

# Management Discussion and Analysis





Mr. Lawrence Ho, Managing Director of Melco Group, at the press conference of our Macau headquarters' grand opening.

During 2003, the Group has successfully moved a big step forward by expanding its business activities into the investment banking and financial services and technology sectors through the acquisition of a 67.57% interest in Value Convergence Holdings Limited (formerly known as iAsia Technology Limited) ("Value Convergence"), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Acquisition").

Upon the completion of the Acquisition in February 2003, the core business lines of the Group have become apparent and they are investment banking and financial services, leisure and entertainment and technology.

The Group's turnover and earnings before finance costs and taxation for year 2003 are shown in Note 2 to the consolidated profit and loss account. Turnover for the year increased 98% to HK\$164 million, mainly attributable to the inclusion of Value Convergence's result after the Acquisition. Year 2003 was also a challenging year with the SARS epidemic in Hong Kong and China as well as a slow global economy. However, the Group managed to narrow the loss to HK\$26.3 million for the year (2002: HK\$35.6 million), representing a 26% decrease. This was achieved through the implementation of various strategic and operational initiatives including cost rationalization measures to the Group's operating units so as to achieve maximum synergy. We believe the implementation of these initiatives has laid a solid foundation for the Group's future growth and expansion.

## Investment Banking and Financial Services

The Group completed its acquisition of Value Convergence on 5th February 2003 and expanded its business scope to offer a broad range of investment banking and financial services on the Hong Kong and overseas stock exchanges, capital market and corporate finance advisory services to regional and international clients since then. The Acquisition is a connected and discloseable transaction of the Company of which independent shareholders' approval has been obtained. Details of the Acquisition have been stipulated in the Company's announcement and circular dated 12th October 2002 and 16th November 2002 respectively.



VC CEF Financial Group has sponsored the Macau International Chinese Entrepreneurs Convention 2003.

Subsequent to the Acquisition, the Group has performed a detailed business review to Value Convergence's brokerage and futures businesses and introduced various strategic and operational initiatives including, inter-alia, the following:



- A solid institutional and corporate sales team has been set up to serve institutional and corporate clients.
- A new team of seasoned research professionals has been hired to provide independent insightful research, including general research, specific investment analysis; and financial analyses on global and regional economy, listed companies and private enterprises.
- Cost rationalization program, including manpower review and merger of branches and offices, has been implemented so as to achieve maximum synergy and reduce costs.

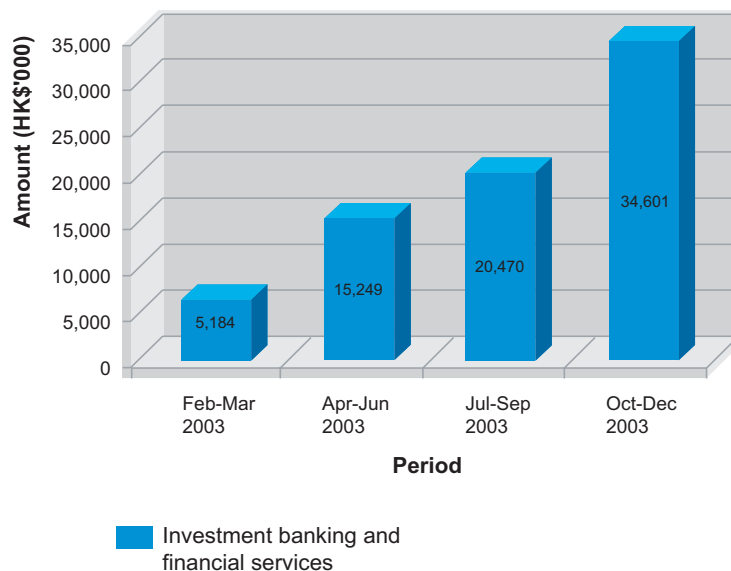


Mr. Lawrence Fok speaking at the forum ("Listing and Financing Opportunities for Macau Enterprises") organized by Melco and VC CEF Groups.

VC CEF Brokerage Limited and VC CEF Futures Limited now offer one-stop financial services to institutional, corporate, high net worth and private clients with a comprehensive range of products including local and overseas securities dealing, securities margin financing, placement and sub-underwriting, securities borrowing and lending, short selling, futures and options trading, derivatives trading, structured products and advisory services.

Turnover and segment profit from 5th February 2003 to 31st December 2003 for the investment banking and financial services segment were HK\$75.5 million (2002 – HK\$Nil) and HK\$3 million (2002 – HK\$Nil) respectively.

### Turnover growth





Senior management team of VC CEF Financial Group at the opening of our Shenzhen office.

The SARS epidemic has adversely impacted the market investment sentiments and the Group's brokerage business during the first half of 2003. However, the stock market has been continuously recovering in the post SARS period starting from June 2003. For instance, the Hang Seng Index has risen by approximately 31% from June 2003 to close at 12,575 at end of December 2003 and the average daily market turnover of the Hong Kong stock market (including GEM) improved from approximately HK\$7.1 billion for the six months ended 30th June 2003 to approximately HK\$13.6 billion for the six months ended 31st December 2003. The Group's investment banking and financial services segment

has also benefited from the increased stock market activities and recorded major business improvements. The brokerage and futures businesses achieved an approximately 230% growth in the total turnover during the six month period ended 31st December 2003 over the period from 5th February 2003 to 30th June 2003; and become profit making in the second half of 2003. Also, the daily turnover for the brokerage business outperformed the market and increased by more than 160% for the six months ended 31st December 2003 over the period from 5th February 2003 to 30th June 2003.

VC CEF Capital Limited continues to provide corporate finance advisory services and has helped clients gain access to equity capital markets, mergers and acquisitions opportunities, debt financing arrangements and project finance solutions in the Greater China Region. During 2003, VC CEF Capital Limited actively participated in several IPO transactions in different capacities including sponsor and underwriter. The Group will continue to enhance the market positioning of VC CEF Capital Limited through participating in more transactions.

To cope with our expansion plan and to better serve our clients in China, we have opened an office in Shenzhen in January 2004 and are in the process of opening new offices in Beijing and Shanghai.

In August 2003, the Group opened its Macau headquarters and submitted an application to Monetary Authority of Macau (the "Authority") for a financial service license to conduct securities and futures trading and brokerage business in Macau. We are in the process of providing the requested documents and information to the Authority in obtaining the license.

## **Leisure and Entertainment**

Turnover and segment loss for 2003 for the leisure and entertainment segment were HK\$54.9 million (2002 – HK\$77.9 million) and HK\$11.7 million (2002 Loss – HK\$21.4 million) respectively.

The SARS epidemic has seriously affected the tourism and catering industries in first half of 2003. Inevitably, the business of Jumbo and Tai-Pak restaurants was also negatively impacted due to the substantial decline in foreign visitors and local customers since the outbreak of SARS. The Group has reacted swiftly by the implementation of a number of cost cutting and efficiency enhancement measures so as to reduce costs. Operating costs for 2003 have been reduced by HK\$26.7 million as compared to a





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total of HK\$95.9 million for 2002, a decrease of 27.8%. In addition, Jumbo has reorganized its manpower aiming to provide finer cuisines and better services to the customers.

In view of the China/Hong Kong Closer Economic Partnership Arrangement (CEPA) and the Facilitated Individual Travel (FIT) program in facilitating visitors from China, the Group expects the number of tourists from China to Hong Kong would increase significantly. Hence, the Group is



transforming Jumbo and Tai-Pak restaurants into a modern complex of fine-dining, shopping, sightseeing and cultural attractions to be named "Jumbo Kingdom". In particular, a six-star restaurant "Dragon Court" on 1st deck of Jumbo has commenced operations since January 2004 and has received favorable feedbacks from customers. It is contemplated that the remaining specially designed venues/facilities of the Jumbo Kingdom will be completed in phases in later part of 2004. We are optimistic that the revamped Jumbo Kingdom will continue to be a tourist attraction in the Island south.



In March 2004, the Group has announced the proposed acquisition of Mocha Slot Group Limited (the "Mocha Group") which is principally engaged in the leasing of gaming machines and the provision of ancillary management services to the lessees of its gaming machines in Macau. The acquisition is a major and connected transaction of the Company under the Listing Rules and full details are given in the Company's announcement dated 23rd March 2004. Upon completion of this acquisition, the Mocha Group will be an important addition to the Group's assets in the leisure and entertainment segment with good growth and earning potentials.



## Technology

The technology segment was acquired by the Group as one of the business lines within Value Convergence. The technology operation has two major operating units, namely, (i) iAsia Online Systems Limited which is engaged in the provision of comprehensive online trading and related systems and services to financial institutions and intermediaries principally in Asia, and (ii) Elixir Group Limited and Elixir Group (Macau) Limited (collectively "Elixir Group") which are engaged in the sale of



hardware systems and related IT consulting services in Hong Kong, Macau and the Pearl Delta Region of China. The hardware systems range from entry-level workstations to enterprise-class servers and include a wide range of system integration services (e.g. e-business solutions, office automation application, hosting and outsourcing service and related information technology consultancy services) assisting clients to maximize their business potential.

After the Acquisition, the Group has been continuing to support the research and development works of the technology operation in expanding its product offerings and improving its trading solution softwares. Our continued software enhancements and proven systems and services to meet the changing needs in the capital market have resulted in the increased market share. Also, in 2003, the Group has started to install these technology platforms to the various VC CEF group companies with a view to enhance their operational and cost efficiencies as well as competitiveness.



Mr. Edmund Ho Hau-wah, Chief Executive of The Macao SAR, visiting our booth at the Macau IT Week 2003.

交易紀錄		股票代號: 2000	
買盤	賣盤		
8394	8038	2690	8393
0831	0831	4039	0160
5528	5268	7589	4129
7077	4598	4598	8148
2314	1959	7479	8938
8136	2369	8397	9079
8767	4928	1093	0616

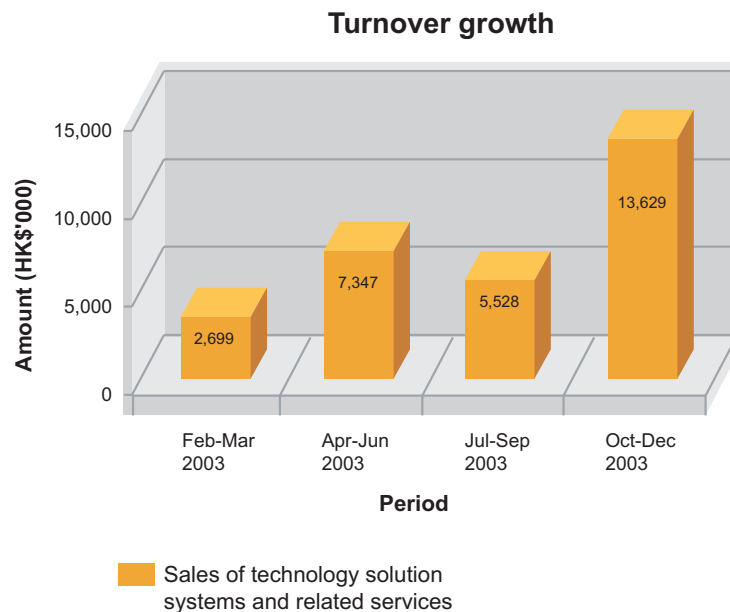
such as Sociedade de Jogos de Macau, S.A. ("SJM"), Companhia de Electricidade de Macau – CEM, S.A. and Seng Heng Bank Limited, as its clients.

In January and July 2003, Elixir Group has entered into two separate service arrangements with SJM with the provision of system integration and system network services to SJM for a total consideration of approximately HK\$6.7 million. Furthermore, in October 2003, given the high quality of services performed to SJM, Elixir Group has conditionally entered into another service arrangement with SJM for the provision of system integration and related maintenance services totalling approximately US\$7.1 million (HK\$55.6 million) of which the contract terms extend to the financial year ending 31st December 2005. As Dr. Stanley Ho, Chairman of the Company, is also a director of and has equity interest in SJM, these transactions are connected transactions of the Company. Details of these transactions are contained in the Company's announcements dated 17th July and 9th October 2003 and circular dated 31st October 2003.





On 17th December 2003, Elixir Group has entered into a service arrangement with Mocha Group for the provision of information technology related services (consisting of system integration services and system network services) to Mocha Group for a consideration of about US\$258,000 (about HK\$2 million). This transaction is a connected transaction of the Company under the Listing Rules and details of this connected transaction are contained in the announcement of the Company dated 17th December 2003.



Turnover and segment loss from 5th February 2003 to 31st December 2003 for the technology segment were HK\$29.2 million (2002 – HK\$Nil) and HK\$9.4 million (2002 – HK\$Nil) respectively.

On 23rd March 2004, the Company announced that it would effect a group reorganization which includes the purchase of the iAsia group of companies from Value Convergence. The iAsia group of companies hold the technology business of the Group. The transaction is a connected transaction of the Company under the Listing Rules and is subject to approval by the independent shareholders of the Company. Upon completion of the reorganization, the corporate structure and business of the Value Convergence group will be rationalized with, investment banking and financial services business as its focus.

### Property and Other Investments

Turnover and segment profit of the property and other investments segment for 2003 was HK\$4.5 million (2002 – HK\$4.9 million) and HK\$2.3 million (2002 Loss – HK\$8.7 million) respectively.

#### *Art Court*

This is a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong which has been leased for rental. The average occupancy rate of the property for 2003 was 87% (2002 – 90%). An independent property valuer has valued this property at HK\$82 million (2002: HK\$80 million) as at 31st December 2003. It is anticipated rental income from this property will remain stable in 2004.

#### *Jumbo Court Carpark*

The Group owns 509 car parking spaces located on the lower basement, basement and G/F to 5/F of Jumbo Court Public Carpark at 3 Welfare Road, Aberdeen, Hong Kong. Annual rental income from the carpark amounted to HK\$1.2 million for 2003 (2002 – HK\$1.3 million). An independent property valuer has valued this property at HK\$77 million (2002: HK\$75 million) as at 31st December 2003. It is anticipated that rental income from this property will remain stable in 2004.



## Liquidity and Capital Resources

As at 31st December 2003, cash available to the Group amounted to approximately HK\$143 million (2002 – HK\$219 million). The Group adopts a prudent treasury policy. The majority of the bank balances and cash are denominated in Hong Kong dollars and deposited in short term fixed deposits. It is the intention of the management to maintain a minimum exposure to foreign exchange risks.

The Group has obtained banking facilities of HK\$190 million (2002 – Nil) from various banks as at 31st December 2003, of which HK\$50 million (2002 – HK\$Nil) of these banking facilities is secured by the pledging of HK\$82 million (2002 – Nil) of the Group's assets. The Group did not utilize any of these banking facilities available as at year end.

The Group's total shareholder's funds increased to HK\$460.7 million as at 31st December 2003 from HK\$376.1 million as at 31st December 2002. In August 2003, the Company undertook a rights issue of 72,643,567 rights shares of HK\$1.00 at a price of HK\$1.45 per rights share on the basis of one rights share for every two ordinary shares in issue. The Company has raised approximately HK\$105.3 million before expenses through the rights issue and has strengthened its equity base, improved its financial gearing and provided additional resources for future acquisitions and growth.

The Group's capital expenditure for 2003 totalled HK\$26.8 million (2002 – HK\$1 million).

## Employees

As at 31st December 2003, the Group employed a total of 380 employees (2002 – 259 people), of which 365 are located in Hong Kong while the remaining employees are located in Macau and the PRC. The related staff costs for 2003, including Director's emoluments, totalled HK\$76 million (2002 – HK\$56 million). Increase in staff costs was due to the substantial increase in number of employees after the Acquisition as well as one-off redundancy costs incurred.

All the Group companies are equal opportunity employers and all employees are appointed/promoted based on suitability for the position offered. Employees' salary and related benefits are rewarded on a performance related basis and the general remuneration structure of the Group is subject to annual review by the management. Training



Mr. Lawrence Ho announcing the award for Employee of the Year at our Group's Anniversary Dinner 2003.





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and development programs are provided to the employees on an ongoing basis. In addition, the Group offered share option schemes under which options are granted to employees of the Group in recognizing their contributions and in retaining employees who will continue to make valuable contributions to the Group. Details of the share options granted to the employees are stated in Note 21 to the accounts.



## Summary

The Group's 2003 results reflect the challenging economic conditions, especially in the mist of SARS epidemic in the first half of the year. Despite these challenges, the Group has completed the acquisition of the Value Convergence group which provides an attractive platform for the Group to expand its business into the investment banking and financial services as well as technology industries. Also, the Group has taken this opportunity to consolidate its strengths in refining the business of Jumbo and revamp Jumbo into "Jumbo Kingdom".

With the solid foundation laid, the Group is well positioned to future rapid growth in our respective core businesses of investment banking and financial services, leisure and entertainment; and technology.

I would like to join our Chairman in thanking our dedicated employees for their continuing support during this past year.

## Lawrence Ho

*Managing Director*

Hong Kong, 21st April 2004