1. Corporate Information

The registered office of Melco International Development Limited is located at Penthouse 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

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

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

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

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

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

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

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

3. Summary of Significant Accounting Policies

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

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

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

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

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

Subsidiaries

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

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years.

3. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

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

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

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

Negative goodwill

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

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

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

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

3. Summary of Significant Accounting Policies (continued)

Negative goodwill (continued)

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

Impairment of assets

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

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

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

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

Investment properties

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

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

3. Summary of Significant Accounting Policies (continued)

Property, plant and equipment

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

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

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

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

Long term investments

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

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

Other investment

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

3. Summary of Significant Accounting Policies (continued)

Inventories

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

Deferred tax

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

Provisions

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

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

Related parties

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

Operating leases

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

3. Summary of Significant Accounting Policies (continued)

Foreign currency transactions

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

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

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

Share options scheme

The Company operates a share option scheme for the purpose of providing incentive and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Retirement benefits scheme

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

Cash and cash equivalents

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

4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the restaurant segment, which engages in restaurant operation and related activities;

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

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

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

4. Segment Information (continued)

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

(a) Business segments

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

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

4. Segment Information (continued)

(b) Geographical segments

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

5. Turnover, Revenue and Gains

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

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

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

6. Operating Loss Before Tax

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

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

7. Tax

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits arising in Hong Kong during the year (2001: Nil).

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

	Group				**Company**	
	Provided		**Not provided**		**Not provided**	
	2002 **HK$**	2001 HK$	**2002** **HK$**	2001 HK$	**2002** **HK$**	2001 HK$
Accelerated depreciation allowances	**1,140,000**	2,260,000	**582,042**	703,000	**(403)**	–
Tax losses carried forward	**(1,140,000)**	(2,260,000)	**(20,258,079)**	(15,918,000)	**(2,268,460)**	(1,352,000)
	–	–	**(19,676,037)**	(15,215,000)	**(2,268,863)**	(1,352,000)

7. Tax (continued)

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

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

8. Net Loss from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2002 was HK$10,933,684 (2001: HK$301,546,564).

9. Loss per Share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$35,596,308 (2001: HK$18,634,632) and the weighted average of 131,231,244 (2001: 121,087,134) ordinary shares in issue during the year.

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

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

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

Directors' remuneration

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

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

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

	2002 Number of directors	2001 Number of directors
Nil – HK$1,000,000	**9**	15
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**–**	1

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

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

Directors' remuneration (continued)

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

Employee costs

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

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

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

11. Investment Properties

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

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

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

11. Investment Properties (continued)

In addition, the investment properties of 509 car parking spaces located on the lower basement, basement and G/F to 5/F of Jumbo Court Public Carpark, 3 Welfare Road, Aberdeen, Hong Kong, was revalued on an open market, existing tenancy basis by Vigers Hong Kong Limited, an independent firm of professional valuers, as at 31 December 2002 at HK$75,000,000 (2001: HK$72,000,000).

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

12. Property, Plant and Equipment

Group

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

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

12. Property, Plant and Equipment (continued)

Company

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

13. Interests in Subsidiaries

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

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

13. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

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

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

The above table lists the subsidiaries of the Company as at 31 December 2002 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14. Long Term Investments

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

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

15. Inventories

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

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

16. Accounts Receivable

The aged analysis of the accounts receivable is as follows:

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

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

17. Amounts due from Related Companies

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

	Notes	**At 31 December 2002 HK$**	**Maximum amount outstanding during the year HK$**	**At 1 January 2002 HK$**
Sociedade Turismo e Diversões de Macau	(a)	**424,604**	446,000	446,000
iAsia Services Limited	(b)	**1,982,407**	1,982,407	–
		2,407,011		446,000

17. Amounts due from Related Companies (continued)

Notes:

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

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

18. Other Investment

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

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

19. Cash and Cash Equivalents

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

20. Accounts Payable

The aged analysis of the accounts payable is as follows:

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

21. Accrued Liabilities and Other Payables

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

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

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

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

22. Share Capital

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

22. Share Capital (continued)

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

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

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

23. Share Option Scheme

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

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

23. Share Option Scheme (continued)

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

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

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

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

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

23. Share Option Scheme (continued)

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

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

23. Share Option Scheme (continued)

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

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

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

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

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

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

24. Reserves

Group

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

24. Reserves (continued)

Company

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

* In prior years, goodwill and negative goodwill arising on consolidation of subsidiaries were eliminated against and credited to the capital reserve, respectively, in the year in which they arose. During the year ended 31 December 2001, the Group adopted SSAP 30 "Business combinations". Goodwill was retrospectively restated and had been fully amortised prior to 1 January 2001 on a straight-line basis over a period of not more than 20 years. In addition, negative goodwill had been recognised as an income immediately in the year of acquisition. Accordingly, prior year adjustments were made in the financial statements for the year ended 31 December 2001, the principal effect of which was to reduce the Group's retained profits and increase the Group's capital reserve previously reported as at 1 January 2001, by HK$240,307,881.

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

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

24. Reserves (continued)

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

25. Reserves Available for Distribution to Shareholders

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

26. Pledge of Assets

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

27. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 11) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

27. Operating Lease Arrangements (continued)

(a) As lessor (continued)

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

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

(b) As lessee

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

At 31 December 2002, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

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

28. Commitments

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

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

28. Commitments (continued)

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

29. Related Party Transactions and Connected Transactions

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

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

Notes:

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

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

29. Related Party Transactions and Connected Transactions (continued)

Notes (continued):

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

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

(v) The sales of souvenirs to Sociedade de Turismo e Diversões de Macau ("STDM"), a related company of which Dr. Stanley Ho and Madam Winnie Ho Yuen Ki are director and ex-director, respectively, and/or have direct and/or indirect beneficial interests, were made according to the published prices and conditions offered to customers of the Group, except that a longer credit period was normally granted. The balance due from STDM at 31 December 2002 was HK$424,604 (2001: HK$446,000) (note 17).

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

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

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

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

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

30. Post Balance Sheet Events

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

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

30. Post Balance Sheet Events (continued)

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

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

31. Comparative Amounts

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

32. Approval of the Financial Statements

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