1. Corporate information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies

Basis of preparation

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

Basis of consolidation

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

Revenue recognition

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

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

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

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

Subsidiaries

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

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

3. Summary of significant accounting policies (continued)

Goodwill

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

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

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

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

Negative goodwill

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

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

3. Summary of significant accounting policies (continued)

Negative goodwill (continued)

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

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

Impairment of assets

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

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

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

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

3. Summary of significant accounting policies (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of the reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Property, plant and equipment

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

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

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

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

3. Summary of significant accounting policies (continued)

Long term investment

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

Inventories

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

Deferred tax

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

Provisions

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

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

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. Summary of significant accounting policies (continued)

Operating leases

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

Foreign currency transactions

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

Retirement benefits scheme

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

Cash equivalents

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

4. Prior year adjustments

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

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

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

5. Segment information

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

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

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

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

5. Segment information (continued)

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

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

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

(a) Business segments

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

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

5. Segment information (continued)

(b) Geographical segments

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

6. Turnover, revenue and gains

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

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

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

7. Operating loss before tax

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

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

8. Tax

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

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

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

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

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

9. Net loss from ordinary activities attributable to shareholders

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

10. Loss per share

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

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

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

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

Directors' remuneration

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

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

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

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

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

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

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

Employee costs

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

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

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

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

12. Investment properties

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

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

12. Investment properties (continued)

The investment properties include a residential building located at 5 Tung Shan Terrace, Stubbs Road, Hong Kong and 509 car parking spaces located on the lower basement, basement and G/F to 5/F of Jumbo Court Public Carpark, 3 Welfare Road, Aberdeen, Hong Kong. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the financial statements.

13. Property, plant and equipment

Group

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

13. Property, plant and equipment (continued)

Company

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

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

14. Interests in subsidiaries

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

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

14. Interests in subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

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

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

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

15. Goodwill and negative goodwill

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

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

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

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

15. Goodwill and negative goodwill (continued)

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

16. Long term investment

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

17. Inventories

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

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

18. Accounts receivable

The aged analysis of the accounts receivable is as follows:

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

18. Accounts receivable (continued)

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

19. Amounts due from related companies

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

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

Notes:

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

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

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

20. Cash and cash equivalents

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

21. Accounts payable

The aged analysis of the accounts payable is as follows:

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

22. Share capital

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

23. Share premium account

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

24. Capital reserve account

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

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

Pursuant to a scheme of capital reduction, which became effective on 29 June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK$357,784,733 were transferred to a capital reserve account. The capital reserve account is not freely distributable to the shareholders of the Company unless the conditions set out in the undertaking given to the Supreme Court of Hong Kong in respect of the capital reserve account at the date of the capital reduction have been fulfilled. The undertaking provides that the reserve shall not be treated as realised profits and shall be treated as an undistributable reserve of the Company for so long as there shall remain outstanding any debt or claim against the Company which was in existence on the effective date of the capital reduction. If those conditions are fulfilled, the reserve would be treated as realised profits for the purpose of calculating the distributable reserve of the Company in accordance with the provisions of Section 79B of the Companies Ordinance .

25. Investment property revaluation reserve

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

26. Accumulated losses

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

27. Reserves available for distribution to shareholders

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

28. Share option scheme

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

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

29. Note to the consolidated cash flow statement

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

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

30. Pledge of assets

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

31. Operating lease arrangements

(a) As lessor

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

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

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

(b) As lessee

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

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

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

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

32. Commitments

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

33. Related party transactions and connected transactions

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

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

Notes:

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

(ii) The Group paid insurance premiums to Jardine Shun Tak Insurance Brokers Limited, an associate of Shun Tak Holdings Limited ("STHL"), to insure the properties and employees of the Group under the terms and conditions applicable to customers of comparable standing. Dr. Stanley Ho, Madam Winnie Ho Yuen Ki, Mr. Patrick Huen, Mr. Andrew Tse, Mr. Anthony Chan, Mr. Ambrose So, Ms. Daisy Ho and Ms. Pansy Ho, directors and ex-directors of the Company, are also directors and/or have direct and/or indirect beneficial interests in STHL.

(iii) The Group paid management fees to Shun Tak Property Management Limited ("STPML"), a subsidiary of STHL, on a reimbursement basis for building management expenditure paid by STPML on behalf of the Group.

(iv) An agency services fee was paid by the Group to Shun Tak Real Estate Limited ("STREL"), a subsidiary of STHL, on a basis determined between the Group and STREL for the introduction of tenants to lease the Group's investment properties.

(v) The sales of souvenirs to Sociedade de Turismo e Diversões de Macau ("STDM"), a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are directors and/or have direct and/or indirect beneficial interests, were made according to the published prices and conditions offered to customers of the Group, except that a longer credit period was normally granted. The balance due from STDM at 31 December 2001 was HK$446,000 (2000: HK$409,876) (note 19).

33. Related party transactions and connected transactions (continued)

Notes (continued):

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

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

34. Post balance sheet events

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

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

35. Comparative amounts

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

36. Approval of the financial statements

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