



The directors present their report and the audited accounts of the Company and of the Group for the year ended 31st December 2003.

## Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. On 5th February, 2003, the Company completed acquisition of a 67.57% interest in Value Convergence Holdings Limited (formerly known as iAsia Technology Limited), a company listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited. Subsequent to the acquisition, the core business lines of the Group are investment banking and financial services, leisure and entertainment and technology. The activities of the principal subsidiaries are set out in note 13 to the accounts.

An analysis of the Group's performance for the year by business and geographical segment is set out in Note 2 to the accounts.

## Results and Appropriations

The loss of the Group for the year ended 31st December 2003 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 33 to 78.

The directors do not recommend the payment of a dividend.

## Summary Financial Information

A summary of the published results, and assets and liabilities of the Group for the last five financial years, as extracted from the published audited accounts and reclassified as appropriate, is set out below. This summary does not form part of the audited accounts.

### Results

	Year ended 31st December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	<u>164,036</u>	<u>82,838</u>	<u>99,409</u>	<u>109,175</u>	<u>113,739</u>
Net loss from ordinary activities attributable to shareholders	<u>(26,334)</u>	<u>(35,596)</u>	<u>(18,635)</u>	<u>(6,568)</u>	<u>(51,687)</u>

### Assets, liabilities and minority interests

	31st December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Total assets	<u>674,518</u>	<u>418,769</u>	<u>410,960</u>	<u>445,655</u>	<u>468,409</u>
Total liabilities	<u>(150,844)</u>	<u>(18,387)</u>	<u>(10,099)</u>	<u>(15,702)</u>	<u>(42,097)</u>
Minority interests	<u>(62,952)</u>	<u>(24,257)</u>	<u>(26,392)</u>	<u>(28,983)</u>	<u>(29,569)</u>
Net assets	<u>460,722</u>	<u>376,125</u>	<u>374,469</u>	<u>400,970</u>	<u>396,743</u>



## Major Customers and Suppliers

The turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for 37% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 14% of the Group's total purchases for the year.

To the best knowledge of the directors, none of the directors of the Company, their associates, or any shareholders who own more than 5% of the Group's issued share capital had any beneficial interest at any time during the year in the Group's five largest suppliers.

## Investment Properties and Other Fixed Assets

Details of movements in the investment properties, and other fixed assets of the Company and of the Group during the year are set out in note 12 to the accounts.

## Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 20 and 21 respectively to the accounts.

## Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 22 to the accounts and in the consolidated statement of changes in equity.

## Distributable Reserves

The Company's capital reserve in the amount of HK\$357,784,733 as at 31st December 2003 and 2002 may be distributed upon the fulfillment of certain conditions. In addition, the Company's share premium account, in the amount of HK\$49,677,823 as at 31st December 2003 (2002 – 19,189,283) may be distributed in the form of fully paid bonus shares. Save as disclosed aforesaid, as at 31st December 2003, the Company had no reserve available for distribution in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance.



## Directors

The directors of the Company during the year were:

### Executive directors:

Dr. Stanley Ho

Mr. Lawrence Ho

Mr. Peter So (resigned as an executive director on 6th May 2003)

Mr. Frank Tsui

### Non-executive directors:

Mr. Ho Cheuk Yuet

Mr. Peter So (appointed on 6th May 2003)

### Independent non-executive directors:

Sir Roger Lobo

Mr. Robert Kwan

Mr. Ng Ching Wo (appointed on 26th February 2003)

Subsequent to the balance sheet date, on 1st April 2004, Mr. Peter So resigned as a non-executive director of the Company.

In accordance with Article 103 of the Company's Articles of Association, Sir Roger Lobo and Mr. Ho Cheuk Yuet will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## Directors' Service Contracts

Mr. Lawrence Ho has a service contract with the Company commencing on 5th November 2001 which is subject to termination by either party giving not less than three months' written notice. Mr. Frank Tsui has a service contract with the Company commencing on 1st October 2002 which is subject to termination by either party giving not less than three months' written notice.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.



## **Directors' Right to Acquire Shares or Debentures**

Save as disclosed under the heading "Share Option Scheme" below and in note 21 to the accounts, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **Share Option Scheme**

Details of the Company's share option scheme are set out in note 21 to the accounts.

Concerning the share options granted during the year to the directors, employees and others, as detailed in note 21 to the accounts, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

## **Directors' interests in contracts**

Save as disclosed in note 26 to the accounts, no director had a significant beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## **Directors' and Chief Executive' interests in the Company and its associated corporations**

As at 31st December 2003, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Main Board Listing Rules to be notified to the Company and the Stock Exchange were as follows:



## (i) Interests in Shares of the Company (“Shares”)

Name of Director	Nature of interest	Notes	Number and approximate percentage of Shares interested
Dr. Stanley Ho	Corporate	1	2,377,500 (1.07%)
	Personal	1	12,324,275 (5.55%)
	Family	1	322,092 (0.15%)
Mr. Lawrence Ho	Corporate	2	57,754,512 (26.02%)
	Personal	2	1,816,306 (0.82%)

### Notes:

- Dr. Stanley Ho is taken to be interested in 2,377,500 shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited and Dareset Limited which in turn hold an aggregate of approximately 1.07% of the issued share capital of the Company. Apart from that, Dr. Ho and his spouse personally hold 12,324,275 and 322,092 shares.
- Mr. Lawrence Ho is taken to be interested in 57,754,512 shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. Which in turn holds approximately 26.02% of the issued share capital of the Company. Apart from that Mr. Ho personally holds 1,816,316 shares.



## (ii) Interests in equity derivative of the Company

Name of category of participant	Number of share options				Date of grant of share options <sup>(3)</sup>	Adjusted exercise price of share options <sup>(1),(4)</sup>	Exercise period of share options
	At 1st January 2003	Adjustment in relation to issuance of rights shares <sup>(1)</sup>	Exercise during the year <sup>(2)</sup>	At 31st December 2003			
<b>Directors</b>							
Mr. Lawrence Ho	605,435	302,718	(908,153)	–	8 March 2002	HK\$1.00	8 September 2002 to 7 March 2012
	605,436	302,717	(908,153)	–	8 March 2002	HK\$1.00	8 March 2003 to 7 March 2012
	1,210,871	605,435	(1,816,306)	–			
Mr. Frank Tsui	1,210,871	605,435	–	1,816,306	8 March 2002	HK\$1.00	8 September 2002 to 7 March 2012
Mr. Peter So <sup>(5)</sup>	1,210,871	605,435	–	1,816,306	8 March 2002	HK\$1.00	8 September 2002 to 7 March 2012
Mr. Ho Cheuk Yuet	1,210,871	605,435	–	1,816,306	8 March 2002	HK\$1.00	8 September 2002 to 7 March 2012
Total	4,843,484	2,421,740	(1,816,306)	5,448,918			



*Notes:-*

- (1) Adjustment of share options after the completion of rights issue on 24th September 2003. No share option was granted during the year.
- (2) No share option has been lapsed or cancelled during the year.
- (3) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (4) The exercise price of the share options was adjusted after the completion of rights issue on 24th September 2003.
- (5) Mr. Peter So resigned as an Non-Executive Director of the Company on 1st April 2004.

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

Name of Director	Nature of interest	Notes	Number and approximate percentage of shares of Value Convergence interested
Dr. Stanley Ho	Corporate	1	7,384,651 (3.10%)
Mr. Lawrence Ho	Corporate	2	4,232,627 (1.78%)
Mr. Peter So	Personal	3	305,722 (0.13%)

*Notes:-*

1. Dr. Stanley Ho is taken to be interested in 7,384,651 shares of Value Convergence as a result of him being beneficially interested in 65% of the issued share capital of Bailey Development Limited which in turn holds approximately 3.10% of the issued share capital of Value Convergence.
2. Mr. Lawrence Ho is taken to be interested in 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.78% of the issued share capital of Value Convergence.
3. Mr. Peter So personally holds 305,722 shares of Value Convergence. Mr. So resigned as Non-Executive Director on 1st April 2004.



## (iv) Interest in equity derivatives of Value Convergence

Name of Director	Nature of interest	Notes	Number and approximate percentage interest
Dr. Stanley Ho	Personal	1	735,000 (0.31%)
Mr. Lawrence Ho	Personal	2	1,226,057 (0.51%)
Mr. Peter So	Personal	3	147,317 (0.06%)

### Notes:-

- The personal interest of Dr. Stanley Ho represents his derivative interest in Value Convergence comprising the physically settled options which were granted on 6th April 2001 and may be exercised during the period from 6th April 2001 to 8th October 2005 at an exercise price of HK\$3.60 per Value Convergence's share.
- The personal interest of Mr. Lawrence Ho represents his derivative interest in Value Convergence comprising the physically settled option as follows:-
  - 735,000 physically settled options which were granted on 6th April 2001 and may be exercised during the period from 6th April 2001 to 8th October 2005 at an exercise price of HK\$3.60 per Value Convergence's share; and
  - 491,057 physically settled options which were granted on 9th July 2002 and may be exercised during the period from 9th July 2002 to 8th July 2012 at an exercise price of HK\$1.00 per Value Convergence's share.
- The personal interest of Mr. Peter So, represents his derivative interest in Value Convergence comprising 147,317 physically settled options which were granted on 9th July 2002 and may be exercised during the period from 9th July 2002 to 8th July 2012 at an exercise price of HK\$1.00 per Value Convergence's share. Mr. So resigned as Non-Executive Director of the Company on 1st April 2004.

Save as disclosed above, as at 31st December 2003, none of the Directors or chief executives of the Company or their respective Associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Main Board Listing Rules to be notified to the Company and the Stock Exchange.





## Substantial shareholders

As at 31st December 2003, so far as if known to the Directors of the Company, the following persons (other than a director or chief executive of the Company) had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Shares held	Shareholding percentage
Lasting Legend Ltd. (Note 1)	57,754,512	26.02%
Mr. Lawrence Ho (Note 1)	59,570,818	26.83%
Shun Tak Shipping Company Limited	39,083,147	17.61%
Dr. Stanley Ho	15,023,867	6.77%

### Notes:

1. Mr. Lawrence Ho is taken to be interested in 57,754,512 Shares by virtue of the fact that Lasting Legend Ltd. is wholly owned by Mr. Ho.

## Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## Directors' interests in Competing Businesses

Dr. Stanley Ho and Madam Lucina Laam King Ying, have direct or indirect beneficial interests in Shun Tak Holdings Limited, its subsidiaries and associates (the "Shun Tak Group") as shareholders. In addition, Dr. Stanley Ho has beneficial interests in Sociedade de Turismo e Diversões de Macau, its subsidiaries and associates (the "STDM Group") as shareholders. Further, Dr. Stanley Ho is a director of the Shun Tak Group and the STDM Group.

During the year and up to the date of this report, the businesses of property investment and hospitality (which includes restaurant operations) carried out by the Shun Tak Group and the STDM Group were considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Dr. Stanley Ho is actively involved in the management of the Shun Tak Group.

Dr. Stanley Ho is also actively involved in the management of the STDM Group which operates principally outside Hong Kong.

As the board of directors of the Company is independent of the boards of the Shun Tak Group and the STDM Group, the Group is therefore capable of carrying on such businesses independently of, and at an arm's length from the businesses of these companies.



## Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 27 to the accounts.

## Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Articles of Association.

## Audit Committee

The Company has an audit committee which was established in accordance with requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. During the year, the audit committee comprises the three independent non-executive directors of the Company who are Sir Roger Lobo, Mr. Robert Kwan and Mr. Ng Ching Wo, who is appointed on 7th March 2003.

## Auditors

PricewaterhouseCoopers will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting. PricewaterhouseCoopers was appointed as the Company's auditors at the annual general meeting held in June 2003 in place of Ernst & Young who retired at the meeting.

ON BEHALF OF THE BOARD

## **Dr. Stanley Ho**

*Chairman*

Hong Kong, 21st April 2004