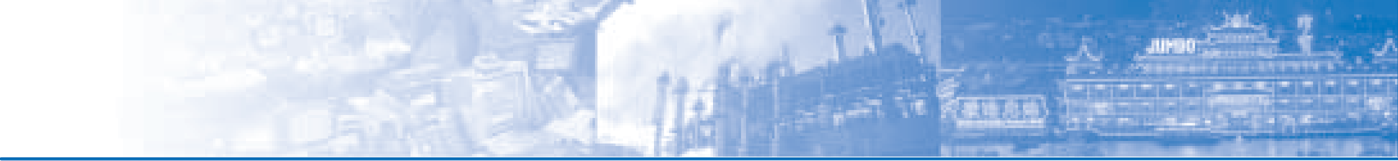
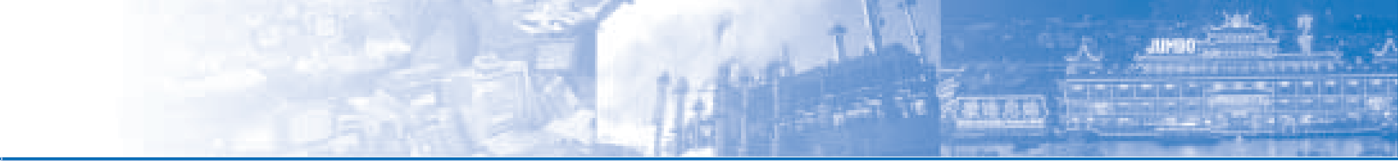


Contents

Mission

1. *To continue the glorious corporate legend as one of the first 100 companies to have been established in Hong Kong by building the group to be a successful business conglomerate in the region and a leader in each of the core businesses.*
2. *To provide products and services of the highest quality through employing cutting edge technology and the best employees.*
3. *To be a dynamic organization by staying at the forefront of global business trends with maximum business sensitivity.*
4. *To be an exemplary employer by providing a most rewarding career and the best work environment for employees.*
5. *To optimize the value of the group and offer shareholders a good and consistent return through implementing a dynamic business strategy.*
6. *To maintain the highest level of corporate governance and ethical standards.*
7. *To be a caring member of the society and at the forefront in assuming and discharging social responsibilities.*



Board of Directors

Dr. Stanley Ho
Group Executive Chairman

Sir Roger Lobo
Independent Non-Executive Director

Mr. Robert Kwan
Independent Non-Executive Director

Mr. Ng Ching Wo
Independent Non-Executive Director

Mr. Ho Cheuk Yuet
Non-Executive Director

Mr. Lawrence Ho
Managing Director

Mr. Frank Tsui
Executive Director

Mr. Peter So
Executive Director

Audit Committee

Mr. Robert Kwan
Chairman of the Audit Committee

Sir Roger Lobo

Mr. Ng Ching Wo

Company Secretary

Mr. Samuel Tsang

Registered Office

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

Auditors

Ernst & Young

Solicitors

Richards Butler
Fong & Ng

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Crédit Agricole Indosuez

Share Registrar and Transfer Office

Standard Registrars Limited
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

Share Listing

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited

History

1910

The Macao Electric Lighting Company, Limited (as the Company was previously known) was incorporated. The Company was among the first 100 companies established in Hong Kong. Of the other 99 companies that were formed at the same time as the Company, only 29 companies still exist today, of which 3 including the Company are listed on the Hong Kong Stock Exchange.

1927

The Company was listed in Hong Kong.

1988

The Company's name was changed to "Melco International Development Limited".

The Company acquired the residential complex "Art Court" in Tung Shan Terrace.

1993

The Company acquired Aberdeen Restaurant Enterprises Limited and its subsidiaries, which own and operate the Jumbo Floating Restaurant and Tai Pak Floating Restaurant in Aberdeen.

The Company became a subsidiary of Shun Tak Holdings Limited.

2001

Lasting Legend Limited became the Company's single largest shareholder. Mr. Lawrence Ho was appointed Managing Director of the Company.

2002

The Company underwrote the rights issue of not less than 1,020,664,287 shares of HK$0.1 each of Value Convergence Holdings Limited (formerly known as iAsia Technology Limited).

Value Convergence acquired VC CEF Capital Limited, VC CEF Brokerage Limited and VC CEF Futures Limited from Cheung Kong (Holdings) Limited and Canadian Imperial Bank of Commerce.

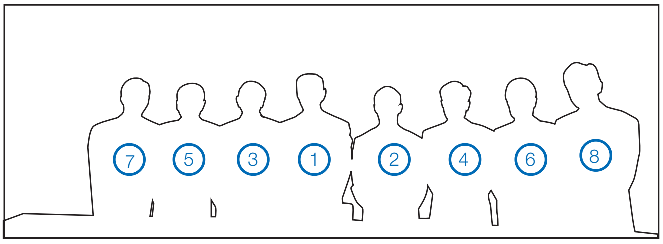
2003

The Company subscribed for 1,007,582,287 shares of HK$0.1 each of Value Convergence Holdings Limited. Following this subscription of shares, Value Convergence, VC CEF Capital, VC CEF Brokerage and VC CEF Futures became subsidiaries of the Company.

Group Profile

Directors

1. Dr. Stanley Ho
2. Mr. Lawrence Ho
3. Sir. Roger Lobo
4. Mr. Peter So
5. Mr. Robert Kwan
6. Mr. Ng Ching Wo
7. Mr. Frank Tsui
8. Mr. Ho Cheuk Yuet



Board of Directors

Dr. Stanley Ho, O.B.E.
Group Executive Chairman (aged 81)

Dr. Ho, an outstanding entrepreneur in Asia, is actively involved in a strategic decision-making capacity for numerous companies. In Hong Kong, he holds the positions of Group Executive Chairman of Shun Tak Holdings Limited, Chairman of Value Convergence Holdings Limited (formerly known as iAsia Technology Limited) and President of The Real Estate Developers Association of Hong Kong. In Macau, he is Managing Director of Sociedade de Turismo e Diversões de Macau, S.A.R.L. and Sociedade de Jogos de Macau, S.A., Vice-Chairman of CAM – Macau International Airport Company Limited, Chairman of Seng Heng Bank Limited, and Chairman of Macau Jockey Club.

Apart from being the holder of honorary doctorates of social sciences from The University of Hong Kong and University of Macau, Dr. Ho holds a number of key positions in the following academic and political bodies: Standing Committee Member, the 9th National Committee of the Chinese People's Political Consultative Conference; Member, Court and Council of The University of Hong Kong; Chairman, The University of Hong Kong Foundation for Educational Development and Research; Founding Member, Court, The Hong Kong Polytechnic University; Vice-President, Preparatory Committee for the Macau Special Administrative Region; Trustee, Foundation for the Co-operation and Development of Macau; as well as Council Member, University of Macau.

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

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

Sir Roger Lobo, C.B.E., LL.D., J.P.
Independent Non-Executive Director (aged 80)

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

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

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

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

Mr. Robert Kwan, M.A. (CANTAB), F.C.A., F.H.K.S.A., C.P.A., J.P.
Independent Non-Executive Director (aged 66)

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

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

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

Mr. Ng Ching Wo
Independent Non-Executive Director (aged 52)

Mr. Ng was appointed Independent Non-Executive Director of the Company in February 2003.

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

Mr. Ng sits on the board of a number of other companies, including United Pacific Industries Limited, IIN International Limited and Fushan Holdings Limited (all Hong Kong listed).

Mr. Ho Cheuk Yuet
Non-Executive Director (aged 40)

With 18 years in economic & stockbroking research and sales, Mr. Ho is previously Managing Director & Head of Research with BOC International, Head of Greater China Sales and Research with HSBC Securities; Head of Greater China Equities with UBS Warburg; and Head of New Markets with CLSA. Prior to joining stockbroking, Mr. Ho was economist with the Hongkong Trade Development Council. During 1994-1996, Mr. Ho was voted "Best China Analyst" by AsiaMoney and Institutional Investors.

Mr. Ho graduated from University of Hong Kong with a Bachelor degree of Social Sciences, majoring in Economics.

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

Mr. Lawrence Ho
Managing Director (aged 26)

Mr. Ho is the son of Dr. Stanley Ho, the founder of the Shun Tak Group and Sociedade de Turismo e Diversões de Macau, S.A.R.L. Mr. Ho was appointed Managing Director of the Company in November 2001, after he made and completed a General Offer for shares of the Company. As Managing Director, Mr. Ho oversees and is responsible for the overall strategic development, management and operations of the Company.

Mr. Ho has been an Executive Director of Value Convergence Holdings Limited (formerly known as iAsia Technology Limited) since October 2000 and President and Vice-Chairman of Value Convergence since August 2002. Before joining the Company and Value Convergence Holdings Limited, Mr. Ho worked at Jardine Fleming in the Asian derivative group, where he was responsible for marketing and structuring of Asian derivative products. Prior to that, he worked in the credit risk management department of the Citibank N.A.

Mr. Ho is a graduate of the University of Toronto, Canada and holds a Bachelor of Arts degree, majoring in commerce.

Mr. Ho is Member of The Chinese People's Political Consultative Conference, Shanghai Committee, Vice-Chairman of The Chamber of Hong Kong Listed Companies Limited, Member of Science and Technology Council of Macau Special Administrative Region and Director of Guangzhou Luhu Golf & Country Club.

Mr. Frank Tsui
Executive Director (aged 45)

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

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

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

Mr. Peter So
Executive Director (aged 50)

Mr. So is a professional management accountant by training and is an associate member of both Chartered Institute of Management Accountants and Institute of Financial Services.

Mr. So has an extensive career in banking and finance. He has held senior management positions in Hang Seng Bank Limited, was the head of global institutional sales in a leading international securities brokerage group, Wardley James Capel Limited, a member of the HSBC Group, a director and head of project finance at Citicorp International Limited, and deputy managing director of Jinhui Holdings Company Limited. He is currently the Non-executive Chairman of enterpriseAsia plc (listed on the AIM of the London Stock Exchange), an Executive Director and Chief Operating Officer of Pacific Century Insurance Holdings Limited (Hong Kong listed) and a non-executive director of Europasia Education plc (listed on the AIM of the London Stock Exchange), Jinhui Holdings Company Limited (Hong Kong listed) and Jinhui Shipping and Transportation Limited (Oslo listed).

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

Senior Management

Mr. Ted Chan
Assistant to Managing Director (aged 31)

Mr. Chan has more than seven years of experience in investment banking and securities. He is currently the Assistant and reports directly to Mr. Lawrence Ho, with primary responsibilities in management and investment. Prior to joining the Company, Mr. Chan worked in the capacity of Director of Development of First Shanghai Financial Holding Limited, specializing in internet trading solution and China business development. Mr. Chan graduated with a bachelor's degree in business administration from the Chinese University of Hong Kong and with a master's degree in Financial Management from the University of London.

Mr. Samuel Tsang
Group Legal Counsel & Company Secretary (aged 48)

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

NOTICE is hereby given that the 88th annual general meeting of Melco International Development Limited will be held at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Tuesday, 17th June, 2003 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, 2002.

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

3. To appoint auditors and to fix their remuneration, Special Notice having been given pursuant to Sections 116C and 132(1) of the Companies Ordinance of the intention to propose the following resolution as an Ordinary Resolution:–

ORDINARY RESOLUTION

"**THAT** Messrs. PricewaterhouseCoopers be and are hereby appointed auditors of the Company in place of the retiring auditors, Messrs. Ernst & Young, to hold office until conclusion of the next Annual General Meeting at remuneration to be fixed by the board of directors."

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."

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."

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

ORDINARY RESOLUTION

"**THAT** the authorisation by the Company's Subsidiary ("the Company's Subsidiary"), Value Convergence Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Stock Exchange") of its directors to grant at their discretion, in accordance with the terms of the share option scheme of the Company's Subsidiary adopted on 29th November, 2001 ("Share Option Scheme"), all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange as may be amended from time to time, share options of the Company's Subsidiary ("Share Options") and to allot and issue shares pursuant to the exercise of such Share Options up to 10% of the issued share capital of the Company's Subsidiary as at the date of passing of an ordinary resolution of the Company's Subsidiary on 9th April, 2003 (subject to such corresponding change in the issued share capital of the Company's Subsidiary upon the Capital Reorganisation (as defined in the circular of the Company's Subsidiary dated 13th March, 2003 despatched to the shareholders of the Company's Subsidiary)) be and is hereby confirmed and approved."

By Order of the Board
Tsang Yuen Wai, Samuel
Secretary

Hong Kong, 2nd April, 2003

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

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 Friday, 13th June, 2003 to Tuesday, 17th June, 2003, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of shareholders who are entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Standard Registrars Limited, G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 12th June, 2003.

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.

Overview

Year 2002 was a challenging year for the Group. The overall business environment was tough. Owing to this and to keen competition, the operating condition for local catering business was difficult. For the year ended 31st December, 2002, the Group's turnover was HK$86.4 million (2001: HK$99.4 million). The Group's net loss excluding provisions for impairment of fixed assets and investments and long service payments in connection with review of employees' salaries and against deposits paid was HK$15.6 million (2001: HK$18.6 million), a narrowing of 16% as compared to last year's amount.

The Group's new management team was in place in November 2001. During the year in question, the team rationalized and re-organized the Group's operations. As a result, a solid foundation has been laid for re-building the Group's business by prudently diversifying into other industries and maximizing on the Group's capital resources.

In line with this, the Group had made provisions of HK$20 million to account for impairment of fixed assets and investments and employees' long service payments in connection with review of employees' salaries and against deposits paid. Although this has increased the Group's net loss from HK$18.6 million to HK$35.6 million in year 2002, it also enables the Group to start from new grounds. With manifestation of effects of this year's management efforts in rationalizing and re-organizing the Group's operations, the Group would be on the path of recovery and future growth.

Review of Existing Businesses

Floating Restaurants

The sales of floating restaurants declined in 2002. Total sales were HK$78 million (2001: HK$87 million). Average gross operating margin increased slightly to 68% and gross operating profit for the year amounted to HK$52 million.

As a result of successful implementation of cost cutting and efficiency enhancement program, operating cost was cut by 13% during the year. The staff's salaries were reviewed after the year end, and, as a result, the staff's costs would be further reduced by around $650,000 per month from March 2003. This means monthly operating costs of the floating restaurants would be reduced by a further 8% from March 2003.

Investment Properties

Rental property market was badly hit in Hong Kong in 2002, but the Group's rental income from Art Court at 5 Tung Shan Terrace and the Jumbo Court carparks increased by 12% in 2002. The average occupancy rate of the Group's investment property, Art Court, increased from 74% to 90% in 2002.

Capital

As at the end of the year, the Group's working capital amounted to approximately HK$222 million. Part of the Group's working capital was used after the year end date to acquire new business. As the Group does not have any borrowing or significant capital commitment and contingent liability, it is in a financially sound position for future growth.

Events after 31st December 2002

On 28th September 2002, the Company entered into an Underwriting Agreement under which the Company underwrote the rights issue of Value Convergence Holdings Limited (formerly known as iAsia Technology Limited) ("Value Convergence"), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Pursuant to the Underwriting Agreement, the Company on 29th January, 2003 subscribed for 1,007,582,287 shares of HK$0.10 each of Value Convergence and paid for such shares with internal resources of the Company. As at the date hereof, the Company holds 67.57% of Value Convergence's issued shares, and is Value Convergence's holding company.

Value Convergence carries on the business of providing (a) online financial trading systems and services to a broad range of customers, including securities and commodities dealers, banks, asset management companies, insurance companies and other financial intermediaries, (b) selected financial services, and (c) securities brokerage, commodity trading and corporate financial advisory services in Hong Kong and PRC. The acquisition of Value Convergence into the Group means that the Group's business has been enlarged considerably and now includes, on top of its existing business, the business of investment banking, financial services and technology services.

Outlook

The Group's business now comprises four divisions, namely, investment banking, financial services and technology division, fine-dining, leisure and tourism division, property investment division and investment and energy division.

Investment Banking, Financial Services and Technology Division

As mentioned above, the Group acquired Value Convergence, a well-established technology solution provider, investment banking, corporate finance and brokerage company. Value Convergence's technology arm, under the iAsia brand name, customizes and sells trading and back office systems and solutions to financial institutions and intermediaries in Asia, and has established a leading market position in the financial applications industry in Hong Kong.

The unit has recently successfully kickstarted the business of supplying computer hardware equipment, intelligent surveillance system, enterprise portal solution, business process workflow re-engineering, IT consultancy services and eCommerce infrastructure to clients in Pearl River Area, PRC. This new business was carried on by two subsidiaries, namely, Elixir Group Limited and Elixir Group (Macau) Limited, which have, after a very short lead time, begun to provide services to prominent companies in Macau such as Sociedade de Jogos de Macau, S.A. and Companhia de Electricidade de Macau. The companies have also formed strategic alliances with world-famous hardware suppliers offering the clients with hardware solutions services that complement the unit's software products. With its established position in Hong Kong and its entry into new markets like Macau and the adjacent Pearl River Area, the unit's prospect looks promising.

The Group's investment banking and financial services unit, which was acquired by Value Convergence from Cheung Kong (Holdings) Limited and Canadian Imperial Bank of Commerce, carries on securities brokerage, commodities trading and corporate finance business under the well-established "VC CEF" and "VC CFN" brand names via traditional means and the Internet. Since the Group's acquisition, the unit has embarked on cost-cutting program involving merging of branches and offices and significant rationalization of costs. As a result, the unit's operating costs will be cut by more than HK$20 million per year. With the cost-cutting measures and the unit's successful track record, well-built infrastructure and strong management team, a solid and reliable foundation has been laid for the Group to become a premium regional investment banking group, offering a comprehensive range of quality financial services for a market focused on Hong Kong, Macau and China.

Further, the established operation of the Group's investment banking and financial services business coupled with the technology know-how and infrastructure of the Group's technology unit will lead to development of new products and services. These products and services will transform into enhanced revenue stream and a broadened client base, as more comprehensive range of quality financial services can be delivered to existing or potential clients, retail or institutional alike.

Hong Kong is renowned as an international financial centre and this status will be further reinforced in the long term. The needs for capital markets always exist, so does that for brokerage services. Although the securities and commodities broking and corporate finance businesses of the Group are inevitably suffering from the impacts of the contemporary global economic downturn, the Directors believe that cyclical upturns and downturns is a normal market phenomenon and by entering the market at downturns will allow the Group to capture the opportunities at market upturns and pave the path for a steady growth of business in the future. With the acquisition of the Value Convergence group of companies, the Group will also be able to participate in the investment banking business in the PRC, giving it another valuable business prospect. The Directors are therefore confident that the inclusion of such companies into the Group will position the Group to become a prominent player in the regional financial services industry.

Fine-Dining, Leisure and Tourism Division

The tourism industry in Hong Kong is likely to remain weak in the coming year. In view of the challenging times ahead, the Group has prepared plans to transform the Group's Jumbo and Tai-Pak Floating Restaurants into a modern complex of fine dining, shopping, sightseeing and cultural attraction to be named "Jumbo Kingdom". With its strategic position, unique design and architecture and great fame locally and overseas, Jumbo Kingdom would become an even more popular tourist, recreational and leisure spot after its rebirth. Leveraging on our recognized brand, Jumbo Kingdom will also create more streams of revenue and potential earnings for the Group and will expand the division's business into areas other than fine-dining. The Directors are confident that it will become a spectacular center of attention and tourist attraction in the Southern part of Hong Kong, and, together with other tourist attractions like Ocean Park, will help promote and market Hong Kong's tourism.

Property Investment Division

The rental property market continues to be soft in the coming year. The Group faces a challenging task to maintain full occupancy and existing rentals of its investment property.

Investment and Energy Division

With China's accession to WTO, and the consequential rapid economic growth, the demand for energy in China will increase tremendously. Among the various forms of energy, natural gas is expected to grow most in terms of demand, due to its environmental friendliness, its cost-effectiveness and Government's support of its development. The Group is actively pursuing energy and natural gas distribution and supply projects in China so as to capitalize on the emerging natural gas market.

The Group is also seeking to establish a professional investment company with overseas and local partners. The Group plans to make direct equity and other investments in companies with good prospects in Greater China via this professional investment company.

Conclusion

In conclusion, the year ahead is likely to be tough and difficult, particularly in view of worldwide fear of terrorism, the war in Middle East, and widespread contagious diseases, all having long-lasting adverse effects on local and worldwide economies and tourism. Notwithstanding this and the uncertain times ahead, the Group has begun a transformation process, whereby a lot of hard work has been done to streamline and rebuild the Group's business. When the changes relating to the Group's business are completed, the Group will become a conglomerate with diversified and exciting businesses. On this, I can continue to rely on the loyalty and support of the Group's management and staff, for whose contributions and hard work last year I would like to express my thanks and appreciation.

Dr. Stanley Ho
Group Executive Chairman

Hong Kong, 2 April 2003

Management Discussion and Analysis


珍寶
歡迎光臨
WELCOME

Group Results

Turnover

The Group's turnover for the year was HK$86.4 million, representing a decrease of 13% when compared with last year. Restaurant sales decreased by 10% while the income from investment properties increased by 12%.

In the coming year, the Group will streamline its existing business, and at the same time, broaden its income sources and diversify to other promising industries so as to achieve a stable growth amidst the tough operating environment.

Operating loss before tax

Operating loss before tax increased by HK$17.0 million to HK$38.1 million in 2002. The increase was due to the making of provisions for impairment of fixed assets and investments and employees' long service payments in connection with review of employees' salaries and against deposits paid.

During the year, the Group implemented a series of cost cutting and control measures. As a result, food and beverages costs and staff costs dropped by 14% and 6% respectively in 2002. In future, the Group will continue to streamline its operations to attain higher efficiency.

Divisional Review

A. Restaurant operations and related activities

Turnover

Total sales for restaurant operation and related activities this year decreased by 10% to HK$78.2 million. Among various categories of sales, local banquet catering increased approximately by 14%. The drop in restaurant sales was mainly attributed to the tough operating environment. In face of forthcoming challenges, the Group will strengthen its marketing strategies and transform the Jumbo Kingdom into a modern complex of fine-dining, shopping, sightseeing and cultural attraction so as to deliver greater customer value and increase future revenue.

Restaurant gross operating margin

Average gross operating margin increased slightly to 68% and gross operating profit for the year amounted to HK$52 million.

Other operating expenses

With the implementation of efficiency enhancement program, direct operating expenses decreased by 17% to HK$14.3 million, in respect of which ferry expenses declined by 19% to HK$1.8 million and fuel expenses dropped by 25% to HK$2 million. Cleaning and laundry expenses decreased by 13% to HK$1.6 million.

Upon completion of salary review in 2002, staff costs of the floating restaurant declined by 10% to approximately HK$45.3 million. Staff costs would be further reduced by HK$650,000 per month from March 2003 which would lead to a further 8% cut in monthly operating costs of the floating restaurants. In future, the Group would further enhance operational efficiency by means of cost cutting measures.

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 decreased to HK$1.3 million this year (2001: HK$1.7 million).

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 74% to 90% in 2002. As a result, income for the year increased to HK$3.5 million, representing a 21% increase when compared with 2001.

C. Investment and others

Turnover for investment and others, mainly representing bank interest income for the year, decreased to HK$3.4 million.

Employees

The Group employed a total of 259 employees at the year end of 2002 and staff costs, excluding directors' emoluments, dropped by 6% to approximately HK$52 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 note 23 to the financial statements.

Liquidity and Capital Resources

Cash available to the Group at the year end amounted to HK$219 million, representing an increase of HK$7 million from the previous year. The Group's current assets represented approximately 13 times of its current liabilities at the year end of 2002. The Group is in a financially sound position for future operation and expansion.

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 2002, there were 145,287,134 ordinary shares issued and fully paid. The capital reserve account and share premium account are HK$357,784,733 and HK$19,189,283 respectively. Investment property revaluation reserve was increased to HK$79,214,408.

Cash Flow Variance Analysis

	2002 **HK$**	2001 HK$	Variance HK$
Operating activities	**(22,530,258)**	(17,405,124)	(5,125,134)
Investing activities	**(5,435,451)**	(1,197,974)	(4,237,477)
Financing activities	**34,651,450**	–	34,651,450
Increase/(decrease) in cash and cash equivalents	**6,685,741**	(18,603,098)	25,288,839

Operating activities

The net operating cash outflow for the year increased by HK$5.1 million, partly due to the decline in the sales of restaurant business.

Investing activities

The net cash outflow from investing activities increased by HK$4.2 million during the year.

Financing activities

The net cash inflow from financing activities increased by HK$34.7 million, due to issue of additional share capital.

Pledge of Assets

As at 31 December 2002, the Group's bank deposits amounting to HK$1,100,000 (2001: HK$911,000) were pledged to secure a letter of guarantee to the extent of HK$1,031,000 (2001: HK$911,000) granted by a bank for the Group's water and electricity deposits.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 13 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results

The loss of the Group for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 32 to 68.

Summary Financial Information

A summary of the published results, and assets and liabilities of the Group for the last five financial years, as extracted from the published audited 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 two years ended 31 December 1999 and the assets and liabilities of the Group as at 31 December 1998 have been adjusted for the effects of the retrospective changes in accounting policy affecting goodwill as further detailed in note 24 to the financial statements.

Results

	Year ended 31 December				
	2002	2001	2000	1999	1998
	HK$	HK$	HK$	HK$	HK$
Turnover	**86,375,709**	99,408,954	109,175,462	113,738,722	134,086,881
Net loss from ordinary activities attributable to shareholders	**(35,596,308)**	(18,634,632)	(6,567,759)	(51,687,224)	(46,187,032)

Assets, liabilities and minority interests

	31 December				
	2002	2001	2000	1999	1998
	HK$	HK$	HK$	HK$	HK$
Total assets	**418,769,169**	410,960,123	445,655,031	468,408,560	492,179,748
Total liabilities	**(18,386,987)**	(10,099,111)	(15,701,903)	(42,096,531)	(10,778,271)
Minority interests	**(24,257,664)**	(26,392,112)	(28,982,770)	(29,569,370)	(32,971,594)
Net assets	**376,124,518**	374,468,900	400,970,358	396,742,659	448,429,883

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 42.0% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 16.2% of the Group's total purchases for the year.

To the best knowledge of the directors, none of the directors of the Company, their associates, or any shareholders who own more than 5% of the 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 of the Group during the year are set out in notes 11 and 12 to the financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 22 and 23, respectively, to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24 to the financial statements and in the consolidated summary statement of changes in equity.

Distributable Reserves

The Company's capital reserve in the amount of HK$357,784,733 may be distributed upon the fulfillment of certain conditions as set out in note 24 to the financial statements. In addition, the Company's share premium account, in the amount of HK$19,189,283, may be distributed in the form of fully paid bonus shares. Save as disclosed aforesaid, as at 31 December 2002, the Company had no reserve available for distribution in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance.

Directors

The directors of the Company during the year were:

Executive directors:

Dr. Stanley Ho	
Mr. Lawrence Ho	
Mr. Peter So	
Mr. Frank Tsui	
Madam Lucina Laam King Ying	(resigned on 28 June 2002)
Mr. Ho Cheuk Yuet	(resigned as an executive director on 11 February 2002)

Non-executive directors:

Mr. Ho Cheuk Yuet	(appointed on 11 February 2002)
Madam Winnie Ho Yuen Ki	(ceased to be a director on 9 April 2002)

Independent non-executive directors:

Sir Roger Lobo	
Mr. Robert Kwan	
Mr. Roque Choi	(resigned on 8 April 2002)

Subsequent to the balance sheet date, on 26 February 2003, Mr. Ng Ching Wo was appointed as an independent non-executive director of the Company.

In accordance with article 103 of the Company's articles of association, Mr. Lawrence Ho, Mr. Frank Tsui and Mr. Robert Kwan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 94 of the Company's articles of association, any director who has been appointed to fill a causal vacancy or as an addition to the board shall hold office only until the forthcoming annual general meeting and shall then be eligible for re-election, but shall not be taken into account in determining the directors who are to retire by rotation at such meeting. In this regard, Mr. Ng Ching Wo will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

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

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

Directors' Interests in Shares

As at 31 December 2002, the beneficial interests of the directors and their associates in the issued share capital of the Company or its associated corporations, 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
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.

The interests of directors in share options of the Company are separately disclosed in note 23 to the financial statements.

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 or Debentures

Save as disclosed under the heading "Share Option Scheme" below and in note 23 to the financial statements, 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

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34 "Employee benefits", most of the detailed disclosures relating to the Company's share option scheme have been moved to note 23 to the financial statements.

Concerning the share options granted during the year to the directors, employees and others, as detailed in note 23 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

Directors' Interests in Contracts

Save as disclosed in note 29 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 2002, 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	Percentage of the Company's issued capital
Shun Tak Shipping Company Limited	26,055,432	17.9
Lasting Legend Limited	36,525,675	25.1

Save as disclosed herein and other than the interests of the Company's directors and companies controlled by them as disclosed under the heading "Directors' Interests in Shares" above, the Company's directors and the chief executive of the Company do not know of any person who, as at 31 December 2002, 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.

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 Winnie 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. In addition, Dr. Stanley Ho and Madam Winnie Ho Yuen Ki have beneficial interests in Sociedade de Turismo e Diversões de Macau, its subsidiaries and associates (the "STDM Group") as shareholders. Further, Dr. Stanley Ho is a director of the Shun Tak Group and the STDM Group.

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

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

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

Directors' Interests in Competing Businesses (continued)

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 30 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. During the year, the audit committee comprises the two independent non-executive directors of the Company who are Sir Roger Lobo and Mr. Robert Kwan. Subsequent to the balance sheet date, on 7 March 2003, Mr. Ng Ching Wo was appointed as a member of the audit committee.

Auditors

Ernst & Young will retire at the forthcoming annual general meeting. A resolution for the appointment of PricewaterhouseCoopers as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Dr. Stanley Ho
Group Executive Chairman

Hong Kong
2 April 2003

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 32 to 68 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 Company's and the Group'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 Company and of the Group as at 31 December 2002 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
2 April 2003

Consolidated Profit and Loss Account

Year ended 31 December 2002

	Notes	2002 HK$	2001 HK$
TURNOVER	5	**86,375,709**	99,408,954
Other revenue and gains	5	**545,662**	290,880
Cost of food and beverages		**(21,989,196)**	(25,430,905)
Consumable stores used		**(2,170,186)**	(2,881,306)
Staff costs (not including director's remuneration)		**(51,975,843)**	(55,244,404)
Depreciation expense		**(5,927,225)**	(6,039,904)
Fixed assets written off		**(3,857,649)**	–
Impairment of fixed assets		**(142,441)**	–
Impairment of long term investments		**(8,911,880)**	–
Provision against deposit paid		**(3,500,000)**	–
Other operating expenses		**(26,577,231)**	(31,195,431)
Total operating expenses		**(125,051,651)**	(120,791,950)
OPERATING LOSS BEFORE TAX	6	**(38,130,280)**	(21,092,116)
Tax	7	**–**	–
LOSS BEFORE MINORITY INTERESTS		**(38,130,280)**	(21,092,116)
Minority interests		**2,533,972**	2,457,484
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	8	**(35,596,308)**	(18,634,632)
LOSS PER SHARE			
Basic	9	**HK27.1 cents**	HK15.4 cents
Diluted		**N/A**	N/A

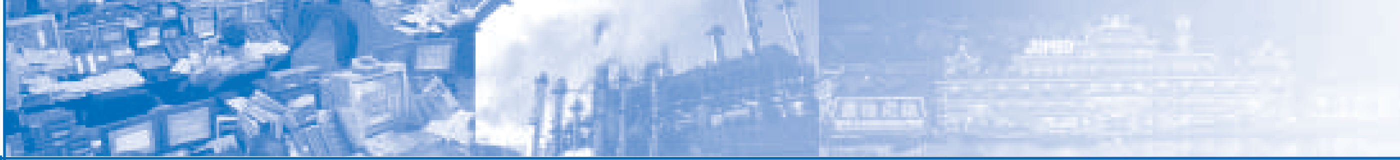
Consolidated Balance Sheet

31 December 2002

	Notes	2002 HK$	2001 HK$
NON-CURRENT ASSETS			
Investment properties	11	**155,000,000**	152,000,000
Property, plant and equipment	12	**22,325,890**	31,256,754
Long term investments	14	**–**	4,661,880
Pledged bank deposits	26	**1,100,000**	911,000
		178,425,890	188,829,634
CURRENT ASSETS			
Inventories	15	**2,986,105**	3,152,114
Accounts receivable	16	**2,782,511**	2,997,248
Prepayments, deposits and other receivables		**8,938,688**	2,991,904
Amounts due from related companies	17	**2,407,011**	446,000
Other investment	18	**4,000,000**	–
Cash and cash equivalents	19	**219,228,964**	212,543,223
		240,343,279	222,130,489
CURRENT LIABILITIES			
Accounts payable	20	**2,356,253**	2,574,010
Accrued liabilities and other payables	21	**15,229,845**	6,773,053
Rental deposits due within one year		**581,997**	396,178
		18,168,095	9,743,241
NET CURRENT ASSETS		**222,175,184**	212,387,248
TOTAL ASSETS LESS CURRENT LIABILITIES		**400,601,074**	401,216,882
NON-CURRENT LIABILITIES			
Rental deposits due after one year		**218,892**	355,870
MINORITY INTERESTS		**24,257,664**	26,392,112
		376,124,518	374,468,900
CAPITAL AND RESERVES			
Issued capital	22	**145,287,134**	121,087,134
Reserves	24	**230,837,384**	253,381,766
		376,124,518	374,468,900

Dr. Stanley Ho
Director

Mr. Lawrence Ho
Director



Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2002

	Notes	2002 HK$	2001 HK$
Total equity at 1 January		**374,468,900**	400,970,358
Issue of shares, including share premium	22, 24	**35,090,000**	–
Share issue expenses	24	**(438,550)**	–
Surplus/(deficit) on revaluation of investment properties	24	**2,600,476**	(7,866,826)
Net gains/(losses) not recognised in the profit and loss account		**2,600,476**	(7,866,826)
Net loss for the year attributable to shareholders		**(35,596,308)**	(18,634,632)
Total equity at 31 December		**376,124,518**	374,468,900

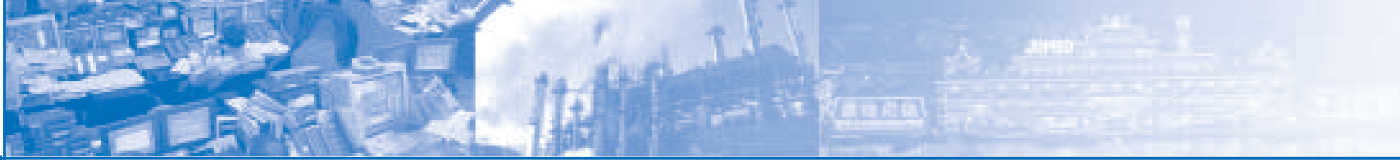
Balance Sheet

31 December 2002

	Notes	2002 HK$	2001 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	12	**3,418**	4,558
Interests in subsidiaries	13	**303,551,321**	279,541,509
		303,554,739	279,546,067
CURRENT ASSETS			
Prepayments, deposits and other receivables		**214,315**	–
Cash and cash equivalents	19	**3,174,641**	585,346
		3,388,956	585,346
CURRENT LIABILITIES			
Accrued liabilities and other payables	21	**3,462,062**	367,546
NET CURRENT ASSETS/(LIABILITIES)		**(73,106)**	217,800
		303,481,633	279,763,867
CAPITAL AND RESERVES			
Issued capital	22	**145,287,134**	121,087,134
Reserves	24	**158,194,499**	158,676,733
		303,481,633	279,763,867

Dr. Stanley Ho
Director

Mr. Lawrence Ho
Director



Consolidated Cash Flow Statement

Year ended 31 December 2002

	Notes	2002 HK$	2001 HK$ (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss before tax		**(38,130,280)**	(21,092,116)
Adjustments for:			
Interest income	5	**(3,538,308)**	(8,003,722)
Depreciation	6	**5,927,225**	6,039,904
Fixed assets written off		**3,857,649**	–
Impairment of fixed assets		**142,441**	–
Impairment of long term investments		**8,911,880**	–
Provision against deposit paid		**3,500,000**	–
Gain on disposal of property, plant and equipment	5	**–**	(9,843)
Operating loss before working capital changes		**(19,329,393)**	(23,065,777)
Decrease in inventories		**166,009**	2,258,794
Decrease in accounts receivable		**214,737**	1,062,650
Increase in prepayments, deposits and other receivables		**(9,446,784)**	(214,683)
Decrease/(increase) in amounts due from related companies		**(1,961,011)**	103,967
Purchase of other investment	18	**(4,000,000)**	–
Decrease in accounts payable		**(217,757)**	(2,413,928)
Increase/(decrease) in accrued liabilities and other payables		**8,456,792**	(3,179,622)
Increase/(decrease) in rental deposits		**48,841**	(9,242)
Cash used in operations		**(26,068,566)**	(25,457,841)
Hong Kong profits tax refunded		**–**	48,995
Interest received		**3,538,308**	8,003,722
Net cash outflow from operating activities		**(22,530,258)**	(17,405,124)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	12	**(996,451)**	(1,220,974)
Purchases of long term investment	14	**(4,250,000)**	–
Proceeds from disposal of property, plant and equipment		**–**	23,000
Increase in pledged bank deposits		**(189,000)**	–
Net cash outflow from investing activities		**(5,435,451)**	(1,197,974)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	22	**35,090,000**	–
Share issue expenses	24	**(438,550)**	–
Net cash inflow from financing activities		**34,651,450**	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**6,685,741**	(18,603,098)
Cash and cash equivalents at beginning of year		**212,543,223**	231,146,321
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	**219,228,964**	212,543,223
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**14,393,804**	4,990,332
Time deposits with original maturity of less than three months when acquired	19	**204,835,160**	207,552,891
		219,228,964	212,543,223

1. Corporate Information

The registered office of Melco International Development Limited is located at Penthouse 38th Floor, 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 13 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

2. Impact of New/Revised Statements of Standard Accounting Practice

The following new and revised Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

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 those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 34 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 15 (Revised) prescribes the revised format for consolidated cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, the definition of cash equivalents for the purpose of the cash flow statement has been revised.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 23 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the adoption of this SSAP.

Notes to Financial Statements

31 December 2002

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and investments, 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 2002. 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 or 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.

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.

3. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

SSAP 30 "Business Combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. As further explained in note 24 to the financial statements, a prior year adjustment was made in the year ended 31 December 2001, following which the goodwill previously eliminated against consolidated reserves was retrospectively restated and had been fully amortised prior to 1 January 2001 on a straight-line basis over a period of not more than 20 years. Goodwill on acquisition subsequent to 1 January 2001 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.

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.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. As further explained in note 24 to the financial statements, a prior year adjustment was made in the year ended 31 December 2001, following which the negative goodwill previously credited to the capital reserve was transferred to opening retained profits. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the new accounting policy above.

3. Summary of Significant Accounting Policies (continued)

Negative goodwill (continued)

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate.

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.

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.

3. Summary of Significant Accounting Policies (continued)

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 calculated 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 improvements	20% or over the lease terms, whichever 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.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held for a continuing long term purpose.

Long term investments are stated at cost less any impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether their fair values have declined below the carrying amounts. When a decline which is other than temporary in nature has occurred, the carrying amount of the investment is reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account for the period in which it arises.

Other investment

Other investment is investment in unlisted securities, other than long term investment, and is stated at its fair value at the balance sheet date, on an individual investment basis. The fair value of unlisted securities is estimated by the directors having regard to the prices of the most recent reported sales or purchases of the securities, with allowance made for the lower liquidity of the unlisted securities. The gains or losses arising from changes in the fair value of other investments are credited or charged to the profit and loss account for the period in which they arise. Other investment is initially included in non-current or current assets depending on their expected holding period at the time of their acquisition.

3. Summary of Significant Accounting Policies (continued)

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.

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.

3. Summary of Significant Accounting Policies (continued)

Foreign currency transactions

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

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Share options scheme

The Company operates a share option scheme for the purpose of providing incentive and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme 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 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, or which lapse, are deleted from the register of outstanding options.

3. Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

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 for all of its employees. 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 in full, in accordance with the rules of the MPF Scheme.

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. For the purpose of the balance sheet classification, cash and cash equivalents comprise cash on hand and at banks including term deposits and assets similar in nature to cash, which are not restricted as to use.

4. Segment Information

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, which engages in restaurant operation and related activities;

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

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

In determining the Group's geographical segments, revenues 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.

4. Segment Information (continued)

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

(a) Business segments

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

	Restaurant		Property		Investment		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Segment revenue:								
Turnover	**77,929,043**	86,778,267	**5,097,822**	4,679,929	**3,348,844**	7,950,758	**86,375,709**	99,408,954
Other revenue	**307,202**	272,015	**140,000**	9,022	**98,460**	–	**545,662**	281,037
Gains	**-**	9,843	**-**	–	**-**	–	**-**	9,843
	78,236,245	87,060,125	**5,237,822**	4,688,951	**3,447,304**	7,950,758	**86,921,371**	99,699,834
Segment results	**(21,395,159)**	(22,866,392)	**3,447,016**	2,821,433	**(12,131,022)**	(1,047,157)	**(30,079,165)**	(21,092,116)
Unallocated expenses							**(8,051,115)**	–
Operating loss before tax							**(38,130,280)**	(21,092,116)
Tax							**-**	–
Loss before minority interests							**(38,130,280)**	(21,092,116)
Minority interests							**2,533,972**	2,457,484
Net loss from ordinary activities attributable to shareholders							**(35,596,308)**	(18,634,632)
Segment assets	**36,482,338**	44,379,206	**158,825,607**	155,613,576	**223,461,224**	210,967,341	**418,769,169**	410,960,123
Segment liabilities	**12,367,284**	7,036,958	**2,546,766**	2,678,043	**3,472,937**	384,110	**18,386,987**	10,099,111
Other segment information:								
Depreciation	**5,580,164**	5,698,959	**345,921**	339,805	**1,140**	1,140	**5,927,225**	6,039,904
Capital expenditures	**206,686**	498,155	**30,580**	522,778	**759,185**	200,041	**996,451**	1,220,974
Impairment of fixed assets recognised in the profit and loss account	**-**	–	**-**	–	**142,441**	–	**142,441**	–
Impairment of long term investments recognised in the profit and loss account	**-**	–	**-**	–	**8,911,880**	–	**8,911,880**	–
Other non-cash expenses	**3,857,649**	385,000	**-**	–	**3,500,000**	–	**7,357,649**	385,000

4. Segment Information (continued)

(b) Geographical segments

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

5. 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	
	2002	2001
	HK$	HK$
Turnover		
Catering income	**76,657,376**	85,391,767
Gross rental income	**6,180,025**	6,013,465
Interest income	**3,538,308**	8,003,722
	86,375,709	99,408,954
Other revenue		
Proceeds from insurance claim	**177,051**	202,020
Others	**368,611**	79,017
	545,662	281,037
Gains		
Gain on disposal of property, plant and equipment	**–**	9,843
Total other revenue and gains	**545,662**	290,880

6. Operating Loss Before Tax

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

	2002 HK$	2001 HK$
Cost of inventories sold	**24,159,382**	28,312,211
Depreciation	**5,927,225**	6,039,904
Auditors' remuneration	**437,000**	442,000
Retirement benefits scheme contributions, net	**1,783,009**	1,913,150
Rental income:		
Gross	**(6,180,025)**	(6,013,465)
Outgoings	**300,360**	455,039
Net of outgoings	**(5,879,665)**	(5,558,426)
Minimum lease payments under operating leases in respect of land and buildings	**375,000**	375,000

7. 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 (2001: Nil).

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	
	2002 HK$	2001 HK$	2002 HK$	2001 HK$	2002 HK$	2001 HK$
Accelerated depreciation allowances	**1,140,000**	2,260,000	**582,042**	703,000	**(403)**	–
Tax losses carried forward	**(1,140,000)**	(2,260,000)	**(20,258,079)**	(15,918,000)	**(2,268,460)**	(1,352,000)
	–	–	**(19,676,037)**	(15,215,000)	**(2,268,863)**	(1,352,000)

7. Tax (continued)

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

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.

8. 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 2002 was HK$10,933,684 (2001: HK$301,546,564).

9. 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$35,596,308 (2001: HK$18,634,632) and the weighted average of 131,231,244 (2001: 121,087,134) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2002 has not been disclosed as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

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

10. Directors' Remuneration and Emoluments of Five Highest Paid Individuals

Directors' remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002	2001
	HK$	HK$
Fees:		
Executive directors	**790,000**	463,424
Non-executive directors	**355,384**	20,000
Independent non-executive directors	**600,000**	418,904
	1,745,384	902,328
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind		
Executive directors	**1,847,895**	3,812,656
Non-executive directors	**135,714**	–
Independent non-executive directors	**–**	300,000
Retirement benefits scheme contributions		
Executive directors	**39,000**	127,107
Non-executive directors	**3,000**	–
	2,025,609	4,239,763
	3,770,993	5,142,091

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

	2002 Number of directors	2001 Number of directors
Nil – HK$1,000,000	**9**	15
HK$1,000,001 – HK$1,500,000	**1**	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.

10. Directors' Remuneration and Emoluments of Five Highest Paid Individuals (continued)

Directors' remuneration (continued)

During the year, 4,843,484 share options were granted to certain directors of the Company in respect of their services provided to the Group, further details of which are set out in note 23 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosure.

Employee costs

The five highest paid individuals during the year included two (2001: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2001: three) non-director, highest paid individuals are analysed as to nature and bands of remuneration below.

	2002 **HK$**	2001 HK$
Basic salaries, housing, other allowances and benefits in kind	**2,111,570**	1,788,735
Retirement benefits scheme contributions	**42,020**	49,836
	2,153,590	1,838,571

The remuneration of all the non-director, highest paid individuals fell within the band of nil to HK$1,000,000 for both years.

11. Investment Properties

	Group	
	2002 **HK$**	2001 HK$
At valuation:		
At beginning of year	**152,000,000**	160,000,000
Surplus/(deficit) on revaluation – note 24	**3,000,000**	(8,000,000)
At 31 December	**155,000,000**	152,000,000

The investment properties are held in Hong Kong under long term leases.

The investment properties include a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong which was revalued on an open market, existing tenancy basis by CB Richard Ellis Ltd., an independent firm of professional valuers, as at 31 December 2002 at HK$80,000,000 (2001: HK$80,000,000).

11. Investment Properties (continued)

In addition, the investment properties of 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, was revalued on an open market, existing tenancy basis by Vigers Hong Kong Limited, an independent firm of professional valuers, as at 31 December 2002 at HK$75,000,000 (2001: HK$72,000,000).

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 27(a) to the financial statements.

12. Property, Plant and Equipment

Group

	Restaurant vessels, ferries and pontoons	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Total
	HK$	HK$	HK$	HK$	HK$
Cost:					
At beginning of year	43,300,969	613,996	194,343	58,903,059	103,012,367
Additions	195,746	–	491,759	308,946	996,451
Write off	–	–	–	(8,251,161)	(8,251,161)
At 31 December 2002	43,496,715	613,996	686,102	50,960,844	95,757,657
Accumulated depreciation and impairment:					
At beginning of year	31,406,596	170,390	–	40,178,627	71,755,613
Provided during the year	1,786,326	9,526	222,957	3,908,416	5,927,225
Write back	–	–	–	(4,393,512)	(4,393,512)
Impairment	–	–	142,441	–	142,441
At 31 December 2002	33,192,922	179,916	365,398	39,693,531	73,431,767
Net book value:					
At 31 December 2002	10,303,793	434,080	320,704	11,267,313	22,325,890
At 31 December 2001	11,894,373	443,606	194,343	18,724,432	31,256,754

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

12. Property, Plant and Equipment (continued)

Company

	Furniture, fixtures and equipment HK$
Cost:	
At beginning of year and at 31 December 2002	5,698
Accumulated depreciation:	
At beginning of year	1,140
Provided during the year	1,140
At 31 December 2002	2,280
Net book value:	
At 31 December 2002	3,418
At 31 December 2001	4,558

13. Interests in Subsidiaries

	Company	
	2002 HK$	2001 HK$
Unlisted shares, at cost	**390,033**	390,026
Provision for impairment	**(390,000)**	(390,000)
	33	26
Due from subsidiaries	**603,551,296**	579,541,483
Due to a subsidiary	**(8)**	–
Provision	**(300,000,000)**	(300,000,000)
	303,551,321	279,541,509

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.

13. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration 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
Melco Services Limited	British Virgin Islands/ Hong Kong	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 2002 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.

14. Long Term Investments

	Group	
	2002	2001
	HK$	HK$
Unlisted equity investment, at cost	**4,661,880**	4,661,880
Provision for impairment	**(4,661,880)**	–
	–	4,661,880
Listed equity investment in Hong Kong, at cost	**4,250,000**	–
Provision for impairment	**(4,250,000)**	–
	–	–
Total	**–**	4,661,880

The market value of the Group's long term listed equity investment at 31 December 2002 was approximately HK$4,280,000. Subsequent to the balance sheet date, trading of the listed equity investment has been suspended since mid-February 2003. The market value of the listed equity investment was approximately HK$1,340,000 at the date of trading suspension. Having regard to the circumstances behind the suspension and the fact that the trading of the listed equity investment was still suspended at the date of this report, the directors considered that a full provision for impairment is necessary.

15. Inventories

	Group	
	2002	2001
	HK$	HK$
Food and beverages	**2,947,147**	3,056,467
Consumable stores	**38,958**	95,647
	2,986,105	3,152,114

No inventories were carried at net realisable value at 31 December 2002 (2001: Nil).

16. Accounts Receivable

The aged analysis of the accounts receivable is as follows:

	Group	
	2002	2001
	HK$	HK$
Outstanding balances aged:		
Within 30 days	**1,770,388**	1,996,239
Between 31 to 60 days	**859,616**	815,511
Between 61 to 180 days	**141,217**	185,498
Over 180 days	**11,290**	–
	2,782,511	2,997,248

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.

17. 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 2002 HK$**	**Maximum amount outstanding during the year HK$**	**At 1 January 2002 HK$**
Sociedade Turismo e Diversões de Macau	(a)	**424,604**	446,000	446,000
iAsia Services Limited	(b)	**1,982,407**	1,982,407	–
		2,407,011		446,000

17. Amounts due from Related Companies (continued)

Notes:

(a) The amount due from Sociedade de Turismo e Diversões de Macau ("STDM"), a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director and/or have direct and/or indirect beneficial interests, represented receivables in respect of the sales of souvenirs by the Group and remains unsettled (note 29(v)). The balance with STDM is unsecured, interest-free and has no fixed terms of repayment.

(b) The amount due from iAsia Services Limited ("iAsia Services") as at 31 December 2002, a related company of which Mr. Lawrence Ho and Dr. Stanley Ho are directors and Mr. Lawrence Ho, Dr. Stanley Ho, and Mr. Peter So are beneficial shareholders, represented payments for leasehold improvements and rental deposits paid by the Group on behalf of iAsia Services (note 29(x)). The amount due from iAsia Services is unsecured, bears interest at 2% per annum and has no fixed terms of repayment.

18. Other Investment

	Group	
	2002	2001
	HK$	HK$
Unlisted debt securities, at fair value	**4,000,000**	–

Subsequent to the balance sheet date, on 23 January 2003, the Group disposed of the entire unlisted debt securities (including the accrued interest income of HK$142,000) to an independent third party for a total consideration HK$4,142,000.

19. Cash and Cash Equivalents

	Group		Company	
	2002	2001	**2002**	2001
	HK$	HK$	**HK$**	HK$
Cash and bank balances	**14,393,804**	4,990,332	**3,174,641**	585,346
Short term bank deposits	**204,835,160**	207,552,891	**–**	–
	219,228,964	212,543,223	**3,174,641**	585,346

20. Accounts Payable

The aged analysis of the accounts payable is as follows:

	Group	
	2002	2001
	HK$	HK$
Outstanding balances aged within 30 days	**2,356,253**	2,574,010

21. Accrued Liabilities and Other Payables

	Group		Company	
	2002	2001	**2002**	2001
	HK$	HK$	**HK$**	HK$
Other payables	**3,670,251**	4,910,510	**1,724,485**	–
Accrued liabilities	**11,559,594**	1,862,543	**1,737,577**	367,546
	15,229,845	6,773,053	**3,462,062**	367,546

In particular, the provision for long services payments included in accrued liabilities above is set out below:

	Group	
	2002	2001
	HK$	HK$
Provision for the year and balance at 31 December	**3,600,000**	–
Portion classified as current liabilities	**(3,600,000)**	–
Long term portion	**–**	–

The Group provides for the probable future long service payments to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading “Employee benefits” in note 3 to the financial statements, pursuant to a reorganisation of the Group’s operations. The long service payments have been settled subsequent to the balance sheet date. The provision is based on the future payments which have been earned by the employees from their service to the Group up to the balance sheet date. Provision for the future long service payments has not been recognised in previous years as the directors did not consider that the situation would result in a material future outflow of resources for the Group.

22. Share Capital

	2002	2001
	HK$	HK$
Authorised:		
480,000,000 shares of HK$1.00 each	**480,000,000**	480,000,000
Issued and fully paid:		
145,287,134 (2001: 121,087,134) shares of HK$1.00 each	**145,287,134**	121,087,134

22. Share Capital (continued)

On 1 August 2002, 24,200,000 ordinary shares of HK$1.00 each in the capital of the Company were issued by way of placement for HK$1.45 per share for a total cash consideration of HK$35,090,000, before related expenses.

The excess of the consideration received over the nominal value of the shares issued, in the amount of HK$10,451,450, net of issue expenses, was credited to the share premium account (note 24).

The net proceeds from the placement is to be used as either general working capital of the Group or to finance the possible acquisition of a 70% equity interest in Tongda Energy Corporation Limited ("Tongda") (a PRC joint stock limited company and independent to the Group), details of which were set out in an announcement of the Company dated 10 July 2002. All of such net proceeds will be used as general working capital of the Group if the acquisition of Tongda does not proceed. As at the balance sheet date, the conditions stated in the agreement in respect of the acquisition of Tongda had not been satisfied and the Company had not made a decision whether to proceed with the acquisition of Tongda.

23. Share Option Scheme

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, executives, employees, consultants, professional and other advisers of the Group. The 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.

23. Share Option Scheme (continued)

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 Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 8 March 2002, i.e. 12,108,713 shares of HK$1.00 each. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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 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 shares on the date of the offer of the share options.

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

23. Share Option Scheme (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 January 2002	Granted during the year	At 31 December 2002#	Date of grant of share options*	Share price of the Company at grant date**	Exercise price of share options***	Exercise period of share options
Directors							
Mr. Lawrence Ho	–	605,435	605,435	8 March 2002	HK$1.23	HK$1.38	8 September 2002 to 7 March 2012
	–	605,436	605,436	8 March 2002	HK$1.23	HK$1.38	8 March 2003 to 7 March 2012
	–	1,210,871	1,210,871				
Mr. Frank Tsui	–	1,210,871	1,210,871	8 March 2002	HK$1.23	HK$1.38	8 September 2002 to 7 March 2012
Mr. Peter So	–	1,210,871	1,210,871	8 March 2002	HK$1.23	HK$1.38	8 September 2002 to 7 March 2012
Mr. Ho Cheuk Yuet	–	1,210,871	1,210,871	8 March 2002	HK$1.23	HK$1.38	8 September 2002 to 7 March 2012
Sub-total	–	4,843,484	4,843,484				
Employees							
In aggregate	–	250,000	250,000	8 March 2002	HK$1.23	HK$1.38	8 March 2003 to 7 March 2012
	–	250,000	250,000	8 March 2002	HK$1.23	HK$1.38	8 March 2004 to 7 March 2012
	–	1,492,557	1,492,557	13 September 2002	HK$1.66	HK$1.66	13 September 2002 to 7 March 2012
	–	1,492,557	1,492,557	13 September 2002	HK$1.66	HK$1.66	13 March 2003 to 7 March 2012
	–	410,000	410,000	13 September 2002	HK$1.66	HK$1.66	13 September 2003 to 7 March 2012
	–	410,000	410,000	13 September 2002	HK$1.66	HK$1.66	13 September 2004 to 7 March 2012
Sub-total	–	4,305,114	4,305,114				

23. Share Option Scheme (continued)

Name or category of participant	Number of share options At 1 January 2002	Granted during the year	At 31 December 2002#	Date of grant of share options*	Share price of the Company at grant date**	Exercise price of share options***	Exercise period of share options
Others							
In aggregate	–	1,480,057	1,480,057	13 September 2002	HK$1.66	HK$1.66	13 September 2003 to 7 March 2012
	–	1,480,058	1,480,058	13 September 2002	HK$1.66	HK$1.66	13 September 2004 to 7 March 2012
Sub-total	–	2,960,115	2,960,115				
Total	–	12,108,713	12,108,713				

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

*** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\# No share option has been exercised, lapsed or cancelled during the year.

At the balance sheet date, the Company had 12,108,713 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,108,713 additional ordinary shares of the Company and additional share capital of HK$12,108,713 and share premium of HK$6,495,575, before issue expenses.

24. Reserves

Group

	Share premium account HK$	Capital reserve account@ HK$	Investment property revaluation reserve HK$	Retained profits/ (accumulated losses) HK$	Total HK$
At 1 January 2001					
As previously reported	8,737,833	117,476,852	84,480,758	69,187,781	279,883,224
Prior year adjustment*	–	240,307,881	–	(240,307,881)	–
As restated	8,737,833	357,784,733	84,480,758	(171,120,100)	279,883,224
Deficit on revaluation of investment properties (note 11)	–	–	(8,000,000)	–	(8,000,000)
Revaluation deficit attributable to minority shareholders	–	–	133,174	–	133,174
Net loss for the year	–	–	–	(18,634,632)	(18,634,632)
At 31 December 2001 and 1 January 2002	8,737,833	357,784,733	76,613,932	(189,754,732)	253,381,766
Issue of shares (note 22)	10,890,000	–	–	–	10,890,000
Share issue expenses	(438,550)	–	–	–	(438,550)
Surplus on revaluation of investment properties (note 11)	–	–	3,000,000	–	3,000,000
Revaluation surplus attributable to minority shareholders	–	–	(399,524)	–	(399,524)
Net loss for the year	–	–	–	(35,596,308)	(35,596,308)
At 31 December 2002	19,189,283	357,784,733	79,214,408	(225,351,040)	230,837,384

24. Reserves (continued)

Company

	Share premium account HK$	Capital reserve account@ HK$	Retained profits/ (accumulated losses) HK$	Total HK$
At 1 January 2001				
As previously reported	8,737,833	357,784,733	98,700,731	465,223,297
Prior year adjustment #	–	–	(5,000,000)	(5,000,000)
As restated	8,737,833	357,784,733	93,700,731	460,223,297
Net loss for the year	–	–	(301,546,564)	(301,546,564)
At 31 December 2001 and 1 January 2002	8,737,833	357,784,733	(207,845,833)	158,676,733
Issue of shares (note 22)	10,890,000	–	–	10,890,000
Share issue expenses	(438,550)	–	–	(438,550)
Net loss for the year	–	–	(10,933,684)	(10,933,684)
Net 31 December 2002	19,189,283	357,784,733	(218,779,517)	158,194,499

* In prior years, goodwill and negative goodwill arising on consolidation of subsidiaries were eliminated against and credited to the capital reserve, respectively, in the year in which they arose. During the year ended 31 December 2001, the Group adopted SSAP 30 "Business combinations". Goodwill was retrospectively restated and had been fully amortised prior to 1 January 2001 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 were made in the financial statements for the year ended 31 December 2001, the principal effect of which was to reduce the Group's retained profits and increase the Group's capital reserve previously reported as at 1 January 2001, by HK$240,307,881.

During the year ended 31 December 2001, the Group adopted the revised SSAP 18 "Revenue". To comply with the revised SSAP, a prior year adjustment was made to the amount of the Company's financial statements for the year ended 31 December 2000, resulting in a debit of HK$5,000,000 to the Company's net profit for year ended 31 December 2000, and a net credit of the same amount to the dividend receivable in the Company's balance sheet as at 31 December 2000. The prior year adjustment reversed a dividend from a subsidiary which was declared and approved by the subsidiary after the 31 December 2000, which was previously recognised by the Company as revenue in its financial statements for the year ended 31 December 2000.

The effect of this change in accounting policy on the Company's net profit for the year ended 31 December 2001, was to reduce the net loss by HK$5,000,000 to HK$301,546,564, representing the effect of recognising the dividend of HK$5,000,000 declared by the subsidiary after 31 December 2000 as revenue in the financial statements for the year ended 31 December 2001.

24. Reserves (continued)

@ 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 could 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. Reserves Available for Distribution to Shareholders

Save as disclosed in note 24 to these financial statements, as at 31 December 2002, the Company had no reserves available for distribution to shareholders, as calculated under the provisions of Section 79B of the Companies Ordinance.

26. Pledge of Assets

As at 31 December 2002, the Group's bank deposits amounting to HK$1,100,000 (2001: HK$911,000) were pledged to secure a letter of guarantee to the extent of HK$1,031,000 (2001: HK$911,000) granted by a bank for the Group's water and electricity deposits.

27. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 11) 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.

27. Operating Lease Arrangements (continued)

(a) As lessor (continued)

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	2001
	HK$	HK$
Within one year	**3,353,366**	2,048,712
In the second to fifth years, inclusive	**454,871**	834,488
	3,808,237	2,883,200

(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 2002, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$	HK$	**HK$**	HK$
Within one year	**373,152**	379,800	**–**	375,000
In the second to fifth years, inclusive	**1,349,088**	2,227	**–**	–
	1,722,240	382,027	**–**	375,000

28. Commitments

In addition to the operating lease commitments detailed in note 27(b) above, the Company and the Group had the following commitment at the balance sheet date.

On 28 September 2002, the Company entered into an underwriting agreement (the “Underwriting Agreement”) to fully underwrite the proposed rights issue (the “Rights Issue”) of Value Convergence Holdings Limited (“VCHL”) (formerly iAsia Technology Limited). The Underwriting Agreement is conditional upon certain conditions and pursuant to which the Company is required to acquire, at a maximum, approximately 79.86% issued share capital of VCHL for a total consideration of HK$102,066,428.

28. Commitments (continued)

Mr. Lawrence Ho and Dr. Stanley Ho, two of the directors and major shareholders of Melco, are also directors and shareholders of VCHL. As a result, the Underwriting Agreement entered into between Melco and VCHL, when completed, would constitute a connected transaction under the Listing Rules. Further details of the transaction were set out in the circular from the Company to its shareholders dated 16 November 2002. The transaction was approved by independent shareholders of the Company on 10 December 2002. The Underwriting Agreement became unconditional and was completed subsequent to the balance sheet date (note 30).

29. Related Party Transactions and Connected Transactions

In addition to the transaction disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2002**	2001
		HK$	HK$
Catering income received from directors and related companies	(i)	**3,600,887**	3,103,592
Insurance premiums paid to a related company	(ii)	**954,076**	930,014
Management fees paid to a related company	(iii)	**441,572**	406,657
Agency services fee paid to a related company	(iv)	**55,000**	198,142
Souvenirs sold to a related company	(v)	**416,400**	478,500
Technical support service fees paid to a related company	(vi)	**77,745**	55,800
Purchase of office equipment from a related company	(vii)	**147,998**	–
Rental income and management fee received from a related company	(viii)	**188,047**	–
Reception service fee paid to a related company	(ix)	**35,277**	–
Expenditure for leasehold improvements and rental deposit paid on behalf of a related company	(x)	**1,982,407**	–

Notes:

(i) The Group received catering income in respect of restaurant operations from certain directors and related companies for services provided at a discount ranging between 15% and 40%.

(ii) The Group paid insurance premiums to Jardine Shun Tak Insurance Brokers Limited, an associate of Shun Tak Holdings Limited ("STHL"), to insure the properties and employees of the Group under the terms and conditions applicable to customers of comparable standing. Dr. Stanley Ho and Madam Winnie Ho Yuen Ki, a director and an ex-director of the Company, are also a director and an ex-director and/or have direct and/or indirect beneficial interests in STHL.

29. Related Party Transactions and Connected Transactions (continued)

Notes (continued):

(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 director and ex-director, respectively, and/or have direct and/or indirect beneficial interests, were made according to the published prices and conditions offered to customers of the Group, except that a longer credit period was normally granted. The balance due from STDM at 31 December 2002 was HK$424,604 (2001: HK$446,000) (note 17).

(vi) A service fee was paid to VCHL for the technical support services in respect of the Group's computer system and was determined on the basis agreed between the Group and VCHL. Dr. Stanley Ho and Mr. Lawrence Ho, two directors of the Company, are also directors and beneficial shareholders of VCHL.

(vii) Purchase of office equipment from CFN Hong Kong Limited ("CFNHK"), a wholly-owned subsidiary of VCHL, was made at prices and terms agreed between the Group and CFNHK. Dr. Stanley Ho and Mr. Lawrence Ho, two directors of the Company, are also beneficial shareholders and/or director of CFNHK.

(viii) The Group received rental income and management fee income from iAsia Services, a subsidiary of VCHL, for occupying part of the Group office premises, on a reimbursement basis.

(ix) Reception service fee was paid by the Group to iAsia Services on a basis determined between the Group and iAsia Services for the use of reception service.

(x) The amounts were paid by the Group on behalf of iAsia Services. The amount due from iAsia is unsecured, bears interest at 2% per annum and has no fixed terms of repayment (note 17). The interest income earned by the Group in respect of the amount due from iAsia Services amounted to HK$861 for the year ended 31 December 2002.

30. Post Balance Sheet Events

(a) On 17 January 2003, the Company's wholly-owned subsidiary, Palmsville Developments Limited entered into a loan agreement with a non-wholly owned subsidiary. The principal amount is HK$50,000,000 and the loan is unsecured, bears interest at market rate and has no fixed terms of repayment.

(b) On 20 January 2003, the Company entered into another loan agreement with VCHL with a principal of HK$23,000,000 (the "VCHL Loan"). The VCHL Loan is unsecured, bears interest at market rate and shall be repayable on or before 30 January 2003. The VCHL loan was used to set off against part of the consideration of subscription of VCHL's shares by the Company.

30. Post Balance Sheet Events (continued)

(c) Subsequent to the balance sheet date on 29 January 2003, the Underwriting Agreement, as detailed in note 28, became unconditional and the Company subscribed for the Rights Issue for 1,007,582,287 shares of HK$0.1 each in the share capital of VCHL for a total consideration of HK$100,758,229 pursuant to the Underwriting Agreement.

Following the Rights Issue of VCHL, a total of 1,679,303,811 shares of VCHL (including the bonus shares of VCHL issued under the terms of the Rights Issue) were issued to the Company by VCHL. As a result, the Company held 70.51% in the then share capital of VCHL. As at the date of this report, the Company held 67.57% in the share capital of VCHL. In the opinion of the directors, VCHL is a subsidiary of the Company. As at the date of this report, the Group is unable to estimate the goodwill arising on the acquisition of VCHL.

31. 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 comparative amounts have been reclassified to conform with the current year's presentation.

32. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 2 April 2003.