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Corporate Information

Directors

Dr. Stanley Ho, *Chairman*
Sir Roger Lobo
Mr. Robert Kwan
Madam Lucina Laam
Mr. Lawrence Ho, *Managing Director*
Mr. Peter So
Mr. Frank Tsui
Mr. Ho Cheuk Yuet

Solicitors

Johnson, Stokes & Master
Woo, Kwan, Lee & Lo
Richards Butler

Auditors

Ernst & Young

Bankers

The Hongkong and Shanghai Banking Corporation Limited
Crédit Agricole Indosuez

Secretary

Samuel Tsang Yuen Wai

Registered Office

28th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Share Registrar and Transfer Office

Standard Registrars Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Notice of 87th Annual General Meeting

NOTICE is hereby given that the 87th annual general meeting of Melco International Development Limited will be held at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Monday, 17th June, 2002 at 3:00 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, 2001.

2. To re-elect directors and to fix the remuneration of the directors.

3. To re-appoint auditors and to fix their remuneration.

4. 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;

(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."

Notice of 87th Annual General Meeting

5. 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;

(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)."

(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 5 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."

By Order of the Board
Tsang Yuen Wai, Samuel
Secretary

Hong Kong, 19th April, 2002

Registered Office:
28th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Notice of 87th 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, 13th June, 2002 to Monday, 17th June, 2002, 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, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Wednesday, 12th June, 2002.

4. With regard to item 4 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 5 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.

Chairman's Statement

Year 2001 continued to be a difficult year for the Group, due to the tough operating environment and keen competition in the local catering business. For the year ended 31 December 2001, the Group's turnover was HK$99.4 million compared to HK$109.2 million in 2000. Loss attributable to shareholders for the year increased from HK$6.6 million in 2000 to HK$18.6 million in 2001. The basic loss per share amounted to HK15.4 cents in 2001 compared to HK5.4 cents in 2000. The directors do not recommend the payment of a final dividend.

Business Review

Floating Restaurant

The sales of floating restaurants continued to decline in 2001, with total sales from the restaurant business decreased by approximately 5% to HK$87 million. Among various categories of sales, tour group sales dropped approximately by 6% while local banquet catering increased approximately by 1%. The average number of customers per day also dropped approximately by 4% and the average spending per customer reduced by 2% in 2001. Total operating costs remained stable in 2001.

To further improve the quality of food and service, the Group organised training programmes for staff members. Promotional campaigns were also launched to boost sales. In order to attract more customers, the Group introduced various value-added services, one of which is to provide harbour cruise services in Wan Chai in September 2001 so as to deliver more comprehensive cruise services.

Investment Properties

Rental income from Art Court at 5 Tung Shan Terrace and the Jumbo Court carparks was stable in 2001. The occupancy rate of Art Court improved during the year.

Capital

The Group's working capital remained intact and amounted to approximately HK$212 million at 31 December, 2001, enabling the Group to finance its existing operations and future investments.

Prospects

In 2001, the local and global economies slowed down significantly, particularly in the latter part of the year. The Group's large pool of cash places the Group in a strong and competitive position in the midst of economic downturn. With a strong balance sheet, high level of cash balance and liquidity, the Group will pursue a conservative investment strategy to diversify both by business segment and by geographical location to maintain a strong and stable financial foundation. China's recent accession to the World Trade Organisation will provide many investment opportunities. The Group will watch out for these opportunities and advance its interest in China where appropriate.

Stanley Ho
Chairman

Hong Kong, 19th April, 2002

Management Discussion and Analysis

Group Results

Turnover

The Group's turnover for the year was HK$99 million, representing a decrease of 9% when compared with last year. Restaurant sales, which constituted the major part of the Group's turnover, decreased by 5%. The income from investment properties remained stable.

Operating loss before tax

Operating loss before tax increased by HK$13 million to HK$21 million in 2001, attributable partly to decline in restaurant sales.

Divisional Review

A. Restaurant operations and related activities

Turnover

Turnover for restaurant operation and related activities this year decreased by 5% to HK$87 million, of which HK$85 million was generated from catering income. The average number of customers per day decreased by 4% while the average spending per customer reduced by 2% during the year.

Restaurant gross operating margin

Average gross operating margin declined slightly to 65% and gross operating profit for the year amounted to HK$51 million.

Other operating expenses

Direct operating expenses remained stable at HK$17 million. Electricity expenses for the year increased by 10% to HK$4 million. Fuel expenses during the year increased by 10% to HK$2.6 million, due to substantial increase in fuel price.

B. Property investment and related activities

Carpark Income

Carpark income is derived from the 509 carparking spaces at Jumbo Court Public Carpark, which is leased to a carpark operator. The income increased by 7% this year.

Art Court

Art Court is a 12-unit residential building situated at 5 Tung Shan Terrace. The average occupancy rate of the property increased from 72% to 74% in 2001. As a result, income for the year increased to HK$2.9 million, representing a 5% increase when compared with 2000.

C. Investment and others

Turnover for investment and others, representing bank interest income for the year, decreased to HK$8 million.

Employees

The Group employed a total of 273 employees at the year end of 2001 and staff cost, excluding directors' emoluments, amounted to approximately HK$55 million this year. The Group ensures that the pay levels of its employees are competitive.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible staff. Details of the scheme are described in the Report of the Directors.

Liquidity and Capital Resources

Cash available to the Group at the end of 2001 amounted to HK$213 million, representing a decrease of HK$19 million. The Group is in a financially sound position for future expansion and business development. At the balance sheet date, the Group did not have any significant capital commitment.

Capital Structure

The authorized share capital of Melco International Development Limited is HK$480,000,000 at HK$1.00 per share. As at 31 December, 2001, there were 121,087,134 ordinary shares issued and fully paid. The capital reserve account and share premium account were HK$357,784,733 and HK$8,737,833 respectively. Investment property revaluation reserve was reduced to HK$76,613,932.

Management Discussion and Analysis

Cash Flow Variance Analysis

	2001 HK$	2000 HK$	Variance HK$
Operating Activities	**(25,457,841)**	(11,949,225)	(13,508,616)
Return on investments and servicing of finance	**8,003,722**	13,565,597	(5,561,875)
Tax	**48,995**	(57,037)	106,032
Investing Activities	**(1,197,974)**	12,270,663	(13,468,637)
Financing Activities	**–**	–	–
Increase/(Decrease) in cash and cash equivalents	**(18,603,098)**	13,829,998	(32,433,096)

Operating activities

The net operating cash outflow for the year increased by HK$13.5 million, partly due to the decline in the sales of restaurant business.

Returns on investments and servicing of finance

The decrease of returns on investments and servicing of finance was due to the reduction of interest rate.

Tax

The cash inflow was due to tax refund this year.

Investing activities

Without the contribution from the disposal of vessels, the net cash flow for investing activities decreased during the year.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

Results

The loss of the Group for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 56.

Summary financial information

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements. The results of the Group for the three years ended 31 December 1999 and the assets and liabilities of the Group as at 31 December 1998 and 1997 have been adjusted for the effects of the retrospective changes in accounting policy affecting goodwill as further detailed in notes 2, 4 and 15 to the financial statements.

Results

	Year ended 31 December				
	2001	2000	1999	1998	1997
	HK$	HK$	HK$	HK$	HK$
			(Restated)	(Restated)	(Restated)
Turnover	**99,408,954**	109,175,462	113,738,722	134,086,881	202,912,266
Net loss from ordinary activities attributable to shareholders	**(18,634,632)**	(6,567,759)	(51,687,224)	(46,187,032)	(23,996,238)

Assets and liabilities

	31 December				
	2001	2000	1999	1998	1997
	HK$	HK$	HK$	HK$	HK$
				(Restated)	(Restated)
Total assets	**410,960,123**	445,655,031	468,408,560	492,179,748	594,332,610
Total liabilities	**(10,099,111)**	(15,701,903)	(42,096,531)	(10,778,271)	(13,879,533)
Minority interests	**(26,392,112)**	(28,982,770)	(29,569,370)	(32,971,594)	(39,650,829)
Net assets	**374,468,900**	400,970,358	396,742,659	448,429,883	540,802,248

Major customers and suppliers

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

Purchases from the five largest suppliers of the Group accounted for 44.2% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 16.0% of the Group's total purchases for the year.

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

Investment properties and property, plant and equipment

Details of movements in the investment properties and property, plant and equipment of the Company and the Group during the year are set out in notes 12 and 13 to the financial statements, respectively.

Share capital and share options

Details of movements in the share capital and share options of the Company are set out in notes 22 and 28 to the financial statements.

Share premium account

Details of the share premium account of the Company are set out in note 23 to the financial statements.

Capital reserve account

Details of the capital reserve account of the Company and the Group are set out in note 24 to the financial statements.

Investment property revaluation reserve

Details of movements in the Group's investment property revaluation reserve during the year are set out in note 25 to the financial statements.

Directors

The directors of the Company during the year were:

Executive directors:

Dr. Stanley Ho	
Mr. Lawrence Ho	(appointed on 5 November 2001)
Mr. Peter So	(appointed on 5 November 2001)
Mr. Frank Tsui	(appointed on 5 November 2001)
Madam Lucina Laam King Ying	(appointed on 5 November 2001)
Mr. Ho Cheuk Yuet	(appointed on 5 November 2001)
Ms. Pansy Ho	(resigned on 21 November 2001)
Ms. Daisy Ho	(resigned on 21 November 2001)
Mr. Ambrose So	(resigned on 21 November 2001)
Mr. Patrick Huen	(resigned on 21 November 2001)
Mr. Andrew Tse	(resigned on 21 November 2001)
Mr. Anthony Chan	(resigned on 21 November 2001)

Non-executive director:

Madam Winnie Ho Yuen Ki

Independent non-executive directors:

Sir Roger Lobo
Mr. Robert Kwan
Mr. Roque Choi
Mr. Jose Balcor Hun Prado (resigned on 21 November 2001)

Subsequent to the balance sheet date, on 11 February 2002, Mr. Ho Cheuk Yuet resigned as an executive director of the Company and was appointed as a non-executive director of the Company.

Subsequent to the balance sheet date, on 8 April 2002, Mr. Roque Choi resigned as an independent non-executive director, and on 9 April 2002, Madam Winnie Ho Yuen Ki ceased to be a non-executive director of the Company.

In accordance with article 103 of the Company's articles of association, Sir Roger Lobo will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 94 of the Company's articles of association, any directors appointed during the year shall hold office only until the forthcoming annual general meeting. Accordingly, Mr. Lawrence Ho, Mr. Peter So, Mr. Frank Tsui, Madam Lucina Laam King Ying and Mr. Ho Cheuk Yuet will retire and, being eligible, will offer themselves for re-election at the forthcoming meeting.

Directors' service contracts

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' interests in shares

As at 31 December 2001, the beneficial interests of the directors and their associates in the issued share capital of the Company as recorded in the register required to be maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

	Number of ordinary shares held and nature of interests		
Name of director	**Personal**	**Family**	**Corporate***
Dr. Stanley Ho	8,216,185	214,727	1,585,000
Madam Winnie Ho Yuen Ki	82,023	–	–
Mr. Roque Choi	51,733	–	–
Madam Lucina Laam King Ying	148,191	–	–
Mr. Lawrence Ho	–	–	36,525,675

* Dr. Stanley Ho has beneficial interests in Sharikat Investments Ltd. and Dareset Ltd. which beneficially owned 500,000 and 1,085,000 shares, respectively, in the Company.

Mr. Lawrence Ho has beneficial interests in Lasting Legend Limited which beneficially owned 36,525,675 shares in the Company.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' right to acquire shares

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, 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

In 1990, the Company adopted a share option scheme (the "Old Scheme") under which the board of directors of the Company may grant options to subscribe for shares in the Company to any eligible employees including the executive directors. The Old Scheme expired on 21 October 2000 and there was no share option outstanding as at 31 December 2001 under the Old Scheme.

Subsequent to 31 December 2001, the Company has operated a new share option scheme (the "New 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 include the Company's directors, including independent non-executive directors, executives and employees of and consultants, professional and other advisers of the Group. The New Scheme became effective on 8 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 shares of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New 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 New Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 8 March 2002. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the New 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 New 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. At 31 December 2001, no share options were granted for shares issuable under the New Scheme. The maximum number of shares issuable under share options to each eligible participant in the New 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.

Share options granted to a director, 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 New 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 shares 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 trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's share on the date of the offer of the share options.

In the opinion of the directors, the New Scheme adopted complies with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Subsequent to the balance sheet date, an aggregate of 5,343,484 share options of the Company were granted under the New Scheme to certain directors and an employee of the Company.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted subsequent to the balance sheet date to the directors, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors are unable to arrive at an assessment of the value of these share options.

Directors' interests in contracts

Save as disclosed in note 33 to the financial statements, 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.

Substantial shareholders

As at 31 December 2001, according to the register maintained pursuant to Section 16(1) of the SDI Ordinance, the following shareholders were interested in 10% or more of the issued share capital of the Company.

Name	Number of shares of the Company
Shun Tak Shipping Company Limited	26,055,432
Lasting Legend Limited	36,525,675

Save as disclosed herein and other than the interests of the Company's directors and companies controlled by them as set out in the foregoing, the Company's directors and the chief executive of the Company do not know of any person who, as at 31 December 2001, was directly or indirectly interested in 10% or more of the issued share capital of the Company or in any interest which was required to be recorded under Section 16(1) of the SDI Ordinance.

Brief biographical details in respect of directors

Name	Age	Position held	Number of years of service	Business experience
Executive directors:				
Dr. Stanley Ho	80	Chairman	33	The group executive chairman of Shun Tak Holdings Limited, and president of The Real Estate Developers Association of Hong Kong. He is also the managing director of Sociedade Turismo e Diversões de Macau, S.A.R.L., vice chairman of CAM - Macau International Airport Company Limited.
Mr. Lawrence Ho	25	Managing director	0.5	Son of Dr. Stanley Ho. Holder of B.A. (Commerce) from University of Toronto, Canada. An executive director of iAsia Technology Limited, a company listed on the Hong Kong Growth Enterprise Market. Mr. Lawrence Ho has extensive experience in commercial, securities and information technology business.

Report of the Directors

Name	Age	Position held	Number of years of service	Business experience
Executive directors (continued):				
Mr. Peter So	49	Director	0.5	Mr. Peter So has extensive experience in business consultancy, financial market and managing listed companies in Hong Kong and England. He is an associate member of Institute of Financial Services and The Chartered Institute of Cost and Management Accountants.
Mr. Frank Tsui	44	Director	0.5	Mr. Frank Tsui has extensive experience in direct investment and merchant banking, with key management responsibilities for investments and operations in the People's Republic of China. He holds the degrees of BBA and MBA from Chinese University of Hong Kong and LLB from University of London, and is a member of the Certified General Accountants' Association of Canada.
Madam Lucina Laam King Ying	58	Director	0.5	Mother of Mr. Lawrence Ho. Madam Lucina Laam King Ying has extensive property investment experience in Hong Kong and Canada.
Ms. Pansy Ho	39	Director	7	Daughter of Dr. Stanley Ho and has extensive experience in the commercial and public relations business. She is also the managing director of Shun Tak Holdings Limited. She resigned as an executive director of the Company on 21 November 2001.

Name	Age	Position held	Number of years of service	Business experience
Executive directors (continued):				
Ms. Daisy Ho	37	Director	7	Daughter of Dr. Stanley Ho and has extensive experience in the banking business. She is also the deputy managing director and chief financial officer of Shun Tak Holdings Limited. She resigned as an executive director of the Company on 21 November 2001.
Mr. Ambrose So	51	Director	8	A director of Shun Tak Holdings Limited and has extensive experience in the commercial and business fields. He resigned as an executive director of the Company on 21 November 2001.
Mr. Patrick Huen	60	Director	20	A director of Shun Tak Holdings Limited and has extensive experience in the banking field. He resigned as an executive director of the Company on 21 November 2001.
Mr. Andrew Tse	49	Director	8	A director of Shun Tak Holdings Limited and has extensive experience in the banking and corporate finance sectors. He resigned as an executive director of the Company on 21 November 2001.
Mr. Anthony Chan	54	Director	8	A director of Shun Tak Holdings Limited and has extensive experience in property investment and development. He resigned as an executive director of the Company on 21 November 2001.

Report of the Directors

Name	Age	Position held	Number of years of service	Business experience
Non-executive directors:				
Madam Winnie Ho Yuen Ki	79	Director	20	Sister of Dr. Stanley Ho. She ceased to be a non-executive director of the Company on 9 April 2002.
Mr. Ho Cheuk Yuet	39	Director	0.5	Holder of BSc. (Economics) from the University of Hong Kong. Mr. Ho Cheuk Yuet has extensive experience in stockbroking and economic research with key management responsibilities for Hong Kong, China and Taiwan.
Independent non-executive directors:				
Sir Roger Lobo	79	Director	4	A director of Shun Tak Holdings Limited, a member of the Board of Trustees of Business and Professionals Federation of Hong Kong, a council member of Caritas Hong Kong and the vice patron of the Community Chest of Hong Kong and The Society for the Rehabilitation of Offenders.
Mr. Robert Kwan	65	Director	4	A director of Shun Tak Holdings Limited and chairman of Deloitte Touche Tohmatsu Certified Public Accountants.
Mr. Roque Choi	82	Director	31	A consultant of Banco Seng Heng, S.A.R.L., a director of Sociedade de Turismo e Desenvolvimento Insular S.A.R.L. and Empresa de Formento Industriale Comercial Concordia Limitada. He resigned as an independent non-executive director on 8 April 2002.

Report of the Directors

Name	Age	Position held	Number of years of service	Business experience
Independent non-executive directors (continued):				
Mr. Jose Balcor Hun Prado	82	Director	32	A director of Agencia Commercial Ultra Marina, LDA., Compania de Formento Predial Marina and Tai Ming LDA. He resigned as an independent non-executive director of the Company on 21 November 2001.

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, Madam Ho Yuen Ki 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 and/or directors. In addition, Dr. Stanley Ho and Madam Ho Yuen Ki have beneficial interests in Sociedade de Turismo e Diversões de Macau, its subsidiaries and associates (the "STDM Group") as directors and/or shareholders.

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 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 financial statements.

Code of Best Practice

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

Audit committee

The Company has an audit committee which was established in accordance with requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company who are Sir Roger Lobo and Mr. Robert Kwan.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Stanley Ho
Chairman

Hong Kong
19 April, 2002

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
Melco International Development Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 24 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements 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 statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
19 April, 2002

Consolidated Profit and Loss Account

Year ended 31 December 2001

	Notes	2001 HK$	2000 HK$
TURNOVER	6	**99,408,954**	109,175,462
Other revenue and gains	6	**290,880**	2,807,498
Cost of food and beverages		**(25,430,905)**	(25,579,573)
Consumable stores used		**(2,881,306)**	(2,824,638)
Staff costs		**(55,244,404)**	(55,737,334)
Depreciation expense		**(6,039,904)**	(5,619,459)
Other operating expenses		**(31,195,431)**	(30,437,319)
Total operating expenses		**(120,791,950)**	(120,198,323)
OPERATING LOSS BEFORE TAX	7	**(21,092,116)**	(8,215,363)
Tax	8	**–**	(4,395)
LOSS BEFORE MINORITY INTERESTS		**(21,092,116)**	(8,219,758)
Minority interests		**2,457,484**	1,651,999
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	9	**(18,634,632)**	(6,567,759)
LOSS PER SHARE			
Basic	10	**HK15.4 cents**	HK5.4 cents

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 2001

	Note	2001 HK$	2000 HK$
Surplus/(deficit) on revaluation of investment properties	25	**(7,866,826)**	10,795,458
Net gains/(losses) not recognised in the profit and loss account		**(7,866,826)**	10,795,458
Net loss for the year attributable to shareholders		**(18,634,632)**	(6,567,759)
Total recognised gains and losses		**(26,501,458)**	4,227,699
In addition to the gains and losses detailed above, certain gains and losses arose since 31 December 2000 as a result of prior year adjustments arising from the changes in accounting policies as detailed in note 4(a) to the financial statements, as follows:			
For the year ended 31 December 2001, as reported above		**(26,501,458)**	
Recognised gains and losses arising from prior year adjustments, relating to prior to 1 January 2000		**(240,307,881)**	
Total recognised gains and losses arising since the last annual report		**(266,809,339)**	

Consolidated Balance Sheet

31 December 2001

	Notes	2001 HK$	2000 HK$ (Restated)
NON-CURRENT ASSETS			
Investment properties	12	**152,000,000**	160,000,000
Property, plant and equipment	13	**31,256,754**	36,088,841
Goodwill and negative goodwill	15	**–**	–
Long term investment	16	**4,661,880**	4,661,880
Pledged bank deposits	30	**911,000**	911,000
		188,829,634	201,661,721
CURRENT ASSETS			
Inventories	17	**3,152,114**	5,410,908
Accounts receivable	18	**2,997,248**	4,059,898
Prepayments, deposits and other receivables		**2,991,904**	2,777,221
Amounts due from related companies	19	**446,000**	549,967
Cash and cash equivalents	20	**212,543,223**	231,146,321
Tax recoverable		**–**	48,995
		222,130,489	243,993,310
CURRENT LIABILITIES			
Accounts payable	21	**2,574,010**	4,987,938
Accrued liabilities and other payables		**6,773,053**	9,952,675
Rental deposits due within one year		**396,178**	699,310
		9,743,241	15,639,923
NET CURRENT ASSETS		**212,387,248**	228,353,387
TOTAL ASSETS LESS CURRENT LIABILITIES		**401,216,882**	430,015,108
NON-CURRENT LIABILITIES			
Rental deposits due after one year		**355,870**	61,980
MINORITY INTERESTS		**26,392,112**	28,982,770
		374,468,900	400,970,358
CAPITAL AND RESERVES			
Issued capital	22	**121,087,134**	121,087,134
Share premium account	23	**8,737,833**	8,737,833
Capital reserve account	24	**357,784,733**	357,784,733
Investment property revaluation reserve	25	**76,613,932**	84,480,758
Accumulated losses	26	**(189,754,732)**	(171,120,100)
		374,468,900	400,970,358

Stanley Ho
Director

Lawrence Ho
Director

Balance Sheet

31 December 2001

	Notes	2001 HK$	2000 HK$ (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**4,558**	–
Interests in subsidiaries	14	**279,541,509**	582,174,092
		279,546,067	582,174,092
CURRENT ASSETS			
Prepayments, deposits and other receivables		**–**	3,750
Cash and cash equivalents	20	**585,346**	32,369
		585,346	36,119
CURRENT LIABILITIES			
Accrued liabilities		**367,546**	899,780
NET CURRENT ASSETS/(LIABILITIES)		**217,800**	(863,661)
		279,763,867	581,310,431
CAPITAL AND RESERVES			
Issued capital	22	**121,087,134**	121,087,134
Share premium account	23	**8,737,833**	8,737,833
Capital reserve account	24	**357,784,733**	357,784,733
Retained profits/(accumulated losses)	4(b)	**(207,845,833)**	93,700,731
		279,763,867	581,310,431

Stanley Ho
Director

Lawrence Ho
Director

Consolidated Cash Flow Statement

Year ended 31 December 2001

	Note	2001 HK$	2000 HK$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	29	**(25,457,841)**	(11,949,225)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**8,003,722**	13,565,597
Net cash inflow from returns on investments and servicing of finance		**8,003,722**	13,565,597
TAX			
Hong Kong profits tax refunded/(paid)		**48,995**	(57,037)
INVESTING ACTIVITIES			
Additions to investment properties		**–**	(3,139,143)
Additions to property, plant and equipment		**(1,220,974)**	(11,145,021)
Proceeds from disposal of vessels, net of relocation costs		**–**	26,186,875
Proceeds from disposal of property, plant and equipment		**23,000**	367,952
Net cash inflow/(outflow) from investing activities		**(1,197,974)**	12,270,663
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		**(18,603,098)**	13,829,998
FINANCING ACTIVITIES			
Net cash flow from financing activities		**–**	–
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(18,603,098)**	13,829,998
Cash and cash equivalents at beginning of year		**231,146,321**	217,316,323
CASH AND CASH EQUIVALENTS AT END OF YEAR		**212,543,223**	231,146,321
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**4,990,332**	4,435,030
Short term bank deposits with original maturity of less than three months when acquired		**207,552,891**	226,711,291
		212,543,223	231,146,321

1. Corporate information

The registered office of Melco International Development Limited is located at 28/F, The Centrium, 60 Wyndham Street, Central, Hong Kong.

During the year, the Company's principal activity was investment holding. The principal activities of the Company's principal subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

2. Impact of new and revised statements of standard accounting practice ("SSAPs")

The following recently-issued and revised SSAPs applicable to the Group are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This SSAP requires that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. This SSAP has had no impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under the SSAP have resulted in changes to the information disclosed in these financial statements for operating leases, which are further detailed in note 31 to the financial statements.

2. Impact of new and revised statements of standard accounting practice ("SSAPs") (continued)

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in note 4(b) to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of the SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the disclosure requirements. This SSAP requires the amounts of provisions to be discounted to their present value at the balance sheet date, where the effect of discounting is material. This SSAP has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The SSAP has no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in note 4(a) and 15 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on these financial statements.

3. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) restaurant operations, when catering services are rendered;

(b) rental income, on the straight-line basis over the lease terms; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power issued share capital or controls the composition of its board of directors.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. Summary of significant accounting policies (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition. Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the goodwill previously eliminated against consolidated reserves for all acquisitions has been retrospectively restated as if the new accounting policy above had always been applied. This restatement has given rise to a prior year adjustment, further details of which are included in notes 4(a) and 15 to the financial statements. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

3. Summary of significant accounting policies (continued)

Negative goodwill (continued)

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the negative goodwill previously credited to the capital reserve for all acquisitions has been retrospectively restated as if the new accounting policy above had always been applied. This restatement has given rise to a prior year adjustment, details of which are included in notes 4(a) and 15 to the financial statements. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the consolidated profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. Summary of significant accounting policies (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such 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.

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

Property, plant and equipment

Property, plant and equipment, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Restaurant vessels, ferries and pontoons	5% to 10%
Long term leasehold land	Over the lease terms
Long term leasehold buildings	2.5%
Leasehold improvement	20% or over the lease terms, which ever is shorter
Furniture, fixtures and equipment	10% to 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. Summary of significant accounting policies (continued)

Long term investment

A long term investment is a non-trading investment in unlisted equity securities intended to be held on a continuing basis and is stated at cost less any impairment losses.

Inventories

Inventories comprise mainly food, beverages and consumable stores and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is determined on the basis of estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated profit and loss account.

Related parties

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. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. Summary of significant accounting policies (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the consolidated profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the consolidated profit and loss account on the straight-line basis over the lease terms.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (the "MPFS Ordinance") for all of its employees. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employee's salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting full, in accordance with the rules of the MPF Scheme.

Cash equivalents

For the purpose of the consolidated cash flow statements, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. Prior year adjustments

(a) In prior years, goodwill and negative goodwill arising on consolidation of subsidiaries were eliminated against and credited to the capital reserves, respectively, in the year in which they arose. During the year, the Group adopted SSAP 30 "Business combinations", as further explained in note 2 to the financial statements. Goodwill was retrospectively restated and had been fully amortised prior to 1 January 2000 on a straight-line basis over a period of not more than 20 years. In addition, negative goodwill had been recognised as an income immediately in the year of acquisition. Accordingly, prior year adjustments have been made in the current year financial statements, the principal effect of which has been to reduce the Group's retained profit and increase the Group's capital reserve previously reported as at 1 January 2000 and 2001, by HK$240,307,881. Further details of which are set out in note 15 to the financial statements.

(b) During the year, the Group adopted the revised SSAP 18 "Revenue", as detailed in note 2 to the financial statements. To comply with the revised SSAP, a prior year adjustment has been made to the comparative amount of the Company's financial statements for 2000, resulting in a debit of HK$5,000,000 to the Company's net profit for that year, and a net credit of the same amount to the dividend receivable in the Company's balance sheet. The prior year adjustment reversed a dividend from a subsidiary which was declared and approved by the subsidiary after the prior year's balance sheet date, but which was recognised by the Company as revenue in its financial statements for that year. The prior year adjustment resulted in no change to the amount of the Company's retained profits as at 1 January 2000.

The effect of this change in accounting policy on the Company's net profit for the current year, was to reduce the net loss by HK$5,000,000 to HK$301,546,564, as disclosed in note 9 to the financial statements, representing the effect of recognising the dividend of HK$5,000,000 declared by the subsidiary after the prior year's balance sheet date, as revenue in the financial statements for the current year.

5. Segment information

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations, products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the restaurant segment engages in restaurant operating and related activities;

(b) the property segment engages in property investment and related activities;

5. Segment information (continued)

(c) the investment segment engages in investment and related activities.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There are no material intersegment sales and transfers between the business segments.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Restaurant		Property		Investment		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Segment revenue:								
Turnover	86,778,267	91,225,789	4,679,929	4,441,139	7,950,758	13,508,534	99,408,954	109,175,462
Other revenue	272,015	893,932	9,022	–	-	–	281,037	893,932
Gains	9,843	1,913,566	-	–	-	–	9,843	1,913,566
	87,060,125	94,033,287	4,688,951	4,441,139	7,950,758	13,508,534	99,699,834	111,982,960
Segment results and operating profit/(loss) before tax	(22,866,392)	(19,123,093)	2,821,433	3,326,298	(1,047,157)	7,581,432	(21,092,116)	(8,215,363)
Tax							-	(4,395)
Loss before minority interests							(21,092,116)	(8,219,758)
Minority interests							2,457,484	1,651,999
Net loss from ordinary activities attributable to shareholders							(18,634,632)	(6,567,759)
Segment assets	44,379,206	51,920,872	155,613,576	162,713,070	210,967,341	231,021,089	410,960,123	445,655,031
Segment liabilities	7,036,958	12,246,527	2,678,043	2,555,596	384,110	899,780	10,099,111	15,701,903
Other segment information:								
Depreciation	5,698,959	5,384,209	339,805	235,250	1,140	–	6,039,904	5,619,459
Capital expenditures	498,155	11,145,021	522,778	3,139,143	200,041	–	1,220,974	14,284,164
Other non-cash expenses	385,000	–	-	–	-	–	385,000	–

5. Segment information (continued)

(b) Geographical segments

The Group's revenue, results, assets and liabilities are principally derived from operations carried out in Hong Kong.

6. Turnover, revenue and gains

Turnover represents revenue from restaurant operations together with gross rental income received and receivable from investment properties and interest income received and receivable during the year.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Group	
	2001	2000
	HK$	HK$
Turnover		
Catering income	**85,391,767**	89,755,890
Gross rental income	**6,013,465**	5,856,802
Interest income	**8,003,722**	13,562,770
	99,408,954	109,175,462
Other revenue		
Proceeds from insurance claim	**202,020**	893,932
Others	**79,017**	–
	281,037	893,932
Gains		
Gain on disposal of vessels *(note 33(vii))*	**–**	1,776,588
Gain on disposal of property, plant and equipment	**9,843**	136,978
	9,843	1,913,566
	290,880	2,807,498

7. Operating loss before tax

The Group's operating loss before tax is arrived at after charging/(crediting):

	2001 HK$	2000 HK$
Auditors' remuneration	**442,000**	464,400
Retirement benefits scheme contributions, net	**1,913,150**	1,771,457
Cost of inventories sold	**28,312,211**	28,404,211
Rental income:		
Gross	**(6,013,465)**	(5,856,802)
Outgoing	**455,039**	527,598
Net of outgoings	**(5,558,426)**	(5,329,204)
Minimum lease payment under operating leases in respect of land and buildings	**375,000**	–

8. Tax

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits arising in Hong Kong during the year (2000: Nil). The tax charge for the year ended 31 December 2000 represented under provision of profit tax in the prior year.

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

	Group				Company	
	Provided		Not provided		Not provided	
	2001 HK$	2000 HK$	2001 HK$	2000 HK$	2001 HK$	2000 HK$
Accelerated depreciation allowances	**2,260,000**	2,700,000	**703,000**	1,076,000	**–**	–
Tax losses carried forward	**(2,260,000)**	(2,700,000)	**(15,918,000)**	(11,746,000)	**(1,352,000)**	(696,000)
	–	–	**(15,215,000)**	(10,670,000)	**(1,352,000)**	(696,000)

There are no significant potential deferred tax liabilities for which provision has not been made by the Group or the Company.

The revaluation of the Group's investment properties does not constitute a timing difference and consequently, the amount of potential deferred tax thereon has not been quantified.

9. Net loss from ordinary activities attributable to shareholders

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 was HK$301,546,564 (restated 2000: loss of HK$2,922,113 (note 4(b))).

10. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$18,634,632 (2000: HK$6,567,759) and 121,087,134 (2000: 121,087,134) ordinary shares in issue throughout the year.

A diluted loss per share amount for the year ended 31 December 2001 has not been disclosed as no diluting events existed during the year.

As the exercise price of the share options of the Company was greater than the average market price of the Company's shares during 2000, no diluted loss per share was calculated and presented for the year ended 31 December 2000.

11. Directors' remuneration and emoluments of five highest paid individuals

Directors' remuneration

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001	2000
	HK$	HK$
Fees:		
Executive directors	**463,424**	470,000
Non-executive directors	**20,000**	20,000
Independent non-executive directors	**418,904**	420,000
	902,328	910,000
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind		
Executive directors	**3,812,656**	1,566,540
Independent non-executive directors	**300,000**	300,000
Retirement benefits scheme contributions for executive directors	**127,107**	5,802
	4,239,763	1,872,342
	5,142,091	2,782,342

The number of directors whose remuneration fell within the bands set out below is as follows:

	2001 Number of directors	2000 Number of directors
Nil – HK$1,000,000	**15**	12
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**1**	–

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Subsequent to the balance sheet date, 4,843,484 share options were granted to certain directors of the Company in respect of their services provided to the Group, details of which are set out under the heading "Share option scheme" in the Report of the Directors.

11. Directors' remuneration and emoluments of five highest paid individuals (continued)

Employee costs

The five highest paid individuals during the year included two (2000: one) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2000: four) non-director, highest paid individuals are analysed as to nature and bands of remuneration below.

	2001 HK$	2000 HK$
Basic salaries, housing, other allowances and benefits in kind	**1,788,735**	2,941,545
Retirement benefits scheme contributions	**49,836**	85,131
	1,838,571	3,026,676

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	2001 Number of employees	2000 Number of employees
Nil – HK$1,000,000	**3**	3
HK$1,000,001 – HK$1,500,000	**–**	1

12. Investment properties

	Group	
	2001 HK$	2000 HK$
At valuation:		
At beginning of year	**160,000,000**	145,000,000
Additions	**–**	3,139,143
Surplus/(deficit) on revaluation – *note 25*	**(8,000,000)**	11,860,857
At 31 December	**152,000,000**	160,000,000

The investment properties are held in Hong Kong under long term leases. The investment properties were revalued on an open market, existing tenancy basis by CB Richard Ellis Ltd., an independent firm of professional valuers, as at 31 December 2001 at HK$152,000,000.

12. Investment properties (continued)

The investment properties include a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong and 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. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the financial statements.

13. Property, plant and equipment

Group

	Restaurant vessels, ferries and pontoons HK$	Leasehold land and buildings HK$	Leasehold improvement HK$	Furniture, fixtures and equipment HK$	Total HK$
Cost:					
At beginning of year	43,226,797	613,996	–	58,039,700	101,880,493
Additions	74,172	–	194,343	952,459	1,220,974
Disposals	–	–	–	(89,100)	(89,100)
At 31 December 2001	43,300,969	613,996	194,343	58,903,059	103,012,367
Accumulated depreciation:					
At beginning of year	29,389,347	160,865	–	36,241,440	65,791,652
Provided during the year	2,017,249	9,525	–	4,013,130	6,039,904
Disposals	–	–	–	(75,943)	(75,943)
At 31 December 2001	31,406,596	170,390	–	40,178,627	71,755,613
Net book value:					
At 31 December 2001	11,894,373	443,606	194,343	18,724,432	31,256,754
At 31 December 2000	13,837,450	453,131	–	21,798,260	36,088,841

13. Property, plant and equipment (continued)

Company

	Furniture, fixtures and equipment HK$
Cost:	
Additions during the year and at 31 December 2001	5,698
Accumulated depreciation:	
Provided during the year and at 31 December 2001	1,140
Net book value:	
At 31 December 2001	4,558

The leasehold land and buildings are located in Hong Kong and are held under long term leases.

14. Interests in subsidiaries

	Company 2001 HK$	Company 2000 HK$
Unlisted shares, at cost	**390,026**	390,018
Provision for impairment	**(390,000)**	(390,000)
	26	18
Due from subsidiaries	**579,541,483**	582,174,074
Provision	**(300,000,000)**	–
	279,541,509	582,174,092

The balances with subsidiaries are unsecured and interest-free. In respect of all the balances due from subsidiaries, the Company has undertaken not to demand repayment within a two-year period from the balance sheet date and only when the subsidiaries have sufficient working capital in excess of their respective normal requirements.

14. Interests in subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity interest attributable to the Group	Principal activities
Held directly				
Double Crown Limited	Hong Kong	HK$2	100	Property investment
Palmsville Developments Limited	British Virgin Islands	US$1	100	Investment holding
Proven Success Limited	British Virgin Islands	US$1	100	Investment holding
Held indirectly				
Aberdeen Restaurant Enterprises Limited*	Hong Kong	HK$25,025,000	86.68	Restaurant operations and property investment
Sea Palace, Limited*	Hong Kong	HK$1,950,000	86.46	Dormant
Tai Pak Sea-Food Restaurant Limited*	Hong Kong	HK$1,350,000	84.76	Catering, restaurant vessel holding and letting

* Audited by certified public accountants other than Ernst & Young.

The above table lists the subsidiaries of the Company as at 31 December 2001 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. Goodwill and negative goodwill

SSAP 30 was adopted during the year, as further detailed in note 2 to the financial statements. The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill HK$	Negative goodwill HK$
Cost:		
At beginning of year:		
As previously reported	–	–
Prior year adjustment	240,746,837	(438,956)
As restated and at 31 December 2001	240,746,837	(438,956)
Accumulated amortisation /(recognition as income):		
At beginning of year:		
As previously reported	–	–
Prior year adjustment	240,746,837	(438,956)
As restated and at 31 December 2001	240,746,837	(438,956)
Net book value:		
At 31 December 2000 and 2001	–	–

As further detailed in note 4(a) to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of previous acquisition to be restated to the non-current assets section of the consolidated balance sheet, in accordance with the Group's new accounting policy.

The prior year adjustment so arising has resulted in goodwill previously eliminated against capital reserve of HK$240,746,837 as at 1 January 2001, and negative goodwill previously credited to the capital reserve of HK$438,956 as at that date, being restated as the cost of the goodwill and negative goodwill above, as at 1 January 2001. The cumulative amount of goodwill that would have been amortised to the consolidated profit and loss account under the Group's new accounting policy, of HK$240,746,837 as at 1 January 2001, which would have arisen in prior years under the requirement of SSAP 30, has been restated as the balance of accumulated amortisation of goodwill as at 1 January 2001. The cumulative amount of negative goodwill that would have been recognised in the consolidated profit and loss account under the Group's new accounting policy, of HK$438,956 as at 1 January 2001, has been restated as the balance of accumulated recognition as income as at that date.

15. Goodwill and negative goodwill (continued)

The net amount of accumulated goodwill amortisation and negative goodwill recognised as income, of HK$240,307,881, as at 1 January 2000 and 2001, has been adjusted to the balances of capital reserve as at those dates.

16. Long term investment

	Group	
	2001	2000
	HK$	HK$
Unlisted equity investment, at cost	**4,661,880**	4,661,880

17. Inventories

	Group	
	2001	2000
	HK$	HK$
Food and beverages	**3,056,467**	5,357,855
Consumable stores	**95,647**	53,053
	3,152,114	5,410,908

No inventories were carried at net realisable value at 31 December 2001 (2000: Nil).

18. Accounts receivable

The aged analysis of the accounts receivable is as follows:

	Group	
	2001	2000
	HK$	HK$
Outstanding balances aged:		
Within 30 days	**1,996,239**	2,449,019
Between 31 to 60 days	**815,511**	1,308,676
Between 61 to 180 days	**185,498**	294,044
Over 180 days	**–**	8,159
	2,997,248	4,059,898

18. Accounts receivable (continued)

The Group's restaurant and property leasing operations are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms are granted. The Group generally allows normal terms of credit of 30 to 60 days to its well-established customers.

19. Amounts due from related companies

Particulars of the amounts due from related companies of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Notes	At 31 December 2001 HK$	Maximum amount outstanding during the year HK$	At 1 January 2001 HK$
Sociedade Turismo e Diversões de Macau	(a)	446,000	446,000	409,876
Gold Carousel Investments Limited	(b)	–	140,091	140,091
		446,000		549,967

Notes:

(a) The amount due from Sociedade de Turismo e Diversões de Macau, a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are directors and/or have direct and/or indirect beneficial interests, represented receivables in respect of the sales of souvenirs by the Group and remains unsettled (note 33(v)).

(b) The amount due from Gold Carousel Investments Limited as at 31 December 2000 represented certain expenditure related to the disposal of vessels by the Group to Golden Carousel Investments Limited (note 33(vii)) paid by the Group on behalf of Gold Carousel Investments Limited.

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment.

20. Cash and cash equivalents

	Group		Company	
	2001	2000	**2001**	2000
	HK$	HK$	**HK$**	HK$
Cash and bank balances	**4,990,332**	4,435,030	**585,346**	32,369
Short term bank deposits	**207,552,891**	226,711,291	**–**	–
	212,543,223	231,146,321	**585,346**	32,369

21. Accounts payable

The aged analysis of the accounts payable is as follows:

	Group	
	2001	2000
	HK$	HK$
Outstanding balances aged:		
Within 30 days	**2,574,010**	4,981,754
Over 30 days	**–**	6,184
	2,574,010	4,987,938

22. Share capital

	2001	2000
	HK$	HK$
Authorised:		
480,000,000 shares of HK$1.00 each	**480,000,000**	480,000,000
Issued and fully paid:		
121,087,134 shares of HK$1.00 each	**121,087,134**	121,087,134

23. Share premium account

	2001	2000
	HK$	HK$
At beginning and end of year	**8,737,833**	8,737,833

24. Capital reserve account

	Group	
	2001	2000
	HK$	HK$
At beginning of year		
As previously reported	**117,476,852**	117,476,852
Prior year adjustments *(note 4(a))*	**240,307,881**	240,307,881
At restated and end of year	**357,784,733**	357,784,733

	Company	
	2001	2000
	HK$	HK$
At beginning and end of year	**357,784,733**	357,784,733

Pursuant to a scheme of capital reduction, which became effective on 29 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 not freely distributable to the shareholders of the Company unless the conditions set out in the undertaking given to the Supreme Court of Hong Kong in respect of the capital reserve account at the date of the capital reduction have been fulfilled. The undertaking provides that the reserve shall not be treated as realised profits and shall be treated as an undistributable reserve of the Company for so long as there shall remain outstanding any debt or claim against the Company which was in existence on the effective date of the capital reduction. If those conditions are fulfilled, the reserve would be treated as realised profits for the purpose of calculating the distributable reserve of the Company in accordance with the provisions of Section 79B of the Companies Ordinance .

25. Investment property revaluation reserve

	Group	
	2001	2000
	HK$	HK$
At beginning of year	**84,480,758**	73,685,300
Surplus/(deficit) on revaluation of investment properties – *note 12*	**(8,000,000)**	11,860,857
Deficit/(surplus) attributable to minority shareholders	**133,174**	(1,065,399)
At balance sheet date	**76,613,932**	84,480,758

26. Accumulated losses

	Group	
	2001	2000
	HK$	HK$
Retained profits/(accumulated losses) at beginning of year:		
As previously reported	**69,187,781**	75,755,540
Prior year adjustments *(note 4)*	**(240,307,881)**	(240,307,881)
As restated	**(171,120,100)**	(164,552,341)
Net loss for the year	**(18,634,632)**	(6,567,759)
Accumulated losses at end of year	**(189,754,732)**	(171,120,100)

27. Reserves available for distribution to shareholders

Save as disclosed in note 24 to these financial statements, as at 31 December 2001, the Company had no reserves available for distribution to shareholders, as calculated under the provisions of Section 79B of the Companies Ordinance.

28. Share option scheme

At the balance sheet date, there were no outstanding share options entitling the holders to subscribe for ordinary shares of the Company (2000: Nil).

Subsequent to the balance sheet date, the Company has operated a share option scheme (the “New Scheme”) which became effective on 8 March 2002. Pursuant to the New Scheme, an aggregate of 5,343,484 share options were granted to certain directors and an employee of the Company. Further details are set out under the heading “Share option scheme” in the Report of the Directors.

29. Note to the consolidated cash flow statement

Reconciliation of the Group's operating loss before tax to net cash outflow from operating activities

	2001 HK$	2000 HK$
Operating loss before tax	**(21,092,116)**	(8,215,363)
Interest income	**(8,003,722)**	(13,562,770)
Depreciation	**6,039,904**	5,619,459
Gain on disposal of vessels	**–**	(1,776,588)
Gain on disposal of property, plant and equipment	**(9,843)**	(136,978)
Decrease/(increase) in inventories	**2,258,794**	(2,226,729)
Decrease/(increase) in accounts receivable	**1,062,650**	(490,900)
Decrease/(increase) in prepayments, deposits and other receivables	**(214,683)**	4,701,592
Decrease/(increase) in amounts due from related companies	**103,967**	(549,967)
Increase/(decrease) in accounts payable	**(2,413,928)**	2,480,011
Increase/(decrease) in accrued liabilities and other payables	**(3,179,622)**	2,322,237
Decrease in rental deposits	**(9,242)**	(113,229)
Net cash outflow from operating activities	**(25,457,841)**	(11,949,225)

30. Pledge of assets

As at 31 December 2001, the Group's short term bank deposits amounting to HK$911,000 (2000: HK$911,000) were pledged to secure a letter of guarantee to the extent of HK$911,000 (2000: HK$911,000) granted by a bank for the Group's electricity deposits.

31. Operating lease arrangements

(a) As lessor

The Group leases its investment properties (note 12) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	HK$	HK$
Within one year	**2,048,712**	1,187,654
In the second to fifth years, inclusive	**834,488**	272,712
	2,883,200	1,460,366

(b) As lessee

The Group leases certain of its office properties and furniture under operating lease arrangements. Leases for properties and furniture are negotiated for a term of 3 years and 2 years, respectively.

At 31 December 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2001	2000	**2001**	2000
	HK$	HK$	**HK$**	HK$
Within one year	**379,800**	–	**375,000**	–
In the second to fifth years, inclusive	**2,227**	–	**–**	–
	382,027	–	**375,000**	–

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, as detailed in note (b) above, rather than only the payments to be made during the next year as was previously required.

32. Commitments

At the balance sheet date, neither the Group, nor the Company had any significant capital commitments.

33. Related party transactions and connected transactions

The Group had the following material transactions with related parties during the year:

	Notes	2001 HK$	2000 HK$
Catering income received from directors and related companies	(i)	**3,103,592**	3,124,449
Insurance premiums paid to a related company	(ii)	**930,014**	1,019,973
Management fees paid to a related company	(iii)	**406,657**	160,969
Agency services fee paid to a related company	(iv)	**198,142**	10,702
Souvenirs sold to a related company	(v)	**478,500**	442,000
Technical support service fees paid to a related company	(vi)	**55,800**	–
Disposal of the vessels to a related company	(vii)	**–**	62,200,000

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, Madam Winnie Ho Yuen Ki, Mr. Patrick Huen, Mr. Andrew Tse, Mr. Anthony Chan, Mr. Ambrose So, Ms. Daisy Ho and Ms. Pansy Ho, directors and ex-directors of the Company, are also directors 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) An agency services fee was paid by the Group to Shun Tak Real Estate Limited ("STREL"), a subsidiary of STHL, on a basis determined between the Group and STREL for the introduction of tenants to lease the Group's investment properties.

(v) The sales of souvenirs to Sociedade de Turismo e Diversões de Macau ("STDM"), a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are directors 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 31 December 2001 was HK$446,000 (2000: HK$409,876) (note 19).

33. Related party transactions and connected transactions (continued)

Notes (continued):

(vi) A service fee was paid to iAsia Technology Limited ("iAsia"), a company listed on The Stock Exchange of Hong Kong Limited, for the technical support services in respect of the Group's computer system and on the basis determined between the Group and iAsia. Dr. Stanley Ho and Mr. Lawrence Ho, directors of the Company, are also directors and beneficial shareholders of iAsia.

(vii) The Group disposed of its Jumbo Palace Restaurant Boat and Sea Palace Kitchen Boat and their operational assets (the "Vessels") to Gold Carousel Investments Limited, an associate of Dr. Stanley Ho, for an aggregate consideration of US$8 million (equivalent to HK$62,200,000), which was inclusive of the consideration for any relocation works. The sale and purchase agreement was approved by the independent shareholders of the Company on 21 January 2000. The consideration was determined by reference to an independent valuation of the Vessels as at 7 December 1999 made by Vigers Hong Kong Ltd., an independent firm of professional valuers, and the estimated expenses to be incurred for the relocation works were calculated by reference to the quotations obtained therefor. A profit of HK$1,776,588 (note 6) which resulted from the disposal was credited to the profit and loss account for the year ended 31 December 2000. Further details of the disposal are set out in a circular issued by the Company dated 4 January 2000.

34. Post balance sheet events

(i) Subsequent to the balance sheet date, the Group entered into various agreements, memoranda and letters of intent with independent third parties to further pursue the Group's business in the leisure and entertainment sectors (the "Potential Deals"). As of today, none of the Potential Deals has been concluded and/or, among other things, all the Potential Deals are subject to conditions such as financial and legal due diligence reviews. The Group therefore may or may not proceed with any of the Potential Deals. Should the Group proceed with all the Potential Deals, based on the latest information, the directors estimate that the Group's total investments will be approximately HK$50 million.

(ii) Subsequent to the balance sheet date, pursuant to the New Scheme, an aggregate of 5,343,484 share options of the Company were granted to certain directors and an employee of the Company. Further details of the New Scheme are set out under the heading "Share option scheme" in the Report of the Directors.

35. Comparative amounts

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

36. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 19 April 2002.