1. GENERAL INFORMATION

The Company is incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in travel agency and investment in gaming related business, provision of health and beauty services and money lending. Details of the principal activities of the Company's subsidiaries are set out in note 12. The Directors consider the ultimate holding company to be China Sky Investments Limited, a company incorporated in the British Virgin Islands.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on page 23 to 57 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention as modified by the revaluation of leasehold properties and trading securities which are stated at fair value as disclosed in the accounting policies below.

Adoption of revised SSAP

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has no material effect on the results for the current and prior years. Accordingly, no prior year adjustment is required.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The consolidated financial statements also include the Group's share of post-acquisition results and reserves of its associates.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and any related accumulated foreign currency translation reserve.

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

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

(d) Associates

An associate is an enterprise, not being a subsidiary or a joint venture, in which the Group has significant influence.

The results of the associates are accounted for by the Group using the equity method of accounting. The Group's investments in associates are stated at its share of net assets. The Company's investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Group on the basis of dividends received and receivable.

An assessment of investment in associates is performed when there is an indication that the investment has been impaired or the impairment losses recognised in prior years no longer exist.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates except for unrealised losses, where the transaction provides evidence of an impairment of the asset transferred.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired as at the date of acquisition. In respect of subsidiaries, goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses.

In respect of acquisition of associates, goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of goodwill less accumulated amortisation and impairment losses is included in the carrying amount of the interests in associates.

(f) Property, plant and equipment

(i) Measurement bases

Property, plant and equipment other than leasehold properties are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the assets to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

(ii) Leasehold properties

Leasehold properties are interests in land and buildings and are stated at fair value which is determined by the Directors based on independent valuations which are performed every three years. The valuations are on an open market basis related to individual property and separate values are not attributed to land and buildings. In the intervening years, the Directors review the carrying value of the leasehold properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	2%
Buildings	8%
Leasehold improvements	25 – 33 $\frac{1}{3}$%
Motor vehicles	20%
Furniture, fixtures and office equipment	20 – 33 $\frac{1}{3}$%

Leasehold land is depreciated over the period of the lease. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Gain or loss on disposal

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between net disposal proceeds and the carrying amount of the assets, is included in the income statement. Any revaluation surplus relating to the assets under disposal is transferred to retained profits.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(h) Investments in securities

(i) Investment securities

Investment securities are securities which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated at cost less any provision for impairment losses.

Provisions against the carrying value of such securities are written back to income statement 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) Trading securities

Trading securities are securities which are held for trading purposes and are carried at fair value. Changes in fair value of trading securities are recognised in the income statement as they arise.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Investments in securities (continued)

(iii) Gain or loss on disposal

Gain or loss on disposal of investments in securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(i) Interest in unincorporated syndicates

During the year, the Group acquired 5% interest in two unincorporated syndicates engaging in junket operations at certain casino facilities. The investment is intended to be held on a continuing basis for an identified long-term purpose and is stated at cost less any provision for impairment losses.

(j) Inventories

Inventories comprise consumable stocks and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises invoiced value of goods and appropriate transportation cost. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(k) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(m) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For investment securities carried at cost, their carrying amounts are reviewed at the balance sheet date in order to assess whether the fair value of such securities has declined below the carrying amount. If such a decline occurs the carrying amount of the investment securities is reduced to the fair value unless there is evidence that the decline is temporary.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Impairment (continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. 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) Employee leave entitlements

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

Non-accumulating compensated absences such as sick leaves are not recognised until the time of leave.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Retirement benefits

The Group operates a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The retirement plans are generally funded by payments from employees and by the relevant Group companies.

The Group's contributions to the defined contribution plans are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(p) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

(q) Income tax

Income tax for the year comprises current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(r) Revenue recognition

Revenue from the sale of goods is recognised when the goods are delivered to customers.

Revenue from rendering of services is recognised when the services are performed. Amounts received from customers in respect of services which are not yet performed are not recognised as revenue but are recorded as deferred income in the balance sheet.

Interest income is recognised on a time proportion basis.

Commission income is recognised when the agreed services are provided.

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

Dividend income is recognised when the Group's right as a shareholder to receive payment is established.

(s) Borrowing costs

All borrowing costs are charged to the income statement in the year in which they are incurred.

(t) 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. No geographical segments are presented as less than 10% of the Group's turnover and trading results were generated from operation outside Hong Kong.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, loans receivable, inventories, trade and other receivables and operating cash, and mainly exclude investment and trading securities and non-operating cash. Segment liabilities comprise operating liabilities but exclude amount due to an associate. Capital expenditure comprises additions to goodwill and property, plant and equipment, including additions resulting from acquisition of subsidiary.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

	2003	2002
	HK$'000	HK$'000
Turnover		
Travel agency services	**33,559**	24,960
Health and beauty services	**21,838**	25,255
Interest income from money lending business	**2,820**	4,376
Brokerage and commission income	**368**	–
Sales of goods	**1,572**	2,565
	60,157	57,156
Other revenues		
Bank interest income	**251**	1,205
Management fee income	**78**	156
Licensing income	**–**	707
Dividend income from listed securities	**182**	111
Profit on sales of trading securities	**823**	–
Operating lease rental income	**856**	890
Other income	**361**	202
	2,551	3,271
Total revenues	**62,708**	60,427

Primary report format – business segments

The Group is organised into three main business segments:

Travel and entertainment	– provision of travel agency services in Hong Kong and investment in gaming related business in Macau
Health and beauty services	– provision of health and beauty services in Hong Kong
Money lending	– provision of commercial and personal loans in Hong Kong

Other operations of the Group mainly comprise trading of general merchandise and stock broking, neither of which are of a sufficient size to be reported separately.

There are no significant sales or other transactions between the business segments.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

Primary report format – business segments (continued)

2003	Travel and entertainment HK$'000	Health and beauty services HK$'000	Money lending HK$'000	Other operations HK$'000	Group HK$'000
Turnover	33,559	21,838	2,820	1,940	60,157
Segment results	(110)	(6,253)	2,539	(1,723)	(5,547)
Unallocated revenues					11,788
Unallocated costs					(12,406)
Loss from operations					(6,165)
Share of losses of associates					(60)
Loss before taxation					(6,225)
Taxation					–
Loss before minority interests					(6,225)
Minority interests					796
Loss attributable to shareholders					(5,429)
Segment assets	39,567	6,615	33,425	11,097	90,704
Unallocated assets					31,644
Total assets					122,348
Segment liabilities	(34,739)	(3,605)	(4,113)	(4,176)	(46,633)
Unallocated liabilities					(9,074)
Total liabilities					(55,707)
Segment capital expenditure	–	106	–	2,024	2,130
Unallocated capital expenditure					68
Total capital expenditure					2,198
Depreciation	34	1,080	–	70	1,184
Unallocated depreciation					2,013
Total depreciation					3,197
Amortisation of goodwill	–	1,927	–	600	2,527

3. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

Primary report format – business segments (continued)

2002	Travel and entertainment HK$'000	Health and beauty services HK$'000	Money lending HK$'000	Other operations HK$'000	Group HK$'000
Turnover	24,960	25,255	4,376	2,565	57,156
Segment results	190	(5,179)	700	(922)	(5,211)
Unallocated revenues					3,478
Unallocated costs					(17,055)
Loss from operations					(18,788)
Share of losses of associates					(2,394)
Loss before taxation					(21,182)
Taxation					–
Loss before minority interests					(21,182)
Minority interests					420
Loss attributable to shareholders					(20,762)
Segment assets	2,704	7,946	22,736	697	34,083
Unallocated assets					52,423
Total assets					86,506
Segment liabilities	(2,250)	(845)	(131)	(266)	(3,492)
Unallocated liabilities					(10,148)
Total liabilities					(13,640)
Segment capital expenditure	21	1,570	–	–	1,591
Unallocated capital expenditure					96
Total capital expenditure					1,687
Depreciation	31	1,311	–	–	1,342
Unallocated depreciation					2,104
Total depreciation					3,446
Amortisation of goodwill	–	2,263	–	–	2,263

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

4. LOSS FROM OPERATIONS

	2003 HK$'000	2002 HK$'000
Loss from operations is arrived at after crediting:		
Unrealised gains on trading securities	**225**	–
and after charging:		
Staff costs (including Directors' remuneration (note 9(a)) and contributions to retirement benefit schemes (note 8))	**12,015**	14,880
Amortisation of goodwill (note 10)	**2,527**	2,263
Impairment of goodwill	**–**	8
Depreciation of property, plant and equipment	**3,197**	3,446
Deficit arising from revaluation of leasehold property	**925**	–
Loss on disposal of property, plant and equipment	**57**	1,245
Impairment of investment securities	**–**	633
Unrealised losses on trading securities	**–**	2,455
Provision for doubtful loans	**–**	1,600
Bad debts written off	**–**	34
Operating lease charges – land and buildings	**7,630**	7,660
Auditors' remuneration	**540**	500

5. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not derive any assessable profit for the year (2002: Nil).

Reconciliation between tax expense and accounting loss at applicable tax rates:

	2003 HK$'000	2002 HK$'000
Loss before taxation	**6,225**	21,182
Tax at applicable rate of 17.5% (2002: 16%)	**1,089**	3,389
Tax effect of non-deductible expenses	**(984)**	(1,069)
Tax effect of non-taxable revenues	**1,763**	210
Utilisation of tax losses previously not recognised	**338**	196
Tax losses not recognised	**(1,746)**	(2,508)
Other temporary differences not recognised	**(460)**	(218)
Actual tax expense	**–**	–

At 31 December 2003, the Group had deferred tax assets of HK$28,748,000 (2002: HK$25,029,000) arising from tax losses. The deferred tax assets are not recognised as it is uncertain whether future taxable profit will be available for utilising the tax losses. Under the current tax legislation, the tax losses can be carried forward indefinitely.

6. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$1,536,000 (2002: HK$724,000).

7. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK$5,429,000 (2002: HK$20,762,000).

The basic loss per share is based on the weighted average of 2,064,960,000 (2002: 1,758,516,164) ordinary shares in issue during the year.

No diluted loss per share is presented as there was no dilutive potential ordinary shares in issue during the year.

8. RETIREMENT BENEFIT COSTS

The Group's mandatory provident fund ("MPF Scheme") contributions are at 5% of the employees' relevant income as defined in the Hong Kong Mandatory Provident Fund Scheme Ordinance up to a maximum of HK$1,000 per employee per month ("MPF Contribution"). Contribution for certain employees includes the aforesaid MPF Contribution of HK$1,000 per employee plus a corresponding amount of voluntary contribution made by the respective employee ("Voluntary Contribution") up to a maximum of HK$4,000 per employee. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK$5,000 per month. The Group's Voluntary Contributions may be reduced by the contribution forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK$63,198 (2002: HK$80,963) were utilised during the year and there was HK$10,951 (2002: HK$40,526) forfeited contributions to reduce future contributions at balance sheet date.

The MPF Contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

Total contributions paid by the Group into the MPF Scheme and charged to the consolidated income statement during the year amounted to approximately HK$645,000 (2002: HK$711,000).

Contributions totalling HK$57,575 (2002: HK$31,000) were payable to the MPF Scheme at the year end and are included in other payables and accruals.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

	2003	2002
	HK$'000	HK$'000
Executive Directors		
Fees	**–**	100
Basic salaries, housing allowances and other allowances	**971**	2,096
Discretionary bonuses	**–**	53
Retirement benefit costs	**39**	92
	1,010	2,341

The emoluments of the Directors fell within the following band:

	Number of Directors	
Emolument band	**2003**	2002
HK$ nil – HK$1,000,000	**6**	8

No remuneration was paid to the Independent Non-Executive Directors during the years ended 31 December 2003 and 2002.

None of the Directors waived emoluments in respect of the years ended 31 December 2003 and 2002.

During the years ended 31 December 2003 and 2002, no emoluments were paid by the Group to the Directors as an inducement to join the Group, or as compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2002: four) Director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2002: one) individuals during the year are as follows:

	2003	2002
	HK$'000	HK$'000
Basic salaries, housing allowances and other allowances	**1,581**	293
Retirement benefit costs	**55**	15
	1,636	308

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following band:

	Number of individuals	
Emolument band	**2003**	2002
HK$ nil – HK$1,000,000	**4**	1

10. GOODWILL

	Group	
	2003	2002
	HK$'000	HK$'000
As 1 January	**1,927**	4,187
Acquisition of remaining interest in subsidiaries	**–**	11
Acquisition of a subsidiary	**1,800**	–
Amortisation charge (note 4)	**(2,527)**	(2,263)
Impairment of goodwill	**–**	(8)
As 31 December	**1,200**	1,927

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold properties in Hong Kong	Leasehold improvements	Furniture, fixtures and office equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:				
At 1 January 2003	2,100	9,034	5,708	16,842
Additions	–	165	113	278
Disposals	–	(1,634)	(351)	(1,985)
Devaluation	(1,250)	–	–	(1,250)
Acquisition of a subsidiary	–	–	120	120
At 31 December 2003	**850**	**7,565**	**5,590**	**14,005**
Accumulated depreciation:				
At 1 January 2003	217	6,545	2,678	9,440
Charge for the year	108	1,808	1,281	3,197
Disposals	–	(1,634)	(284)	(1,918)
Devaluation	(325)	–	–	(325)
At 31 December 2003	**–**	**6,719**	**3,675**	**10,394**
Net book value:				
At 31 December 2003	**850**	**846**	**1,915**	**3,611**
At 31 December 2002	1,883	2,489	3,030	7,402

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

	HK$'000	HK$'000	HK$'000	HK$'000
At cost	–	7,565	5,590	13,155
At 2003 valuation	850	–	–	850
	850	**7,565**	**5,590**	**14,005**

The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:

	HK$'000	HK$'000	HK$'000	HK$'000
At cost	–	9,034	5,708	14,742
At 2000 valuation	2,100	–	–	2,100
	2,100	9,034	5,708	16,842

11. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) The leasehold property, located in Hong Kong with remaining term of lease unexpired between 10 to 50 years i.e. medium-term lease, is held for own use.

(b) The leasehold property was revalued on an open market value basis as at 31 January 2004 by BMI Appraisals Limited, an independent firm of chartered surveyors at HK$850,000. On 25 March 2004, the Group's subsidiary which owned the leasehold property was disposed of to a company in which a Director of the Company has equity interest. Cash consideration of HK$850,000 was received from such disposal. The Group regards the amount of HK$850,000 to be the fair value of the leasehold property as at 31 December 2003.

(c) The carrying amount of the leasehold property would have been HK$2,547,000 (2002: HK$2,676,000) had they been stated at cost less accumulated depreciation.

12. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	**86,218**	86,218
Less: provision for impairment	**(30,000)**	(30,000)
	56,218	56,218
Amounts due from subsidiaries	**153,442**	146,476
Less: provision for impairment	**(88,907)**	(88,907)
	64,535	57,569
Amounts due to subsidiaries	**–**	(761)
	120,753	113,026

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

12. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries at 31 December 2003 were as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Held directly:				
Century Legend Investments Limited	British Virgin Islands	Investment holding in Hong Kong	63,000 Ordinary shares of US$0.01 each	100%
Century Legend Management Limited (formerly known as "Fortei International Limited")	Hong Kong	Provision of properties management services in Hong Kong	1,000,000 Ordinary shares of HK$1 each	100%
Hong Kong Macau Travel and Entertainment Limited	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US$1 each	100%
Century Legend Nominees Limited	British Virgin Islands	Holding nominees shares for the Group in Hong Kong	1 Ordinary share of US$1 each	100%
Held indirectly:				
Century Legend Finance Limited	Hong Kong	Provision of commercial and personal loans in Hong Kong	10,000,000 Ordinary shares of HK$1 each	100%
Century Legend Securities Limited # (formerly known as "Coin Fall Limited")	Hong Kong	Stock broking in Hong Kong	6,000,000 Ordinary shares of HK$1 each	100%
Century Legend Strategic Investments Limited	Hong Kong	Investment holding in Hong Kong	10,000,000 Ordinary shares of HK$1 each; 5,000,000 Non-voting deferred shares* of HK$1 each	100%
Hong Kong Macau Trading Limited	Hong Kong	Trading of general merchandises in Hong Kong	100 Ordinary shares of HK$1 each	100%

12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Held indirectly:				
Century Legend International Limited (formerly known as "Fortei Limited")	Hong Kong	Property holding in Hong Kong	10,000 Ordinary shares of HK$1 each	100%
Hong Kong Macau Travel Limited	Hong Kong	Provision of travel agency services in Hong Kong	500,000 Ordinary shares of HK$1 each	100%
Hong Kong Macau Junket Investments Limited (formerly known as "Century Entertainment Investments Limited")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US$1 each	100%
Century Amusement Production Limited	Hong Kong	Inactive	10,000 Ordinary shares of HK$1 each	100%
SVC Investments Limited	British Virgin Islands	Investment holding in Hong Kong	100 Ordinary shares of US$1 each	100%
Spa D'or Limited	Hong Kong	Provision of health and beauty services in Hong Kong	10,000 Ordinary shares of HK$1 each	100%
Headquarters Limited	Hong Kong	Investment holding and operation of hair salon under the brand name of "Headquarters" in Hong Kong	150,000 Ordinary shares of HK$1 each	55%
Grand Mutual Investments Limited	Hong Kong	Operation of hair salon under the brand name of "Headquarters" in Hong Kong	500,000 Ordinary shares of HK$1 each	55%

* The Non-voting deferred shares practically carry no rights to dividends or to participate in any distribution in winding up. They carry no rights to receive notice of or to attend or vote at any general meeting.

\# On 7 January 2003, the Group acquired 100% equity interest in Century Legend Securities Limited ("CLSL"). The consideration of HK$7,800,000 was settled in cash. The fair value of the net identifiable assets of CLSL at the date of acquisition was HK$6,000,000, resulting in goodwill of HK$1,800,000. The revenue and operating loss of CLSL since the date of acquisition amounted to HK$368,000 and HK$550,000 respectively.

13. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK$'000	HK$'000
Share of net assets	**–**	–

Particulars of the associates at 31 December 2003 were as follows:

Name	Place of incorporation	Principal activities	Particulars of issued share held	Interest held indirectly
ISL Technologies Limited*	British Virgin Islands	Investment holding	25,600 Ordinary shares of US$1 each	32.8%
Integrated Solutions Limited*	Hong Kong	Software development, hardware trading and provision of maintenance services	27,750 Ordinary shares of HK$10 each	32.8%
Grand Macau International Development Limited	British Virgin Islands	Investment holding	2 Ordinary shares of US$1 each	50%

* The associates have a financial accounting period end of 31 March which is not coterminous with the Group.

14. INVESTMENTS

	Group	
	2003	2002
	HK$'000	HK$'000
Investment securities – listed equity securities in Hong Kong, at cost	**6,810**	6,810
Provision for impairment	**(6,774)**	(6,774)
	36	36
Interest in unincorporated syndicates, at cost *(Note)*	**11,645**	–
	11,681	36
Market value of listed equity securities	**196**	98

Note:

The Group's interest in unincorporated syndicates represents 5% interest in two unincorporated syndicates engaging in junket operations at certain casino facilities in Macau. The interest was acquired from a former shareholder of the Company for a consideration of US$1.5 million (equivalent to HK$11,645,000) on 19 November 2003. The casino facilities are owned and operated by an independent third party (the"casino operator") who, in accordance with prevailing market practice, has a verbal agreement with the two syndicates that:

(i) the two syndicates market and organise trips for the purpose of introducing customers to participate in the gaming activities at the casino facilities and provide other related services as appropriate;

(ii) the casino operator is responsible for providing the casino facilities and gaming activities and all associated costs; and

(iii) the two syndicates are entitled to the operating profit or loss generated from the gaming activities at those casino facilities at an agreed rate.

Upon the implementation of the Gaming Intermediaries Regulation of Macau (which was enacted in March 2002 but has not been implemented as at the date of approval of the financial stastements by the board of directors), a written agreement is expected to be entered into between the syndicates and the casino operator in compliance with the requirements of the Gaming Intermediaries Regulation of Macau. It is currently not known when the Gaming Intermediaries Regulation of Macau will be implemented. The Directors are confident that upon the implementation of the relevant laws of Macau, the syndicates will comply with all relevant laws and regulations that are in effect from time to time.

15. LOANS RECEIVABLE

	Group	
	2003	2002
	HK$'000	HK$'000
In respect of personal and commercial loans		
– secured (note (a))	**27,684**	15,559
– unsecured	**1,870**	3,967
Gross loans receivable (note (b))	**29,554**	19,526
Provision for doubtful loans	**(2,100)**	(2,100)
	27,454	17,426
Less: amounts due within one year	**(25,855)**	(17,097)
Amounts due after one year	**1,599**	329

Notes:

(a) The amount included a short term secured loan of HK$15,000,000 (the "Loan") granted to an individual (the "Borrower") who is independent to the Group. Out of the Loan, HK$5,000,000 was originally due for repayment in February 2002 and the remaining balance was repayable in July 2002. The repayment dates of the Loan were further extended to September 2003 according to a deed of loan dated 3 April 2003 while other terms of the Loan remained unchanged. In 2001, Century Legend Limited, the former ultimate holding company, issued a deed of guarantee in favour of the Group in respect of the Loan. Pursuant to the deed of guarantee, Century Legend Limited is responsible for repayment of the Loan if the Borrower defaults in repayment.

Apart from this, the amount included another secured loan of HK$8,000,000 which is secured by a cash deposit to the Group of HK$4,000,000 (included under Cash at Banks and in Hand as well as Other Payables and Accruals in the balance sheet of the Group).

(b) The repayment terms of the loans are negotiated on an individual basis. The maturity profile of loans receivable at the balance sheet date, which is analysed by the remaining periods to their contractual maturity dates, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
On demand	**16,994**	13
Three months or less	**9,073**	3,797
Below one year but over three months	**1,858**	15,379
One to three years	**1,629**	337
	29,554	19,526

16. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Consumable stocks, at cost	**314**	314

17. TRADING SECURITIES

	Group	
	2003	2002
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**4,154**	4,156

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (note (a))	**7,023**	914	**–**	–
Deposit for the acquisition of a subsidiary subsequent to year end date	**–**	7,800	**–**	–
Deposit for the acquisition of interest in certain business operations (note (b))	**20,000**	–	**–**	–
Other receivables and deposits	**3,327**	3,395	**555**	419
	30,350	12,109	**555**	419

Notes:

(a) The majority of the Group's turnover is on cash basis. The remaining balance of the turnover is on credit terms ranging from 30 to 60 days. At 31 December 2003, the ageing analysis of the trade receivables was as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
0-30 days	**4,834**	587
31-60 days	**425**	154
61-90 days	**285**	61
Over 91 days	**1,479**	112
	7,023	914

18. TRADE AND OTHER RECEIVABLES (continued)

(b) Pursuant to a Letter of Intent entered into between the Group and an independent third party (the "Vendor") on 11 December 2003, the Group paid a deposit of HK$20,000,000 to the Vendor for the potential investment of acquiring Vendor's 6.5% interest in the junket operation of a cruise (the "Deal"). The Deal was ultimately not completed and the amount of deposit was refunded to the Group subsequently after the year end.

19. TRADE PAYABLES

The ageing of trade payables of the Group was less than three months.

20. AMOUNT DUE TO AN ASSOCIATE

The amount due was unsecured, interest-free and had no fixed terms of repayment.

21. SHARE CAPITAL

	Ordinary shares of HK$0.01 each	
Authorised:	**No of shares**	**HK$'000**
At 31 December 2002 and 31 December 2003	**40,000,000,000**	**400,000**

	Ordinary shares of HK$0.01 each	
Issued and fully paid:	No of shares	HK$'000
At 1 January 2002	1,720,800,000	17,208
Issue upon a placement (note (a))	344,160,000	3,442
At 31 December 2002 and 31 December 2003	**2,064,960,000**	**20,650**

Notes:

(a) Pursuant to a share placement on 7 November 2002, the Company issued 344,160,000 ordinary shares with a nominal value of HK$0.01 each by way of placing at HK$0.0145 per share for a total cash consideration of HK$4,990,320 on 22 November 2002. As a result, approximately HK$1,549,000, net of share issue expenses of approximately HK$100,000, was credited to the share premium account (see note 22). The net proceeds would be used as general working capital of the Group. Such issued shares rank pari passu in all respects with the existing issued shares of the Company.

(b) Under the Company's share option scheme, the Directors may at their discretion grant options to Executive Directors and full time employees of the Company and its subsidiaries to subscribe for shares in the Company. The subscription price of the options shares is set at a price equal to the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the shares of the Company on the Stock Exchange of Hong Kong Limited in the five trading days immediately preceding the date of offer of the option. Options granted are exercisable within three years from the date of grant. Such share option scheme expired on 15 June 2003. There was no option outstanding or granted at any time during the years ended 31 December 2002 and 2003.

22. RESERVES

	Group			
	Share premium	Capital reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2003	40,098	146,189	(135,727)	50,560
Loss for the year	–	–	(5,429)	(5,429)
At 31 December 2003	**40,098**	**146,189**	**(141,156)**	**45,131**
Company and subsidiaries	40,098	146,189	(130,719)	55,568
Associates	–	–	(10,437)	(10,437)
At 31 December 2003	**40,098**	**146,189**	**(141,156)**	**45,131**
At 1 January 2002	38,649	146,189	(114,965)	69,873
Loss for the year	–	–	(20,762)	(20,762)
Issue of shares	1,549	–	–	1,549
Expenses for placement of shares	(100)	–	–	(100)
At 31 December 2002	40,098	146,189	(135,727)	50,560
Company and subsidiaries	40,098	146,189	(125,350)	60,937
Associates	–	–	(10,377)	(10,377)
At 31 December 2002	40,098	146,189	(135,727)	50,560

	Company			
	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2003	40,098	213,978	(130,946)	123,130
Loss for the year	–	–	(1,536)	(1,536)
At 31 December 2003	**40,098**	**213,978**	**(132,482)**	**121,594**
At 1 January 2002	38,649	213,978	(130,222)	122,405
Loss for the year	–	–	(724)	(724)
Issue of shares	1,549	–	–	1,549
Expenses for placement of shares	(100)	–	–	(100)
At 31 December 2002	40,098	213,978	(130,946)	123,130

22. RESERVES (continued)

Capital reserve of the Group represents:

(i) the difference between the nominal value of share capital issued by the Company and the nominal value of the share capital and the share premium accounts of those companies forming the Group pursuant to the group reorganisation in 1993; and

(ii) the reduction in issued share capital arising from the cancelling of paid up capital to the extent of HK$0.09 on each share of HK$0.1 in issue in 2001.

Contributed surplus of the Company represents:

(i) the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company at the time of the group reorganisation referred to above; and

(ii) the reduction in issued share capital arising from the cancelling of paid up capital to the extent of HK$0.09 on each share of HK$0.1 in issue in 2001.

Under the Bermuda Companies Act, the contributed surplus is distributable to shareholders under certain conditions.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operations to net cash inflow from operations

	Group	
	2003	2002
	HK$'000	HK$'000
Loss from operations	**(6,165)**	(18,788)
Depreciation charge	**3,197**	3,446
Amortisation of goodwill	**2,527**	2,263
Impairment of goodwill	**–**	8
Loss on disposal of property, plant and equipment	**57**	1,245
Deficit arising on revaluation of leasehold property	**925**	–
Provision for doubtful loans	**–**	1,600
Bad debt written off	**–**	34
Impairment of investment securities	**–**	633
Realised gains on disposal of trading securities	**(823)**	–
Unrealised (gains)/losses on trading securities	**(225)**	2,455
Gain on disposal of a subsidiary	**(9,583)**	–
Increase in inventories	**–**	(31)
(Increase)/Decrease in loans receivable	**(10,028)**	5,758
(Increase)/Decrease in trade and other receivables	**(17,713)**	17,680
Increase/(Decrease) in trade, other payables and accruals	**41,922**	(1,305)
Bank interest income	**(251)**	(1,205)
Dividend income	**(182)**	(111)
Net cash inflow from operations	**3,658**	13,682

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of a subsidiary

	2003 HK$'000	2002 HK$'000
Net assets acquired		
Property, plant and equipment	**120**	–
Trade and other receivables	**528**	–
Cash at banks and in hand	**5,405**	–
Trade, other payables and accruals	**(53)**	–
	6,000	–
Goodwill	**1,800**	–
	7,800	–
Satisfied by		
Cash	**7,800**	–

Analysis of the net outflow in respect of the acquisition of a subsidiary:

	2003 HK$'000	2002 HK$'000
Cash consideration	**7,800**	–
Cash at banks and in hand acquired	**(5,405)**	–
Net cash outflow	**2,395**	–

The subsidiary acquired during the year had no significant impact to the cash flows of the Group during the year.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of a subsidiary

	2003 HK$'000	2002 HK$'000
Net liabilities disposed of		
Trade, other payables and accruals	(23)	–
Gain on disposal*	9,638	–
Consideration	9,615	–
Satisfied by		
Cash	9,615	–
Net cash inflow	9,615	–

* Exclude associated legal and professional fee

The subsidiary disposed of during the year had no significant impact to the cash flows of the Group during the year or in prior year.

The revenue and operating loss of the subsidiary disposed of during the year up to date of disposal amounted to HK$nil and HK$9,000 respectively (2002: HK$707,000 and HK$230,000).

24. OPERATING LEASE COMMITMENTS

At 31 December 2003, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases were payable by the Group as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within one year	**2,642**	6,912
In the second to fifth year	**2,747**	802
	5,389	7,714

25. SUBSEQUENT EVENTS

The following events occurred subsequent to the balance sheet date:

(i) On 5 February 2004, the Group entered into an agreement with an independent third party to acquire from him a 10% interest in two unincorporated syndicates engaging in junket operations at certain casino facilities in Macau at a consideration of HK$23,400,000 (the "Acquisition"). The Acquisition is a further investment made by the Group to the two syndicates in which the Group invested on 19 November 2003 which is disclosed under note 14 to the financial statements. As a result of the Acquisition, the Group would in aggregate hold a total of 15% interest in each of the two unincorporated syndicates.

(ii) On 25 March 2004, a sale and purchase agreement (the "Agreement") was entered into between Century Legend Investments Limited and Century Legend Nominees Limited (the "Vendor"), the subsidiaries of the Company, and Conba Investments Limited (the "Purchaser"), in which one of the Directors of the Company has material equity interest. Pursuant to the Agreement, the Purchaser agreed to acquire the entire issued share capital of Century Legend International Limited (the "Disposal"), a wholly owned subsidiary holding properties in Hong Kong.

The Disposal was completed on 31 March 2004 and the consideration for the Disposal of HK$850,000 had been fully paid by the Purchaser upon completion of the Disposal.

(iii) On 15 January 2004, HKMJIL issued convertible notes of aggregate principal amount of HK$45,000,000 with maturity date on 14 January 2007. The convertible notes can be converted into ordinary shares of the Company at a conversion price of HK$0.3 per share (subject to adjustments from time to time in accordance with the provisions set out in the subscription agreement) during the period from 15 January 2005 to 14 January 2007. The total number of shares of the convertible notes will change with the change of conversion price of the convertible note from year to year. The net proceeds from the issue is for general working capital of the Group and other investment opportunities in the gaming and entertainment industry that the Group may identify from time to time in the future.

26. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 23 to 57 were approved by the Board of Directors on 23 April 2004.