1. GENERAL INFORMATION

The Company is incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in provision of travel agency services and gaming related services, health and beauty services, money lending business, provision of stock broking service, trading business and investments in gaming related business. Details of the principal activities of the Company's subsidiaries are set out in note 14. 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

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

(a) Basis of preparation

The financial statements on page 24 to 61 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements are prepared under the historical cost convention as modified by the revaluation of trading securities and leasehold properties.

(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.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds from the sale and the Group's share of its net assets together with any unamortised goodwill 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(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 impairment losses. The results of the 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 of the associates.

An assessment of investment in an associate is performed when there is an indication that the asset 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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Goodwill (continued)

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 interest 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.

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.

(ii) 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 – $33^1/_3$%
Furniture, fixtures and office equipment	20 – $33^1/_3$%

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

(iii) 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 provisions for impairment losses. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

(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.

(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 of the securities, is recognised in the income statement as the disposal occurs.

(i) Interest in unincorporated syndicates

Interest in unincorporated syndicates is intended to be held on a continuous basis for an identified long-term purpose and is stated at cost less provision for impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Inventories

Inventories comprise finished goods and 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 accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Impairment (continued)

(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.

(ii) Retirement benefits

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Retirement benefits (continued)

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 comprises current and deferred tax.

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) Borrowing costs

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

(s) 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.

(t) 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 by reference to the principal outstanding and the interest rate applicable.

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.

Investment return from unincorporated syndicates is recognised when the Group's right as a partner to receive payment is established.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(u) Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of goodwill, property, plant and equipment, loans receivable, inventories, trade and other receivables and operating cash, and mainly exclude investments, interest in associates, advance to investee company, trading securities and non-operating cash. Segment liabilities comprise operating liabilities and exclude items such as convertible notes. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisition of subsidiary.

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

(v) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

	2004 HK$'000	2003 HK$'000
Turnover		
Sale of traveling packages	**79,399**	33,559
Health and beauty services	**22,921**	21,838
Interest income from money lending business	**4,493**	2,820
Brokerage and commission income	**751**	368
Sale of goods	**1,027**	1,572
	108,591	60,157
Other revenue		
Bank interest income	**52**	251
Management fee income	**1,541**	78
Dividend income from listed securities	**140**	182
Investment return from unincorporated syndicates	**5,494**	–
Profit on disposals of listed securities	**1,550**	823
Operating lease rental income	**655**	856
Other income	**610**	361
	10,042	2,551
Total revenue	**118,633**	62,708

Primary reporting format – business segments

The Group is organised into five main business segments:

Travel and gaming related business	– provision of travel agency services in Hong Kong and gaming related services 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
Stock broking	– provision of stock broking services in Hong Kong
Trading	– trading of general merchandise in Hong Kong

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

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

2004	Travel and gaming related business HK$'000	Health and beauty services HK$'000	Money lending HK$'000	Stock broking HK$'000	Trading HK$'000	Group HK$'000
Segment revenue						
– Turnover	79,399	22,921	4,493	751	1,027	108,591
– Other revenue	1,611	412	2	119	1	2,145
Unallocated revenue/gain						7,897
						118,633
Segment results	155	(7,023)	3,999	(1,290)	(548)	(4,707)
Unallocated revenue/gain						7,917
Unallocated costs						(9,621)
Loss from operations						(6,411)
Finance costs						(1,275)
Share of profits of associates						7,430
Loss before taxation						(256)
Taxation						–
Loss before minority interests						(256)
Minority interests						2,776
Profit attributable to shareholders						2,520
Segment assets	6,342	9,685	25,189	16,415	743	58,374
Unallocated assets						82,363
Total assets						140,737
Segment liabilities	(381)	(6,560)	(107)	(7,519)	(90)	(14,657)
Unallocated liabilities						(57,779)
Total liabilities						(72,436)
Segment capital expenditure	47	4,122	–	–	–	4,169
Unallocated capital expenditure						67
Total capital expenditure						4,236
Depreciation	18	1,493	–	70	–	1,581
Unallocated depreciation						854
Total depreciation						2,435
Amortisation of goodwill	–	–	–	600	–	600
Unallocated amortisation of goodwill						157
Total amortisation of goodwill						757
Impairment of goodwill	–	1,916	–	–	–	1,916

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

2003	Travel and gaming related business HK$'000	Health and beauty services HK$'000	Money lending HK$'000	Stock broking HK$'000	Trading HK$'000	Group HK$'000
Segment revenue						
– Turnover	33,559	21,838	2,820	368	1,572	60,157
– Other revenue	106	207	3	3	26	345
Unallocated revenue/gain						2,206
						62,708
Segment results	260	(6,253)	2,539	(1,491)	(232)	(5,177)
Unallocated revenue/gain						11,788
Unallocated costs						(12,776)
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	2,984	6,615	33,425	10,356	740	54,120
Unallocated assets						68,228
Total assets						122,348
Segment liabilities	(2,439)	(3,605)	(4,113)	(4,158)	(18)	(14,333)
Unallocated liabilities						(41,374)
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

Unallocated revenue above includes investment return from interest in unincorporated syndicates (note 16(1)) of HK$5,494,000 (2003: Nil).

Secondary reporting format – geographical segments

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

4. LOSS FROM OPERATIONS

	2004 HK$'000	2003 HK$'000
Loss from operations is arrived at after crediting:		
Unrealised gains on trading securities*	69	225
and after charging:		
Staff costs (note 9)	15,414	15,204
Amortisation of goodwill*	757	2,527
Impairment of goodwill*	1,916	–
Cost of inventories sold	79,856	34,501
Depreciation of property, plant and equipment	2,435	3,197
Deficit arising from revaluation of leasehold property	–	925
Loss on disposal of property, plant and equipment	40	57
Operating lease charges – land and buildings	6,162	7,630
Auditors' remuneration	563	540
Exchange loss, net	19	137

* included in other operating expenses

5. FINANCE COSTS

	2004 HK$'000	2003 HK$'000
Interest charges on :		
Bank loan	6	–
Convertible notes (note 22)	1,269	–
	1,275	–

6. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not derive any assessable profit for the year (2003: Nil).

Reconciliation between tax expense and accounting loss at applicable tax rate is as follows:

	2004 HK$'000	2003 HK$'000
Loss before taxation	256	6,225
Tax at applicable rate of 17.5%	45	1,089
Tax effect of non-deductible expenses	(1,808)	(984)
Tax effect of non-taxable revenue	3,128	1,763
Utilisation of tax losses previously not recognised	682	338
Tax losses not recognised as deferred tax assets	(2,335)	(1,746)
Other temporary differences not recognised	288	(460)
Actual tax expense	–	–

At 31 December 2004, the Group had deferred tax assets of HK$30,165,000 (2003: HK$28,512,000) arising from tax losses. The deferred tax assets have not been 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.

7. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated profit attributable to shareholders of HK$2,520,000 (2003: loss of HK$5,429,000), a loss of HK$1,276,000 (2003: HK$1,536,000) has been dealt with in the financial statements of the Company.

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$2,520,000 (2003: loss of HK$5,429,000) and 2,064,960,000 (2003: 2,064,960,000) ordinary shares in issue during the year.

Diluted earnings per share for the year ended 31 December 2004 was not presented because the impact of the exercise of the convertible notes was anti-dilutive.

9. STAFF COSTS

	2004 HK$'000	2003 HK$'000
Directors' emoluments (note 11(a))	942	1,010
Other staff		
Wages and salaries	11,836	10,351
Commission	2,045	3,189
Retirement benefit costs	590	606
Others	1	48
	15,414	15,204

10. RETIREMENT BENEFITS

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 totaling HK$34,802 (2003: HK$63,198) were utilised during the year and there was no forfeited contribution available to reduce future contributions at the balance sheet date (2003: HK$10,951).

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, including contributions to the Directors, amounted to approximately HK$616,000 (2003: HK$645,000).

Contributions totalling HK$50,939 (2003: HK$57,575) were payable to the MPF Scheme at the year end and are included in other payables and accruals.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2004 HK$'000	2003 HK$'000
Fees	378	557
Other emoluments		
Basic salaries, allowances and benefits in kind	516	414
Discretionary bonuses	22	–
Retirement benefit costs	26	39
	942	1,010

The emoluments of the Directors fell within the following band:

	Number of Directors	
Emolument band	**2004**	2003
Nil – HK$1,000,000	7	6

No emolument was paid to the Independent Non-executive Directors during the years ended 31 December 2004 and 2003.

None of the Directors waived or has agreed to waive emoluments in respect of the years ended 31 December 2004 and 2003.

During the years ended 31 December 2004 and 2003, no emoluments were paid by the Group to the Directors as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2003: one) Director whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining four (2003: four) highest paid individuals during the year are as follows:

	2004 HK$'000	2003 HK$'000
Basic salaries, allowances and benefits in kind	1,630	1,581
Retirement benefit costs	75	55
	1,705	1,636

The emolument of each of the remaining four (2003: four) highest paid individuals fell within the emolument band of nil – HK$1,000,000.

12. GOODWILL

	Group	
	2004 HK$'000	2003 HK$'000
As 1 January	1,200	1,927
Acquisition of a subsidiary	1,916	1,800
Amortisation charge	(600)	(2,527)
Impairment of goodwill	(1,916)	–
As 31 December	600	1,200

During the year, the Group acquired further 45% equity interest in Grand Mutual Investment Limited and goodwill of HK$1,916,000 had arisen as a result of the acquisition. However, since the business nature of the subsidiary had changed during the year, the Directors consider that the goodwill was impaired and an impairment charge on the full amount of the goodwill was made at year end.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold properties in Hong Kong HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Total HK$'000
Cost or valuation				
At 1 January 2004	850	7,565	5,590	14,005
Additions	–	3,250	986	4,236
Disposal of a subsidiary	(850)	–	–	(850)
Other disposals	–	(2,671)	(1,104)	(3,775)
At 31 December 2004	**–**	**8,144**	**5,472**	**13,616**
Accumulated depreciation				
At 1 January 2004	–	6,719	3,675	10,394
Charge for the year	18	1,316	1,101	2,435
Disposal of a subsidiary	(18)	–	–	(18)
Other disposals	–	(2,661)	(1,070)	(3,731)
At 31 December 2004	**–**	**5,374**	**3,706**	**9,080**
Net book value				
At 31 December 2004	**–**	**2,770**	**1,766**	**4,536**
At 31 December 2003	850	846	1,915	3,611

14. INTEREST IN SUBSIDIARIES

	Company 2004 HK$'000	Company 2003 HK$'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	**150,806**	153,442
Less: provision for impairment	**(88,907)**	(88,907)
	61,899	64,535
	118,117	120,753

The amounts due from subsidiaries are unsecured, interest-free and not repayable within 12 months from the balance sheet date.

Particulars of the subsidiaries at 31 December 2004 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued capital	Percentage of issued capital held by the Company
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	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%

14. INTEREST IN SUBSIDIARIES (continued)

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued capital	Percentage of issued capital held by the Company
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	Hong Kong	Stock broking in Hong Kong	10,000,000 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 (note 1) 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%
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	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%

14. INTEREST IN SUBSIDIARIES (continued)

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued capital	Percentage of issued capital held by the Company
Held indirectly:				
Headquarters Limited	Hong Kong	Investment holding and operation of a hair salon under the brand name of "Headquarters" in Hong Kong	150,000 Ordinary shares of HK$1 each	55%
Grand Mutual Investment Limited	Hong Kong	Provision of management services for the Group in Hong Kong	500,000 Ordinary shares of HK$1 each	100%
Hong Kong Macau Travel Services Limited (formerly known as "Grand Macau International Development Limited") (note 2)	British Virgin Islands	Investment holding in Hong Kong	2 Ordinary shares of US$1 each	100%
Hong Kong Macau Marketing Limited (note 3)	Macau	Provision of marketing and public relation services in Macau	MOP100,000	100%

Notes:

(1) 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.

(2) The Group held 50% equity in Grand Macau International Development Limited ("GMID") as at 31 December 2003. During the year ended 31 December 2004, the Group acquired from the other shareholder (the "Partner") of GMID his 50% interest in GMID at a consideration of HK$7.8 (the "Acquisition"). The profit of GMID during the year before the Acquisition was approximately HK$14,258,000 which arose from the write back of a shareholder loan from the Partner. Accordingly, the Group's share of profit of GMID before the Acquisition for the year of approximately HK$7,129,000 is included in share of associates' profits in the consolidated income statement.

(3) This company was newly incorporated during the year.

The aggregate net assets of subsidiaries not audited by Grant Thornton amounted to approximately 6% of the Group's total assets.

15. INTEREST IN ASSOCIATES

	Group 2004 HK$'000	2003 HK$'000
Share of net assets	**5,590**	–
Goodwill	**9,253**	–
	14,843	–

The amount of goodwill above comprises:

	2004 HK$'000	2003 HK$'000
Arising from acquisition of an associate during the year	**9,410**	–
Amortisation charge for the year since acquisition	**(157)**	–
At 31 December	**9,253**	–

Particulars of the associates at 31 December 2004 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued capital	Percentage of interest held by the Company
ISL Technologies Limited (note 1, 2)	British Virgin Islands	Investment holding in British Virgin Islands	25,600 Ordinary shares of US$1 each	32.8%
Integrated Solutions Limited (note 1, 2)	Hong Kong	Software development, hardware trading and provision of maintenance services in Hong Kong	27,750 Ordinary shares of HK$10 each	32.8%
Prime Glory Treasure Limited ("Prime Glory") (note 3)	British Virgin Islands	Investment holding in British Virgin Islands	43 ordinary shares of US$1 each	43%

Notes:

(1) The associate has a financial accounting period end of 31 March which is not coterminous with the Group.

(2) The associate has incurred significant losses and the Group has taken up its share of the losses up to the carrying value of its investment in the associate as the Group has no obligation to share further losses of the associate exceeding the carrying amount of its investment in the associate. Accordingly, the Group's interest in the associate was stated at nil value at 31 December 2004.

(3) On 14 September 2004, the Group entered into an agreement with a third party to acquire from the third party 43% of the issued share capital of Prime Glory at the consideration of HK$15,000,000. The only asset of Prime Glory is a contribution to a gaming intermediary which is the sole agent for introducing customers to the operator of a casino in a cruiser (the "Operation") for an entitlement to share certain net profits generated from the Operation.

16. INVESTMENTS

	Group	
	2004	2003
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at cost	**469**	6,810
Provision for impairment	**(467)**	(6,774)
	2	36
Interest in unincorporated syndicates, at cost (note 1)	**35,045**	11,645
Unlisted equity securities, at cost (note 2)	**–**	–
	35,047	11,681
Market value of listed equity securities	**39**	196

Notes :

(1) The Group's interest in unincorporated syndicates represents 15% (2003: 5%) interest in each of the two unincorporated syndicates engaging in gaming intermediary activities at certain casino facilities in Macau. 5% interest in each of the two unincorporated syndicates was acquired from a former shareholder of the Company at the consideration of US$1.5 million (equivalent to HK$11,645,000) on 19 November 2003 and the remaining 10% interest in each of the two unincorporated syndicates was acquired from an independent third party at the consideration of HK$23,400,000 on 4 February 2004. 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.

In December 2004, China Sky Investments Limited ("China Sky"), the ultimate holding company, acquired 85% interest in each of the two unincorporated syndicates from the then syndicate partners of the Company. China Sky is beneficially interested in 52.2% issued share capital of the Company as at 31 December 2004.

(2) The balance as at 31 December 2004 represents the cost of investment in Diamond (Subic) Entertainment Limited ("DSE") amounting to US$1 (equivalent to HK$7.8). DSE is a company incorporated in the British Virgin Islands. Pursuant to the agreement signed by the Group and DSE, the Group has made an advance to DSE during the year which amounted to HK$4,000,000. The advance is unsecured, interest-free and not repayable within 12 months from the balance sheet date.

17. LOANS RECEIVABLE

	Group	
	2004	2003
	HK$'000	HK$'000
In respect of personal and commercial loans		
– secured (note (a))	**11,278**	27,684
– unsecured	**12,777**	1,870
Gross loans receivable (note (b))	**24,055**	29,554
Provision for doubtful loans	**(2,100)**	(2,100)
	21,955	27,454
Less: amounts due within one year	**(21,276)**	(25,855)
Amounts due after one year	**679**	1,599

Notes:

(a) The amount included a short term secured loan of HK$10,357,000 (the "Loan") granted to an individual (the "Borrower") who is independent to the Group. According to a deed of loan dated 3 April 2003, the Loan has to be repaid in September 2003. 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.

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

	Group	
	2004	2003
	HK$'000	HK$'000
On demand	**22,039**	16,994
Three months or less	**254**	9,073
Over three months but below one year	**1,068**	1,858
One to four years	**694**	1,629
	24,055	29,554

18. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Finished goods, at cost	**145**	–
Consumable stocks, at cost	**301**	314
	446	314

19. TRADING SECURITIES

	Group	
	2004	2003
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**105**	4,154

20. TRADE AND OTHER RECEIVABLES

	Group	
	2004	2003
	HK$'000	HK$'000
Trade receivables (note)	**8,892**	7,023
Deposit for the acquisition of interest in certain business operations	**–**	20,000
Other receivables and deposits	**3,531**	3,327
	12,423	30,350

Note:

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. As at 31 December 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
0-30 days	**7,653**	4,834
31-60 days	**488**	425
61-90 days	**123**	285
Over 91 days	**628**	1,479
	8,892	7,023

21. TRADE PAYABLES

As at 31 December 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
0-30 days	**7,768**	6,573
31-60 days	**137**	–
61-90 days	**1**	–
Over 91 days	**34**	–
	7,940	6,573

22. CONVERTIBLE NOTES

On 15 January 2004, the Group issued convertible notes of aggregate principal amount of HK$45,000,000 with maturity date on 14 January 2007, which are interest-bearing at 3% per annum. 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 are 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.

On 2 September 2004, an agreement was entered into between a note holder and the Group for early redemption of a convertible note with principal amount of HK$3,000,000. The redemption constitutes an amendment to the terms and conditions of the convertible note; however, the Group has given consent to the early redemption as the Directors considered that the redemption amount would not have material impact on the financial position and cash flow of the Group.

23. SHARE CAPITAL

	Ordinary shares of HK$ 0.01 each	
	No of shares	**HK$'000**
Authorised:		
At 31 December 2003 and **31 December 2004**	**40,000,000,000**	**400,000**
Issued and fully paid:		
At 31 December 2003 and **31 December 2004**	**2,064,960,000**	**20,650**

24. RESERVES

	Group			
	Share premium HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	40,098	146,189	(141,156)	45,131
Profit for the year	–	–	2,520	2,520
At 31 December 2004	**40,098**	**146,189**	**(138,636)**	**47,651**
Company and subsidiaries	40,098	146,189	(135,629)	50,658
Associates	–	–	(3,007)	(3,007)
At 31 December 2004	**40,098**	**146,189**	**(138,636)**	**47,651**
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

	Company			
	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	40,098	213,978	(132,482)	121,594
Loss for the year	–	–	(1,276)	(1,276)
At 31 December 2004	**40,098**	**213,978**	**(133,758)**	**120,318**
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

24. 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.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary

	2004 HK$'000	2003 HK$'000
Net assets/(liabilities) disposed of		
Property, plant and equipment	**832**	–
Trade, other payables and accruals	**(2)**	(23)
	830	(23)
Gain on disposal	**20**	9,638
Consideration	**850**	9,615
Satisfied by		
Cash	**850**	9,615
Net cash inflow	**850**	9,615

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.

(b) Major non-cash transaction

As at 31 December 2003, an amount of HK$32,000,000 was received in respect of the issue of convertible notes and included under "Other payables and accruals". The issue of the convertible notes was completed on 15 January 2004 and the Group had received the remaining amount of principal of HK$13,000,000 subsequent to year end.

26. OPERATING LEASE COMMITMENTS

At 31 December 2004, 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	
	2004	2003
	HK$'000	HK$'000
Within one year	**6,238**	2,642
In the second to the fifth year	**7,580**	2,747
	13,818	5,389

The Company had no operating lease commitment as at 31 December 2004 (2003: Nil).

27. SUBSEQUENT EVENTS

The following events occurred subsequent to the balance sheet date:

(i) On 11 January 2005, the Group and China Sky entered into an agreement to form two companies (the "Two Companies") for the purpose of applying for a gaming intermediaries licence which is required under the Gaming Intermediaries Regulation of Macau for carrying out gaming intermediary operation in Macau. The Two Companies have been set up with registered paid up capital of MOP100,000 each. The Group and China Sky own 15% and 85%, respectively, of the paid up capital of each of the Two Companies.

After obtaining the gaming intermediaries licence and when the conditions set forth in the agreement are being fulfilled, the Group and China Sky are obliged to make loan or loans in the sum or in the aggregate sum of not exceeding HK$99,900,000 to each of the Two Companies in proportion to the Group's and China Sky's shareholdings in the Two Companies. On this basis, the Group shall make loan or loans in the sum or in the aggregate sum of not exceeding HK$14,985,000 to each of the Two Companies.

(ii) On 24 January 2005, 139,999,994 ordinary shares were issued by the Company pursuant to the conversion by the independent holders of all of the then outstanding convertible notes issued by a wholly owned subsidiary of the Company at a conversion price of HK$0.3 per share.

27. SUBSEQUENT EVENTS (continued)

(iii) On 9 April 2005, a company (the "JV") which is 50% owned by the Group and 50% beneficially owned by China Sky entered into a legally binding memorandum of terms (the "MOT") with an independent third party (the "Vendor") and under the MOT, the JV and the Vendor shall enter into an option agreement (the "Option Agreement") whereby the JV will be granted a call option (the "Call Option") to acquire 100% equity interest in an investment holding company which beneficially holds a hotel ("Target") and the right to manage the hotel business of the Target ("Hotel Management Right").

Under the terms of the MOT, upon exercise of the Call Option by the JV, the Vendor is required to sell all its beneficiary interest in the Target at a consideration of HK$540,000,000 plus an amount calculated according to a formula as stipulated in the MOT. Upon completion of the Option Agreement, the JV shall pay to the Vendor a sum of HK$4,000,000. Thereafter, the JV shall pay a monthly sum of HK$5,400,000 in arrears commencing from the date of the MOT until expiry of the Call Option or completion or revocation or surrender, as appropriate, of the Call Option. Unless otherwise revoked or surrendered, the Call Option will be valid for a period of one year from the date of the MOT.

Subject to completion of the Option Agreement, in respect of Hotel Management Right, during the option period, the JV shall be allowed to manage the hotel business of the Target and in return, the JV shall be entitled to receipts and liable for payments arising from the management of the hotel business. The arrangement to manage the hotel business by the JV shall be terminated automatically upon expiry or completion of the Call Option.

The MOT and the Option Agreement are subject to a number of conditions including the result of the due diligence on the Target is to the satisfaction of the relevant party and the approval from the independent shareholders of the Company can be obtained. If any of the above conditions is not satisfied, a subsidiary of China Sky shall assume all the rights and obligations of the JV.

28. COMPARATIVE FIGURES

The comparative figures of certain income statement and cash flow statement items and of the segment information have been reclassified to conform with the current year's presentation and to comply with the requirements under Statement of Standard Accounting Practice 26 "Segment reporting" in the current year respectively.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 24 to 61 were approved by the Board of Directors on 16 April 2005.