

# Notes to the Accounts

## 1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention except the other investments and the investment properties which are carried at fair value as described below.

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

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

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

# Notes to the Accounts

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

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

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

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

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

### (c) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

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

### (d) Jointly controlled entity

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

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

# Notes to the Accounts

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) Revenue recognition

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

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

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

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

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

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

Interest income from authorised financial institutions are recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

### (f) Goodwill

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

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

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

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (f) Goodwill (continued)

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

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

### (g) Trading rights

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

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

### (h) Fixed assets

#### (i) *Investment properties*

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

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

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

# Notes to the Accounts

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (h) Fixed assets (continued)

#### (ii) Construction in progress

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

#### (iii) Other fixed assets

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

#### (iv) Depreciation

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

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

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

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

#### (v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the tangible and intangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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

# Notes to the Accounts

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (i) Investments in securities

#### (i) *Investment securities*

Investment securities are stated at cost less any impairment losses.

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

#### (ii) *Other investments*

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

### (j) Inventories

Stocks are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (k) Contracts in progress

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

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

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

# Notes to the Accounts

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (l) Trade receivables

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

### (m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

### (n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (o) Employee benefits

#### (i) Pension obligations

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

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

#### (ii) Employee leave and long service payment entitlements

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

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

#### (iii) Profit sharing and bonus plans

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

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

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (p) Deferred taxation

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

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

### (q) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

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

### (r) Borrowing costs

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



# Notes to the Accounts

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (s) Assets under leases

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

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

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

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

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

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

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

### (t) Translation of foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated in Hong Kong dollars at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences in this case are dealt with as a movement in reserves.

### (u) Segregated accounts

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

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### (v) Legal reserve

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

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

### (w) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets comprise all current and non-current assets and exclude investment properties and investment securities. Segment liabilities comprise all operating liabilities and exclude items such as taxation, deferred taxation, shareholder's loan and convertible notes. Capital expenditure comprises additions to fixed assets including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

# Notes to the Accounts

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Revenues recognised during the year are as follows:

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

*Note:*

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

# Notes to the Accounts

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

### Primary reporting format – business segments

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

# Notes to the Accounts

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Year ended/As at 31st December 2003

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

# Notes to the Accounts

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

### Secondary reporting format – geographical segments

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

# Notes to the Accounts

## 3 OTHER (LOSS)/INCOME

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

## 4 OPERATING PROFIT/(LOSS)

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

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

# Notes to the Accounts

## 5 FINANCE COSTS

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

## 6 TAXATION

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

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

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



# Notes to the Accounts

## 6 TAXATION (continued)

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

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

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

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

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

# Notes to the Accounts

## 6 TAXATION (continued)

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

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

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

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

  

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

The above tax losses of the Group and the Company were available for carry forward but subject to the approval of the Hong Kong Inland Revenue Department and the tax bureau in Macau. These tax losses have no expiry date.

# Notes to the Accounts

## 7 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

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

## 8 DIVIDENDS

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

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

## 9 EARNINGS/(LOSS) PER SHARE

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

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

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

# Notes to the Accounts

## 10 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

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

## 11 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

### (a) Directors' emoluments

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

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

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

# Notes to the Accounts

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

### (a) Directors' emoluments (continued)

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

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

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

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

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

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

# Notes to the Accounts

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

### (b) Five highest paid individuals

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

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

The emoluments fell within the following bands:

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

- (c) During the year, no (2003: nil) directors or the above highest paid individuals waived or agreed to waive any emoluments. No (2003: nil) emoluments have been paid to the directors of the Company or the above highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

# Notes to the Accounts

## 12 GOODWILL

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

*Note:*

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

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

# Notes to the Accounts

## 13 TRADING RIGHTS

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



# Notes to the Accounts

## 14 FIXED ASSETS

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

# Notes to the Accounts

## 14 FIXED ASSETS (continued)

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

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

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

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

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

# Notes to the Accounts

## 14 FIXED ASSETS (continued)

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

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

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

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

# Notes to the Accounts

## 15 INVESTMENTS IN SUBSIDIARIES

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

*Note:*

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

## 16 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

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

# Notes to the Accounts

## 16 INVESTMENT IN A JOINTLY CONTROLLED ENTITY (continued)

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

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

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

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

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

# Notes to the Accounts

## 17 INVESTMENT SECURITIES

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

## 18 INVENTORIES

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

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

## 19 TRADE RECEIVABLES

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

# Notes to the Accounts

## 19 TRADE RECEIVABLES (continued)

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

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

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

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

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

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

## 20 OTHER INVESTMENTS

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

# Notes to the Accounts

## 21 AMOUNTS DUE FROM RELATED COMPANIES

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

*Notes:*

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

## 22 TRADE PAYABLES

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

*Note:*

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



# Notes to the Accounts

## 23 FINANCE LEASE PAYABLE

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

## 24 CONVERTIBLE NOTES

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

*Note:*

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

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

# Notes to the Accounts

## 24 CONVERTIBLE NOTES (continued)

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

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

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

## 25 SHARE CAPITAL

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

# Notes to the Accounts

## 25 SHARE CAPITAL (continued)

Note:

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

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

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

## 26 SHARE OPTION

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

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

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

## 26 SHARE OPTION (continued)

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

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

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

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

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

# Notes to the Accounts

## 26 SHARE OPTION (continued)

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

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

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

#### Notes:

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

## 26 SHARE OPTION (continued)

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

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

# Notes to the Accounts

## 26 SHARE OPTION (continued)

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

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

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

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

# Notes to the Accounts

## 26 SHARE OPTION (continued)

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

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

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

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



# Notes to the Accounts

## 26 SHARE OPTION (continued)

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

#### (ii) Share options scheme

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

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

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

# Notes to the Accounts

## 26 SHARE OPTION (continued)

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

#### (ii) Share options scheme (continued)

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

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

# Notes to the Accounts

## 27 RESERVES

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

# Notes to the Accounts

## 27 RESERVES (continued)

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

*Note:*

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

# Notes to the Accounts

## 28 CONSOLIDATED CASH FLOW STATEMENT

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

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

# Notes to the Accounts

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

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

# Notes to the Accounts

## 28 CONSOLIDATED CASH FLOW STATEMENT (continued)

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

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

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

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

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

# Notes to the Accounts

## 28 CONSOLIDATED CASH FLOW STATEMENT (continued)

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

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

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

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

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

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



# Notes to the Accounts

## 28 CONSOLIDATED CASH FLOW STATEMENT (continued)

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

## 29 PLEDGE OF ASSETS

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

## 30 COMMITMENTS

### (a) Capital commitments

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

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

### (b) Commitments under operating leases

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

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

# Notes to the Accounts

## 30 COMMITMENTS (continued)

### (c) Future operating lease arrangements

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

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

## 31 RELATED PARTY TRANSACTIONS

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

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

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

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

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

# Notes to the Accounts

## 31 RELATED PARTY TRANSACTIONS (continued)

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

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

### Notes:

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

# Notes to the Accounts

## 31 RELATED PARTY TRANSACTIONS (continued)

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

## 32 PRINCIPAL SUBSIDIARIES

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

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

# Notes to the Accounts

## 32 PRINCIPAL SUBSIDIARIES (continued)

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

# Notes to the Accounts

## 32 PRINCIPAL SUBSIDIARIES (continued)

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

# Notes to the Accounts

## 32 PRINCIPAL SUBSIDIARIES (continued)

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

# Notes to the Accounts

## 32 PRINCIPAL SUBSIDIARIES (continued)

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

<sup>1</sup> Share held directly by the Company

<sup>2</sup> Share held indirectly by the Company

<sup>3</sup> Acquired by the Group during the year (note 28(c)(i))

<sup>4</sup> Audited by auditors other than PricewaterhouseCoopers

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

## 33 CONTINGENT LIABILITIES

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

## 34 POST BALANCE SHEET EVENTS

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

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

## 35 APPROVAL OF ACCOUNTS

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