

賭場
CASINO VIP

F.F.L. 45.40
S.F.L. 45.35

2443.24平方米

日式餐廳
JAPANESE
RESTAURANT

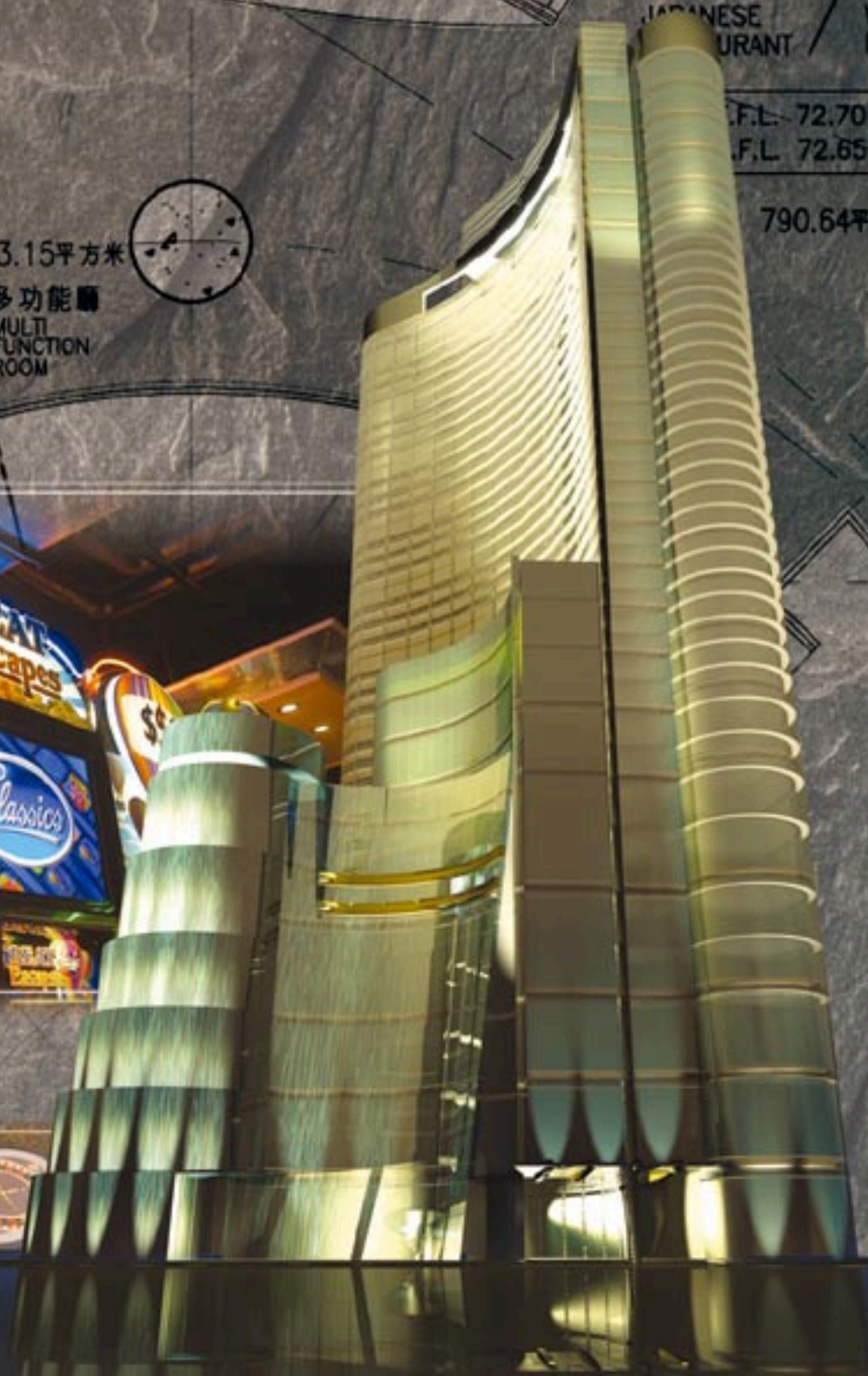
西式餐廳
WESTERN
RESTAURANT

F.F.L. 72.70
S.F.L. 72.65

790.64平方米

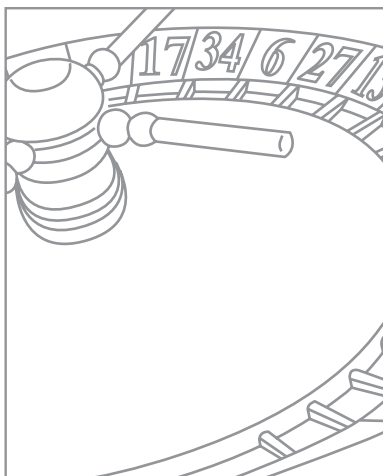
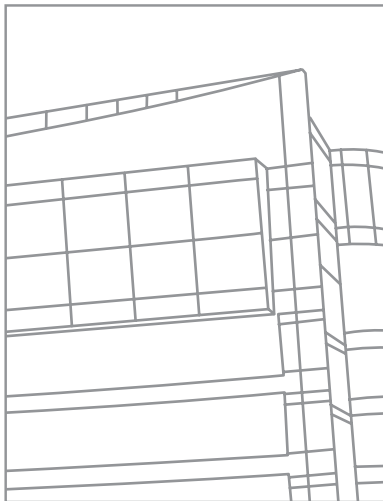
713.15平方米

多功能廳
MULTI
FUNCTION
ROOM



Annual Report 2004
Melco International Development Limited

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Corporate Information

Executive Directors

Dr. Ho Hung Sun, Stanley
Chairman

Mr. Ho, Lawrence Yau Lung
Group Managing Director

Mr. Tsui Che Yin, Frank

Non-executive Directors

Mr. Ho Cheuk Yuet

Mr. Ng Ching Wo

Independent Non-executive Directors

Sir Roger Lobo

Mr. Kwan Chiu Yin, Robert

Dr. Lo Ka Shui

Audit Committee

Mr. Kwan Chiu Yin, Robert
Chairperson

Sir Roger Lobo

Mr. Ng Ching Wo

Company Secretary

Mr. Tsang Yuen Wai, Samuel

Qualified Accountant

Mr. Chung Yuk Man, Clarence FCPA, FCCA

Registered Office

Penthouse 38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong
Tel: (852) 3151 3777
Fax: (852) 3162 3579
Website: www.melco.hk.cn
Email: info@melco.hk.cn

Auditors

PricewaterhouseCoopers

Solicitors

Richards Butler
Fong & Ng

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank (Hong Kong) Limited

Share Registrar and Transfer Office

Standard Registrars Limited
G/F., BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Stock Code

200

▶▶ Financial Highlights

Successful Turnaround supported by Solid Business Growth Melco/PBL JV possesses Immense Growth Opportunities

- ➔ **Turnover increased by 147% to HK\$408,076,000.**
- ➔ Net profit attributable to shareholders amounted to HK\$65,157,000, representing a successful turnaround from a loss of HK\$26,334,000 in 2003.
- ➔ Basic earnings per share was 20.06 HK cents versus a loss of 15.89 HK cents in 2003.

Group Profile ◀◀

Melco Group

Investment
Banking

Leisure, Gaming
and Entertainment

Technology

Property & Other
Investments

**Value
Convergence**



Focus on Hong Kong's & Macau's capital financing needs

**Melco / PBL
Joint Venture**



Park Hyatt Hotel / Casino in Macau

Mocha Slot Lounges and electronic gaming in Macau

Other Asian gaming ventures

**Elixir
and iAsia**



Focus on gaming IT Infrastructure & system integrations

Property



MD's Statement



2004 saw dramatic changes in Macau. Spurred by the introduction of the Individual Traveller's Scheme, total number of visitors to Macau hit an all time high of 16.7 million and Mainlanders now account for over 57% of total visitation. The size of Macau gaming market grew by a staggering 44% to US\$5.1 billion, overtaking that of Atlantic City and is now second only to Las Vegas Strip.

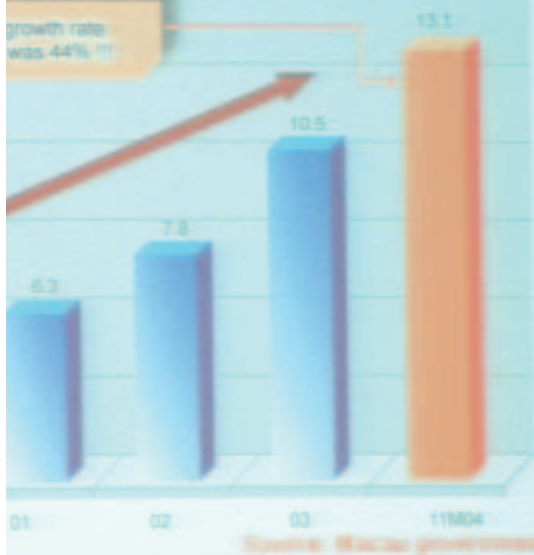
During the year, the first Vegas style casino built by the Americans was opened in Macau. This marked the end of the 40-year-long monopoly enjoyed by STDM and the beginning of a new era in Macau's gaming history. The former Portuguese colony has since entered into a phase of unprecedently, rapid development. The number of gaming tables has more than doubled in less than a year. Numerous new casino and new hotel plans have been announced.

Gone were the days when one could just put a baccarat table in a corner and customers would come. It is my strong belief that, under the new paradigm, only those players who are capable of providing the best products and quality services, backed by world-class branding and marketing, can ultimately survive and thrive.

Against this backdrop, **Melco** acquired its first piece of gaming asset, the Mocha Slots, in June 2004. In September 2004, we unveiled our plan to build the first ever 6-star hotel cum casino in Taipa to target high rollers. In November 2004, we concluded our negotiations with **Publishing and Broadcasting Limited (PBL)**, the Australian media and gaming giant with market capitalization exceeding US\$8 billion, to form an exclusive 50:50 joint venture to co-expand our gaming business in Asia.



at 35% of Gross Gaming Revenue has been rising rapidly



MD's Statement

The **Melco/PBL** joint venture is a very important step forward for the Group. Leveraging on **PBL's** financial resources and international experience, together with our established network of local connections in Macau and China, we are now in a strong position to capitalize on the fast growing but increasingly competitive gaming market in Macau.

Beyond Macau, various new opportunities in gaming have also emerged. The island state of Singapore has invited the international gaming companies, including ourselves, to come up with concepts to build an "integrated resort" which comprises gaming, leisure, shopping and entertainment facilities. Thailand is another country which may see the legalization of gambling in the near future.

The outlook for the gaming industry in Asia has never been rosier and opportunities have never been more abundant. Together with **PBL**, our joint venture partner, I am confident that Melco will become one of the largest and most profitable gaming groups in Asia within the next few years and substantial shareholder value would be created.

Last but not the least, I would like to express my deepest gratitude to our employees for their hard work and commitment, without which the Group would not have been where we are today.

By order of the Board

Ho, Lawrence Yau Lung
Group Managing Director

Hong Kong, 7th April, 2005



Management Discussion & Analysis



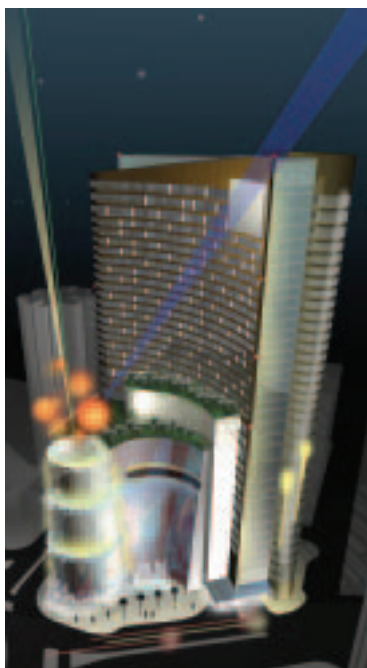
2004 was an important year for **Melco**. It marked the beginning of our foray into the highly lucrative Macau gaming sector. From here on, leisure, gaming and entertainment is expected to become the core business for the Group. As the gaming division is still in its investment phase, contribution to profitability was not yet meaningful in 2004. Having said that, Mocha Slots, despite being acquired only in the latter half of the year, has already started to contribute to our bottom-line.

The three non-core businesses, i.e. investment banking, technology, and property and other investments, have all performed satisfactorily. Overall, group turnover for the year increased to HK\$408.08 million (2003 - HK\$165 million), representing an increase of 147%. Net profit attributable to shareholders was HK\$65.16 million as compared to a net loss of HK\$26.33 million in the previous year.

Leisure, Gaming and Entertainment

For the year under review, the Leisure, Gaming & Entertainment Division recorded a turnover of HK\$123 million (2003 - HK\$54.9 million) and segmental profit before interest and tax amounted to HK\$5.6 million (2003 Loss - HK\$11.7 million).

Currently, there are 3 sub-divisions within our Leisure, Gaming and Entertainment Division, namely, Mocha Slots, Park Hyatt Macau and Jumbo Kingdom.



Management Discussion & Analysis

→ MOCHA SLOTS



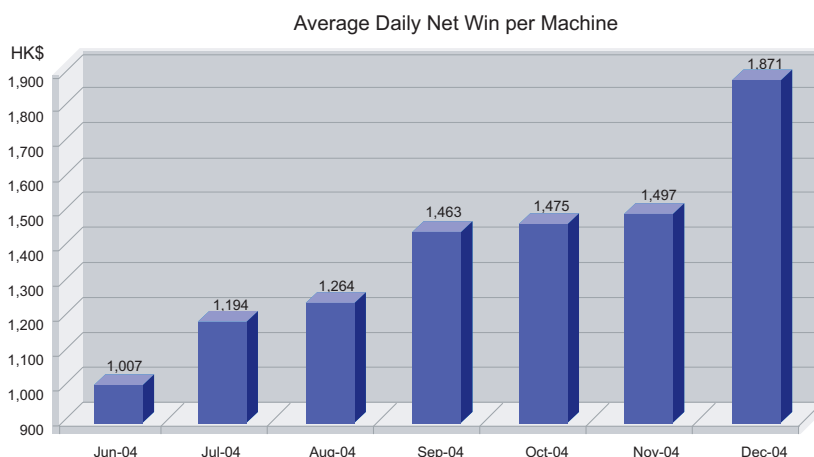
Recognizing that in other gaming centers such as Las Vegas and Atlantic City, over 50% of gaming revenue comes from slot machines and electronic gaming, the Group acquired Mocha Slot Group Limited (Mocha Slots) in June 2004.

Mocha Slots targets the grind (lower end) market, in particular, the exponential growth of lower end gamblers arriving from China under the Individual Travellers Scheme. It operates a chain of slot machine lounges with upmarket décor providing a leisurely and relaxing cafe style ambience all over the Macau enclave. The slot machines installed in these lounges are no longer the mechanical boxes belonging to the last century, but state-of-the-art machines run on centralized computer networks. These lounges also incorporate multi-player machines such as electronic Roulette, Baccarat, Sic-bo (骰寶) and Caribbean Stud, all of which are popular table games played in casinos.

As at 31 March 2005, the Group had four outlets with around 700 machines in operation, accounting for roughly 25% of the total number of slot machines operating in Macau.

Total revenue generated by Mocha Slots in 2004 was HK\$47.7 million* (2003 - HK\$Nil). The figure only covers the operating period from 10 June 2004 (the date of acquisition of Mocha Slots) to 31 December 2004.

Despite the fact that Mocha Slots is still at its early stage of development, the key performance indicator, i.e. the average daily net win or average daily gross revenue per machine has been very encouraging. A graph showing the average daily net win per machine is shown below, one can immediately see that it is in an increasing trend.



It is our plan to open another 2 to 3 outlets in 2005. Our preferred venues would be in areas with high tourist flows, particularly within or near 2-star or 3-star hotels.

*Total revenue generated by Mocha Slots represents 31% of Gross Gaming Revenue.

Management Discussion & Analysis

→ PARK HYATT MACAU



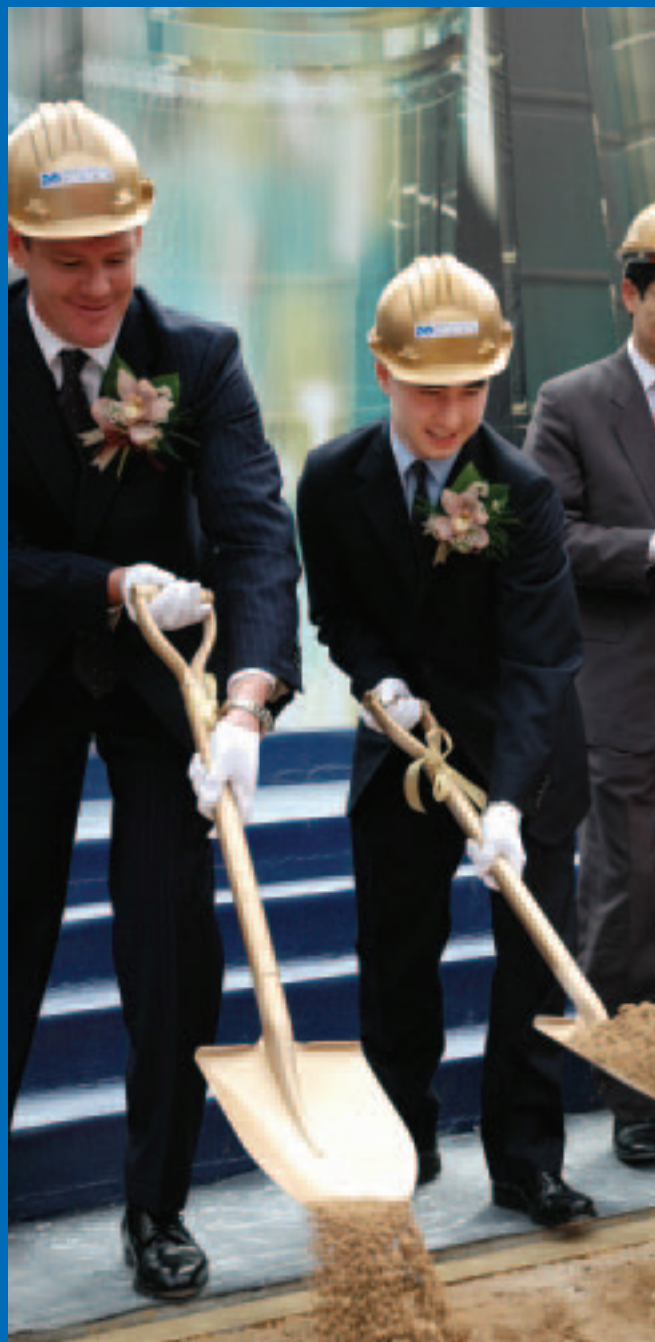
Recognizing that over 70% of Macau's gaming revenue is derived from VIP gaming or high limit players, we announced our plan in September 2004 to build the first ever 6-star luxury hotel cum casino complex in Macau to tap the high roller market. This hotel will be managed by Hyatt International under the "Park Hyatt" brand name.

When completed, the new hotel/casino complex is expected to be the tallest building at Taipa, with a building height of 512 feet. It is expected to feature 18 guestroom floors, 5 functional floors and 6 casino floors. The gross floor area for the complex will be approximately 823,000 square feet, out of which approximately 260,000 square feet will be dedicated to gaming space and approximately 563,000 square feet will be for hotel use. The complex will be characterised by a sense of spaciousness and hyper luxury decor.

Total construction cost for this project is expected to be around HK\$1.45 billion. Construction of the project has already begun. The Group's target completion date is the end of 2006. The **Melco/PBL** joint venture will be responsible for the marketing and branding of the hotel/casino complex, which will involve strategic cross-marketing between Park Hyatt Macau and **PBL**'s casinos in Australia, including the highly acclaimed Crown Casino in Melbourne.

The Group initially embarked on the Park Hyatt project in collaboration with Sociedade de Turismo e Diversões de Macau (STDM) on a 50:50 basis. However, after a series of shareholder value enhancing acquisitions from STDM, the **Melco/PBL** joint venture would own 100% of the project. Under the joint venture agreement, Melco would have an effective interest of 60% in the Park Hyatt project whilst **PBL** would own the remaining 40%.

As the project is still in its construction phase, it made no contribution to the Group financial performance in 2004.



Management Discussion & Analysis

→ JUMBO KINGDOM

Total revenue generated by Jumbo Kingdom in 2004 was HK\$75 million (2003 - HK\$55 million), representing an increase of 37%. However, the division continued to register a loss in 2004 due to write-offs of fixed assets not previously depreciated and the high re-branding and promotion costs incurred during the year.

Jumbo Kingdom includes the Jumbo and Tai-Pak floating restaurants located at Aberdeen, Hong Kong. During the year, conscious effort was made to revamp the famous floating complex and transform it into a "premium dining palace". All the upgrading work has now been completed and the much-loved tourist landmark is once again operating at full capacity. Jumbo Kingdom has now been transformed into a modern complex that incorporates fine dining, shopping, sightseeing and cultural attractions. Popular new attractions include the "Dragon Court" restaurant, conference and banquet facilities, sampan dining offering "Typhoon Shelter" seafood meals, retail and souvenir shops, a ferry pier plaza and an open-air cafe.

Following the completion of renovation work, the Group launched an extensive marketing campaign to promote the attraction. Patronage is steadily increasing. In recognition of its iconic status in Hong Kong, Jumbo Kingdom won the Hong Kong Superbrands Award in 2004.



Management Discussion & Analysis

OTHER PROSPECTS IN GAMING

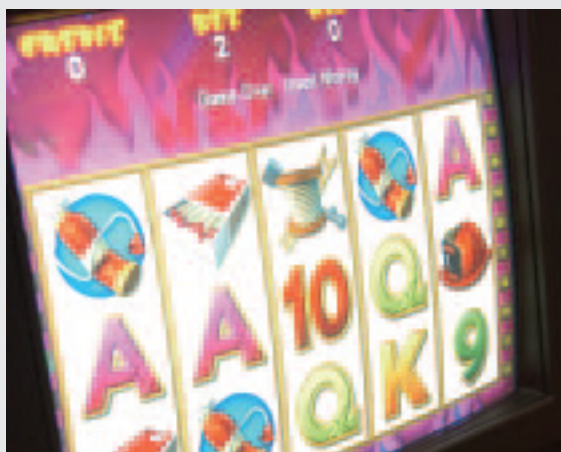


During the year, the Group concluded a deal with the Australian gaming and media giant, **PBL**, to form a joint venture to co-expand their gaming business in Asia. **PBL** owns and operates the highly acclaimed Crown Casino in Melbourne and Burswood Casino in Perth. Both casinos derive substantial revenue from Asian high rollers.

Under this deal, both parties have undertaken to co-invest with each other on an exclusive basis in any future gaming ventures in Asia, including Singapore, Thailand, Japan and the Greater China region, but excluding Australia and New Zealand. Within the Greater China region (i.e. Macau, Hong Kong, Taiwan and Mainland China), the Group will always maintain an effective interest of 60% in any new ventures while **PBL** would own the remaining 40%. Outside the Greater China region, **PBL** will always have an effective interest of 60% while the Group will own the remaining 40%.

As a first step in our expansion plan beyond Macau, we have recently, via the **Melco/PBL** joint venture, submitted our proposed concept for the establishment of an "integrated resort" comprising gaming, leisure and entertainment facilities in Singapore.

As a result of Macau's economic success, many Asian governments are now considering the legalization of gaming in order to boost their economies and tourism. This includes countries such as Thailand and Japan. Looking ahead, we believe that there are many lucrative opportunities available in the gaming industry in Asia and the **Melco/PBL** joint venture provides us with a perfect platform to capitalize on these opportunities.



Management Discussion & Analysis

Investment Banking and Financial Services

The Group conducts its investment banking and financial services through its 67.57% owned listed subsidiary, Value Convergence Holdings Limited (Value Convergence, Stock Code: 8101) acquired in February 2003. This subsidiary offers a broad range of investment banking and brokerage services, as well as capital market and corporate finance advisory services to regional and international clients.

Total revenue generated by the Group's Investment Banking Division in 2004 was HK\$126.4 million (2003 - HK\$76 million), representing an increase of 67%. Segmental profit before tax and interest amounted to HK\$14.8 million (2003 - HK\$3 million), representing an increase of 392%.

The performance of the brokerage business depends very much on the market trading activity. Taking advantage of the active market activities, the financial performance of the Group's brokerage sub-division improved substantially in 2004. During the year, it increased market share in the local stock market, while the investment banking sub-division completed several placements and IPO transactions. A subsidiary was set up in Macau to provide advisory services to selected clients. This may open up new opportunities and build up brand recognition of this division's business in Macau.

Looking forward, investment banking will remain a non-core business of the Group. However, effort will be made to expand its business to Macau in order to leverage off the Group's established network and connections over there.

Technology

The Group's technology division was created in May 2004 following a group reorganization which resulted in the full acquisition of iAsia and Elixir from Value Convergence. These two units are now grouped under Melco Technology Group Limited, a wholly-owned subsidiary of the Group and become the Group's gaming IT infrastructure arm.

Results for the Technology Division in 2004 were very encouraging. Turnover amounted to HK\$154.8 million (2003 - HK\$29.2 million), representing a spectacular increase of 430%. Segmental profit before tax and interest amounted to HK\$14.5 million, as compared to a loss of HK\$9.4 million in 2003.

Based in Macau, Elixir has established itself as a premier gaming IT infrastructure specialist offering clients a full range of system integration and network services. During the year, leveraging off the Group's strong ties to SJM, Elixir managed to secure several lucrative agreements in the provision of gaming IT infrastructure for the largest gaming concession holder in Macau. It is expected that Elixir will continue to be one of the largest IT solution providers for SJM in due course.

The iAsia group of companies, based in Hong Kong, is engaged in the provision of comprehensive online trading and related systems and services to financial institutions and intermediaries, principally in Asia. During the year, iAsia developed a new and well-received Bullion Deal Matching System. It has continued to improve and integrate its existing online trading modules and related systems, and the new Bullion Deal Matching System has enhanced the systems comprehensiveness. The Group's IT systems for investment banking and financial services are all supported by iAsia, and iAsia has contributed significantly to improving the technological sophistication of the Group's financial services unit.

Management Discussion & Analysis

Property and Other Investments

During the year, turnover and segment profit of this division was HK\$3.9 million (2003: HK\$5.7 million) and HK\$65.3 million (2003: HK\$2.3 million) respectively. The decline in turnover is due to the fact that the Group's investment property in Stubbs Road (Art Court) was sold in June 2004 with a profit of HK\$57 million being recorded.

LIQUIDITY AND CAPITAL RESOURCES



As at 31st December 2004, total asset of the Group was HK\$1,585 million which was financed by shareholders' fund of HK\$1,225 million, minority interests of HK\$76 million and current liabilities of HK\$136 million and non-current liabilities of HK\$148 million. The current ratio of the Group was 6.2 (31st December 2003: 2.9).

During the year ended 31st December 2004, the Group recorded a net cash inflow of HK\$252 million. As at 31st December 2004, cash and cash equivalents of the Group totaled at HK\$395 million. Gearing ratio, expressed as a percentage of total borrowings over shareholders' fund, is 0.15 time as at 31 December 2004. The Group adopts a prudent treasury policy. The cash and bank balances consisted of about 35% cash and bank balances and 65% short term fixed deposits, most of which are denominated in Hong Kong dollars to maintain minimum exposure to foreign exchange risks.

As at 31st December 2004, the Group's total available banking facilities amounted to HK\$224.8 million, of which HK\$70 million were secured by margin clients listed securities, and banking facilities for HK\$49.8 million were secured by the pledging of HK\$77 million of the Group's assets. As at 31 December 2004, the Group utilized HK\$15 million of unsecured banking facilities and the amount had been matured and repaid on 5th January 2005.

Management Discussion & Analysis

SIGNIFICANT INVESTMENTS AND CAPITAL EXPENDITURE



In the past year, the Group made several very significant investments. In June 2004, the Group acquired 80% of Mocha Slot Group Limited, which owns and operates the Mocha Slot lounges, for HK\$353 million. The consideration was settled by issuing to the vendors a total of 153,478,261 of the Company's shares. In about the same time, the Company acquired the iAsia business and group (including, inter alia, to Elixir) from its subsidiary, Value Convergence, for HK\$27.9 million, which was settled by setting off indebtedness owed by the vendor to the Company. In November 2004 and February 2005, the Group purchased a total of 70% of Great Wonders, Investments, Limited ("Great Wonders") from Sociedade de Turismo e Diversoes de Macau, S.A.R.L. ("STDM") for a total consideration of HK\$156 million, which was settled by the Company's issuing two convertible notes to the vendor. In March 2005, the Group entered into a further agreement with STDM to purchase the latter's remaining 30% interest in Great Wonders for HK\$400 million. The transaction is subject to independent shareholders' approval, and will be paid for by an issue of the Company's shares to STDM. Pursuant to a Subscription Agreement dated 23rd December 2004, the Company formed a joint venture with PBL in March 2005 to undertake the new gaming and hospitality business in Macau and Asia. Following this, PBL paid a sum of US\$163 million (HK\$1.27 billion) to the joint venture in March 2005.

During the year, capital expenditure of HK\$117 million was incurred. Of this amount, HK\$92 million was used for the gaming business.

During the year, HK\$370 million was recorded as additional intangible assets which were mainly attributable to the recognition of goodwill arising from the acquisition of subsidiaries.

CONTINGENT LIABILITIES



As at 31st December 2004, the Group had provided a corporate guarantee for a subsidiary, VC Brokerage Limited, amounting to HK\$70 million (2003: HK\$50 million) to a bank in respect of banking facilities granted to the subsidiary.

EMPLOYEES



As at 31 December 2004, the Group employed a total of 710 employees (2003: 380), of which 412 are located in Hong Kong while the remaining are located in Macau and the PRC. The related staff costs for 2004, including Directors' emoluments, amounted to HK\$107 million (2003: HK\$76 million). Increase in staff costs was mainly attributed to the substantial increase in the number of employees as a result of the Group's acquisition of the Mocha Slot Group.

The Group's remuneration policy is to provide its employees with a consistent and fair remuneration system that drives the performance of the Group and the individual employees. Its key components include base salary, discretionary bonus and share option scheme. It also provides the appropriate fringe benefits and training and development opportunities to retain and attract its talents.

Corporate Governance & Investor Relations

The Group is committed to maintaining the highest standard of transparency and corporate governance, and considers Company open and frequent communication with its shareholders a priority. An Audit Committee has been set up to conduct regular and independent reviews of the Group's internal control procedures and its financial reporting processes. This committee, based on a model suggested by the Hong Kong Institute of Certified Public Accountants, is made up of two independent non-executive directors and one other non-executive director of the Company. It regularly meets with management and external auditors to review their operations and findings. The Group also maintains good communication with shareholders and the public, presenting updated corporate information at regular press meetings and road shows to investors throughout the year, as well as through its frequently updated website.

Social Responsibility

For several years now, the Group has been active in supporting charitable events and activities. Employees of the Group are also encouraged to get personally involved in such activities. The Melco Volunteer Team has been set up last year to make it easier for members to participate in activities like charity visits, raffle sales, fundraising campaigns and similar good works, both in Macau and Hong Kong.

Over the past year, Melco employees from all levels took part in a number of worthy charitable events. These included two events organised by the Community Chest: the 'Run Up Two IFC' Charity Race held in Hong Kong on 7 November 2004, and the 'Walk for a Million' fundraiser in Macau on 12 December 2004. The Group sponsored the AIDS Concern Fundraising Dinner held in November, bringing in important funding for AIDS research and support. On 7 January 2005, a HK\$1 million donation was made for the tsunami victims at the 'Cross Borders Fundraising Show'. This donation represented the sum total of personal gifts from ordinary employees to senior directors, together with a corporate contribution. It well illustrated the spirit of unity and responsibility at Melco, a spirit which will continue to be fostered in the years to come.



Management Profile

→ Dr. Stanley Ho, G.B.S

Chairman

aged 83

Dr. Ho is an outstanding entrepreneur in Asia with various key positions in both Hong Kong and Macau. In Hong Kong, he is Group Executive Chairman of Shun Tak Holdings Limited, Chairman of Value Convergence Holdings Limited 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.

Dr. Ho is Standing Committee member of the 10th National Committee of the Chinese People's Political Consultative Conference; Honorary Lifetime Chairman of The University of Hong Kong Foundation for Educational Development and Research; Founding Member of Court of The Hong Kong Polytechnic University; Trustee of Macau Foundation; Member of the Economic Council of Macau Special Administrative Region; as well as Council Member of University of Macau.

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

Dr. Ho is the holder of honorary doctorates of social sciences of The University of Hong Kong, The Hong Kong Polytechnic University and University of Macau in 2004. He was awarded the Honorary Degree of Doctor of Business Administration by The Open University of Hong Kong.

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

Management Profile

| | | |
|-------------------|-------------------------|---------|
| → Mr. Lawrence Ho | Group Managing Director | aged 28 |
|-------------------|-------------------------|---------|

Mr. Ho was appointed Managing Director of the Company in November 2001, after he made and completed a General Offer for shares of the Company. As Group Managing Director, Mr. Ho oversees and is responsible for the overall strategic development, management and operations of the Group. Mr. Ho is also 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.

Before heading Melco and Value Convergence, Mr. Ho worked at Jardine Fleming and Citibank N.A.. Mr. Ho is a graduate of the University of Toronto, Canada and holds a Bachelor of Arts degree, majoring in commerce.

Mr. Ho is a Member of The Chinese People's Political Consultative Conference, Shanghai Committee, Vice-Chairman of The Chamber of Hong Kong Listed Companies Limited, Member of All China Youth Federation, Member of Science and Technology Council of Macau Special Administrative Region, Member Macau Basic Law Promotional Association, Chairman of Macau International Volunteers Association, Board of Governors of The Canadian Chamber of Commerce in Hong Kong, Chairman of The Centre for International Child Health (China Campaign) and Director of Aids Concern. Mr. Ho is also Vice Chairman of Macau Youth Federation - Year of the Monkey Activities Organizer, Committee Member of Tianjin Chinese Overseas Friendship Association, Committee Member of Shanghai Chinese Overseas Friendship Association and Director of Guangzhou Luhua Golf & Country Club.

Management Profile

| | | |
|-------------------------|---------------------------|----------------|
| → Mr. Frank Tsui | Executive Director | aged 47 |
|-------------------------|---------------------------|----------------|

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

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

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

| | | |
|----------------------------|-------------------------------|----------------|
| → Mr. Ho Cheuk Yuet | Non-executive Director | aged 43 |
|----------------------------|-------------------------------|----------------|

Mr. Ho has 20 years of experience in research and stockbroking. Mr. Ho is currently Managing Director of CITIC Frontier China Research Limited and was previously with BOC International, HSBC Securities, UBS and CLSA respectively.

Mr. Ho graduated from The University of Hong Kong with a Bachelor degree of Social Sciences.

Mr. Ho has been a Non-Executive Director of the Company since February 2002.

| | | |
|--------------------------|-------------------------------|----------------|
| → Mr. Ng Ching Wo | Non-executive Director | aged 54 |
|--------------------------|-------------------------------|----------------|

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

Mr. Ng sits on the board of a number of companies listed in Hong Kong.

Mr. Ng has been a Non-Executive Director of the Company since September 2004.

Management Profile

| | | |
|--|---|----------------|
| → Sir Roger Lobo, C.B.E., LL.D., J.P. | Independent Non-executive Director | aged 82 |
|--|---|----------------|

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

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

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

Sir Roger was appointed Independent Non-Executive Director of the Company in February 1998.

| | |
|---|----------------|
| → Mr. Robert Kwan, M.A. (CANTAB), F.C.A., F.C.P.A., C.P.A., J.P. | aged 68 |
| Independent Non-executive Director | |

Mr. Kwan is a retired Certified Public Accountant, received his Master of Arts Degree at Cambridge University and qualified as a Fellow of the Institute of Chartered Accountants in England and Wales and Fellow of the Hong Kong Institute of Certificated Public Accountants. He was the past Chairman of Deloitte Touche Tohmatsu, Certified Public Accountants and Ocean Park Corporation.

Mr. Kwan has been active in community services and has served on numerous committees and public offices. He is currently serving as a Member of the Office of The Ombudsman, a Voting Member of Tung Wah Group of Hospitals Advisory Board, a Founding Voting Member of The University of Hong Kong Foundation for Educational Development and Research and is currently an Independent Non-executive Director of Shun Tak Holdings Limited, Cheung Kong (Holdings) Limited and Pak Fah Yeow International Limited.

Mr. Kwan was appointed Independent Non-Executive Director of the Company in February 1998.

| | | |
|----------------------------------|---|----------------|
| → Dr. Lo Ka Shui, GBS, JP | Independent Non-executive Director | aged 58 |
|----------------------------------|---|----------------|

Dr. Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited. He is a Non-Executive Director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited and China Mobile (Hong Kong) Limited. He is also a Director of Hong Kong Exchanges and Clearing Limited and a past chairman of its Listing Committees of the Main Board and the Growth Enterprises Market, a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research, and a Board Member of the Airport Authority Hong Kong.

Dr. Lo holds a Bachelor of Science (Biophysics) degree from McGill University and a M.D. from Cornell University, certified in Cardiology. He has more than 25 years' experience in the property, hotel and financial industries.

Dr. Lo has been an Independent Non-Executive Director of the Company since September 2004.

Management Profile

| | | |
|-----------------------|---|----------------|
| → Mr. Ted Chan | Assistant to Group Managing Director | aged 33 |
|-----------------------|---|----------------|

Mr. Chan is currently the Assistant and reports directly to Mr. Lawrence Ho, in the areas of overall strategic development and management of the Group. He is also a director of Mocha Slot Management Limited. He has more than 8 years of experience in investment banking and securities. Before joining the Company in June 2002, Mr. Chan worked in the capacity of Director of Development of First Shanghai Financial Holding Limited, specializing in internet trading solution and China business development. Mr. Chan graduated with a bachelor's degree in business administration from the Chinese University of Hong Kong and with a master's degree in Financial Management from the University of London.

| | | |
|---------------------------|--|----------------|
| → Mr. Samuel Tsang | Group Legal Counsel & Company Secretary | aged 50 |
|---------------------------|--|----------------|

Mr. Tsang is a solicitor admitted in Hong Kong, England and Australia. As Group Legal Counsel and Company Secretary, Mr. Tsang oversees the legal, corporate and compliance matters of the Group. Mr. Tsang has worked as a lawyer with major law firms and listed conglomerates in Hong Kong for over 15 years. He holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management. Mr. Tsang joined the Group in November 2001.

| | | |
|---|--------------------------------|----------------|
| → Mr. Clarence Chung, F.C.P.A., F.C.C.A. | Chief Financial Officer | aged 42 |
|---|--------------------------------|----------------|

Mr. Chung has more than 15 years of experience in investment banking, accounting and finance areas. Before joining the Group in December 2003, he was the chief financial officer at Megavillage Group, an investment banker at Lazard managing an Asian buy-out fund, a vice-president at Pacific Century Group; and a qualified accountant with Arthur Andersen.

Mr. Chung holds a bachelor degree in business administration from the Chinese University of Hong Kong, is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants; and a member of the Society of Management Accountants of Canada.

| | | |
|-------------------------|--------------------------------------|----------------|
| → Mr. Rodney Orr | Head of Corporate Development | aged 51 |
|-------------------------|--------------------------------------|----------------|

Mr. Rodney Orr has more than 25 years of experience in the hospitality management and information technology industries. He holds a Bachelor Degree in Commerce. He started his career in Canada and has served various renowned corporations in Hong Kong such as the Canadian Overseas Development Co Ltd, ITT Sheraton, Sino Land, PCCW, and Tickets.com. He joined the Group in August 2003, and is currently the Head of Corporate Development of the Group, as well as the General Manager of the Jumbo Catering Management Limited.

Over the past 21 years, Mr. Orr has been an active member in contributing to the community via various social and community services. He has served as a Member/co-opted member of the Provisional Tuen Mun District Board, Tuen Mun District Board, and the Yuen Long District Board. He was also a member of the Regional Advisory Committee for the Hospital Authority. Other social service involvement includes the Lions Club, Pok Oi Hospital, Hong Kong Tennis Association, Yan Oi Tong, Tuen Mun Sports Association, Home of the Handicaps Association and Community Chest - Raffle Committee.

Report of the Directors

The directors present their report and the audited accounts of the Company and of the Group for the year ended 31st December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Group's business is broadly divided into four divisions, namely (i) leisure, gaming and entertainment division; (ii) investment banking and financial services division; (iii) technology division; and (iv) property and other investments division. The activities of the principal subsidiaries are set out in note 2 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 profit of the Group for the year ended 31st December 2004 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 41 to 101.

An interim dividend of HK one cent per ordinary share (2003: Nil) was paid to shareholders on 20th October 2004 and the Directors recommend a final dividend of HK one cent per ordinary share (2003: Nil) payable to shareholders whose names are on the register of members on 18th May 2005. The total dividend payout for the year ended 31st December 2004 amounted to HK two cents per ordinary share.

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 | | | | |
|---|--------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Turnover | <u>408,076</u> | <u>165,263</u> | <u>82,838</u> | <u>99,409</u> | <u>109,175</u> |
| Net Profit/(loss) from ordinary activities attributable to shareholders | <u>65,157</u> | <u>(26,334)</u> | <u>(35,596)</u> | <u>(18,635)</u> | <u>(6,568)</u> |

Assets, liabilities and minority interests

| | 31st December | | | | |
|--------------------|------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Total assets | <u>1,584,827</u> | 674,518 | 418,769 | 410,960 | 445,655 |
| Total liabilities | <u>(283,734)</u> | (150,844) | (18,387) | (10,099) | (15,702) |
| Minority interests | <u>(75,616)</u> | <u>(62,952)</u> | <u>(24,257)</u> | <u>(26,392)</u> | <u>(28,983)</u> |
| Net assets | <u>1,225,477</u> | <u>460,722</u> | <u>376,125</u> | <u>374,469</u> | <u>400,970</u> |

Report of the Directors

DONATIONS

Charitable and other donations made by the Group during the year ended 31st December 2004 amounted to HK\$0.6 million.

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 14 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 25 and 26 respectively to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers of the Group accounted for less than 34% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for 60% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 35% 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.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the accounts and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

The Company's capital reserve in the amount of HK\$354,009,192 as at 31st December 2004 may be distributed upon the fulfillment of certain conditions, which are considered by the Company to have been fulfilled. In addition, the Company's share premium account, in the amount of HK\$567,980,593 as at 31st December 2004 (2003 – HK\$49,677,823) may be distributed in the form of fully paid bonus shares. Save as disclosed aforesaid, as at 31st December 2004, the Company had no reserve available for distribution in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Dr. Stanley Ho (*Chairman*)
Mr. Lawrence Ho (*Group Managing Director*)
Mr. Frank Tsui

Non-executive directors:

Mr. Ho Cheuk Yuet
Mr. Ng Ching Wo (redesignated as non-executive director on 10th September 2004)

Independent non-executive directors:

Sir Roger Lobo
Mr. Robert Kwan
Dr. Lo Ka Shui (appointed on 10th September 2004)

In accordance with Articles 94 and 103(A) of the Company's Articles of Association, Mr. Lawrence Ho, Mr. Frank Tsui, Mr. Ng Ching Wo and Dr. Lo Ka Shui will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Lawrence Ho and Mr. Frank Tsui has a service contract with Melco Services Limited, a wholly-owned subsidiary of the Company, commencing on 1st January 2005 which may be terminated by either party by written notice of not less than three months.

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 26 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 26 to the accounts.

Concerning the share options granted during the year to the directors, employees and others, as detailed in note 26 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.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 31 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'S INTERESTS IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31st December 2004, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "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 | Number of issued Shares interested | Number of underlying Shares interested | Approximate percentage of the total number of issued Shares (Note 1) |
|-------------------|--------------------|------------------------------------|--|---|
| Dr. Stanley Ho | Corporate | 3,649,228 (Note 2) | – | 0.79% |
| | Personal | 11,374,639 | – | 2.46% |
| Mr. Lawrence Ho | Corporate | 182,455,599 (Note 3) | 19,565,216 (Note 4) | 43.61% |
| | Personal | 1,816,306 | – | 0.39% |
| Mr. Frank Tsui | Personal | 1,800,000 | – | 0.39% |
| Mr. Ho Cheuk Yuet | Personal | 1,816,306 | – | 0.39% |
| Dr. Lo Ka Shui | Personal | 1,000,000 | – | 0.22% |

Report of the Directors

Notes:

1. As at 31st December 2004, the total number of issued shares of the Company were 463,244,054 Shares.
2. Dr. Stanley Ho is taken to be interested in 3,649,228 shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.79% of the issued share capital of the Company.
3. 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 12.47% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 124,701,087 shares as a result of him being beneficially interested in 77% of issued share capital of Better Joy Overseas Ltd. ("Better Joy") which in turn holds approximately 26.92% of the issued share capital of the Company.

Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in the shares through Better Joy are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 9.43% and 33.59% respectively of the issued share capital of the Company.

4. Two convertible notes respectively due 2005 and 2006 were issued by the Company to Better Joy on 9 June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of the Company respectively dated 19 March 2004 and 23 April 2004. As at 31st December 2004, the total outstanding principal amount of the said convertible notes is HK\$45 million. If Better Joy exercises the conversion rights attached to the said convertible notes in full at the conversion price of HK\$2.30 per Share, a total of 19,565,216 Shares will be issued to Better Joy. As Mr. Lawrence Ho is beneficially interested in 77% of issued share capital of Better Joy under Securities and Futures Ordinance, he is deemed to be interested in these 19,565,216 underlying Shares.

As mentioned above, Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If this is taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 4,500,000 underlying Shares and 15,065,216 underlying Shares of the Company.

Report of the Directors

(ii) Interests in equity derivative of the Company

| Name of Category of participant | At 1st January 2004 | Number of share options Grant during the year | Exercise during the year ⁽¹⁾ | At 31st December 2004 | Date of grant of share options ⁽²⁾ | Exercise price of share options ⁽³⁾ | Exercise period of share options |
|---------------------------------------|---------------------------|--|---|-----------------------------|--|---|---|
| Directors | | | | | | | |
| Mr. Lawrence Ho | - | 900,000 | - | 900,000 | 19th February 2004 | HK\$2.405 | 19th February 2005 to 7th March 2012 |
| | - | 900,000 | - | 900,000 | 19th February 2004 | HK\$2.405 | 19th February 2006 to 7th March 2012 |
| | <u>-</u> | <u>1,800,000</u> | <u>-</u> | <u>1,800,000</u> | | | |
| Mr. Frank Tsui | 1,816,306 | - | (1,800,000) | 16,306 | 8th March 2002 | HK\$1.00 | 8th September 2002 to 7th March 2012 |
| | - | 900,000 | - | 900,000 | 19th February 2004 | HK\$2.405 | 19th February 2005 to 7th March 2012 |
| | - | 900,000 | - | 900,000 | 19th February 2004 | HK\$2.405 | 19th February 2006 to 7th March 2012 |
| | <u>1,816,306</u> | <u>1,800,000</u> | <u>(1,800,000)</u> | <u>1,816,306</u> | | | |
| Mr. Ho Cheuk Yuet | 1,816,306 | - | (1,816,306) | - | 8th March 2002 | HK\$1.00 | 8th September 2002 to 7th March 2012 |
| Mr. Peter So ⁽⁴⁾ | 1,816,306 | - | (1,816,306) | - | 8th March 2002 | HK\$1.00 | 8th September 2002 to 7th March 2012 |
| Total | <u>5,448,918</u> | <u>3,600,000</u> | <u>(5,432,612)</u> | <u>3,616,306</u> | | | |

Notes:

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

Report of the Directors

(iii) Interests in Shares of Value Convergence

| Name of Director | Nature of interest | Number of issued shares of Value Convergence interested | Approximate percentage of the total number of issued shares of Value Convergence |
|------------------|--------------------|---|--|
| Dr. Stanley Ho | Corporate | 7,384,651 (Note 1) | 3.10% |
| Mr. Lawrence Ho | Corporate | 4,232,627 (Note 2) | 1.78% |

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.

(iv) Interest in equity derivatives of Value Convergence

| Name of Director | Nature of interest | Number of underlying shares of Value Convergence interested | Approximate percentage of the total number of issued shares of Value Convergence |
|------------------|--------------------|---|--|
| Dr. Stanley Ho | Personal | 735,000 (Note 1) | 0.31% |
| Mr. Lawrence Ho | Personal | 1,226,057 (Note 2) | 0.51% |

Notes:

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

Report of the Directors

Save as disclosed above, as at 31st December 2004, 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 Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2004, 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 | Nature of interest | Number of issued Shares interested | Number of underlying Shares interested | Approximate percentage of the total number of issued Shares (Note 1) |
|------------------------------------|--------------------|------------------------------------|--|---|
| Better Joy | Corporate | 124,701,087 (Note 2) | 19,565,216 (Notes 2 & 4) | 31.14% |
| Lasting Legend Ltd. | Corporate | 57,754,512 (Note 2) | – | 12.47% |
| Mr. Lawrence Ho | Corporate | 182,455,599 (Note 3) | 19,565,216 (Note 4) | 43.61% |
| | Personal | 1,816,306 | – | 0.39% |
| Shun Tak Shipping Company, Limited | Corporate | 39,083,147 | – | 8.44% |
| JPMorgan Chase & Co. | Corporate | 24,630,000 | – | 5.32% |

Report of the Directors

Notes:

1. As at the 31st December 2004, the total number of issued shares of the Company are 463,244,054 Shares.
2. The Shares (and underlying Shares) held by Better Joy and Lasting Legend Ltd. also represent the corporate interest of Mr. Lawrence Ho in the Company.
3. 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 12.47% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 124,701,087 shares as a result of him being beneficially interested in 77% of issued share capital of Better Joy which in turn holds approximately 26.92% of the issued share capital of the Company.

Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If their indirect shareholding interests in the shares through Better Joy are taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 9.43% and 33.59% respectively of the issued share capital of the Company.

4. Two convertible notes respectively due 2005 and 2006 were issued by the Company to Better Joy on 9th June 2004 pursuant to the Mocha Acquisition Agreements as disclosed in the announcement and the circular of the Company respectively dated 23rd March 2004 and 23rd April 2004. As at 31st December 2004, the total outstanding principal amount of the said convertible notes is HK\$45 million. If Better Joy exercises the conversion rights attached to the said convertible notes in full at the conversion price of HK\$2.30 per Share, a total of 19,565,216 Shares will be issued to Better Joy. As Mr. Lawrence Ho is beneficially interested in 77% of issued share capital of Better Joy, under the Securities and Futures Ordinance, he is deemed to be interested in these 19,565,216 underlying Shares.

As mentioned above, Dr. Stanley Ho and Mr. Lawrence Ho are beneficially interested in 23% and 77% of issued share capital of Better Joy respectively. If this is taken into account, Dr. Stanley Ho and Mr. Lawrence Ho are effectively interested in 4,500,000 underlying Shares and 15,065,216 underlying Shares of the Company.

Save as disclosed above, as at 31st December 2004, so far as is known to the Directors, there is no other person who has an interest or a short position in the shares and underlying shares (including interests in options, if any) 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 Securities and Futures Ordinance.

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 Diversoes 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.

Report of the Directors

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 34 to the accounts.

CONNECTED TRANSACTIONS

During the year, the Group has entered into the following connected transactions which are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

1. On 19th March 2004, the Company and Value Convergence Holdings Limited ("VCH"), a 67.57% indirectly owned subsidiary of the Company, put forward a conditional group reorganization ("Group Reorganization") which involved the following:–
 - a) Mocha Acquisition Agreements

The Company had entered into the Mocha Acquisition Agreements separately with each of Better Joy, Chang Wang and Chang Tan and pursuant to which the Company had conditionally agreed to buy, and each of Better Joy, Chang Wang and Chang Tan separately had conditionally agreed to sell, the relevant shares they held in the capital of Mocha Slot Group Limited ("Mocha") for an aggregate consideration of HK\$353 million, which had been satisfied by the issue and allotment of 124,701,087, 13,429,348 and 15,347,826 shares of the Company by the Company to Better Joy, Chang Wang and Chang Tan, respectively. As part of the Better Joy Sale Shares Agreement, the Company had conditionally agreed to acquire the Better Joy Shareholders' Loan (principal amount of HK\$45 million unsecured on-demand shareholders' loan granted by Better Joy to Mocha and bearing interest at a rate of 4% per annum from the date of grant) from Better Joy, and in consideration therefor, the Company issued and Better Joy subscribed the convertible notes with an aggregate principal amount of HK\$45 million. The Mocha Acquisition Agreements together constituted a major transaction of the Company. Better Joy is owned as to 77% by Mr. Lawrence Ho and 23% by Dr. Stanley Ho (both being directors of the Company, and Mr. Lawrence Ho directly and indirectly is interested in more than 10% of the issued shares of the Company) and, accordingly, the Better Joy Sale Shares Agreement constituted a connected transaction of the Company. Completion of the Mocha Acquisition Agreements took place on 9th June 2004.

Report of the Directors

b) iAsia Group Disposal Agreement

The Company and VCH had entered into the iAsia Group Disposal Agreement, pursuant to which VCH had agreed to sell and the Company had agreed to purchase the entire issued share capital of iAsia Technology Limited, a company wholly-owned by VCH and the immediate holding company of, inter alia, Eixir Group Limited, for a consideration of HK\$27.9 million. Since VCH is a non wholly-owned subsidiary of the Company, the iAsia Group Disposal Agreement constituted a connected transaction of the Company under the Listing Rules. Completion of the iAsia Group Disposal Agreement took place on 31st May 2004.

Under the iAsia Group Disposal Agreement, VCH had agreed to guarantee to Melco that the net profit (after tax and minority interest) of the iAsia Group shall not be less than HK\$4 million for the year ending 31 December 2004 ("Guarantee"), failing which VCH shall compensate the shortfall on a dollar for dollar basis. Since the iAsia Group had achieved a net profit of more than HK\$4 million for the year ended 31st December 2004 (the independent non-executive directors of the Company have confirmed that the iAsia Group has fulfilled its obligation under the Guarantee), no compensation was required to be paid by VCH to the Company under the Guarantee.

Details of the Group Reorganization had been disclosed in the announcements and circular of the Company dated 23rd March 2004 and 23rd April 2004 respectively.

2. Mocha had conditionally entered into the Equipment Leases (dated 24th July 2003 and 3rd March 2004, as the case may be) with Sociedade de Jogos de Macau, S.A. ("SJM"), being a subsidiary of Sociedade de Turismo e Diversoes de Macau, S.A.R.L. ("STDM"), for a period of ten years from the date of the commencement of operation of the relevant gaming machines at the three different sites under the respective Equipment Leases in Macau, or ending on the expiry of SJM's gambling license or the expiry of the tenancy agreement of the relevant gaming lounge, whichever is the earliest (the "Equipment Leases"). As it was expected that the transactions contemplated under the Equipment Leases would extend over a period of time and would take place on a continuing basis, the Equipment Leases constituted continuing connected transactions for the Company under the Listing Rules. The amount receivable by the Mocha from SJM under each Equipment Lease is not fixed, as it comprises a fixed monthly rental and a percentage rent based on a pre-agreed percentage of the net win from each machine leased thereunder. It was not practicable to ascertain the net win from each machine. Accordingly, for the purpose of complying with the relevant requirements of the Listing Rules in this regard, the directors of the Company have estimated (based on the projected annual revenue of the Mocha Group underlying the appraisal of the fair market value of business enterprises of Mocha as set out in the appraisal report on Mocha as at 29th February 2004 prepared by American Appraisal China Limited) that the estimated revenue receivable by the Mocha Group from SJM under the Equipment Leases will not exceed HK\$92 million, HK\$153 million and HK\$161 million for each of the three financial years ending 31st December 2006 respectively ("Annual Caps"). Details of such continuing connected transactions had been disclosed in the announcement and the circular of the Company dated 1st April 2004, 13th April 2004 and 23rd April 2004 respectively. The Annual Cap of HK\$92 million set for the year 2004 was approved by the independent shareholders of the Company at its annual general meeting held on 20th May 2004.

Report of the Directors

This continuing connected transaction has been reviewed by the independent non-executive directors of the Company. The independent non-executive directors have confirmed that the continuing connected transaction has been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and (d) had not exceeded the relevant Annual Cap referred to above.

The auditors of the Company have also confirmed that the continuing connected transaction (a) had received the approval from the Company's board of directors; (b) was in accordance with the pricing policies of the Group for transaction with SJM; (c) had been entered into in accordance with the relevant agreements governing such transaction; and (d) had not exceeded the relevant Annual Cap.

3. On 6th October 2003, Elixir Group Limited ("Elixir") (a 77.5% indirectly owned subsidiary of the Company after completion of the Group Reorganization and a wholly-owned subsidiary with effect from 16th December 2004) had conditionally entered into a service arrangement with SJM for the provision of system integration services and related maintenance services (the "Service Arrangement") for the respective aggregate amounts of approximately US\$6.5 million (HK\$50.7 million) and US\$0.61 million (HK\$4.75 million), which were measured up to the financial year ending 31st December 2005. After the completion of the iAsia Group Disposal Agreement, Elixir continued to be a non wholly-owned subsidiary of the Company and would continue to provide information technology services to SJM under the Service Arrangement. The Service Arrangement remains valid. SJM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, SJM and STDM respectively. Accordingly, the Service Arrangement and all transactions contemplated thereunder constituted connected transaction for the Company. The provision of the relevant system integration services to SJM by Elixir had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 19th November 2003. Details of the Service Arrangement were set out in the Company's circular dated 31st October 2003.
4. On 30th July 2004, Elixir entered into another service arrangement, on a conditional basis, with SJM for the provision of certain information technology related services to SJM (the "Second Service Arrangement"). Pursuant to the Second Service Arrangement, Elixir had agreed to provide to SJM such services comprising system integration services for an aggregate value of about US\$3.95 million (HK\$30.73 million) and maintenance services for the aggregate value of about US\$0.206 million (HK\$1.60 million). SJM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, SJM and STDM respectively. Accordingly, the Second Service Arrangement and all transactions contemplated thereunder constituted connected transaction for the Company. The Second Service Arrangement and all transactions contemplated thereunder had been approved by the independent shareholders of the Company at an

Report of the Directors

extraordinary general meeting of the Company held on 15th September 2004. Details of this connected transaction had been disclosed in the announcement and circular of the Company dated 30th July 2004 and 27th August 2004 respectively.

5. On 8th September 2004, the Company entered into an agreement with STDM (“First Agreement”), pursuant to which the Company would acquire a 50% equity interest in a joint venture company, which is now known as Great Wonders, Investments, Limited (“Great Wonders”), for a consideration of HK\$100 million. Great Wonders would apply for the concession of the Land located at Baixa da Taipa, Macau to be granted to it to develop a six-star hotel. The Company had agreed to issue a HK\$100 million 5-year Convertible Bond (“Convertible Bond”) to STDM to satisfy the purchase consideration. STDM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, STDM. As a result, the First Agreement and the issuance of the Convertible Bond constituted discloseable and connected transaction of the Company under the Listing Rules. The First Agreement and all transactions contemplated thereunder had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 2nd November 2004. Details of this discloseable and connected transaction had been disclosed in the announcement and circular of the Company dated 13th September 2004 and 11th October 2004 respectively. Completion of the First Agreement took place on 9th November 2004.
6. On 11th November 2004, the Company entered into another agreement with STDM (“Second Agreement”), pursuant to which the Company would buy and STDM would sell additional 20% issued share capital of Great Wonders for a consideration of HK\$56 million. Melco would issue a redeemable HK\$56 million 5-year convertible bond (“Second Convertible Bond”) to STDM to satisfy the purchase consideration. STDM is a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who is the Chairman and Executive Director of the Company, has an equity interest in, as well as being a director of, STDM. As a result, the Second Agreement, the issuance of the Second Convertible Bond constituted a major and connected transaction of the Company under the Listing Rules. The Second Agreement and all transactions contemplated thereunder had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 20th January 2005. Details of this major and connected transaction had been disclosed in the announcement and circular of the Company dated 23rd November 2004 and 5th January 2005 respectively. Completion of the Second Agreement took place on 8th February 2005 and the Group’s equity interests in Great Wonders increased from 50% to 70%.
7. On 1st June 2004, Melco Technology Group Limited, a wholly owned subsidiary of the Company, as purchaser, entered into the agreements (the “Previous Agreements”) respectively with each of Mr. Gordon Li and Mr. Leong Van Tat (collectively the “Vendors”) for an acquisition of an aggregate of 10% issued share capital of Elixir thereby increasing the shareholding interests of the Group in Elixir from 77.5% to 87.5%.

On 16th December 2004, Melco Technology Group Limited, further entered into the agreements (the “Subsequent Agreements”) respectively with each of the Vendors for a further acquisition of an aggregate of 12.5% issued share capital of Elixir for a total consideration of HK\$120,730. Completion of the Subsequent Agreements had taken place immediately after the execution of the Subsequent Agreements (the “Previous Agreements” and the Subsequent Agreements are collectively referred to as the “Acquisition Agreements”).

Report of the Directors

The Vendors, being substantial shareholders of Elixir (each holding 11.25% of the issued share capital of Elixir prior to the completion of the Previous Agreements), are connected persons for the purpose of the Listing Rules. While the Previous Agreements were regarded as a connected transaction exempted from reporting, announcement and independent shareholders' approval requirements under Rule 14A.31(2) of the Listing Rules, the Acquisition Agreements viewed as a whole constituted a connected transaction of the Company under Rule 14A.32 of the Listing Rules and was subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules. Details of this connected transaction had been disclosed in the announcement of the Company dated 16th December 2004. As a result of the completion of the Group Reorganization and the Acquisition Agreements, Elixir has become an indirect wholly-owned subsidiary of the Company.

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 (which applied before the amendment of the Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January 2005), 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of the Independent non-executive directors of the Company and the Company considers all existing independent non-executive directors to be independent.

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 two independent non-executive directors of the Company, namely Sir Roger Lobo, Mr. Robert Kwan, and a non-executive director, Mr. Ng Ching Wo.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and will not offer themselves for re-appointment as auditors in the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting to appoint Deloitte Touche Tohmatsu as the Company's auditors at remuneration to be fixed by the Board of Directors.

ON BEHALF OF THE BOARD

Dr. Stanley Ho
Chairman

Hong Kong, 7th April 2005

Report of the Auditors



羅兵咸永道會計師事務所

PricewaterhouseCoopers
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AUDITORS' REPORT TO THE SHAREHOLDERS OF MELCO INTERNATIONAL DEVELOPMENT LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the accounts of Melco International Development Limited (the "Company") and its subsidiaries (together as the "Group") on pages 41 to 101 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 7th April 2005

Consolidated Profit and Loss Account

For the year ended 31st December 2004

| | | 2004 | 2003 |
|--|-------------|-------------------------|------------------|
| | <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 2 | 408,076 | 165,263 |
| Other revenues | 2 | 8,102 | 4,267 |
| Other (loss)/income | 3 | (2,113) | 10,186 |
| Cost of inventories sold | | (157,183) | (36,703) |
| Staff costs (including directors' emoluments) | 10 | (107,120) | (76,499) |
| Depreciation of fixed assets | | (17,683) | (16,154) |
| Amortisation of trading rights | | (507) | (464) |
| Amortisation of goodwill | | – | (2,614) |
| Gain on disposal of investment properties | 14(d) | 57,176 | – |
| Commission expense | | (50,607) | (26,088) |
| Other operating expenses | 31(d) | (61,809) | (51,968) |
| Total operating expenses | | <u>(337,733)</u> | <u>(210,490)</u> |
| Operating profit/(loss) | 4 | 76,332 | (30,774) |
| Finance costs | 5 | (4,199) | (2,007) |
| Profit/(loss) before taxation | | 72,133 | (32,781) |
| Taxation | 6 | (2,490) | (1,201) |
| Profit/(loss) after taxation | | 69,643 | (33,982) |
| Minority interests | | (4,486) | 7,648 |
| Profit/(loss) attributable to shareholders | 7 | <u>65,157</u> | <u>(26,334)</u> |
| Dividends | 8 | <u>8,451</u> | <u>–</u> |
| Basic earnings/(loss) per share (HK cents) | 9 | <u>20.06</u> | <u>(15.89)</u> |
| Fully diluted earnings/(loss) per share (HK cents) | 9 | <u>18.33</u> | <u>N/A</u> |

Consolidated Balance Sheet

As at 31st December 2004

| | Note(s) | 2004 HK\$'000 | 2003 HK\$'000 |
|--|--------------|------------------|------------------|
| Non-current assets | | | |
| Goodwill | 12 | 389,937 | 19,705 |
| Trading rights | 13 | 2,786 | 3,293 |
| Fixed assets | 14 | 204,174 | 187,916 |
| Investment in a jointly controlled entity | 16 | 100,000 | – |
| Investment securities | 17 | 27,754 | 20,637 |
| Pledged bank deposits | 29 | 177 | 304 |
| Long term deposits | | 14,780 | 4,219 |
| Other non-current assets | | 547 | 4,542 |
| | | <u>740,155</u> | <u>240,616</u> |
| Current assets | | | |
| Amount due from a jointly controlled entity | 16 | 25,145 | – |
| Inventories | 18 | 3,768 | 4,137 |
| Trade receivables | 19, 31(b) | 337,014 | 236,390 |
| Prepayments, deposits and other receivables | 31(a), 31(b) | 40,919 | 9,150 |
| Other investments | 20 | 40,641 | 40,638 |
| Amounts due from related companies | 21 | 1,119 | 429 |
| Tax recoverable | | – | 387 |
| Certificate of deposit | | 1,100 | – |
| Bank balances and cash | | 394,966 | 142,771 |
| | | <u>844,672</u> | <u>433,902</u> |
| Current liabilities | | | |
| Trade payables | 22 | 60,462 | 110,538 |
| Accrued liabilities and other payables | 31(c) | 35,153 | 39,575 |
| Taxation payable | | 1,888 | – |
| Finance lease payable | 23 | 817 | – |
| Short-term bank borrowings, unsecured | | 15,000 | – |
| Convertible notes due within one year | 24 | 22,500 | – |
| | | <u>135,820</u> | <u>150,113</u> |
| Net current assets | | <u>708,852</u> | <u>283,789</u> |
| Total assets less current liabilities | | <u>1,449,007</u> | <u>524,405</u> |
| Financed by: | | | |
| Share capital | 25 | 463,244 | 221,997 |
| Reserves | 27 | 762,233 | 238,725 |
| Shareholders' funds | | <u>1,225,477</u> | <u>460,722</u> |
| Minority interests | | <u>75,616</u> | <u>62,952</u> |
| Non-current liabilities | | | |
| Rental deposits | | – | 407 |
| Convertible notes | 24 | 122,500 | – |
| Shareholders' loan | 31(d)(viii) | 23,158 | – |
| Deferred tax liabilities | 6 | 2,256 | 324 |
| | | <u>1,449,007</u> | <u>524,405</u> |

Balance Sheet

As at 31st December 2004

| | <i>Note</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|-------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Fixed assets | 14 | – | – |
| Interest in subsidiaries | 15 | 918,761 | 389,624 |
| Investment in jointly controlled entity | 16 | 100,000 | – |
| | | <u>1,018,761</u> | <u>389,624</u> |
| Current assets | | | |
| Prepayments, deposits and other receivables | | 124 | 673 |
| Bank balances and cash | | 279,287 | 15,440 |
| | | <u>279,411</u> | <u>16,113</u> |
| Current liabilities | | | |
| Accrued liabilities and other payables | | 1,108 | 3,742 |
| Convertible notes due within one year | 24 | 22,500 | – |
| | | <u>23,608</u> | <u>3,742</u> |
| Net current assets | | <u>255,803</u> | <u>12,371</u> |
| Total assets less current liabilities | | <u>1,274,564</u> | <u>401,995</u> |
| Financed by: | | | |
| Share capital | 25 | 463,244 | 221,997 |
| Reserves | 27 | 688,820 | 179,998 |
| Shareholders' funds | | 1,152,064 | 401,995 |
| Non-current liabilities | | | |
| Convertible notes | 24 | 122,500 | – |
| | | <u>1,274,564</u> | <u>401,995</u> |

Consolidated Statement of Changes in Equity

For the year ended 31st December 2004

| | <i>Note(s)</i> | 2004 HK\$'000 | 2003 HK\$'000 |
|---|----------------|--------------------------------|-----------------------|
| Total equity as at 1st January | | 460,722 | 376,124 |
| Surplus on revaluation of properties, not recognised in the profit and loss account | 27 | – | 3,734 |
| Profit/(loss) for the year | 27 | 65,157 | (26,334) |
| Realisation of investment properties revaluation reserve upon disposal | 27 | (56,176) | – |
| Issue of rights shares, including share premium | 25, 27 | – | 105,333 |
| Issue of shares, including share premium | 25, 27 | 759,191 | – |
| Share issue expenses | 27 | (16,576) | (2,441) |
| Exercise of share options | 25, 27 | 16,935 | 4,306 |
| Dividends paid | 8, 27 | (3,776) | – |
| Total equity as at 31st December | | <u>1,225,477</u> | <u>460,722</u> |

Consolidated Cash Flow Statement

For the year ended 31st December 2004

| | Note(s) | 2004 HK\$'000 | 2003 HK\$'000 |
|--|-----------|------------------|------------------|
| Net cash used in operation | 28(a) | (154,349) | (43,931) |
| Hong Kong profits tax refund/(paid) | | 849 | (877) |
| Net cash outflow from operating activities | | <u>(153,500)</u> | <u>(44,808)</u> |
| Investing activities | | | |
| Purchase of subsidiaries in 2003 | 28(c)(ii) | – | 22,142 |
| Purchase of subsidiaries in 2004 | 28(c)(i) | 10,265 | – |
| Direct expenses incurred for acquisition of additional interests of subsidiaries in Technology segment | 28(d) | (250) | – |
| Proceeds from partial disposal of investment in a subsidiary | | – | 4,200 |
| Interest income from authorised financial institutions | | 446 | 712 |
| Dividend income | | 938 | 200 |
| Purchase of fixed assets | | (49,770) | (8,366) |
| Decrease/(increase) in pledged bank deposits | | 127 | (184) |
| Proceeds from disposal of investment property | | 83,000 | – |
| Proceeds from disposal of other fixed assets | | 2,168 | 326 |
| Purchase of investment securities | | (4,000) | (19,837) |
| Purchases of other investments less proceeds from subsequent disposals | | (2,112) | (30,452) |
| Disposal of other investments acquired in previous years | | – | 4,000 |
| Increase in amount due from a jointly controlled entity | | (25,145) | – |
| Increase in long term deposits | | (10,561) | – |
| Decrease/(increase) in other non-current assets | | 405 | (3,247) |
| Net cash inflow/(outflow) from investing activities | | <u>5,511</u> | <u>(30,506)</u> |
| Net cash outflow before financing | | <u>(147,989)</u> | <u>(75,314)</u> |
| Financing activities | | | |
| Proceeds from exercise of share options | 28(b) | 16,935 | 4,306 |
| Proceeds from issue of rights shares | 28(b) | – | 105,333 |
| Proceeds from issue of shares | 28(b) | 394,680 | – |
| Share issuance expenses | 28(b) | (16,576) | (2,441) |
| Interest paid | | (4,199) | (2,007) |
| Repayment of finance lease | 28(b) | (482) | – |
| Repayment of bank loan | 28(b) | – | (106,335) |
| Short-term bank borrowings, net | 28(b) | 15,000 | – |
| Dividend paid | | (3,776) | – |
| Repayment of former shareholders' loans | 28(b) | (24,556) | – |
| Increase in shareholders' loan | 28(b) | 23,158 | – |
| Net cash inflow/(outflow) from financing | | <u>400,184</u> | <u>(1,144)</u> |
| Increase/(decrease) in cash and cash equivalents | | 252,195 | (76,458) |
| Cash and cash equivalents at the beginning of year | | 142,771 | 219,229 |
| Cash and cash equivalents at the end of year | | <u>394,966</u> | <u>142,771</u> |
| Analysis of balances of cash and cash equivalents | | | |
| Bank balances and cash | | 136,719 | 125,770 |
| Time deposits with original maturity of less than three months when acquired | | 258,247 | 17,001 |
| | | <u>394,966</u> | <u>142,771</u> |

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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except the other investments and the investment properties which are carried at fair value as described below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("New HKFRSs") which are effective for accounting period beginning on or after 1st January 2005. The Group has not early adopted these New HKFRSs in the accounts for the year ended 31st December 2004 except for Hong Kong Financial Reporting Standard No. 3 "Business Combination" ("HKFRS 3"), Hong Kong Accounting Standard No. 36 "Impairment of Assets" ("HKAS 36") and Hong Kong Accounting Standard No. 38 "Intangible Assets" ("HKAS 38"). The Group has already commenced an assessment of the impact of the remaining new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The early adoption of HKFRS 3 has resulted in a prospective change in the accounting policy for goodwill and negative goodwill. Up to 31st December 2003, goodwill was amortised using the straight-line method over its estimated useful life of 10 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount. With the adoption of HKFRS 3, the Group has ceased to amortise goodwill from 1st January 2004 and accumulated amortisation as at 31st December 2003 has been eliminated with a corresponding decrease in the cost of goodwill. From 1st January 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment. The Group has reassessed the useful lives of its other intangible assets and no adjustment has resulted from this reassessment.

Up to 31st December 2003, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately. From 1st January 2004 onwards, negative goodwill is recognised immediately to the profit and loss account after assessment of the identifiable assets, liabilities and contingent liabilities of the business combination.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The effect of adopting these new policies is set out in Note 1(f) below.

The early adoption of HKAS 36 and HKAS 38 have no material impact to the accounts of the Group.

The principal accounting policies below have taken into account the adoption of the new standards.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. 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 intercompany 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 of the voting power or holds more than half of the issued share capital.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. The consolidated balance sheet includes the Group's share of net assets of the jointly controlled entity and goodwill/negative goodwill on acquisition.

In the Company's balance sheet, the investments in jointly controlled entity are stated at cost less provision for impairment losses. The results of the jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Revenue recognition

Revenue from leasing of electronic gaming machines and provision of ancillary management services to the lessees is recognised on an accrual basis in accordance with the contractual terms of the respective leasing agreements.

Revenue from the provision of catering services, technology consultation services, management fees and investment banking and financial services; and underwriting commission income are recognised when the services are rendered.

Revenue from sales of computer hardware and software are recognised over the period of the contract based on the percentage of completion method, which is measured by reference to the costs incurred to date as a percentage of total estimated costs for each contract.

Revenue from the sale of other products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

All transactions related to securities trading, futures and options contracts dealings and the related commission income are recorded in the accounts based on trade dates. Accordingly, only those transactions whose trade dates fall within the accounting period have been taken into account.

Operating lease rental income is recognised on a straight-line basis over the lease terms.

Interest income from authorised financial institutions are 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.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries at the date of acquisition.

Prior to 1st January 2004, goodwill on acquisition is amortised using the straight-line method over its estimated useful life of 10 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

On 1st January 2004, the Group has early adopted HKFRS 3 issued by HKICPA. All changes in the accounting policies have been made prospectively. There was no impact on opening retained earnings at 1st January 2004 from the adoption of HKFRS 3. Goodwill amortisation of approximately HK\$22,633,000 was not charged for the year ended 31st December 2004 upon the adoption of HKFRS 3. Instead, goodwill will be tested at least annually for impairment.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Goodwill (continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's primary reporting segment. An impairment loss is recognised for the amount by which the goodwill's carrying amount exceeds its recoverable amount.

Negative goodwill represents the excess of the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition. As a result of the early adoption of HKFRS 3, the negative goodwill will be recognised to the profit and loss account.

(g) Trading rights

Trading rights, representing rights to trade on The Stock Exchange of Hong Kong Limited ("SEHK") and Hong Kong Futures Exchange Limited ("HKFE"). They are stated at cost and amortised using the straight-line method over its estimated useful life of 10 years from 6th March 2000, the effective day of the merger of the SEHK, HKFE and Hong Kong Securities Clearing Company Limited.

Trading rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the trading rights' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of assessing impairment, trading rights are grouped at the lowest levels for which these are separately identifiable cashflows (cash generating units).

(h) Fixed assets

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and rental income being negotiated at arm's length.

Investment properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of the reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Fixed assets (continued)

(ii) Construction in progress

Construction in progress are investments in restaurant and vessels on which construction and renovation work has not been completed. The construction in progress are carried at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the construction in progress are transferred to the respective categories of fixed assets at cost less accumulated impairment losses.

(iii) Other fixed assets

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

(iv) Depreciation

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Leasehold land of other properties is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight- line basis. The principal annual rates are as follows:

| | |
|--|--|
| Restaurants, vessels, ferries and pontoons | 5% to 10% |
| Long term leasehold land | over the lease terms |
| Long term leasehold buildings | 2.5% |
| Leasehold improvements | 20% or over the lease terms, whichever is shorter |
| Furniture, fixtures and equipment | 10% to 20% |
| Machinery | 10% |
| Motor vehicle | 20% |

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

(v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the tangible and intangible 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 except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties 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.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Investments in securities

(i) *Investment securities*

Investment securities are stated at cost less any impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(j) Inventories

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.

(k) Contracts in progress

Contract revenue and contract costs are recognised based on the percentage of completion method as detailed in note 1(e). When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the cost incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on contracts, under current liabilities. Costs incurred in the period in connection with future activity on a contract are excluded and shown as work-in-progress included in inventories.

Amounts due from customers on contracts are included in prepayments, deposits and other receivables.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Trade receivables

Impairment losses are made against trade receivable to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such impairment losses.

(m) 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 at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(n) 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.

(o) Employee benefits

(i) Pension obligations

The Group operates a mandatory provident fund and a defined contribution scheme, the assets of which are held in separate trustee-administered funds. The mandatory provident fund is funded by the Group and the employee. The defined contribution scheme is funded by the Group.

The Group's contributions to both retirement benefits schemes are expensed as incurred. The Group's mandatory contributions to the mandatory provident fund are vested immediately. The Group's contributions to the defined contribution scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(ii) Employee leave and long service payment entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time such leave is taken.

(iii) Profit sharing and bonus plans

The expected costs of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Contingent liabilities and contingent assets

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, it will then be recognised as a provision.

A contingent asset is a possible asset 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.

A contingent asset is not recognised but is disclosed in the notes to the accounts, when necessary, when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of acquisition. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Assets under leases

(i) *Finance leases (where the Group is a lessee)*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over their estimated useful lives.

(ii) *Operating leases (where the Group is a lessee)*

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.

(iii) *Operating leases (where the Group is a lessor)*

Assets leased out under operating leases are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. The basis of revenue recognition for leasing income is set out in note 1(e) to the accounts.

(t) Translation of foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars 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 balance sheet of subsidiaries expressed in foreign currencies are translated in Hong Kong dollars 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 in this case are dealt with as a movement in reserves.

(u) Segregated accounts

Segregated accounts maintained by the Group to hold clients' monies are treated as off-balance sheet items. As at 31st December 2004, the Group maintained segregated accounts with HKFE Clearing Corporation Limited ("HKCC") and the authorised financial institutions in conjunction with its futures and brokerage businesses as a result of its normal financial services business transactions with amounts of HK\$1,390,000 (2003: HK\$6,116,000) and HK\$232,532,000 (2003: HK\$249,349,000), respectively, which are not otherwise dealt with in the accounts.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(v) Legal reserve

All entities incorporated in Macau are required to set aside a minimum of 10% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. Such legal reserve represents an amount set aside from the profit and loss account and is not available for distribution to the shareholders of the entity.

The appropriation of legal reserve is recorded in accounts in the period in which it is approved by the board.

(w) 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 segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets comprise all current and non-current assets and exclude investment properties and investment securities. Segment liabilities comprise all operating liabilities and exclude items such as taxation, deferred taxation, shareholder's loan and convertible notes. 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 and total assets and capital expenditure are where the assets are located.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group's business can be principally segregated to four segments during the year:

The leisure and entertainment segment, which mainly comprises (a) leasing of electronic gaming machines and provision of ancillary management services to casino operators in Macau and (b) provision of catering services.

The technology segment, which mainly comprises (a) provision of gaming technology consultation services in Macau and (b) development and sale of financial trading and settlement systems in Asia.

The investment banking and financial services segment (operated through Value Convergence Holdings Limited), which mainly comprises (a) provision of corporate finance advisory service, initial public offerings and mergers and acquisition advisory services; and (b) broking and dealing for clients in securities, futures and options contracts.

The property and other investments segment, which mainly comprises property investments, other investments and related activities. One of the investment properties of this segment was disposed of during the year at a gain of approximately HK\$57 million.

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Revenues recognised during the year are as follows:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Turnover | | |
| – Leisure and entertainment segment | 123,007 | 54,861 |
| – Technology segment | 154,799 | 29,203 |
| – Investment banking and financial services segment | 126,404 | 75,504 |
| – Property and other investments segment (<i>Note</i>) | 3,866 | 5,695 |
| | <u>408,076</u> | <u>165,263</u> |
| Other revenue | | |
| Dividend income | 938 | 200 |
| Management fee from a jointly controlled entity (<i>Note 31d(xi)</i>) | 6,671 | – |
| Others | 493 | 4,067 |
| | <u>8,102</u> | <u>4,267</u> |
| Total revenues | <u><u>416,178</u></u> | <u><u>169,530</u></u> |

Note:

Certain comparative figures have been reclassified to conform with current year's presentation.

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments

| | Year ended/As at 31st December 2004 | | | | |
|--|--|------------------------|--|---|-------------------|
| | Leisure and entertainment HK\$'000 | Technology HK\$'000 | Investment banking and financial services HK\$'000 | Property and other investments HK\$'000 | Group HK\$'000 |
| Revenues | | | | | |
| Segment turnover | 123,431 | 169,440 | 128,634 | 3,866 | 425,371 |
| Inter-segment sales | (424) | (14,641) | (2,230) | – | (17,295) |
| | <u>123,007</u> | <u>154,799</u> | <u>126,404</u> | <u>3,866</u> | <u>408,076</u> |
| Segment results | <u>5,636</u> | <u>14,504</u> | <u>14,783</u> | <u>65,334</u> | 100,257 |
| Unallocated costs | | | | | <u>(23,925)</u> |
| Operating profit | | | | | <u>76,332</u> |
| Segment assets | 598,842 | 57,226 | 433,372 | 290,633 | 1,380,073 |
| Investment in jointly controlled entity | – | – | – | 100,000 | 100,000 |
| Unallocated assets | | | | | <u>104,754</u> |
| Total assets | | | | | <u>1,584,827</u> |
| Segment liabilities | 24,325 | 22,497 | 62,675 | 1,935 | 111,432 |
| Unallocated liabilities | | | | | <u>172,302</u> |
| Total liabilities | | | | | <u>283,734</u> |
| Other segment information: | | | | | |
| Depreciation of fixed assets | 11,519 | 591 | 4,390 | 1,183 | 17,683 |
| Amortisation of trading rights | – | – | 507 | – | 507 |
| Reversal of impairment of investment securities | – | – | – | (3,117) | (3,117) |
| Negative goodwill | – | 1,204 | – | – | 1,204 |
| Capital expenditures | 114,520 | 422 | 669 | 1,098 | 116,709 |
| Goodwill | 361,427 | 8,805 | – | – | 370,232 |
| Impairment of doubtful receivables | – | 323 | 1,587 | – | 1,910 |

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Year ended/As at 31st December 2003

| | Leisure and entertainment <i>HK\$'000</i> | Technology <i>HK\$'000</i> | Investment banking and financial services <i>HK\$'000</i> | Property and other investments <i>HK\$'000</i> | Group <i>HK\$'000</i> |
|------------------------------------|---|-------------------------------|---|---|--------------------------|
| Revenues | | | | | |
| Segment turnover | 55,143 | 29,506 | 75,504 | 5,695 | 165,848 |
| Inter-segment sales | (282) | (303) | – | – | (585) |
| | <u>54,861</u> | <u>29,203</u> | <u>75,504</u> | <u>5,695</u> | <u>165,263</u> |
| Segment results | <u>(11,713)</u> | <u>(9,413)</u> | <u>3,005</u> | <u>2,258</u> | <u>(15,863)</u> |
| Unallocated costs | | | | | <u>(14,911)</u> |
| Operating loss | | | | | <u>(30,774)</u> |
| Segment assets | 33,596 | 25,662 | 389,105 | 46,131 | 494,494 |
| Unallocated assets | | | | | <u>180,024</u> |
| Total assets | | | | | <u>674,518</u> |
| Segment liabilities | 8,246 | 23,323 | 113,443 | 5,508 | 150,520 |
| Unallocated liabilities | | | | | <u>324</u> |
| Total liabilities | | | | | <u>150,844</u> |
| Other segment information: | | | | | |
| Depreciation of fixed assets | 4,324 | 6,277 | 3,615 | 1,938 | 16,154 |
| Amortisation of trading rights | – | – | 464 | – | 464 |
| Amortisation of goodwill | – | – | 2,614 | – | 2,614 |
| Capital expenditures | 312 | 12,980 | 11,359 | 2,192 | 26,843 |
| Impairment of assets | – | 3,080 | – | 1,200 | 4,280 |
| Impairment of doubtful receivables | – | 122 | 1,934 | – | 2,056 |

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

| | Year ended 31st December 2004/ As at 31st December 2004 | | | |
|--|--|---------------------------------------|------------------------------------|---|
| | Turnover <i>HK\$'000</i> | Segment results <i>HK\$'000</i> | Total assets <i>HK\$'000</i> | Capital expenditure <i>HK\$'000</i> |
| Hong Kong | 209,327 | 79,519 | 1,236,304 | 23,551 |
| The People's Republic of China excluding Hong Kong and Macau ("PRC") | 263 | (2,502) | 2,333 | 963 |
| Macau | 198,486 | 23,240 | 218,436 | 92,195 |
| | <u>408,076</u> | <u>100,257</u> | <u>1,457,073</u> | <u>116,709</u> |
| Unallocated costs | | <u>(23,925)</u> | | |
| Operating profit | | <u>76,332</u> | | |
| Investment in a jointly controlled entity | | | 100,000 | |
| Investment Securities | | | <u>27,754</u> | |
| Total assets | | | <u>1,584,827</u> | |
| | Year ended 31st December 2003/ As at 31st December 2003 | | | |
| | Turnover <i>HK\$'000</i> | Segment results <i>HK\$'000</i> | Total assets <i>HK\$'000</i> | Capital expenditure <i>HK\$'000</i> |
| Hong Kong | 144,901 | (15,715) | 631,548 | 24,504 |
| The PRC | – | (501) | 614 | 564 |
| United Kingdom | – | – | 992 | – |
| Macau | 20,362 | 353 | 20,727 | 1,775 |
| | <u>165,263</u> | <u>(15,863)</u> | <u>653,881</u> | <u>26,843</u> |
| Unallocated costs | | <u>(14,911)</u> | | |
| Operating loss | | <u>(30,774)</u> | | |
| Investment securities | | | <u>20,637</u> | |
| Total assets | | | <u>674,518</u> | |

Notes to the Accounts

3 OTHER (LOSS)/INCOME

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Realised (loss)/gain on trading of other investments | (3,425) | 9,228 |
| Unrealised gain on holding of other investments | <u>1,312</u> | <u>958</u> |
| Total | <u><u>(2,113)</u></u> | <u><u>10,186</u></u> |

4 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Crediting | | |
| Rental income | | |
| Gross | 4,178 | 5,467 |
| Outgoings | <u>(82)</u> | <u>(84)</u> |
| Net of outgoings | <u>4,096</u> | <u>5,383</u> |
| Gain on disposal of investment properties | 56,176 | – |
| Gain on disposal of other fixed assets | 1,400 | – |
| Reversal of impairment of investment securities | 3,117 | – |
| Negative goodwill | <u>1,204</u> | <u>–</u> |
| Charging | | |
| Loss on disposal of other fixed assets | – | 478 |
| Impairment of fixed assets | – | 3,080 |
| Impairment of investment securities | – | 1,200 |
| Impairment of doubtful receivables | 1,910 | 2,056 |
| Operating leases in respect of land and buildings | 9,342 | 6,009 |
| Auditors' remuneration | <u>2,298</u> | <u>674</u> |

Notes to the Accounts

5 FINANCE COSTS

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Interest on bank loans and overdrafts wholly repayable within five years | 3,043 | 1,967 |
| Interest expense on finance lease | 27 | – |
| Interest on a shareholder's loan (<i>Note 31(d)(viii)</i>) | 23 | – |
| Interest on former shareholders' loans | 95 | – |
| Interest on convertible notes (<i>Note 31(d)(ix)</i>) | 1,011 | – |
| Others | – | 40 |
| | <u>4,199</u> | <u>2,007</u> |

6 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Current taxation: | | |
| – Hong Kong profits tax | 1,668 | 354 |
| – (Over)/under provisions in prior years | (848) | 523 |
| Deferred taxation relating to the origination and reversal of timing differences | 1,670 | 324 |
| | <u>2,490</u> | <u>1,201</u> |
| Taxation charges | <u>2,490</u> | <u>1,201</u> |

Notes to the Accounts

6 TAXATION (continued)

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|---------------------|---------------------|
| Profit/(loss) before taxation | <u>72,133</u> | <u>(32,781)</u> |
| Calculated at a taxation rate of 17.5% (2003: 17.5%) | 12,623 | (5,737) |
| Effect of different taxation rates in Macau | (392) | 5 |
| Income not assessable for taxation purposes | (9,463) | – |
| Expenses not deductible for taxation purposes | 89 | 457 |
| Utilisation of previously unrecognised tax losses | (5,536) | (71) |
| (Over)/under provision of current taxation in prior years | (848) | 523 |
| Unrecognised deferred tax assets arising from estimated tax losses | <u>6,017</u> | <u>6,024</u> |
| Taxation charge | <u><u>2,490</u></u> | <u><u>1,201</u></u> |

Deferred income tax assets are recognised to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The major components of the net deferred tax liabilities provided for at the balance sheet date are as follows:

| | Group | |
|---|---------------------|-------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| As at 1st January | 324 | – |
| Acquisition of subsidiary (note 28(c)(i)) | 262 | – |
| Charged to profit and loss account | <u>1,670</u> | <u>324</u> |
| | <u><u>2,256</u></u> | <u><u>324</u></u> |

Notes to the Accounts

6 TAXATION (continued)

The movement in deferred tax liabilities during the year is as follows:

| | Accelerated tax depreciation | | Others | | Total | |
|---|---------------------------------|----------|----------|------------|--------------|------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st January | – | – | 324 | – | 324 | – |
| Acquisition of subsidiary (note 28(c)(i)) | 262 | – | – | – | 262 | – |
| Charged/(credited) to profit and loss account | 1,994 | – | (324) | 324 | 1,670 | 324 |
| At 31st December | <u>2,256</u> | <u>–</u> | <u>–</u> | <u>324</u> | <u>2,256</u> | <u>324</u> |

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

| | Group | |
|-------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Accelerated depreciation allowances | 2,998 | 3,147 |
| Tax losses | (63,095) | (78,101) |
| | <u>(60,097)</u> | <u>(74,954)</u> |

| | Company | |
|-------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Accelerated depreciation allowances | – | – |
| Tax losses | (2,076) | (2,513) |
| | <u>(2,076)</u> | <u>(2,513)</u> |

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 and the tax bureau in Macau. These tax losses have no expiry date.

Notes to the Accounts

7 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the accounts of the company to the extent of a loss of HK\$5,705,000 (2003: loss of HK\$8,685,000).

8 DIVIDENDS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|---------------------|------------------|
| Interim dividends – HK\$0.01 (2003: Nil) per ordinary share | 3,776 | – |
| Final dividends – Proposed HK\$0.01 (2003: Nil) per ordinary share (<i>Note</i>) | <u>4,675</u> | <u>–</u> |
| | <u><u>8,451</u></u> | <u><u>–</u></u> |

Note: At a board of directors meeting held on 7th April 2005, the directors proposed a final dividend of HK\$0.01 per ordinary share of the year 2004. This proposed dividend has not been reflected as a dividend payable in the accounts and will be reflected as an appropriation for the year ending 31st December 2005.

9 EARNINGS/(LOSS) PER SHARE

The calculations of basic earnings/(loss) per share are based on (i) the Group's net profit/(loss) attributable to shareholders of HK\$65,157,000 (2003: loss of HK\$26,334,000), and (ii) 324,834,445 (2003: 165,762,626) weighted average ordinary shares in issue during the year.

The calculations of diluted earnings per share for the year ended 31st December 2004 are based on (i) the adjusted net profit attributable to shareholders of approximately HK\$65,991,000 which is the net profit attributable to the shareholders for the year adjusted for interest expense of approximately HK\$834,000, and (ii) 324,834,445 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 16,340,475 ordinary shares deemed to be issued at no consideration if all outstanding share options with dilutive effect on basic earnings/(loss) per share had been exercised and the weighted average number of 18,799,001 ordinary shares deemed to be issued if all the convertible notes have been converted into ordinary shares since their issuance.

The diluted loss per share for the year ended 31st December 2003 has not been presented as the conversion of potential ordinary shares would have anti-dilutive effect to the basic loss per share.

Notes to the Accounts

10 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Wages, salaries and staff welfare | 103,210 | 73,336 |
| Unutilised annual leave | (17) | 1,086 |
| Termination benefits | 810 | 1,175 |
| Social security costs | 54 | – |
| Provision for long service payment | (118) | (27) |
| Pension costs – defined contribution plans | 3,390 | 3,056 |
| Forfeiture of pension contribution | (209) | (2,127) |
| | <u>107,120</u> | <u>76,499</u> |

11 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors (including ex-director) of the Company during the year are as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Fees | | |
| Executive Directors | 10 | 10 |
| Independent Non-executive Directors | 869 | 854 |
| Non-executive Directors | 109 | 87 |
| | <u>988</u> | <u>951</u> |
| Other emoluments: | | |
| Basic salaries, housing allowances, other allowances and benefits in kind | | |
| Executive Directors | 3,628 | 3,557 |
| Independent Non-executive Directors | – | – |
| Non-executive Directors | – | – |
| Retirement benefits scheme contributions | | |
| Executive Directors | 24 | 27 |
| Independent Non-executive Directors | – | – |
| Non-executive Directors | – | – |
| | <u>3,652</u> | <u>3,584</u> |
| | <u>4,640</u> | <u>4,535</u> |

During the year, 3,600,000 (2003: nil) share options were granted to directors of the Company in respect of their services provided to the Group, further details of which are set out in note 26 to the accounts. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' emoluments disclosure.

Notes to the Accounts

11 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

During the year, one new Independent Non-executive Director has been appointed and one Independent Non-executive Director has been re-designated as Non-executive Director. None of the three existing Independent Non-executive Directors received any emoluments except for director fees of approximately HK\$300,000 (2003: HK\$300,000), HK\$300,000 (2003: HK\$300,000) and HK\$62,000 (2003: nil), which were paid to each of the three Independent Non-executive Directors respectively during the year ended 31st December 2004. The director fee paid to the Independent Non-executive Director re-designated was approximately HK\$207,000 (2003: HK\$254,000).

During the year, one Non-executive Director had resigned and one Independent Non-executive Director has been re-designated as Non-executive Director. None of the two existing Non-executive Directors received any emoluments except for director fees of approximately HK\$50,000 (2003: HK\$50,000) and HK\$46,000 (2003: nil), which were paid to each of the two Non-executive Directors respectively during the year ended 31st December 2004. The director fee paid to the Non-executive Director resigned was approximately HK\$13,000 (2003: HK\$37,000).

One (2003: One) Executive Director of the Company received director fee of approximately HK\$10,000 (2003: HK\$10,000). Another two (2003: two) Executive Directors received emoluments of approximately HK\$1,729,000 (2003: HK\$1,729,000) and HK\$1,899,000 (2003: HK\$1,729,000) during the year ended 31st December 2004. One Executive Director has been re-designated as Non-executive Director for the year ended 31st December 2003, for which the emolument paid to the Executive Director re-designated was approximately HK\$99,000.

All these emoluments were included in the Directors' emoluments as disclosed above.

The emoluments of the directors (including ex-director) fell within the following bands:

| | Number of directors | |
|-------------------------------|---------------------|----------|
| | 2004 | 2003 |
| Emolument bands | | |
| HK\$nil – HK\$1,000,000 | 7 | 6 |
| HK\$1,500,001 – HK\$2,000,000 | <u>2</u> | <u>2</u> |

Notes to the Accounts

11 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: three) individuals during the year are as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits in kind | 7,407 | 7,602 |
| Retirement benefits scheme contributions | 35 | 28 |
| | <u>7,442</u> | <u>7,630</u> |

The emoluments fell within the following bands:

| | 2004 | 2003 |
|-------------------------------|----------|----------|
| Emolument bands | | |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 1 |
| HK\$1,500,001 – HK\$2,000,000 | – | 1 |
| HK\$2,500,001 – HK\$3,000,000 | 1 | – |
| HK\$3,000,001 – HK\$3,500,000 | 1 | – |
| HK\$4,000,001 – HK\$4,500,000 | – | 1 |
| | <u>–</u> | <u>1</u> |

- (c) During the year, no (2003: nil) directors or the above highest paid individuals waived or agreed to waive any emoluments. No (2003: nil) 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.

Notes to the Accounts

12 GOODWILL

| | <i>HK\$'000</i> |
|--|-----------------------|
| Year ended 31st December 2004 | |
| Opening net book amount (<i>Note</i>) | 19,705 |
| Acquisition of Mocha Slot Group Limited ("Mocha Slot") (<i>Note 28(c)(i)</i>) | 361,427 |
| Goodwill arising from acquisition of additional interests of subsidiaries in Technology segment (<i>Note 28(d)</i>) | <u>8,805</u> |
| Closing net book amount | <u><u>389,937</u></u> |
| At 31st December 2004 | |
| Cost | 389,937 |
| Accumulated impairment | <u>–</u> |
| Net book amount | <u><u>389,937</u></u> |
| At 31st December 2003 | |
| Cost | 22,319 |
| Accumulated amortisation | <u>(2,614)</u> |
| Net book amount | <u><u>19,705</u></u> |

Note:

Upon adoption of HKFRS 3, cost and accumulated amortisation of goodwill are offset by the same amount of approximately HK\$2,614,000 and the net amount of approximately HK\$19,705,000 was stated as the cost of goodwill.

Goodwill was presented together with the trading rights as intangible assets as at 31st December 2003. As a result of the adoption of HKFRS3, goodwill and trading rights are presented separately in the balance sheet and amortization charges were also reclassified to provide a better presentation of the results of the Group.

Notes to the Accounts

13 TRADING RIGHTS

| | <i>HK\$'000</i> |
|-------------------------------|---------------------|
| Year ended 31st December 2004 | |
| Opening net book amount | 3,293 |
| Amortisation charge | <u>(507)</u> |
| Closing net book amount | <u><u>2,786</u></u> |
| At 31st December 2004 | |
| Cost | 3,757 |
| Accumulated amortisation | <u>(971)</u> |
| Net book amount | <u><u>2,786</u></u> |
| At 31st December 2003 | |
| Cost | 3,757 |
| Accumulated amortisation | <u>(464)</u> |
| Net book amount | <u><u>3,293</u></u> |

Notes to the Accounts

14 FIXED ASSETS

| | Group | | | | | | | | Total HK\$'000 |
|---|--------------------------------------|---|--|---------------------------------------|---|-------------------------------|------------------------------|---|-------------------|
| | Investment properties HK\$'000 | Restaurant vessels, ferries and pontoons HK\$'000 | Leasehold land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Gaming machine HK\$'000 | Motor vehicle HK\$'000 | Construction in progress HK\$'000 | |
| Cost or valuation | | | | | | | | | |
| At 1st January 2004 | 159,000 | 43,665 | 614 | 7,477 | 90,585 | - | - | - | 301,341 |
| Acquisition of subsidiaries (Note 28(c)(i)) | - | - | - | 3,829 | 16,983 | 43,637 | - | - | 64,449 |
| Additions | - | 7,475 | - | 6,093 | 9,262 | 17,137 | 263 | 12,030 | 52,260 |
| Transfers | - | 11,545 | - | 134 | (134) | - | - | (11,545) | - |
| Written off | - | - | - | - | (17,763) | - | - | - | (17,763) |
| Disposals | (82,000) | (135) | (474) | - | (2,367) | - | - | - | (84,976) |
| At 31st December 2004 | <u>77,000</u> | <u>62,550</u> | <u>140</u> | <u>17,533</u> | <u>96,566</u> | <u>60,774</u> | <u>263</u> | <u>485</u> | <u>315,311</u> |
| Accumulated depreciation | | | | | | | | | |
| At 1st January 2004 | - | 34,970 | 189 | 2,091 | 76,175 | - | - | - | 113,425 |
| Charge for the year | - | 1,989 | 5 | 4,060 | 7,944 | 3,659 | 26 | - | 17,683 |
| Written off | - | - | - | - | (17,763) | - | - | - | (17,763) |
| Disposals | - | (17) | (142) | - | (2,049) | - | - | - | (2,208) |
| At 31st December 2004 | <u>-</u> | <u>36,942</u> | <u>52</u> | <u>6,151</u> | <u>64,307</u> | <u>3,659</u> | <u>26</u> | <u>-</u> | <u>111,137</u> |
| Net book value | | | | | | | | | |
| At 31st December 2004 | <u>77,000</u> | <u>25,608</u> | <u>88</u> | <u>11,382</u> | <u>32,259</u> | <u>57,115</u> | <u>237</u> | <u>485</u> | <u>204,174</u> |
| At 31st December 2003 | <u>159,000</u> | <u>8,695</u> | <u>425</u> | <u>5,386</u> | <u>14,410</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>187,916</u> |

Notes to the Accounts

14 FIXED ASSETS (continued)

(a) The analysis of the cost or valuation at 31st December 2004 of the above assets is as follows:

| | Group | | | | | | | | Total HK\$'000 |
|--------------|--------------------------------------|---|--|--|---|-------------------------------|------------------------------|---|-------------------|
| | Investment properties HK\$'000 | Restaurant vessels, ferries and pontoons HK\$'000 | Leasehold land and buildings HK\$'000 | Leasehold improve- ments HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Gaming machine HK\$'000 | Motor vehicle HK\$'000 | Construction in progress HK\$'000 | |
| At cost | - | 62,550 | 140 | 17,533 | 96,566 | 60,774 | 263 | 485 | 238,311 |
| At valuation | 77,000 | - | - | - | - | - | - | - | 77,000 |
| | <u>77,000</u> | <u>62,550</u> | <u>140</u> | <u>17,533</u> | <u>96,566</u> | <u>60,774</u> | <u>263</u> | <u>485</u> | <u>315,311</u> |

The analysis of the cost or valuation at 31st December 2003 of the above assets is as follows:

| | Group | | | | | | | | Total HK\$'000 |
|--------------|--------------------------------------|---|--|---------------------------------------|---|-------------------------------|------------------------------|---|-------------------|
| | Investment properties HK\$'000 | Restaurant vessels, ferries and pontoons HK\$'000 | Leasehold land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Gaming machine HK\$'000 | Motor vehicle HK\$'000 | Construction in progress HK\$'000 | |
| At cost | - | 43,665 | 614 | 7,477 | 90,585 | - | - | - | 142,341 |
| At valuation | 159,000 | - | - | - | - | - | - | - | 159,000 |
| | <u>159,000</u> | <u>43,665</u> | <u>614</u> | <u>7,477</u> | <u>90,585</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>301,341</u> |

- (b) At 31st December 2004, the net book value of fixed assets for the Group under finance lease amounted to HK\$2,120,000 (2003: Nil).
- (c) The Group's investment properties and leasehold land and buildings are located in Hong Kong and are held under long term leases.
- (d) The Group's investment properties comprising: 509 car parking spaces located on the lower basement, basement and G/F to 5/F of Jumbo Court Public Carpark, 3 Welfare Road, Aberdeen, Hong Kong, were revalued on an open market, existing tenancy basis by FPD Savills, an independent firm of professional valuers, as at 31st December 2004 at HK\$77,000,000 (2003: HK\$77,000,000). During the year, the investment properties of a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong were disposed to a third party at a consideration of HK\$83 million and gain on disposal of investment properties amounted to HK\$57,176,000 was realised and recorded to the profit and loss account.

Notes to the Accounts

14 FIXED ASSETS (continued)

- (e) The investment properties are leased to third parties under operating leases arrangements, with leases negotiated for terms ranging from 1 to 3 years. As at 31st December 2004, the Group had future aggregate minimum leases receivables under non-cancellable operating leases as follows:

| | Group | |
|---|---------------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Not later than one year | 2,107 | 3,396 |
| Later than one year and not later than five years | 387 | 1,953 |
| | <u>2,494</u> | <u>5,349</u> |

- (f) At 31st December 2004, the investment properties with net book value of HK\$77,000,000 (2003: HK\$82,000,000) were pledged as security for one of the subsidiaries of the Group as banking facilities.

| | Company Furniture, fixtures and equipment HK\$'000 |
|--|---|
| Cost | |
| At 1st January 2004 and 31st December 2004 | ----- 6 |
| Accumulated depreciation | |
| At 1st January 2004 | 6 |
| Charge for the year | ----- - |
| At 31st December 2004 | ----- ----- - |
| Net book value | |
| At 31st December 2004 | ----- ----- - |
| At 31st December 2003 | ----- ----- - |

Notes to the Accounts

15 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Investments at cost: | | |
| Unlisted shares (<i>note a</i>) | 29,394 | 390 |
| Provision for impairment | – | (390) |
| | 29,394 | – |
| Due from subsidiaries (<i>note b</i>) | 1,272,191 | 707,864 |
| Provision for amounts due from subsidiaries | (315,235) | (308,742) |
| Due to subsidiaries (<i>note b</i>) | (67,589) | (9,498) |
| | 918,761 | 389,624 |

Note:

- (a) Details of principal subsidiaries are set out in Note 32 to the accounts.
- (b) Included in amounts due from subsidiaries are i) loans to a subsidiary of HK\$218.9 million which are unsecured, interest bearing at prime rate minus two per cent per annum or HIBOR plus 1.25 – 2 per cent per annum and repayable upon written notice given from the Company; ii) loans to a subsidiary of HK\$93.1 million which are unsecured, interest bearing at four per cent per annum and have no fixed terms of repayment. Other amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

16 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

| | Group and Company | |
|---|-------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Unlisted shares, at cost (<i>Note a and b</i>) | 485 | – |
| Prepayment to Sociedade de Turismo e Diversões de Macau, S.A.R.L. (“STDM”) (<i>Note b</i>) | 99,515 | – |
| | 100,000 | – |

Notes to the Accounts

16 INVESTMENT IN A JOINTLY CONTROLLED ENTITY (continued)

(a) The following is the details of the jointly controlled entity:

| Name | Place of incorporation | Principal activities and place of operation | Particulars of issued shares held | Percentage of interest in ownership |
|---|------------------------|--|---------------------------------------|-------------------------------------|
| Great Wonders, Investment, Limited ("Great Wonders") | Macau | Provision of hotel management and entertainment complex in Macau | 10,000 ordinary shares of MOP100 each | 50% |

(b) On 8th September 2004, the Company entered into an agreement ("First agreement") with STDM to acquire 50% equity interests of Great Wonders at a consideration of HK\$100 million. The consideration was satisfied by issuing the convertible bond (see Note 24(b)). Great Wonders has applied to the Macau Government for the concession of a parcel of land located in Taipa, Macau (the "Land") and to develop the Land into a six-star hotel and entertainment complex (pending government approval) with one of the largest casino and electronic gaming machine areas. Unless the concession of the Land is granted to Great Wonders on or before 1st September 2005, the Company has the right to terminate the convertible bond and the convertible bond will cease to be payable immediately. The Company shall forthwith transfer the 50% equity interest in Great Wonders back to STDM.

Following the acquisition under the First Agreement, the Company entered into another agreement ("Second Agreement") with STDM on 11th November 2004 pursuant to which the Company acquired an additional 20% issued share capital of Great Wonders from STDM at a consideration of HK\$56 million. The consideration was satisfied by issuing the convertible bond. The Second Agreement was approved by the independent shareholders of the Company at its extraordinary general meeting held on 20th January 2005 and no adjustment was made to the accounts as at 31st December 2004.

Subsequent to the further acquisition of interest in Great Wonders under the Second Agreement, the Company entered into the third agreement ("Third Agreement") with STDM on 17th March 2005 pursuant to which the Company will acquire and STDM will sell the remaining 30% equity interests in Great Wonders held by STDM at a consideration of HK\$400 million. Completion of the Third Agreement is conditional on the approval of the independent shareholders of the Company at an extraordinary meeting.

Notes to the Accounts

17 INVESTMENT SECURITIES

| | Group | |
|--|----------------------|----------------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted equity investments, at cost | 26,499 | 26,499 |
| Unlisted debt investment, at cost | 4,000 | – |
| Impairment losses | (2,745) | (5,862) |
| | <u>27,754</u> | <u>20,637</u> |
| Listed equity investment in Hong Kong, at cost | 4,250 | 4,250 |
| Impairment losses | (4,250) | (4,250) |
| | <u>–</u> | <u>–</u> |
| Total | <u><u>27,754</u></u> | <u><u>20,637</u></u> |

18 INVENTORIES

| | Group | |
|--------------------|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Food and beverages | 2,389 | 2,268 |
| Consumable stores | 98 | 52 |
| Merchandise | 1,281 | 1,776 |
| Work in progress | – | 41 |
| | <u>3,768</u> | <u>4,137</u> |

At 31st December 2004, no inventory was carried at net realisable value (2003: nil).

19 TRADE RECEIVABLES

| | Group | |
|---|-----------------------|-----------------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade receivables (excluding receivables balance arising from margin clients securities transactions) | 171,681 | 99,144 |
| Impairment of doubtful receivables | (323) | – |
| | <u>171,358</u> | <u>99,144</u> |
| Trade receivables arising from margin clients securities transactions (<i>Note b</i>) | <u>165,656</u> | <u>137,246</u> |
| | <u><u>337,014</u></u> | <u><u>236,390</u></u> |

Notes to the Accounts

19 TRADE RECEIVABLES (continued)

The aging analysis of trade receivables (excluding the receivables balance arising from margin clients securities transactions) is as follows:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 157,881 | 94,499 |
| 31-90 days | 10,624 | 3,376 |
| Over 90 days | 3,176 | 1,269 |
| | <u>171,681</u> | <u>99,144</u> |

(a) The Group's Leisure and entertainment segment and the Property and other investments segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30 to 90 days would be granted.

(b) Trade receivable arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the investment banking and financial services segment as at 31st December 2004 amounted to approximately HK\$306,189,000 (2003: HK\$235,922,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

Loans to margin clients are secured by client's pledged securities, repayable on demand and bear interest at commercial rates. No aging analysis on margin client's receivables is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of the nature of the business of securities margin financing.

(c) Other trade receivables on the Group's Technology segment 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.

20 OTHER INVESTMENTS

| | Group | |
|--|--------------------------------|-------------------------|
| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
| Equity securities listed in Hong Kong, at market value | <u>40,641</u> | <u>40,638</u> |

Notes to the Accounts

21 AMOUNTS DUE FROM RELATED COMPANIES

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| STDM (<i>note a</i>) | 519 | 429 |
| Gold Carousel Investment Limited ("GCIL") (<i>note b</i>) | 600 | – |
| | <u>1,119</u> | <u>429</u> |

Notes:

- (a) The amount due from STDM, a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director and/or have direct and/or indirect beneficial interests, represented receivables in respect of the sales of souvenirs by the Group (*note 31(d)(iv)*).
- (b) The amount due from GCIL, a related company of which Dr. Stanley Ho is a director, represented receivables in respect of the management services provided by one of the subsidiaries of the Group (*note 31(d)(vii)*).

22 TRADE PAYABLES

| | Group 2004 HK\$'000 | 2003 HK\$'000 |
|--|---------------------------|------------------|
| Trade payables | | |
| Within 30 days | 14,313 | 6,562 |
| 31-90 days | 4,459 | 3,416 |
| Over 90 days | 5,224 | 396 |
| | <u>23,996</u> | <u>10,374</u> |
| Trade payables arising from the ordinary course of business of dealing in securities transactions (<i>Note</i>) | 36,466 | 100,164 |
| | <u>60,462</u> | <u>110,538</u> |

Note:

The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the Investment banking and financial services segment are usually two trading days after trade date. These trade payables are repayable on demand. Therefore, no aging analysis is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of all these accounts payable are promptly settled two trading days after trade date.

Notes to the Accounts

23 FINANCE LEASE PAYABLE

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Finance lease liability – minimum lease payments: | | |
| Within one year | 837 | – |
| Future finance charges on finance lease | <u>(20)</u> | <u>–</u> |
| Present value of finance lease payable | <u><u>817</u></u> | <u><u>–</u></u> |
| The present value of finance lease payable was as follows: | | |
| Within one year | <u><u>817</u></u> | <u><u>–</u></u> |

24 CONVERTIBLE NOTES

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Convertible note due 30th June 2005 ("2005 Convertible Note") at par (<i>Note a</i>) | 22,500 | – |
| Convertible note due 30th June 2006 ("2006 Convertible Note") at par (<i>Note a</i>) | 22,500 | – |
| Convertible note due 8th November 2009 ("2009 Convertible Note") at par (<i>Note b</i>) | <u>100,000</u> | <u>–</u> |
| Subtotal | 145,000 | – |
| Less: current portion | <u>(22,500)</u> | <u>–</u> |
| Long-term portion | <u><u>122,500</u></u> | <u><u>–</u></u> |

Note:

- (a) On 9th June 2004 ("1st Date of Issuance"), the Company issued at par the 2005 Convertible Note and 2006 Convertible Note with principal amount of HK\$22,500,000 and HK\$22,500,000 respectively, which are interest-bearing at 4% per annum. The convertible notes were issued to partially replace the shareholders' loans of Mocha Slot acquired by the Company during the year.

The 2005 Convertible Note and 2006 Convertible Note are convertible into fully paid ordinary shares of HK\$1 each of the Company at an initial conversion price of HK\$2.3 per share since the 1st Date of Issuance until, and including, the day immediately before 30th June 2005 and 30th June 2006 respectively.

Notes to the Accounts

24 CONVERTIBLE NOTES (continued)

- (b) On 9th November 2004 ("2nd Date of Issuance"), the Company issued at par the 2009 Convertible Note with principal amount of HK\$100,000,000, which is interest-bearing at 4% per annum. The convertible note was issued for the purpose of developing the Land which will consist of a six star hotel with casino and electronic gaming machine lounge (see Note 16(b)).

The 2009 Convertible Note is convertible into fully paid ordinary shares of HK\$1 each of the Company at an initial conversion price of HK\$4.0 per share convertible in the period commencing 3 years from the 2nd Date of Issuance until, and including, the day immediately before 8th November 2009.

- (c) As at 31st December 2004, none of the convertible notes had been converted into the ordinary shares of the Company.

25 SHARE CAPITAL

| | Authorised | |
|---|--------------------------------------|-----------------|
| | Ordinary shares of HK\$1 each | |
| | <i>No. of shares</i> | <i>Amount</i> |
| | <i>'000</i> | <i>HK\$'000</i> |
| At 1st January 2003 and at 1st January 2004 | 480,000 | 480,000 |
| Increase in authorised ordinary share capital (<i>note a</i>) | 220,000 | 220,000 |
| | <u>700,000</u> | <u>700,000</u> |
| At 31st December 2004 | <u>700,000</u> | <u>700,000</u> |
| | Issued and fully paid | |
| | Ordinary shares of HK\$1 each | |
| | <i>No. of shares</i> | <i>Amount</i> |
| | <i>'000</i> | <i>HK\$'000</i> |
| At 1st January 2003, ordinary shares of HK\$1 each | 145,287 | 145,287 |
| Issue of rights shares (<i>note b</i>) | 72,644 | 72,644 |
| Exercise of share options (<i>note 26</i>) | 4,066 | 4,066 |
| | <u>221,997</u> | <u>221,997</u> |
| At 31st December 2003, ordinary shares of HK\$1 each | <u>221,997</u> | <u>221,997</u> |
| At 1st January 2004, ordinary shares of HK\$1 each | 221,997 | 221,997 |
| Issue of shares (<i>note c</i>) | 229,378 | 229,378 |
| Exercise of share options (<i>note 26</i>) | 11,869 | 11,869 |
| | <u>463,244</u> | <u>463,244</u> |
| At 31st December 2004, ordinary shares of HK\$1 each | <u>463,244</u> | <u>463,244</u> |

Notes to the Accounts

25 SHARE CAPITAL (continued)

Note:

- (a) By an ordinary resolution passed on 20th May 2004, the authorised ordinary share capital of the Company was increased from HK\$480,000,000 to HK\$700,000,000 by the creation of 220,000,000 new shares of HK\$1 each.
- (b) In September 2003, the company issued 75,643,567 rights shares of HK\$1 each at a price of HK\$1.45 per rights share on the basis of one rights share for every two ordinary shares in issue. Proceeds of approximately HK\$105.3 million before issuance expenses were raised.
- (c) On 9th June 2004, 153,478,261 ordinary shares of HK\$1 each were issued at a price of HK\$2.375 per share for a total consideration of HK\$364,511,000 before related expenses for the acquisition of Mocha Slot during the year (see Note 28(c)(i) for details).

In addition, on 29th October 2004, 75,900,000 ordinary shares of HK\$1 each were issued at a price of HK\$5.2 per share by way of placement for a total consideration of HK\$394,680,000 before related expenses for the purpose of funding its operations under Leisure and entertainment segment.

- (d) On 7th April 2005, the board of directors of the Company proposed that each of the existing issued and unissued shares of HK\$1 each in the share capital be subdivided into two subdivided shares of HK\$0.5 each.

26 SHARE OPTION

(a) Share option scheme of the Company

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

The maximum number of share of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 19th November 2003, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 22,199,700 shares of HK\$1.00 each. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

26 SHARE OPTION (continued)

(a) Share option scheme of the Company (continued)

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

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

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

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

Notes to the Accounts

26 SHARE OPTION (continued)

(a) Share option schemes of the Company (continued)

The following share options were outstanding under the Scheme during the year ended 31st December 2004:

| Category of participant | At 1st January 2004 | Granted during the year | Exercised during the year | At 31st December 2004 | Date of grant of share options ¹ | Share price at date of grant of share options | Exercise price of share options ³ |
|--------------------------|---------------------|-------------------------|---------------------------|-----------------------|---|---|--|
| Directors ^{4,5} | 5,448,918 | - | (5,432,612) | 16,306 | 8th March 2002 | HK\$0.82 ² | HK\$1.00 ² |
| Directors ⁶ | - | 3,600,000 | - | 3,600,000 | 19th February 2004 | HK\$2.35 | HK\$2.405 |
| Sub-total | 5,448,918 | 3,600,000 | (5,432,612) | 3,616,306 | | | |
| Employees | 750,002 | - | (750,002) | - | 8th March 2002 | HK\$0.82 ² | HK\$1.00 ² |
| Employees ⁷ | 3,457,670 | - | (1,230,000) | 2,227,670 | 13th September 2002 | HK\$1.1067 ² | HK\$1.1067 ² |
| Employees ⁸ | - | 8,170,000 | - | 8,170,000 | 19th February 2004 | HK\$2.35 | HK\$2.405 |
| Employees ⁹ | - | 3,900,000 | (1,966,000) | 1,934,000 | 17th September 2004 | HK\$3.375 | HK\$3.375 |
| Sub-total | 4,207,672 | 12,070,000 | (3,946,002) | 12,331,670 | | | |
| Others ¹⁰ | 4,440,172 | - | (2,490,172) | 1,950,000 | 13th September 2002 | HK\$1.1067 ² | HK\$1.1067 ² |
| Others ¹¹ | - | 1,000,000 | - | 1,000,000 | 19th February 2004 | HK\$2.35 | HK\$2.405 |
| Others ¹² | - | 4,500,000 | - | 4,500,000 | 17th September 2004 | HK\$3.375 | HK\$3.375 |
| Sub-total | 4,440,172 | 5,500,000 | (2,490,172) | 7,450,000 | | | |
| Total | 14,096,762 | 21,170,000 | (11,868,786) | 23,397,976 | | | |

Notes:

- 1 The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- 2 The number of share options granted, the share price at grant date and the exercise price of the share options were adjusted upon completion of the rights issue in 24th September 2003.
- 3 As at 31st December 2004, the Company had 23,397,976 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 23,397,976 additional ordinary shares of the Company and additional share capital of approximately HK\$23,398,000 and share premium of approximately HK\$33,668,000 before issue expenses.

Notes to the Accounts

26 SHARE OPTION (continued)

(a) Share option schemes of the Company (continued)

- 4 Mr. Peter So, who exercised 1,816,306 physically settled options on 19th February 2004, resigned on 1st April 2004.
- 5 As at 31st December 2004, 16,306 physically settled options may be exercised during the period from 8th September 2002 to 7th March 2012.
- 6 Among 3,600,000 physically settled options as at 31st December 2004, 1,800,000 physically settled options may be exercised during the period from 19th February 2005 to 7th March 2012 and 1,800,000 physically settled options may be exercised during the period from 19th February 2006 to 7th March 2012.
- 7 Among 2,227,670 physically settled options as at 31st December 2004, 1,113,835 physically settled options may be exercised during the period from 13th September 2002 to 7th March 2012 and 1,113,835 physically settled options may be exercised during the period from 13th March 2003 to 7th March 2012.
- 8 Among 8,170,000 physically settled options as at 31st December 2004, 4,060,000 physically settled options may be exercised during the period from 19th February 2005 to 7th March 2012 and 4,110,000 physically settled options may be exercised during the period from 19th February 2006 to 7th March 2012.
- 9 Among 1,934,000 physically settled options as at 31st December 2004, 400,000 physically settled options may be exercised during the period from 1st December 2004 to 7th March 2012, 600,000 physically settled options may be exercised during the period from 17th March 2005 to 7th March 2012, 594,000 physically settled options may be exercised during the period from 17th September 2005 to 7th March 2012, 175,000 physically settled options may be exercised during the period from 17th September 2006 to 7th March, 2012 and 165,000 physically settled options may be exercised during the period from 17th March 2008 to 7th March 2012.
- 10 Among 1,950,000 physically settled options as at 31st December 2004, 974,999 physically settled options may be exercised during the period from 13th September 2003 to 7th March 2012 and 975,001 physically settled options may be exercised during the period from 13th September 2004 to 7th March 2012.
- 11 Among 1,000,000 physically settled options as at 31st December 2004, 500,000 physically settled options may be exercised during the period from 19th February 2005 to 7th March 2012 and 500,000 physically settled options may be exercised during the period from 19th February 2006 to 7th March 2012.
- 12 Among 4,500,000 physically settled options as at 31st December 2004, 2,250,000 physically settled options may be exercised during the period from 17th March 2005 to 7th March 2012 and 2,250,000 physically settled options may be exercised during the period from 17th September 2005 to 7th March 2012.

Notes to the Accounts

26 SHARE OPTION (continued)

(b) Share options schemes of Value Convergence Holdings Limited (“Value Convergence”), subsidiary of the Company

(i) Pre-IPO share options plan

As at 31st December 2004, options to subscribe for an aggregate of 5,868,698 underlying Shares granted on 6th April 2001 (“Pre-IPO Share Options”) pursuant to the Pre-IPO Share Options plan adopted by Value Convergence on 14th March 2001 (“Pre-IPO Share Options Plan”) at an exercise price of HK\$3.6 per share (after adjustment arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) were outstanding, which represents 2.5% (2003: 4.1%) of the shares of Value Convergence in issue as at 31st December 2004. The exercise price represents a discount of 30% of the adjusted IPO offer price. The Pre-IPO Share Options have duration of approximately 4.5 years from the date of grant, i.e. between 6th April 2001 to 8th October 2005. According to the Pre-IPO Share Options Plan, any Pre-IPO Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed by the Value Convergence Group. The following are details of the outstanding Pre-IPO Share Options as at 31st December 2004 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

| Categories of grantees | As at 31st December 2004 | | As at 31st December 2003 | |
|--------------------------|--------------------------|--|--------------------------|--|
| | Total no. of grantees | No. of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options | Total no. of grantees | No. of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options |
| Directors of the Company | 3 | 4,606,510 | 5 | 8,478,020 |
| Employees | 3 | 1,262,188 | 3 | 1,262,188 |
| Total | 6 | 5,868,698 | 8 | 9,740,208 |

Notes to the Accounts

26 SHARE OPTION (continued)

(b) Share options schemes of Value Convergence Holdings Limited, subsidiary of the Company (continued)

(i) Pre-IPO share options plan (continued)

During the year ended 31st December 2004, certain Pre-IPO Share Options to subscribe for a total of 3,871,510 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) which had been granted to two directors lapsed as the relevant directors failed to exercise the same within 3 months after the relevant directors ceased to be the directors of Value Convergence. Since the date of the grant of the Pre-IPO Share Options up to 31st December 2004 and 31st December 2003, none of the Pre-IPO Share Options were exercised or cancelled. Movements in the number of Pre-IPO Share Options outstanding during the year are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

| | Number of Pre-IPO Share Options | |
|--------------------------|------------------------------------|------------------|
| | 2004 | 2003 |
| At beginning of the year | 9,740,208 | 9,740,208 |
| Lapsed during the year | (3,871,510) | – |
| At end of the year | <u>5,868,698</u> | <u>9,740,208</u> |

Notes to the Accounts

26 SHARE OPTION (continued)

(b) Share options schemes of Value Convergence Holdings Limited, subsidiary of the Company (continued)

(ii) Share options scheme

The Share Options Scheme ("Share Options Scheme") was adopted by Value Convergence on 29th November 2001 (which superseded the previous share options scheme of Value Convergence adopted on 14th March 2001).

As at 31st December 2004, options to subscribe for an aggregate of 4,188,718 and 23,160,565 underlying shares granted on 9th July 2002 and 25th March 2004 ("Share Options") pursuant to the Share Options Scheme at an exercise price of HK\$1.0 per share (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) and HK\$0.64 per share respectively were outstanding, which represents 11.5% (2003: 1.8%) of the shares of Value Convergence in issue as at 31st December 2004. The adjusted closing price of Value Convergence's shares immediately before 9th July 2002 and the closing price of the Value Convergence's shares immediately before 25th March 2004 were HK\$0.65 and HK\$0.64 per share respectively. The Share Options have duration of 10 years from the date of grant, i.e. between 9th July 2002 to 8th July 2012 and between 25th March 2004 to 24th March 2014 respectively. Accordingly to the Share Options Scheme, any Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by the Value Convergence Group. The following are details of the outstanding Share Options as at 31st December 2004 (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

| Categories of grantees | Exercise price per share HK\$ | As at 31st December 2004 | | As at 31st December 2003 | |
|--------------------------|----------------------------------|--------------------------|--|--------------------------|--|
| | | Total no. of grantees | No. of underlying Shares to be issued upon the exercise of the Share Options | Total no. of grantees | No. of underlying Shares to be issued upon the exercise of the Share Options |
| Directors of the Company | 1.0 | 2 | 982,114 | 3 | 1,473,171 |
| Employees | 1.0 | 22 | 1,782,539 | 26 | 1,821,823 |
| Employees | 0.64 | 58 | 23,160,565 | – | – |
| Other eligible persons | 1.0 | 6 | 1,424,065 | 5 | 933,008 |
| Total | | 88 | 27,349,283 | 34 | 4,228,002 |

Notes to the Accounts

26 SHARE OPTION (continued)

(b) Share options schemes of Value Convergence Holdings Limited, subsidiary of the Company (continued)

(ii) Share options scheme (continued)

During the year ended 31st December 2004, certain Share Options to subscribe for a total of 39,284 underlying shares (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively) which had been granted to four employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of Value Convergence. Since the date of the grant of the Share Options up to 31st December 2004 and 31st December 2003, none of the Share Options were exercised or cancelled. Movements in the number of Share Options outstanding during the year are as follows (after adjustments arising from the issue of rights and bonus shares and capital reorganisation on 5th February 2003 and 28th May 2003 respectively):

| | Number of Share Options | |
|---------------------------------------|-------------------------|------------------|
| | 2004 | 2003 |
| At beginning of the year | 4,228,002 | 4,861,465 |
| Share Options granted during the year | 23,160,565 | – |
| Lapsed during the year | (39,284) | (633,463) |
| At end of the year | <u>27,349,283</u> | <u>4,228,002</u> |

Notes to the Accounts

27 RESERVES

| | Group | | | | | |
|---|---------------------------|---|------------------------------------|---------------------------|--------------------------------|-------------------|
| | Share premium HK\$'000 | Investment properties revaluation reserve HK\$'000 | Capital reserve (Note) HK\$'000 | Legal reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
| At 1st January 2003 | 19,189 | 79,214 | 357,785 | – | (225,351) | 230,837 |
| Surplus on revaluation of investment properties | – | 4,000 | – | – | – | 4,000 |
| Revaluation surplus attributable to minority shareholders | – | (266) | – | – | – | (266) |
| Loss for the year | – | – | – | – | (26,334) | (26,334) |
| Issue of rights shares | 32,689 | – | – | – | – | 32,689 |
| Share issuance expenses | (2,441) | – | – | – | – | (2,441) |
| Exercise of share options | 240 | – | – | – | – | 240 |
| At 31st December 2003 and 1st January 2004 | 49,677 | 82,948 | 357,785 | – | (251,685) | 238,725 |
| Issue of shares | 529,813 | – | – | – | – | 529,813 |
| Reserve realised upon disposal of investment properties | – | (56,176) | – | – | – | (56,176) |
| Share issue expenses | (16,576) | – | – | – | – | (16,576) |
| Exercise of share options | 5,066 | – | – | – | – | 5,066 |
| Retained earnings transferred to legal reserve | – | – | – | 254 | (254) | – |
| Profit for the year | – | – | – | – | 65,157 | 65,157 |
| Dividends paid | – | – | (3,776) | – | – | (3,776) |
| At 31st December 2004 | <u>567,980</u> | <u>26,772</u> | <u>354,009</u> | <u>254</u> | <u>(186,782)</u> | <u>762,233</u> |

Notes to the Accounts

27 RESERVES (continued)

| | Share premium <i>HK\$'000</i> | Company Capital reserve (Note) <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|--|--|--------------------------|
| At 1st January 2003 | 19,189 | 357,785 | (218,779) | 158,195 |
| Issue of rights shares | 32,689 | – | – | 32,689 |
| Share issue expenses | (2,441) | – | – | (2,441) |
| Exercise of share options | 240 | – | – | 240 |
| Loss for the year | – | – | (8,685) | (8,685) |
| At 31st December 2003 and 1st January 2004 | 49,677 | 357,785 | (227,464) | 179,998 |
| Issue of shares | 529,813 | – | – | 529,813 |
| Share issue expenses | (16,576) | – | – | (16,576) |
| Exercise of share options | 5,066 | – | – | 5,066 |
| Loss for the year | – | – | (5,705) | (5,705) |
| Dividends paid | – | (3,776) | – | (3,776) |
| At 31st December 2004 | <u>567,980</u> | <u>354,009</u> | <u>(233,169)</u> | <u>688,820</u> |

Note:

Pursuant to a scheme of capital reduction, which became effective on 29th June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK\$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK\$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK\$357,784,733 were transferred to a capital reserve account. The capital reserve account is distributable to the shareholders of the Company if there is not outstanding any debt or claim against the Company which was in existence on the effective date of the capital reduction. In view of the fact that the Company receives no claim, demand, action or proceedings in respect of any such debt or claim since June 1993 and in view of the fact that any such debt or claim has been statute-barred under Hong Kong law and irrecoverable against the Company, the Company is of the view that the reserve is distributable to the Company's shareholders.

Notes to the Accounts

28 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit/(loss) to net cash used in operations

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Operating profit/(loss) | 76,332 | (30,774) |
| Realised loss/(gain) on trading of other investments | 3,425 | (9,228) |
| Unrealised gain on holding of other investments | (1,312) | (958) |
| Depreciation of fixed assets | 17,683 | 16,154 |
| Amortisation of trading rights | 507 | 464 |
| Amortisation of goodwill | – | 2,614 |
| Gain on partial disposal of investment in a subsidiary | – | (149) |
| (Gain)/loss on disposal of fixed assets | (1,400) | 478 |
| Gain on disposal of investment property | (57,176) | – |
| Exchange loss | – | 48 |
| Impairment of fixed assets | – | 3,080 |
| Impairment of investment securities | – | 1,200 |
| Reversal of impairment of investment securities | (3,117) | – |
| Interest income from authorised financial institutions | (446) | (712) |
| Negative goodwill | (1,204) | – |
| Dividend income | (938) | (200) |
| | <hr/> | <hr/> |
| Operating profit/(loss) before working capital changes | 32,354 | (17,983) |
| Decrease/(increase) in inventories | 369 | (749) |
| Increase in accounts receivables | (94,792) | (119,225) |
| (Increase)/decrease in prepayments, deposits and other receivables | (24,204) | 7,168 |
| (Increase)/decrease in amount due from related companies | (690) | 1,978 |
| (Decrease)/increase in accounts payables | (50,196) | 58,626 |
| Decrease in rental deposits | (407) | (70) |
| (Decrease)/increase in accrued liabilities and other payables | (16,783) | 26,324 |
| | <hr/> | <hr/> |
| Net cash used in operations | <u>(154,349)</u> | <u>(43,931)</u> |

Notes to the Accounts

28 CONSOLIDATED CASH FLOW STATEMENT (continued) (b) Analysis of changes in financing during the year

| | Share capital | | Minority interests | | Shareholders' loan | | Former shareholders' loan | | Bank loan | | Short term bank borrowings | | Finance lease payable | |
|--|------------------|----------------|--------------------|---------------|--------------------|----------|---------------------------|----------|-----------|-----------|----------------------------|----------|-----------------------|----------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st January | 271,674 | 164,476 | 62,952 | 24,258 | - | - | - | - | - | - | - | - | - | - |
| Minority interests' profit/(loss) | - | - | 4,486 | (7,648) | - | - | - | - | - | - | - | - | - | - |
| Revaluation surplus attributable to minority interests | - | - | - | 266 | - | - | - | - | - | - | - | - | - | - |
| Acquisition of subsidiaries attributable to minority interests | - | - | 9,502 | 42,025 | - | - | - | - | - | - | - | - | - | - |
| Decrease in minority interests resulting from acquisition of subsidiaries from minority shareholders | - | - | (1,324) | - | - | - | - | - | - | - | - | - | - | - |
| Partial disposal of investment in subsidiaries attributable to minority interests | - | - | - | 4,051 | - | - | - | - | - | - | - | - | - | - |
| Cash (outflows)/inflows from financing/net short-term loan borrowing/repayment | 395,039 | 107,198 | - | - | 23,158 | - | (24,556) | - | - | (106,335) | 15,000 | - | (482) | - |
| Acquisition of a subsidiary settled by issuance of shares | 364,511 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank borrowings of subsidiaries acquired | - | - | - | - | - | - | - | - | 106,335 | - | - | - | - | - |
| Finance lease of subsidiaries acquired | - | - | - | - | - | - | - | - | - | - | - | - | 1,299 | - |
| Former shareholders' loan of subsidiaries acquired | - | - | - | - | - | - | 69,556 | - | - | - | - | - | - | - |
| Decrease in former shareholders' loan by convertible notes issued | - | - | - | - | - | - | (45,000) | - | - | - | - | - | - | - |
| At 31st December | <u>1,031,224</u> | <u>271,674</u> | <u>75,616</u> | <u>62,952</u> | <u>23,158</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>15,000</u> | <u>-</u> | <u>817</u> | <u>-</u> |

Notes to the Accounts

28 CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisitions and major non-cash transaction

(i) Acquisition of Mocha Slot for the year ended 31st December 2004

On 9th June 2004, the Group completed the acquisition of 80% of the issued share capital of Mocha Slot which is engaged in the leasing of electronic gaming machines and provision of ancillary management services to SJM in Macau. The purchase consideration was settled by issuance of new shares of the Company (Note 25(b)). The fair value of the net identifiable assets of Mocha Slot at the date of acquisition was approximately HK\$4,737,000. Direct costs related to the acquisition amounted to approximately HK\$706,000 and were fully settled in cash. The resulting goodwill was approximately HK\$361,427,000.

The fair value of the assets and liabilities arising from the acquisition of Mocha Slot are as follows:

| | 2004 HK\$'000 |
|---|--------------------------------|
| Fixed assets (<i>note 14</i>) | 64,449 |
| Accounts receivables | 5,832 |
| Bank balances and cash | 10,971 |
| Other current assets | 7,569 |
| Shareholders' loans | (69,556) |
| Deferred tax liabilities | (262) |
| Other current liabilities | (14,266) |
| | <hr/> |
| Fair value of net identifiable assets acquired | 4,737 |
| Minority interests | (947) |
| | <hr/> |
| The Company's share of the fair value of net identifiable assets acquired | <u>3,790</u> |
| Purchase consideration – settled by issuance of new shares | 364,511 |
| Direct costs related to the acquisition – settled by cash | 706 |
| | <hr/> |
| Total costs of acquisition | 365,217 |
| Less: the Company's share of the fair value of net identifiable assets acquired | 3,790 |
| | <hr/> |
| Goodwill arising from acquisition of Mocha Slot (<i>Note 12</i>) | <u>361,427</u> |
| Payment of direct costs related to the acquisition | (706) |
| Bank balance and cash acquired | 10,971 |
| | <hr/> |
| Net cash inflow from acquisition of Mocha Slot | <u>10,265</u> |

Notes to the Accounts

28 CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisitions and major non-cash transaction (continued)

(ii) *Acquisition of Value Convergence Holdings Limited for the year ended 31st December 2003*

| | 2003 HK\$'000 |
|--|------------------|
| Net assets acquired | |
| Fixed asset | 18,477 |
| Intangible assets | 25,478 |
| Other long-term assets | 6,534 |
| Trade and other receivables | 118,428 |
| Bank balances and cash | 122,900 |
| Trade and other payables | (43,297) |
| Bank borrowings | (106,335) |
| Minority shareholders' interests | (42,025) |
| | <hr/> |
| Fair value of net identifiable assets acquired | 100,160 |
| Goodwill arising from acquisition of Value Convergence Holdings Limited | 598 |
| | <hr/> |
| Total costs of acquisition | <u>100,758</u> |
| Satisfied by | |
| Cash | <u>100,758</u> |

Analysis of the net cash inflow in respect of the acquisition of Value Convergence Holdings Limited:

| | 2003 HK\$'000 |
|--|------------------|
| Cash consideration | (100,758) |
| Bank balances and cash in hand acquired | 122,900 |
| | <hr/> |
| Net cash inflow in respect of the acquisition of Value Convergence Holdings Limited | <u>22,142</u> |

(d) On 31st May 2004, the Company completed the acquisition of additional interests of subsidiaries in Technology segment from its subsidiary, Value Convergence Holdings Limited at a consideration of HK\$27,900,000 and direct expenses of HK\$325,000. Balance of approximately HK\$8,805,000, which represents Value Convergence Holdings Limited minority interests on the gain on disposal of the Technology segment and the direct expenses, was recognised as the goodwill on the acquisition.

Notes to the Accounts

28 CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) On 1st June 2004 and 16th December 2004, the Company completed the acquisition of an additional 10% and 12.5% equity interest respectively in Elixir Group Limited from the other minority shareholders in aggregate consideration of HK\$217,000. Negative goodwill amounting to approximately HK\$1,204,000, which represented the surplus of the net assets value of Elixir Group Limited to the consideration, was directly credited to the profit and loss account.

29 PLEDGE OF ASSETS

As at 31st December 2004, the Group's bank deposits amounting to HK\$177,000 (2003: HK\$184,000) were pledged for tendering of contracts with the Macau government by a subsidiary of the Group. As at 31st December 2003, the Group's bank deposits amounting to HK\$120,000 were pledged to secure a letter of guarantee to the extent of HK\$120,000 granted by a bank to the utilities companies in lieu of cash.

30 COMMITMENTS

(a) Capital commitments

At 31st December 2004, the Group had contracted commitments in respect of renovation project as follows:

| | Group | |
|---------------------------------|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Contracted but not provided for | <u>437</u> | <u>4,547</u> |

(b) Commitments under operating leases

The Group leases certain of its office properties and furniture under operating lease arrangements. At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Group | |
|---|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Not later than one year | 19,620 | 4,853 |
| Later than one year and not later than five years | <u>46,835</u> | <u>4,958</u> |
| | <u>66,455</u> | <u>9,811</u> |

Notes to the Accounts

30 COMMITMENTS (continued)

(c) Future operating lease arrangements

At 31st December 2004, the Group had entered into lease arrangements with SJM and the other lessee for leasing of its owned gaming machines. In addition to a fixed monthly rent of HK\$7,767 (equivalent to MOP8,000) per month for one of the lease arrangements, the Group will be entitled to lease receipts calculated at an agreed percentage of net win from each gaming machine leased on an accrual basis in accordance with the respective lease arrangements. The future aggregate minimum lease receipts under such non-cancelable operating lease arrangements at 31st December 2004 are as follows:

| | Group | |
|---|----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Not later than one year | 280 | – |
| Later than one year and not later than five years | 1,118 | – |
| Later than five years | 1,150 | – |
| | 2,548 | – |
| | 2,548 | – |

31 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.

- (a) The amount due from an investee company is unsecured, interest free and have no fixed terms of repayment.
- (b) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK\$14,876,000 (2003: HK\$1,808,000).

The trade receivables include amounts due from SJM in relation to the leasing of gaming machines and provision of ancillary management services of approximately HK\$8,462,000 (2003: Nil).

The prepayments, deposits and other receivables include amounts due from customers on contracts in relation to sales of computer hardware and software to related companies of approximately HK\$1,044,000 (2003: HK\$1,702,000)

| | Group | |
|---|----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Contract costs incurred plus attributable profits | 50,521 | 5,683 |
| Less: Progress billings to date | (49,477) | (3,981) |
| | 1,044 | 1,702 |
| | 1,044 | 1,702 |

Notes to the Accounts

31 RELATED PARTY TRANSACTIONS (continued)

- (c) The accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK\$367,735,000 (2003: HK\$10,180,000).
- (d) Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

| | | Group | |
|--|--------|------------------|------------------|
| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
| Catering income received from directors and related companies | (i) | 4,306 | 2,486 |
| Insurance premiums paid to a related company | (ii) | 1,004 | 1,173 |
| Management fees paid to a related company | (iii) | 276 | 569 |
| Souvenirs sold to a related company | (iv) | 681 | 418 |
| Brokerage commission income earned from certain directors of the Group or their relatives | (v) | 243 | 106 |
| Sales of computer hardware and software to related companies | (vi) | 81,644 | 15,634 |
| Management fees received from a related company | (vii) | 600 | – |
| Interest expense on loan from a shareholder | (viii) | 23 | – |
| Interest expense on convertible notes to related parties | (ix) | 1,011 | – |
| Income from leasing of gaming machines and provision of ancillary management services to a related company | (x) | 44,890 | – |
| Management fees received from a jointly controlled entity | (xi) | <u>6,671</u> | <u>–</u> |

Notes:

- (i) The Group received catering income in respect of restaurant operations from certain directors and related companies for services provided at a discount ranging between 15% and 40%.
- (ii) The Group paid insurance premiums to Jardine Shun Tak Insurance Brokers Limited, an associate of Shun Tak Holdings Limited ("STHL"), to insure the properties and employees of the Group under the terms and conditions applicable to customers of comparable standing. Dr. Stanley Ho and Madam Winnie Ho Yuen Ki, a director and an ex-director of the Company, are also a director and an ex-director and/or have direct and/or indirect beneficial interests in STHL.
- (iii) The Group paid management fees to Shun Tak Property Management Limited ("STPML"), a subsidiary of STHL; on a reimbursement basis for building management expenditure paid by STPML on behalf of the Group.
- (iv) The sales of souvenirs to STDM, a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director, respectively, and/or have direct and/or indirect beneficial interests, were made according to the published prices and conditions offered to customers of the Group, except that a longer credit period was normally granted. The balance due from STDM at 31st December 2004 was HK\$519,000 (2003: HK\$429,000) (Note 21).

Notes to the Accounts

31 RELATED PARTY TRANSACTIONS (continued)

- (v) Brokerage commission income earned from transactions with related parties was at prices and terms no less than those transacted with other third party customers of the Group.
- (vi) Service fees charged and computer hardware and software 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 other third party customers of the Group.
- (vii) The management fee to GCIL, a related company of which Dr. Stanley Ho is the director, was determined on the base agreed between the Group and GCIL (see Note 21).
- (viii) Interest expense on loan from a minority shareholder of a subsidiary of the Group was charged at 4 per cent per annum. The loan was unsecured and repayable on demand.
- (ix) Interest expense on convertible notes to related parties was charged at 4 per cent per annum (see Note 24).
- (x) The amount represents income from leasing of gaming machines and provision of ancillary management services to SJM.
- (xi) The management fee from the jointly controlled entity (Note 2) was determined on the base agreed between the Group and the jointly controlled entity. The amount due from the jointly controlled entity is unsecured, interest free and have no fixed terms of repayment.

32 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at 31st December 2004:

| Name | Place of incorporation | Principal activities and place of operation | Particulars of issued share capital | Effective interest held |
|--|------------------------|---|-------------------------------------|-------------------------|
| Melco Leisure and Entertainment Group Limited (formerly known as Palmsville Developments Limited) ¹ | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US\$1 | 100% |
| Mocha Slot Group Limited ^{2, 3} | British Virgin Islands | Leasing gaming machines and provision of ancillary management services to the lessees of its gaming machines in Macau | 100 ordinary shares of US\$1 each | 80% |

Notes to the Accounts

32 PRINCIPAL SUBSIDIARIES (continued)

| Name | Place of incorporation | Principal activities and place of operation | Particulars of issued share capital | Effective interest held |
|---|------------------------|--|---|-------------------------|
| Mocha Slot Management Limited ^{2, 3} | Macau | Provision of consultancy service for entertainment business and system management in Macau | 2 ordinary shares of MOP24,000 and MOP1,000 each | 80% |
| Aberdeen Restaurant Enterprises Limited ^{2, 4} | Hong Kong | Restaurant operations and property investment in Hong Kong | 8,060 A shares of HK\$1,000 each and 33,930 B shares of HK\$500 each | 86.68% |
| Tai Pak Sea-Food Restaurant Limited ^{2, 4} | Hong Kong | Catering, restaurant vessel holding and letting in Hong Kong | 5 founders' shares of HK\$100 each and 13,495 ordinary shares of HK\$100 each | 84.76% |
| Jumbo Catering Management Limited ^{2, 4} | Hong Kong | Provision of management services in Hong Kong | 220 ordinary shares of HK\$5,000 | 86.68% |
| iAsia Online Systems Limited ² | British Virgin Islands | Provision of online trading software in Hong Kong | 1 ordinary share of US\$1 | 100% |
| Elixir Group Limited ² | Hong Kong | Provision of hardware and software in Hong Kong | 833,333 ordinary shares of HK\$1 each | 100% |
| Elixir Group (Macau) Limited ² | Macau | Provision of hardware and software in Macau | 2 ordinary shares of MOP450,000 and MOP50,000 each | 100% |

Notes to the Accounts

32 PRINCIPAL SUBSIDIARIES (continued)

| Name | Place of incorporation | Principal activities and place of operation | Particulars of issued share capital | Effective interest held |
|---|------------------------|--|---|-------------------------|
| Melco Financial Group Limited (formerly known as Melco Finance and Technology Limited) ¹ | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US\$1 | 100% |
| Value Convergence Holdings Limited ² | Hong Kong | Investment holding in Hong Kong | 238,154,999 ordinary shares of HK\$0.1 each | 67.57% |
| VC Brokerage Limited (Formerly known as VC CEF Brokerage Limited) ² | Hong Kong | Provision of brokerage and securities margin financing services in Hong Kong | 230,000,000 ordinary shares of HK\$1 each | 67.57% |
| VC Futures Limited (Formerly known as VC CEF Futures Limited) ² | Hong Kong | Provision of futures and options contracts dealing services in Hong Kong | 30,000,000 ordinary shares of HK\$1 each | 67.57% |
| VC Capital Limited (Formerly known as VC CEF Capital Limited) ² | Hong Kong | Provision of corporate finance and advisory services in Hong Kong | 20,000,000 ordinary shares of HK\$1 each | 67.57% |
| VC Capital (Shenzhen) Limited (Formerly known as VC CFN Capital (Shenzhen) Limited) ² | PRC | Provision of consultancy services in the PRC | HK\$1,000,000 | 67.57% |
| VC Securities Investments Limited (Formerly known as VC CFN Investments Limited) ² | Hong Kong | Provision of security investment service to group companies in Hong Kong | 2 ordinary shares of HK\$1 each | 67.57% |

Notes to the Accounts

32 PRINCIPAL SUBSIDIARIES (continued)

| Name | Place of incorporation | Principal activities and place of operation | Particulars of issued share capital | Effective interest held |
|--|------------------------|--|--|-------------------------|
| VC Asset Management Limited (Formerly known as VC CFN Asset Management Limited) ² | Hong Kong | Provision of asset management services to clients in Hong Kong | 500,000 ordinary shares of HK\$1 each | 67.57% |
| VC Investment Management Limited (Formerly known as Panorama Invest Limited) ² | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US\$1 | 67.57% |
| VC Finance Limited (Formerly known as VC CFN Finance Limited) ² | Hong Kong | Money lending in Hong Kong | 1,000,000 ordinary shares of HK\$1 each | 67.57% |
| VC Research Limited (Formerly known as VC CFN Research Limited) ² | Hong Kong | Provision of research services in Hong Kong | 500,000 ordinary shares of HK\$1 each | 67.57% |
| VC Financial Advisory (Macau) Limited ² | Macau | Provision of financial consultancy and related services in Macau | 2 ordinary shares of MOP24,000 and MOP1,000 each | 67.57% |
| VC Services Limited (Formerly known as iAsia Services Limited) ² | Hong Kong | Provision of management services to group companies in Hong Kong | 10,000 ordinary shares of HK\$1 each | 67.57% |
| Melco Services Limited ¹ | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US\$1 | 100% |

Notes to the Accounts

32 PRINCIPAL SUBSIDIARIES (continued)

| Name | Place of incorporation | Principal activities and place of operation | Particulars of issued share capital | Effective interest held |
|---------------------------------------|------------------------|---|-------------------------------------|-------------------------|
| Proven Success Limited ¹ | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US\$1 | 100% |
| Zonic Technology Limited ² | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US\$1 | 100% |

¹ Share held directly by the Company

² Share held indirectly by the Company

³ Acquired by the Group during the year (note 28(c)(i))

⁴ Audited by auditors other than PricewaterhouseCoopers

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affect the results of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

33 CONTINGENT LIABILITIES

As at 31st December 2004, the Group had provided a corporate guarantee for a subsidiary, VC Brokerage Limited, amounting to HK\$70 million (2003: HK\$50 million) to a bank in respect of banking facilities granted to the subsidiary .

34 POST BALANCE SHEET EVENTS

On 23rd November 2004, the Company entered into a Heads of Agreement (“Heads of Agreement”) with Publishing and Broadcasting Limited (“PBL”) and PBL Asia Investments Limited (“PBL Asia”), a wholly-owned subsidiary of PBL, to establish a joint venture group for pursuance of gaming and hospitality businesses (“JV Group”). The Heads of Agreement was superseded by a Subscription Agreement (“Subscription Agreement”) entered into between the parties on 23rd December 2004. Under the Subscription Agreement, the Company contributed its interests in Mocha Slot Group and 70% interests of Great Wonders to the JV Group while PBL contributed HK\$1.27 billion (equivalent to US\$ 163 million) cash to the JV Group. The Subscription Agreement was completed on 8th March 2005.

On 17th March 2005, the Company entered into an agreement (“Great Wonders Agreement”) with Melco Entertainment Limited (“Melco Entertainment”), a non wholly-owned subsidiary within the JV Group, pursuant to which Melco Entertainment will buy and the Company will sell 30% equity interests in Great Wonders to be acquired from STD M for a consideration of HK\$400 million, which is identical to the amount of consideration payable by the Company to STD M under the Third Agreement (see note 16). The completion of the Great Wonders Agreement is conditional upon the completion of the Third Agreement and it is contemplated that the completions of the Third Agreement and the Great Wonders Agreement shall occur simultaneously.

35 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 7th April 2005.

Notice of Annual General Meeting

MELCO INTERNATIONAL DEVELOPMENT LIMITED

NOTICE OF 90TH ANNUAL GENERAL MEETING

NOTICE is hereby given that the 90th annual general meeting of Melco International Development Limited will be held at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Wednesday, 18th May 2005 at 3:30 p.m. for the following purposes:

1. To consider and receive the audited financial statements and the reports of the directors and auditors for the financial year ended 31st December 2004.
2. To declare a final dividend for the year ended 31st December 2004.
3. To re-elect directors and to fix the remuneration of the directors.
4. To appoint auditors and to fix their remuneration, a Special Notice having been given pursuant to Sections 116C and 132(1) of the Companies Ordinance of the intention to propose the following resolution as an Ordinary Resolution:

ORDINARY RESOLUTION

“THAT Messrs Deloitte Touche Tohmatsu be and are hereby appointed auditors of the Company in place of the retiring auditors, Messrs PricewaterhouseCoopers, to hold office until conclusion of the next annual general meeting at remuneration to be fixed by the board of directors.”

5. As special business to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to repurchase shares of the Company be and it is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be repurchased on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;

Notice of Annual General Meeting

(c) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- i. the conclusion of the next annual general meeting of the Company;
- ii. the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and
- iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.”

“Shares” means shares of all classes in the capital of the Company and other securities which carry a right to subscribe or purchase shares of the Company.”

6. As special business to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

(I) **“THAT:**

- (a) subject to paragraph (c) of this Resolution and pursuant to Section 57B of the Companies Ordinance, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such power be and it is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such power after the end of the Relevant Period;

Notice of Annual General Meeting

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of any rights of subscription or conversion under any existing warrants, bonds, debentures, notes and other securities issued by the Company which carry rights to subscribe for or are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution plus;

(bb) (if the directors of the Company are so authorised by a separate resolution of the shareholders of the Company) the nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution), and the said approval shall be limited accordingly;

(d) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and

iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; and

“Rights Issue” means an offer of shares of the Company or issue of options, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities entitled to the offer) on a fixed record date in proportion to their then holdings of such shares of the Company (or, where appropriate, such other securities), (subject in all cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or 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 applicable to the Company).”

Notice of Annual General Meeting

(II) “**THAT** the directors of the Company be and they are hereby authorised to exercise the powers of the Company referred to in paragraph (a) of the resolution set out as Resolution (I) in item 6 of the notice of this meeting in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution.”

7. As special business to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) granting the listing of and permission to deal in the shares of the Company to be issued pursuant to the exercise of any options (“Options”) granted under the share option scheme of the Company adopted on 8 March 2002 (“Share Option Scheme”), the directors of the Company be and are hereby authorized, at their absolute discretion, to grant, in accordance with the terms of the Share Option Scheme, all applicable laws and the requirements of The Rules Governing the Listing of Securities on the Stock Exchange as may be amended from time to time, Options and to allot and issue shares pursuant to the exercise of such Options up to 10 per cent. of the issued share capital of the Company at the date of passing of this Resolution.”

8. As special business to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** the existing 700,000,000 issued and unissued shares of HK\$1.00 each in the capital of the Company be sub-divided into 1,400,000,000 shares of HK\$0.50 each and the board lot size be changed from 2,000 existing shares to 1,000 subdivided shares.”

By Order of the Board
Tsang Yuen Wai, Samuel
Secretary

Hong Kong, 18th April 2005

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

Notice of Annual General Meeting

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the notice is entitled to appoint one or more proxies to attend and on a poll vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy must be deposited at the Company's registered office together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. The register of members will be closed from Thursday, 12th May, 2005 to Wednesday, 18th May, 2005, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of shareholders who are entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Standard Registrars Limited, G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 11th May, 2005.
4. With regard to item 5 above, the directors wish to draw the attention of the shareholders to the circular which summarises the more important provisions of the Listing Rules relating to the repurchase of shares on The Stock Exchange of Hong Kong Limited by a company and will be despatched to the shareholders together with the annual report. The present general mandate to repurchase shares given by the shareholders expires at the forthcoming annual general meeting and, accordingly, a renewal of that general mandate is now being sought.
5. With regard to item 6 above, the directors wish to state that, currently, they have no plans to issue any additional new shares of the Company (other than pursuant to any of items (ii), (iii) or (iv) contained in paragraph (c) of the Resolution (I)). The present general mandate to issue shares given by the shareholders expires at the forthcoming annual general meeting and, accordingly, a renewal of that general mandate is now being sought.