



Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Website : <http://www.melco.hk.cn>

(Stock code: 200)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (Restated)
Revenue	4	600,640	408,076
Other income		1,422	7,164
Investment income (loss)		3,407	(1,175)
Cost of inventories sold		(182,533)	(157,183)
Employee benefits expense		(137,762)	(112,555)
Depreciation of property, plant and equipment		(35,322)	(17,683)
Amortisation of intangible assets		(507)	(507)
Commission expenses		(38,826)	(50,607)
Gain on disposal of investment properties		–	57,176
Gain on deemed disposal of partial interests in subsidiaries	5	514,407	–
Increase in fair value of investment properties		8,000	–
Other operating expenses		(140,943)	(61,809)
Finance costs		(31,747)	(4,199)
Share of profit of jointly controlled entities		2,234	–
Profit before tax		562,470	66,698
Income tax expense	6	(6,010)	(2,490)
Profit for the year		<u>556,460</u>	<u>64,208</u>
Attributable to:			
Equity holders of the Company		548,718	59,722
Minority interests		7,742	4,486
		<u>556,460</u>	<u>64,208</u>
Dividend paid	7	<u>16,168</u>	<u>3,776</u>
Earnings per share	8		
Basic		<u>HK52.19 cents</u>	<u>HK9.19 cents</u>
Diluted		<u>HK47.34 cents</u>	<u>HK8.50 cents</u>

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (Restated)
Non-current assets			
Investment properties		85,000	77,000
Property, plant and equipment		256,151	127,174
Hotels and entertainment complex under development	9	1,881,824	–
Prepaid lease payments		36,394	–
Deposit for land use right		48,590	–
Goodwill		351,470	389,937
Trading rights		2,279	2,786
Interests in jointly controlled entities		2,234	100,000
Investment securities		–	27,754
Available-for-sale investments		20,517	–
Other intangible assets		2,547	547
Long term deposits		8,074	14,780
Deferred tax assets		1,495	–
		<u>2,696,575</u>	<u>739,978</u>

	NOTES	2005 HK\$'000	2004 HK\$'000 (Restated)
Current assets			
Trade receivables	10	399,727	337,014
Prepayments, deposits and other receivables		45,177	40,919
Inventories		34,656	3,768
Prepaid lease payments		4,646	–
Investment in convertible loan notes		4,000	–
Other investments		–	40,641
Held-for-trading investments		45,002	–
Amount due from a jointly controlled entity		19	25,145
Amounts due from related companies		948	1,119
Certificate of deposit		–	1,100
Pledged bank deposits		270	177
Bank balances and cash		2,350,284	394,966
		<u>2,884,729</u>	<u>844,849</u>
Current liabilities			
Trade payables	11	103,936	60,462
Other payables		105,700	35,153
Amount due to a minority shareholder		9,104	–
Amount due to a jointly controlled entity		9	–
Amounts due to related companies		6,051	–
Taxation payable		8,594	1,888
Bank borrowing – due within one year		28,000	15,000
Convertible loan notes – due within one year	12	–	22,500
Obligation under finance lease		21	817
Shareholder's loan		45,085	23,158
		<u>306,500</u>	<u>158,978</u>
Net current assets		<u>2,578,229</u>	<u>685,871</u>
Total assets less current liabilities		<u>5,274,804</u>	<u>1,425,849</u>
Non-current liabilities			
Deferred tax liabilities		49,847	2,256
Convertible loan notes – due after one year	12	1,037,163	118,126
Obligation under finance lease – due after one year		63	–
		<u>1,087,073</u>	<u>120,382</u>
		<u>4,187,731</u>	<u>1,305,467</u>
Capital and reserves			
Share capital		562,919	463,244
Reserves		2,995,266	766,607
Equity attributable to equity holders of the Company		3,558,185	1,229,851
Minority interests		629,546	75,616
		<u>4,187,731</u>	<u>1,305,467</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is at 38/F., The Centrium, 60 Wyndham Street, Central, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are divided into four divisions, namely (i) Leisure, Gaming and Entertainment Division; (ii) Investment Banking and Financial Services Division; (iii) Technology Division; and (iv) Property and Other Investments Division.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 Business Combination, HKAS 36 Impairment of Assets and HK38 Intangible Assets where the Group has early adopted in previous year. The application of the other new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the HKFRS 2 “Share-based Payments”, HKAS 32 “Financial Instruments: Disclosure and Presentation”, HKAS 39 “Financial Instruments: Recognition and Measurement”, HKAS 17 “Leases”, HKAS 40 “Investment Property” and HKAS Interpretation 21 “Income Taxes – Recovery of Revalued Non-Depreciable Assets” has resulted in changes to the Group’s accounting policies that have an effect on how the results for the current and prior accounting years are prepared and presented.

SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 HK\$'000	2004 HK\$'000
Recognition of share-based payments as expenses	(5,350)	(5,435)
Increase in fair value of investment properties	8,000	–
Increase in effective interest expense on the liability component of convertible loan notes	(19,249)	–
	<u>(16,599)</u>	<u>(5,435)</u>
Decrease in profit for the year	<u>(16,599)</u>	<u>(5,435)</u>

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 December 2004 (restated) HK\$'000	Adjustment HK\$'000	As at 1 January 2005 (restated) HK\$'000
Balance sheet items					
Investment securities	27,754	–	27,754	(27,754)	–
Available-for-sale investments	–	–	–	27,754	27,754
Other investments	40,641	–	40,641	(40,641)	–
Held-for-trading investments	–	–	–	40,641	40,641
Convertible loan notes – due after one year	(122,500)	4,374	(118,126)	–	(118,126)
Total effects on assets and liabilities	<u>(54,105)</u>	<u>4,374</u>	<u>(49,731)</u>	<u>–</u>	<u>(49,731)</u>
	As at 31 December 2004 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 December 2004 (restated) HK\$'000	Adjustment HK\$'000	As at 1 January 2005 (restated) HK\$'000
Accumulated losses	(186,782)	(5,435)	(192,217)	26,772	(165,445)
Share options reserve	–	5,435	5,435	–	5,435
Convertible loan notes equity reserve	–	4,374	4,374	–	4,374
Investment properties revaluation reserve	26,772	–	26,772	(26,772)	–
Minority interests	–	75,616	75,616	–	75,616
Total effects on equity	<u>(160,010)</u>	<u>79,990</u>	<u>(80,020)</u>	<u>–</u>	<u>(80,020)</u>
Minority interests	<u>75,616</u>	<u>(75,616)</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ³
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

4. REVENUE/BUSINESS AND GEOGRAPHICAL SEGMENTS INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions including (i) Leisure, Gaming and Entertainment, (ii) Technology, (iii) Investment Banking and Financial Services, and (iv) Property and Other Investments. These divisions are the basis on which the Group reports its primary segment information.

The Leisure, Gaming and Entertainment Segment, which mainly comprises (a) management of electronic gaming machine lounge in Macau (b) provision of catering services, and (c) hotels and entertainment complex operation.

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

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

The Property and Other Investments Segment, which mainly comprises property investments, other investments and related activities.

Intersegment sales are charged at terms agreed by both parties.

Segment information about these businesses is presented below:

2005

	Leisure, Gaming and Entertainment HK\$'000	Technology HK\$'000	Investment Banking and Financial Services HK\$'000	Property and Other Investments HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
External sales	241,875	197,459	115,086	46,220	-	600,640
Inter-segment sales	1,057	122,477	900	30,853	(155,287)	-
Total revenue	<u>242,932</u>	<u>319,936</u>	<u>115,986</u>	<u>77,073</u>	<u>(155,287)</u>	<u>600,640</u>
Segment result	<u>539,655</u>	<u>33,766</u>	<u>12,877</u>	<u>56,442</u>	<u>(11,871)</u>	630,869
Unallocated corporate expenses						(38,886)
Finance costs						(31,747)
Share of profit of joint controlled entities	2,234	-	-	-	-	2,234
Profit before tax						562,470
Income tax expense						(6,010)
Profit for the year						<u>556,460</u>

Inter-segment sales are charged at terms agreed by both parties.

	Leisure, Gaming and Entertainment HK\$'000	Technology HK\$'000	Investment Banking and Financial Services HK\$'000	Property and Other Investments HK\$'000	Consolidated HK\$'000
BALANCE SHEET					
Assets					
Segment assets	2,702,646	132,879	416,527	2,196,793	5,448,845
Interests in jointly controlled entities	2,234	-	-	-	2,234
Unallocated corporate assets					130,225
Consolidated total assets					<u>5,581,304</u>
Liabilities					
Segment liabilities	86,383	88,378	64,076	238	239,075
Unallocated corporate liabilities					1,154,498
Consolidated total liabilities					<u>1,393,573</u>
OTHER INFORMATION					
Capital additions	2,039,933	2,769	806	50,703	2,094,211
Depreciation	29,846	903	2,627	1,946	35,322
Amortisation of trading rights	-	-	507	-	507
Amortisation of prepaid lease payment	-	-	-	1,936	1,936
Loss on disposal of property, plant and equipment	(214)	-	(267)	(19)	(500)
Allowance for doubtful debt, net	63	(231)	2,711	(1,490)	1,053
Impairment loss on available-for-sale investments	-	-	120	-	120

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External sales	123,007	154,799	126,404	3,866	–	408,076
Inter-segment sales	424	14,641	2,230	–	(17,295)	–
Total revenue	<u>123,431</u>	<u>169,440</u>	<u>128,634</u>	<u>3,866</u>	<u>(17,295)</u>	<u>408,076</u>
Segment result	<u>5,636</u>	<u>16,050</u>	<u>14,783</u>	<u>65,334</u>	<u>(1,546)</u>	<u>100,257</u>
Unallocated corporate expenses						(29,360)
Finance costs						(4,199)
Profit before tax						66,698
Income tax expense						(2,490)
Profit for the year						<u>64,208</u>

Inter-segment sales are charged at terms agreed by both parties.

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
BALANCE SHEET					
Assets					
Segment assets	598,842	57,226	433,372	290,633	1,380,073
Interest in a jointly controlled entity	100,000	–	–	–	100,000
Unallocated corporate assets					104,754
Consolidated total assets					<u>1,584,827</u>
Liabilities					
Segment liabilities	24,325	22,497	62,675	1,935	111,432
Unallocated corporate liabilities					167,928
Consolidated total liabilities					<u>279,360</u>
	Leisure, gaming and entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment banking and financial services <i>HK\$'000</i>	Property and other investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION					
Capital additions	114,520	422	669	1,098	116,709
Depreciation	11,519	591	4,390	1,183	17,683
Amortisation of trading rights	–	–	507	–	507
Allowance for doubtful debt, net	–	323	1,587	–	1,910
Reversal of impairment of investment securities	–	–	–	(3,117)	(3,117)

(b) Geographical segments

The Leisure, Gaming and Entertainment, Technology, Investment Banking and Financial Services and Property and Other Investments Divisions have offices located in the People's Republic of China ("PRC"), Macau and Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods or services.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	279,906	209,327
Macau	320,734	198,486
The PRC	–	263
	<u>600,640</u>	<u>408,076</u>

Segment

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, hotels and entertainment complex under development and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, hotels and entertainment complex under development and intangible assets	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	2,699,829	1,264,058	5,644	23,551
Macau	2,880,582	318,436	2,088,530	92,195
The PRC	893	2,333	37	963
	<u>5,581,304</u>	<u>1,584,827</u>	<u>2,094,211</u>	<u>116,709</u>

5. GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

On 11 November 2004, the Company entered into a Heads of Agreement (“Heads of Agreement”) with Publishing and Broadcasting Limited (“PBL”) and PBL Asia Investments Limited (“PBL Asia”), a wholly-owned subsidiary of PBL, to establish a joint venture group for pursuance of gaming and hospitality business (“JV Group”) led by Melco PBL Holdings Limited (“Melco PBL Holdings”), a 50/50 joint venture of the Company and PBL. The Heads of Agreement was superseded by a Subscription Agreement (“Subscription Agreement”) entered into between the parties on 23 December 2004.

Pursuant to the Subscription Agreement, the Company contributed its 80% interests of Mocha Slot Group Limited (“Mocha Slot”) and 70% interests of Great Wonders, Investments, Limited (“Great Wonders”) to Melco PBL Entertainment (Greater China) Limited (formerly named as Melco Entertainment Limited) (“Melco PBL Entertainment”), which is a company owned as to 80% indirectly by Melco PBL Holdings and 20% indirectly by the Company, while PBL contributed HK\$1.27 billion (equivalent to US\$163 million) cash to Melco PBL Entertainment. In addition, a shareholder agreement was entered into between the Company and PBL upon the completion of the Subscription Agreement whereas 50.8% interests of Melco Hotels and Resorts (Macau) Limited (“Melco Hotels”) was also contributed by the Company to Melco PBL Entertainment.

As a result of the arrangement, the Company effectively holds 60% interests of Melco PBL Entertainment and controls the majority of the board of directors of Melco PBL Entertainment. Since its inception, Melco PBL Entertainment has been designated as the principal investment vehicle for all existing and future expansion and acquisition activities, if any, in the gaming and hospitality businesses in the Greater China region including Macau. The Subscription Agreement was completed on 8 March 2005.

As a result of the above arrangements, the Group’s effective equity interests in Mocha Slot, Great Wonders and Melco Hotels were decreased from 80%, 70% and 50.8%, respectively, to 48%, 42% and 30.5%, respectively, the Group then recognised a gain on deemed disposal of partial interests in subsidiaries of approximately HK\$514,431,000 (2004: Nil) during the year ended 31 December 2005 accordingly.

In addition, certain share options of a subsidiary of the Company are exercised by the share option holders, who are minority shareholders of the subsidiary. As a result of exercise of share options, the Group then recognised a loss on deemed disposal of partial interest in the subsidiary of approximately HK\$24,000 (2004: Nil) during the year ended 31 December 2005.

6. INCOME TAX EXPENSE

	2005 HK\$'000	2004 HK\$'000
Current tax:		
– Hong Kong	224	1,668
– Other jurisdictions	8,151	–
	<u>8,375</u>	<u>1,668</u>
(Over)underprovision in prior years:		
– Hong Kong	91	(848)
– Other jurisdictions	(552)	–
	<u>(461)</u>	<u>(848)</u>
Deferred taxation		
– Current	(1,364)	1,670
– Attributable to a change in tax rate	(540)	–
	<u>(1,904)</u>	<u>1,670</u>
	<u>6,010</u>	<u>2,490</u>

7. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim dividend paid: HK1 cent (2004: HK0.5 cent) per share (note)	11,258	3,776
2004 final dividend proposed: HK0.5 cent (2003: nil) per share	4,910	–
	<u>16,168</u>	<u>3,776</u>

On 31 March 2006, the directors propose that final dividend of HK1 cent per share will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting. The proposed dividend for 2005 is payable to all shareholders whose names are on the Register of Members as at 17 May 2006.

Note: The dividend per share data has been adjusted for the share subdivision on 19 May 2005.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2005 HK\$'000	2004 HK\$'000 (restated)
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the Company)	548,718	59,722
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	24,897	838
Adjustments to the share of results of a subsidiary based on potential dilution of its earnings per share	(8,046)	–
Earnings for the purpose of diluted earnings per share	<u>565,569</u>	<u>60,560</u>
	2005 '000	2004 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,051,429	649,710
Effect of dilutive potential ordinary shares:		
Share options	28,312	40,942
Convertible loan notes	114,945	22,085
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,194,686</u>	<u>712,737</u>

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share has been adjusted for the share subdivision on 19 May 2005.

The following table summarises the impact on basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005 cents	2004 cents	2005 cents	2004 cents
Figures before adjustments	107.54	20.06	97.46	18.52
Adjustments arising from changes in accounting policies (see note 2)	(3.16)	(1.68)	(2.78)	(1.52)
Adjustments arising from share subdivision on 19 May 2005	(52.19)	(9.19)	(47.34)	(8.50)
	<u>52.19</u>	<u>9.19</u>	<u>47.34</u>	<u>8.50</u>

9. HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT

	HK\$'000
Interest in a piece of land arised on acquisition of a subsidiary	400,000
Acquisition of additional interest in another piece of land (note)	1,175,000
	1,575,000
Amortisation of interests in lands	(31,650)
Capitalisation of amortisation of interests in lands	31,650
Other construction costs	306,824
At 31 December 2005	<u>1,881,824</u>

The hotel and entertainment complex under development represents leasehold interests in various lands in Macau and construction cost incurred. Additional payments to the Macau government are required when the lands are officially granted by the Macau Government and the respective lease term are finalised.

Note: Pursuant to an agreement signed on 11 May 2005, Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Company, acquired from Great Respect Limited, a company controlled by a discretionary family trust of a director and substantial shareholder of the Company, Dr. Stanley Ho, the remaining 49.2% interest in a piece of land located at Taipa on the Cotai Strip in Macau at a consideration of HK\$1,175,000,000, subject to certain conditions precedents from Great Respect Limited. Upon receipt of the cash consideration, Great Respect Limited then subscribed for the Company's convertible notes having a principal amount of HK\$1,175,000,000, which is non-interest bearing and convertible into shares of the Company at a conversion price of HK\$9.965 per share, after adjustment for the share subdivision on 19 May 2005. The Macau Government had on 21 April 2005 offered to Melco Hotels a medium term lease in respect of the land for development of an integrated entertainment resort.

10. TRADE RECEIVABLES

	2005 HK\$'000	2004 HK\$'000
Trade receivables (excluding receivables balance arising from margin clients' securities transactions)	221,790	171,681
Allowance for doubtful receivables	–	(323)
	<u>221,790</u>	<u>171,358</u>
Trade receivables arising from margin clients' securities transactions (Note b)	177,937	165,656
	<u>399,727</u>	<u>337,014</u>

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

	2005 HK\$'000	2004 HK\$'000
Within 30 days	173,935	157,881
31-90 days	22,930	10,624
Over 90 days	24,925	3,176
	<u>221,790</u>	<u>171,681</u>

Note:

- (a) The Group's Leisure, Gaming and Entertainment Segment and Property and Other Investments Segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30 to 90 days would be granted.
- (b) Trade receivables arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment Banking and Financial Services Segment as at 31 December 2005 amounted to approximately HK\$319,499,000 (2004: HK\$306,189,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

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

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

The fair value of the Group's trade receivables at 31 December 2005 approximates to the corresponding carrying amount.

11. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on payment due date, is as follows:

	2005 HK\$'000	2004 HK\$'000
Within 30 days	38,330	14,313
31-90 days	19,551	4,459
Over 90 days	12,674	5,224
	<u>70,555</u>	23,996
Trade payables arising from the ordinary course of business of dealing in securities transactions (Note)	<u>33,381</u>	36,466
	<u>103,936</u>	<u>60,462</u>

Note: The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the investment banking and financial services segment are usually two trading days after trade date. These trade payables which are repayable on demand and aged within 30 days.

The fair value of the Group's trade payables at 31 December 2005 approximates to the corresponding carrying amount.

12. CONVERTIBLE LOAN NOTES

On 9 June 2004, the Company issued convertible loan notes due on 30 June 2005 and 30 June 2006 with principal amount of HK\$22,500,000 and HK\$22,500,000, respectively, which are interest-bearing at 4% per annum. The convertible loan notes were issued to partially replace the shareholders' loans of Mocha Slots acquired by the Company during the year ended 31 December 2004.

On 11 April 2005, convertible loan notes due on 30 June 2005 and 30 June 2006 had been converted into the ordinary shares of the Company. Total number of ordinary shares converted is 39,130,432 shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005.

On 9 November 2004, the Company issued a convertible loan note due on 8 November 2009 with a principal amount of HK\$100,000,000, which is interest-bearing at 4% per annum. In addition, on 8 February 2005, the Company has also issued another convertible loan note due on 7 February 2010 with a principal amount of HK\$56,000,000, which is also interest-bearing at 4% per annum. Both convertible loan notes were issued for the acquisition of equity interests in Great Wonders. The fair value of the convertible loan note with a principal amount of HK\$56,000,000 is determined with reference to the attributable underlying assets and liabilities of Great Wonders acquired at the date of acquisition.

The convertible loan note due on 8 November 2009 is convertible into fully paid ordinary shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK\$2 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 8 November 2009.

The convertible loan note due on 7 February 2010 is convertible into fully paid ordinary shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK\$4.1 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 7 February 2010.

On 5 September 2005, the Company issued a convertible loan note due on 4 September 2010 with principal amount of HK\$1,175,000,000 which is non-interest bearing. This convertible loan note was issued for the acquisition of additional interest of the land located at Taipa, Macau (Note 9). This convertible loan note is convertible into fully paid ordinary shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK\$9.965 per share convertible in the period, commencing 5 years from the date of issuance until, and including, the maturity date which is 4 September 2010.

The conversion prices mentioned above have been adjusted for the share subdivision on 19 May 2005.

The convertible loan notes contain two components, liability and equity elements. Upon the application of HKAS 32 Financial Instruments: Disclosure and Presentation (see Note 2 for details), the convertible loan notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible loan note – equity reserve". The effective interest rate of the liability component is 4.5% – 6.25%.

The movement of the liability component of the convertible loan notes for the year is set out below:

	2005 HK\$'000	2004 HK\$'000
Liability component at the beginning of the year	140,626	–
Convertible into the Company's shares	(45,000)	–
Issue of convertible loan notes	922,288	140,626
Interest on convertible loan notes	24,978	1,011
Interest paid	(498)	(1,011)
Interest payable transferred to amounts due to related companies	(5,231)	–
	<u>1,037,163</u>	<u>140,626</u>
Liability component at the end of the year	1,037,163	140,626
Less: Amount due within one year shown under current liabilities	–	(22,500)
	<u><u>1,037,163</u></u>	<u><u>118,126</u></u>

The fair value of the liability component of the convertible loan notes at 31 December 2005, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, was approximately HK\$991,125,000.

13. ACQUISITION OF SUBSIDIARIES

Acquisition for the year ended 31 December 2005

The Group completed the acquisition of additional 20% issued share capital of Great Wonders, a company in which the Group held 50% equity interest as at 31 December 2004. The principal activities of Great Wonders was to apply to the Macau Government for the concession of the land located at Taipa, Macau and to develop the land into a six-star hotel and entertainment complex with one of the largest casino and electronic gaming machine areas. Great Wonders accepted in principle a written offer issued by the Macau Government dated 24 June 2005 to grant to Great Wonders a medium term lease of the property.

The fair value of the assets and liabilities of Great Wonders at the date of acquisition of the 20% issued share capital of Great Wonders are as follows:

	Acquiree's carrying amount before combination HK\$'000 (note)	Fair value adjustments HK\$'000	Fair value HK\$'000
Hotels and entertainment complex under development	33,241	400,000	433,241
Amount due from a shareholder	969	–	969
Amount due to the Group	(33,229)	–	(33,229)
Other payables	(27)	–	(27)
Deferred tax liabilities	–	(48,000)	(48,000)
	<u>954</u>	<u>352,000</u>	352,954
Minority interest			<u>(105,886)</u>
			<u><u>247,068</u></u>
Represented by:			
Interest in a jointly controlled entity			176,477
Issue of convertible loan note			<u>70,591</u>
			<u><u>247,068</u></u>

Subsequent to the acquisition, the Group has injected its 70% equity interests of Great Wonders to the JV Group pursuant to a Subscription Agreement. Please see note 5 for details.

On 28 July 2005, the Group completed the acquisition of the remaining 30% equity interest in Great Wonders from STDM at a consideration of HK\$400,000,000, of which HK\$200,000,000 is settled in cash and the remaining HK\$200,000,000 will be settled by the issue of 22,222,222 ordinary shares of the Company (Note). Goodwill amounting to approximately HK\$106,104,000, which represented the surplus of the consideration over the 30% of the fair value of Great Wonders at the date of acquisition of the remaining 30% equity interest in Great Wonders, arised as result. The difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interests in Great Wonders is charged to special reserve.

Great Wonders has insignificant income or expenditure for the year ended 31 December 2005 and insignificant contribution to the Group's revenue and profit before tax between the date of acquisition and 31 December 2005.

Note: Pursuant to the agreement with STDM, the 22,222,222 ordinary shares of the Company with par value of HK\$0.5 each will be issued on the actual date of grant of the concession of the land by the Macau government. The fair value of the shares to be issued is approximately HK\$196,667,000 with reference to the quoted market price of the Company's share at the date of the exchange of HK\$8.85. The land has been officially granted by the Macau Government on 1 March 2006 and the Company then allotted and issued the 22,222,222 shares to STDM, accordingly.

14. COMMITMENTS

	2005 HK\$'000	2004 HK\$'000
Capital commitments contracted for but not provided in respect of the acquisition of property, plant and equipment, hotels and entertainment complex under development	<u>1,405,808</u>	<u>437</u>

In addition, Great Wonders has accepted a formal offer from the Macau Government to acquire a land use right in Macau at a consideration of approximately HK\$145,085,000 (MOP149,728,000). As at 31 December 2005, Great Wonders has paid a deposit of HK\$48,590,000 (MOP50,000,000) for the land use right. The remaining balance of approximately HK\$96,495,000 (MOP99,728,000) is interest-bearing at 5% per annum and shall be payable in 4 half-yearly instalments in equal amounts. The first instalment shall be paid within six months from the date of the publication of the grant of concession of the land in the Macau Government Gazette.

Also, Melco Hotels has accepted in principal another offer from the Macau government to acquire a land use right in Macau at a consideration of approximately HK\$493,339,000 (MOP509,125,000). No payment has been made in respect of this offer by Melco Hotels as at 31 December 2005.

The Company had no significant capital commitment at the balance sheet date.

15. POST BALANCE SHEET EVENTS

- (i) The publication of the grant of concession of the land in the Macau Government Gazette was made on 1 March 2006 and the land has therefore been officially granted by the Macau Government to Great Wonders on that date. Pursuant to an agreement with STDM, the Company has allotted and issued 22,222,222 shares of the Company to STDM on 1 March 2006 for settlement of the purchase consideration.
- (ii) On 13 February 2006, the Group has signed an agreement with syndicate banks for a facility of HK\$1,280,000,000 transferrable term loan facility to finance its hotels and entertainment complex under development.
- (iii) On 5 March 2006, the Company entered into the Memorandum of Agreement with PBL, pursuant to which the Company agreed to make or cause to be made by its wholly-owned subsidiary to provide a loan capital contribution of US\$160,000,000 to a company to be incorporated ("PBL Macau") to be applied towards the purchase of the Subconcession to operate gaming operations in Macau ("Subconcession") under the Subconcession Agreement entered into between Wynn Resort Limited, Wynn Resorts (Macau) S.A. and PBL at a consideration of US\$900,000,000.

The Subconcession will allow its holder to operate gaming businesses in Macau. So far there are only three concessions and two subconcessions granted by the Macau government for the operation of gaming businesses and casinos in Macau. The Subconcession will be the third subconcession to operate the gaming business in Macau.

Subject to any required approvals of the Macau government or other terms and conditions of the Subconcession and upon the grant of the Subconcession to PBL Macau, the Company shall have the right to convert the loan capital contribution into 40% of the issued share capital of PBL Macau. Upon conversion of the loan capital contribution, the Company will be interested in 40% of PBL Macau.

Upon the Company becoming a holder of 40% of issued share capital of PBL Macau, PBL and the Company shall (a) enter into a shareholders' agreement which will reflect the principle that material dealings of or under the Subconcession shall be subject to the unanimous approval of the board of PBL Macau; (b) the Company and PBL will share the economic benefit of the projects and businesses in Macau on a 50:50 basis; and (c) revise the Deed entered into between the Company and PBL dated 8 March 2005 relating to the gaming and hospitality business of Melco PBL Holdings ("Deed") to reflect the agreement that all projects and business in the locations specified in the Deed shall be owned and carried out on a 50:50 basis.

CHAIRMAN & CEO'S STATEMENT

2005 is another rewarding year for Melco. Expiry of the four-decade gaming monopoly in Macau has ignited the evolution of the city's gaming industry and generated tremendous growth opportunities for us. Thanks to the Macau Government's support of the tourist industry, the number of visitors to Macau from the Asia Pacific Region has rocketed. In 2005, accumulative arrivals in Macau hit 18.7 million, an increase of 12.3% as compared with 2004. Against this favorable backdrop, the Group has achieved remarkable growth in both turnover and profit in 2005.

As the only Chinese city in which casinos are legal, Macau is rapidly developing into the world's largest gaming center. The establishment of leisure and entertainment facilities in Macau will also see the city evolving into a multi-dimensional family destination. With a vision to expand gaming business in Asia, Melco partnered with the Publishing and Broadcasting Limited (PBL), Australia's largest media and gaming conglomerate, to capitalize on the arising opportunities in the gaming market. During the review year, the Melco PBL joint venture introduced a plan to build the "City of Dreams", an integrated entertainment resort targeting at the highly lucrative and fast growing mid-market and mass market. Together with Crown Macau and Mocha Slots, catering to the high rollers and the grind market respectively, the Group's gaming assets will cover all facets of the market.

As the Chairman and CEO of Melco, I am delighted about Melco PBL's acquisition of Macau's last casino subconcession in March 2006 and the subsequent agreement with SJM to amicably terminate the existing slot halls service agreements. Upon the government's approval of the acquisition, Melco PBL will have direct control on and hence greater flexibility in operating Crown Macau, the City of Dreams and Mocha to achieve higher operational efficiency. The new arrangement will enhance the profitability of the Group and deliver significant returns to our shareholders. With a winning combination of local expertise, world-class management and superior branding, Melco PBL is in a strong position to thrive in the fast growing and competitive gaming market of Macau.

Based on our solid foundation in Macau, we have also been examining possibilities to gradually penetrate the region. Convinced by Macau's economic success in recent years, an increasing number of Asian countries are considering legalizing their gaming markets. There are great prospects for the gaming industry in Asia. We will strive to seize the lucrative opportunities in the Asian gaming markets in the years to come.

Looking ahead, Mocha Slots, the City of Dreams and Crown Macau will remain the local focus of Melco PBL. I am confident that, together with PBL, Melco will become one of the largest and most profitable gaming groups in Asia delivering substantial shareholder value within the next few years.

I wish to take this opportunity to express my heartfelt gratitude to our employees for their quality work and commitment, without which the Group would not have gotten where we are today.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW/FINANCIAL REVIEW

Melco experienced significant growth in turnover and profitability in 2005. The Group's consolidated turnover increased to HK\$600.6 million (2004 - HK\$408.1 million), representing an increase of 47% for the year ended 31 December 2005. Net profit attributable to shareholders surged 819% to HK\$548.7 million of which HK\$514.4 million was deemed profit upon the disposal of partial interests in Mocha Slots and Great Wonders arising from the formation of the Melco PBL joint venture.

All of the Group's business divisions achieved segmental profitability during the year. These business divisions generated four main streams of segmental results including (i) Leisure, Gaming and Entertainment, (ii) Investment Banking and Financial Services, (iii) Technology and (iv) Property and Other Investments. As at 31 December 2005, the shareholders' equity amounted to HK\$3,558.2 million, with a substantial increase of 189% as compared to that of 2004.

During the year, depreciation charge increases by 99.8% to HK\$35.3 million from HK\$17.7 million in 2004. The increase was mainly due to depreciation charge on new capital expenditure incurred in new slots venues opened by Mocha Slots in 2005 plus the prudence change of depreciation rate on gaming machines from 10% p.a. to 20% p.a. effective from July 2005.

During the year, finance costs increase substantially by 6.6 times to HK\$31.7 million as compared to HK\$4.2 million in 2004. The increase was mainly attributable to the recording of the effective interest expenses on the liability component of convertible loan notes issued for material acquisitions during the year as a result of the adoption of a new accounting policy.

LEISURE, GAMING AND ENTERTAINMENT

2005 saw exciting evolution of Macau. Opportunities continued to emerge in the gaming and entertainment industry, as value-adding facilities in casinos drew more tourists and generated more income for the gaming industry. The Group's Leisure, Gaming and Entertainment Division currently has four sub-divisions, namely, Mocha Slots, Crown Macau, The City of Dreams and Jumbo Kingdom. During the year, Mocha Slots has made a remarkable contribution to the Group's business. The Group's Crown Macau and the City of Dreams projects are progressing smoothly.

In the year under review, the Leisure, Gaming & Entertainment Division recorded a turnover of HK\$241.9 million (2004 – HK\$123 million) and segmental profit surged 95 times to HK\$539.7 million (2004 – HK\$5.6 million), of which, HK\$514.4 million was deemed profit upon the disposal of partial interests in Mocha Slots and Great Wonders arising from the formation of the Melco PBL joint venture. Excluding this extraordinary gain, segmental profit of the Division still reported growth at an encouraging 348%.

Mocha Slots

Mocha Slot focuses on the leisure grind market and is renowned as the showcase for electronic gaming in the world. Launched in 2004, Mocha Slot is an innovative spin of combining the concept of slot machine parlors with a relaxing, cafe-style setting. As at 31 December 2005, the widely recognized Mocha has six outlets with over 1000 machines in operation, capturing around 30% of Macau's electronic gaming market. Each Mocha Slot Hall offers a variety of themes for our valued customers. Three new Mocha Slots were opened during the year under review, including the Mocha Hotel Tapai Square, Mocha Hotel Sintra and Mocha Hotel Taipa.

Mocha continued to grow and delivered an outstanding performance in 2005. During the year under review, Mocha Slots generated a total revenue of HK\$135.2 million, representing a growth of 183% (2004 – HK\$47.7 million). The average daily net win per machine stood at HK\$1,750 for 2005.

Currently, slots and electronic gaming only account for less than 5% of Macau's total gaming revenue, whereas in Las Vegas and Australia, it makes up over 50%. This indicates that electronic gaming has tremendous potential for growth in Macau. The Group is planning to open another 2 to 3 outlets in 2006, probably within or near 2-star or 3-star hotels adding approximately another 500 machines to further penetrate the market.

Crown Macau

Recognizing that over 70% of Macau's gaming revenue is derived from VIP gaming or high limit players, the Melco PBL joint venture announced in September 2004 the plan to build Crown Macau, the first 6-star luxurious casino & hotel in Taipa, which targets at global high rollers.

Crown Macau will be the most exclusive and luxurious property the market has ever seen. Standing at 160 meters it will be the tallest building on Taipa Island. With a total construction area of 106,000 square metres, the casino-hotel will comprise deluxe VIP guest rooms, VIP suites and presidential villas. There will be a 6-storey up-market casino with a total gaming space of around 17,000 square metres, housing over 200 gaming tables and over 500 slot machines. Crown Macau will also embrace other entertainment facilities, such as elegant and unique restaurants and a deluxe spa center.

Total construction cost of this project amounts to around HK\$1.5 billion. On 13 February 2006, Melco PBL signed an agreement with a syndicate of five Macau banks and one Hong Kong bank for a HK\$1.28 billion transferable term loan facility to finance the Crown Macau project. This is the largest syndicated loan ever granted in Macau. It reflects the banking community's confidence in Melco and PBL and the joint venture's future development. This term loan gives the joint venture a solid capital foundation thus greater flexibility in allocating resources for future development.

The full project will be completed in the first half of 2007. As the project is still under construction, it made no contribution to the Group's financial performance in 2005.

The City of Dreams

In view of the promising prospect of the gaming industry, the Macau Government has launched an ambitious infrastructure development project in which a stretch of reclaimed land called Cotai would be developed into the "Las Vegas of the East". The Cotai Strip is about one third the size of Macau. With high accessibility, the area has attracted substantial investment from the world's biggest gaming operations.

The Group announced the development of a world-class integrated entertainment resort – the "City of Dreams" – in May 2005. The City of Dreams, a first-of-its-kind integrated entertainment resort ever seen in the Asia Pacific Region, houses a variety of luxurious resort accommodations and top-notch facilities in a world of wonder. The City of Dreams serenely floats above a crystal lake, providing no less than 2,000 rooms from unique boutique hotels and themed time-sharing serviced apartments. The 72,000 square meter casino features world-class gaming facilities in a tropical underwater environment housing over 450 gaming tables and around 3,000 slot machines. The resort offers various fine dining and entertainment experiences, ranging from the "underwater" restaurant pavilion, the hippest clubbing nightspot, to the architecturally thrilling performance hall, which will be the iconic landmark of the Cotai Strip. Shoppers will find themselves among the latest brand name retailers, while business travelers will have easy access to the full-service conferencing facilities. The fitness and spa facilities will cater to people of all ages.

The City of Dreams will be an alluring and multi-dimensional integrated resort destination that will be well received in Macau and the Greater China region.

Total construction cost of the project is estimated at HK\$8 billion. The initial design of the casino and related facilities is in good progress and the complex is expected to commence operations in the second half of 2008.

As the project is still under construction, it made no contribution to the Group financial performance in 2005.

Jumbo Kingdom

The Group has been conducting an extensive marketing campaign to promote Jumbo Kingdom after it was renovated in 2003. Patronage has been steadily increasing with turnover for 2005 increased by 23% from HK\$75.8 million in 2004 to HK\$93.2 million, and has been turned around in 2005.

Jumbo Kingdom includes the Jumbo and Tai-Pak floating restaurants in Aberdeen, Hong Kong and the newly opened Chua Lam Gourmet Kitchen in Macau. The Chua Lam Gourmet Kitchen brings together renowned restaurants from around the world to offer diverse and attractive culinary choices to customers. Located in Largo Do Senado, a popular tourist spot in Macau, the four-storey Chua Lam Gourmet Kitchen occupies an area of 24,000 square feet and includes restaurants serving special Chinese and Japanese dishes. Setting a new trend in culinary culture, it is expected to become a new dining and tourist attraction in Macau.

INVESTMENT BANKING AND FINANCIAL SERVICES

For the year ended 31 December 2005, turnover of the Group's financial arm, Value Convergence Holdings Limited (Value Convergence, Stock Code: 8101) amounted to approximately HK\$115.1 million. Segmental profit for the year ended 31 December 2005 was HK\$12.9 million.

The Group's financial arm achieved a profitable result in 2005 as a result of its relentless efforts to fortify its business. Despite low market turnover of China-related stocks during the first half of 2005 and fierce market competition, Value Convergence proactively fortified its fundamentals and grew its business during the year under review. The introduction of an asset management division has taken Value Convergence one step closer to realizing its goal of becoming a full-fledged investment bank. To leverage on the positive investment environment in Macau and the Pearl River Delta region, Value Convergence is currently studying the possibility of introducing investment funds to diversify investment options for clients. An expanded product portfolio will help to boost the revenue of this segment in the long run. Looking forward, Value Convergence will forge ahead with expanding its products and geographical coverage. It will also actively pursue various initiatives, such as offering fund management services, and embark on business acquisitions beneficial to the overall growth of its business.

TECHNOLOGY

Headed by Elixir and iAsia, the Group's technology division recorded a turnover of HK\$197.5 million (2004 – HK\$154.8 million), representing a spectacular increase of 28%. Segmental profit after the elimination of intercompany transactions amounted to HK\$21.9 million (2004 – HK\$14.5 million).

Based in Macau, Elixir has established itself as a premier gaming IT infrastructure specialist capable of offering clients a full range of system integration and network services. During the year, Elixir completed the installation of surveillance systems and slot machines for a number of new casinos opened in Macau.

The iAsia group of companies, based in Hong Kong, provides comprehensive online trading and related systems and services to financial institutions and intermediaries, principally in Asia. During the year, iAsia developed a new Bullion Deal Matching System, which has been well received in the market. The Group will continue to improve its existing online trading modules and related systems, including the new Bullion Deal Matching System, to enhance its product portfolio.

iAsia also has significant contribution to the technological sophistication of the Group's financial services unit with its IT system support services.

PROPERTY AND OTHER INVESTMENT

During the year, the turnover and segmental profit of this division were HK\$46.2 million (2004 – HK\$3.9 million) and HK\$56.4 million (2004 – HK\$65.3 million) respectively, owing to the increase in income from the Group's treasury function. Last year's profit was mainly attributable to the gain on disposal of an investment property of the Group in 2004, with HK\$57.2 million being recorded.

OUTLOOK

Macau's gaming and entertainment industry is booming with various opportunities, and value-adding entertainment facilities to casinos are bringing in an increasing number of visitors from around the world. Macau achieved a gaming revenue roughly the same as that of Las Vegas, with far fewer operators. Backed by the strong economic growth of Mainland China, the gaming market of Macau can expect exponential growth in the years to come.

In March 2006, Melco PBL sought to acquire the last casino subconcession in Macau. Subject to the approval of the Macau Special Administrative Region Government, the subconcession will give Melco PBL the right to own and operate hotel casino resorts in Macau. With such rights, the Group will have much greater flexibility in planning and operating future projects. The purchase price payable for the acquisition of the subconcession is US\$900 million, and is anticipated to be funded as to US\$400 million by way of equity (PBL to share US\$240 million; Melco to share US\$160 million). Initially, Melco will pay only US\$40 million as deposit and the remaining 60% will be settled upon the granting of subconcession. Under the arrangement, Melco and PBL will share the economic benefit of all projects in Macau and Asia on a 50:50 basis. The subconcession will allow Melco PBL to independently operate the two proposed Macau casino projects, Crown Macau and City of Dreams.

Subsequent to the announcement of the subconcession acquisition, the Group entered into an amicable agreement with SJM to terminate the existing slot halls operation arrangement. Melco PBL intends to continue to operate slot halls business under the subconcession. With all three gaming assets, namely, Mocha Slots, Crown Macau and the City of Dreams, covering all segments of the market, the Group will fully capitalize on the tremendous opportunities in the booming tourist industry.

Looking ahead, Management is highly optimistic about the Group's future prospects. The Group will continue its development in Macau, with the Melco PBL joint venture serving as a perfect platform to capitalize on the rising opportunities in the wider Asia region.

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE/CHARGE ON GROUP ASSETS

The Group financed its business operations and investments with internal resources, cash revenues generated from operating activities and short-term bank loans.

As at 31st December 2005, total assets of the Group were HK\$5,581.3 million (2004 – HK\$1,584.8 million) which was financed by shareholders' fund of HK\$3,558.2 million (2004 – HK\$1,229.9 million), minority interests of HK\$629.5 million (2004 – HK\$75.6 million) and current liabilities of HK\$306.5 million (2004 – HK\$159 million) and non-current liabilities of HK\$1,087.1 million (2004 – HK\$120.4 million). The current ratio, expressed as current assets over current liabilities, of the Group was maintained at the satisfactory level of 9.4 (2004 – 5.3).

During the year ended 31 December 2005, the Group recorded a net cash inflow of HK\$1,955.3 million (2004 – HK\$252.2 million). As at 31 December 2005, cash and cash equivalents of the Group totalled at HK\$2,350.3 million (2004 – HK\$395 million). Gearing ratio, expressed as a percentage of total borrowings (including bank borrowings, obligation under finance lease, convertible loan notes and shareholder's loan) over shareholders' fund, was at the satisfactory level of 0.31 time as at 31st December 2005 (2004 – 0.15 time). The Group adopts a prudent treasury policy. The cash and bank balances consisted of about 6% cash and bank balances and 94% short term fixed deposits. All the borrowings and the majority of cash and bank balances are denominated in Hong Kong dollars to maintain minimum exposure to foreign exchange risks.

As at 31 December 2005, the Group's total available banking facilities amounted to HK\$229.8 million (2004 – HK\$224.8 million), of which HK\$80 million (2004 – HK\$70 million) were secured by margin clients listed securities, and HK\$49.8 million (2004 – HK\$49.8 million) in banking facilities were secured by pledging HK\$85 million of the Group's assets. As at 31st December 2005, the Group utilized HK\$23 million and HK\$5 million of unsecured and secured banking facilities respectively (2004 – unsecured HK\$15 million) and these amounts had matured and were repaid by 5 January 2006.

MATERIAL ACQUISITIONS

In 2005, the Group has actively involved in several very substantial acquisitions.

Since February 2005, the Group purchased a total of 70% of Great Wonders from Sociedade de Turismo e Diversoes de Macau, S.A. ("STDM") for a total consideration of HK\$156 million, which was settled by the Company's issuing two convertible notes to the vendor. The Group entered into a further agreement with STDM to purchase the latter's remaining 30% equity interest in Great Wonders for a consideration of HK\$400 million in March 2005. HK\$200 million of the consideration was settled in cash and the remaining HK\$200 million by the issue of 22,222,222 ordinary shares of the Company. This transaction was completed in July 2005. The principal activities of Great Wonders are to apply to the Macau Government for the concession of the land located at Taipa, Macau and to develop the land into a six-star hotel and entertainment complex with one of the largest casino and electronic gaming machine areas.

Pursuant to a Subscription Agreement dated 23 December 2004, the Company formed a joint venture with PBL in March 2005 to undertake all the gaming and hospitality business in Macau and Asia. The Company contributed its 80% interests in Mocha Slots and 70% interests in Great Wonders to Melco PBL Entertainment, a company owned as to 80% indirectly by Melco PBL Holdings and 20% indirectly by the Company, while PBL contributed HK\$1.27 billion (equivalent to US\$163 million) cash to Melco PBL Entertainment. In addition, the Company also contributed its 50.8% interests in Melco Hotels to Melco PBL Entertainment.

Pursuant to an agreement signed with Great Respect Limited on 11 May 2005, Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Company, acquired from Great Respect Limited the remaining 49.2% interest in a piece of land located at Taipa, on the Cotai Strip in Macau, at a consideration of HK\$1,175 million. Upon receipt of the cash consideration, Great Respect Limited then subscribed for the Company's convertible notes having a principal amount of HK\$1,175 million, which is non-interest bearing and convertible into shares in the Company. The Macau Government had on 21 April 2005 offered to Melco Hotels and Resorts (Macau) Limited a medium term lease in respect of the land for development of an integrated entertainment resort which was then an indirect wholly owned subsidiary of the Group.

HEADCOUNT/EMPLOYEES' INFORMATION

As at 31 December 2005, the Group had a total of 861 employees (2004: 710), of whom 420 are located in Hong Kong while the rest are located in Macau and the PRC. The related staff costs for 2005, including Directors' emoluments and the share options expenses, amounted to HK\$137.8 million (2004: HK\$112.6 million).

The Group's remuneration policy is to provide its employees with a consistent and fair remuneration system that drives the performance of the Group and of the individual employees. Its key components include base salary, discretionary bonus and share option scheme. It also provides appropriate fringe benefits and training and development opportunities to retain and attract its talents.

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimize currency risks. The Group's principal businesses are conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure is minimal. Hence, no hedging against foreign currency exposure is necessary.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 5 March 2006, the Company entered into an Memorandum of Agreement with PBL, pursuant to which the Company agreed to make or cause to be made by its wholly-owned subsidiary to provide a loan capital contribution of US\$160 million to a company to be incorporated ("PBL Macau") to be applied towards the purchase of the Subconcession to operate gaming operations in Macau ("Subconcession") under the Subconcession Agreement entered into between Wynn Resort Limited, Wynn Resorts (Macau) S.A. and PBL at a consideration of US\$900 million.

Material capital expenditure will be incurred for the development of the projects within the joint venture with PBL in the coming years. The Company expects the respective project companies within the joint venture to arrange their required fundings as far as possible using different financing options available to them. Also, the Company will provide the required equity capital to these project companies.

CONTINGENT LIABILITIES

At 31 December 2005, the Company provides guarantee of HK\$4,680,000 (2004: HK\$4,680,000) to a supplier in respect of the goods purchased by its subsidiaries.

DIVIDENDS

The directors are pleased to recommend a final dividend of HK1 cent per ordinary share (2004: HK1 cent) payable to shareholders whose names are on the Register of Members as at 17 May 2006. Including the interim dividend of HK1 cent per ordinary share (2004: HK1 cent) paid on 18 October 2005, the total dividend payout for the year 2005 shall be HK2 cents per ordinary share.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 11 May 2006 to Wednesday, 17 May 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Standard Registrars Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 pm. on 10 May 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2005, with deviation as mentioned below.

Code provision A.4.1 provides that non-executive directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all non-executive directors of the Company are not appointed for specific term. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on directors' service are appropriate given that directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of non-executive directors have given the Company's shareholders the right to approve continuation of non-executive directors' offices.

AUDIT COMMITTEE

An Audit Committee has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises the three independent non-executive Directors of the Company throughout the year ended 31 December 2005. The Audit Committee (except Mr. Robert Kwan, who resigned as Independent Non-executive Director of the Company on 15 March 2006) has reviewed the Group's results of the year 2005.

PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITORS

The figures in respect of this preliminary announcement of the Group's consolidated balance sheet, consolidated income statement and related notes for the year ended 31 December 2005 have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

PURCHASE, REDEMPTION OF SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PUBLICATION OF RESULT ON THE STOCK EXCHANGE WEBSITE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises two Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman and Chief Executive Officer) and Mr. Tsui Che Yin, Frank, one Non-executive Director, namely, Mr. Ng Ching Wo and two Independent Non-executive Directors, namely, Sir Roger Lobo and Dr. Lo Ka Shui.

By Order of the Board
Ho, Lawrence Yau Lung
Chairman & Chief Executive Officer

Hong Kong, 31 March 2006

Please also refer to the published version of this announcement in South China Morning Post - Classified.