment liabilities | 46,015 | 311 | 24,456 | 70,782 |
| **Total liabilities** | | | | |
| Capital expenditure | 9,023 | 15 | – | 9,038 |
| Depreciation and amortisation | 3,816 | 128 | – | 3,944 |
| Impairment loss on club debentures | 1,054 | – | – | 1,054 |

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 4. Segment information (continued)

**Primary reporting format – business segments (continued)**

| | Six months ended/as at 30th June, 2002 | | | |
|---|---|---|---|---|
| | **Securities brokerage and dealing** | **Futures and options dealing** | **Capital market and corporate finance services** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenues | | | | |
| Turnover | 17,626 | 869 | 6,972 | 25,467 |
| Other revenues | 973 | 349 | 409 | 1,731 |
| | 18,599 | 1,218 | 7,381 | 27,198 |
| Segment results and loss before taxation | (6,383) | (3,640) | (1,676) | (11,699) |
| Taxation | | | | – |
| Loss for the period | | | | (11,699) |
| **Other Information** | | | | |
| Segment assets | 115,621 | 15,072 | 39,821 | 170,514 |
| Investment | | | | 101,001 |
| Non-trading securities | | | | 31,013 |
| **Total assets** | | | | 302,528 |
| Segment liabilities | 75,073 | 300 | 24,650 | 100,023 |
| **Total liabilities** | | | | |
| Capital expenditure | 363 | 60 | 314 | 737 |
| Depreciation and amortisation | 2,260 | 51 | – | 2,311 |
| Impairment loss on club debentures | 40 | – | – | 40 |

**Geographical segments**

The majority of the activities of the CEF companies are based in Hong Kong and the majority of CEF companies' turnover and profit/loss before taxation are derived from Hong Kong. In addition, the carrying amount of segment assets, and additions to fixed assets and intangible assets are located in Hong Kong. Therefore, no geographical analysis is presented.

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 5. Other operating expenses

| | | Year ended 31st December, | | | Six months ended 30th June, |
|---|---|---|---|---|---|
| | | **1999** | **2000** | **2001** | **2002** |
| | *Note* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Auditors' remuneration | | 486 | 534 | 373 | 94 |
| Clearing charges | | 2,633 | 3,450 | 2,532 | 1,079 |
| Communication | | 5,622 | 5,166 | 6,741 | 2,860 |
| Depreciation on owned fixed assets | | 1,966 | 3,095 | 3,437 | 2,058 |
| Repairs and maintenance | | 1,131 | 1,273 | 786 | 582 |
| Amortisation of intangible assets | | – | 253 | 507 | 253 |
| Project costs for online trading system | | – | 5,491 | (50) | (86) |
| Legal and professional fees | | 3,472 | 2,019 | 692 | 50 |
| Entertainment | | 921 | 710 | 365 | 147 |
| Management fees to the ultimate holding company | 27 | 18,432 | 14,469 | 12,036 | 5,415 |
| Charges from the ultimate holding company for usage of assets | 27 | 4,060 | 1,552 | 1,216 | 375 |
| Impairment loss on club debentures | | – | – | 1,054 | 40 |
| Loss on disposal of fixed assets | | – | – | 114 | – |
| Others | | 5,115 | 6,355 | 5,072 | 1,945 |
| | | 43,838 | 44,367 | 34,875 | 14,812 |

### 6. Finance costs

| | Year ended 31st December, | | | Six months ended 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Interest on bank loans and overdrafts | 1,318 | 3,515 | 1,052 | 476 |
| Other interest | – | 66 | 248 | 8 |
| | 1,318 | 3,581 | 1,300 | 484 |

### 7. Taxation

The amount of taxation credited to the profit and loss account represents:

| | Year ended 31st December, | | | Six months ended 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong profits tax refund relating to prior year | 638 | – | – | – |
| Over-provision in prior year | 3,000 | – | – | – |
| | 3,638 | – | – | – |

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 7. Taxation (continued)

The CEF companies have not provided for any Hong Kong profits tax as the CEF companies had no estimated assessable profits for the Relevant Periods.

Potential deferred tax assets in relation to tax losses amounted to approximately HK$7,948,000, HK$7,138,000, HK$14,841,000 and HK$17,790,000 as at 31st December, 1999, 2000 and 2001; and 30th June, 2002, respectively have not been recognised in the Financial Information as it is uncertain as to whether these benefits will crystallise in the foreseeable future.

### 8. Dividends

No dividends have been paid or declared by the CEF companies to their respective shareholders during the Relevant Periods.

### 9. Retirement benefit costs

The aggregate employer's contributions by the CEF companies, net of forfeited contributions, which have been dealt with in the profit and loss accounts for the Relevant Periods amounted to HK$533,000, HK$1,544,000, HK$2,173,000 and HK$1,332,000 for the years ended 31st December, 1999, 2000 and 2001; and for the six months ended 30th June, 2002, respectively.

### 10. Directors' and employees emoluments

The aggregate amounts of the emoluments paid and payable to the directors of the CEF companies for the Relevant Periods are as follows:

| | Year ended 31st December, | | | Six months ended 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Fees | – | – | – | – |
| Other emoluments | 6,199 | 9,273 | 7,482 | 2,715 |
| Retirement benefit costs | 294 | 518 | 570 | 216 |
| | 6,493 | 9,791 | 8,052 | 2,931 |

Two directors of CEF companies received emoluments of approximately HK$4,317,000 and HK$2,176,000 respectively for the year ended 31st December, 1999; five directors of CEF companies received emoluments of approximately HK$4,175,000 and HK$2,092,000, HK$1,961,000, HK$1,094,000 and HK$469,000 respectively for the year ended 31st December, 2000; four directors of CEF companies received emoluments of approximately HK$2,449,000, HK$1,980,000, HK$1,918,000 and HK$1,705,000 respectively for the year ended 31st December, 2001; and six directors of CEF companies received emoluments of approximately HK$990,000, HK$752,000, HK$515,000, HK$486,000, HK$169,000 and HK$19,000 respectively for the six months ended 30th June, 2002.

During the Relevant Periods, no directors waived or agreed to waive any emoluments; and no incentive payment or compensation for loss of office was paid or payable to any director.

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 10. Directors' and employees' emoluments (continued)

During the years ended 31st December, 1999, 2000, 2001 and for the six months ended 30th June, 2002, the five highest paid individuals of the CEF companies included two, three, four and four directors, respectively, details of whose emoluments are set forth above. The emoluments of the remaining highest paid individual were as follows:

| | Year ended 31st December, 1999 | 2000 | 2001 | Six months ended 30th June, 2002 |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Salaries, bonus and other benefits | 4,523 | 3,000 | 1,224 | 551 |
| Retirement benefit costs | 302 | 240 | 122 | 55 |
| | 4,825 | 3,240 | 1,346 | 606 |

The emoluments of these individuals fell within the following bands:

| | Number of individuals | | | |
|---|---|---|---|---|
| | Year ended 31st December, 1999 | 2000 | 2001 | Six months ended 30th June, 2002 |
| HK$nil to HK$1,000,000 | – | – | – | 1 |
| HK$1,000,001 to HK$1,500,000 | 1 | – | 1 | – |
| HK$1,500,001 to HK$2,000,000 | 2 | 2 | – | – |
| | 3 | 2 | 1 | 1 |

### 11. Investment

| | As at 31st December, 1999 | 2000 | 2001 | As at 30th June, 2002 |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Unlisted shares at cost | 1 | 1 | 1 | 1 |
| Intercompany loan | 101,000 | 101,000 | 101,000 | 101,000 |
| | 101,001 | 101,001 | 101,001 | 101,001 |

One of the CEF companies, CEF Capital Limited, owns 100% equity interest in the share capital of an investee company. Pursuant to the sale and purchase agreement and related documents, the interest in such company is to be excluded from the acquisition. The interest free and unsecured intercompany loan granted to this company by CEF Capital Limited of HK$101,000,000 will be repaid to CEF Capital Limited; and CEF Capital Limited will make a distribution to CEF Holdings Limited thereafter on or before the completion of the acquisition.

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 12. Fixed assets

| | Leasehold improvements *HK$'000* | Furniture and fixtures *HK$'000* | Office equipment *HK$'000* | Computer equipment *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1st January, 1999 | – | 1,643 | 1,386 | 1,039 | 4,068 |
| Additions during the year | 2,271 | 99 | 1,832 | 143 | 4,345 |
| Disposals | – | (1,561) | – | – | (1,561) |
| At 31st December, 1999 | 2,271 | 181 | 3,218 | 1,182 | 6,852 |
| **Accumulated depreciation** | | | | | |
| At 1st January, 1999 | – | 1,608 | 383 | 314 | 2,305 |
| Charge for the year | 910 | 14 | 379 | 663 | 1,966 |
| Disposals | – | (1,561) | – | – | (1,561) |
| At 31st December, 1999 | 910 | 61 | 762 | 977 | 2,710 |
| **Net book value** | | | | | |
| At 31st December, 1999 | 1,361 | 120 | 2,456 | 205 | 4,142 |
| **Cost** | | | | | |
| At 1st January, 2000 | 2,271 | 181 | 3,218 | 1,182 | 6,852 |
| Additions during the year | 1,259 | 393 | 470 | 6,002 | 8,124 |
| Disposals | (171) | (42) | – | (15) | (228) |
| At 31st December, 2000 | 3,359 | 532 | 3,688 | 7,169 | 14,748 |
| **Accumulated depreciation** | | | | | |
| At 1st January, 2000 | 910 | 61 | 762 | 977 | 2,710 |
| Charge for the year | 1,387 | 70 | 660 | 978 | 3,095 |
| Disposals | (171) | (41) | – | (15) | (227) |
| At 31st December, 2000 | 2,126 | 90 | 1,422 | 1,940 | 5,578 |
| **Net book value** | | | | | |
| At 31st December, 2000 | 1,233 | 442 | 2,266 | 5,229 | 9,170 |

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 12. Fixed assets (continued)

| | Leasehold improvements *HK$'000* | Furniture and fixtures *HK$'000* | Office equipment *HK$'000* | Computer equipment *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1st January, 2001 | 3,359 | 532 | 3,688 | 7,169 | 14,748 |
| Additions during the year | 2,805 | 189 | 2,659 | 3,385 | 9,038 |
| Disposals | – | – | (2) | (3,614) | (3,616) |
| At 31st December, 2001 | 6,164 | 721 | 6,345 | 6,940 | 20,170 |
| **Accumulated depreciation** | | | | | |
| At 1st January, 2001 | 2,126 | 90 | 1,422 | 1,940 | 5,578 |
| Charge for the year | 809 | 164 | 1,058 | 1,406 | 3,437 |
| Disposals | – | – | (1) | (1,055) | (1,056) |
| At 31st December, 2001 | 2,935 | 254 | 2,479 | 2,291 | 7,959 |
| **Net book value** | | | | | |
| At 31st December, 2001 | 3,229 | 467 | 3,866 | 4,649 | 12,211 |
| **Cost** | | | | | |
| At 1st January, 2002 | 6,164 | 721 | 6,345 | 6,940 | 20,170 |
| Additions during the period | – | 125 | 82 | 530 | 737 |
| Disposals | – | – | (89) | (31) | (120) |
| At 30th June, 2002 | 6,164 | 846 | 6,338 | 7,439 | 20,787 |
| **Accumulated depreciation** | | | | | |
| At 1st January, 2002 | 2,935 | 254 | 2,479 | 2,291 | 7,959 |
| Charge for the period | 512 | 88 | 617 | 841 | 2,058 |
| Disposals | – | – | (89) | (13) | (102) |
| At 30th June, 2002 | 3,447 | 342 | 3,007 | 3,119 | 9,915 |
| **Net book value** | | | | | |
| At 30th June, 2002 | 2,717 | 504 | 3,331 | 4,320 | 10,872 |

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 13. Intangible assets

| | As at 31st December, 1999 HK$'000 | As at 31st December, 2000 HK$'000 | As at 31st December, 2001 HK$'000 | As at 30th June, 2002 HK$'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At the beginning of the year/period | – | – | 5,066 | 5,066 |
| Additions *(note)* | – | 5,066 | – | – |
| At the end of the year/period | – | 5,066 | 5,066 | 5,066 |
| **Accumulated amortisation** | | | | |
| At the beginning of the year/period | – | – | 253 | 760 |
| Amortisation charge for the year/period | – | 253 | 507 | 253 |
| At the end of the year/period | – | 253 | 760 | 1,013 |
| **Net book value** | – | 4,813 | 4,306 | 4,053 |

*Note:*

Intangible assets represent trading rights on the HKEx and HKFE acquired as described in note E(15).

### 14. Non-trading securities

| | As at 31st December, 1999 HK$'000 | As at 31st December, 2000 HK$'000 | As at 31st December, 2001 HK$'000 | As at 30th June, 2002 HK$'000 |
|---|---|---|---|---|
| Listed shares in HKEX, at fair value (note E(15)) | – | 43,202 | 28,600 | 31,013 |

At 31st December, 2000 and 2001; and 30th June, 2002, the carrying amount of interests in the listed HKEX shares exceeded 10% of the respective total assets of the CEF companies. Details of HKEX are as follows:

| Name | Place of incorporation | Principal activities | Particulars of issued shares held | Interest held |
|---|---|---|---|---|
| Hong Kong Exchanges and Clearing Limited | Hong Kong | Owns and operates the only stock exchange and future exchange and their related clearing houses in Hong Kong | 2,413,500 | 0.23% |

Pursuant to the sale and purchase agreement, the CEF companies will dispose of all their shares in HKEX to CEF Holdings Limited or its nominee for a total consideration of HK$21 million upon the completion date of the acquisition.

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

**15. Other assets**

| | As at 31st December, | | | As at 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| HKFE membership share, at cost *(note)* | 4,000 | – | – | – |
| HKEx membership shares, at cost *(note)* | 8,568 | – | – | – |
| Contribution in cash to compensation funds | 300 | 300 | 300 | 300 |
| Reserve fund contribution to HKFE Clearing corporation Limited ("HKFECC") | 1,500 | 1,500 | 1,500 | 1,500 |
| Other statutory deposits | 1,348 | 1,438 | 1,438 | 1,428 |
| | 15,716 | 3,238 | 3,238 | 3,228 |
| Club debentures, at cost | 1,641 | 1,641 | 1,641 | 1,641 |
| Less: Provision for impairment losses | – | – | (1,054) | (1,094) |
| | 17,357 | 4,879 | 3,825 | 3,775 |

*Note:*

HKEx, HKFE and their respective clearing houses merged in March 2000 and subsequently listed on the HKEx. In June 2000 the CEF companies received 4,613,500 listed shares in HKEX together with four trading rights on the HKEx and a trading right on the HKFE as consideration for its original membership shares in the HKEx and the HKFE.

The original costs of the CEF companies' membership shares in the HKEx and the HKFE of HK$12,568,000 at 31st December, 1999 have been allocated to the HKEX listed shares and the trading rights received by the CEF companies at HK$7,501,620 and HK$5,066,380, respectively. The trading rights have been recorded as intangible assets whereas the HKEX listed shares have been classified as non-trading securities under notes E(13) and (14), respectively to the Financial Information of the CEF companies.

In 2000, the CEF companies disposed of 2,200,000 of shares of HKEX for a consideration of HK$31,507,000 and recognised a gain of HK$28,521,000.

# I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 16. Accounts receivable

| | | As at 31st December, | | As at 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Accounts receivable arising from the ordinary course of business of broking in securities and future and option contracts: | | | | |
| – securities cash and custodian clients | 144,018 | 35,792 | 24,473 | 39,604 |
| – securities margin clients | 81,067 | 45,859 | 33,566 | 50,477 |
| – securities clearing house, brokers and dealers | 46,939 | 9,539 | 8,490 | 5,070 |
| – futures clearing house, brokers and dealers *(note)* | 54 | 54 | 52 | 52 |
| Others | 1,043 | 4,716 | 2,192 | 3,005 |
| | 273,121 | 95,960 | 68,773 | 98,208 |
| Less: Provision for bad and doubtful debts | (17,098) | (12,467) | (9,484) | (3,915) |
| | 256,023 | 83,493 | 59,289 | 94,293 |

*Note:*

The CEF companies maintain trust accounts with HKFECC for their clients as a result of their normal business transactions. At 31st December, 1999, 2000 and 2001; and 30th June, 2002, trust accounts with HKFECC not otherwise dealt with in the Financial Information amounted to approximately HK$792,000, HK$1,069,000, HK$6,073,000 and HK$8,223,000, respectively.

### 17. Due from/(to) related companies and ultimate holding company

The amounts due from/(to) related companies and ultimate holding company are unsecured, interest free and repayable on demand except that the amount due to the ultimate holding company, CEF Holdings Limited, is interest bearing at the average funding rate of CEF Holdings Limited and its subsidiaries. Refer to note C for further details.

### 18. Amount due from a former director and an officer

| | | As at 31st December, | | As at 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Outstanding balance | 1,150 | 875 | 800 | 763 |
| Less: Current portion | (75) | (75) | (75) | (75) |
| Long term portion | 1,075 | 800 | 725 | 688 |

The amount due from a former director bears interest at Hong Kong prime rate, is repayable by 40 equal semi-annual installments and secured by a second mortgage over a property owned by the former director. During the years ended 31st December, 1999, 2000, 2001; and the six months ended 30th June, 2002, the respective maximum outstanding balance amounted to approximately HK$1,425,000, HK$1,150,000, HK$875,000 and HK$800,000.

As at 1st January, 1999, there was an amount due from an officer amounted to HK$1,425,000. Such amount was also the maximum outstanding balance during the year. As at 31st December, 1999, the remaining outstanding balance of HK$1,256,700 was fully provided.

### 19. Cash and bank balances

In the ordinary course of business, the CEF companies maintain segregated trust accounts with authorised institutions to hold clients' monies. Trust account balances not otherwise dealt with in the Financial Information amounted to HK$106,999,000, HK$75,743,000, HK$107,514,000 and HK$154,876,000 as at 31st December, 1999, 2000 and 2001; and 30th June, 2002, respectively.

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

### 20. Accounts payable

| | As at 31st December, | | | As at 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Accounts payable arising from the ordinary course of business of broking in securities and future and option contracts: | | | | |
| – securities cash and custodian clients | 149,761 | 40,311 | 21,466 | 27,246 |
| – securities margin clients | 14,384 | 789 | – | 428 |
| – futures and options clients *(note E(16))* | – | – | – | – |
| – securities clearing house, brokers and dealers | 15 | – | 492 | – |
| | 164,160 | 41,100 | 21,958 | 27,674 |

### 21. Bank loans and overdrafts

| | As at 31st December, | | | As at 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank overdrafts, unsecured | 2,360 | – | 635 | – |
| Short-term bank loans | | | | |
| Secured | 5,000 | – | 6,000 | 10,000 |
| Unsecured | 40,000 | – | 12,000 | 30,000 |
| | 47,360 | – | 18,635 | 40,000 |

The CEF companies had aggregate banking facilities of approximately HK$140 million, HK$170 million, HK$100 million and HK$70 million as at 31st December, 1999, 2000 and 2001; and 30th June, 2002, respectively. Of these banking facilities, HK$50 million, HK$50 million, HK$40 million and HK$10 million as at 31st December, 1999, 2000 and 2001; and 30th June, 2002, respectively were secured by marketable securities owned by margin clients and the market value of these marketable securities pledged at these respective dates amounted to HK$13,867,000, HK$2,394,000, HK$11,195,000 and HK$20,553,000.

### 22. Share capital

For the purpose of this report, the share capital as at 31st December, 1999, 2000, 2001; and 30th June, 2002 represents the aggregate amount of paid up share capital of the companies comprising the CEF companies as at the respective dates.

### 23. Assets and liabilities not acquired in the acquisition

The Financial Information includes the financial position of certain assets and liabilities, which are not to be acquired by iAsia pursuant to the sale and purchase agreement. Accordingly, these assets and liabilities will not be included in the financial position of iAsia and its subsidiaries after the acquisition. The table below reflects the summary of such assets and liabilities:

| | As at 31st December, | | | As at 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Assets and liabilities not acquired: | | | | |
| Investment in and loan to an investee company *(i)* | 101,001 | 101,001 | 101,001 | 101,001 |
| Leasehold improvements *(ii)* | 769 | 769 | 769 | 769 |
| Loan from CEF Holdings Limited *(iii)* | (8,820) | (11,271) | (21,658) | (23,805) |
| | 92,950 | 90,499 | 80,112 | 77,965 |

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

**23. Assets and liabilities not acquired in the acquisition (continued)**

(i) No dividend has been received by CEF companies from the investee company during the Relevant Periods. Moreover, the loan to this investee company was interest-free.

(ii) The leasehold improvements were related to an office premise occupied by CEF companies under operating leases during the Relevant Periods.

(iii) The loan from CEF Holdings Limited was interest bearing at the average funding rate of CEF Holdings Limited and its subsidiaries. The interest expenses payable by CEF companies on this loan amounted to approximately HK$Nil, HK$75,000, HK$248,000 and HK$7,000 for the years ended 31st December, 1999, 2000 and 2001; and for the six months ended 30th June, 2002, respectively.

Therefore, the assets and liabilities not acquired as mentioned above do not have material impact on the results of operation of CEF companies during the Relevant Periods

**24. (a) Reconciliation of (loss)/profit before taxation to net cash (outflow)/inflow from operating activities**

| | Year ended 31st December, | | | Six months ended 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| (Loss)/profit before taxation | (10,907) | 32,095 | (41,492) | (11,699) |
| Adjusted for: | | | | |
| Depreciation | 1,966 | 3,095 | 3,437 | 2,058 |
| Amortisation of intangible assets | – | 253 | 507 | 253 |
| Dividend income from non-trading securities | – | (192) | (797) | (603) |
| Gain on disposal of non-trading securities | – | (28,521) | – | – |
| Loss on disposal of fixed assets | – | – | 114 | – |
| (Reversal of)/provision for bad and doubtful debts | (4,192) | (3,683) | 1,691 | (5,666) |
| Provision for impairment losses of club debentures | – | – | 1,054 | 40 |
| Operating (loss)/profit before working capital change | (13,133) | 3,047 | (35,486) | (15,617) |
| Decrease/(increase) in statutory deposits | 520 | (90) | – | 10 |
| Decrease in amount due from a former director and an officer | 443 | 275 | 75 | 37 |
| (Increase)/decrease in accounts receivables | (208,157) | 176,213 | 22,513 | (29,338) |
| Decrease/(increase) in prepayments, deposits and other receivables | 4,182 | (1,039) | 411 | 489 |
| Decrease/(increase) in amounts due from related companies | 37 | (21) | 50 | (62) |
| Decrease/(increase) in amount due from the ultimate holding company | – | (31,507) | 21,885 | 8,704 |
| Increase/(decrease) in accounts payable | 150,203 | (123,060) | (19,142) | 5,716 |
| Increase/(decrease) in accruals and other payables | 2,097 | (2,126) | (2,928) | 13 |
| Increase/(decrease) in amount due to related companies | 2,308 | (3,187) | (269) | – |
| Cash flow (outflow)/inflow from operations | (61,500) | 18,505 | (12,891) | (30,048) |
| Hong Kong Profits tax refund | 7,685 | – | – | – |
| Net cash (outflow)/inflow from operating activities | (53,815) | 18,505 | (12,891) | (30,048) |

## I. FINANCIAL INFORMATION OF THE CEF COMPANIES (CONTINUED)

## E. Notes to the financial information of CEF companies (CONTINUED)

**24. (b) Major non-cash transactions**

As detailed in note E(15) to the Financial Information, during 2000, the CEF companies received 4,613,500 listed shares in HKEX together with four trading rights on the HKEx and a trading right on the HKFE as consideration for its original membership shares in HKEx and the HKFE.

**25. Contingent liabilities**

One of the CEF companies is involved in a litigation in which a client alleged that in 1997, such company 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. No provision has been made for this claim in the Financial Information and pursuant to the sale and purchase agreement, the vendors of the CEF companies shall be responsible for all legal and financial liabilities in connection with any actions, matters or proceedings relating to this claim.

**26. Commitments**

The CEF companies had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as at the end of the respective year/period:

| | As at 31st December, | | | As at 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within one year | 1,495 | 1,755 | 3,251 | 2,021 |
| In the second to fifth year inclusive | 20 | 1,782 | 289 | – |
| | 1,515 | 3,537 | 3,540 | 2,021 |

**27. Transactions with related parties**

**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.

During the Relevant Periods, CEF companies earned related party revenues amounting to approximately HK$15,719,000, HK$10,425,000, HK$4,939,000 and HK$1,911,000 for the years ended 31st December, 1999, 2000, 2001; and for the six months ended 30th June, 2002, respectively; and incurred related party expenses amounting to approximately HK$27,228,000, HK$21,672,000, HK$19,497,000 and HK$8,944,000 for the years ended 31st December, 1999, 2000, 2001; and for the six months ended 30th June, 2002, respectively. The related party transactions were carried out in the normal course of the CEF companies' business.

Material related party revenues included management and advisory fees, commission and brokerage fees, the aggregated amounts of which were approximately HK$13,587,000, HK$8,618,000, HK$3,764,000 and HK$1,600,000 for the years ended 31st December, 1999, 2000, 2001; and for the six months ended 30th June, 2002, respectively.

Material related party expenses were primarily related to (a) rental of premises and fixed assets amounting to approximately HK$8,271,000, HK$6,576,000, HK$6,944,000 and HK$3,388,000 for the years ended 31st December, 1999, 2000 and 2001; and for the six months ended 30th June, 2002, respectively; and (b) management fees attributable to central administrative support provided by the ultimate holdings company amounting to approximately HK$18,432,000, HK$14,469,000, HK$12,036,000 and HK$5,415,000 for the years ended 31st December, 1999, 2000 and 2001; and for the six months ended 30th June, 2002, respectively.

## 1. PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED IASIA GROUP

The following is the pro forma combined financial information of enlarged iAsia group for the three years ended 31st December, 2001 and the six months ended 30th June, 2002 (the "Relevant Periods") extracted from the circular:

### A. Pro forma combined profit and loss accounts of enlarged iAsia group

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

| | Year ended 31st December, | | | Six months ended 30th June, |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 92,816 | 132,120 | 65,549 | 32,017 |
| Other revenues | 1,986 | 2,646 | 2,850 | 1,870 |
| | 94,802 | 134,766 | 68,399 | 33,887 |
| Change in work-in-progress | – | 563 | (530) | (33) |
| Work performed by enlarged iAsia group and capitalised under fixed assets | 126 | 3,209 | 1,912 | – |
| Staff costs | (39,259) | (60,278) | (61,313) | (27,112) |
| Depreciation | (1,966) | (5,023) | (9,888) | (7,697) |
| Amortisation of intangible assets | – | (253) | (1,093) | (1,894) |
| Reversal of/(Provision for) bad and doubtful debts | 4,192 | 3,683 | (5,598) | 5,666 |
| Impairment of fixed assets | – | – | – | (11,534) |
| Impairment of intangible assets | – | – | – | (46,396) |
| Commission expenses | (19,358) | (30,898) | (14,052) | (7,596) |
| Other operating expenses | (48,606) | (54,781) | (47,906) | (24,679) |
| Operating loss | (10,069) | (9,012) | (70,069) | (87,388) |
| Finance costs | (1,320) | (3,621) | (1,372) | (484) |
| Share of losses of associated companies | – | – | (568) | – |
| Gain on disposal of non-trading securities | – | 28,521 | – | – |
| (Loss)/Profit before taxation | (11,389) | 15,888 | (72,009) | (87,872) |
| Taxation | 3,638 | – | – | – |
| (Loss)/Profit for the year/period | (7,751) | 15,888 | (72,009) | (87,872) |

## 1. PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED IASIA GROUP (CONTINUED)

### B. Pro forma combined balance sheets of enlarged iAsia group

The following is the pro forma combined balance sheets of enlarged iAsia group as at 31st December, 1999, 2000, 2001 and 30th June, 2002, prepared on the basis set out in section C below:

| | As at 31st December, | | | As at 30th June, |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Fixed assets | 4,323 | 18,586 | 42,547 | 25,378 |
| Intangible assets | – | 4,813 | 52,343 | 4,053 |
| Non-trading securities | – | 43,202 | 28,600 | 33,013 |
| Long-term portion of amount due from a former director | 1,075 | 800 | 725 | 688 |
| Other assets | 17,357 | 4,879 | 3,825 | 3,775 |
| Current assets | | | | |
| Work-in-progress | – | 563 | 33 | – |
| Trade receivables, prepayments, deposits and other receivables | 259,177 | 93,965 | 68,713 | 103,007 |
| Amounts due from related companies | 50 | 71 | 21 | 83 |
| Amount due from CEF Holdings Limited | – | 31,507 | 9,622 | 918 |
| Amount due from a former director | 75 | 75 | 75 | 75 |
| Pledged bank deposits | – | 700 | – | – |
| Bank balances and cash | 58,182 | 59,987 | 107,463 | 88,206 |
| | 317,484 | 186,868 | 185,927 | 192,289 |
| Current liabilities | | | | |
| Trade payables, accruals and other payables | 178,524 | 55,237 | 39,690 | 41,860 |
| Current portion of obligations under finance lease | 71 | 326 | – | – |
| Amounts due to shareholders | 7,000 | – | – | – |
| Amounts due to related companies | 3,456 | 269 | – | 5 |
| Bank loans and overdrafts | 47,360 | – | 18,635 | 40,000 |
| | 236,411 | 55,832 | 58,325 | 81,865 |
| Net current assets | 81,073 | 131,036 | 127,602 | 110,424 |
| Total assets less current liabilities | 103,828 | 203,316 | 255,642 | 177,331 |
| Financed by: | | | | |
| Shareholders' funds | 103,673 | 202,897 | 255,642 | 177,331 |
| Long-term portion of obligations under finance leases | 155 | 419 | – | – |
| | 103,828 | 203,316 | 255,642 | 177,331 |

## 1. PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED IASIA GROUP (CONTINUED)

## C. Basis of preparation

For the purposes of the Pro Forma Combined Financial Information, the enlarged iAsia group referred to hereinafter includes iAsia Technology Limited ("iAsia") and its subsidiaries (the "iAsia group") and CEF Brokerage Limited, CEF Futures Limited and CEF Capital Limited (the "CEF companies"), but excludes the following assets and liabilities of the CEF companies which will not be acquired by iAsia under the acquisition (the "Excluded Items"):

(a) an investment in an investee company and an inter-company loan due from such company totalling HK$101,001,000 as at 30th June, 2002;

(b) an amount due to CEF Holdings Limited of approximately HK$23,805,000 as at 30th June, 2002; and

(c) certain leasehold improvements of approximately HK$769,000 as at 30th June, 2002.

For illustrative purposes only, the pro forma combined profit and loss accounts of the enlarged iAsia group for the three years ended 31st December 1999, 2000, 2001 and the six months ended 30th June, 2002 (the "Relevant Periods"), and the pro forma combined balance sheets as at 31st December, 1999, 2000, 2001 and 30th June, 2002 as set out on pages 76 to 77 (the "Pro Forma Combined Financial Information") have been prepared on a combination basis to present the aggregate results and financial position of the enlarged iAsia group as if the enlarged iAsia group had been in existence throughout the Relevant Periods.

The Pro Forma Combined Financial Information of the enlarged iAsia group has been prepared based on the Accountants' Report of iAsia group as set out on pages 83 to 115 in the circular and the Accountants' Report of the CEF companies as set out on pages 116 to 141 in the circular after giving effect to the following:

(a) Adjustment to remove the Excluded Items;

(b) Reclassification of interest income of iAsia group during the Relevant Periods from other revenues to turnover to be consistent with that of the enlarged iAsia group in the pro forma combined profit and loss accounts.

Because of its nature, the Pro Forma Combined Financial Information of the enlarged iAsia group may not give an indicative financial position or results of iAsia group had the CEF companies, excluding the Excluded Items, actually been acquired at the start of the Relevant Periods.

The Pro Forma Combined Financial Information of the enlarged iAsia group is provided for information only and should not be construed as being indicative of the enlarged iAsia group's financial performance in any future period. In particular, the Pro Forma Combined Financial Information of the enlarged iAsia group is prepared on a combination basis whereas the acquisition will be accounted for under acquisition accounting in the consolidated accounts of the enlarged iAsia group. Under acquisition accounting, the consolidated accounts of the enlarged iAsia group will be adjusted as follows:

(a) The results of the CEF companies, excluding the Excluded Items, will only be reflected in the consolidated profit and loss accounts of the enlarged iAsia group from the date of acquisition;

(b) The results of the CEF companies, excluding the Excluded Items, to the date of acquisition will be recognised as pre-acquisition reserves;

(c) All assets and liabilities of the CEF companies, excluding the Excluded Items, will be recorded at their respective fair values as at the date of acquisition;

(d) An estimated goodwill of approximately HK$14,768,000 resulting from the completion of the acquisition will be recorded in the consolidated balance sheet of the enlarged iAsia group at the date of acquisition which will be amortised to the consolidated profit and loss accounts of the enlarged iAsia group over a period of not exceeding 20 years in accordance with the accounting policy of iAsia. The directors of iAsia will determine the amortisation period of this estimated goodwill upon the completion of the acquisition. For illustrative purposes and assuming a 20-year amortisation period, the resulting annual amortisation charge would be approximately HK$738,400.

## 2. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF THE ENLARGED IASIA GROUP

The following is a statement of the pro forma adjusted net tangible assets of the enlarged iAsia group immediately following the acquisition and the rights issue. It is based on the audited consolidated net assets of iAsia group as at 30th September, 2002 and the audited net assets of CEF companies as at 30th June, 2002, adjusted to reflect the effect of the acquisition and rights issue.

| | *HK$'000* |
|---|---|
| Audited consolidated net assets of iAsia group as at 30th September, 2002 | 57,147 |
| Add: Audited net assets of CEF companies as at 30th June, 2002 *(Note 1)* | 202,505 |
| Less: Intangible assets of CEF companies | (4,053) |
| Unaudited pro forma net tangible assets of the enlarged iAsia group | 255,599 |
| Add: Estimated net proceeds from the rights issue *(Note 2)* | 97,897 |
| Less: Consideration for the acquisition *(Note 3)* | (126,000) |
| Estimated direct expenses payable in relation to the acquisition | (3,295) |
| Investment in and amounts due from/(to) certain existing group companies by CEF companies and certain fixed assets not acquired by iAsia *(Note 4)* | (77,965) |
| Difference between the carrying value of HKEX shares held by CEF companies as at 30th June, 2002 and the sales consideration on disposal of these shares to CEF Holdings Limited on or before completion *(Note 5)* | (10,013) |
| Unaudited pro forma adjusted net tangible assets of the enlarged iAsia group immediately following completion and the rights issue | 136,223 |
| Add: Intangible assets of CEF companies | 4,053 |
| Intangible assets arising from the acquisition of CEF companies *(Note 6)* | 14,768 |
| Unaudited pro forma adjusted net assets of the enlarged iAsia group immediately following completion and the rights issue | 155,044 |
| Audited adjusted consolidated net assets of iAsia group per share as at 30th September, 2002 *(Note 7)* | 8.40 cents |
| Unaudited pro forma adjusted net tangible assets of the enlarged iAsia group per share immediately following completion and the rights issue *(Note 8)* | 5.72 cents |
| Unaudited pro forma adjusted net assets of the enlarged iAsia group per share immediately following completion and the rights issue *(Note 8)* | 6.51 cents |

## 2. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF THE ENLARGED IASIA GROUP (CONTINUED)

*Notes:*

(1) The audited net assets of CEF companies as at 30th June, 2002 is extracted from the accountants' report set out in Appendix II of this prospectus.

(2) This represents the estimated proceeds from the issue of 1,020,664,287 rights shares, assuming none of the options are exercised prior to the record date, less the estimated direct expenses payable.

(3) If the aggregate pro forma unaudited net assets of CEF companies as shown on the respective balance sheets as at 31st May, 2002 (as to CEF Capital) and 30th June, 2002 (as to CEF Brokerage and CEF Futures) exceeds the aggregate net assets of CEF companies as shown in the completion audited financial statements by an amount exceeding HK$2 million, CEF Holdings Limited shall pay any such difference exceeding HK$2 million to iAsia either by way of a cash payment or setting off against the final instalment of the consideration receivable under the sale and purchase agreement. If the aggregate audited net assets of the CEF companies as shown in the completion audited financial statements exceeds the aggregate pro forma unaudited net assets by an amount exceeding HK$2 million, iAsia shall pay any such difference exceeding HK$2 million to CEF Holdings Limited. Therefore, the consideration for the acquisition is subject to the changes as mentioned above.

(4) This represents the carrying value of approximately HK$77,965,000 of certain net assets of CEF companies, represented by investment in an investee company and an inter-company loan due from such company totalling approximately HK$101,001,000, amount due to CEF Holdings Limited of approximately HK$23,805,000 and certain leasehold improvements of approximately HK$769,000, as at 30th June, 2002 which will not be acquired by iAsia.

(5) This represents the difference between the carrying value of HKEX shares in the books of CEF companies as at 30th June, 2002 of approximately HK$31,013,000 and the sales consideration of HK$21,000,000 on disposal of these shares to CEF Holdings Limited or its nominees on or before completion pursuant to the sale and purchase agreement.

(6) This represents the estimated goodwill arising from the acquisition, representing the premium of the consideration payable of HK$126,000,000 plus direct expenses of approximately HK$3,295,000 relating to the acquisition, over the estimated net assets of CEF companies acquired by iAsia of approximately HK$114,527,000.

(7) This is calculated based on 680,442,858 shares in issue as at the close of business on 30th November, 2002, being the latest practicable date for the purpose of this proforma statement prior to the printing of this prospectus.

(8) These are calculated on the basis of 680,442,858 shares in issue as at the close of business on 30th November, 2002, being the latest practicable date for the purpose of this pro forma statement prior to the printing of this prospectus, and after taking into consideration the 1,020,664,287 rights shares and 680,442,858 bonus shares to be issued upon the rights issue.

## 3. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED ASSETS AND LIABILITIES OF THE ENLARGED IASIA GROUP

The following is a statement of the unaudited pro forma statement of adjusted assets and liabilities of the enlarged iAsia group, based on the audited consolidated net assets of iAsia group as at 30th September, 2002 and the audited net assets of CEF companies as at 30th June, 2002, as extracted from appendix I and II respectively to this prospectus, adjusted to reflect the effect of the acquisition and rights issue since 30th September, 2002.

| | **iAsia group** | **CEF companies** | **Adjustment for acquisition** *(note a)* | **Adjustment for rights issue** *(note b)* | **Enlarged iAsia group** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Intangible assets | – | 4,053 | 14,768 | – | 18,821 |
| Fixed assets | 13,232 | 10,872 | (769) | – | 23,335 |
| Other non-current assets | 2,000 | 136,477 | (132,014) | – | 6,463 |
| Current assets | 45,979 | 151,126 | 21,000 | 102,066 | 320,171 |
| Current liabilities | (3,994) | (100,023) | (105,490) | (4,169) | (213,676) |
| Net current assets | 41,985 | 51,103 | (84,490) | 97,897 | 106,495 |
| Total assets less current liabilities | 57,217 | 202,505 | (202,505) | 97,897 | 155,114 |
| Minority interests | (70) | – | – | – | (70) |
| Net assets | 57,147 | 202,505 | (202,505) | 97,897 | 155,044 |

(a) This represents the adjustment for the acquisition, on which an estimated goodwill of approximately HK$14,768,000 arose. The estimated goodwill represented the premium of the consideration of HK$126,000,000 plus direct expenses of approximately HK$3,295,000, over the net assets of CEF companies acquired by iAsia of approximately HK$114,527,000.

(b) This represents the estimated net proceed to be received from the rights issue.

## 4. INDEBTEDNESS OF THE ENLARGED IASIA GROUP

### Borrowings

As at the close of business on 30th November, 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the enlarged iAsia group had total outstanding borrowings of approximately HK$47,848,000, comprising unsecured amount due to CEF Holdings Limited of approximately HK$24,019,000 and unsecured amount due to CEF Brokerage Holdings Limited of approximately HK$1,829,000, secured bank borrowings of approximately HK$10,000,000 and unsecured bank borrowings of approximately HK$12,000,000. The unsecured amount due to CEF Holdings Limited will not be acquired in the proposed acquisition pursuant to the sale and purchase agreement. The secured bank borrowings were secured by margin clients' listed securities with market value of approximately HK$19,663,000 as at 30th November, 2002.

### Contingent liabilities

Set out below are contingent liabilities of the enlarged iAsia group as at 30th November, 2002:

(i) One of iAsia's third party suppliers ("Supplier") charged iAsia a sum of approximately HK$8.6 million in respect of work performed by the Supplier of which approximately HK$2.7 million has been paid. A threatened claim was made by the Supplier against iAsia on 30th November, 2000 for the unpaid invoices for the work done between April and September 2000. As at 30th September, 2002, iAsia has not provided for the outstanding service fee of approximately £489,000 (approximately HK$5.9 million) which is in dispute with the Supplier. On the basis of iAsia's own assessment of the services rendered by the Supplier and professional legal advice, iAsia's directors are of the opinion that such charges are unreasonable and not justifiable under the agreement with the Supplier and iAsia had indeed in early 2001 issued legal letters to the Supplier challenging the charges on the above grounds. Since then, iAsia did not hear further from the Supplier and consequently, no provision has been made by iAsia group as at 30th November, 2002.

(ii) On 11th January, 2001, legal proceedings were initiated by Lane Ventures Limited ("Claimant") alleging that iAsia 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 consideration of the Claimant rendering its consultancy services to iAsia. In the said proceedings, the Claimant is, amongst other things, claiming from iAsia an amount of approximately HK$0.5 million and an order that iAsia grant the options as mentioned above to the Claimant. A defence has been filed by iAsia. On the basis of legal advice received, iAsia's directors are of the view that no agreement exists between the Claimant and iAsia. iAsia has a reasonable chance to defend itself against the allegation successfully. Indeed, after filing of the defence by iAsia, no further action has been taken by the Claimant up to now and consequently, no provision has been made by iAsia group as at 30th November, 2002.

## 4. INDEBTEDNESS OF THE ENLARGED IASIA GROUP (CONTINUED)

### Contingent liabilities (continued)

(iii) One of the CEF companies is involved in a litigation in which a client alleged that such company failed to make enforceable contract or contracts for such client in 1997; and claimed for loss of profit of approximately HK$8.9 million plus interest. No provision has been made for this claim in the financial statements of the CEF companies and pursuant to the sale and purchase agreement, the vendors shall be responsible for all legal and financial liabilities in connection with any actions, matters of proceedings relating to this claim.

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

### Capital Commitments

As at 30th November, 2002, the enlarged iAsia group did not have any material capital commitments.

### Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the enlarged iAsia group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptances or acceptance credit, or any guarantees or other contingent liabilities outstanding at the close of business on 30th November, 2002.

## 5. WORKING CAPITAL

The directors, including independent non-executive directors, are of the opinion that, after taking into account the enlarged iAsia group's existing cash and bank balances and the financial resources available, including internally generated funds, the available banking facilities and the estimated net proceeds from the rights issue, and in the absence of unforeseen circumstances, the enlarged iAsia group will have sufficient working capital for its present requirement and completion of the acquisition.

## 6. MATERIAL ADVERSE CHANGE

The directors are not aware of any material adverse change in the financial or trading position of iAsia group since 30th September, 2002, the date to which the latest published audited financial statements of iAsia group were made up.

## 1. RESPONSIBILITY STATEMENTS

This prospectus includes particulars given in compliance with the GEM listing rules and the Takeovers Code for the purpose of giving information with regard to iAsia group.

All the directors jointly and severally accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, (i) the information contained in this prospectus is accurate and complete in all material respects and not misleading; (ii) opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable; and (iii) there are no other matters or facts not contained in this prospectus the omission of which would make any statement in this prospectus misleading.

## 2. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION

| | |
|---|---|
| **Financial adviser** | Anglo Chinese Corporate Finance, Limited<br>40/F., Two Exchange Square<br>8 Connaught Place<br>Central<br>Hong Kong |
| **Underwriter** | Melco International Development Limited<br>28/F., The Centrium<br>60 Wyndham Street<br>Central<br>Hong Kong |
| **Auditors** | PricewaterhouseCoopers<br>*Certified Public Accountants*<br>22/F., Prince's Building<br>Central<br>Hong Kong |
| **Legal adviser** | Fong & Ng<br>8/F., Aon China Building<br>29 Queen's Road Central<br>Central<br>Hong Kong |
| **Sponsor** | First Shanghai Capital Limited<br>19th Floor, Wing On House<br>71 Des Voeux Road Central<br>Hong Kong |

| | |
|---|---|
| **Registered office, head office and principal place of business** | 28/F., The Centrium<br>60 Wyndham Street<br>Central<br>Hong Kong |
| **Company homepage/website** | http://www.iasiatechnology.com |
| **Company secretary** | Ms. Fung Wai Har, Amanda<br>*AHKSA, ACCA* |
| **Qualified accountant** | Ms. Fung Wai Har, Amanda<br>*AHKSA, ACCA* |
| **Compliance officer** | Mr. Ko Chun Fung, Henry |
| **Audit committee** | Attorney Patajo-Kapunan, Lorna (Chairperson)<br>Mr. Tsui Yiu Wa, Alec |
| **Authorised representatives** | Mr. Ko Chun Fung, Henry<br>Dr. Lee |
| **Principal banker** | The Hongkong and Shanghai Banking Corporation Limited<br>1 Queen's Road Central<br>Central<br>Hong Kong |
| **Share registrar and transfer office** | Abacus Share Registrars Limited<br>5/F., Wing On Centre,<br>111 Connaught Road Central,<br>Hong Kong<br>*(or Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with effect from 13th January, 2003)* |

## 3. INTEREST IN SECURITIES OF IASIA

### (a) Directors

*Interests in shares*

As at the latest practicable date, the interests of the directors in the share capital of iAsia or any of its associated corporations (within the meaning of the SDI Ordinance) which were notified to iAsia and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to rules 5.40 to 5.59 of the GEM listing rules, to be notified to iAsia and the Stock Exchange, were as follows:

| | | Number of shares held | | | | Shareholding |
|---|---|---|---|---|---|---|
| **Name of directors** | *Notes* | **Personal** | **Family** | **Corporate** | **Other** | **percentage** |
| Dr. Ho | 1 | – | – | 73,846,513 | – | 10.85% |
| Dr. Lee | 2 | – | – | 62,997,029 | – | 9.26% |
| Mr. Ko Chun Fung, Henry | 3 | – | – | 42,370,251 | – | 6.23% |
| Mr. Cheng Kar Shing, Peter | 4 | – | – | 52,809,819 | – | 7.76% |
| Mr. Fung Hoo Wing, Thomas | 5 | – | – | 52,809,819 | – | 7.76% |
| Mr. Ho, Lawrence | 6 | – | – | 42,326,273 | – | 6.22% |

*Notes:*

1. Dr. Ho will be taken to be interested in 73,846,513 shares as a result of his being beneficially interested in 65% of the issued share capital of Bailey Development which in turn holds approximately 10.85% of the issued share capital of iAsia.

2. Dr. Lee will be taken to be interested in 62,997,029 shares as a result of his being beneficially interested in the entire issued share capital of Best Summit which in turn holds approximately 9.26% of the issued share capital of iAsia.

3. Mr. Ko Chun Fung, Henry will be taken to be interested in 42,370,251 shares as a result of his being beneficially interested in 51% of the issued share capital of Capital Speed Limited which in turn holds approximately 6.23% of the issued share capital of iAsia.

4. Mr. Cheng Kar Shing, Peter will be taken to be interested in 52,809,819 shares as a result of his being beneficially interested in the entire issued share capital of Potassium Corp. which in turn is beneficially interested in 50%, of the issued share capital of Newtop Limited which in turn holds approximately 7.76% of the issued share capital of iAsia. The 52,809,819 shares represent the same interest held by Newtop Limited and are therefore duplicated between Mr. Fung Hoo Wing, Thomas and Mr. Cheng Kar Shing, Peter.

5. Mr. Fung Hoo Wing, Thomas will be taken to be interested in 52,809,819 shares as a result of his being beneficially interested in $33\,^{1}/_{3}\%$ of the issued share capital of Kateman International Ltd. which in turn is beneficially interested in 50% of the issued share capital of Newtop Limited which in turn holds approximately 7.76% of the issued share capital of iAsia.

6. Mr. Ho, Lawrence will be taken to be interested in 42,326,273 shares as a result of his being beneficially interested in the entire issued share capital of Golden Mate which in turn holds approximately 6.22% of the issued share capital of iAsia.

*Interest in the options*

Pursuant to the pre-IPO share option plan and the share option scheme, as at the latest practicable date, the directors had share options granted by iAsia to subscribe for shares as follows:

| **Name of directors** | **Date of grant** | **Exercise price** | **Number of underlying shares comprised in the outstanding options** | **Expiry date** |
|---|---|---|---|---|
| | | *HK$* | | |
| Dr. Ho | 6th April, 2001 | 0.49 | 2,100,000 | 8th October, 2005 |
| Dr. Lee | 6th April, 2001 | 0.49 | 8,961,458 | 8th October, 2005 |
| | 9th July, 2002 *(Note 1)* | 0.10 | 4,910,571 | 8th July, 2012 |
| Mr. Ko Chun Fung, Henry | 6th April, 2001 | 0.49 | 8,961,458 | 8th October, 2005 |
| | 9th July, 2002 *(Note 1)* | 0.10 | 4,910,571 | 8th July, 2012 |
| Mr. Ho, Lawrence | 6th April, 2001 | 0.49 | 2,100,000 | 8th October, 2005 |
| | 9th July, 2002 *(Note 1)* | 0.10 | 4,910,571 | 8th July, 2012 |
| Mr. Cheng Kar Shing, Peter | 6th April, 2001 | 0.49 | 2,100,000 | 8th October, 2005 |
| Mr. Yuen Tien Yau, Gordon *(Note 2)* | 6th April, 2001 | 0.49 | 2,822,916 | 8th October, 2005 |
| | 9th July, 2002 *(Note 1)* | 0.10 | 2,455,286 | 8th July, 2012 |

*Notes:*

1. The granting of options pursuant to the share option scheme on 9th July, 2002 was reviewed and approved by the independent non-executive directors.

2. Mr. Yuen Tien Yau, Gordon has resigned as an executive director effective from 26th July, 2002. Notwithstanding his resignation, Mr. Yuen is a director of a subsidiary of iAsia.

The options are exercisable in accordance with the terms of the pre-IPO share option plan and the share option scheme at any time during the following periods and in the following manners:

| **Exercisable Period** | **Percentage of shares comprised in options which become exercisable** |
|---|---|
| **For options granted on 6th April, 2001 pursuant to the pre-IPO share option plan:** | |
| Commencing from the business day immediately following the first six months of the commencement of the trading of the shares on GEM | Up to 50% |
| Commencing from the business day immediately following the first anniversary of the commencement of the trading of the shares on GEM and ending approximately 4.5 years after the date of grant | All shares in respect of which the option has not been previously exercised |
| **For options granted on 9th July, 2002 pursuant to the share option scheme:** | |
| Commencing from the date of grant up to the date falling six months thereafter | Up to 50% |
| Commencing during the period immediately after the expiry of first six months from the date of grant and ending 10 years after the date of grant | All shares in respect of which the option has not been previously exercised |

Save as disclosed above, neither iAsia nor any of its subsidiaries is a party to any arrangements to enable the directors of iAsia group to acquire benefits by means of acquisition of shares in, or debentures of, iAsia or any other body corporate, and neither the directors of iAsia group nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of iAsia, or had exercised any such right.

Save as disclosed above, neither the directors nor the chief executive, nor any of their associates, had any interests in any securities of iAsia or any of its associated corporations as defined by the SDI Ordinance.

**(b) Substantial shareholders**

As at the latest practicable date, so far as the directors are aware, the register of substantial shareholders maintained by iAsia group pursuant to section 16(l) of the SDI Ordinance discloses the following companies and persons, other than a director or a chief executive of iAsia, as having an interest of 10% or more of the issued share capital of iAsia as at the latest practicable date are as follow:

| Name | Number of shares held | Shareholding percentage |
|---|---|---|
| Bailey Development | 73,846,513 | 10.85% |

**(c) Melco**

As at the latest practicable date, iAsia does not hold any shares in Melco.

As at the latest practicable date, Melco was not interested in the securities of iAsia, other than by its agreement to acquire rights shares not taken up by the qualifying shareholders under the underwriting agreement.

As at the latest practicable date, Dr. Ho (through his interest in Bailey Development) Mr. Lawrence Ho (through his interest in Golden Mate), and Mr. So Wing Hung, Peter who are directors of Melco, were interested in 73,846,513, 42,326,273 and 3,057,723 shares, representing 10.85%, 6.22% and 0.45% of the issued share capital of iAsia respectively. Other than Mr. So Wing Hung, Peter, no other directors of Melco directly held any shares as at the latest practicable date.

In the event Melco subscribes for shares under the underwriting agreement, Melco will be acting in concert with Bailey Development and Golden Mate which held in aggregate 116,172,786 shares, representing 17.07%, of the issued share capital of iAsia. Dr. Lee, a director and shareholder of Bailey Development (together with Dr. Lee's family members but excluding the indirect holdings of Dr. Lee and his family members through Bailey Development) is interested in a further 80,146,224 shares, representing 11.78% of the issued share capital of iAsia. Dr. Lee is presumed to be acting in concert with Bailey Development under the Takeovers Code. Mr. So Wing Hung, Peter, an executive director of Melco, is presumed under the Takeovers Code to be acting in concert with Melco. Taking into account the interests in iAsia held by Bailey Development, Golden Mate, Dr. Lee and Mr. So Wing Hung, Peter, Melco and parties acting in concert with it held in aggregate 199,376,733 shares, representing 29.30% of the issued share capital of iAsia as at the latest practicable date.

**(d) Others**

As at the latest practicable date,

(i) None of the subsidiaries or associates of iAsia, any pension funds of iAsia or of any of its subsidiaries, Anglo Chinese, or PricewaterhouseCoopers had any interest in the securities of iAsia; and

(ii) No arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code exists between Melco, or parties acting in concert with it, and any other person.

## 4. DEALINGS IN SECURITIES OF IASIA

### (a) Directors

On 9th July, 2002, Capital Speed Limited, the company of which the entire issued share capital is held as to 51% by Mr. Ko Chun Fung, Henry, disposed of an aggregate of 17,063,471 shares at HK$0.078 per share to an independent third party.

Save as disclosed above, none of the directors nor parties acting in concert with any of them had dealt in any securities of iAsia during the relevant period.

### (b) Melco

Neither Melco, its directors, nor any party acting in concert with any of them had dealt in any securities of iAsia during the relevant period.

### (c) Others

During the relevant period,

(i) None of the subsidiaries or associates of iAsia, any pension funds of iAsia or of any of its subsidiaries, Anglo Chinese, or PricewaterhouseCoopers had dealt in any securities of iAsia; and

(ii) No person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with iAsia, Melco or any persons acting in concert with any of them had dealt in any securities of iAsia.

## 5. OUTSTANDING SHARE OPTIONS

### (i) Pre-IPO share option plan

As at the latest practicable date, options comprising an aggregate of 27,829,166 underlying shares granted on 6th April, 2001 ("pre-IPO share options") pursuant to the pre-IPO share option plan at an exercise price of HK$0.49 per share were outstanding. The pre-IPO share options have a 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 iAsia group. The following are details of the outstanding pre-IPO share options:

| Categories of grantees | Total no. of grantees | No. of underlying iAsia shares comprised in the pre-IPO share options | Exercise price per iAsia share *HK$* | Pre-IPO share options duration |
|---|---|---|---|---|
| Directors of iAsia group | 6 | 27,045,832 | 0.49 | 6th April, 2001 to 8th October, 2005 |
| Employees | 2 | 783,334 | 0.49 | 6th April, 2001 to 8th October, 2005 |
| Total | | 27,829,166 | | |

Details of the grant of pre-IPO share options to the directors of iAsia group are disclosed in the section headed "Interests in Securities of iAsia" above.

During the period between 16th November, 2002, being the date of the circular, and up to the latest practicable date, certain options comprising a total of 1,477,083 underlying shares granted pursuant to the pre-IPO share option plan to one employee lapsed as the relevant employee failed to exercise the same within 3 months after he ceased to be employed by iAsia group. Save as disclosed above, since the date of the grant of the pre-IPO share options up to the latest practicable date, none of the pre-IPO share options were exercised.

A summary of the major terms of the pre-IPO share option plan are set out on pages 184-186 of the prospectus of iAsia dated 23rd March, 2001.

**(ii) Share option scheme**

Pursuant to the share option scheme, the directors may at their discretion grant options to the employees or directors of iAsia group or such other persons who are eligible for participation in the scheme to subscribe for ordinary shares subject to the terms and conditions stipulated in the share option scheme. As at the latest practicable date, options comprising an aggregate of 48,614,657 underlying shares granted on 9th July, 2002 ("share options") pursuant to the share option scheme at an exercise price of HK$0.10 per share were outstanding. The share options have a duration of

10 years from the date of grant. According to the share option scheme, any share option granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by iAsia group. The following are details of the outstanding share options:

| Categories of grantees | Total no. of grantees | No. of underlying iAsia shares comprised in the share options | Exercise price per iAsia share *HK$* | Share options duration |
|---|---|---|---|---|
| Directors of iAsia group | 4 | 17,186,999 | 0.10 | 9th July, 2002 to 8th July, 2012 |
| Employees | 34 | 22,097,574 | 0.10 | 9th July, 2002 to 8th July, 2012 |
| Other eligible persons | 5 | 9,330,084 | 0.10 | 9th July, 2002 to 8th July, 2012 |
| Total | | 48,614,657 | | |

Details of the grant of share options to the directors are disclosed in the section headed "Interests in securities of iAsia" above.

During the period between 16th November, 2002, being the date of the circular, and up to the latest practicable date, certain options comprising a total of 491,057 underlying shares granted pursuant to the share option scheme to one employee lapsed as the relevant employee failed to exercise the same within 3 months after he ceased to be employed by iAsia group. Save as disclosed above, since the date of the grant of the share options up to the latest practicable date, none of the share options were exercised.

A summary of the major terms of the share option scheme are set out on pages 76 to 85 of the circular of iAsia dated 12th November, 2001.

## 6. INTERESTS OF SPONSOR AND FINANCIAL ADVISER

### First Shanghai Capital Limited – sponsor

Pursuant to a non-binding memorandum of understanding dated 4th July, 2000 entered into between iAsia and First eFinance Limited ("First eFinance"), a fellow subsidiary of First Shanghai Capital Limited, the parties have agreed to, amongst other things, enter into good faith negotiations with a view to concluding and executing such formal co-operation agreement(s) and other related documents containing provisions for, inter alia, the provision of services by iAsia group to First eFinance for the purpose of carrying out securities trading transactions and the fee to be charged by iAsia group thereon. Services amounting to HK$922,000 has been performed and charged by iAsia group for the year ended 30th September, 2002.

As at 30th September, 2002, neither First Shanghai Capital Limited nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of iAsia, including options or rights to subscribe for such securities.

First Shanghai Capital Limited and iAsia have entered into a sponsor's agreement, pursuant to which, First Shanghai Capital Limited will fulfil its continuing obligations as a sponsor under Rules 6.50 to 6.58 of the GEM listing rules for a period up to 30th September, 2003 subject to terms and conditions agreed between the parties thereto.

**Anglo Chinese – financial adviser**

Anglo Chinese will receive normal professional fees in connection with the acquisition, rights issue, bonus issue and the whitewash waiver and neither its directors, employees nor any associate, had any interests in any securities of iAsia or any of its associated corporation as defined by the SDI Ordinance.

## 7. COMPETING INTEREST

Each of the directors and the initial management shareholders of iAsia (as defined in the prospectus of iAsia dated 23rd March, 2001) and their respective associates has confirmed that, as at the latest practicable date, none of them had any business or interest in a business which competes or may compete with the business of iAsia group.

## 8. LITIGATION

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.

Save as disclosed in the subsection headed "Contingent liabilities" of the section titled "Indebtedness of the enlarged iAsia group" in appendix III to this prospectus, none of iAsia nor any of its subsidiaries nor any of the CEF companies, is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the directors to be pending or threatened against any member of the enlarged iAsia group.

## 9. INTELLECTUAL PROPERTY

As at the latest practicable date, iAsia group is the registrant of the domain names specified below:

| Domain Name | Registration Date | Expiry Date |
|---|---|---|
| iasiatechnology.com | 13th October, 2000 | 13th October, 2005 |
| iasiatechnology.com.hk | 8th August, 2000 | 8th August, 2003 |
| valueconvergence.net | 30th September, 2002 | 30th September, 2003 |
| valueconvergence.biz | 29th September, 2002 | 29th September, 2004 |
| value-convergence.com | 30th September, 2002 | 30th September, 2003 |
| valueconvergence.com | 26th September, 2002 | 26th September, 2005 |
| vcb.com.hk | 31st October, 2002 | 3rd October, 2003 |
| cfnbroker.com | 4th October, 2000 | 4th October, 2005 |
| cfnglobal.com | 3rd October, 2000 | 3rd October, 2005 |
| iasiamoney2u.com | 31st July, 2000 | 31st July, 2003 |
| iasiatech.com | 25th January, 2000 | 25th January, 2004 |
| iasiatech.net | 25th January, 2000 | 25th January, 2004 |
| vccef.com | 7th November, 2002 | 7th November, 2003 |

## 10. MATERIAL CONTRACTS

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

(a) a joint venture agreement dated 12th February, 2001 entered into between iAsia and Internet Ventures Inc. whereby the parties thereto agreed to form a joint venture company under the laws of the Republic of Philippines to engage in the business of establishing a software research and development centre and iAsia will hold not more than 70% of shareholding in such corporation with equity contribution of not more than 17,500,000 Pesos (approximately HK$2,777,250);

(b) a termination deed dated 22nd March, 2001 entered into between Longson Limited, Newtop Limited, Best Summit, Bailey Development, Capital Speed Limited, Global Vision Group Limited and iAsia for the purpose of termination of a shareholders' agreement dated 14th February, 2000;

(c) the underwriting agreement as defined in the prospectus of iAsia dated 23rd March, 2001;

(d) a deed of indemnity dated 22nd March, 2001 entered into between the initial management shareholders of iAsia (other than the JAFCO Investments) and iAsia, pursuant to which the initial management shareholders (other than the JAFCO Investments) have given certain indemnities in favour of iAsia group containing, amongst other things, the indemnities referred to in the sub-paragraph headed "Estate duty and tax indemnity" and in the sub-paragraph headed "Litigation" under the paragraph headed "Other information" in appendix IV to the prospectus of iAsia dated 23rd March, 2001;

(e) a sale and purchase agreement dated 20th April, 2001 entered into between iAsia Technology (Asia) Limited and an independent third party vendor pursuant to which iAsia group has acquired the entire issued share capital of Bostonian Investments Limited, a company engages in the development of an advanced broker supplied system, for a total consideration of HK$4 million;

(f) a deed of software assignment dated 1st May, 2001 entered into between iAsia Online Systems Limited and China Rise Consultants Limited pursuant to which China Rise Consultants Limited has assigned all the proprietary and intellectual property rights of its self-developed financial trading solutions including futures and foreign exchange trading back office systems to iAsia group for a total consideration of HK$7 million;

(g) a share exchange agreement between UFO Solutions Limited, Lau Chun Fan, and CFN Hongkong Limited dated 24th August, 2001 in relation to an exchange of shares in UFO Solutions Asia Limited for shares in CFN Hongkong Limited by the relevant parties;

(h) a sale and purchase agreement for 2/7 of the interest in Quoteplus system and 5,000 shares in Winshare Technology Limited between CFN Hongkong Limited and Bestlink Technology Limited dated 24th August, 2001;

(i) a share exchange agreement between CFN Hongkong Limited and CFNasia Holdings Limited dated 24th August, 2001;

(j) a sale and purchase agreement for 5/7 of the interest in the Quoteplus System, the CFNasia Assets and the CFN Technology Assets amongst CFN Hongkong Limited, CFN Technology Limited and CFNasia Holdings Limited dated 24th August, 2001;

(k) a sale and purchase agreement dated 31st August, 2001 in respect of the acquisition of 24% and 6% of the entire issued share capital of CFN (UK) Limited by Capital Connection Limited and StartIT.com plc respectively;

(l) a sale and purchase agreement dated 31st August, 2001 in respect of the acquisition of 35% of the entire issued share capital of CFN Hongkong Limited by Global Financial Services Group Limited, which being a wholly-owned subsidiary of iAsia ("Global Financial");

(m) a sale and purchase agreement dated 31st August, 2001 in respect of the acquisition by Global Financial of the entire issued share capital of Capital Connection Limited which, in turn holds 24% of the entire issued share capital of CFN (UK) Limited;

(n) a sale and purchase agreement dated 31st August, 2001 in respect of the acquisition by Global Financial of 6% of the entire issued share capital of CFN (UK) Limited;

(o) a deed of assignment of debt dated 9th November, 2001 between enterpriseAsia.com Limited as assignor and Global Financial as assignee, relating to the assignment of the indebtedness owed by Capital Connection Limited to enterpriseAsia.com Limited;

(p) a sale and purchase agreement dated 17th October, 2001 in respect of the acquisition by Global Financial of 65% of the entire issued share capital of CFN Hongkong Limited;

(q) a sale and purchase agreement dated 17th October, 2001 in respect of the acquisition by Global Financial of the entire issued share capital of London Technology Limited, which in turn holds 44% of the entire issued share capital of CFN (UK) Limited;

(r) a sale and purchase agreement dated 17th October, 2001 in respect of the acquisition by Global Financial of 11% of the entire issued share capital of CFN (UK) Limited;

(s) a deed of variation dated 30th November, 2001 entered into between iAsia Online Systems Limited and China Rise Consultants Limited for the purpose of amending the payment terms of the deed of software assignment mentioned in (f) above;

(t) a deed of assignment of debt dated 5th December, 2001 between enterpriseAsia.com Limited as assignor and Global Financial as assignee, relating to the assignment of the indebtedness owed by London Technology Limited to enterpriseAsia.com Limited;

(u) a supplemental deed dated 28th March, 2002 entered into between iAsia Online Systems Limited and China Rise Consultants Limited for the purposes of assigning all the proprietary and intellectual property rights of a self-developed accounting system by China Rise Consultants Limited to iAsia Online Systems Limited for a consideration of HK$900,000 and further amending the payment terms of the deed of software assignment (as amended by a deed of variation) mentioned in (f) and (s) above;

(v) a shareholders' agreement dated 1st April, 2002 executed by, amongst others, iAsia Technology (Asia) Limited and Top Growth Assets Limited relating to the operation and management of Top Growth Assets Limited;

(w) a placing agreement dated 15th July, 2002 between iAsia and Ong Asia Securities (HK) Limited as placing agent, relating to the placing of 106,200,000 new shares by the placing agent to independent investors;

(x) a settlement agreement dated 23rd August, 2002 between iAsia and 3rd Frontier Solutions Pte Ltd. pursuant to which each party agreed to waive all legal claims against the other;

(y) a banking facility letter issued by Standard Chartered Bank dated 4th October, 2002 offering to grant to iAsia such banking facilities of not exceeding HK$90 million for the purpose of financing the acquisition;

(z) the sale and purchase agreement;

(aa) the underwriting agreement and a supplemental agreement to the underwriting agreement dated 9th October, 2002 entered into between Melco and iAsia; and (ab) a letter dated 20th December, 2002 issued by iAsia to Melco confirming the mutual consent of iAsia and Melco to extend the deadline of fulfilment of all conditions to the underwriting agreement from 20th December, 2002 to 31st January, 2003.

## 11. SERVICE CONTRACTS

Each of Mr. Ko Chun Fung, Henry and Mr. Ho, Lawrence has entered into a service agreement with iAsia. Particulars of these contracts, except as indicated are in all material respects identical and are set out below:

– each service contract is of three years duration commencing on 1st April, 2001 and shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after the initial term of three years;

– the monthly salary for Mr. Ko Chun Fung, Henry for the period from 1st April, 2001 to the 31st July, 2002 was HK$90,000. The original monthly salary of Mr. Ho, Lawrence was HK$50,000 throughout the period from 1st April, 2001 to 30th September, 2001 and subject to a review by the board of directors on 1st October, 2001. The monthly salary of Mr. Ho, Lawrence had been increased to HK$85,000 after review. However in support of the cost saving measures taken by iAsia, Mr. Ho, Lawrence voluntarily proposed to the board to reduce his monthly salary back to HK$50,000 with effect from 1st February, 2002. Under the respective terms of the services agreements of the said directors, the monthly salary of each of them shall be reviewed annually by the board provided that the rate of increment shall not be more than 70% of the then monthly salary of such director for the preceding period;

– each of Mr. Ko Chun Fung, Henry and Mr. Ho, Lawrence is entitled to such management bonus by reference to the operating results of iAsia group and the performance of such director as the board of directors may approve;

– an end-of-year bonus in the sum equal to the director's then one month's salary to be payable on the last day of December of each year during the term of the service agreement provided that if the appointment is terminated prior to the last day of December, the director shall only be entitled to a proportionate part of such end-of-year bonus in respect of the period of service during the relevant year up to the date of termination; and

– each such director shall abstain from voting and not be counted in the quorum in respect of any resolution of the board regarding the amount of annual salary and management bonus payable to himself.

Save as disclosed above, as at the latest practicable date, none of the directors had entered with any member of iAsia group into any service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation) which have more than 12 months to run, or amended within 6 months before 12th October, 2002, being the date of the announcement jointly issued by iAsia and Melco.

## 12. DIRECTORS

| Name | Address |
|---|---|
| *Executive directors* | |
| Dr. Ho | No. 1 Repulse Bay Road,<br>Hong Kong |
| Mr. Ho, Lawrence | 35 Black's Link,<br>Hong Kong |
| Dr. Lee | Flat A, 6th Floor,<br>Halton House,<br>15 Kotewall Road,<br>Hong Kong |
| Mr. Ko Chun Fung, Henry | 6F, Skyscraper,<br>132-142 Tin Hau Temple Road,<br>North Point,<br>Hong Kong |
| *Non-executive directors* | |
| Mr. Cheng Kar Shing, Peter | No. 12 Repulse Bay Road,<br>Hong Kong |
| Mr. Fung Hoo Wing, Thomas | Room 2903B,<br>Queen's Garden,<br>9 Old Peak Road,<br>Central,<br>Hong Kong |
| Ms. Leong On Kei, Angela | No. 4 Repulse Bay Road,<br>Hong Kong |
| *Independent non-executive directors* | |
| Attorney Patajo-Kapunan, Lorna | 4 Surigao Street,<br>West Avenue,<br>Quezon City,<br>The Philippines |
| Mr. Tsui Yiu Wa, Alec | 11A Branksome,<br>3 Tregunter Path,<br>Mid-Levels,<br>Hong Kong |

**Executive Directors**

**Dr. Ho,** aged 81, joined iAsia group in February 2000. Dr. Ho is an outstanding entrepreneur in Asia with various key positions in both Hong Kong and Macau. In Hong Kong, he holds the positions of Group Executive Chairman of Shun Tak Holdings Limited and Chairman of Melco and President of The Real Estate Developers Association of Hong Kong. In Macau, he is Managing Director of Sociedade de Turismo e Diversoes 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.

**Mr. Ho, Lawrence**, aged 25, joined iAsia group in October 2000. Mr. Lawrence Ho is the son of Dr. Stanley Ho, the founder of the Shun Tak Group and Sociedade de Turismo e Diversoes de Macau, S.A.R.L.. Mr. Ho was appointed as President and Vice Chairman of iAsia group with effect from August 2002. Within six months of joining iAsia group, he spearheaded the public listing of iAsia on the GEM board of the Stock Exchange and was instrumental in its subsequent mergers and acquisitions. In addition, Mr. Ho was appointed as Managing Director of Melco in November 2001, after he made and completed a General Offer for shares of the company on the main board of the Stock Exchange. Mr. Ho is responsible for and overseeing the overall strategic development, management and operations of iAsia group and Melco. Mr. Ho is also a Vice-Chairman of The Chamber of Hong Kong Listed Companies Limited and Director of Guangzhou Luhu Golf & Country Club. Prior to joining iAsia group and Melco, 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 the Citibank N.A. He graduated from the University of Toronto, Canada with a Bachelor of Arts degree, majoring in Commerce.

**Dr. Lee,** aged 56, joined iAsia group in January 2000 and is the co-founder with Mr. Ko Chun Fung, Henry. Dr. Lee graduated with a Doctor of Philosophy in Physical Chemistry from Indiana University, the United States, and did his postdoctoral research at John Hopkins University, the United States. Dr. Lee is also a director of numerous companies including Globalwide Shipping Limited, Guangzhou Luhu Golf & Country Club, isinolaw Limited, Southchina International Enterprise Limited, Bio-Cancer Treatment International Limited, Overseas (Far East) Limited, Ningbo Yong Feng, Razor Blade Company Limited and Lisco Investment Company Limited and Managing Director of Vast Honour Development Limited.

**Mr. Ko Chun Fung, Henry** *(chief executive officer and compliance officer)*, aged 43, joined iAsia group in December 1999 and is the co-founder with Dr. Lee. Mr. Ko received an Australian Postgraduate Course Award to study a master degree in business Administration at the Australian Graduate School of Management. Being a veteran and pathfinder in the Asian telecom industry, Mr. Ko continues to be a key player in the field today. In 1993, Mr. Ko joined one of the most successful telecom companies in Hong Kong, Star Paging (Taiwan) Limited as a General Manager. He was promoted to be an Executive Director of Star Telecom Group in 1996, and he spearheaded the company's PCS license bidding which had led to a major success of the organization. Mr. Ko was responsible for the re-alignment of the Star Telecom Group, and had successfully forged joint venture agreements with Pacific Electric Wire and Cable, NTTI, ITOCHU, Ucom and Telecom Finland in Asian Pacific region. In 1997, he founded Star Telecom Overseas (Cayman

Islands) Limited when he has brought in Baring Communications Equity Asia (BCEA) on board as a shareholder; he continues to pursue telecom and Internet investment opportunities in Asia Pacific.

**Non-executive Directors**

**Mr. Cheng Kar Shing, Peter,** aged 50, joined iAsia group in October 2000 as an executive director. Mr. Cheng changed his role from executive director to non-executive director with effect from 5th November, 2002. Mr. Cheng is a director of New World Development Co. Ltd., New World Services Ltd., New World China Land Limited, NWD (Hotels Investments) Ltd., Macao Water Supply Company Limited and Polytown Company Limited. Mr. Cheng is also an Executive Director of Billybala Holdings Limited, a company listed on the GEM board of the Stock Exchange. Mr. Cheng has over 20 years of experience in property development and investment business.

**Mr. Fung Hoo Wing, Thomas,** aged 47, joined iAsia group in January 2000. Mr. Fung is a prominent businessman holding directorships for various private companies engaging in different industries including gem, interior decoration, real estate, and other finance related businesses. With the knowledge of precious stones gained during his 5 years' apprenticeship. Mr. Fung started to operate his own gem business in his early twenties and became a very successful expert in the gem industry. Subsequently, Mr. Fung diversified his business to include the real estate, interior decoration, as well as finance and commodity related businesses.

**Ms. Leong On Kei, Angela,** aged 41, joined iAsia group in April 2000. Ms. Leong has been actively involved in public and community services in China, Hong Kong and Macau. Starting from 1993, her success from being elected to be a member of the second meeting of the fifth session of the Standing Committee of San Shui City Chinese People's Political Consultative Congress has proven her solid identity in the public and community services in China. Most recently she has been re-elected to be the Chairperson of San Shui Overseas Friendship Association Council. On business, Ms. Leong has a broad involvement with the golf industry, where she is the Deputy Chairman and Executive Director of Jiangmen Wuyi Golf Course & Entertainment Co., Ltd.

**Independent non-executive Directors**

**Mr. Tsui Yiu Wa, Alec,** aged 53, joined iAsia group in November 2000. He holds a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering from the University of Tennessee and has completed the program for Senior Managers in Government at the John K. Kennedy School of Government at Harvard University. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management. Mr. Tsui is currently Chairman of the Hong Kong Securities Institute and Chief Executive of WAG Financial Services Group Limited. He has been the adviser and council member of the Shenzhen Stock Exchange from July 2001 to June 2002. Prior to that, he was the chief executive of iRegent Group Limited, a Hong Kong listed Investment Company from August 2000 to February 2001. Mr. Tsui joined the Stock Exchange in 1994 as Executive Director of the Finance and Operations Services Division and became the Chief Executive in 1997. Later from March to July 2000, he was the Chief Operating Officer of Hong Kong Exchanges and Clearing Limited. He was responsible for the merger and listing of the Hong Kong Exchanges and Clearing Houses and was special consultant to the demutualization and listing project of Kuala Lumpur Stock Exchange.

**Attorney Patajo-Kapunan, Lorna,** aged 50, joined iAsia group in November 2000. Attorney P. Kapunan has been an active legal practitioner in the Philippines for many years. She is a graduate from the University of the Philippines, College of Law and also majored in AB Political Science. Attorney P. Kapunan has a number of professional involvements throughout her legal career. The most recent ones include President, Intellectual Property Alumni Association (IPAA); Country Group President, Asean Patent Attorneys Association (APAA) and Vice President, Philippines Women Trial Lawyers Association. Attorney P. Kapunan is a senior partner of Roco Kapunan Migallos Perez & Luna Law Offices and her fields of practice include corporate, litigation, intellectual property and family laws.

**Senior Management**

**Ms. FUNG Wai Har, Amanda** *(chief financial officer and company secretary)*, aged 30, joined iAsia group in January 2000. Ms. Fung received her Honours Degree in Accountancy from Hong Kong Polytechnic University in 1994 and then gained extensive experience in providing professional financial advice to clients from various industries in Hong Kong and China since her graduation. Ms. Fung is a member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Prior to joining iAsia group, Ms. Fung worked for Deloitte Touche Tohmatsu from August 1997. Prior to that, she worked for Kwan Wong Tan & Fong since her graduation. She was mainly responsible for supervising and managing the financial and compliance audits for listed & public companies, especially in trading and banking industries.

## 13. EXPENSES

The expenses in connection with the rights issue, including but not limited to financial advisory fees, printing, registration, underwriting commission, legal and accountancy charges, and the expenses of the application for listing are estimated to be approximately HK$4.2 million and are payable by iAsia.

## 14. DOCUMENTS REGISTERED WITH THE REGISTRAR OF COMPANIES IN HONG KONG

A copy of this prospectus, together with copies of the provisional allotment letter and the excess application form have been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance.

## 15. GENERAL

(a) The English text of this prospectus, the provisional allotment letter and the excess application form shall prevail over the Chinese text.

(b) The audit committee of iAsia was formed on 14th March, 2001 comprising the independent non-executive directors of iAsia, Attorney Patajo-Kapunan, Lorna and Mr. Tsui Yiu Wa, Alec. The terms of reference of the audit committee have been established with regard to Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to (i) review iAsia's annual reports, financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the board; and (ii) review and supervise the financial reporting process and internal control procedure of iAsia group.

(c) There is no existing or proposed agreement or arrangement between Melco or parties acting in concert with it, any of the directors, recent directors, shareholders or recent shareholders of iAsia or any other person which is conditional on or dependent upon the outcome of the underwriting of the rights issue or otherwise connected therewith.

(d) There is no material contract or arrangement entered into by any of the directors of Melco, or parties acting in concert with any of them in which any director has a material personal interest.

(e) No benefits have been or will be given to the directors as compensation for loss of office or otherwise in connection with the underwriting agreement.

(f) No variation will be made to the remuneration payable to and benefits in kind receivable by the directors as a consequence of the acquisition.

(g) As at the latest practicable date, there are no agreements or arrangements as to the transfer of any shares to be acquired by Melco or parties acting in concert with it under the underwriting agreement to any other person.

(h) The registered office of Melco is at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

(i) None of the directors is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of iAsia group.

(j) None of the directors has any direct or indirect interest in any assets which they have, since 30th September, 2002 (the date to which the latest published audited financial results of iAsia group were made up), acquired, disposed of by or lease to any member of iAsia group, or are proposed to be acquired, disposed of by, or leased to, any member of iAsia group.

## 16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday other than public holidays at the registered office of iAsia at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong from the date of this prospectus up to and including 10th February, 2003:

(a) the memorandum and articles of association of iAsia;

(b) the audited consolidated financial statements of iAsia group for the financial years ended 30th September, 2001 and 30th September, 2002 respectively;

(c) the directors' service contracts referred to in the paragraph headed "Service contracts" in this appendix;

(d) the contracts referred to in the paragraph headed "Material contracts" in this appendix IV; and

(e) the circular dated 16th November, 2002 issued by iAsia and which had been previously posted to the shareholders.