Melco International Development Limited

新濠國際發展有限公司

(Incorporated in Hong Kong with limited liability)
Website: http://www.melco.hk.cn
(Stock code: 200)

ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2003

2003 AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Year ended 31st December 2003 HK$'000	2002 HK$'000
Turnover	(1)	**164,036**	82,838
Other revenues	(1)	**5,494**	4,084
Other income		**10,186**	–
Cost of inventories sold		**(36,703)**	(24,159)
Staff costs (include directors' emoluments)		**(76,499)**	(55,747)
Depreciation and amortisation		**(19,232)**	(5,927)
Commission expense		**(26,088)**	–
Other operating expenses		**(51,968)**	(39,219)
Total operating expenses		**(210,490)**	(125,052)
Loss before finance costs and taxation		**(30,774)**	(38,130)
Finance costs		**(2,007)**	–
Loss before taxation		**(32,781)**	(38,130)
Taxation		**(1,201)**	–
Loss after taxation		**(33,982)**	(38,130)
Minority interests		**7,648**	2,534
Net loss attributable to shareholders		**(26,334)**	(35,596)
Basic loss per share (HK cents)	(2)	**(15.9)**	(27.1)
Fully diluted loss per share (HK cents)	(2)	**(15.3)**	N/A

Notes:

(1) Turnover, revenue and segment information

Primary reporting format – business segments

	Year ended / As at 31st December 2003 Investment banking and financial services HK$'000	Leisure and entertainment HK$'000	Technology HK$'000	Property and other investments HK$'000	Group HK$'000
Revenues					
Turnover	75,504	54,861	29,203	4,468	164,036
Other revenues	223	801	108	4,362	5,494
	75,727	55,662	29,311	8,830	169,530
Segment results	3,005	(11,713)	(9,413)	2,258	(15,863)
Unallocated costs					(14,911)
Loss before finance costs and taxation					(30,774)
Segment assets	389,105	33,596	25,662	226,155	674,518
Segment liabilities	113,443	8,246	23,323	5,832	150,844
Other segment information:					
Depreciation and amortisation	6,693	4,324	6,277	1,938	19,232
Capital expenditures	11,359	312	12,980	2,192	26,843
Impairment of assets	–	–	3,080	1,200	4,280
Provision for doubtful receivables	1,934	–	122	–	2,056

	Year ended / As at 31st December 2002		
	Leisure and entertainment *HK$'000*	Property and other investments *HK$'000*	Group *HK$'000*
Revenues			
Turnover	77,929	4,909	82,838
Other revenues	1,633	2,451	4,084
	79,562	7,360	86,922
Segment results	(21,395)	(8,684)	(30,079)
Unallocated costs			(8,051)
Loss before finance costs and taxation			(38,130)
Segment assets	36,482	382,287	418,769
Segment liabilities	12,367	6,020	18,387
Other segment information:			
Depreciation	5,580	347	5,927
Capital expenditures	207	789	996
Impairment of assets	–	9,054	9,054
Fixed assets written off	3,858	–	3,858
Provision against deposit paid	–	3,500	3,500

Secondary reporting format – geographical segments

	Year ended/As at 31st December 2003			
	Turnover ***HK$'000***	**Segment results** ***HK$'000***	**Total assets** ***HK$'000***	**Capital expenditure** ***HK$'000***
Hong Kong	143,674	(15,715)	631,548	24,504
The People's Republic of China excluding Hong Kong ("PRC")	–	(501)	614	564
United Kingdom	–	–	992	–
Macau	20,362	353	20,727	1,775
	164,036	(15,863)	653,881	26,843
Unallocated costs		(14,911)		
Loss before finance costs and taxation		(30,774)		
Investment securities			20,637	
Total assets			674,518	

No geographical segment analysis for the year ended 31st December 2002 is presented as the Group's revenues, assets and liabilities were principally derived from operations carried out in Hong Kong for the year ended 31st December 2002.

(2) Loss per share

The calculations of basic and diluted loss per share are based on the Group's net loss attributable to shareholders of HK$26,334,000 (2002: HK$35,596,000).

The basic earnings per share is based on the weighted average number of 165,762,626 (2002: 131,231,244) ordinary shares in issue during the year, taking into account the issuance of rights shares in August 2003.

The diluted loss per share is based on 172,078,417 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 6,315,791 ordinary shares deemed to be issued at no consideration if all outstanding options have been exercised.

CHAIRMAN STATEMENT

In February 2003, the Group acquired a controlling stake in Value Convergence Holdings Limited, a company listed on the Growth Enterprise Market of Hong Kong Stock Exchange. As a result, the scope of the Group's business has expanded considerably. It now comprises three main business sections: the investment banking and financial services section, the leisure and entertainment section and the technology section.

After the acquisition, the Group had successfully executed a carefully planned costs rationalisation programme, which led to a reduction of the operating costs of the financial services business by 30% in the first quarter. This was followed by organizational restructuring, enhancement of quality sales force, introduction of innovative products and service packages and sourcing of new deals from the Group's new offices in Shenzhen and other PRC cities. These efforts paid off – the Group's financial services business went from substantial loss in the first half of 2003 to profit earning in the second half. Turnover improved by about 125% as compared to 2002's figure, while market share increased by 43% over the same period.

Apart from financial services business, the Group's technology business also achieved a successful turnaround. The Group's IT operation in Hong Kong, the iAsia division, continued its success in securing quality new clients in 2003, and some products like foreign exchange trading system gained significant market share. The Group's Macau IT operation, the Elixir division, became a prominent IT outsourcing partner and gaming machine IT specialist.

However, the Group's fine-dining business was seriously affected by the Severe Acute Respiratory Syndrome (SARS) epidemic, which drastically reduced the number of tourist and local customers to the Group's restaurants in the first half of 2003. The patronage rate somewhat recovered in the second half, but the SARS effect is still felt. The Group has taken swift measures to reduce costs and upgrade its restaurant staff's quality. It has also begun an extensive renovation/revitalisation programme, which saw the opening of the six-star restaurant (Dragon Court) in January 2004 and other new and exciting features and attractions later.

The Group announced in March 2004 that it will purchase a 80% interest in Mocha Slot Group Limited, which leases gaming machines and provides related management services to the lessees in Macau. It also announced a group reorganization plan whereby the technology business would be directly owned by the Melco group. These transactions are subject to independent shareholders' approvals, and, when approved, will be completed in May 2004. I am confident that they will be beneficial to the Group, as the Mocha Slot Group's acquisition brings with it good growth and earnings potentials, and the restructuring of the technology business rationalizes Value Convergence's business and enables it to focus on its investment banking and financial services business.

With the SARS epidemic behind us and the Closer Economic Partnership Arrangement (CEPA) and the Facilitated Individual Travel (FIT) beginning to show their positive effects, Hong Kong and Macau economies are anticipated to grow in 2004. The influx of foreign funds and the increasing number of IPOs and individual travellers from China are expected to continue in 2004. Hong Kong's capital market is set to have a rebound, and this provides a very good setting for the taking off of the Group's financial services business. Tourism and gambling business in Hong Kong and Macau is poised to flourish in 2004, and this provides a good ground for improved performance of the Group's leisure and entertainment business. The great efforts last year to strengthen the Group's operations enable the Group to capture opportunities arising from the markets' improvement. As a result, I am confident that the Group's businesses will continue their upwards trend in the coming year.

MANAGEMENT REVIEW AND DISCUSSION

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"). The consideration of the Acquisition was approximately HK$96.6 million and was paid for using internal resources of the Group.

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 1 to the consolidated profit and loss account. Turnover for the year increased 98% to HK$164 million, mainly attributable to inclusion of the of Value Convergence 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 5 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, on which independent shareholders' approval has been obtained. Details of the Acquisition are contained in the Company's announcement and circular dated 12th October 2002 and 16th November 2002 respectively.

Subsequent to the Acquisition, the Group has performed a detailed business review to Value Convergence's brokerage and futures businesses and has 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 of the securities brokerage division.
- 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.

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 was HK$75.5 million (2002 – HK$Nil) and HK$ 3 million (2002 – HK$Nil) respectively.

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 30 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 profile 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 was 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 seriously 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 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 has been in the process of transforming the 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 rest of the 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. This acquisition is a major and connected transaction of the Company under the Listing Rules and therefore is subject to approval of independent shareholders of the Company. Details of the acquisition 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 ("Elixir") and Elixir Group (Macau) Limited (collectively "Elixir Group") which is engaged in the sale of hardware systems and related services in Hong Kong, Macau and the Pearl Delta Region of China. These 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) with a view to assist clients in maximizing their business potential.

After the Acquisition, the Group has been continuing to support the research and development works of the technology operation so that it can continue to expand its product offerings and improve its trading solution softwares. Our continuing enhancements and proven systems and services to meet the changing needs in the capital market have resulted in the additions of new clients. Also, in 2003, the Group has started to implement these technology platforms to the various VC CEF group companies with a view to enhance their operational and cost efficiencies as well as competitiveness.

Elixir Group has only started to explore the potential market of Macau in late 2002. Notwithstanding the relatively short period of business operation, Elixir has formed strategic alliances with certain world-renowned hardware suppliers and has successfully secured prominent companies in Macau, such as Sociedade de Jogos de Macau, S.A. ("SJM"), Companhia de Electricidao 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 for 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 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 and Executive Director 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 (Macau) Limited has entered into a service arrangement with Mocha Slot Group Limited for the provision of information technology related services (consisting of system integration services and system network services) to Mocha Slot 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 was 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. As part of the reorganization, the Company will purchase from its non-wholly owned subsidiary, Value Convergence Holdings Limited, the iAsia group of companies, which carry on the technology business of the Group. The transaction is a connected transaction of the Company under the Listing Rules and is subject to approval of the independent shareholders of the Company. Upon completion of the reorganization, the corporate structure and business of the Value Convergence group will be rationalized so as to enable it to focus on its investment banking and financial services business.

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.

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.

Conclusion

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 provide 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.

DIVIDENDS

The directors do not recommend the payment of any dividend (2002: Nil) in respect of the year.

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

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 this total banking facilities were 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 compared to 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 the Company's equity base, improved its financial gearing and provided additional resources for future acquisitions and growth of the Group's core businesses.

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). The increase was due to the substantial increase in number of employees after the Acquisition as well as the one-off redundancy costs incurred.

All the Group companies are equal opportunity employers and all employees are selected and promoted based on suitability for the position offered. The employee 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 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 the Annual Report for the year ended 31st December 2003.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE WEBSITE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By Order of the Board
Dr. Stanley Ho
Chairman

Hong Kong, 21st April 2004

Please also refer to the published version of this announcement in The Standard.