

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited	
	Six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
Net cash used in operating activities	(125,699)	(34,591)
Net cash generated from/(used in) investing activities	79,900	(334)
Net cash generated from/(used in) financing activities	68,842	(62,301)
Increase/(decrease) in cash and cash equivalents	23,043	(97,226)
Cash and cash equivalents at 1st January	142,771	219,229
Cash and cash equivalents at 30th June	165,814	122,003

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants.

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2. Segment information

The Group's business can be principally segregated into four segments during this interim period:—

The leisure and entertainment segment, which mainly comprises (a) Mocha - leasing of electronic gaming machines and provision of management services to casino operators in Macau; and (b) Jumbo - restaurant operations.

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

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

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

An analysis of the Group's revenue and results for the period by business segment is as follows:

Six months ended 30th June 2004					
	Leisure and entertainment HK\$'000	Technology HK\$'000	Investment banking and financial services HK\$'000	Property and other investments HK\$'000	Group HK\$'000
Revenues					
Segment turnover	37,741	105,961	65,292	2,096	211,090
Intersegment sales	<u>(38)</u>	<u>(187)</u>	-	-	<u>(225)</u>
	<u>37,703</u>	<u>105,774</u>	<u>65,292</u>	<u>2,096</u>	<u>210,865</u>
Segment results	<u>(5,228)</u>	<u>9,046</u>	<u>9,017</u>	<u>59,180</u>	72,015
Unallocated costs					<u>(8,811)</u>
Operating profit					63,204
Finance costs					<u>(1,235)</u>
Profit before taxation					61,969
Taxation credit					<u>814</u>
Profit after taxation					62,783
Minority interests					<u>(2,689)</u>
Net profit attributable to shareholders					<u>60,094</u>

Six months ended 30th June 2003

	Leisure and entertainment HK\$'000	Technology HK\$'000	Investment banking and financial services HK\$'000	Property and other investments HK\$'000	Group HK\$'000
Revenues					
Segment turnover	<u>25,127</u>	<u>10,047</u>	<u>20,693</u>	<u>2,510</u>	<u>58,377</u>
Segment results	<u>(7,126)</u>	<u>(7,515)</u>	<u>(5,922)</u>	<u>5,317</u>	(15,246)
Unallocated costs					<u>(5,159)</u>
Operating profit					(20,405)
Finance costs					<u>(344)</u>
Loss before taxation					(20,749)
Taxation					-
Minority interests					<u>5,866</u>
Net loss attributable to shareholders					<u>(14,883)</u>

Unallocated costs represent corporate expenses.

3. Operating profit/(loss)

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

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Crediting:		
Write-back of over-provision for long service payment obligation	-	629
Gain on disposal of fixed assets:		
- investment properties	<u>57,175</u>	-
- other fixed assets	<u>1,526</u>	-
Charging:		
Loss on disposal of fixed assets	<u>-</u>	<u>317</u>

4. Taxation and deferred taxation

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

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

	Six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
Current taxation:		
– Provision for overseas taxation	(129)	–
– Over-provision of Hong Kong taxation in prior years	619	–
Deferred taxation relating to the origination and reversal of timing differences	324	–
Taxation credit	814	–

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

	Six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
Profit/(loss) before taxation	61,969	(20,749)
Calculated at a taxation rate of 17.5%	(10,845)	3,631
Effect of different taxation rates in Macau	206	–
Expenses not deductible for taxation purposes	(529)	(265)
Income not assessable for taxation purposes	12,112	141
Over-provision of current taxation in prior years	619	–
Utilisation of previously unrecognised tax losses	2,842	71
Unrecognised deferred tax assets arising from estimated tax losses	(3,591)	(3,578)
Taxation credit	814	–

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

The deferred tax liabilities provided for at the balance sheet date mainly arose from accelerated depreciation allowance. The movements during the period are as follows:

	Six months ended	
	30th June	Year ended
	2004	2003
	HK\$'000	HK\$'000
As at 1st January	324	–
Acquisition of subsidiary	262	–
(Credited)/charged to profit and loss account	(324)	324
	<u>262</u>	<u>324</u>

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

	As at	As at
	30th June	31st December
	2004	2003
	HK\$'000	HK\$'000
Accelerated depreciation allowances	2,982	3,147
Tax losses	(78,850)	(78,101)
	<u>(75,868)</u>	<u>(74,954)</u>

The tax losses of the Group as at 30th June 2004 and 31st December 2003 were available for carry forward but subject to the approval of the Inland Revenue Department of Hong Kong and the tax bureau in Macau. These tax losses have no expiry date.

5. Earnings/(loss) per share

The calculations of basic earnings/(loss) per share are based on (i) the Group's net profit attributable to shareholders of approximately HK\$60,094,000 (2003: net loss of approximately HK\$14,883,000); and (ii) 241,921,542 (2003: 145,287,134) weighted average ordinary shares in issue during the period.

The calculations of diluted earnings per share for the six months ended 30th June 2004 are based on (i) the adjusted net profit attributable to shareholders of approximately HK\$60,184,000 which is the net profit attributable to the shareholders for the period adjusted for interest expense of approximately HK\$90,000; and (ii) 249,800,077 ordinary shares, being the 241,921,542 weighted average ordinary shares in issue during the period plus the weighted average number of 6,699,262 ordinary shares deemed to be issued at no consideration if all outstanding options with dilutive effect on the basic earnings/(loss) per share had been exercised and the weighted average number of 1,179,273 ordinary shares deemed to be issued if all the convertible notes have been converted into ordinary shares since their issuance. The diluted loss per share for the period ended 30th June 2003 has not been presented as the conversion of potential ordinary shares would have anti-dilutive effect to basic loss per share.

6. Interim dividend

The directors declared an interim dividend of 1 HK cent per ordinary share (2003: nil) totalling HK\$3.77 million for the period. The declared dividend is not reflected as a dividend payable in the accounts for the period.

7. Capital expenditure

	Goodwill	Trading rights	Total intangible assets	Investment properties	Construction-in-progress	Other fixed assets	Total fixed assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening net book amount as at 1st January 2004	19,705	3,293	22,998	159,000	-	28,916	187,916
Acquisition of Mocha Slot Group Limited ("Mocha Slot") (note 13(a))	361,427	-	361,427	-	-	64,449	64,449
Goodwill arising from acquisition of the technology segment (note 13(b))	8,709	-	8,709	-	-	-	-
Other additions	-	-	-	-	12,030	7,934	19,964
Disposals	-	-	-	(82,000)	-	(660)	(82,660)
Depreciation/amortisation charge	(3,021)	(253)	(3,274)	-	-	(5,943)	(5,943)
Closing net book amount as at 30th June 2004	<u>386,820</u>	<u>3,040</u>	<u>389,860</u>	<u>77,000</u>	<u>12,030</u>	<u>94,696</u>	<u>183,726</u>

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition. The goodwill is included in intangible assets and is amortised using the straight-line method over its estimated useful life ranging from 10 years to 20 years.

Trading rights represent rights on The Stock Exchange of Hong Kong Limited ("HKSE") and Hong Kong Futures Exchange Limited ("HKFE") acquired as part of the consideration for original membership shares in the HKSE and the HKFE following merger of HKSE and HKFE and their respective clearing houses in March 2000 and subsequent listing of HKSE. Trading rights are amortised over their estimated useful lives of 10 years.

8. Trade receivables

Included in trade receivables are trade debtors and their ageing analysis is as follows:

	Within 30 days	31 to 90 days	Over 90 days	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 30th June 2004	<u>305,564</u>	<u>15,183</u>	<u>13,183</u>	333,930
Provision for doubtful debts				<u>(6,834)</u>
				<u>327,096</u>
Balance at 31st December 2003	<u>233,123</u>	<u>3,312</u>	<u>6,288</u>	242,723
Provision for doubtful debts				<u>(6,333)</u>
				<u>236,390</u>

- (a) The Group's leisure and entertainment segment and the property and other investment segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30-60 days would be granted.
- (b) Trade receivables arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the investment banking and financial services segment as at 30th June 2004 amounted to approximately HK\$281,004,000 (31st December 2003: HK\$235,922,000). The settlement terms of the trade receivables arising from the broking in securities and equity options transactions are two days after the trade date of those transactions; and the trade receivables arising from the dealing in futures and options are one day after the trade date.

Loans to margin clients (included in investment banking and financial services) are secured by client's pledged securities, repayable on demand and bear interest at commercial rates.

- (c) Other trade receivables are due immediately from date of billing but the Group will generally grant a normal credit period of 30 days on average to its customers.

9. Trade payables

Included in trade payables are trade creditors and their ageing analysis is as follows:

	Within 30 days	31 to 90 days	Over 90 days	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 30th June 2004	<u>76,316</u>	<u>6,132</u>	<u>4,044</u>	<u>86,492</u>
Balance at 31st December 2003	<u>104,658</u>	<u>3,416</u>	<u>396</u>	<u>108,470</u>

10. Loan from a minority shareholder of a subsidiary

The loan from a minority shareholder of a subsidiary is unsecured, interest bearing at 4% per annum and repayable on demand. The balance was subsequently settled on 7th July 2004.

11. Convertible notes

	As at 30th June 2004 HK\$'000	As at 31st December 2003 HK\$'000
Convertible note due 30th June 2005 ("2005 Convertible Note") at par	22,500	–
Convertible note due 30th June 2006 ("2006 Convertible Note") at par	22,500	–
	<u>45,000</u>	<u>–</u>

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

The 2005 Convertible Note and 2006 Convertible Note are convertible into fully paid ordinary shares of HK\$1 each of the Company at an initial conversion price of HK\$2.3 per share since the Date of Issuance until, and including, the day immediately before 30th June 2005 and 30th June 2006 respectively. As at 30th June 2004, none of the convertible notes had been converted into the ordinary shares of the Company.

12. Share capital

	Authorised Ordinary shares of HK\$1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1st January 2003 and 2004	480,000,000	480,000
Increase in authorised ordinary share capital (<i>note a</i>)	<u>220,000,000</u>	<u>220,000</u>
At 30th June 2004	<u><u>700,000,000</u></u>	<u><u>700,000</u></u>

	Issued and fully paid Ordinary shares of HK\$1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 1st January 2003	145,287,134	145,287
Issue of right shares	72,643,567	72,644
Exercise of share options	<u>4,066,306</u>	<u>4,066</u>
At 31st December 2003	221,997,007	221,997
Issue of shares (<i>note b</i>)	153,478,261	153,478
Exercise of share options	<u>1,891,306</u>	<u>1,891</u>
At 30th June 2004	<u><u>377,366,574</u></u>	<u><u>377,366</u></u>

- (a) By a special resolution passed on 20th May 2004, the authorised ordinary share capital of the Company was increased from HK\$480,000,000 to HK\$700,000,000 by the creation of an additional 220,000,000 authorised ordinary shares of HK\$1 each.
- (b) On 9th June 2004, 153,478,261 ordinary shares of HK\$1 each were issued at a premium of HK\$1.375 each as the purchase consideration for the acquisition of Mocha Slot during the period (see Note 13(a) for details).

13. Acquisitions

- (a) On 9th June 2004, the Group completed the acquisition of 80% of the issued share capital of Mocha Slot which is engaged in the leasing of gaming machines and provision of related management services to casino operators in Macau. The purchase consideration was settled by issuance of new shares of the Company (Note 12(b)). The fair value of the net identifiable assets of Mocha Slot at the date of acquisition was approximately HK\$4,737,000. Direct costs related to the acquisition amounted to approximately HK\$706,000 and were fully settled in cash. The resulting goodwill of approximately HK\$361,427,000 is amortised on a straight-line basis of 10 years.

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

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

- (b) On 31st May 2004, the Company completed the acquisition of the subsidiaries comprising the technology segment from Value Convergence and on 1st June 2004, the acquisition of an additional 10% equity interest in EGL from Mr. Gordon Lee and Mr. Leong Van Tat in aggregate consideration of HK\$28,227,000. Goodwill arising from these acquisitions, which comprised Value Convergence's minority shareholders' entitlement to the gain on disposal of the companies comprising the technology segment by Value Convergence and the direct costs related to the acquisitions, amounted to approximately HK\$8,709,000 and is amortised on a straight-line basis of 20 years.

14. Capital commitments

At 30th June 2004, the Group had contracted commitments in respect of renovation project as follows:

	30th June	31st December
	2004	2003
	HK\$'000	HK\$'000
Contracted but not provided for	<u>6,092</u>	<u>4,547</u>

15. Related party transactions

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

- (a) The trade receivables as at 30th June 2004 include amounts due from related companies in relation to sales of computer hardware and software to related companies of approximately HK\$31,535,000 (31st December 2003: HK\$1,808,000).
- (b) The prepayments, deposits and other receivables as at 30th June 2004 include amounts due from customers on contracts in relation to sales of computer hardware and software to related companies of approximately HK\$1,414,000 (31st December 2003: HK\$1,702,000).
- (c) The accruals and other payables as at 30th June 2004 include deposits received from related companies in relation to sales of computer hardware and software of approximately HK\$202,000 (31st December 2003: HK\$10,180,000).

- (d) Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

		Six months ended	
		30th June	30th June
		2004	2003
<i>Note</i>		HK\$'000	<i>HK\$'000</i>
	Catering income earned from directors and related companies	1,414	679
(i)			
	Insurance premiums charged by a related company	796	453
(ii)			
	Property management fees charged by a related company	250	204
(iii)			
	Brokerage commission income earned from certain directors of the Group or their relatives	160	–
(iv)			
	Sales of computer hardware and software to related companies	89,935	–
(v)			

Notes:

- (i) The Group earned 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, a director of the Company, is also a director and has direct and 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) Brokerage commission income earned from transactions with related parties was at prices and terms no less than those transacted with other third party customers of the Group.
- (v) Service fees charged and computer hardware and software sold to related companies were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

16. Events subsequent to the balance sheet date

Please refer to page 5 of this report for the details of significant events subsequent to 30th June 2004.

DISCLOSURE OF INTERESTS

Directors' interests

As at 30th June 2004, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be