THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Melco International Development Limited (the "Company"), you should at once hand this circular, together with the enclosed form of proxy and Form of Election, to the purchaser or transferee or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer or invitation to acquire, purchase or subscribe for securities nor is it calculated to invite any such offer or invitation. In particular, this circular is not an offer of securities of Melco PBL Entertainment (Macau) Limited for sale in any jurisdiction, including in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities by Melco PBL Entertainment (Macau) Limited to be made in the United States will be made only by means of a prospectus that will contain detailed information about Melco PBL Entertainment (Macau) Limited and its management, as well as financial statements. Melco PBL Entertainment (Macau) Limited intends that such a public offering would be registered in the United States.

Melco

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-group.com
(Stock Code: 200)

PROPOSED SPIN-OFF AND SEPARATE LISTING OF MELCO PBL ENTERTAINMENT (MACAU) LIMITED ON THE NASDAQ

Financial Adviser to Melco International Development Limited

VC CAPITAL LIMITED
滙盈融資有限公司

Independent Financial Adviser to the Independent Board Committee

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

A letter from the Board is set out on pages 10 to 38 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Shareholders is set out on page 39 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee is set out on pages 40 to 53 of this circular.

A notice convening an extraordinary general meeting ("EGM") of the Company to be held at 12:00 noon on 18 December 2006 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, is set out on pages 159 to 160 of this circular. A proxy form is also enclosed. Whether or not you intend to attend and vote at the EGM or any adjourned meeting in person, please complete and return the enclosed proxy form in accordance with the instructions printed thereon to the Company's registered office at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

2 December 2006

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EXPECTED TIMETABLE

	2006
Latest day for dealing in the Shares cum-entitlement to the Distribution in Specie	13 December
First day of dealing in the Shares ex-entitlement to the Distribution in Specie	14 December
Latest time for lodging transfers of Shares cum entitlement to the Distribution in Specie	**4:00 p.m. on 15 December**
Latest time for return of forms of proxy in respect of the EGM	**12:00 noon on 16 December**
Register of members closes on	18 December
Record Date for determining the entitlement to the Distribution in Specie	18 December
EGM	12:00 noon on 18 December
Register of members re-opens on	19 December
Latest time for lodging the Form of Election	**4:00 p.m. on 19 December**

All times refer to Hong Kong local time.

Please note that the timetable is subject to change depending on prevailing market conditions. If there are changes to the above timetable, the Company will publish an announcement to inform the Shareholders.

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"ADSs"	American depositary shares to be issued pursuant to a deposit agreement between Melco PBL Entertainment (Macau) and a depositary, each representing 3 Melco PBL Shares, which are expected to be listed on NASDAQ
"associate"	has the meaning ascribed to it in the Listing Rules
"Assured Entitlement"	the entitlement to receive Distribution ADSs pursuant to the Distribution in Specie (or cash in lieu of Distribution ADSs) on the basis of an assured entitlement of one Distribution ADS for every whole multiple of 4,000 Shares held by each Qualifying Shareholder at the close of business on the Record Date
"Board"	the board of Directors
"Company"	Melco International Development Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange
"Deed"	a restated and amended shareholders' deed dated 1 December 2006 entered into between the Company, Melco Leisure, PBL, PBL Asia and Melco PBL Entertainment (Macau) relating to the affairs of Melco PBL Entertainment (Macau), replacing a shareholders' deed dated 8 March 2005 and entered into between the same parties, and, where appropriate, means the original shareholders deed dated 8 March 2005 so replaced
"DICJ"	Direcção de Inspecção e Coordenação de Jogos de Macau, or the Gaming Inspection and Coordination Bureau of the Government of Macau, the regulatory body that is responsible for the regulation and supervision of gaming business in Macau
"Director(s)"	the director(s) of the Company
"Distribution ADS(s)"	the ADS(s) to be distributed to Shareholders other than (1) the Non-Qualifying Shareholders and (2) the Listco Affiliates, pursuant to the Distribution in Specie

"Distribution in Specie"	the proposed special dividend of the Company, to be satisfied by the distribution in specie by the Company of ADSs to Qualifying Shareholders on the basis of an assured entitlement of one Distribution ADS for every whole multiple of 4,000 Shares held by each Qualifying Shareholder at the close of business on the Record Date, on and subject to the terms and conditions described in the section headed "Assured Entitlement" in the letter from the Board set out in this circular
"DTC"	The Depositary Trust Company
"EGM"	the extraordinary general meeting of the Company convened to be held at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong at 12:00 noon on 18 December 2006 by the notice of meeting set out on pages 159 to 160 of this circular and any adjournment of that meeting
"Elixir"	Elixir Group Limited, a company incorporated in Hong Kong, and which is a wholly owned subsidiary of the Company
"Elixir Group"	Elixir and its subsidiaries
"Form of Election"	the form of election to be completed by Qualifying Shareholders pursuant to which each Qualifying Shareholder may elect to receive Distribution ADSs or cash in lieu of all the Distribution ADSs to which they are entitled
"GEM"	The Growth Enterprise Market of the Stock Exchange
"Global Offering"	the proposed initial public offering of ADSs in connection with the Proposed Spin-Off, which offering will be made pursuant to the Prospectus
"Greater China Region"	the PRC, Hong Kong, Macau and Taiwan
"Great Wonders"	Great Wonders, Investments, Limited, a company incorporated in Macau which is wholly owned by the Joint Venture and is, therefore, a subsidiary of Melco PBL Entertainment (Macau)
"Group"	the Company and its subsidiaries from time to time and a "member of the Group" shall be construed accordingly
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"iAsia"	iAsia Online Systems Limited, a company incorporated in the British Virgin Islands, and which is a wholly owned subsidiary of the Company
"Independent Board Committee"	the independent committee of the board of directors of the Company comprising Sir Roger Lobo, Dr. Lo Ka Shui and Mr. Sham Sui Leung, Daniel, being all the independent non-executive directors of the Company, established by the Company under Article 129 of the Company's articles of association to consider the Proposed Spin-off and advise the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and its Shareholders as a whole
"Independent Financial Adviser" or "Anglo Chinese"	Anglo Chinese Corporate Finance, Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Shareholders whether the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and its Shareholders as a whole and to advise the Shareholders how to vote at the EGM
"Joint Venture"	the 50:50 joint venture established between the Company and PBL to undertake gaming and entertainment projects in the Territory
"Joint Venture Company" or "Joint Venture Companies"	a company or companies within the Joint Venture group which include, but not limited to, Melco PBL Entertainment (Macau) and its subsidiaries from time to time, and including the following principal subsidiaries as at the date of this circular: (a) Great Wonders, which is the owner and developer of the Crown Macau hotel and casino project in Taipa, Macau; (b) Melco Hotels, which is the owner and developer of the City of Dreams integrated entertainment resort on the Cotai Strip in Macau; (c) MPBL Gaming, holder of the Subconcession; and (d) Melco PBL (Macau Peninsula), which is a party to a conditional agreement to purchase the entire issued share capital of a company holding the rights to a land lease grant in respect of a 6,480 square metres site located at Zona Dos Novos Aterros do Porto Exterior in Macau Peninsula, which it is anticipated will be developed into a hotel and casino project (if the acquisition is completed)

"Latest Practicable Date"	29 November 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listco Affiliates"	any affiliate of Melco PBL Entertainment (Macau) within the meaning of Rule 144 of the US Securities Act, being any person or entity that directly, or through one or more intermediaries, controls or is controlled by, or is under common control with Melco PBL Entertainment (Macau)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the PRC
"Macau Government"	the Government of Macau and the relevant governmental and other regulatory bodies in Macau
"Melco Hotels"	Melco Hotels and Resorts (Macau) Limited, a company incorporated in Macau which is wholly owned by the Joint Venture and is, therefore, a subsidiary of Melco PBL Entertainment (Macau)
"Melco Leisure"	Melco Leisure and Entertainment Group Limited, a company incorporated under the laws of the British Virgin Islands and which is a wholly owned subsidiary of the Company
"Melco PBL Entertainment (Macau)"	Melco PBL Entertainment (Macau) Limited (formerly known as "Melco PBL Holdings Limited"), a company incorporated under the laws of the Cayman Islands, currently being a joint venture company indirectly held as to 50% each by the Company and PBL, which is the principal holding company in respect of the gaming, entertainment and hospitality business conducted by the Joint Venture Companies in Macau
"MPBL Gaming"	Melco PBL Gaming (Macau) Limited (formerly known as "PBL Entertainment (Macau) Limited"), a limited liability company incorporated in Macau, which holds the Subconcession
"Melco PBL (Macau Peninsula)"	Melco PBL (Macau Peninsula) Limited (formerly known as "Swift Profit Investments Limited"), a company incorporated in the British Virgin Islands and which is a wholly owned subsidiary of Melco PBL Entertainment (Macau) and a Joint Venture Company
"Melco PBL Shares(s)"	share(s) of Melco PBL Entertainment (Macau)

"Mocha Slot"	Mocha Slot Group Limited, a company incorporated in the British Virgin Islands, together with its subsidiaries
"MOP"	Macau Pataca, the lawful currency of Macau
"Mr. Lawrence Ho"	Mr. Ho, Lawrence Yau Lung, the Chairman and Chief Executive Officer of the Company
"NASDAQ"	the NASDAQ Stock Market's Global Market
"Non-Qualifying Shareholder(s)"	(1) Shareholder(s) whose name(s) appear(s) on the register of members of the Company as at the close of business on the Record Date but whose addresses as shown in the register of members are in places outside Hong Kong in respect of whom the Directors consider the exclusion from the Distribution in Specie to be necessary or expedient on account of either the legal restrictions under the laws of the relevant place or the requirements of a relevant regulatory body or stock exchange in that place; (2) without limitation to the generality of the foregoing, Shareholder(s) (including beneficial owners) who are located in the US or who are US Person(s); or (3) Shareholders who are otherwise unable to make the certifications required in the Form of Election in order to be entitled to receive the Distribution in Specie
"PBL"	Publishing and Broadcasting Limited, a company incorporated under the laws of Australia, the securities of which are listed on the Australian Stock Exchange, and a joint venture partner with the Company in relation to gaming and entertainment projects in the Territory
"PBL Asia"	PBL Asia Investments Limited, a company incorporated under the laws of the Cayman Islands and which is a wholly owned subsidiary of PBL
"PN 15"	Practice Note 15 of the Listing Rules
"PRC"	the People's Republic of China (excluding Hong Kong, Macau and Taiwan)
"Proposed Spin-off"	the proposed spin-off of Melco PBL Entertainment (Macau) involving the Global Offering and the proposed separate listing of the ADSs on the NASDAQ
"Prospectus"	the prospectus proposed to be issued by Melco PBL Entertainment (Macau) in connection with the Global Offering

“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date other than (1) Shareholders who are, or who are acting for the account or benefit of Non-Qualifying Shareholders and (2) Listco Affiliates
“Record Date”	18 December 2006 (or such other date as the Board may determine), being the record date for determining the entitlements of Shareholders to the Distribution in Specie
“Registrar”	Standard Registrars Limited, the Company’s share registrar
“Retained Business”	the businesses being held by the Retained Group
“Retained Group”	the Group excluding Melco PBL Entertainment (Macau) and its subsidiaries
“SEC”	the US Securities and Exchange Commission
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shares”	ordinary share(s) of HK$0.50 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“SJM”	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau and a non-wholly-owned subsidiary of STDM
“STDM”	Sociedade de Turismo e Diversões de Macau, S.A., a company incorporated under the laws of Macau
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subconcession”	a subconcession to operate games of fortune or chance or other casino games in Macau
“Territory”	means Macau, the PRC, Singapore, Thailand, Hong Kong, Vietnam, Japan, the Philippines, Indonesia, Malaysia, Taiwan and such other countries as may be agreed from time to time by the Company and PBL but excluding Australia and New Zealand
“US”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia

"US Person" means, as defined in Rule 902 under the US Securities Act:

i. any natural person resident in the US;

ii. any partnership or corporation organized or incorporated under the laws of the US;

iii. any estate of which any executor or administrator is a US person;

iv. any trust of which any trustee is a US person;

v. any agency or branch of a foreign entity located in the US;

vi. any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US person;

vii. any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the US; and

viii. any partnership or corporation if:

(A) organized or incorporated under the laws of any foreign jurisdiction; and

(B) formed by a US person principally for the purpose of investing in securities not registered under the Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a)) of the US Securities Act) who are not natural persons, estates or trusts.

The following are not "US persons":

(i) any discretionary account or similar account (other than an estate or trust) held for the benefit or account of a non-US person by a dealer or other professional fiduciary organized, incorporated, or (if an individual) resident in the US;

(ii) an estate of which any professional fiduciary acting as executor or administrator is a US person if:

(A) an executor or administrator of the estate who is not a US person has sole or shared investment discretion with respect to the assets of the estate; and

(B) the estate is governed by foreign law;

(iii) any trust of which any professional fiduciary acting as trustee is a US person, if a trustee who is not a US person has sole or shared investment discretion with respect to the trust assets, and no beneficiary of the trust (and no settler if the trust is revocable) is a US person;

(iv) an employee benefit plan established and administered in accordance with the law of a country other than the US and customary practices and documentation of such country;

(v) any agency or branch of a US person located outside the US if:

(A) the agency or branch operates for valid business reasons; and

(B) the agency or branch is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located; and

(vi) the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, and their agencies, affiliates and pension plans, and any other similar international organizations, their agencies, affiliates and pension plans

"US Securities Act"	the US Securities Act of 1933, as amended
"US$"	United States dollars, the lawful currency of the United States of America
"Value Convergence"	Value Convergence Holdings Limited, a subsidiary of the Company having its shares listed on GEM (Stock Code: 8101), and of which the Company holds approximately 63.52% of its issued share capital as at the Latest Practicable Date
"Value Convergence Group"	Value Convergence and its subsidiaries
"Wynn Macau"	Wynn Resorts (Macau) SA, a company incorporated under the laws of Macau
"%"	per cent.

For the purpose of this circular, amounts in US$ and MOP are respectively translated into HK$ at the following exchange rates:

US$1.00 : HK$7.80
MOP1.03 : HK$1.00.

Melco

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-group.com
(Stock Code: 200)

Executive Directors:
Mr. Ho, Lawrence Yau Lung
(Chairman and Chief Executive Officer)
Mr. Tsui Che Yin, Frank
Mr. Chung Yuk Man, Clarence

Non-executive Director:
Mr. Ng Ching Wo

Independent Non-executive Directors:
Sir Roger Lobo
Dr. Lo Ka Shui
Mr. Sham Sui Leung, Daniel

Registered office:
38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

2 December 2006

To the Shareholders

Dear Sir or Madam,

PROPOSED SPIN-OFF AND SEPARATE LISTING OF MELCO PBL ENTERTAINMENT (MACAU) LIMITED ON THE NASDAQ

INTRODUCTION

On 25 October 2006, the Company announced that its application to the Stock Exchange for the approval of the Proposed Spin-off had been approved by the Stock Exchange. The approval of the Proposed Spin-off was granted pursuant to the application, by the Company, for a waiver from strict compliance with paragraph 3(c) of PN15 of the Listing Rules, which requires the Retained Group to satisfy independently the requirements of Chapter 8 of the Listing Rules. On 2 December 2006, the Company announced that a registration statement on Form F-1 in relation to the Global Offering has been publicly filed with the SEC.

The purposes of this circular are:

(a) to provide shareholders with information on (i) the background to, the reasons for, and the benefits and effects of, the Proposed Spin-off and such other information relating to the Proposed Spin-off as is required by the Listing Rules and (ii) the Assured Entitlement;

(b) to set out the recommendation from the Independent Board Committee to the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable, whether the Proposed Spin-off is in the interests of the Company and its Shareholders as a whole and advising the Shareholders how to vote at the EGM in relation to the resolution to approve the Proposed Spin-off;

(c) to set out a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and

(d) to give notice convening the EGM at which an ordinary resolution will be proposed for the Shareholders to consider and, if thought fit, approve the Proposed Spin-off. The voting at the EGM will be conducted by way of poll.

Shareholders should note that the Proposed Spin-off is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied. Thus, there can be no assurance that the Proposed Spin-off will proceed. Accordingly, Shareholders and other persons contemplating buying or selling Shares are reminded to exercise caution when dealing in the securities of the Company and are recommended to consult their professional advisers if they are in any doubt about their positions.

THE COMPANY'S PRINCIPAL BUSINESS DIVISIONS

The Company currently has four principal business divisions, as follows:

(a) **Gaming, entertainment and hospitality:** the gaming, entertainment and hospitality business in the Territory is conducted primarily through the Joint Venture. In addition, the Group operates two floating restaurants, namely Jumbo and Tai Pak, in Aberdeen, Hong Kong and the Chua Lam Gourmet Kitchen in Macau.

(b) **Technology:** the Company's technology division comprises two principal businesses, as follows:

   (i) The Elixir Group has established itself as a leading information technology infrastructure specialist catering principally to the gaming industry and capable of offering clients a full range of systems integration and information technology networks services.

   (ii) iAsia is engaged in the provision of comprehensive online trading and related systems and services to financial institutions, intermediaries and other business entities, principally in Asia.

(c) **Investment banking and financial services:** the Company's investment banking and financial services business is conducted by its GEM listed subsidiary, Value Convergence. The Value Convergence Group has expanded into a regional investment banking group offering a comprehensive range of financial services in the Greater China Region, including corporate finance; brokerage and futures; asset management; financing; and financial and strategic investments.

(d) **Property and Other Investments:** the Company's property business has a history dating back to 1988 and currently comprises a portfolio of commercial and residential properties in Hong Kong and Macau. The Company also has an active treasury management function holding a portfolio of liquid investments and cash.

THE PROPOSED SPIN-OFF AND GLOBAL OFFERING

Melco PBL Entertainment (Macau) is a joint venture company held as to 50% by the Company and as to 50% by PBL and is the principal holding company in respect of the gaming, entertainment and hospitality business conducted by the Joint Venture Companies in Macau.

The Proposed Spin-off contemplates a separate listing of Melco PBL Entertainment (Macau) on NASDAQ and a Global Offering of ADSs by Melco PBL Entertainment (Macau). It is currently anticipated that approximately 10% to 17.5% (exclusive of shares that may be issued on the exercise of any over allotment option granted in connection with the Global Offering) of the enlarged issued share capital of Melco PBL Entertainment (Macau) will be offered under the Global Offering. Accordingly, it is currently anticipated that immediately following the Global Offering, the Company's percentage shareholding interest in Melco PBL Entertainment (Macau) will decrease from 50% to between approximately 41% to 45% (exclusive of shares that may be issued on the exercise of any over allotment option granted in connection with the Global Offering).

In addition to its retained interest in Melco PBL Entertainment (Macau), the Company will, following completion of the Proposed Spin-off, continue to be the holding company of the Retained Business and the Shares will continue to be listed on the Stock Exchange.

A US registration statement on Form F-1 in relation to the Global Offering has been publicly filed with the SEC on 1 December 2006 (US time) and 2 December 2006 (Hong Kong time). Completion of the Global Offering is subject to the satisfaction of a number of conditions, some of which are set out below in the section headed "Conditions".

INFORMATION ON THE GAMING, ENTERTAINMENT AND HOSPITALITY BUSINESS IN MACAU PROPOSED TO BE SEPARATELY LISTED ON NASDAQ

On 11 November 2004, the Company entered into an agreement with PBL to establish a joint venture to undertake gaming projects on a joint basis in the Territory. The Company and PBL agreed that all gaming projects in the Territory would be undertaken by them through the joint venture and that they would not independently pursue any such projects in the Territory in competition with the Joint Venture.

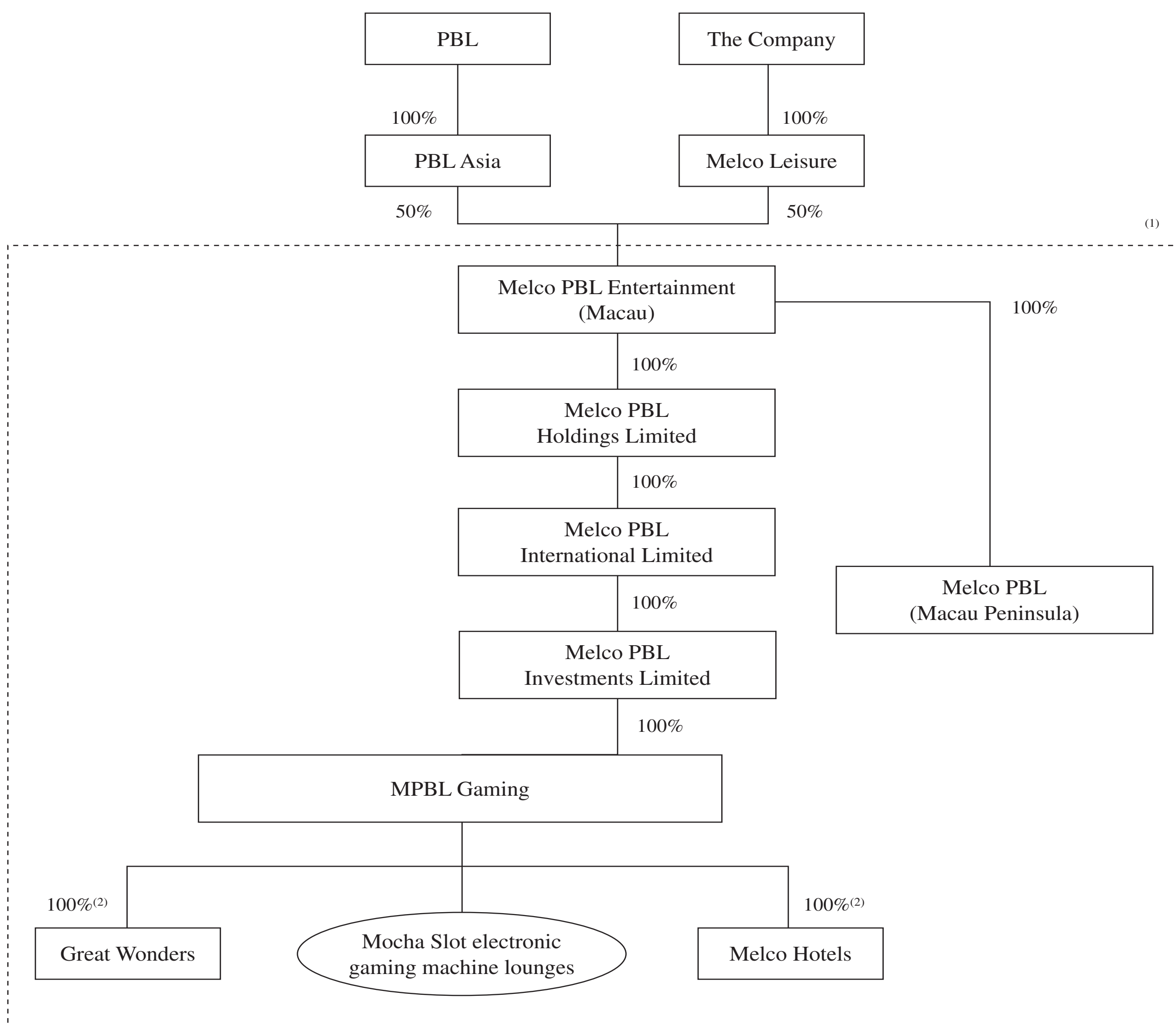
PBL is a company incorporated in Australia and is listed on the Australian Stock Exchange. PBL is one of Australia's largest diversified media and entertainment companies, the core businesses of which include the operation of the Crown Casino, in Melbourne, Australia and the Burswood Casino, in Perth, Australia and two luxurious hotels namely the Crown Hotel and the Crown Promenade Hotel, both located in Melbourne, Australia. In addition to its entertainment and casino complexes, PBL currently owns and operates the high audience-rated free-to-air television network in Australia, Nine Network, and Australia's largest magazine publisher, ACP Magazines. However, it recently announced plans to sell 50% of its television and magazine business and expects to complete this sale in early 2007.

Pursuant to the Deed between the Company and PBL, Melco PBL Entertainment (Macau) was established as the principal holding company vehicle for the Joint Venture business in Macau in the first quarter of 2005, owned as to 50% by the Company and as to 50% by PBL. Under the Deed relating to the ownership and operation of Melco PBL Entertainment (Macau) and its subsidiaries, the Company and PBL have rights to appoint equal number of directors to the board of Melco PBL Entertainment (Macau). There is no casting vote in the event of a tied vote at a board meeting and the agreements do not contain deadlock resolution provisions. The right to appoint the chairman of Melco PBL Entertainment (Macau) alternates on an annual basis between the Company and PBL, but the chairman does not have a casting vote in the event of a tied vote at meetings of the board.

Under the Deed, the Company and PBL have agreed to share the economic value and benefits (and the associated risks, liabilities, commitments and capital contributions) of all gaming projects and businesses in Macau currently operated and to be developed by the Joint Venture on a 50:50 basis and all other gaming projects and businesses of the Joint Venture in the rest of the Territory also on a 50:50 basis.

Structure of the Joint Venture Companies

The reorganization under a memorandum of agreement dated 5 March 2006 and entered into between the Company and PBL (as amended by a supplemental agreement between the same parties entered into on 26 May 2006) whereby MPBL Gaming was to become a Joint Venture Company in respect of which the Company and PBL would share the economic value and benefits (and the associated risks, liabilities, commitments and capital contribution) on a 50:50 basis, as described in the Company's shareholders' circular of 30 May 2006, has been completed in accordance with the terms described therein, and the simplified group structure of the Joint Venture Companies on completion of the reorganization is as follows:–



Notes:

(1) The box illustrates companies comprised within the Joint Venture.

(2) Great Wonders and Melco Hotels are wholly owned by MPBL Gaming (other than nominal shares owned by other group companies as required under Macau Law).

As at the date hereof, the principal assets and gaming projects of the Joint Venture in Macau are as follows:

(a) The Subconcession held by MPBL Gaming;

(b) The Crown Macau luxury hotel and casino project in Taipa, Macau which is currently being developed by Great Wonders;

(c) The City of Dreams integrated entertainment resort on the Cotai Strip in Macau which is currently being developed by Melco Hotels; and

(d) The electronic gaming machine lounges operated by MPBL Gaming under the "Mocha Club" brand.

In addition, on 17 May 2006, Melco PBL (Macau Peninsula), a wholly owned subsidiary of Melco PBL Entertainment (Macau), entered into a conditional agreement to purchase, subject to significant conditions within the control of third parties unrelated to Melco PBL Entertainment (Macau) and the seller, the entire issued share capital of a company holding the rights to a land lease grant in respect of a 6,480 square metres site on the Macau Peninsula, for the development of an apartment hotel and casino project (if the acquisition is completed). Details of this transaction are disclosed in the Company's announcement dated 17 May 2006.

The Subconcession

As announced by the Company on 10 October 2006, Macau Government approval was granted for MPBL Gaming, the holder of the Subconcession, to become a subsidiary of the Joint Venture in accordance with the terms of the reorganization described in the Company's shareholders' circular dated 30 May 2006. That reorganization was formally completed on 22 November 2006 in accordance with the terms described in that shareholders' circular. Accordingly, the Joint Venture, through MPBL Gaming, is now the holder of the Subconcession, which permits the Subconcession holder to operate casinos and games of fortune or chance in Macau.

As announced by the Company on 11 September 2006, the entire amount of the premium of US$900 million payable for the acquisition of the Subconcession has been paid. As contemplated by the Company's shareholders' circular of 30 May 2006, the consideration was provided as to an amount of US$160 million by the Company, an amount of US$240 million by PBL and the balance of US$500 million by a loan facility entered into by MPBL Gaming on 4 September 2006 with lenders led by Australia and New Zealand Banking Group Limited, Banc of America Securities Asia Limited, Barclays Capital and Deutsche Bank AG, Hong Kong Branch. In September 2006, the loan facility was drawn to pay US$500 million of the US$900 million due to Wynn Macau. The US$500 million indebtedness from the loan facility became part of the consolidated debt upon the transfer of control of MPBL Gaming to Melco PBL Entertainment (Macau) in October 2006 and will be repaid from part of the net proceeds of the Global Offering.

In addition to the initial US$900 million paid to Wynn Macau when the Subconcession was obtained, certain payments are required to be made to the Macau Government every year, including a fixed annual premium per year of MOP30 million (US$3.7 million) and a variable premium depending on the number and type of gaming tables and gaming machines that have been operated by MPBL Gaming. The variable premium will be calculated as follows:

(1) MOP300,000 (US$37,341) per year for each gaming table (subject to a minimum of 100 tables) located in special gaming halls or areas reserved exclusively for certain kind of games or to certain players;

(2) MOP150,000 (US$18,671) per year for each gaming table (subject to a minimum of 100 tables) not reserved exclusively for certain kind of games or to certain players; and

(3) MOP1,000 (US$124) per year for each electrical or mechanical gaming machine, including slot machines.

In future periods beginning in the fourth quarter of 2006, the following related charges will be incurred by Melco PBL Entertainment (Macau) as a result of having obtained the Subconcession:

- *Amortization expense of the Subconcession* – Melco PBL Entertainment (Macau) is required to amortize the US$900 million paid as consideration for the Subconcession on a straight-line basis over the life of the Subconcession contract, which is until 2022, and will charge the amortization expense to the consolidated income statement of Melco PBL Entertainment (Macau) beginning from the date the Subconcession was obtained.

- *Interest expense* – Melco PBL Entertainment (Macau) will incur additional interest expense in connection with the debt required to fund the payment for the Subconcession.

The Crown Macau

Construction of the Crown Macau began in December 2004 and it is currently targeted to open in the second quarter of 2007. The topping off of the Crown Macau was completed in November 2006. The Crown Macau is being developed to offer a luxurious premium hotel and casino resort experience by offering premium entertainment, elegant facilities, high quality service and rich décor, and is being designed with the aim of exceeding the average five-star hotel in Macau catering primarily to the high-end gaming market. The property will feature a 36-storey tower, including approximately 183,000 square feet of gaming space, with approximately 220 gaming tables and more than 500 gaming machines, together with a luxury premium hotel with approximately 216 deluxe hotel rooms, including 24 suites and eight villas. Of the approximately 220 gaming tables, approximately 50 will be high-limit tables. The Crown Macau will also feature a range of high quality non-gaming entertainment venues, including a number of restaurants and dining facilities, a swimming pool, a spa and gymnasium, outdoor garden podium and a sky-terrace lounge.

Total project costs up to opening (inclusive of part of the value of land costs, land premium, anticipated construction costs, furniture, fixtures and equipment, pre-opening expenses, capitalized fees and finance costs, cage cash and initial working capital requirements) are currently budgeted at approximately US$512.6 million. As of 30 September 2006, Great Wonders had paid approximately US$260.3 million of the budgeted project costs, most of which represented payments due to its contractors as well as the payment of land costs and land premium. With equity contributions from the Company and PBL, part of the proceeds of the Global Offering and the HK$1,280 million syndicated term loan facility granted by a syndicate led by Bank of China Limited, Macau Branch, and Banco Nacional Ultramarino, S.A. to finance the construction of the Crown Macau entered into by Great Wonders to finance construction of the Crown Macau, it is anticipated that Melco PBL Entertainment (Macau) will have sufficient funding to complete construction of the project.

In March 2006, the Macau Government granted to Great Wonders a 25-year renewable lease for an approximately 6,200 square metre site for Crown Macau. The Macau Government has approved a developable site area of approximately 95,000 square metres. Under the lease, Great Wonders is obliged to pay a land premium of approximately MOP149.7 million with MOP50 million due at signing of the lease, which was paid on 25 November 2005, and the balance due in four equal semi annual instalments bearing interest of 5% per annum. The outstanding balance was paid in full in July 2006. A guarantee deposit of MOP157,000 was payable on signing of the lease, subject to adjustments in accordance with the amount of rent payable during the year. During the construction period, rent would be due at an annual rate of MOP30 per square metre of land, or an aggregate of MOP157,000. After construction, annual rent per square metre will be MOP15 for the hotel, MOP10 for the parking lot and MOP10 for outdoor areas, or an aggregate amount of MOP1,370,000. The rent amounts will be adjusted every five years as agreed between the Macau Government and Great Wonders using the applicable market rate in effect at the time of the rent adjustments.

Great Wonders entered into a contract with Paul Y. Construction Company, Limited, for the construction and design of the Crown Macau. The total contract price for the construction works and development of Crown Macau is approximately HK$2.1 billion comprising a fixed "lump sum" cost of approximately HK$1,386 million or below, a provisional and contingency cost of approximately HK$603 million and a fee payable to Paul Y. Construction Company, Limited of approximately HK$110 million. The guaranteed date of practical completion for the casino and hotel is on or before April 2007 under the contract. However, cost increases that are due to causes that are not included in the agreed contract price will be borne by Great Wonders and will require Great Wonders to obtain additional funding from the Company and PBL or in the debt or equity markets.

The City of Dreams

Site preparation of the City of Dreams began in the second quarter of 2006 and substantial piling work has commenced at the site. It is currently intended that City of Dreams will be developed into a "must-see" integrated casino resort, entertainment, retail and food and beverage complex that will be attractive to a wide range of customers, with particular focus on mass market individual and group customers, including families.

The City of Dreams will be located on the Cotai Strip, a newly reclaimed area of Macau between the islands of Taipa and Coloane, which has been master-planned for the development of a series of major Las Vegas Strip-style hotel casino resorts featuring large-scale casino floors and a range of supporting entertainment and hospitality facilities such as a performance hall, exhibition and conference facilities, showrooms, shopping malls, spas and other attractions. The City of Dreams will be well-positioned at the northern end of the Cotai Strip, which will make it one of the closest destination resorts on the Cotai Strip to the Macau International Airport and the newly planned Hong Kong/Macau Ferry Pier.

The City of Dreams is targeted to be completed in two phases, with the completion of the first phase targeted for late 2008 and the second phase targeted for the second half of 2009. It is currently expected that the casino to be substantially completed during the first phase, along with two of the four hotels and most of the retail stores and food and beverage outlets. It is also currently anticipated that the performance hall will be completed in the second half of 2008. The second phase of the project is targeted to be completed on the second half of 2009, principally comprising the remaining third and fourth hotels and subject to Macau government approval and approval of levels under the debt facilities, one block of luxury serviced apartments units. The performance hall is expected to offer 2,000 seats and to be completed in the second half of 2008 and be ready to host performances in the second quarter of 2009.

Current plans for the underwater-themed casino are for approximately 420,000 square feet of gaming space housing approximately 450 gaming tables (including approximately 50 high-limit tables in exclusive VIP salons) and approximately 2,500 gaming machines, with potential for future expansion. It is planned that the four full service luxurious hotels, with a total of approximately 1,600 rooms, will consist of (1) a luxury premium hotel designed with the aim of exceeding the average five-star hotel in Macau to be operated under the Crown Towers brand with approximately 260 rooms, suites and villas; (2) two hotels to be operated under the Grand Hyatt and Hyatt Regency brands with approximately a total of 970 rooms and suites; and (3) a themed hotel to be operated under the Hard Rock brand with approximately 380 rooms and suites. It is also planned to develop one block of luxury serviced apartment units, for both long and short-term occupancy in phase two of the project, and a second block may be developed thereafter, which may be subject to Macau government approval and approval of lenders under the debt facilities and depending on the then market conditions at that time.

The total cost of constructing and developing both phases of the City of Dreams (inclusive of anticipated land and construction costs, furniture, fixtures and equipment, pre-opening expenses, capitalized fees and finance costs and initial working capital requirements) is currently budgeted at approximately US$2.1 billion (the second block service apartment units exclusive). As of 30 September 2006, Melco Hotels had expended approximately US$166 million of the budgeted project costs for the City of Dreams primarily for land costs and land premium, construction costs, design and consultation fees. It expects to fund the project costs from equity contributions by the Company and PBL, part of the proceeds of the Global Offering and a US$1.6 billion secured credit facility which it has signed a commitment letter with certain banks as arrangers.

The Macau Government has offered to grant Melco Hotels a 25-year renewable lease for the development rights in respect of two adjacent land parcels on the Cotai Strip in Macau with a combined area of 113,325 square metres (approximately 1.2 million square feet) for the City of Dreams, which offer was accepted by Melco Hotels on 10 May 2005. The Macau Government has given approval for a developable gross floor area at the site of 403,692 square metres. The proposed lease terms require Melco Hotels to pay a land premium of approximately MOP509 million with MOP170 million due at signing of the lease and the balance due in nine equal semi annual instalments bearing interest of 5% per annum. Melco Hotels must also provide a guarantee deposit of MOP2,290,000, subject to adjustments in accordance with the relevant amount of rent payable during the year. It is expected that the above land premium may be adjusted if the Macau Government accepts Melco Hotels' request to increase the developable gross floor area to 452,400 square metres. No payment had been made in respect of this offer by Melco Hotels as at 30 September 2006.

During the construction period, Melco Hotels will pay the Macau Government rent at an annual rate of MOP20 per square metre of land, or an aggregate annual amount of MOP2,290,000. Following completion of construction, annual rent per square metre will vary depending on the use of the areas within the site. The rent amounts may be adjusted every five years.

Mocha Slot Business

MPBL Gaming is the operator of the Mocha Slot gaming machine clubs business, which currently features a total of approximately 1,000 gaming machines in six locations under the Mocha Club brand, and comprise the largest non-casino based operations of electronic gaming machines in Macau. By combining machine based gaming with an up-scale decor and cafe ambiance, MPBL Gaming aims to improve on Macau's historically limited service to mass market and casual gaming patrons outside the conventional casino setting in Macau and capitalize on the significant growth opportunities from machine based gaming in Macau.

Currently, MPBL Gaming operates six Mocha Clubs with an aggregate of over 1,000 gaming machines. In 2005 and the nine months ended 30 September 2006, the Mocha Slot Business generated total revenue of US$17.3 million and US$18.2 million respectively, substantially all of which were from the Mocha Club operations.

Macau Peninsula Site Project

Melco PBL Entertainment (Macau), through its subsidiary Melco PBL (Macau Peninsula), is in the process of acquiring a third development site, located on the shoreline of the Macau Peninsula near the Macau Ferry Terminal. Completion of the acquisition of the company holding the rights to a land lease grant in respect of the site is expected to take place in the first quarter of 2007 and contemplated opening in the middle of 2009, if the site is acquired. However, as referred to in the Company's announcement dated 17 May 2006, Shareholders should note that there is no assurance that the conditions precedent to completion of that acquisition will be fulfilled or that completion will take place within that timeframe or at all. If completion does not take place because the conditions precedent are not fulfilled, the acquisition agreement will terminate and the down payment will be refunded to Melco PBL (Macau Peninsula). Melco PBL Entertainment (Macau) is currently considering plans to develop the site into a mixed-use casino and apartment hotel facility, targeting primarily at day-trip gaming patrons. High-end residential apartments may also be included in this project. Based on preliminary estimates and conceptual designs, the total project costs for the Macau Peninsula project are currently budgeted at a range of approximately

US$650 million to US$700 million, which includes anticipated land and construction costs, land premium, furniture, fixtures and equipment, pre-opening expenses, capitalized fees and finance costs, cage cash and initial working capital requirements. As of 30 September 2006, Melco PBL (Macau Peninsula) had paid approximately US$12.9 million of the budgeted project costs, which related to the deposit for the acquisition of the land.

Macau Studio City Project

MPBL Gaming expects to enter into a services agreement with New Cotai Entertainment, LLC, under which MPBL Gaming will operate the casino portions of the Macau Studio City project, being a large scale integrated gaming, retail and entertainment resort development that is targeted to open on the Cotai Strip during 2009. The project is being developed by a joint venture between eSun Holdings Limited and New Cotai Holdings, LLC, which is primarily owned by investment funds and David Friedman, a former senior executive of Las Vegas Sands. While the definitive terms of the services agreement remain subject to finalization, it is anticipated that a percentage, to be agreed upon, of the gross gaming revenues from the casino operations of the Macau Studio City will be retained by MPBL Gaming. Melco PBL Entertainment (Macau) will not be responsible for any of the project's capital development costs and the operating expenses of the casino will be substantially borne by New Cotai Entertainment.

Unaudited consolidated financial information on Melco PBL Entertainment (Macau) for the nine-month period ended 30 September 2006

As disclosed in the registration statement of Melco PBL Entertainment (Macau), the total consolidated revenue of Melco PBL Entertainment (Macau) for the nine-month period ended 30 September 2006 was approximately US$18.2 million and the consolidated net loss for the same period was approximately US$20.5 million. Total shareholders' equity of Melco PBL Entertainment (Macau) as of 30 September 2006 was approximately US$368.2 million and the total assets and total liabilities were approximately US$636.1 million and US$254.0 million respectively.

Shareholders should note that the figures above are extracted from the registration statement of Melco PBL Entertainment (Macau) and the unaudited consolidated financial statements therein have been prepared in accordance with accounting principles generally accepted in the US ("US GAAP").

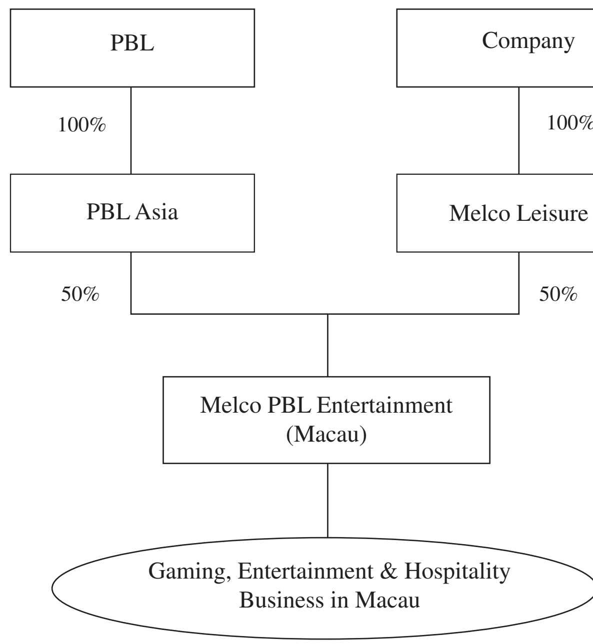
Contributions to the Joint Venture Companies

As at the date hereof, the Company and PBL have made equity contributions to Melco PBL Entertainment (Macau) and its subsidiaries totalling approximately US$818 million in cash and non-cash, including funding indirectly provided to MPBL Gaming to provide US$400 million of the US$900 million paid to Wynn Macau upon the granting of the Subconcession. Melco and PBL have also made contributions in the form of shareholders' loans of which the sum of US$186 million is outstanding to date. These additional contributions were not for the purpose of acquiring the Subconcession, rather they represent general working capital for the Joint Venture Companies. To the extent that the Company is obliged to make further disclosure in relation to its contribution to the Joint Venture Companies, this will be made by separate announcement under the Listing Rules.

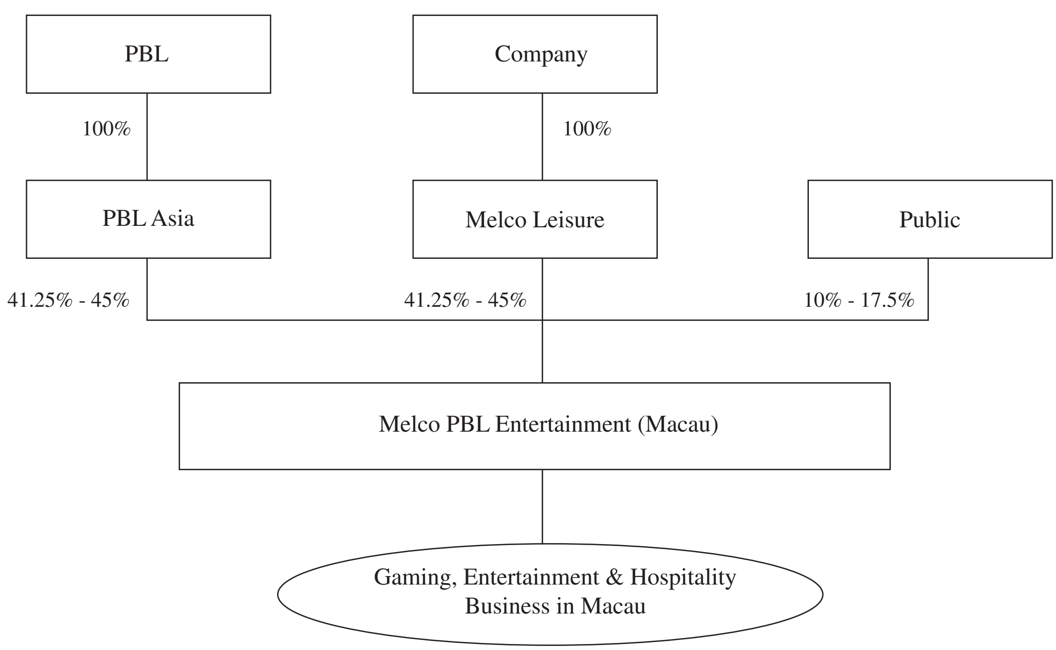
Effect on shareholding of the Proposed Spin-off

The shareholding structures of the Joint Venture Companies prior to and following the Proposed Spin-off (exclusive of shares that may be issued on the exercise of any over allotment option granted in connection with the Global Offering) are illustrated in simplified form below:

Shareholding structure prior to Proposed Spin-off



Shareholding structure following the Proposed Spin-off



Termination of the Deed

It is anticipated that the Company and PBL will terminate the Deed upon completion of the Global Offering. However, it is also anticipated that the Company and PBL will continue to have an agreement as shareholders of Melco PBL Entertainment (Macau) (pursuant to which Melco PBL Entertainment (Macau) will also be a party) under which they will each agree to vote for three nominees to the board of directors of Melco PBL Entertainment (Macau) designated by the other, which will assure the election of six nominees to the board of Melco PBL Entertainment (Macau) nominated by the Company and PBL. The Company and PBL will also each have certain rights of first refusal or first offer regarding transfers of the shares held by them in Melco PBL Entertainment (Macau). The Company and PBL have agreed (pursuant to the shareholders' agreement) with Melco PBL Entertainment (Macau) that Melco PBL Entertainment (Macau) will be the exclusive vehicle of the Company and PBL to carry on casino, gaming machine and casino hotel operations in Macau.

Directorship and Management

The Board of Directors of Melco PBL Entertainment (Macau) will comprise a total of ten directors, of which four will be independent non-executive directors. Of the remaining six executive directors, it is anticipated that two executive directors would also be directors of the Company, one would be appointed from the existing senior management of the Group (whereupon he would cease to have a position with the Retained Group) and the other three would be nominated by PBL.

It is intended that Mr. Lawrence Ho be one of the two directors of the Company who would also serve as an executive director of Melco PBL Entertainment (Macau). It is contemplated that Mr. Ho (who is also the chief executive officer of the Company) and Mr. James Packer (the executive chairman of PBL) will each serve as co-executive chairman of Melco PBL Entertainment (Macau) and that Mr. Ho will also have the title of chief executive officer of Melco PBL Entertainment (Macau). It is anticipated that Mr. Ho's role as co-executive chairman and chief executive officer would relate mainly to the strategic direction and development of Melco PBL Entertainment (Macau) and he will be supported at that company by a full-time chief operating officer, who will be responsible for the day to day management and operations, as well as a full time chief financial officer who will be responsible for the day to day financial aspects of the management operations.

It is not envisaged there would be any difficulty in Mr. Ho discharging his roles at both the Company and Melco PBL Entertainment (Macau), particularly, as Melco PBL Entertainment (Macau) is a holding company with business operations carried out at each individual business unit/project level. Each individual project within the Joint Venture (and any future hotel and casino projects) is intended to be operated by a separate Joint Venture Company and managed by separate full time chief executive officers and senior management teams of the relevant project subsidiaries.

Independence of Administration

The business model of Melco PBL Entertainment (Macau) involves the acquisition of land, the development of hotel and casino complexes and/or resorts on that land and, following completion of the construction phase, the operation of the developments, comprising one or more casinos and one or more hotels together with ancillary facilities. It is intended that each existing project of the Joint Venture is being developed, and will be managed, by a separate subsidiary of the Joint Venture with its own management team and it is intended that this business model will be applied to all future projects of the Joint Venture. In addition, each of the hotels within a project will be operated by an independent professional hotel management company which will have its own management team responsible for the day to day management and operations of the relevant hotel.

There is currently no sharing of back office functions or other administrative support functions between the Retained Group and Melco PBL Entertainment (Macau) save for some of the accounting, legal and compliance and human resources functions of the Joint Venture Companies (of which only the Mocha Slot business has commenced operations) which are currently managed by the Retained Group. It is intended that following the Proposed Spin-off, and the first of the hotel and casino businesses of Melco PBL Entertainment (Macau) becoming operational, the Joint Venture Companies will carry out their own administrative functions, including finance and accounting, administration and operations, information technology, human resources, and legal and compliance functions.

The Joint Venture Companies have been assembling the management and administration team for the Crown Macau and it is expected that the Crown Macau will have a comprehensive management team in place shortly, including the necessary administrative function. It is also expected that all administrative functions of the Joint Venture Group will be handed over to the Joint Venture Group prior to the Proposed Spin-off of the Melco PBL Entertainment (Macau).

REASONS FOR, AND BENEFITS OF, THE PROPOSED SPIN-OFF

The Board believes that the Proposed Spin-off will bring a number of benefits to both the Company and Melco PBL Entertainment (Macau), including the following:

(a) ***Alternative valuation for Gaming Business:*** a separate listing of Melco PBL Entertainment (Macau) will allow it to achieve a fuller valuation potential, which will in turn be beneficial to the Company as a substantial shareholder of Melco PBL Entertainment (Macau).

(b) ***Attractive investment:*** following the Proposed Spin-off, the Company will be interested in approximately 41% to 45% of the issued shares of Melco PBL Entertainment (Macau) (from the current 50%). The Company will continue to hold a substantial interest in Melco PBL Entertainment (Macau), meaning that the Company should continue to be an attractive investment opportunity, given the diversified mix of income flow from the Retained Business and, ultimately, from its substantial retained interest in Melco PBL Entertainment (Macau).

(c) ***Clarity of business and financial status:*** the separate listing should provide investors, the investment market and rating agencies with greater clarity on the businesses and financial status of the Company and Melco PBL Entertainment (Macau).

(d) ***Increased operational focus for the Company:*** the separate listing is expected to enable the Company's management to focus on building the Retained Business and reduce the resource commitment for the Company in managing Melco PBL Entertainment (Macau)'s day-to-day operations.

(e) ***Providing new sources of capital:*** a NASDAQ listing is expected to facilitate access by Melco PBL Entertainment (Macau) to both equity and debt capital markets, as well as the bank credit market providing new and more diversified funding sources to finance the Joint Venture Companies' existing operations and future expansion.

(f) ***Creates own investor base for Melco PBL Entertainment (Macau):*** a separate listing of Melco PBL Entertainment (Macau) will enable it to create its own investor base and facilitate its ability to raise capital in future. A stand-alone company would lead to the availability of clearer and more transparent information on its business operations and financial status, thereby allowing the research community and rating agencies to provide coverage on Melco PBL Entertainment (Macau) in a manner more comparable to industry peers which are currently listed on NASDAQ.

The Proposed Spin-off is designed to facilitate the future growth of both the Joint Venture Companies and the Retained Group. As the Company will, together with PBL, remain a controlling shareholder of Melco PBL Entertainment (Macau), the Shareholders will continue to enjoy the benefits from the development of the business of the Joint Venture Companies.

The Global Offering is treated as a spin-off of the Company under PN 15 because whilst PN 15 is normally only applicable to an issuer and an entity which is a subsidiary of the issuer, under the Listing Rules, an entity will be treated as if it were a subsidiary of the issuer for the purposes of PN 15 if such entity is at the time of submission of the spin-off proposal an associated company of the issuer and was, at any time during the last completed financial year (comprising at least 12 months) up to the date of submission of the spin-off proposal, a subsidiary of the issuer. Although Melco PBL Entertainment (Macau) has not been a subsidiary of the Company at any time, Great Wonders and Melco Hotels have been subsidiaries of the Company within the last completed financial year of the Company and the Mocha Slot electronic gaming machine lounge business was operated by Mocha Slot and its subsidiaries, each of which has been a subsidiary of the Company within the last completed financial year. Accordingly, Melco PBL Entertainment (Macau), on completion of the Proposed Spin-off will itself have subsidiaries that were formerly subsidiaries of the Company (but which have ceased to be subsidiaries of the Company within the past financial year).

In determining the separate listing on NASDAQ, the Company and PBL considered the listings of other large gaming and entertainment companies with similar business models as Melco PBL Entertainment (Macau), including companies operating other gaming concessions or subconcessions in Macau which have US listings. The Company believes a US listing will provide Melco PBL Entertainment (Macau) with a greater number of market comparables and historically wider analyst coverage.

INTENDED USE OF PROCEEDS

Melco PBL Entertainment (Macau) is targeting to raise gross proceeds of approximately US$900 million (HK$7,020 million) in the Global Offering (subject to factors such as the offer size, final offer price per ADS in the Global Offering, the exercise of any over allotment option and the relevant commissions and expenses). Net proceeds from the Global Offering, currently estimated at approximately US$842 million (HK$6,568 million), are currently expected to be used as to approximately US$514 million (HK$4,009 million) to repay the principal and accrued interest on the loan facility in respect of the Subconcession; and as to the balance to pay development costs of the Crown Macau and City of Dreams and site acquisition and development costs of the Macau Peninsula project and to fund working capital and for other general corporate purposes.

CONDITIONS TO THE PROPOSED SPIN-OFF

The Proposed Spin-off is conditional on, among other things, the following:

(a) the Shareholders passing the ordinary resolution to be proposed at the EGM to approve the Proposed Spin-off;

(b) the registration statement in respect of the Melco PBL Shares being declared effective by the SEC and NASDAQ granting approval for the listing of the ADSs; and

(c) the obligations of the underwriters, under the underwriting agreements to be entered into between, among others, the Company, PBL, Melco PBL Entertainment (Macau), the joint bookrunners and the underwriters appointed in respect of the Global Offering becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by or on behalf of the underwriters) and those agreements not being terminated in accordance with their terms or otherwise, on or before the dates and times to be specified therein details of which will be set out in the Prospectus.

If these or any other applicable conditions are not fulfilled or waived (if applicable) prior to the dates and times to be specified, the Proposed Spin-off will lapse and a notice will be published by the Company as soon as practicable after such lapse.

As the separate listing of Melco PBL Entertainment (Macau) pursuant to the Proposed Spin-off is subject to, among other things, the conditions of the equity markets, the approval of NASDAQ and the relevant United States regulatory process the Proposed Spin-off may or may not proceed. If the Proposed Spin-off does not occur, the Assured Entitlement will also not occur.

FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF

Following the implementation of the Proposed Spin-off, the Company's interest in Melco PBL Entertainment (Macau) will decrease from 50% to between approximately 41% to 45% (exclusive of shares that may be issued on the exercise of any over allotment option granted in connection with the Global Offering). Based on prevailing market conditions, the gross proceeds of the Global Offering are targeted to be approximately US$900 million (HK$7,020 million), subject to factors such as the offer size, the final offer price per ADS in the Global Offering, the exercise of the over-allotment option and the relevant commissions and expenses.

Effect on net asset value

As at 31 December 2005, the audited net asset value of the Group was approximately HK$4,188 million. After taking into account the restructuring of the Group, including the acquisition of the Subconcession, which was completed on 22 November 2006 (the details of which were disclosed in the shareholders' circular of the Company dated 30 May 2006), the net asset value of the Group was approximately HK$3,786 million. Net proceeds from the Global Offering are estimated to be approximately US$842 million (HK$6,568 million) and the carrying amount of the Group's 41% – 45% interest in Melco PBL Entertainment (Macau) is expected to increase upon completion of the Proposed Spin-off and Global Offering. As a result, the net asset value of the Group is expected to increase to a range of approximately HK$6,073 million to HK$6,500 million immediately following the completion of the Proposed Spin-off.

Effect on gearing

As at 31 December 2005, the total borrowings of the Group were approximately HK$1,110 million (including bank borrowings of HK$28 million, convertible loan notes of HK$1,037 million, shareholders' loan of HK$45 million and obligations under finance leases of HK$0.1 million) and the shareholders' equity was approximately HK$3,558 million. The gearing ratio of the Group (calculated as total borrowings to shareholders' equity) was approximately 31.2%. After the completion of the restructuring of the Group on 22 November 2006, the Joint Venture Companies will no longer be accounted for as the Company's subsidiaries and their associated borrowing will also not be consolidated into the Group's consolidated balance sheet. As a result of the completion of the restructuring and the Proposed Spin-off, the gearing ratio of the Group (calculated as total borrowings to shareholders' equity) is expected to decrease to approximately 16.6% to 17.8%.

Effect on earnings

Following the implementation of the Proposed Spin-off, the Company's interest in Melco PBL Entertainment (Macau) will decrease from 50% to between approximately 41% to 45% (exclusive of shares that may be issued on the exercise of any over allotment option granted in connection with the Global Offering). As a result, loss from equity interest in Melco PBL Entertainment (Macau) will be reduced. The net asset value of the Group is expected to increase from approximately HK$3,786 million (as disclosed in the shareholders' circular of the Company dated 30 May 2006) to a range of approximately HK$6,073 million to HK$6,500 million immediately following the completion of the Proposed Spin-off. As such, the Company is expected to recognize a gain as a result of the Proposed Spin-off of approximately HK$2,287 million to HK$2,714 million.

Methodology

In order to better reflect the underlying value of the ADSs, it is proposed that the valuation of the ADSs should only be carried out at a time closer to the date of the Global Offering. Hence, the preliminary estimated effects mentioned above are only based on a tentative valuation and will be subject to adjustments, taking into account, amongst other things, the then conditions of the market and the Company.

The financial effects as disclosed above were derived taking into account of the following:

1. Audited financial information of the Group as of 31 December 2005;

2. Unaudited Pro-forma Assets and Liabilities Statement of the Group as disclosed in the shareholders' circular of the Company dated 30 May 2006;

3. Net proceeds of approximately US$842 million (HK$6,568) million, net of relevant commissions and expenses to the Global Offering;

4. The Company's interest in Melco PBL Entertainment (Macau) decreasing from 50% to between approximately 41% to 45%; and

5. The restructuring of the Group (including but not limited to the capital contribution to MPBL Gaming and change in the Company's interest in the Macau business from 60% to 50%) as disclosed in the Shareholders' circular of the Company dated 30 May 2006 having been completed and these companies ceasing to be subsidiaries of the Group.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Year ended 31 December 2005

As disclosed in the 2005 annual report of the Company, the Group's consolidated turnover increased 47% to approximately HK$600.6 million and the net profit attributable to the shareholders increased 819% to approximately HK$548.7 million , mainly attributable to the gain on disposal of partial interest in Mocha Slots and Great Wonders of HK$514.4 million arising from the formation of the joint venture for the year ended 31 December 2005.

Leisure, gaming and entertainment

The Group's leisure, gaming and entertainment division in 2005 consisted of Mocha Slot, Crown Macau, The City of Dreams and Jumbo Kingdom. For the year ended 31 December 2005, the division recorded a turnover of approximately HK$241.9 million (which represents approximately 40% of the Group's total turnover) as compared to that of 2004 in the amount of approximately HK$123 million and segmental profit surged 95 times to approximately HK$539.7 million as compared to that of 2004 in the amount of approximately HK$5.6 million, of which, approximately HK$514.4 million was deemed profit upon the disposal of partial interests in Mocha Slot and Great Wonders arising from the formation of the Joint Venture. Excluding this extraordinary gain, segmental profit of the division still reported growth at an encouraging 348%.

Investment banking and financial services

For the year ended 31 December 2005, turnover of this division amounted to approximately HK$115.1 million (which represents approximately 19% of the Group's total turnover). Segmental profit for the year ended 31 December 2005 was approximately HK$12.9 million.

Technology

The Group's technology division recorded a turnover of approximately HK$197.5 million for the year ended 31 December 2005 (which represents approximately 33% of the Group's total turnover) as compared to that of 2004 in the amount of approximately HK$154.8 million, representing an increase of 28%. Segmental profit after the elimination of intercompany transactions amounted to HK$21.9 million as compared to that of 2004 in the amount of approximately HK$14.5 million.

Property and other investment

During the year of 2005, the turnover and segmental profit of this division were approximately HK$46.2 million (which represents approximately 8% of the Group's total turnover) as compared to that of 2004 in the amount of approximately HK$3.9 million and HK$56.4 million as compared to that of 2004 in the amount of approximately HK$65.3 million respectively, owing to the increase in income from the Group's treasury function. Profit in the year ended 31 December 2004 was mainly attributable to the gain on disposal of an investment property of the Group, with approximately HK$57.2 million being recorded.

Six months ended 30 June 2006

For the six months ended 30 June 2006, the Group reported an increase in operating profit of 10% to approximately HK$64.4 million compared to the six months ended 30 June 2005. The Group reported a loss of approximately HK$29.0 million mainly due to a number of non-recurring items, particularly the write-down of intangible assets amounting to HK$90.4 million arising from the termination of service agreements with SJM and the pre-opening operating expenses in respect of the development of Crown Macau and City of Dreams. The Group's leisure, gaming and entertainment division recorded a segmental loss of HK$24.5 million primarily due to the pre-opening operating expenses of HK$31.5 million as discussed above. Segmental profit for the Group's investment banking and financial services division was approximately HK$20.6 million, a 255% increase compared to the same period in 2005. The Group's technology division and property and other investment division also achieved significant growth in 2006 with segmental profits of approximately HK$9.5 million (after elimination of intercompany transaction) and HK$48.6 million respectively.

The Group financed its business operations and investments with internal resources, cash revenues generated from operating activities and short-term bank loans. As at 30 June 2006, the gearing ratio, expressed as a percentage of total borrowings of approximately HK$1,115.6 million (including bank borrowings, obligation under finance lease and convertible loan notes) over shareholders' fund of approximately HK$4,713.8 million, was at a satisfactory level of approximately 24%. All borrowings are denominated in Hong Kong dollars.

As at 30 June 2006, the Group's total available banking facilities from various banks amounted to HK$1,509.8 million, of which HK$80 million was secured by margin clients listed securities, HK$49.8 million was secured by pledging HK$85 million of the Group's investment properties, and HK$1.28 billion, which is a syndicated loan for the development of Crown Macau, the securities provided or to be provided by the Group include the first legal charge over the land and property of Crown Macau, assignment of income of Great Wonders, a promissory note representing the loan amount issued by Great Wonders and Melco PBL Entertainment (Greater China) Limited, pledge of shares in Great Wonders, assignment of the benefits of the insurance policies and building contracts relating to the development of Crown Macau and a floating charge of all assets of Great Wonders. As at 30 June 2006, the Group utilized HK$47 million and HK$3 million of unsecured and secured banking facilities respectively. Both amounts had matured and were repaid by 6 July 2006. On 30 June 2006, the Company provided a guarantee of HK$4.7 million to a supplier in respect of goods purchased by its subsidiaries.

Outlook

The Subconcession was finally approved and granted by the Macau Government on 8 September 2006. As announced by the Company on 10 October 2006, the Macau Government approval was granted in relation to the reorganisation of shareholdings of MPBL Gaming and as a result, control of MPBL Gaming was transferred to Melco PBL Entertainment (Macau). MPBL Gaming is the holder of the Subconcession and is also the direct operator of the Mocha Slot Business. As a result, Melco PBL Entertainment (Macau), which holds substantially all of the economic interests of MPBL Gaming should be able to tap the abundant opportunities in the Macau gaming industry directly and operate the Joint Venture's gaming businesses in Macau independently. The Company, holding approximately 41% to 45% of Melco PBL Entertainment (Macau) following the Proposed Spin-off, would indirectly enjoy such benefits.

The Company believes that, through MPBL Gaming's Subconcession, the Group is in a strong position to capitalize on Macau's growth and transformation.

For the technology business, the new alliances with world-class suppliers and manufacturers allow Elixir to engage in the businesses of the most advanced and well-received gaming related products, which are expected to make a significant contribution to the Group in the long run.

For investment banking and financial services, with a solid foundation established in the past few years, Value Convergence is planning to expand its product portfolio and the geographical coverage of its services. Plans to establish a direct investment fund and a real estate investment fund, capturing opportunities in the leisure, entertainment and property sector in Macau, are underway and progressing well.

The Company intends to further develop its property business in a focused manner by concentrating on investing in strategic and quality commercial and residential properties in prime locations of Hong Kong and Macau.

Employees

As of 30 June 2006, the Group had approximately 916 employees and represents approximately 8.8% increase from 31 December 2005. Amongst the 916 employees, 422 are located in Hong Kong and the remaining are based in Macau and the PRC. All of the Group's employees are given equal opportunities for advancement and personal growth. The Group's reward principle is primarily performance based and it rewards its employees competitively, based on their job responsibilities, performance and contribution to business results as well as professional and managerial competencies.

INFORMATION ON THE RETAINED BUSINESS

On completion of the Proposed Spin-off, the Company will continue to hold between approximately 41% to 45% of Melco PBL Entertainment (Macau) (exclusive of shares that may be issued on the exercise of any over allotment option granted in connection with the Global Offering) and will also remain the holding company of the Retained Group.

The Retained Group employs over 400 staff members to operate the Retained Business. The net book value of its operating assets is in excess of HK$2.5 billion.

The Retained Business comprises the following businesses:

(a) Technology Business

The Technology Business is carried on by the Elixir Group and iAsia. The Elixir Group is a leading gaming IT infrastructure and systems integration specialist, while iAsia is a computer software developer and leading provider of comprehensive online trading and related systems in Asia.

Based in Macau, the Elixir Group has established itself as a leading gaming IT infrastructure specialist capable of offering clients a full range of systems integration and network services.

It is anticipated that the Elixir Group will emerge as a leading gaming technology supplier in Asia, with exclusive representation of certain gaming equipment and systems of world-acclaimed brands, proprietary Asian customer focused game content developed through its research and development centre, and a significant Asian based sales and services capacity. It is anticipated that the rapidly expanding Asian gaming market will present significant opportunities for the Elixir Group to develop this part of its business.

Elixir had entered into an agreement ("Agreement") with a gaming machine and system manufacturer regarding the grant of an exclusive right to distribute certain gaming machines by Elixir. In return, Elixir will pay a portion of the profit from the sale of the gaming machines to the manufacturer in accordance with the Agreement of not less than approximately HK$43.2 million, HK$44.9 million and HK$44.3 million, respectively, for the three years starting from April 2006.

iAsia, based in Hong Kong, provides comprehensive online trading and related systems and services to financial institutions, intermediaries and other business entities, principally in Asia. It has continued to improve and integrate its existing online trading modules and related systems to enhance its product portfolio.

It is anticipated that iAsia will continue to expand their business of providing comprehensive on-line trading and related systems and services to financial institutions, intermediaries and other business entities, principally in Asia, and will continue to enhance its product portfolio and offerings.

(b) Investment Banking and Financial Services Business

The Investment Banking and Financial Services Business is conducted by Value Convergence, which has its shares listed on GEM (Stock Code: 8101). Since the acquisition of VC Capital Limited, VC Brokerage Limited and VC Futures Limited from the Cheung Kong Group and the Canadian Imperial Bank of Commerce in 2002, there has been significant growth in their market share in their respective industries. Today, Value Convergence has expanded into a regional investment banking group, offering a comprehensive range of financial services in the Greater China Region, including corporate finance, brokerage and futures, asset management, financing and financial and strategic investments.

The Company intends to seek to proactively grow its investment banking and financial services business, with a view to realising the Company's goal of Value Convergence becoming a full service investment bank. In this regard, a number of initiatives are currently underway or being actively considered by the Company.

(c) Property and other Investments Business

The Company's property business has a history dating back to 1988, and currently comprises a portfolio of commercial and residential properties in Hong Kong and Macau, which are held and actively managed to generate rental income returns and long term capital appreciation. The Company also has an active treasury management function holding a portfolio of liquid investments and cash. The Company actively manages and reviews its property investment portfolio on an ongoing basis and will periodically buy and sell properties depending on its investment strategy and market conditions.

Besides investing in strategic and quality properties in Hong Kong and Macau, the Company is also considering the possibility of selectively expanding its property portfolio by strategic property investments in major cities in the PRC.

The Company intends to continue its investment management and treasury investment activities on substantially the same basis as it currently undertakes those activities.

(d) Jumbo Kingdom

The Jumbo Kingdom business includes the Jumbo and Tai-Pak floating restaurants in Aberdeen, Hong Kong and the 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 area in Macau, the four-storey Chua Lam Gourmet Kitchen occupies an area of 24,000 sq. 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.

Jumbo currently also provides "franchising" or management consultancy services to open other "Jumbo" restaurants in major cities in Asia. The first project is a Jumbo restaurant in Manila.

The Company intends to continue to improve patronage at the Jumbo and Tai-Pak floating restaurants, to develop the Chua Lam Gourmet Kitchen in Macau into a substantial dining and tourist attraction in Macau and to actively pursue other opportunities for opening complementary restaurants in Hong Kong and Macau.

RELATED PARTY TRANSACTIONS

Following the completion of the Proposed Spin-off, the Joint Venture Companies and the Retained Group will continue to enter into or carry out certain transactions described below. Melco PBL Entertainment (Macau) is not a subsidiary of the Company and, accordingly, such transactions do not constitute connected transactions for the Company under the Listing Rules.

Service agreements between Elixir Group and MPBL Gaming

Elixir Group (Macau) Limited entered into three service agreements with Mocha Slot in April 2005 and December 2005, to provide systems integration and related maintenance services to the Mocha Slot gaming machine clubs. Elixir Group (Macau) Limited, Mocha Slot and MPBL Gaming entered into a novation agreement in relation to the service agreements whereby the parties agreed that MPBL Gaming would take the benefit of the rights and assume the obligations of Mocha Slot under the service agreements with effect from 21 September 2006 in accordance with their existing terms.

Lease of Premises at Kingsway Mocha

In August 2005, Melco Investment Holdings Limited, a wholly owned subsidiary of Melco and part of the Retained Group, purchased the property at which the Mocha Slot club at Kingsway, Macau operates. The Kingsway property was purchased by Melco Investment Holdings Limited from a third party seller for a consideration of HK$45,000,000. Prior to the purchase, the Kingsway property had been leased by the third party seller to Mocha Slot under a lease dated 28 December 2003 and sub-leased on identical terms to the lease to SJM for the operation of an electronic gaming machines lounge which commenced in September 2004. The lease to Mocha Slot was novated to MPBL Gaming pursuant to a novation agreement dated 21 September 2006 in accordance with its existing terms. As disclosed in the Company's announcement dated 23 March 2006, the sub-lease to SJM was terminated.

Non-competition agreement

Non-competition provisions are set out in the Deed entered into between Melco PBL Entertainment (Macau), the Company and PBL, pursuant to which the Company and PBL agree not to (and must ensure that their respective affiliates and major shareholders do not), other than through Melco PBL Entertainment (Macau) and its subsidiaries, directly or indirectly carry on a casino, gaming slots business or hotel casino business in Macau.

Support arrangements

The Company and PBL currently provide the Joint Venture Companies with administrative support and technical expertise in connection with the development of the Crown Macau, the City of Dreams and the Macau Peninsula site projects and the operation of the Mocha Slot business.

Registration rights

It is anticipated that Melco PBL Entertainment (Macau) will enter into a registration rights agreement with the Company and PBL prior to the Global Offering in respect of their respective shareholdings in Melco PBL Entertainment (Macau). This is because the Company and PBL are affiliates of Melco PBL Entertainment (Macau) and therefore, their respective shareholdings in Melco PBL Entertainment (Macau) are not able to be freely sold except pursuant to an effective registration statement under the US Securities Act or applicable exemptions.

Under such registration rights agreement, Melco PBL Entertainment (Macau) will grant the Company and PBL customary registration rights to register under the US Securities Act, the shares held by the Company or PBL (as the case may be) either on demand or in the context of an offering of ADSs by the Company or in the circumstances contemplated by Form F-3 issued under US securities laws. Such rights include a certain number of demand registration rights (being a right by the Company and PBL to demand Melco PBL Entertainment (Macau) to file a registration statement covering all or some of their shareholding), piggyback registration rights (a right to request their shares in Melco PBL Entertainment (Macau) be included in a registration statement that is filed for another offering) and Form F-3 registration rights (being a short form registration which should be available to Melco PBL Entertainment (Macau) 12 months after the Global Offering, and once Melco PBL Entertainment (Macau) is eligible to use Form F-3, the process of filing a registration statement in the US becomes less burdensome).

ASSURED ENTITLEMENT

In order to satisfy the requirement of PN15 to provide Shareholders with an assured entitlement to enable Shareholders to participate in the separate listing of Melco PBL Entertainment (Macau) on NASDAQ, the Board has passed resolutions:

(a) conditionally declaring a special dividend, payable to those Qualifying Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date; and

(b) resolving that the special dividend will be satisfied by the distribution in specie to those Qualifying Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date of one Distribution ADS for every whole multiple of 4,000 Shares (being four board lots) held by them at the close of business on the Record Date.

The Directors consider the arrangement of one Distribution ADS for every whole multiple of 4,000 Shares to be fair and reasonable.

Pursuant to Listing Rules, where a listed issuer proposes to distribute securities to its shareholders, it may, by virtue of Listing Rule 13.36(2), exclude relevant overseas shareholders in circumstances where the directors consider the exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place whereby such shareholder is located or the requirements of the regulatory body or stock exchange in that place. Pursuant to the Proposed Spin-off, the Directors have considered that neither Non-Qualifying Shareholders nor Listco Affiliates will be entitled to receive Distribution ADSs. Non-Qualifying Shareholders include Shareholders (including beneficial owners) who are located in the US or who are US Persons and any other Shareholders who are unable or fail to represent and warrant that they are not located in the US and are not US Persons. In this regard, the Company has received legal advice from US counsel to Melco PBL Entertainment (Macau) to the effect that ADSs could only be distributed prudently to such persons who are located in the US or who are US Persons pursuant to a registration statement filed with and declared effective by the US SEC, and that such registration would potentially need to become effective prior to the distribution of this Circular, which the Directors concluded was not feasible in the circumstances. This is because Melco PBL Entertainment (Macau) is not yet in a position to have any registration statement declared effective. By contrast, this circular (and the Assured Entitlement proffered herein) must precede the effectiveness of the registration statement, not least because of the need to obtain shareholders' approval to the Proposed Spin-off before the Global Offering can proceed. Accordingly, the Directors, having made reasonable enquiries, are of the view that, in the absence of compliance with registration and other special formalities, it would be unlawful or impracticable for the Company to provide the Distribution ADS to the Non-Qualifying Shareholders.

Non-Qualifying Shareholders and Listco Affiliates will instead receive cash in lieu of the relevant number of Distribution ADSs to which they would otherwise have been entitled, on the basis and subject to the conditions described below. In this regard, Mr. Lawrence Ho and companies controlled by him (namely Lasting Legend Ltd. and Better Joy Overseas Ltd.), each being a Listco Affiliate, have waived their right to receive cash in lieu of the relevant number of Distribution ADSs to which they would otherwise have been entitled.

Fractional entitlements to Distribution ADSs will not be distributed to Qualifying Shareholders. Fractional entitlements to Qualifying Shareholders and entitlements to Non-Qualifying Shareholders will be paid in cash, at the amount calculated based on the final offer price of the ADS in the Global Offering and at an exchange rate of US$1.00:HK$7.80, rounded down to the nearest Hong Kong dollar. Cash amounts of less than HK$100 will not be distributed but will be retained for the benefit of the Company.

A Qualifying Shareholder holding 4,000 Shares or more may, by completing Section 1 of the Form of Election enclosed with this circular, elect to receive a cash payment in lieu of all of the Distribution ADSs (save in the case of HKSCC Nominees Limited, which may elect to receive cash payment for part of or whole of its entitlement under the Distribution in Specie) to which the Qualifying Shareholder would be entitled under the Distribution in Specie. Such cash payment, will be calculated based on the final offer price of the ADS in the Global Offering and at an exchange rate of US$1.00:HK$7.80, rounded down to the nearest Hong Kong dollar. Again, cash amounts of less than HK$100 will not be distributed but will be retained for the benefit of the Company.

ADSs are to be held electronically in book entry form through the facilities of the DTC directly in the name of the Qualifying Shareholder (only if the Qualifying Shareholder is a participant in DTC) or indirectly through the Qualifying Shareholder's account at a broker dealer or other financial institution which is a direct or indirect participant in DTC. As soon as practicable after closing of the Global Offering, at the direction of Melco PBL Entertainment (Macau) and the Company, DTC will credit the account of (i) the Qualifying Shareholder (if the Qualifying Shareholder is a participant in DTC) or (ii) the broker dealer or other financial institution which is a direct or indirect participant in DTC, as designated by the Qualifying Shareholder, in either case with the number of ADSs to which such Qualifying Shareholder is entitled.

Any Qualifying Shareholder holding 4,000 Shares or more should note that he is able to receive the Distribution ADSs only if he specifies in Section 2 of the Form of Election information as to the details of his DTC participant account and/or the details of his broker or dealer who is a direct or indirect DTC participant, the details of that broker/dealer's DTC participant name, account, and contact telephone number to which the ADSs can be credited and such broker or dealer accepts such Distribution ADSs for crediting. Information specified on the Form of Election must be completed and valid, failing which, the Qualifying Shareholder will be deemed to have elected to receive the cash payment in lieu of the Distribution ADSs to which he is entitled. **Qualifying Shareholders who have elected to receive Distribution ADSs must instruct and coordinate with their respective brokers/dealers on their elections and the settlement of their respective Distribution ADSs.**

To be valid, the Form of Election, together with the power of attorney (where applicable) or other authority under which it is signed (where applicable) or notarially certified copy thereof, must also be returned, either in person or by post, to the office of the Registrar, at Standard Registrars Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong so as to arrive no later than 4:00 p.m., 19 December 2006. No acknowledgment of receipt of the Form of Election will be issued.

Any Form of Election will be treated as invalid if:

(i) it is incomplete; or

(ii) the Shareholder is unable to provide the correct details of his broker or dealer (including details of the DTC participant, account and other information listed on the form) and the account to which the Distribution ADSs are to be credited; or

(iii) the broker or dealer is not a direct or indirect DTC participant or refuses to accept Distribution ADSs, such that the Distribution ADSs could not be credited for the account specified in Section 2 of the Form of Election.

Should you have any queries on the Form of Election, you should contact the Registrar at its hotline on + 852 2980 1333 during normal business hours from 9:00 a.m. on Monday, 4 December 2006 to 4:00 p.m. on Tuesday, 19 December 2006. You should note, however, that the Registrar cannot advise on the merits of the Distribution in Specie or on your election on Distribution ADSs or cash.

The precise cash amounts payable to Non-Qualifying Shareholders, Listco Affiliates and Qualifying Shareholders who elect to receive cash or who receive the Distribution in Specie but are entitled to cash in lieu of fractional ADSs, cannot be determined until the final offer price at which the Global Offering is to proceed has been determined. In this regard, the Company will make an announcement after the final offer price has been determined.

Cheques for all cash payments are expected to be despatched by ordinary post to the address specified in the register of members, at the risk of the relevant Shareholder, as soon as practicable after completion of the Global Offering. Qualifying Shareholders entitled to receive Distribution ADSs may only receive their Distribution ADSs after completion of the Global Offering. Accordingly, Qualifying Shareholders who wish to trade their Distribution ADSs must observe the settlement date and may need to specify the settlement cycles to prevent failed settlements and should consult their own advisors. The Company will make an announcement once the settlement date with regard to the Distribution ADSs and the despatch date of the cheque of cash payment have been determined.

Any Qualifying Shareholder who holds Shares as a nominee, trustee or registered holder in any other capacity will not be treated differently from any other registered holders. Any beneficial owner of Shares which are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to the Distribution in Specie. Any such person may consider whether he wishes to arrange for the registration of the relevant Shares in the name of the beneficial owner prior to ex-entitlement of the Assured Entitlement, however, any costs, taxes or duties associated therewith or arising therefrom will be borne solely by such Shareholder.

To qualify for entitlements to the Distribution in Specie, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Registrar, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 15 December 2006. For Qualifying Shareholders holding 4,000 Shares or above who wishes either (i) to receive cash in lieu of all his Distribution ADSs or (ii) to receive Distribution ADSs, shall return the duly completed Form of Election to the Company's Registrar, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 19 December 2006. However, if the timetable for the Proposed Spin-off is delayed, the Board may then determine another date(s) for closure of the register of members of the Company for determining entitlements to the Assured Entitlement and further announcement(s) will be made to inform Shareholders accordingly.

Shareholders should note that the Distribution in Specie is conditional upon completion of the Proposed Spin-off, which is itself conditional upon the satisfaction of the conditions precedent including those set out in the section above entitled "Conditions of the Proposed Spin-off". If the Proposed Spin-off is not completed, the Distribution in Specie and cash payment in lieu will not be made.

EXTRAORDINARY GENERAL MEETING

Under the requirement of the Listing Rules, while the Proposed Spin-off does not require the approval of Shareholders for the purposes of the Listing Rules, the Directors have nevertheless chosen to give Shareholders an opportunity to vote on the Proposed Spin-off. A notice convening the EGM to be held at 12:00 noon on 18 December 2006 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong is set out on pages 159 to 160 of this circular at which the Shareholders will be requested to consider and, if thought fit, approve an ordinary resolution to approve the Proposed Spin-off. Voting on that resolution will be conducted by way of a poll.

So far as the Directors are aware, no Shareholder has a material interest in the Proposed Spin-off that is different from the interests of other Shareholders. The Directors are therefore of the view that no Shareholder is required to abstain from voting at the EGM.

The Independent Board Committee comprising the independent non-executive Directors, namely Sir Roger Lobo, Dr. Lo Ka Shui and Mr. Sham Sui Leung, Daniel, has been appointed to advise the Shareholders as to whether or not the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Shareholders as a whole and to advise the Shareholders how to vote at the EGM. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Shareholders as to whether or not the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Shareholders how to vote at the EGM.

A proxy form for use by the Shareholders at the EGM is enclosed. Whether or not you are available to attend the EGM in person, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong as soon as possible and in any event on or before 12:00 noon on 16 December 2006. Completion and return of a proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

CLOSURE OF REGISTER OF MEMBERS OF THE COMPANY

Based on the expected timetable, the register of members of the Company will be closed on 18 December 2006 for the purpose of determining the Assured Entitlement, and will be re-opened on 19 December 2006. No transfer of the Shares may be registered during such book close period. In order to qualify for the Assured Entitlement and to vote at the EGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Registrar by no later than 4:00 p.m. on 15 December 2006.

The Form of Election must be returned on or before 4:00 p.m. on 19 December 2006. However, if the Global Offering and the separate listing of Melco PBL Entertainment (Macau)'s securities on NASDAQ are postponed, the Board may then determine another date(s) for closure of the register of members of the Company for the purposes of determining the Assured Entitlement and entitlement to vote at the EGM and further announcement(s) will be made to inform the Shareholders and other investors in due course.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 39 of this circular which contains the recommendations of the Independent Board Committee to the Shareholders concerning the Proposed Spin-off; and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders set out on pages 40 to 53 of this circular containing its advice to the Independent Board Committee and the Shareholders in this regard.

The Independent Board Committee, having taken into account the advice from the Independent Financial Adviser in relation to the Proposed Spin-off, considers that the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned and that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Spin-off.

The other Directors also consider that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole and, accordingly, the Board also recommends that the Shareholders vote in favour of the resolution to be proposed in relation to the Proposed Spin-off at the EGM.

GENERAL

This circular is being distributed to the Shareholders. This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained herein shall form the basis of any contract or commitment whatsoever.

Shareholders should note that the Company may or may not proceed with the Proposed Spin-off in accordance with the terms set out above, or at all. The Board wishes to emphasise that the specific terms and timing of the Proposed Spin-off may require certain consents and approvals, including the approval of the Shareholders, and subject to any further conditions that may be imposed by the SEC. Such consents and approvals may or may not be obtained. Shareholders are therefore urged to exercise caution when dealing in the Shares. Further announcement(s) will be made as and when appropriate in respect of any material developments relating to the Proposed Spin-off and/or any material change in the information contained in this circular.

As at the date of this circular, the Board comprises three Executive Directors, namely, Mr. Ho Yau Lung, Lawrence, Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence, one Non-executive Director, namely, Mr. Ng Ching Wo, and three Independent Non-executive Directors, namely, Sir Roger Lobo, Dr. Lo Ka Shui and Mr. Sham Sui Leung, Daniel.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board of
Melco International Development Limited
Ho, Lawrence Yau Lung
Chairman & Chief Executive Officer

Melco

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-group.com
(Stock Code: 200)

38th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

2 December 2006

To the Shareholders

Dear Sir or Madam,

PROPOSED SPIN-OFF AND SEPARATE LISTING OF MELCO PBL ENTERTAINMENT (MACAU) LIMITED ON THE NASDAQ

We have been appointed as members of the Independent Board Committee to advise you in connection with the Proposed Spin-off, details of which are set out in the "Letter from the Board" in the circular dated 2 December 2006, of which this letter forms part. Terms used in this letter have the same meanings as defined in the said circular unless the context otherwise requires.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser as set out on pages 40 to 53 of this circular, which contains its advice and recommendation to us as to whether or not the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Shareholders as a whole, as well as the principal factors and reasons for its advice and recommendation.

Having considered, amongst other matters, the factors and reasons considered by, and the opinion of, the Independent Financial Adviser as stated in its aforementioned letter of advice, we are of the opinion that the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned and the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Spin-off.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Sir Roger Lobo **Dr. Lo Ka Shui** **Sham Sui Leung, Daniel**
Independent Non-executive Directors

The following is the text of the letter from Anglo Chinese to the Independent Board Committee and the Shareholders prepared for the purpose of inclusion in this circular.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
英高財務顧問有限公司

2 December 2006

The Independent Board Committee and the Shareholders
Melco International Development Limited
38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Dear Sirs,

PROPOSED SPIN-OFF AND SEPARATE LISTING OF MELCO PBL ENTERTAINMENT (MACAU) LIMITED ON THE NASDAQ

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Shareholders in relation to Proposed Spin-off. Details of the Proposed Spin-off are contained in the circular issued by the Company dated 2 December 2006 ("Circular") of which this letter forms a part. Expressions used in this letter have the same meaning as defined in the Circular.

The provisions of PN 15 of the Listing Rules which relates to proposals submitted by issuers to effect separate listings of their assets or businesses do not require the Proposed Spin-off to be subject to the approval of Shareholders at an extraordinary general meeting of the Company. However, the Directors voluntarily propose to hold the EGM to give the Shareholders an opportunity to vote on the Proposed Spin-off. An Independent Board Committee, which consists only of the independent non-executive Directors, has been established, namely Sir Roger Lobo, Dr. Lo Ka Shui and Mr. Sham Sui Leung, Daniel. The objectives of the Independent Board Committee are to advise Shareholders as to whether the indicated terms of the Proposed Spin-off are fair and reasonable, and whether the Proposed Spin-off is in the interests of the Company and its shareholders as a whole, and to advise the Shareholders on how to vote, taking into account our recommendation which is set out in this letter.

In formulating our recommendation, we have relied on the information and facts supplied, and the opinion expressed by, the Directors. We have also assumed the information and representations contained or referred to in the Circular were true and accurate at the time they were made, and continue to be so at the date of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations made to us by the Directors. We have also been advised by the Directors and believe no material facts have been omitted from the Circular. We have not, however, conducted an independent investigation into the affairs of the Group.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation.

Apart from the normal professional fees for our services to the Company in connection with our engagement referred to above, no arrangement exists whereby Anglo Chinese will receive any benefits from the Company or any of its associates.

THE PROPOSED SPIN-OFF

The Proposed Spin-off contemplates a separate listing on the NASDAQ for the shares of the joint venture vehicle, Melco PBL Entertainment (Macau), established for the purpose of conducting the gaming, entertainment and hospitality business of the joint venture initially established by the Company and PBL in 2004. The exact nature and terms of the Proposed Spin-off have not been determined and will be agreed by the Company, PBL, Melco PBL Entertainment (Macau) and the appointed underwriters for the issue of new shares in Melco PBL Entertainment (Macau). The issue is expected to be effected by means of an initial public offering pursuant to the Global Offering. Based on the prevailing market conditions, Melco PBL Entertainment (Macau) targets to raise proceeds from the Global Offering of approximately US$900 million (excluding the exercise of any over-allotment option), subject to factors such as the final size of the Global Offering, the final offer price per ADS in the Global Offering and the relevant expenses. It is currently envisaged that the number of shares to be made available under the Global Offering will represent between approximately 10% and 17.5% (exclusive of shares that may be issued on the exercise of the over-allotment option) of the total issued share capital of Melco PBL Entertainment (Macau) following the issue. In accordance with market practice it is expected that the issuer will grant the lead underwriters an option to allot additional shares, which may represent approximately 15% of the Global Offering, to be made available under the Global Offering, which would represent a maximum of approximately 2.6% of the existing share capital. Accordingly the Company's percentage shareholding in Melco PBL Entertainment (Macau) would be diluted from its existing 50% interest to between approximately 40% and 45% inclusive of shares that may be issued on the exercise of the over-allotment option.

Currently, the Group's principle business activities are (i) leisure, gaming and entertainment; (ii) investment banking and financial services; (iii) technology; and (iv) property and other investment, which respectively accounted for approximately 40%, 19%, 33% and 8% of the HK$600.6 million turnover for the year ended 31 December 2005. The audited net profit of the Group during the period was approximately HK$548.7 million which included a non-recurring gain on disposal of partial interest in Mocha Slots and Great Wonders of HK$514.4 million. Excluding the non-recurring gain on disposal, the segmental profit by business activity was approximately HK$25.3 million, HK$12.9 million, HK$21.9 million (after elimination of intercompany transactions) and HK$56.4 million, respectively. For the six months ended 30 June 2006, the Group recorded an unaudited consolidated turnover and net loss of approximately HK$371.4 million and HK$29.0 million mainly due to non-recurring items in relation to the Joint Venture Companies. The Group's leisure, gaming and entertainment division recorded a segmental loss of HK$24.5 million, with the three other principle business activities recording a net profit of approximately HK$20.6 million, HK$9.5 million (after elimination of intercompany transactions) and HK$48.6 million, respectively.

On 8 September 2006, the Subconcession was approved and granted by the Macau Government. And on 10 October 2006, the Macau government approved and granted the reorganisation resulting in the entire interests in the share capital of MPBL Gaming, the holder of the Subconcession, being transferred to Melco PBL Entertainment (Macau). As stated in the letter from the Board, the Company believes that following the acquisition of the Subconcession, Melco PBL Entertainment (Macau) should be able to tap the abundant opportunities in Macau gaming industry directly and operate the Joint Venture's gaming business in Macau independently. The Company will indirectly enjoy such benefits through its holdings of approximately 41% to 45% interests in Melco PBL Entertainment (Macau) following the Proposed Spin-off (excluding the exercise of any over-allotment option). The Company believes that, through MPBL Gaming's Subconcession, the Group is in a strong position to capitalise on Macau's growth and transformation.

For the technology business, the Company believes the new alliances with world class suppliers and manufacturers allow Elixir to engage in the business of the most advanced and well received gaming related products, which are expected to make a significant contribution to the Group in the long run.

For investment banking and financial services, the Company has stated that Value Convergence is planning to expand its product portfolio and the geographical coverage of its services. Plans to establish a direct investment fund and a real estate investment fund, capturing opportunities in the leisure, entertainment and property sector in Macau, are underway and progressing well.

For the property business, the Company intends to further develop its business in a focused manner by concentrating on investing in strategic and quality commercial and residential properties in prime locations in Hong Kong and Macau.

Pursuant to PN 15 for spin-off proposals, Melco PBL Entertainment (Macau) should show a clear delineation between its business and that of the Group and should also show that its management and administrative capability can operate independently of the Company.

The Retained Business of the Group consists of (i) technology business providing gaming IT infrastructure, systems integration, and online trading and related systems in Asia; (ii) investment banking and financial services business; (iii) property and other investment business; and (iv) a restaurant operation in Hong Kong. These operations are clearly delineated from Melco PBL Entertainment (Macau), which operates gaming and entertainment businesses in Macau, and it should be noted that the Group's operations consisted solely of the Retained Business prior to its commencement of gaming activities in 2005. For further details on the Retained Business, please refer to the letter from the Board which forms part of the Circular. Furthermore, Shareholders should also note that other than the minimal contribution of the slot machines operations of the Joint Venture Companies, the turnover and operating profit of the Group for the year ended 31 December 2005 has been derived from the operations of the Retained Business.

With respect to independence of management and administration capabilities, under the Deed the joint venture activities of the Company and PBL in Macau are controlled by both parties with neither holding a casting vote. Accordingly, Melco PBL Entertainment (Macau) does operate independently and is not in the interests of the Company only. For further details on the Deed, please refer to the letter from the Board which forms part of the Circular and the circular of the Company dated 30 May 2006. Following the Proposed Spin-off and Global Offering, it is anticipated that the Company and PBL will terminate the Deed, but continue to have an agreement to vote for three nominees to the board of directors of Melco PBL Entertainment (Macau) designated by the other, which will assure the election of six nominees to the board of Melco PBL Entertainment (Macau) nominated by the Company and PBL. Under such agreement, the Company and PBL will also each have certain rights of first refusal or first offer regarding transfers of shares in Melco PBL Entertainment (Macau).

In relation to the independence of administration capabilities, there is currently no sharing of back office functions or other administrative support functions between the Retained Group and Melco PBL Entertainment (Macau) save for some of the accounting, legal and compliance and human resources function of the Joint Venture Companies (of which only the Mocha Slot business has commenced operations) which are currently managed by the Retained Group. It is intended that the Joint Venture Companies will take up these responsibilities following the commencement of operations of its first hotel casino business.

PRINCIPAL FACTORS

We have set out below the principal factors that we have taken into account in arriving at our advice to the Independent Board Committee and the Shareholders.

Background

As stated in the letter from the Board, the Company has four principal business divisions, one of which is engaged in gaming, entertainment and hospitality, which is now conducted primarily through the Joint Venture established between the Company and PBL. The agreement relating to the creation of the Joint Venture was first entered into in November 2004 for the purpose of jointly developing projects and operations in the gaming and hospitality business. The Deed was entered into on 8 March 2005 to regulate the relationship and to set out more fully the rights and obligations of the parties to the Joint Venture. The Memorandum of Agreement dated 5 March 2006 entered into by the Company and PBL was a framework document setting out the agreed principles for the future operation of the Joint Venture and contemplated a number of further agreements to be entered into elaborating the details of the arrangements between the Company and PBL. As described in detail in the circular of the Company dated 30 May 2006 addressed to Shareholders, a supplemental agreement dated 26 May 2006 was executed by the Company further modifying and elaborating the arrangements of the Joint Venture. Pursuant to the supplemental deed entered into to amend the Deed, the Company and PBL have now agreed to share the economic value and benefits (and the associated risks, liabilities, commitments and capital contributions) of all gaming projects and businesses in Macau currently operated and to be developed by the Joint Venture on a 50:50 basis and all other gaming projects and businesses of the Joint Venture in the rest of the Territory also on a 50:50 basis.

As announced by the Company on 10 October 2006, Macau Government approval was granted for MPBL Gaming, the holder of the Subconcession, to become a subsidiary of the Joint Venture in accordance with the terms of the reorganisation (involving the acquisition of the Subconcession, revision to the Deed; and Melco PBL Entertainment and its subsidiaries, including Great Wonders, Melco Hotels, and the operations of Mocha Slot, ceasing to be subsidiaries of the Company) described in the Company's shareholders' circular dated 30 May 2006. That reorganisation was formally completed on 22 November 2006 in accordance with the terms described in the circular of the Company dated 30 May 2006, following the grant of approval by the Macau Government on 10 October 2006 for MPBL Gaming, the holder of the Subconcession, to become a subsidiary of the Joint Venture. Accordingly, the Joint Venture is now the holder of the Subconcession, which permits the Subconcession holder to operate casinos and games of fortune or chance in Macau.

As announced by the Company on 11 September 2006, the entire amount of the premium of US$900 million payable for the acquisition of the Subconcession has been paid. As contemplated by the shareholders' circular of the Company dated 30 May 2006, the consideration was provided as to an amount of US$160 million by the Company, an amount of US$240 million by PBL and the balance of US$500 million by third party bank financing.

The Joint Venture, in addition to being the holder of the Subconcession granted by the Macau government, has three gaming projects in Macau as follows:

– the Crown Macau luxury hotel and casino project in Taipa, Macau, currently being developed by Great Wonders;

– the City of Dreams integrated entertainment resort on Cotai Strip in Macau. The City of Dreams will include a number of luxury hotels and gaming facilities and is currently being developed by Melco Hotels; and

– the electronic gaming machine lounges operated by MPBL Gaming under the "Mocha Club" brand.

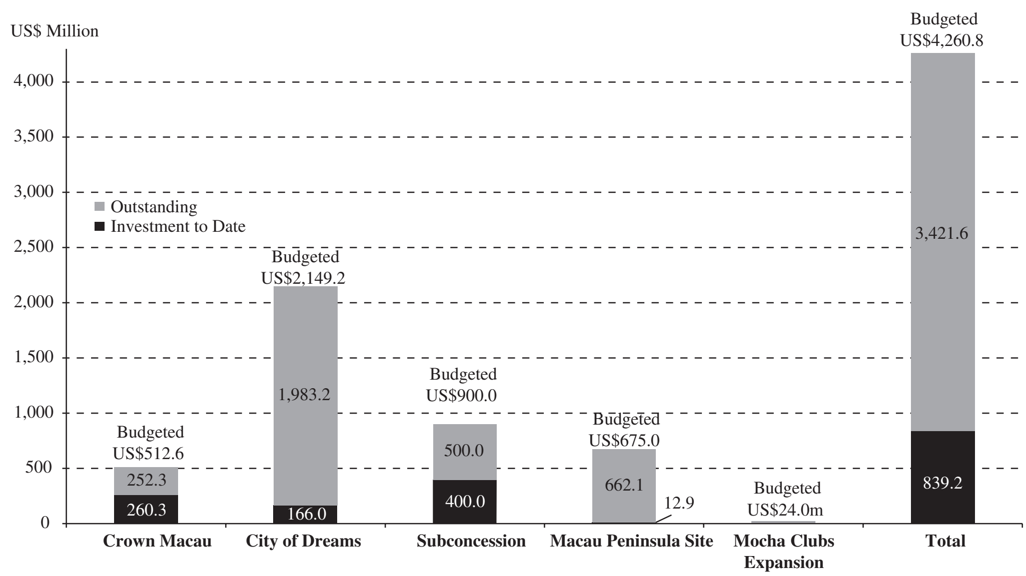
On 17 May 2006, a wholly owned subsidiary of the Joint Venture entered into an agreement to purchase the entire issued share capital of a company holding the rights to a land lease grant relating to a 6,480 square metre site on the Macau Peninsula for the development of an additional hotel and casino project.

The diagram showing the structure of the Joint Venture and further details of it are set out under the heading "Existing structure of the Joint Venture Companies" in the letter from the Board.

Capital commitments of Melco PBL Entertainment (Macau)

Set out below is a table which describes the investment to date by PBL and the Company in the Joint Venture and its projects.

Figure 1 – Capital commitments of Melco PBL Entertainment (Macau)



Source: the Company

The Crown Macau

As of 30 September 2006, Great Wonders had paid approximately US$260.3 million of the project costs to their contractors and for the land costs and land premium. The total project costs up to opening (inclusive of land and construction costs, furniture, fixtures and equipment, pre-opening expenses, capitalised fees and finance costs, cage cash and initial working capital requirements) are currently budgeted at approximately US$512.6 million.

The City of Dreams

As of 30 September 2006, Melco Hotels had paid approximately US$166.0 million of the project costs. The total project costs up to opening (inclusive of land and construction costs, furniture, fixtures and equipment, pre-opening expenses, capitalised fees and finance costs, cage cash and initial working capital requirements) are currently budgeted at approximately US$2.1 billion.

The Subconcession

The entire amount of the premium of US$900.0 million payable for the obtaining of the Subconcession has been paid by MPBL Gaming. The consideration was provided as to an amount of US$160.0 million by the Company, an amount of US$240.0 million by PBL and the balance of US$500.0 million by third party bank financing.

Macau Peninsula Site Project

The aggregate consideration of HK$1.5 billion (representing approximately US$192.3 million) is payable in cash by the Melco PBL (Macau Peninsula). On 17 May 2006, an amount of HK$100 million (representing approximately US$12.9 million) was paid as a down payment on signing of the sale and purchase agreement. The balance of the aggregate consideration is payable on completion of the acquisition. The Company expects that the acquisition of the site will require payment of a land premium of HK$150 million (US$19.2 million). Based on preliminary estimates and conceptual designs, the total project cost (inclusive of land and construction costs, furniture, fixtures and equipment, pre-opening expenses, capitalised fees and finance costs, cage cash and initial working capital requirements) is budgeted to be approximately US$650 million to US$700 million, with an average of US$675 million.

Mocha Clubs Expansion

The expansion includes the addition of new Mocha Club locations and additional gaming machines in existing locations over the next several years. The total expansion budget is expected to be US$24.0 million.

Accordingly the total investment as at 30 September 2006, in the joint venture projects amounted to approximately US$0.8 billion.

The existing projects currently require further capital investment of a total of US$3.4 billion of the budgeted amount of US$4.3 billion.

Given the amount of further capital investment budgeted, the separate listing of Melco PBL Entertainment (Macau) will provide the Joint Venture with alternative channels for raising capital through the equity capital markets. This additional flexibility in raising funds through the capital markets may also increase the attraction of Melco PBL Entertainment (Macau) to commercial banks and debt capital markets, facilitating the raising of capital for the Joint Venture independently of its controlling shareholders. Under the Deed, the Company and PBL are required to provide funding for the Joint Venture on a 50:50 basis. We believe it is in the interests of Melco PBL Entertainment (Macau) and the Company and its shareholders for Melco PBL Entertainment (Macau) to have the added flexibility for raising future funding made available through the Proposed Spin-off and separate listing.

Financial effects of the Proposed Spin-off

Following the implementation of the Proposed Spin-off and Global Offering, the Company's interest in Melco PBL Entertainment (Macau) will decrease from 50% to between approximately 41% to 45% (excluding the exercise of any over-allotment option). Based on the prevailing market conditions, the Joint Venture targets to raise proceeds from the Global Offering of approximately US$900 million (excluding the exercise of any over-allotment option), subject to factors such as the final size of the Global Offering, the final offer price per ADS in the Global Offering and the relevant expenses. It is intended that the proceeds from the Global Offering is currently expected to be used (i) to repay fully or partially the principal and accrued interest in the facility in respect of the Subconcession; (ii) to pay development cost of the hotel and casino projects; and (iii) to fund working capital and for other general corporate purposes.

Based on the pro forma information set out in Appendix II of the Circular, the principal effects of the Proposed Spin-off would be as follows:

Net asset value – As at 31 December 2005, the audited net asset value of the Group was approximately HK$4,188 million. After taking into account of the restructuring of the Group which was completed on 22 November 2006 resulting in the Company's interest in the results of the Joint Venture's gaming operations in Macau, which are now held by Melco PBL Entertainment (Macau), no longer being consolidated in the Company's accounts and being equity accounted for as a jointly controlled entity (the details of which were disclosed in the Company's circular dated 30 May 2006) and the implementation of the Proposed Spin-off and Global Offering, and assuming proceeds from the Global Offering of US$900 million, the net asset value of the Group is expected to increase to a range of approximately HK$6,073 million to HK$6,500 million immediately following the completion of the Proposed Spin-off.

Gearing – As at 31 December 2005, the total borrowings of the Group was approximately HK$1,110 million (including bank borrowings of HK$28.0 million, convertible loan notes of HK$1,037 million), shareholder's loan of HK$45 million, and obligation under finance lease of HK$0.1 million) and the audited shareholders' equity was approximately HK$3,558 million. The gearing ratio of the Group (calculated as total borrowings to shareholders' equity) was approximately 31.2%. After the completion of the restructuring of the Group on 22 November 2006, the results of the Joint Venture's gaming operations in Macau, which are now held by Melco PBL Entertainment (Macau), will no longer be consolidated in the Company's accounts and their associated borrowings will also not be consolidated into the Group's consolidated balance sheet. Although, the Joint Venture Companies are now equity accounted for and non-consolidated in the accounts of the Group, the Proposed Spin-off and Global Offering will reduce the capital commitments of the Group to provide funding for 50% of the Joint Venture capital needs. As stated in the letter from the Board under the heading "Intended use of proceeds", it is intended the proceeds be used for, among other things, to pay development cost of the Crown Macau, City of Dreams and site acquisition and development cost of the Macau Peninsula project. Furthermore, the debt level of the Joint Venture itself will also be reduced by the full repayment on facilities in respect of the Subconcession.

Earnings – Following the implementation of the Proposed Spin-off and Global Offering, the Company's interest in Melco PBL Entertainment (Macau) will decrease from 50% to between approximately 41% to 45% (excluding the exercise of any over-allotment option). As a result, loss from equity interest in Melco PBL Entertainment (Macau) will be reduced. For the year ended 31 December 2005 and the nine months ended 30 September 2006, Melco PBL Entertainment (Macau) recorded a net loss of US$3.3 million and US$20.5 million, respectively. The net asset value of the Group is expected to increase from approximately HK$3,786 million (as disclosed in the circular of the Company dated 30 May 2006) to a range of approximately HK$6,073 million to HK$6,500 million immediately following the completion of the Proposed Spin-off and Global Offering. As such, the Company is also expected to recognise a gain from deemed disposal as a result of the Proposed Spin-off and Global Offering of approximately HK$2,287 million to HK$2,714 million based on the estimated proceeds. Furthermore, the interest expenses of the Joint Venture will also be reduced due to the intended full repayment of facilities in respect of the Subconcession.

Working capital – Following the completion of the restructuring of the Group on 22 November 2006, the Joint Venture Companies, including Melco PBL Entertainment (Macau) will no longer be consolidated in the accounts of the Company but rather be equity accounted for as a jointly controlled entity. Therefore, the Proposed Spin-off and Global Offering should have no direct impact on the current working capital position of the Group.

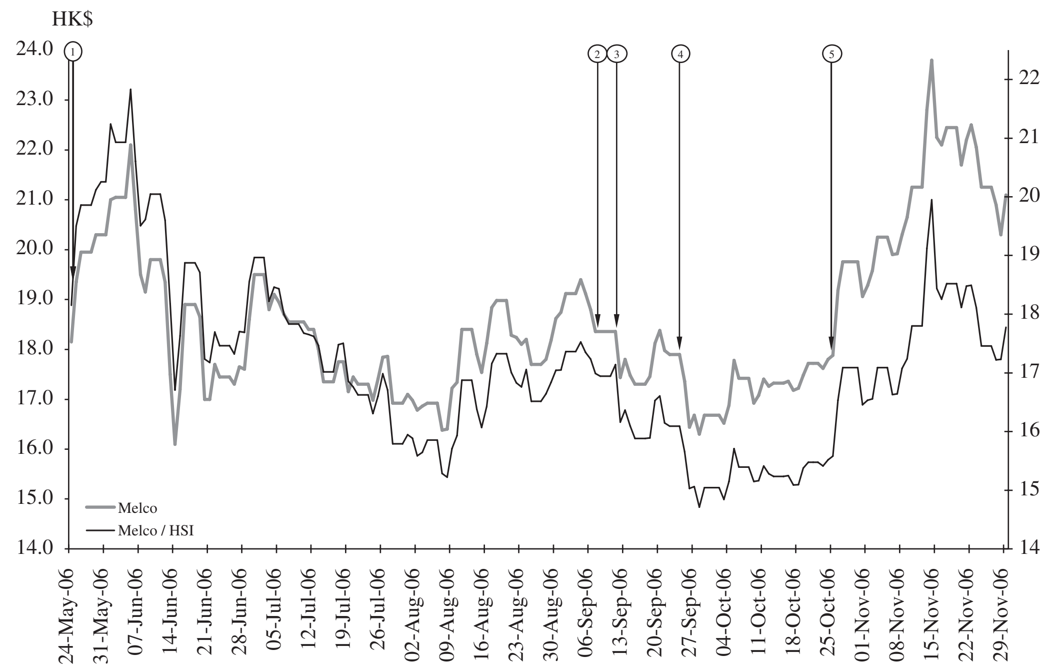
In order to reflect the underlying value of the ADSs, it is proposed that the valuation of the ADSs should only be carried out at a time closer to the date of the Global Offering. Hence, the preliminary estimated effect mentioned above is only based on a tentative implied valuation and will be subject to adjustments, taking into account, amongst other things, the then conditions of the market and the Company.

Market perception of the Proposed Spin-off

The shareholders' circular dated 5 January 2005 in relation to the establishment of the Joint Venture stated it was the intention of the Company and PBL to seek a listing of the Joint Venture on the NASDAQ. Melco PBL Entertainment (Macau) would therefore be operated in a manner which met the requirements and interest of both Joint Venture partners. Shareholders have been consulted on two occasions in respect of transactions relating to the Joint Venture. More recently on 16 June 2006 Shareholders approved overwhelmingly, among other things relating to the Joint Venture, the memorandum of agreement dated 5 March 2006 and the provision of funding by the Joint Venture of the Subconcession.

On 25 May 2006 the Company announced that it was considering the Proposed Spin-off. On the 7 September 2006 the application for the approval of a separate listing of Melco PBL Entertainment (Macau) was considered by the Listing Committee of the Stock Exchange. The Listing Committee resolved that the Retained Group did not meet the minimum profit requirement or the market capitalisation/revenue test set out in the Listing Rules. The Listing Committee declined to grant a waiver from the strict compliance with the PN 15 relating to proposals by companies already listed on the Stock Exchange to effect a separate listing of a business. Owing to press coverage relating to the decision of the Listing Committee, dealings in the Shares were suspended on 8 September 2006 and resumed on 12 September 2006 following the release of the announcement which, among other things, confirmed that the Listing Committee had not approved the separate listing of the Macau gaming Joint Venture. The Company applied for the decision to be reviewed and on 25 October 2006 the Company was notified of the decision of the Listing (Review) Committee to grant a waiver from strict compliance with PN 15. Set out below is a chart showing the movement of the price of the shares and particularly noteworthy is the steep decline in the price of the shares following the announcement on 12 September 2006 that the separate listing of the Macau gaming joint venture had not been approved and the market reaction following the announcement on 25 October 2006 that the separate listing could proceed.

Figure 2 - Price of the Shares compared to Hang Seng Index



Source: Bloomberg

Note:

1 **Clarification Announcement, 25 May 2006**
The announcement was made to clarify certain press articles relating to the possible listing by the Company and PBL of their Macau gaming joint venture.

2 **Suspension of trading, 8 September 2006**
Dealings in the Shares were suspended pending release of an announcement regarding price sensitive information (a press article rumoured the Company's plan to list its gaming business on the NASDAQ might not be approved by the Stock Exchange).

3 **Resumption of Trading, 12 September 2006**
An announcement was made relating to the approval of the Subconcession by the Macau government and clarification of press report in relation to the rejection of the proposed listing of the Macau joint venture by the Stock Exchange.

4 **Interim Report, 25 September 2006**
The Company reported a HK$84.3 million loss for the 6 months ended 30 June 2006, compared to a HK$543.2 million profit for the 6 months ended 30 June 2005.

5 **Announcement, 25 October 2006**
An announcement was made that the Listing (Review) Committee of the Stock Exchange granted permission for the Company to proceed with the proposed separate listing of the Macau gaming joint venture.

We consider that it is fair to conclude that existing Shareholders and the market viewed positively the proposal of a separate listing of the Macau gaming joint venture.

Assured entitlement

In order to satisfy the requirement of PN 15 to provide Shareholders with an assured entitlement to enable Shareholders to reduce the dilution of their interest in the joint venture and participate in the separate listing of the securities of Melco PBL Entertainment (Macau) on NASDAQ, the Board has passed resolutions to make a distribution in specie to those Qualifying Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date of one Distribution ADS for every 4,000 Shares (being four board lots) held by them at the close of business on the Record Date. Qualifying Shareholders holdings 4,000 shares, or more, may elect to receive a cash payment in lieu of all of the Distribution ADS which would otherwise be entitled under the Distribution in Specie. Qualifying Shareholders holding less than 4,000 Shares will receive cash in lieu of all the Distribution ADS, which he/she would otherwise be entitled under the Distribution in Specie. For further details, please refer to the letter from the Board which forms part of the Circular.

The assured entitlement does confer a benefit to shareholders which, had the proposed raising of capital been conducted by means of a private placing, would not have been required. The total value of the distribution has not been determined as the pricing of ADS remains to be fixed. The distribution however is only expected to be an insignificant portion of the total number of ADS being made available pursuant to the Global Offering which in total will not represent more than 17.5% of Melco PBL Entertainment (Macau) (excluding any exercise of over-allotment option). Accordingly, the value of the distribution is not a material consideration in respect of our views on the Proposed Spin-off.

Reasons for, and benefits of, the Proposed Spin-Off

The letter from the Board states that the Board believes that the Proposed Spin-off will bring a number of benefits to both the Company and Melco PBL Entertainment (Macau), including the following:

(a) *Alternative valuation for Gaming Business:* a separate listing of Melco PBL Entertainment (Macau) will allow it to achieve its full valuation potential, which will in turn be beneficial to the Company as a substantial shareholder of Melco PBL Entertainment (Macau).

(b) *Attractive investment:* following the proposed listing of Melco PBL Entertainment (Macau) on NASDAQ, the Company will be interested in no less than approximately 41% of the issued shares of Melco PBL Entertainment (Macau), exclusive of any shares which may be issued upon exercise of the over-allotment option, (from the current 50%) and should continue to be an attractive investment opportunity given the diversified mix of income flow from the Retained Business and the future prospects of Melco PBL Entertainment (Macau).

(c) *Clarity of business and financial status:* the separate listing will provide investors, the investment market and rating agencies with greater clarity on the businesses and financial status of the Company and Melco PBL Entertainment (Macau).

(d) *Increased operational focus for the Company:* the proposed listing of Melco PBL Entertainment (Macau) on NASDAQ will enable the Company's management to focus on building the Retained Business and reduce the resource commitment for the Company in managing Melco PBL Entertainment (Macau)'s day-to-day operations.

(e) *Providing new sources of capital:* a NASDAQ listing will enable Melco PBL Entertainment (Macau) to independently access both equity and debt capital markets, as well as the bank credit market, on potentially more advantageous terms than are presently available to it. Hence this is expected to provide new and more diversified funding sources to finance the Joint Venture Companies' existing operations and future expansion and reduce its dependence on the Company and PBL for financing.

(f) *Creates a distinct investor base for Melco PBL Entertainment (Macau):* a separate listing of Melco PBL Entertainment (Macau) will enable it to create its own investor base and improve its ability to raise capital in future. A standalone company would lead to the availability of clearer and more transparent information on its business operations and financial status, thereby allowing the research community and rating agencies to provide coverage on Melco PBL Entertainment (Macau) and making it more comparable to industry peers which are currently listed on the NASDAQ.

In determining the market for the Proposed Spin-off to be NASDAQ, the Company and PBL considered that other large gaming and entertainment companies which have similar business models as Melco PBL Entertainment (Macau), including that of companies operating other gaming concessions in Macau, have US listings. This provides a greater number of market comparables and wider analyst coverage of the gaming industry in the US market. Additionally, given the anticipated interests from investors in the US a listing on NASDAQ was also considered favourable. We concur with the reasons given for the Proposed Spin-off, the chosen market for the Proposed Spin-off and also agree with the Board's views on the potential benefits of the Proposed Spin-off.

Proposed terms of the issue of new shares in Melco PBL Entertainment (Macau)

The lead managers of the proposed Global Offering are expected to conduct a book building process to ascertain the levels of interest in the new shares of Melco PBL Entertainment (Macau) to be issued under the Global Offering. It is expected that the price determination will be made upon the close of a book building period by the Company and the lead managers based on the indications received during the book building and the then prevailing market conditions. The book building exercise is a competitive process to determine the final price and size of the offering with an aim to maximising funds raised while ensuring full subscription of the issue. It is widely regarded as the most effective and efficient process for arriving at the highest price for initial public offerings. The lead managers for the Global Offering are Citigroup, Credit Suisse and UBS Investment Bank, which are international and respected investment banks experienced in IPOs and the book building process.

Valuation theory suggests that conglomerates generally receive a lower valuation than that of its parts if valuated separately. The separate listing of the Macau joint venture should allow it to achieve its full valuation potential. Furthermore, the Share price movements following the Company's announcements concerning the Proposed Spin-off (as discussed above under the paragraphs headed "Market Perception of the Proposed Spin-off") shows that the market views the separate listing positively.

As a reference, given the amount of gross proceeds to be raised of US$900 million and the size of the Global Offering of between 10% to 17.5% (exclusive of any exercise of over-allotment option) of the total enlarged issued share capital of Melco PBL Entertainment (Macau) an implied valuation estimate can be calculated from approximately US$5,143 million to US$9,000 million. Shareholders should note that this implied amount underestimates the valuation as it has not taken into consideration the amount of listing expenses or the assured entitlement, and should only be used for reference only. As at the Latest Practicable Date, the market capitalisation of the Company, which includes the Retained Business, was approximately HK$26 billion (US$3,333 million) which may be compared to the implied valuation estimate of the Company's 50% attributable interest in Melco PBL Entertainment (Macau) of between approximately US$2,571 million to US$4,500 million.

An alternative to the Proposed Spin-off to raise funds for the Company's capital obligations to the Joint Venture could be by the placing of new Shares. On 30 May 2006 the Company entered into a placing and subscription agreement relating to the placing of 63,600,000 Shares at HK$19.10 per Share. The number of Shares being placed represented 5.48% of the then existing share capital of the Company. The placing price represented a discount of 5.91% to the closing price of the shares on the last dealing date prior to the suspension of the Shares pending the issue of the announcement of the placing. The net proceeds of the placing of approximately HK$1,176 million were to be applied as to approximately HK$750 million to finance the Company's commitment in relation to the proposed acquisition by Melco PBL (Macau Peninsula), a subsidiary of Melco PBL Entertainment (Macau), of a development site on the Macau Peninsula. Given that the recent placing by the Company was made at a discount, it is probable that if the Company had proposed a further placing instead of the Proposed Spin-off, that placing would also be made at a discount to the prevailing market price. So, the Proposed Spin-off and Global Offering may be more advantageous and beneficial to the Company and its shareholders as a whole.

Shareholders should note that the Proposed Spin-off and Global Offering effectively results in the Company being deemed to dispose of up to an approximate 10% interest (depending on the size of the issue) in the Melco PBL Entertainment (Macau). It should be noted that an alternative of placing of new Shares also dilutes the existing Shareholders' interests in the Company, and indirectly in the Joint Venture. Under the Proposed Spin-off and Global Offering, the Company will retain a minimum of approximately 41% interest in Melco PBL Entertainment (Macau) (exclusive of the exercise of any over-allotment option) and thus Shareholders will still participate in the future earnings and potential upside of the Macau gaming operations through their holdings in the Shares. Further, as the pricing of the Global Offering has not yet been determined, the Shareholder approval of the Proposed Spin-off effectively would grant the Directors a mandate to proceed with the Proposed Spin-off on terms considered by the Directors not to be prejudicial of the interest of the Company and its Shareholders The price of the new shares in Melco PBL Entertainment (Macau), which will be determined by the market for the shares at the time the issue closes, will also be subject to the agreement of the Company and PBL. We believe that, in principle, such a mandate being given to the Directors of the Company is similar in nature to the general mandate routinely given by shareholders of companies listed in Hong Kong to issue new shares representing up to 20% of the existing share capital of the relevant listed company.

Given, among other things, (i) many comparable companies are listed in the US giving rise to a wide analyst following of the gaming industry; (ii) the anticipated interest of US investors; (iii) the reduction of existing capital commitments of the Group; (iv) the greater and direct access of the Joint Venture to the capital markets for future fund raising; (v) the positive effect on the price of the Shares following news of the spin-off approval by the Stock Exchange; and (vi) the track record of raising funds of the lead managers, we consider that the Proposed Spin-off to be a commercially appropriate fund raising alternative for Melco PBL Entertainment (Macau) which should compare favourably with the terms on which the Company would be able to raise equity capital through an issue of its own shares to fund its pro rata allocation to raise similar equity capital for Melco PBL Entertainment (Macau).

RECOMMENDATION

Having considered the principal factors set out above, we consider that the indicated terms of the Proposed Spin-off are fair and reasonable and that the Proposed Spin-off is in the interests of the Company and its shareholders as a whole. Accordingly, we advise Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Proposed Spin-off and that the Independent Board Committee advise Shareholders accordingly.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited
Dennis Cassidy
Director

I. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated income statements of the Group for each of the three years ended 31 December 2005 and the audited consolidated balance sheets of the Group as at 31 December 2003, 31 December 2004 and 31 December 2005, as extracted from the Company's audited financial statements for each of the three years ended 31 December 2005 as set out in the Company's annual reports.

Consolidated Income Statement
For the year ended 31 December 2005

	2005	2004	2003
	HK$'000	*HK$'000* (Restated)	*HK$'000*
Revenue	600,640	408,076	165,263
Other income	1,422	7,164	4,067
Investment income (loss)	3,407	(1,175)	10,386
Cost of inventories sold	(182,533)	(157,183)	(36,703)
Employee benefits expense	(137,762)	(112,555)	(76,499)
Depreciation of property, plant and equipment	(35,322)	(17,683)	(16,154)
Amortisation of intangible assets	(507)	(507)	(464)
Commission expenses	(38,826)	(50,607)	(26,088)
Gain on disposal of investment properties	–	57,176	–
Amortisation of goodwill	–	–	(2,614)
Gain on deemed disposal of partial interests in subsidiaries	514,407	–	–
Increase in fair value of investment properties	8,000	–	–
Other operating expenses	(140,943)	(61,809)	(51,968)
Finance costs	(31,747)	(4,199)	(2,007)
Share of profit of jointly controlled entities	2,234	–	–
Profit before tax	562,470	66,698	(32,781)
Income tax expense	(6,010)	(2,490)	(1,201)
Profit (loss) for the year	556,460	64,208	(33,982)
Attributable to:			
Equity holders of the Company	548,718	59,722	(26,334)
Minority interests	7,742	4,486	(7,648)
	556,460	64,208	(33,982)
Dividend paid	16,168	3,776	–
Earnings (loss) per share			
Basic	HK52.19 cents	HK9.19 cents	HK(15.89) cents
Diluted	HK47.34 cents	HK8.50 cents	N/A

Consolidated Balance Sheet

At 31 December 2005

	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	
Non-current assets			
Investment properties	85,000	77,000	159,000
Property, plant and equipment	256,151	127,174	28,916
Hotels and entertainment complex under development	1,881,824	–	–
Prepaid lease payments	36,394	–	–
Deposit for land use right	48,590	–	–
Goodwill	351,470	389,937	19,705
Trading rights	2,279	2,786	3,293
Interests in jointly controlled entities	2,234	100,000	–
Investment securities	–	27,754	20,637
Available-for-sale investments	20,517	–	–
Other intangible assets	2,547	547	4,542
Long term deposits	8,074	14,780	4,219
Deferred tax assets	1,495	–	–
	2,696,575	739,978	240,312
Current assets			
Trade receivables	399,727	337,014	236,390
Prepayments, deposits and other receivables	45,177	40,919	9,150
Inventories	34,656	3,768	4,137
Prepaid lease payments	4,646	–	–
Investment in convertible loan notes	4,000	–	–
Other investments	–	40,641	40,638
Held-for-trading investments	45,002	–	–
Amount due from a jointly controlled entity	19	25,145	–
Amounts due from related companies	948	1,119	429
Tax recoverable	–	–	387
Certificate of deposit	–	1,100	–
Pledged bank deposits	270	177	304
Bank balances and cash	2,350,284	394,966	142,771
	2,884,729	844,849	434,206

	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	
Current liabilities			
Trade payables	103,936	60,462	110,538
Other payables	105,700	35,153	39,575
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	–	22,500	–
Obligation under finance lease	21	817	–
Shareholder's loan	45,085	23,158	–
	306,500	158,978	150,113
Net current assets	2,578,229	685,871	284,093
Total assets less current liabilities	5,274,804	1,425,849	524,405
Non-current liabilities			
Rental deposits	–	–	407
Deferred tax liabilities	49,847	2,256	324
Convertible loan notes – due after one year	1,037,163	118,126	–
Obligation under finance lease – due after one year	63	–	–
	1,087,073	120,382	731
	4,187,731	1,305,467	523,674
Capital and reserves			
Share capital	562,919	463,244	221,997
Reserves	2,995,266	766,607	238,725
Equity attributable to equity holders of the Company	3,558,185	1,229,851	460,722
Minority interests	629,546	75,616	62,952
	4,187,731	1,305,467	523,674

II. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below is a summary of the audited financial information of the Group for the year ended 31 December 2005, as extracted from the Company's audited financial statements for the year ended 31 December 2005 as set out in the Company's annual report.

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (Restated)
Revenue	7	600,640	408,076
Other income	9	1,422	7,164
Investment income (loss)	10	3,407	(1,175)
Cost of inventories sold		(182,533)	(157,183)
Employee benefits expense	11	(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	12	514,407	–
Increase in fair value of investment properties		8,000	–
Other operating expenses		(140,943)	(61,809)
Finance costs	13	(31,747)	(4,199)
Share of profit of jointly controlled entities		2,234	–
Profit before tax	14	562,470	66,698
Income tax expense	15	(6,010)	(2,490)
Profit for the year		556,460	64,208
Attributable to:			
Equity holders of the Company		548,718	59,722
Minority interests		7,742	4,486
		556,460	64,208
Dividend paid	18	16,168	3,776
Earnings per share			
Basic	19	HK52.19 cents	HK9.19 cents
Diluted		HK47.34 cents	HK8.50 cents

Consolidated Balance Sheet

At 31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (Restated)
Non-current assets			
Investment properties	20	85,000	77,000
Property, plant and equipment	21	256,151	127,174
Hotels and entertainment complex under development	22	1,881,824	–
Prepaid lease payments	23	36,394	–
Deposit for land use right	24	48,590	–
Goodwill	25	351,470	389,937
Trading rights	26	2,279	2,786
Interests in jointly controlled entities	28	2,234	100,000
Investment securities	30	–	27,754
Available-for-sale investments	30	20,517	–
Other intangible assets	31	2,547	547
Long term deposits	32	8,074	14,780
Deferred tax assets	47	1,495	–
		2,696,575	739,978
Current assets			
Trade receivables	33	399,727	337,014
Prepayments, deposits and other receivables		45,177	40,919
Inventories	34	34,656	3,768
Prepaid lease payments	23	4,646	–
Investment in convertible loan notes	35	4,000	–
Other investments	36	–	40,641
Held-for-trading investments	36	45,002	–
Amount due from a jointly controlled entity	37	19	25,145
Amounts due from related companies	38	948	1,119
Certificate of deposit		–	1,100
Pledged bank deposits	40	270	177
Bank balances and cash	41	2,350,284	394,966
		2,884,729	844,849
Current liabilities			
Trade payables	42	103,936	60,462
Other payables		105,700	35,153
Amount due to a minority shareholder	37	9,104	–
Amount due to a jointly controlled entity	37	9	–
Amounts due to related companies	38	6,051	–
Taxation payable		8,594	1,888
Bank borrowing – due within one year	43	28,000	15,000
Convertible loan notes – due within one year	44	–	22,500
Obligation under finance lease	45	21	817
Shareholder's loan	46	45,085	23,158
		306,500	158,978
Net current assets		2,578,229	685,871
Total assets less current liabilities		5,274,804	1,425,849

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current liabilities			
Deferred tax liabilities	47	49,847	2,256
Convertible loan notes			
– due after one year	44	1,037,163	118,126
Obligation under finance lease			
– due after one year	45	63	–
		1,087,073	120,382
		4,187,731	1,305,467
Capital and reserves			
Share capital	48	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
		4,187,731	1,305,467

Balance Sheet
At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Investment in subsidiaries	29	46,349	29,394
Investment in jointly controlled entity		–	100,000
Other intangible asset	31	2,000	–
		48,349	129,394
Current assets			
Prepayments, deposits and other receivables		4,577	137
Amounts due from subsidiaries	39	1,975,334	956,956
Bank balances and cash	41	2,081,958	279,287
		4,061,869	1,236,380
Current liabilities			
Other payables		6,691	1,121
Amounts due to subsidiaries	39	70,201	67,589
Convertible loan notes			
– due within one year	44	–	22,500
		76,892	91,210
Net current assets		3,984,977	1,145,170
Total assets less current liabilities		4,033,326	1,274,564
Non-current liability			
Convertible loan notes			
– due after one year	44	1,037,163	118,126
		2,996,163	1,156,438
Capital and reserves			
Share capital	48	562,919	463,244
Reserves	49	2,433,244	693,194
		2,996,163	1,156,438

Consolidated Statement of Changes In Equity

For the year ended 31 December 2005

	Attributable to the equity holders of the Company														
	Share capital	Share premium	Issuable shares	Capital reserve	Special reserve	Convertible loan notes equity reserve	Investment property revaluation reserve	Other revaluation reserve	Exchange reserve	Legal reserve	Share options reserve	Accumulated (losses) profit	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 1)	*(Note 2)*	*(Note 3)*					*(Note 4)*					
At 1 January 2004	221,997	49,677	-	357,785	-	-	82,948	-	-	-	-	(251,685)	460,722	62,952	523,674
Reserve realised upon disposal of investment properties	-	-	-	-	-	-	(56,176)	-	-	-	-	-	(56,176)	-	(56,176)
Net expense recognised directly in equity	-	-	-	-	-	-	(56,176)	-	-	-	-	-	(56,176)	-	(56,176)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	59,722	59,722	4,486	64,208
Total recognised income for the year	-	-	-	-	-	-	-	-	-	-	-	59,722	59,722	4,486	64,208
Exercise of share options	11,869	5,066	-	-	-	-	-	-	-	-	-	-	16,935	-	16,935
Shares issued at premium	229,378	529,813	-	-	-	-	-	-	-	-	-	-	759,191	-	759,191
Share issuance expenses	-	(16,576)	-	-	-	-	-	-	-	-	-	-	(16,576)	-	(16,576)
Increase in minority interest resulting from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	9,405	9,405
Transfer	-	-	-	-	-	-	-	-	-	254	-	(254)	-	-	-
Recognition of equity-settled share based payment	-	-	-	-	-	-	-	-	-	-	5,435	-	5,435	-	5,435
Recognition of equity component of convertible loan notes	-	-	-	-	-	4,374	-	-	-	-	-	-	4,374	-	4,374
Decrease in minority interest resulting from acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,227)	(1,227)
Dividend paid	-	-	-	(3,776)	-	-	-	-	-	-	-	-	(3,776)	-	(3,776)
At 31 December 2004	463,244	567,980	-	354,009	-	4,374	26,772	-	-	254	5,435	(192,217)	1,229,851	75,616	1,305,467
Effects of changes in accounting policies (Note 2A)	-	-	-	-	-	-	(26,772)	-	-	-	-	26,772	-	-	-
As restated	463,244	567,980	-	354,009	-	4,374	-	-	-	254	5,435	(165,445)	1,229,851	75,616	1,305,467

	Attributable to the equity holders of the Company														
	Share capital	**Share premium**	**Issuable shares**	**Capital reserve**	**Special reserve**	**Convertible loan notes equity reserve**	**Investment property revaluation reserve**	**Other revaluation reserve**	**Exchange reserve**	**Legal reserve**	**Share options reserve**	**Accumulated (losses) profit**	**Total**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 1)	*(Note 2)*	*(Note 3)*					*(Note 4)*					
Increase in other revaluation reserve resulting from acquisition of a subsidiary	-	-	-	-	-	-	-	76,477	-	-	-	-	76,477	-	76,477
Realisation of other revaluation reserve upon deemed disposal of partial interest in subsidiaries	-	-	-	-	-	-	-	(30,591)	-	-	-	30,591	-	-	-
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	-	(43)	-	-	-	(43)	(22)	(65)
Net income (expense) directly recognised in equity	-	-	-	-	-	-	-	45,886	(43)	-	-	30,591	76,434	(22)	76,412
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	548,718	548,718	7,742	556,460
Total recognised income for the year	-	-	-	-	-	-	-	-	-	-	-	548,718	548,718	7,742	556,460
Exercise of share options	10,110	10,697	-	-	-	-	-	-	-	-	-	-	20,807	-	20,807
Shares issued at premium	70,000	1,207,500	-	-	-	-	-	-	-	-	-	-	1,277,500	-	1,277,500
Share issuance expenses	-	(38,397)	-	-	-	-	-	-	-	-	-	-	(38,397)	-	(38,397)
Shares conversion on convertible loan notes	19,565	25,435	-	-	-	-	-	-	-	-	-	-	45,000	-	45,000
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	7,617	7,617
Increase in minority interests on deemed disposal of partial interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	612,390	612,390
Recognition of equity-settled share based payments	-	-	-	-	-	-	-	-	-	-	5,350	-	5,350	-	5,350
Transfer to share premium upon exercise of share option	-	3,033	-	-	-	-	-	-	-	-	(3,033)	-	-	-	-
Increase in minority interest resulting from acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	105,886	105,886
Decrease in minority interest upon acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(105,763)	(105,763)
Shares issuable on acquisition of additional interest in a subsidiary	-	-	196,667	-	-	-	-	-	-	-	-	-	196,667	-	196,667
Special reserve arise on acquisition of additional interest in a subsidiary	-	-	-	-	(110,880)	-	-	-	-	-	-	-	(110,880)	(73,920)	(184,800)
Recognition of equity component of convertible loan notes	-	-	-	-	-	323,303	-	-	-	-	-	-	323,303	-	323,303
Dividend paid	-	-	-	(16,168)	-	-	-	-	-	-	-	-	(16,168)	-	(16,168)
At 31 December 2005	562,919	1,776,248	196,667	337,841	(110,880)	327,677	-	45,886	(43)	254	7,752	413,864	3,558,185	629,546	4,187,731

Note 1: The issuable shares form part of the consideration for acquisition of additional interest in a subsidiary which will be issued on the actual date of grant of the concession of a land by the Macau Government (see Note 51).

Note 2: Pursuant to a scheme of capital reduction, which became effective on 29 June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK$357,784,733 were transferred to a capital reserve account. The capital reserve account is distributable to the shareholders of the Company if there is not outstanding any debt or claim against the Company which was in existence on the effective date of the capital reduction. In view of the fact that the Company receives no claim, demand, action or proceedings in respect of any such debt or claim since June 1993 and in view of the fact that any such debt or claim has been statute-barred under Hong Kong law and irrecoverable against the Company, the Company is of the view that the reserve is distributable to the Company's shareholders.

Note 3: The special reserve represents the difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interest in a subsidiary acquired during the year (see Note 51).

Note 4: All entities incorporated in Macau are required to set aside a minimum of 10% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. Such legal reserve represents an amount set aside from the income statement and is not available for distribution to the shareholders of the entity. The appropriation of legal reserve is recorded in financial statements in the period in which it is approved by the board.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
OPERATING ACTIVITIES		
Profit before tax	562,470	66,698
Adjustments for:		
Share of profit of jointly controlled entities	(2,234)	–
Net loss on other investments	–	2,113
Amortisation of trading rights	507	507
Amortisation of prepaid lease payments	1,936	–
Depreciation of property, plant and equipment	35,322	17,683
Written back of allowance for doubtful debts	(1,790)	–
Allowance for doubtful debts	2,843	1,910
Finance costs	31,747	4,199
Dividend income	(2,756)	(938)
Impairment loss on available-for-sale investments	120	–
Gain of disposal of investment properties	–	(57,176)
Reversal of impairment of investment securities	–	(3,117)
Discount on acquisition of subsidiaries	–	(1,204)
Gain on deemed disposal of partial interests in subsidiaries	(514,407)	–
Share-based payment expense	5,350	5,435
Increase in fair value of investment properties	(8,000)	–
Loss (gain) on disposal of property, plant and equipment	500	(1,400)
Operating cash flows before movements in working capital	111,608	34,710
(Increase) decrease in inventories	(30,888)	369
Increase in trade receivables	(65,335)	(96,702)
Increase in prepayments, deposits and other receivables	(2,768)	(24,204)
Increase in held-for-trading investments	(4,361)	–
Decrease (increase) in amounts due from related companies	1,140	(690)
Increase in amounts due to related companies	820	–
Increase (decrease) in trade payables	43,474	(50,196)
Increase (decrease) in other payables	13,942	(16,783)
Increase in amount due to a minority shareholder	9,104	–
Increase in amount due to a jointly controlled entity	9	–
Decrease in rental deposits	–	(407)
Cash from (used in) operations	76,745	(153,903)
Income tax (paid) refunded	(1,208)	849
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	75,537	(153,054)

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
INVESTING ACTIVITIES			
Proceeds from disposal of partial interests in subsidiaries	12	1,271,368	–
Decrease (increase) in long term deposits		6,706	(10,561)
Proceeds from disposal of available-for-sale investments		3,117	–
Dividend received		2,756	938
Proceeds from disposal of property, plant and equipment		2,627	2,168
Decrease in certificate of deposits		1,100	–
Acquisition of hotels and entertainment complex under development		(217,005)	–
Acquisition of additional interest in a subsidiary/ subsidiaries	51	(200,000)	10,265
Purchase of property, plant and equipment		(167,309)	(49,770)
Increase in deposits for land use right		(48,590)	–
Increase in prepaid lease payments		(42,976)	–
Increase in amount due from a jointly controlled entity		(8,103)	(25,145)
(Acquisition) disposal of other intangible assets		(2,000)	405
(Increase) decrease in pledged bank deposits		(93)	127
Proceeds from disposal of investment properties		–	83,000
Purchase of investment securities		–	(4,000)
Purchase of other investments less proceeds from subsequent disposal		–	(2,112)
Direct expense incurred for acquisition of additional interests in subsidiaries		–	(250)
NET CASH FROM INVESTING ACTIVITIES		601,598	5,065
FINANCING ACTIVITIES			
Proceeds from issue of shares		1,277,500	394,680
Advance from a shareholder		21,927	23,158
Proceeds from exercise of share options		20,807	16,935
Bank borrowings raised		13,000	15,000
Capital contribution from minority shareholders		7,617	–
Share issuance expenses		(38,397)	(16,576)
Dividend paid		(16,168)	(3,776)
Interest paid		(7,267)	(4,199)
Repayment of obligation under finance lease		(836)	(482)
Repayment of former shareholder's loans		–	(24,556)
NET CASH FROM FINANCING ACTIVITIES		1,278,183	400,184
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,955,318	252,195
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		394,966	142,771
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		2,350,284	394,966

Notes to the Financial Statements

For the year ended 31 December 2005

(as extracted from the Company's annual report 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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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 has 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 HKAS 38 *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 new HKFRSs has resulted in changes to the Company's and the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Share-based Payments

In the current year, the Company and the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Company and the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Company and the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Company and the Group did not recognise the financial effect of these share options until they were exercised. The Company and the Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Company and the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Company and the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see Note 2A for the financial impact).

Financial Instruments

In the current year, the Company and the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation and* HKAS 39 *Financial Instruments: Recognition and Measurement.* HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32, HKAS 39 are summarised below:

Convertible loan notes

The principal impact of HKAS 32 on the Company and the Group is in relation to convertible loan notes issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated (see Note 2A for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The adoption of HKAS 17 *Leases* has been no material effect on how the results for the current and prior accounting period are prepared and presented.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 *Investment* Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's accumulated losses (see Note 2A for the financial impact).

Deferred Taxes related to Investment Properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively resulting in a recognition of HK$9,492,000 deferred tax liability for the revaluation of the investment properties and HK$9,492,000 deferred tax asset for unused tax losses on 1 January 2004.

2A. 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:

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'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)	–
Decrease in profit for the year	(16,599)	(5,435)

	THE COMPANY	
	2005	**2004**
	HK$'000	*HK$'000*
Recognition of share-based payments as expenses	(5,350)	(5,435)
Increase in effective interest expense on the liability component of convertible loan notes	(19,249)	–
Decrease in profit for the year	(24,599)	(5,435)

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

	THE GROUP				
	As at 31 December 2004 (originally stated)	Adjustment	As at 31 December 2004 (restated)	Adjustment	As at 1 January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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	(54,105)	4,374	(49,731)	–	(49,731)

	THE GROUP				
	As at 31 December 2004 (originally stated)	Adjustment	As at 31 December 2004 (restated)	Adjustment	As at 1 January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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 property revaluation reserve	26,772	–	26,772	(26,772)	–
Minority interests	–	75,616	75,616	–	75,616
Total effects on equity	(160,010)	79,990	(80,020)	–	(80,020)
Minority interests	75,616	(75,616)	–	–	–

	THE COMPANY				
	As at 31 December 2004 (originally stated)	Adjustment	As at 31 December 2004 (restated)	Adjustment	As at 1 January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items					
Convertible loan notes – due after one year	(122,500)	4,374	(118,126)	–	(118,126)
Accumulated losses	(233,169)	(5,435)	(238,604)	–	(238,604)
Share option reserve	–	5,435	5,435	–	5,435
Convertible loan notes equity reserve	–	4,374	4,374	–	4,374
Total effects on equity	(233,169)	4,374	(228,795)	–	(228,795)

The application of the new HKFRSs has resulted in the reclassification of minority interest of HK$62,952,000 to the Group's equity at 1 January 2004.

The application of the new HKFRSs does not have any significant financial effect to the Company's equity at 1 January 2004.

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. CHANGES IN ACCOUNTING ESTIMATES

In previous years, the gaming machine was depreciated at 10% per annum. With effect from July 2005 after a reassessment of the useful life of the gaming machine, the gaming machine is to be depreciated at 20% per annum, which reflects the Group's previous experience of the useful lives of its assets. This change in depreciation rate has increased the depreciation charge for the year by approximately HK$6,306,000.

4. 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, as explained in the accounting policies set out below.

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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition of additional interest in a subsidiary, the difference between the consideration paid and the goodwill and the carrying values of the underlying asset and liabilities attributable to the additional interests in a subsidiary is debited to special reserve. On subsequent disposal of a subsidiary, the attributable special reserve is transferred to accumulated profit.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group’s equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment in subsidiaries

Investment in subsidiaries are included in the Company’s balance sheet at cost, less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the financial statements of the Group using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the balance sheet or consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Interests in jointly controlled entities are included in the Company's balance sheet at cost, less any identified impairment loss.

Revenue recognition

Revenue from management of electronic gaming machine lounge is recognised on an accrual basis in accordance with the contractual terms of the respective service agreements.

Revenue from the provision of catering services, management services and investment banking and financial services are recognised when the services are provided.

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

Revenue from sales of other products is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rate per annum:

Restaurants, vessels, ferries and pontoons	5% to 10%
Buildings	2.5% to 4%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10% to $33^1/_3$%
Gaming machine	20%
Motor vehicles	20%

Construction in progress are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Hotels and entertainment complex under development

Hotels and entertainment complex in the course of development are classified as non-current assets and are stated at cost less accumulated amortisation and accumulated impairment loss. Cost comprises acquisition cost relating to the leasehold interests in lands and direct development costs attributable to such properties. Interests in lands are amortised over the expected useful life and are included as part of cost of hotels and entertainment complex under development.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Consideration paid for land use rights are recorded as prepaid lease payments and are charged to profit or loss on a straight-line basis over the term of relevant land use rights acquired. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Segregated accounts

From the Group's ordinary business, it acts as a trustee and in other fiduciary capacities that result in the holding of client's monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its balance sheet. As at 31 December 2005, the Group maintained segregated account with HKFE Clearing Corporation Limited ("HKCC") and the authorised institutions in conjunction with its future and brokerage businesses as a result of its normal business transactions with amounts of approximately HK$1,670,000 (2004: HK$1,390,000) and HK$192,418,000 (2004: HK$232,532,000) respectively, which are not otherwise dealt with in the financial statements.

Retirement benefits costs

Payments to defined contribution schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, 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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Share-based payment transactions

For share options granted after 1 January 2005 and share options granted before 1 January 2005 but not yet vested as at 1 January 2005, the fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profit.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives (trading rights) is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives (club debentures) are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Impairment

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprised financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade payables, other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company or Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Company’s or Group’s balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Impairment losses (other than goodwill and intangible assets with indefinite useful lives – see the accounting policies in respect of goodwill and intangible assets above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items especially technology solution system identified that are of minimal resale value due to technological changes. The management estimates the net realisable value for such inventory based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is approximately HK$351,470,000. Details of the recoverable amount calculation are disclosed in note 27.

Income taxes

As at 31 December 2005, a deferred tax asset of HK$1,495,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, bank balances, borrowings, trade receivables, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimise currency risk. The Group's principal businesses are conducted and recorded in Hong Kong dollars and Macau Pataca. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Interest rate risk

The Group's fair value interest rate risk relates to fixed rate shareholder's loan which is interest bearing at 4% per annum. Short-term floating rate bank borrowings, which are Hong Kong Interbank Offered Rate ("HIBOR")-based, are used to fund margin financings of the securities brokerage business which are typically prime-based and is therefore exposed to cash flow interest rate risk. The principal risk lies with the interest rate differential between HIBOR and the prime rate. The Group mitigates the risk by monitoring the interest rate gap between the shareholder's loan and short-term bank loans and financing facilities and revises the financing rate if necessary.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations are mainly in Hong Kong and Macau. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and the directors of the Company consider that the credit risk for such is minimal.

Price risk

The Group's held-for-trading investments and available-for-sale investments are measured at fair value and cost less any identified impairment, respectively, at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. REVENUE

An analysis of the Group's revenue is as follows:

	2005 *HK$'000*	**2004** *HK$'000*
Sales of technology solution systems	197,459	154,799
Income from electronic gaming machines lounges	129,242	45,170
Catering service income	91,191	76,479
Brokerage commission from dealing in securities and futures and options contracts	57,433	85,589
Interest income from clients	30,305	24,656
Interest income from authorised institutions	57,707	446
Underwriting, sub-underwriting, placing and sub-placing commission	9,232	5,638
Arrangement, management, advisory and other fee income	18,116	10,521
Property rental income	8,002	4,178
Management fee income	1,200	600
Others	753	–
	600,640	408,076

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions including Leisure, Gaming and Entertainment, Technology, Investment Banking and Financial Services, and 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 machines lounges 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 service 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.

Inter-segment 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	242,932	319,936	115,986	77,073	(155,287)	600,640
Segment result	539,655	33,766	12,877	56,442	(11,871)	630,869
Unallocated corporate expenses						(38,886)
Finance costs						(31,747)
Share of profit of jointly controlled entities	2,234	–	–	–	–	2,234
Profit before tax						562,470
Income tax expense						(6,010)
Profit for the year						556,460

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					5,581,304
Liabilities					
Segment liabilities	86,383	88,378	64,076	238	239,075
Unallocated corporate liabilities					1,154,498
Consolidated total liabilities					1,393,573

	Leisure, Gaming and Entertainment	Technology	Investment Banking and Financial Services	Property and Other Investments	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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 payments	–	–	–	1,936	1,936
Loss on disposal of property, plant and equipment	214	–	267	19	500
Allowance for doubtful debts, net	63	(231)	2,711	(1,490)	1,053
Impairment loss on available-for-sale investments	–	–	120	–	120

2004

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

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

	Leisure, Gaming and Entertainment	Technology	Investment Banking and Financial Services	Property and Other Investments	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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					1,584,827
Liabilities					
Segment liabilities	24,325	22,497	62,675	1,935	111,432
Unallocated corporate liabilities					167,928
Consolidated total liabilities					279,360

	Leisure, Gaming and Entertainment	Technology	Investment Banking and Financial Services	Property and Other Investments	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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
(Gain) loss on disposal of property, plant and equipment	(1,661)	3	(21)	279	(1,400)
Allowance for doubtful debts, 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 are located in the People's Republic of China ("PRC"), Macau and Hong Kong.

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

	2005	**2004**
	HK$'000	*HK$'000*
Hong Kong	279,906	209,327
Macau	320,734	198,486
The PRC	–	263
	600,640	408,076

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	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
	5,581,304	1,584,827	2,094,211	116,709

9. OTHER INCOME

	2005	**2004**
	HK$'000	*HK$'000*
Service fee from a jointly controlled entity	–	6,671
Others	1,422	493
	1,422	7,164

10. INVESTMENT INCOME (LOSS)

	2005	2004
	HK$'000	*HK$'000*
Realised loss on trading of other investments	–	(3,425)
Unrealised gain on holding of other investments	–	1,312
Gain from fair value adjustment of held-for-trading investments	651	–
Dividend income from unlisted investment	2,090	–
Dividend income from listed investments	666	938
	3,407	(1,175)

11. EMPLOYEE BENEFITS EXPENSE

	2005	2004
	HK$'000	*HK$'000*
Wages, salaries and staff welfare	126,499	103,210
Unutilised annual leave	858	(17)
Termination benefits	266	810
Social security costs	113	54
Provision for long service payment	102	(118)
Retirement benefit scheme contributions	3,225	3,390
Forfeiture of retirement benefit scheme contributions	(13)	(209)
Share-based employee expense	5,350	5,435
Recruitment costs	1,362	–
Total employee benefits expense including directors' emoluments (note 16)	137,762	112,555

12. 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, Investment, 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.

13. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	5,646	3,043
Obligations under finance leases	44	27
Shareholder's loan	1,079	23
Former shareholder's loan	–	95
Convertible loan notes	24,978	1,011
	31,747	4,199

14. PROFIT BEFORE TAX

	2005	2004
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging:		
Auditors' remuneration	2,483	2,298
Allowance for doubtful debts, net	1,053	1,910
Loss on disposal of property, plant and equipment	500	–
Impairment loss on available-for-sale investments	120	–
and after crediting:		
Gross rental income	8,002	4,178
Less: outgoings	(82)	(82)
Net rental income	7,920	4,096
Gain on disposal of property, plant and equipment	–	1,400
Reversal of impairment of investment securities	–	3,117
Discount on acquisition of subsidiaries	–	1,204

15. INCOME TAX EXPENSE

	2005	2004
	HK$'000	*HK$'000*
Current tax:		
– Hong Kong	224	1,668
– Other jurisdictions	8,151	–
	8,375	1,668
(Over)underprovision in prior years:		
– Hong Kong	91	(848)
– Other jurisdictions	(552)	–
	(461)	(848)
Deferred taxation (note 47)		
– Current	(1,364)	1,670
– Attributable to a change in tax rate	(540)	–
	(1,904)	1,670
	6,010	2,490

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year. Taxation arising in other jurisdictions are calculated at the rate prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit before tax	562,470	66,698
Tax at Hong Kong Profits Tax rate of 17.5%	98,432	11,672
Tax effect of expenses not deductible for tax purposes	8,628	89
Tax effect of income not taxable for tax purposes	(100,286)	(9,463)
Overprovision in respect of prior years, net	(461)	(848)
Tax effect of different tax rates of the subsidiaries operating in other jurisdictions	(3,679)	(392)
Tax effect of unrecognised deferred tax assets	10,122	6,968
Decrease in opening deferred tax liabilities as a result from decrease in applicable tax rate	(540)	–
Utilisation of tax losses previously not recognised	(6,234)	(5,536)
Others	28	–
Taxation for the year	6,010	2,490

16. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2004: nine) directors were as follows:

2005

	Dr. Stanley Ho HK$'000 (Note 1)	Mr. Lawrence Ho HK$'000	Mr. Frank Tsui HK$'000	Mr. Ho Cheuk Yuet HK$'000 (Note 2)	Mr. Ng Ching Wo HK$'000	Sir Roger Lobo HK$'000	Mr. Robert Kwan HK$'000 (Note 1)	Dr. Lo Ka Shui HK$'000	Total 2005 HK$'000
Fees	10	–	–	34	170	321	310	221	1,066
Other emoluments									
Salaries and other benefits	–	2,329	1,950	–	–	–	–	–	4,279
Retirement benefit scheme contributions	–	24	12	–	–	–	–	–	36
Total emoluments	10	2,353	1,962	34	170	321	310	221	5,381

Note 1: Dr. Stanley Ho and Mr. Robert Kwan resigned as directors of the Company on 15 March 2006.
Note 2: Mr. Ho Cheuk Yuet resigned as a director of the Company on 5 September 2005.

2004

	Dr. Stanley Ho HK$'000 (Note 1)	Mr. Lawrence Ho HK$'000	Mr. Frank Tsui HK$'000	Mr. Ho Cheuk Yuet HK$'000	Mr. Ng Ching Wo HK$'000	Sir Roger Lobo HK$'000	Mr. Robert Kwan HK$'000	Dr. Lo Ka Shui HK$'000	Mr. Peter So HK$'000 (Note 3)	Total 2004 HK$'000
Fees	10	–	–	50	253	300	300	62	13	988
Other emoluments										
Salaries and other benefits	–	2,329	1,899	–	–	–	–	–	–	4,228
Retirement benefit scheme contributions	–	24	12	–	–	–	–	–	–	36
Total emoluments	10	2,353	1,911	50	253	300	300	62	13	5,252

Note 3: Mr. Peter So resigned as a director of the Company on 1 April 2004.

No director waived any emoluments in the years ended 31 December 2005 and 2004.

During the year, no share option (2004: 3,600,000 share options) was granted to directors of the Company in respect of their services provided to the Group, further details of which are set out in note 50.

17. EMPLOYEES' EMOLUMENTS

Of five individuals with the highest emoluments in the Group, two directors (2004: two directors), of the Company whose emoluments are included in note 16 above. The emoluments of the remaining three (2004: three) individuals were as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	4,454	7,407
Retirement benefit scheme contributions	36	35
	4,490	7,442

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	2	–
HK$2,500,001 to HK$3,000,000	–	1
HK$3,000,001 to HK$3,500,000	–	1
	3	3

18. DIVIDENDS

	2005	2004
	HK$'000	*HK$'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	–
	16,168	3,776

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 (note 48).

19. EARNINGS PER SHARE

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

	2005	2004
	HK$'000	*HK$'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 result of a subsidiary based on potential dilution of its earnings per share	(8,046)	–
Earnings for the purpose of diluted earnings per share	565,569	60,560

	2005	2004
	HK$'000	*HK$'000*
		(restated)
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	1,194,686	712,737

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 (Note 48).

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	**2004**	**2005**	**2004**
	cents	*cents*	*cents*	*cents*
Figures before adjustments	107.54	20.06	97.46	18.52
Adjustments arising from changes in accounting policies (see note 2A)	(3.16)	(1.68)	(2.78)	(1.52)
Adjustments arising from share subdivision on 19 May 2005 (note 48)	(52.19)	(9.19)	(47.34)	(8.50)
	52.19	9.19	47.34	8.50

20. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2004	159,000
Disposals	(82,000)
At 1 January 2005	77,000
Net increase in fair value recognised in the income statement	8,000
At 31 December 2005	85,000

The Group's investment properties comprise of leasehold land in Hong Kong held under long term lease.

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group. The valuation, which conforms to valuation standards published by Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

21. PROPERTY, PLANT AND EQUIPMENT

	Restaurant vessels, ferries and pontoons HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Gaming machine HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP								
COST								
At 1 January 2004	43,665	614	7,477	90,585	–	–	–	142,341
Acquired on acquisition of subsidiaries	–	–	3,829	16,983	43,637	–	–	64,449
Additions	7,475	–	6,093	9,262	17,137	263	12,030	52,260
Transfers	11,545	–	134	(134)	–	–	(11,545)	–
Disposals	(135)	(474)	–	(20,130)	–	–	–	(20,739)
At 31 December 2004	62,550	140	17,533	96,566	60,774	263	485	238,311
Exchange adjustments	–	–	7	11	–	7	–	25
Additions	2,680	3,861	23,394	36,138	100,274	1,064	–	167,411
Transfer	–	–	–	485	–	–	(485)	–
Disposals	(1,506)	–	(731)	(3,453)	(1,723)	–	–	(7,413)
At 31 December 2005	63,724	4,001	40,203	129,747	159,325	1,334	–	398,334
ACCUMULATED DEPRECIATION								
At 1 January 2004	34,970	189	2,091	76,175	–	–	–	113,425
Provided for the year	1,989	5	4,060	7,944	3,659	26	–	17,683
Disposals	(17)	(142)	–	(19,812)	–	–	–	(19,971)
At 31 December 2004	36,942	52	6,151	64,307	3,659	26	–	111,137
Exchange adjustments	–	–	5	4	–	1	–	10
Provided for the year	3,522	67	6,633	10,169	14,670	261	–	35,322
Disposals	(1,039)	–	(37)	(2,870)	(340)	–	–	(4,286)
At 31 December 2005	39,425	119	12,752	71,610	17,989	288	–	142,183
NET BOOK VALUE								
At 31 December 2005	24,299	3,882	27,451	58,137	141,336	1,046	–	256,151
At 31 December 2004	25,608	88	11,382	32,259	57,115	237	485	127,174

At 31 December 2005, the net book value of furniture, fixtures and equipment of the Group includes an amount of approximately HK$89,000 (2004: HK$2,120,000) in respect of assets held under finance leases.

The Group's buildings of approximately HK$85,000 and HK$3,797,000 are located in Hong Kong under long term lease and outside Hong Kong under short term lease, respectively.

22. HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT

	THE GROUP
	HK$'000
Interest in a piece of land arised on acquisition of a subsidiary *(note 51)*	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	1,881,824

The hotels 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 Group, 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, Macau, on the Cotai Strip ("Cotai Land") 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 loan 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 offered a medium term lease in respect of the land for development of an integrated entertainment resort to Melco Hotels on 21 April 2005.

23. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprises leasehold land outside Hong Kong under short-term lease.

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current assets	4,646	–
Non-current assets	36,394	–
	41,040	–

Amortisation of prepaid lease payments amounted to approximately HK$1,936,000 for the year ended 31 December 2005.

24. DEPOSIT FOR LAND USE RIGHT

THE GROUP

At 31 December 2005, the Group paid approximately HK$48,590,000 (2004: Nil) for the acquisition of a land use right in Macau (Note 54).

25. GOODWILL

	THE GROUP
	HK$'000
At 1 January 2004	19,705
Arising on acquisition of a subsidiary	361,427
Arising on acquisition of additional interest in subsidiaries	8,805
At 1 January 2005	389,937
Realised upon deemed disposal of partial interests in subsidiaries	(144,571)
Arising on acquisition of additional interest in a subsidiary *(note 51)*	106,104
At 31 December 2005	351,470

Particulars regarding impairment testing on goodwill are disclosed in note 27.

26. TRADING RIGHTS

	THE GROUP
	HK$'000
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	5,066
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	1,773
Provided for the year	507
At 31 December 2004	2,280
Provided for the year	507
At 31 December 2005	2,787
CARRYING VALUE	
At 31 December 2005	2,279
At 31 December 2004	2,786

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

27. IMPAIRMENT TESTING ON GOODWILL

THE GROUP

As explained in Note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives set out in note 25 have been allocated to four individual cash generating units (CGUs) determined based on the related segment. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2005 allocated to these units are as follows:

	Goodwill
	HK$'000
Gaming machine	216,857
Hotels and entertainment complex	106,103
Investment banking and financial services	1,800
Technology	26,710
	351,470

During the year ended 31 December 2005, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 3 to 10-year period, which represents the management's best estimate of future cash flow from respective CGU, and a discount rate of 8%. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Nil growth rate is used to extrapolate the cash flow during the finance budget period. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

28. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
		(Note)
Cost of unlisted investment in jointly controlled entities	–	100,000
Share of post-acquisition profit	2,234	–
	2,234	100,000

As at 31 December 2005, the Group had interests in the following jointly controlled entities:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
Melco PBL Holdings Limited	Cayman Islands/ Hong Kong	Ordinary shares	50%	Investment holding
Melco PBL International Limited	Cayman Islands/ Hong Kong	Ordinary shares	50%	Investment holding

Note: On 8 September 2004, the Company entered into an agreement ("First agreement") with Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") to acquire 50% equity interests of Great Wonders at a consideration of HK$100 million which was satisfied by issuing of convertible loan notes. Great Wonders has applied to the Macau Government for the concession of a parcel of land located in Taipa, Macau (the "Land") and to develop the Land into a six-star hotel and entertainment complex with one of the largest casino and electronic gaming machine areas.

Following the acquisition under the First Agreement, the Company entered into another agreement ("Second Agreement") with STDM on 11 November 2004 pursuant to which the Company acquired an additional 20% issued share capital of Great Wonders from STDM by issuing of convertible loan notes with a principal amount of HK$56 million. The fair value of convertible loan note issued is determined with reference to the fair value of the attributable underlying assets and liabilities of Great Wonders acquired at the date of acquisition. The Second Agreement was approved by the independent shareholders of the Company at its extraordinary general meeting. Great Wonders became a subsidiary of the Company and its results was consolidated in the Company's consolidated financial statements upon the completion of such acquisition (See Note 51).

The summarised unaudited financial information in respect of the Group's jointly controlled entities is set out below:

	2005	**2004**
	HK$'000	*HK$'000*
Total assets	4,491	252,418
Total liabilities	(23)	(52,418)
Net assets	4,468	200,000
Group's share of net assets of jointly controlled entities	2,234	100,000
Revenue	4,883	–
Profit for the year	4,468	–
Group's share of profit of jointly controlled entities for the year	2,234	–

29. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	46,349	29,394

Details of the Company's principal subsidiaries at 31 December 2005 are set out in note 59.

30. AVAILABLE-FOR-SALE INVESTMENTS (FORMERLY CLASSIFIED AS INVESTMENT SECURITIES)

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	21,837	26,499
Unlisted debt investments, at cost	–	4,000
Impairment losses	(1,320)	(2,745)
	20,517	27,754

The amount represents unlisted equity investments for which the fair value cannot be reliably measured because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. The impairment losses are not reversible.

31. OTHER INTANGIBLE ASSETS

	THE GROUP
	HK$'000
COST	
At 1 January 2004 and 1 January 2005	1,839
Additions	2,000
At 31 December 2005	3,839
IMPAIRMENT	
At 1 January 2004, 1 January 2005 and 31 December 2005	1,292
CARRYING VALUE	
At 31 December 2005	2,547
At 31 December 2004	547

	THE COMPANY
	HK$'000
COST	
Additions and at 31 December 2005	2,000

Other intangible assets represent club memberships with indefinite useful lives and are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

32. LONG TERM DEPOSITS

THE GROUP

Amounts represent deposits for acquisition of property, plant and equipment and deposits with various exchanges and clearing houses. These amounts are non-interest bearing. The fair value of these assets at the balance sheet date approximates to their carrying amount.

33. TRADE RECEIVABLES

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

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

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Within 30 days	173,935	157,881
31 – 90 days	22,930	10,624
Over 90 days	24,925	3,176
	221,790	171,681

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.

34. INVENTORIES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Food and beverages	1,346	2,389
Consumable stores	594	98
Merchandise	32,716	1,281
	34,656	3,768

35. INVESTMENT IN CONVERTIBLE LOAN NOTES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Unlisted convertible loan notes	4,000	–

The amount represents debt element of the convertible loan notes while the derivative portion relating to the conversion option was accounted for separately with insignificant fair value. The convertible loan notes have a maturity date of 6 January 2006 and they have been subsequently settled in full at the maturity date.

36. HELD-FOR-TRADING INVESTMENTS (FORMERLY CLASSIFIED AS OTHER INVESTMENTS)

THE GROUP

Held-for-trading investments as at 31 December 2005 represents equity securities listed in Taiwan and Hong Kong of HK$495,000 and HK$44,507,000, respectively. The fair value of the held-for-trading investments are determined based on the quoted market bid price available on the relevant exchange.

37. AMOUNTS DUE FROM (TO) A JOINTLY CONTROLLED ENTITY/MINORITY SHAREHOLDER

THE GROUP

The amounts are unsecured, interest free and have no fixed repayment term. The fair value of the amounts as at the balance sheet date approximates to their carrying amount.

38. AMOUNTS DUE FROM (TO) RELATED COMPANIES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
STDM (note a)	948	519
Gold Carousel Investment Limited ("GCIL") (note b)	–	600
	948	1,119

Notes:

(a) The amount due from STDM, a related company of which Dr. Stanley Ho is a director and has direct beneficial interests, is unsecured, interest free, repayable on demand and aged over 90 days.

(b) The amount due from GCIL, a related company of which Dr. Stanley Ho is a director, is unsecured, interest free and repayable on demand.

The fair value of the amounts due from (to) related companies as at the balance sheet date approximates to their carrying amount.

39. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

Included in amounts due from subsidiaries are i) loan to a subsidiary of HK$211.9 million (2004: HK$218.9 million) which is unsecured, interest bearing at prime rate minus 2% per annum or HIBOR plus 1.25% to 2% per annum and repayable upon written notice given from the Company; ii) loan to a subsidiary of nil (2004: HK$93.1 million) which is unsecured, interest bearing at 4% per annum and repayable on demand; iii) loan to a subsidiary of HK$523.7 million which is unsecured, interest bearing at 9% per annum and repayable on demand. Other amounts due from (to) subsidiaries are unsecured, interest free and repayable on demand.

The fair value of amounts due from (to) subsidiaries at 31 December 2005 approximates to the corresponding carrying amount.

40. PLEDGED BANK DEPOSITS

THE GROUP

At 31 December 2005, the Group's bank deposit and investment properties amounting to approximately HK$270,000 (2004: HK$177,000) and HK$85,000,000 (2004: HK$77,000,000) were pledged for tendering of contracts with the Macau government by a subsidiary of the Group and for obtaining the banking facilities for a subsidiary of the Group respectively.

The deposits carry fixed interest rate of about 3%. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

41. BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The fair value of these assets approximates to the corresponding carrying amount.

42. TRADE PAYABLES

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

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

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.

43. BANK BORROWING – DUE WITHIN ONE YEAR

THE GROUP

The amount represents short-term bank borrowing of HK$28,000,000 which is repayable on demand. They are partially secured by a charge over certain marketable securities from margin clients of the investment banking and financial services segment. One of the subsidiary of the Company also provided a corporate guarantee for the facilities. The interest rates for the loans are HIBOR plus a spread, thus exposing the Group to cash flow interest rate risk. The terms of the facilities are generally renewed annually. The fair value of the amounts at the balance sheet date approximates to the corresponding carrying amounts.

44. CONVERTIBLE LOAN NOTES

THE GROUP AND THE COMPANY

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 Slot acquired by the Company during the year ended 31 December 2004.

On 11 April 2005, convertible loan note 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 (Note 28). 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 Cotai Land in Macau (Note 22). 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 2A 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 notes 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	2004
	HK$'000	*HK$'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 (Note 13)	24,978	1,011
Interest paid	(498)	(1,011)
Interest payable transferred to amounts due to related companies	(5,231)	–
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)
	1,037,163	118,126

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.

45. OBLIGATION UNDER FINANCE LEASE

THE GROUP

It is the Group's policy to lease certain of its furniture, fixtures and equipment under finance leases. The average lease term is five years. Interest rates underlying all obligation under finance leases are fixed at respective contract dates at 8% (2004: 3%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	28	837	21	817
In more than one year but not more two years	28	–	21	–
In more than two years but not more three years	28	–	21	–
In more than three years but not more than four year	28	–	21	–
In more than four years but not more than five year	1	–	–	–
	113	837	84	817
Less: future finance charges	(29)	(20)	–	–
Present value of lease obligations	84	817	84	817
Less: Amount due within one year shown under current liabilities			(21)	(817)
			63	–

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. All finance lease obligations are denominated in Hong Kong dollars, the functional currency of the Group's entity which enters into the lease transaction.

The directors consider that the carrying amount of the obligation under finance leases approximates their fair value.

46. SHAREHOLDER'S LOAN

THE GROUP

Amount represents loan from Dr. Stanley Ho. Such amount is unsecured, interest-bearing at 4 per cent per annum and repayable on demand.

The fair value of the Group's shareholder's loan at 31 December 2005 was approximate to the corresponding carrying amount.

47. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the year and prior reporting period:

	THE GROUP			
	Accelerated tax depreciation *HK$'000*	**Others** *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2004, as originally stated	3,147	324	(3,147)	324
Effect of change in accounting policies *(Note 2)*	9,492	–	(9,492)	–
At 1 January 2004, as restated	12,639	324	(12,639)	324
Acquired on acquisition of a subsidiary	262	–	–	262
Charge (credit) to income statement for the year	1,845	(324)	149	1,670
At 1 January 2005	14,746	–	(12,490)	2,256
Effect of change in tax rate	(540)	–	–	(540)
Acquired on acquisition of a subsidiary	48,000	–	–	48,000
(Credit) charge to income statement for the year	(1,705)	–	341	(1,364)
At 31 December 2005	60,501	–	(12,149)	48,352

As at the balance sheet date, the Group has unused tax losses of approximately HK$389,021,000 (2004: HK$360,543,000). A deferred tax asset has been recognised in respect of HK$69,426,000 (2004: HK$71,372,000) to the extent that realisation of the related tax benefit through future taxable profit is probable. A deferred tax asset is recognised on the balance sheet in view that the relevant subsidiary in the investment banking and the financial services segment has been profit making in recent years. No deferred tax asset has been recognised in respect of the remaining tax loss due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$4,651,000 (2004: Nil) that will expire in 2008. Other losses may be carried forward indefinitely.

THE COMPANY

As at the balance sheet date, the Company has unused tax loss of approximately HK$533,000 (2004: HK$11,862,000). No deferred tax asset has been recognised in respect of the tax loss due to the unpredictability of future profit streams. The tax loss may be carried forward indefinitely.

48. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2005	2004	2005	2004
			HK$'000	*HK$'000*
Authorised:				
At the beginning of the year of HK$1 each	700,000,000	480,000,000	700,000	480,000
Increase in authorised ordinary share capital (note a)	–	220,000,000	–	220,000
Subdivision of one share of HK$1 each into two shares of HK$0.5 each (note b)	700,000,000	–	–	–
At the end of the year of HK$0.5 each (2004: HK$1 each)	1,400,000,000	700,000,000	700,000	700,000
Issued and fully paid:				
At beginning of the year of HK$1 each	463,244,054	221,997,007	463,244	221,997
Exercise of share options before subdivision	8,210,000	11,868,786	8,210	11,869
Conversion of convertible loan notes	19,565,216	–	19,565	–
Subdivision of one share of HK$1 each into two shares of HK$0.5 each (note b)	491,019,270	–	–	–
Issue of shares (notes c and d)	140,000,000	229,378,261	70,000	229,378
Exercise of shares options after subdivision	3,800,000	–	1,900	–
At the end of the year of HK$0.5 each (2004: HK$1 each)	1,125,838,540	463,244,054	562,919	463,244

Notes:

(a) Pursuant to an ordinary resolution passed on 20 May 2004, the authorised ordinary share capital of the Company was increased from HK$480,000,000 to HK$700,000,000 by the creation of 220,000,000 new shares of HK$1 each.

(b) On 18 May 2005, an ordinary resolution was passed by the shareholders of the Company to approve the subdivision (the "Subdivision") of each issued and unissued shares of HK$1 each in the authorised share capital into two ordinary shares of HK$0.5 each. The Subdivision became effective on 19 May 2005.

(c) On 9 June 2004, 153,478,261 ordinary shares of HK$1 each were issued at a price HK$2.375 per share for a total consideration of HK$364,511,000 before related expenses for the acquisition of Mocha Slot during the year ended 31 December 2004 (Note 51). In addition, on 29 October 2004, 75,900,000 ordinary shares of HK$1 each were issued at a price of HK$5.2 per share by way of placement for a total consideration of HK$394,680,000 before related expenses for the purpose of funding its operations under Leisure, gaming and entertainment segment.

(d) In order to finance the Group's expansion and general operations, the Company issued 140,000,000 ordinary shares of HK$0.5 each for a total consideration of HK$9.125 per share. The shares was issued on 20 May 2005 to independent investors. The new shares rank pari passu with the existing shares in all respects.

49. RESERVES

	Share premium HK$'000	Issuable shares HK$'000 (Note)	Capital reserve HK$'000	Convertible loan notes equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY							
At 1 January 2004	49,677	–	357,785	–	–	(227,464)	179,998
Net loss for the year	–	–	–	–	–	(11,140)	(11,140)
Recognition of equity – settled share based payment	–	–	–	–	5,435	–	5,435
Issue of shares	529,813	–	–	–	–	–	529,813
Share issuance expenses	(16,576)	–	–	–	–	–	(16,576)
Exercise of share options	5,066	–	–	–	–	–	5,066
Recognition of equity components of convertible loan notes	–	–	–	4,374	–	–	4,374
Dividend paid	–	–	(3,776)	–	–	–	(3,776)
At 31 December 2004 and 1 January 2005	567,980	–	354,009	4,374	5,435	(238,604)	693,194
Net profit for the year	–	–	–	–	–	25,663	25,663
Issue of shares	1,207,500	–	–	–	–	–	1,207,500
Share issuance expenses	(38,397)	–	–	–	–	–	(38,397)
Exercise of share options	10,697	–	–	–	–	–	10,697
Share conversion on convertible loan notes	25,435	–	–	–	–	–	25,435
Recognition of equity – settled share based payment	–	–	–	–	5,350	–	5,350
Transfer to share premium upon exercise of share option	3,033	–	–	–	(3,033)	–	–
Recognition of equity components of convertible loan notes	–	–	–	323,303	–	–	323,303
Shares issuable on acquisition of additional interest in a subsidiary	–	196,667	–	–	–	–	196,667
Dividend paid	–	–	(16,168)	–	–	–	(16,168)
At 31 December 2005	1,776,248	196,667	337,841	327,677	7,752	(212,941)	2,433,244

Note: The issuable shares form part of the consideration for acquisition of additional interest in a subsidiary which will be issued on the actual date of grant of concession of the Land by the Macau Government (see Note 51).

50. SHARE OPTIONS SCHEMES

(a) Share option scheme of the Company

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

The maximum number of share of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 19 November 2003, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 44,399,400 shares of HK$0.5 each. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant.

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

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

The following share options were outstanding under the Scheme during the year ended 31 December 2005:

Category of participant	Outstanding at 1.1.2004[2]	Granted in 2004[2]	Exercised during 2004[2]	Outstanding at 1.1.2005[2]	Granted during the year[2]	Exercised during the year[2,4]	Outstanding at 31.12.2005[2]	Date of grant of share options[1]	Share price at date of grant of share options[2]	Exercise price of share options[2,3]
Directors[5]	10,897,836	–	(10,865,224)	32,612	–	–	32,612	8 March 2002	HK$0.41 [2]	HK$0.5 [2]
Directors[6]	–	7,200,000	–	7,200,000	–	(3,600,000)	3,600,000	19 February 2004	HK$1.175	HK$1.2025
Sub-total	10,897,836	7,200,000	(10,865,224)	7,232,612	–	(3,600,000)	3,632,612			
Employee	1,500,004	–	(1,500,004)	–	–	–	–	8 March 2002	HK$0.41	HK$0.5
Employees[7]	6,915,340	–	(2,460,000)	4,455,340	–	(2,400,000)	2,055,340	13 September 2002	HK$0.5534 [2]	HK$0.5534 [2]
Employees[8]	–	16,340,000	–	16,340,000	–	(8,120,000)	8,220,000	19 February 2004	HK$1.175	HK$1.2025
Employees[9]	–	7,800,000	(3,932,000)	3,868,000	–	(1,200,000)	2,668,000	17 September 2004	HK$1.6875	HK$1.6875
Employees[10]	–	–	–	–	2,059,400	–	2,059,400	1 February 2005	HK$7.4	HK$7.4
Sub-total	8,415,344	24,140,000	(7,892,004)	24,663,340	2,059,400	(11,720,000)	15,002,740			
Others	8,880,344	–	(4,980,344)	3,900,000	–	(3,900,000)	–	13 September 2002	HK$0.5534	HK$0.5534
Others[11]	–	2,000,000	–	2,000,000	–	(1,000,000)	1,000,000	19 February 2004	HK$1.175	HK$1.2025
Others[12]	–	9,000,000	–	9,000,000	–	–	9,000,000	17 September 2004	HK$1.6875	HK$1.6875
Sub-total	8,880,344	11,000,000	(4,980,344)	14,900,000	–	(4,900,000)	10,000,000			
Total	28,193,524	42,340,000	(23,737,572)	46,795,952	2,059,400	(20,220,000)	28,635,352			

Notes:

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

2. The number of share options granted and the exercise price of the share options were adjusted after the completion of the rights issue in 24 September 2003 and share subdivision on 19 May 2005.

3. As at 31 December 2005, the Company had 28,635,352 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 28,635,352 additional ordinary shares of the Company and additional share capital of approximately HK$14,318,000 and share premium of approximately HK$37,181,000 before issue expenses.

4. In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$9.67 (2004: HK$3.74).

5. As at 31 December 2005, 32,612 options may be exercised during the period from 8 September 2002 to 7 March 2012.

6. As at 31 December 2005, 3,600,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.

7. Among 2,055,340 options as at 31 December 2005, 1,027,670 options may be exercised during the period from 13 September 2002 to 7 March 2012 and 1,027,670 options may be exercised during the period from 13 March 2003 to 7 March 2012.

8. As at 31 December 2005, 8,220,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.

9. Among 2,668,000 options as at 31 December 2005, 800,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 1,188,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 350,000 options may be exercised during the period from 17 September 2006 to 7 March 2012 and 330,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.

10. Among 2,059,400 options as at 31 December 2005, 944,000 options may be exercised during the period from 17 September 2006 to 7 March 2012, 915,400 options may be exercised during the period from 17 March 2008 to 7 March 2012 and 200,000 options may be exercised during the period from 17 September 2009 to 7 March 2012.

11. At 31 December 2005, 1,000,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.

12. Among 9,000,000 options as at 31 December 2005, 4,500,000 options may be exercised during the period from 17 March 2005 to 7 March 2012 and 4,500,000 options may be exercised during the period from 17 September 2005 to 7 March 2012.

During the year ended 31 December 2005, options were granted on 1 February 2005. The estimated fair values of the options granted on those dates is approximately HK$3,066,000 respectively. During the year ended 31 December 2004, options were granted on 19 February 2004 and 17 September 2004. The estimated fair value of the options granted on those dates are HK$5,613,000 and HK$4,248,000.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

		Share option grant date	
	1 February 2005	**17 September 2004**	**19 February 2004**
Exercise price	HK$7.4	HK$1.6875	HK$1.2025
Expected volatility	42.86%	45.95%	42.18%
Expected life	2-5 years	1.5-4 years	2-2.5 years
Risk-free rate	2.734-3.39%	2.503-3.316%	2.212-2.583%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 100 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately HK$5,350,000 for the year ended 31 December 2005 (2004: HK$5,435,000) in relation to share options granted by the Company.

(b) Share options schemes of Value Convergence Holdings Limited ("Value Convergence"), a subsidiary of the Company

(i) Pre-IPO share options plan

Options granted on 6 April 2001 ("Pre-IPO Share Options") pursuant to the Pre-IPO Share Options plan adopted by Value Convergence on 14 March 2001 ("Pre-IPO Share Options Plan") at an exercise price of HK$3.6 per share expired on 8 October 2005. The exercise price represents a discount of 30% of the adjusted initial public offering price. The share option granted under the Pre-IPO Share Options Plan have duration of approximately 4.5 years from the date of grant, i.e. between 6 April 2001 to 8 October 2005. According to the Pre-IPO Share Options Plan, any Pre-IPO Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed by the Value Convergence Group. The following are details of the outstanding Pre-IPO Share Options as at 31 December 2005:

Categories of grantees	As at 31 December 2005 Number of underlying shares to be issued upon the exercise of the Pre-IPO Share Options	As at December 31 2004 Number of underlying shares to be issued upon the exercise of the Pre-IPO Share Options
Directors of the Company	–	4,606,510
Employees	–	1,262,188
Total	–	5,868,698

During the year ended 31 December 2005, Pre-IPO Share Options to subscribe for a total of 5,868,698 underlying shares granted to the director of the Company and employees lapsed as one employee failed to exercise the same within 3 months after the relevant employee ceased to be the employee of Value Convergence and the others have not exercised when the share options were expired on 8 October 2005. Since the date of the grant of the Pre-IPO Share Options up to 31 December 2005 and 31 December 2004, none of the Pre-IPO Share Options were exercised or cancelled. Movements in the number of Pre-IPO Share Options outstanding during the year are as follows:

	Number of Pre-IPO Share Options	
	2005	2004
At beginning of the year	5,868,698	9,740,208
Lapsed during the year	(5,868,698)	(3,871,510)
At end of the year	–	5,868,698

(ii) Share options scheme

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

As at 31 December 2005, options to subscribe for an aggregate of 3,258,168 and 10,950,565 underlying shares granted on 9 July 2002 and 25 March 2004 ("Share Options") pursuant to the Share Options Scheme at an exercise price of HK$1.0 per share and HK$0.64 per share, respectively, were outstanding, which in total represents approximately 5.7% (2004: 11.5%) of the shares of Value Convergence in issue as at 31 December 2005. The adjusted closing price of Value Convergence's shares immediately before 9 July 2002 and the closing price of the Value Convergence's shares immediately before 25 March 2004 were HK$0.65 and HK$0.64 per share, respectively. The Share Options have duration of 10 years from the date of grant, i.e. between 9 July 2002 to 8 July 2012 and between 25 March 2004 to 24 March 2014, respectively. According to the Share Options Scheme, any Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by the Value Convergence Group. The following are details of the outstanding Share Options as at 31 December 2005:

Categories of grantees	Exercise price per share	As at 31 December 2005 Number of underlying shares to be issued upon the exercise of the Share Options	As at 31 December 2004 Number of underlying shares to be issued upon the exercise of the Share Options
Directors of the Company	HK$1.0	982,114	982,114
Employees	HK$1.0	694,842	1,782,539
Employees	HK$0.64	8,900,565	23,160,565
Other eligible persons	HK$1.0	1,581,212	1,424,065
Other eligible persons	HK$0.64	2,050,000	–
Total		14,208,733	27,349,283

During the year ended 31 December 2005, certain Share Options to subscribe for a total of 1,654,323 underlying shares granted to eight employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of Value Convergence. During the year ended 31 December 2005, certain Share Options to subscribe for a total of 756,227 and 10,730,000 underlying shares at an exercise price of HK$1.0 and HK$0.64 per share, respectively, granted to a total of 42 employees were exercised (2004: Nil). Since the date of the grant of the Share Options up to 31 December 2005 and 31 December 2004, none of the Share Options were cancelled. Movements in the number of Share Options outstanding during the year are as follows:

	Number of Share Options	
	2005	2004
At beginning of the year	27,349,283	4,228,002
Share Options granted during the year	–	23,160,565
Exercised during the year	(11,486,227)	–
Lapsed during the year	(1,654,323)	(39,284)
At end of the year	14,208,733	27,349,283

51. ACQUISITION OF SUBSIDIARIES

Acquisition for the year ended 31 December 2005

As stated in note 28, 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	Fair value adjustments	Fair value
	HK$'000	*HK$'000* *(note)*	*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)
	954	352,000	352,954
Minority interest			(105,886)
			247,068
Represented by:			
Interest in a jointly controlled entity			176,477
Issue of convertible loan note			70,591
			247,068

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 12 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.

52. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2005, the Group entered into finance lease arrangement in respect of assets with a total capital value of approximately HK$103,000 at the date of inception.

The consideration for the purchase of subsidiaries and the acquisition of additional interest in the Cotai Land during the year ended 31 December 2005 comprised shares and convertible loan notes as disclosed in note 51 and note 22, respectively.

53. OPERATING LEASES

(a) The Group as lessee

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
The Group made rental payment for properties under operating leases as follows:		
Minimum lease payments	20,279	9,342
Contingent rental payments	442	–
	20,721	9,342

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Within one year	29,418	19,620
In the second to fifth year inclusive	79,058	46,835
Over five years	39,036	–
	147,512	66,455

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for a term ranging from 3 to 10 years. In addition, the Group may pay additional rental expenses in respect of certain premises which are dependent upon the level of revenue achieved by particular slot lounges.

(b) The Group as lessor

At 31 December 2004, the Group has entered into lease arrangements with Sociedade de Jogos de Macau, S.A. ("SJM"), a subsidiary of STDM, and the other lessee for leasing of its owned gaming machines. In addition to a fixed monthly rent of HK$7,767 (equivalent to MOP8,000) per month for one of the lease arrangements, the Group will be entitled to lease receipts calculated at an agreed percentage of net win from each gaming machine leased on an accrual basis in accordance with the respective lease arrangements. This lease arrangement is superseded with another service agreement during the year ended 31 December 2005 where the Group provides management service to certain slot lounges owned by SJM and receives management service income in return.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Within one year	–	280
In the second to fifth year inclusive	–	1,118
Over five years	–	1,150
	–	2,548

At 31 December 2005, the Group has entered into lease arrangements with certain tenants for its leased properties and investment properties. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Within one year	14,810	2,101
In the second to fifth year inclusive	24,240	387
	39,050	2,488

The Company had no significant operating leases at the balance sheet date.

54. COMMITMENTS

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

In addition, Great Wonders has accepted a formal offer from the Macau Government to acquire the Land 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. 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 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 the Cotai Land 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.

55. 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.

56. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme are switched to the MPF Scheme and all new eligible employees joining the Group on or after December 2000 are under the MPF Scheme. No more contribution was made to the ORSO Scheme after the switch.

Both the Group and the employees contribute a fixed percentage of the relevant payroll to the MPF Scheme.

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

57. RELATED PARTY TRANSACTIONS

(a) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK$51,038,000 (2004: HK$14,876,000).

The trade receivables include amounts due from SJM, in relation to the gaming machines business of approximately HK$10,125,000 (2004: HK$8,462,000).

The prepayments, deposits and other receivables include HK$3,829,000 (2004: HK$1,044,000) amount due from related companies in relation to sales of computer hardware and software.

(b) The accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK$3,407,000 (2004: HK$368,000).

(c) Apart from the acquisition of subsidiaries and the acquisition of additional interest in the Land as disclosed in note 51 and note 22, respectively, the Group entered into the following related parties transactions:

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Catering income earned from directors and related companies	6,363	4,306
Insurance premiums charged by a related company	1,122	1,004
Property management fees charged by a related company	–	276
Souvenirs sold to a related company	717	681
Brokerage commission income earned from certain directors of the Group or their relatives	145	243
Sales of computer hardware and software to related companies	100,534	81,644
Management fees received from a related company	393	600
Interest expense on loan from a related company	–	23
Interest expense on shareholder's loan	1,079	–
Interest expense on convertible loan notes to related companies	24,978	1,011
Income from electronic gaming machines lounges from a related company	128,180	44,890
Management fee received from a jointly controlled entity	–	6,071
Purchase of property, plant and equipment from a related company	7,982	–
Service charge paid to a minority shareholder	11,204	–
Rental expense paid to a related company	407	–

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Short-term benefits	13,635	12,566
Post-employment benefits	120	110
Share-based payments	1,610	1,974
	15,365	14,650

The remuneration of directors and key executives is determined by the executive resouring committee having regard to the performance of individuals and market trends.

58. POST BALANCE SHEET EVENTS[1]

(i) On 13 February 2006, the Group has signed an agreement with syndicate banks for a HK$1,280,000,000 transferable term loan facility to finance its hotels and entertainment complex under development.

(ii) 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 as disclosed in note 51, 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.

(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 ("Melco 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 Melco PBL Macau, the Company shall have the right to convert the loan capital contribution into 40% of the issued share capital of Melco PBL Macau. Upon conversion of the loan capital contribution, the Company will be interested in 40% of Melco PBL Macau.

Upon the Company becoming a holder of 40% of issued share capital of Melco PBL Macau, PBL and the Company shall (a) enter into a shareholders' agreement or amend the Deed entered into between the Company and PBL dated 8 March 2005 relating to the gaming and hospitality business of Meclo PBL Holdings ("Deed") which will reflect the principle that material dealings of or under the Subconcession shall be subject to the unanimous approval of the board of Melco 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 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.

Note 1: The post balance sheet events are as extracted from and as at the date of the publish of the Company's annual report 2005.

59. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
Melco Leisure and Entertainment Group Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Melco PBL Entertainment (Greater China) Limited (formerly named as Melco Entertainment Limited)[2]	Cayman Islands	Investment holding in Macau	40 A shares and 160 B shares of US$0.01 each	60%
Mocha Slot Group Limited[2]	British Virgin Islands	Leasing gaming machines and provision of ancillary management services to the lessees of its gaming machine in Macau	100 ordinary shares of US$1 each	48%
Mocha Slot Management Limited[2]	Macau	Provision of consultancy service for entertainment business and system management in Macau	2 quota shares of MOP24,000 and MOP1,000 each	48%
Melco Hotels and Resorts (Macau) Limited[2]	Macau	Hotel properties development in Macau	2 quota shares of MOP24,000 and MOP1,000 each	60%
Great Wonders, Investments, Limited[2]	Macau	Hotel properties development in Macau	10,000 ordinary shares of MOP100 each	60%
Aberdeen Restaurant Enterprises Limited[2]	Hong Kong	Restaurant operations and property investment in and Hong Kong	8,060 A shares of HK$1,000 each 33,930 B shares of HK$500 each	86.68%
Tai Pak Sea-Food Restaurant Limited[2]	Hong Kong	Catering, restaurant vessel holding and letting in Hong Kong	5 founders' shares of HK$100 each and 13,495 ordinary shares of HK$100 each	84.76%
Jumbo Catering Management Limited[2]	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK$5,000	86.68%
Melco Technology Group Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
iAsia Online Systems Limited[2]	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US$1	100%
Elixir Group Limited[2]	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK$1 each	100%
Elixir Group (Macau) Limited[2]	Macau	Provision of hardware and software in Macau	2 quota shares of MOP450,000 and MOP50,000 each	100%
Melco Financial Group Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Value Convergence Holdings Limited[2,3]	Hong Kong	Investment holding in Hong Kong	249,641,226 ordinary shares of HK$0.1 each	64.46%
VC Brokerage Limited[2]	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK$1 each	64.46%
VC Futures Limited[2]	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK$1 each	64.46%
VC Capital Limited[2]	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK$1 each	64.46%
VC Capital (Shenzhen) Limited[2]	PRC	Provision of consultancy services in the PRC	HK$1,000,000	64.46%
VC Securities Investments Limited[2]	Hong Kong	Investment holding in Hong Kong	2 ordinary of HK$1 each	64.46%
VC Asset Management Limited[2]	Hong Kong	Provision of asset management services to clients in Hong Kong	7,000,000 ordinary shares of HK$1 each	64.46%

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
VC Investment Management Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	64.46%
VC Finance Limited[2]	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK$1 each	64.46%
VC Research Limited[2]	Hong Kong	Provision of research services in Hong Kong	500,000 ordinary shares of HK$1 each	64.46%
VC Financial Advisory (Macau) Limited[2]	Macau	Provision of financial consultancy and related services in Macau	2 quota shares of MOP24,000 and MOP1,000 each	64.46%
VC Services Limited[2]	Hong Kong	Provision of Management Services to group companies in Hong Kong	10,000 ordinary shares of HK$1 each	64.46%
Melco Services Limited[1]	British Virgin Islands	Provision of Management Services to group companies in Hong Kong	1 ordinary share of US$1	100%
Melco Investment Holdings Limited[1]	British Virgin Islands	Investment holding in Macau	1 ordinary share of US$1	100%
Zonic Technology Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%

1 Share held directly by the Company
2 Share held indirectly by the Company
3 The shares of this company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

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

None of the subsidiaries had issued any debt securities at the end of the year.

III. UNAUDITED FINANCIAL INFORMATION FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

Set out below is a summary of the unaudited financial information of the Group for the six month period ended 30 June 2006, as extracted from the Company's unaudited financial statements for the six month period ended 30 June 2006 as set out in the Company's interim report.

Condensed Consolidated Income Statement
For the six months ended 30 June 2006

		Six months ended 30 June	
		2006	**2005**
	Notes	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)
Revenue	5	371,400	250,727
Other revenues		9,643	9,109
Investment income		7,699	1,249
Cost of inventories sold		(78,509)	(71,719)
Employee benefits expense		(104,446)	(65,308)
Depreciation of property, plant and equipment		(33,809)	(12,859)
Amortisation of service agreements intangible asset and trading rights		(2,950)	(253)
Commission expenses		(38,076)	(18,561)
Gain on deemed disposal of partial interest in subsidiaries	6	–	514,431
Increase in fair value of investment properties		–	8,000
Other operating expenses		(91,933)	(64,071)
Finance costs		(42,103)	(5,235)
Share of (loss) profit of jointly controlled entities		(24)	2,200
Write-down of service agreements intangible asset	7	(90,390)	–
(Loss) profit before tax	8	(93,498)	547,710
Income tax credit (expense)	9	9,215	(4,486)
(Loss) profit for the period		(84,283)	543,224
Attributable to:			
Equity holders of the Company		(28,983)	534,161
Minority interests		(55,300)	9,063
		(84,283)	543,224
Dividend paid	10	11,605	4,910
(Loss) earnings per share	11		
Basic		HK(2.51) cents	HK54.66 cents
Diluted		N/A	HK51.94 cents

Condensed Consolidated Balance Sheet
At 30 June 2006

	Notes	30 June 2006 HK$'000 (unaudited)	31 December 2005 HK$'000
Non-current assets			
Goodwill		299,088	299,088
Trading rights		2,026	2,279
Service agreements intangible asset		7,287	100,373
Trademark		23,637	23,637
Other intangible assets		2,547	2,547
Investment properties	12 & 14	85,000	85,000
Property, plant and equipment	12	305,260	256,151
Hotels and entertainment complex under development	12	2,318,492	1,881,824
Prepaid lease payments		34,071	36,394
Deposit for land use right		–	48,590
Interests in jointly controlled entities		2,210	2,234
Available-for-sale investments		20,517	20,517
Advance to a minority shareholder for a subconcession	13	312,000	–
Long term deposits		3,112	8,074
Deferred tax assets		1,495	1,495
		3,416,742	2,768,203
Current assets			
Trade receivables	15	521,715	399,727
Prepayments, deposits and other receivables		70,736	45,177
Inventories		35,506	34,656
Prepaid lease payments		9,899	4,646
Investment in convertible loan notes		–	4,000
Held-for-trading investments		14,392	45,002
Amounts due from jointly controlled entities	16	153,908	19
Amount due from a related company	17	965	948
Pledged bank deposits	14	5,332	270
Bank balances and cash		3,188,706	2,350,284
		4,001,159	2,884,729

Condensed Consolidated Balance Sheet *(continued)*
At 30 June 2006

	Notes	30 June 2006 HK$'000 (unaudited)	31 December 2005 HK$'000
Current liabilities			
Trade payables	18	115,416	103,936
Other payables		217,879	105,700
Amount due to a minority shareholder	19	557,405	9,104
Amount due to a jointly controlled entity		–	9
Amounts due to related companies		–	6,051
Taxation payable		10,516	8,594
Bank borrowings – due within one year		50,000	28,000
Obligation under finance lease		46	21
Shareholder's loan		–	45,085
		951,262	306,500
Net current assets		3,049,897	2,578,229
Total assets less current liabilities		6,466,639	5,346,432
Non-current liabilities			
Deferred tax liabilities		53,558	64,728
Convertible loan notes – due after one year	20	1,065,444	1,037,163
Obligation under finance lease – due after one year		100	63
		1,119,102	1,101,954
		5,347,537	4,244,478
Capital and reserves			
Share capital	21	612,351	562,919
Reserves		4,101,430	2,995,266
Equity attributable to equity holders of the Company		4,713,781	3,558,185
Equity component of share option reserve of a subsidiary		260	–
Minority interests		633,496	686,293
		5,347,537	4,244,478

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Attributable to the equity holders of the Company														
	Share capital HK$'000	Share premium HK$'000	Issuable shares HK$'000	Capital reserve HK$'000	Special reserve HK$'000	Convertible loan notes equity reserve HK$'000	Other revaluation reserve HK$'000	Exchange reserve HK$'000	Legal reserve HK$'000	Share options reserve HK$'000	(Accumulated losses) retained profit HK$'000	Total HK$'000	Equity component of share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2005	463,244	567,980	–	354,009	–	4,374	–	–	254	5,435	(165,445)	1,229,851	–	97,442	1,327,293
Increase in other revaluation reserve resulting from acquisition of a subsidiary	–	–	–	–	–	–	76,477	–	–	–	–	76,477	–	–	76,477
Realisation of other revaluation reserve upon deemed disposal of partial interest in subsidiaries	–	–	–	–	–	–	(30,591)	–	–	–	30,591	–	–	–	–
Net income directly recognised in equity	–	–	–	–	–	–	45,886	–	–	–	30,591	76,477	–	–	76,477
Profit for the period	–	–	–	–	–	–	–	–	–	–	534,161	534,161	–	9,063	543,224
Total recognised income for the period	–	–	–	–	–	–	45,886	–	–	–	564,752	610,638	–	9,063	619,701
Exercise of share options	8,410	9,866	–	–	–	–	–	–	–	–	–	18,276	–	–	18,276
Shares issued at premium	70,000	1,207,500	–	–	–	–	–	–	–	–	–	1,277,500	–	–	1,277,500
Share issuance expenses	–	(38,335)	–	–	–	–	–	–	–	–	–	(38,335)	–	–	(38,335)
Shares conversion on convertible loan notes	19,565	25,435	–	–	–	–	–	–	–	–	–	45,000	–	–	45,000
Increase in minority interests on deemed disposal of partial interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	647,311	647,311
Recognition of equity – settled share based payments	–	–	–	–	–	–	–	–	–	3,439	–	3,439	–	–	3,439
Increase in minority interest resulting from acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	105,886	105,886
Recognition of equity component of convertible loan notes	–	–	–	–	–	16,050	–	–	–	–	–	16,050	–	–	16,050
Dividend paid	–	–	–	(4,910)	–	–	–	–	–	–	–	(4,910)	–	–	(4,910)
At 30 June 2005	561,219	1,772,446	–	349,099	–	20,424	45,886	–	254	8,874	399,307	3,157,509	–	859,702	4,017,211
Exchange difference arising on translation of foreign operations and net expense directly recognised in equity	–	–	–	–	–	–	–	(43)	–	–	–	(43)	–	(22)	(65)
Profit for the period	–	–	–	–	–	–	–	–	–	–	14,557	14,557	–	(1,321)	13,236
Total recognised income (expense) for the period	–	–	–	–	–	–	–	(43)	–	–	14,557	14,514	–	(1,343)	13,171

Condensed Consolidated Statement of Changes in Equity *(continued)*

For the six months ended 30 June 2006

	Attributable to the equity holders of the Company														
	Share capital HK$'000	Share premium HK$'000	Issuable shares HK$'000	Capital reserve HK$'000	Special reserve HK$'000	Convertible loan notes equity reserve HK$'000	Other revaluation reserve HK$'000	Exchange reserve HK$'000	Legal reserve HK$'000	Share options reserve HK$'000	(Accu-mulated losses) retained profit HK$'000	Total HK$'000	Equity component of share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
Exercise of share options	1,700	831	–	–	–	–	–	–	–	–	–	2,531	–	–	2,531
Share issuance expenses	–	(62)	–	–	–	–	–	–	–	–	–	(62)	–	–	(62)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	7,617	7,617
Recognition of equity – settled share based payments	–	–	–	–	–	–	–	–	–	1,911	–	1,911	–	–	1,911
Transfer to share premium upon exercise of share option	–	3,033	–	–	–	–	–	–	–	(3,033)	–	–	–	–	–
Recognition of equity component of convertible loan notes	–	–	–	–	–	307,253	–	–	–	–	–	307,253	–	–	307,253
Decrease in minority interest upon acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(105,763)	(105,763)
Shares issuable on acquisition of additional interest in a subsidiary *(Note)*	–	–	196,667	–	–	–	–	–	–	–	–	196,667	–	–	196,667
Special reserve arise on acquisition of additional interests in a subsidiary	–	–	–	–	(110,880)	–	–	–	–	–	–	(110,880)	–	(73,920)	(184,800)
Dividend paid	–	–	–	(11,258)	–	–	–	–	–	–	–	(11,258)	–	–	(11,258)
At 31 December 2005 and 1 January 2006	562,919	1,776,248	196,667	337,841	(110,880)	327,677	45,886	(43)	254	7,752	413,864	3,558,185	–	686,293	4,244,478
Exchange differences arising on translation of foreign operations and net income directly recognised in equity	–	–	–	–	–	–	–	70	–	–	–	70	–	–	70
Loss for the period	–	–	–	–	–	–	–	–	–	–	(28,983)	(28,983)	–	(55,300)	(84,283)
Total recognised income (expense) for the period	–	–	–	–	–	–	–	70	–	–	(28,983)	(28,913)	–	(55,300)	(84,213)
Exercise of share options	6,521	9,326	–	–	–	–	–	–	–	–	–	15,847	–	–	15,847
Shares issued at premium	31,800	1,182,960	–	–	–	–	–	–	–	–	–	1,214,760	–	–	1,214,760
Share issuance expenses	–	(38,677)	–	–	–	–	–	–	–	–	–	(38,677)	–	–	(38,677)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	2,412	2,412
Shares issued on acquisition of additional interest in a subsidiary *(Note)*	11,111	185,556	(196,667)	–	–	–	–	–	–	–	–	–	–	–	–
Decrease in minority interests on deemed disposal of partial interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(54)	(54)
Recognition of equity – settled share based payments	–	–	–	–	–	–	–	–	–	4,184	–	4,184	260	145	4,589
Transfer to share premium upon exercise of share option	–	2,827	–	–	–	–	–	–	–	(2,827)	–	–	–	–	–
Dividend paid	–	–	–	(11,605)	–	–	–	–	–	–	–	(11,605)	–	–	(11,605)
At 30 June 2006	612,351	3,118,240	–	326,236	(110,880)	327,677	45,886	27	254	9,109	384,881	4,713,781	260	633,496	5,347,537

Note: The issuable shares as at 31 December 2005 form part of the consideration for acquisition of additional interest in a subsidiary which would be issued on the actual date of grant of the concession of a piece of land by the Macau Government. The land was officially granted by the Macau Government on 1 March 2006 and the Company then allotted and issued the 22,222,222 shares accordingly.

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash used in operating activities	(4,974)	(12,324)
Net cash (used in) from investing activities:		
Advance to a minority shareholder for a subconcession	(312,000)	–
Acquisition of hotels and entertainment complex under development	(309,205)	–
Increase in amounts due from jointly controlled entities	(199,596)	–
Other investing cash flows	(82,912)	(92,126)
Proceeds from disposal of property, plant and equipment	232	550
Proceeds from disposal of partial interest in subsidiaries	–	1,271,400
	(903,481)	1,179,824
Net cash from financing activities:		
Proceeds from issue of shares	1,214,760	1,277,500
Increase in amount due to a minority shareholder	551,354	–
Other financing cash flows	(19,237)	10,902
	1,746,877	1,288,402
Net increase in cash and cash equivalents	838,422	2,455,902
Cash and cash equivalents at beginning of the period	2,350,284	394,966
Cash and cash equivalents at end of the period, represented by bank balances and cash	3,188,706	2,850,868

Notes to the Condensed Financial Statements

For the six months ended 30 June 2006

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. RECLASSIFICATION

During the period ended 30 June 2006, certain intangible assets included in goodwill on acquisition of interest in Mocha Slots has been reclassified. The amounts reclassified include intangible assets relating to Mocha Slots' slot lounges services agreement of approximately HK$100,373,000 and trademark of approximately HK$23,637,000 and respective deferred tax liabilities of approximately HK$14,881,000 and minority interest of approximately HK$21,826,000. The directors considered that there was no significant impact on how the result for the prior accounting years and the current period are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investment properties and financial instruments, which are measured at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. The adoption of the new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments have been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of the standard, amendment and interpretations will have no material impact on the financial position or results of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 March 2006.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.

4. REVENUE AND SEGMENT INFORMATION

The Group's business can be principally segregated to four operating divisions during the period:

The Leisure, Gaming and Entertainment Segment mainly comprises provision of catering services and gaming operation.

The Technology Segment mainly comprises provision of gaming technology consultation services and development and sale of financial trading and settlement systems.

The Investment Banking and Financial Services Segment (operated through Value Convergence Holdings Limited) mainly comprises provision of corporate finance service and broking and dealing for clients in securities, futures and options contracts.

4. REVENUE AND SEGMENT INFORMATION *(continued)*

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

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

5. SEGMENTAL INFORMATION

Segment information about these businesses is presented below:

Six months ended 30 June 2006 (unaudited):

	Leisure, Gaming and Entertainment	**Technology**	**Investment Banking and Financial Services**	**Property and Other Investments**	**Elimination**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External sales	140,082	88,451	93,405	49,462	–	371,400
Inter-segment sales	385	32,796	360	25,031	(58,572)	–
Total revenue	140,467	121,247	93,765	74,493	(58,572)	371,400
Segment result before write-down	(24,507)	15,327	30,415	48,594	(5,479)	64,350
Write-down of service agreements intangible asset	(90,390)	–	–	–	–	(90,390)
Segment result after write-down	(114,897)	15,327	30,415	48,594	(5,479)	(26,040)
Unallocated corporate expenses						(25,331)
Finance costs						(42,103)
Share of loss of jointly controlled entities						(24)
Loss before tax						(93,498)
Income tax credit						9,215
Loss for the period						(84,283)

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

5. SEGMENTAL INFORMATION *(continued)*

Six months ended 30 June 2005 (unaudited):

	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	113,375	75,453	51,447	10,452	–	250,727
Inter-segment sales	344	–	354	5,325	(6,023)	–
Total revenue	113,719	75,453	51,801	15,777	(6,023)	250,727
Segment result	40,694	6,744	7,688	3,222	–	58,348
Gain on deemed disposal of partial interest in subsidiaries	514,431	–	–	–	–	514,431
Unallocated corporate expenses						(22,034)
Finance costs						(5,235)
Share of profit of jointly controlled entities						2,200
Profit before tax						547,710
Income tax expense						(4,486)
Profit for the period						543,224

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

6. GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN SUBSIDIARIES

On 11 November 2004, the Company entered into a Heads of Agreement ("Heads of Agreement") with 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 Entertainment (Macau) Limited (formerly known as "Melco PBL Holdings Limited") ("Melco PBL (Macau)"), 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 Slots and 70% interests of Great Wonders, Investment, Limited ("Great Wonders") to Melco PBL Entertainment (Greater China) Limited ("Melco PBL Entertainment"), which is a company owned as to 80% indirectly by Melco PBL (Macau) 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 Slots, 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 during the period ended 30 June 2005 accordingly.

7. WRITE-DOWN OF SERVICE AGREEMENTS INTANGIBLE ASSET

Subsequent to the entering of an agreement to acquire a gaming subconcession in Macau (see note 13), Mocha Slots and SJM have mutually agreed to terminate all the slot lounge service agreements and given the imminent termination of all of these service agreements in contemplation of obtaining the gaming subconcession, the intangible asset relating to these service agreements of Mocha Slots with SJM (see note 2) are written down by approximately HK$90,390,000, with reference to a valuation report provided by an independent qualified professional valuers not connected to the Group.

In addition, the amortisation of the service agreements amounted to approximately HK$2,697,000 during the period ended 30 June 2006.

8. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) profit before tax has been arrived at after charging:		
Impairment loss on trade receivables	1,768	887
Unrealised loss on held-for-trading investments	453	904
and after crediting:		
Dividend income from unlisted investments	269	1,602
Dividend income from listed investments	273	378
Realised gain on held-for-trading investments	7,610	171

9. INCOME TAX (CREDIT) EXPENSE

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2005: 17.5%) of the estimated assessable profit for the period. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

No provision for Hong Kong profits tax is made during the period ended 30 June 2006 as there is no estimated assessable profit.

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The income tax expense comprises:		
Hong Kong Profits Tax – current tax	–	96
Other jurisdictions		
Current tax	1,955	4,297
Overprovision in prior periods	–	(1,307)
Deferred taxation	(11,170)	1,400
Income tax (credit) expense	(9,215)	4,486

10. DIVIDEND

During the period ended 30 June 2006, a dividend of HK$0.01 per share amounting to approximately HK$11,605,000 (six months ended 30 June 2005: HK$0.01 per share amounting to approximately HK$4,910,000) was paid to shareholders as the final dividend for 2005.

The directors do not recommend the payment of an interim dividend (six months ended 30 June 2005: an interim dividend of HK$0.01 per share was declared). The above dividend per share data has been adjusted for the share subdivision on 19 May 2005 (Note 21).

11. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share (net (loss) profit for the period attributable to equity holders of the Company)	(28,983)	534,161
Effect of dilutive potential ordinary shares *(note)*:		
Interest on convertible loan notes	–	2,702
Adjustments to the share of results of a subsidiary based on potential dilution of its (loss) earnings per share	–	(33)
(Loss) earnings for the purpose of diluted (loss) earnings per share	(28,983)	536,830

	Six months ended 30 June	
	2006	**2005**
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	1,155,817,309	977,307,406
Effect of dilutive potential ordinary shares *(note)*:		
Share options	–	26,056,087
Convertible loan notes	–	30,145,674
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	1,155,817,309	1,033,509,167

The weighted average number of ordinary shares for the purpose of basic (loss) earnings per share and diluted (loss) earnings per share has been adjusted for the share subdivision on 19 May 2005 (Note 21).

Note: During the period ended 30 June 2006, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible loan notes or share options granted since their exercise would result in a decrease in loss per share.

12. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT

The Group spent approximately HK$393,330,000 in respect of the hotels and entertainment complex under development in Macau. Also, the Group spent approximately HK$34,864,000 on purchase of gaming machines for the expansion of its electronics gaming business.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. As at 30 June 2006, the carrying amount of such property interests amounted to HK$85,000,000 (31 December 2005: HK$85,000,000).

The fair values of the Group's investment properties as at 30 June 2006 have been determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was arrived at by reference to recent market prices for similar properties.

13. ADVANCE TO A MINORITY SHAREHOLDER FOR A SUBCONCESSION

On 5 March 2006, the Company entered into the Memorandum of Agreement with PBL, which was amended by a supplemental agreement on 26 May 2006, pursuant to which the Company agreed to make or cause to be made by its wholly-owned subsidiary to provide a subordinated interest free loan of HK$1,248,000,000 (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 Macau and PBL at a consideration of HK$7,020,000,000 (US$900,000,000) ("Premium").

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.

The Premium of HK$7,020,000,000 (US$900,000,000) payable to Wynn Macau on the grant of the Subconcession will be provided as follows:

(i) by the Company making or causing to be made a subordinated interest free loan of HK$1,248,000,000 (US$160,000,000) to PBL Macau, which sum will be applied towards the Premium;

(ii) by PBL subscribing or causing to be subscribed an amount of HK$624,000,000 (US$80,000,000) for new shares of PBL Macau and making or causing to be made a subordinated interest free loan of HK$1,248,000,000 (US$160,000,000) to PBL Macau, constituting an aggregate funding obligation of PBL of HK$1,872,000,000 (US$240,000,000); and

(iii) the balance of the Premium will be financed by non-recourse financing of PBL Macau on terms acceptable to the Company and PBL, but if such third party financing cannot be arranged on acceptable terms, the balance of the Premium will be providing by the Company and PBL in the same proportions as their aggregate funding specified in (i) and (ii) above.

Pursuant to the Subconcession Agreement, PBL forms PBL Macau to be the subconcessionaire under the Subconcession to be granted and that PBL shall with the managing director of PBL Macau own or control all of the issued share capital of PBL Macau until closing under the Subconcession Agreement and grant of the Subconcession to PBL Macau. The Subconcession Agreement provides for the payment by PBL of a deposit of HK$780,000,000 (US$100,000,000) on or before 13 March 2006, with the balance of the Premium of HK$6,240,000,000 (US$800,000,000) payable upon closing of the Subconcession Agreement and the grant of the Subconcession. The deposit is subject to forfeiture if the Subconcession Agreement is terminated by Wynn Macau for a material breach by PBL or PBL Macau. The deposit of HK$780,000,000 (US$100,000,000) was duly paid on or before 13 March 2006, as required by the Subconcession Agreement, and was financed as to an amount of HK$312,000,000 (US$40,000,000) by the Company and as to an amount of HK$468,000,000 (US$60,000,000) by PBL.

13. ADVANCE TO A MINORITY SHAREHOLDER FOR A SUBCONCESSION *(continued)*

Following the Company, or its wholly-owned subsidiary, becoming, subject to the approval of the Macau Government, an indirect shareholder of PBL Macau through the Company's jointly controlled entity, Melco PBL International, the Company and PBL will:

(i) enter into arrangements relating to PBL Macau under which the Company and PBL will share the risks, liabilities, commitments, capital contributions and economic values and benefits of the projects and businesses of PBL Macau on a 50:50 basis under their jointly controlled entities; and

(ii) amend the Deed entered into between the Company and PBL dated 8 March 2005 relating to the gaming and hospitality business in Macau (the "Deed") to reflect the agreement that all gaming ventures of the Company's jointly controlled entities and all future gaming ventures undertaken by the Company's jointly controlled entities within the location specified under the Deed will be owned and carried on a 50:50 basis.

14. PLEDGE OF ASSETS

At 30 June 2006, the Group's bank deposit amounting to approximately HK$5,332,000 were pledged for purchasing of goods and tendering of contracts with the Macau Government by a subsidiary of the Company (31 December 2005: HK$270,000 were pledged for tendering of contracts with the Macau government by a subsidiary of the Company). Also, the Group's investment properties of HK$85,000,000 were pledged for obtaining the banking facilities granted to a subsidiary of the Company (31 December 2005: HK$85,000,000).

15. TRADE RECEIVABLES

	As at 30 June 2006 *HK$'000* (unaudited)	**As at 31 December 2005** *HK$'000*
Trade receivables (excluding receivables balance arising from margin clients securities transactions)	254,159	228,520
Less: Accumulated impairment	(7,771)	(6,730)
	246,388	221,790
Trade receivables arising from margin clients securities transactions *(Note b)*	275,327	177,937
	521,715	399,727

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

	As at 30 June 2006 *HK$'000* (unaudited)	**As at 31 December 2005** *HK$'000*
Within 30 days	178,359	173,935
31 – 90 days	44,807	22,930
Over 90 days	23,222	24,925
	246,388	221,790

15. TRADE RECEIVABLES *(continued)*

Notes:

(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 receivable arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment Banking and Financial Services Segment as at 30 June 2006 amounted to approximately HK$452,067,000 (31 December 2005: HK$319,499,000). 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.

16. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts represent advance to the jointly controlled entities mainly for the acquisition of 20% of the issued share capital of Mocha Slots and the entire issued share capital of a company holding the rights to a land lease grant (see note 24). The amounts are unsecured, interest free and repayable on demand.

17. AMOUNT DUE FROM A RELATED COMPANY

	As at 30 June 2006 *HK$'000* (unaudited)	**As at 31 December 2005** *HK$'000*
Sociedade de Turismo e Diversoes de Macau ("STDM") *(note)*	965	948

Note: The amount due from STDM, a related company of which Dr. Stanley Ho is a director and has direct beneficial interests, is unsecured, interest free, repayable on demand and aged over 90 days.

18. TRADE PAYABLES

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

	As at 30 June 2006 *HK$'000* (unaudited)	As at 31 December 2005 *HK$'000*
Within 30 days	6,660	38,330
31-90 days	11,446	19,551
Over 90 days	26,845	12,674
	44,951	70,555
Trade payables arising from the ordinary course of business of dealing in securities transactions *(note)*	70,465	33,381
	115,416	103,936

Note: The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the Investment Banking and Financial Services Segment are usually two trading days after trade date. These trade payables are repayable on demand and aged within 30 days.

19. AMOUNT DUE TO A MINORITY SHAREHOLDER

Amount due to a minority shareholder was advanced by the minority shareholder for the purpose of financing the construction cost for hotels and entertainment complex under development. The amount is unsecured, non-interest bearing and is repayable on demand.

20. CONVERTIBLE LOAN NOTES

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 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 purpose of developing a land which will consist of hotel and entertainment complex with casino and electronic gaming machine lounge.

The convertible loan note due on 8 November 2009 is convertible into fully paid ordinary shares of HK$0.5 each, 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, of the Company at a initial 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 Cotai Land in Macau. This convertible loan note is convertible into fully paid ordinary shares of HK$0.5 each, 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.

21. SHARE CAPITAL

	Number of ordinary shares		Amount	
	30 June 2006	**31 December 2005**	**30 June 2006**	**31 December 2005**
			HK$'000	*HK$'000*
	(unaudited)		(unaudited)	
Authorised:				
At beginning of the period/year of HK$0.5 (1 January 2005: HK$1) each	1,400,000,000	700,000,000	700,000	700,000
Subdivision of one share of HK$1 each into two shares of HK$0.5 each *(note)*	–	700,000,000	–	–
At the end of the period/year of HK$0.5 each	1,400,000,000	1,400,000,000	700,000	700,000
Issued and fully paid:				
At beginning of the period/year of HK$0.5 (1 January 2005: HK$1) each	1,125,838,540	463,244,054	562,919	463,244
Exercise of share options before subdivision	–	8,210,000	–	8,210
Conversion of convertible loan notes	–	19,565,216	–	19,565
Subdivision of one share of HK$1 each into two shares of HK$0.5 each *(note)*	–	491,019,270	–	–
Issue of shares	85,822,222	140,000,000	42,911	70,000
Exercise of shares options after subdivision	13,040,612	3,800,000	6,521	1,900
At the end of the period/year of HK$0.5 each	1,224,701,374	1,125,838,540	612,351	562,919

Note: On 18 May 2005, an ordinary resolution was passed by the shareholders of the Company to approve the subdivision (the "Subdivision") of each issued and unissued shares of HK$1 each in the authorised share capital into two ordinary shares of HK$0.5 each. The Subdivision became effective on 19 May 2005.

The shares issued during the period/year rank pari passu in all respects with the then existing shares.

22. CAPITAL AND OTHER COMMITMENTS

	30 June 2006	**31 December 2005**
	HK$'000	*HK$'000*
	(unaudited)	
Capital commitments contracted for but not provided in respect of the acquisition of property, plant and equipment, hotels and entertainment complex under development	1,125,696	1,405,808

In addition, Great Wonders had accepted a formal offer from the Macau government to acquire a piece of land at a consideration of approximately HK$145,085,000 (MOP149,728,000). As at 30 June 2006 and 31 December 2005, Great Wonders had paid an amount of HK$48,590,000 (MOP50,000,000) in respect of such land. The remaining balance of approximately HK$96,495,000 (MOP99,728,000) was 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 1 March 2006, which was the date of publication of the grant of concession of the land in the Macau Government Gazette. On 14 July 2006, Great Wonders have settled all the balance together with the accrued interest for an amount of approximately HK$98,614,000 (MOP101,572,000).

22. CAPITAL AND OTHER COMMITMENTS *(continued)*

Also, Melco Hotels has accepted in principle another offer from the Macau government to acquire the Cotai Land in Macau at a consideration of approximately HK$494,296,000 (MOP509,125,000). No payment has been made in respect of this offer by Melco Hotels as at 30 June 2006 and 31 December 2005.

On 11 April 2006, the Group entered into an agreement ("Agreement") with a gaming technology alliance ("Shuffle Master") regarding the grant of an exclusive right to distribute certain gaming machines by the Group. In return, the Group will pay a portion of the profit from the sale of the gaming machines to the Shuffle Master in accordance with the Agreement of not less than approximately HK$43,204,000, HK$44,874,000 and HK$44,335,000, respectively, for the three years starting from April 2006.

23. RELATED PARTY TRANSACTIONS

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

(a) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK$35,871,000 (31 December 2005: HK$51,038,000).

The trade receivables include amounts due from SJM, a subsidiary of STDM, in relation to the provision of management services of approximately HK$11,319,000 (31 December 2005: HK$10,125,000).

The prepayments, deposits and other receivables include HK$626,000 (31 December 2005: HK$3,829,000) of amount due from customer on contracts in relation to sales of computer hardware and software to related companies.

(b) The accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK$2,759,000 (31 December 2005: HK$3,407,000).

23. RELATED PARTY TRANSACTIONS *(continued)*

(c) Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
	(note)	
Catering income earned from directors and related companies	3,036	2,533
Insurance premiums charged by a related company	896	1,011
Brokerage commission income earned from certain directors of the Group or their relatives	120	76
Brokerage commission income earned from a related company	1,097	–
Sales of computer hardware and software to related companies	62,728	39,403
Management fees received from a related company	–	600
Management fee paid to a related company	1,665	–
Rental expense charged by a related company	120	–
Travelling expense charged by a related company	806	549
Interest expense on shareholder's loan	622	459
Interest expense on convertible loan notes to a related company	31,375	1,791
Income from provision of management services to certain electronic gaming machine lounges of a related company	82,422	59,209
Service income of providing system maintenance services and technical support to related parties	3,436	–
Purchase of property, plant and equipment from a related company	17,064	–

Note: These transactions are made with related companies in which a substantial shareholder of the Company has beneficial interests.

24. OTHER ACQUISITION

In 2006, the Group has entered into the following acquisitions.

(a) On 9 May 2006, Melco PBL International, a jointly controlled entity, entered into an agreement ("Sale and Purchase Agreement") with Dr. Stanley Ho in relation to the sale by Dr. Stanley Ho to Melco PBL International 20% of the issued share capital of Mocha Slots ("Sale Shares") and the loan from Dr. Stanley Ho ("Sale Loan") for an aggregate consideration of approximately HK$295.7 million, with approximately HK$250 million being the consideration for the Sale Shares and approximately HK$45.7 million being the consideration for the Sale Loan. The sale and purchase of the Sale Shares and the assignment of the Sale Loan under the Sale and Purchase Agreement were completed on the same date on which the Sale and Purchase Agreement was signed.

(b) On 17 May 2006, Swift Profit Investments Limited ("Purchaser"), a jointly controlled entity, entered into an agreement to purchase the entire issued share capital of a company holding the rights to a land lease grant in respect of a plot of land with an area of 6,480 square meters located at Zona dos Novos Aterros do Porto Exterior, in Macau Peninsula. The aggregate consideration payable by the Purchaser is approximately HK$1.5 billion, which is payable in cash and the acquisition is expected to be completed in the first quarter of year 2007. An amount of HK$100 million was paid as a down payment on signing of the sale and purchase agreement. The balance of the aggregate consideration is payable on completion of the acquisition.

IV. INDEBTEDNESS

(a) Borrowings

As at the close of business on 30 September 2006, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement, the Group had total outstanding borrowings of approximately HK$1,870.06 million, comprising secured bank borrowings of approximately HK$790 million, convertibles notes of approximately HK$1,079.92 million and obligation under finance lease of approximately HK$0.14 million. All of the secured bank borrowings amounting to approximately HK$790 million were due within one year. All of the convertible notes amounting to approximately HK$1,079.92 million were due after one year. Obligation under finance lease amounting to approximately HK$0.05 million and approximately HK$0.09 million were due within one year and due after one year, respectively. The secured bank borrowings were related to the IPO stag financing arrangement for the margin clients of the investment banking and financial services segment.

As at 30 September 2006, the Group's bank deposit and investment properties amounting to approximately HK$0.08 million and HK$85 million were pledged for tendering of contracts with the Macau government by a subsidiary of the Group and for obtaining the banking facilities granted to a subsidiary of the Group, respectively.

Also, a syndicated loan facility of HK$1,280 million was available to the Group for the development of Crown Macau. As at 30 September 2006, no amounts have been drawn under this facility, the securities provided by the Group include the first legal charge over the land and property of Crown Macau, assignment of income of Great Wonders, a promissory note representing the loan amount issued by Great Wonders and Melco PBL Entertainment (Greater China) Limited, pledge of shares in Great Wonders, assignment of the benefits of the insurance policies and building contracts relating to the development of Crown Macau and a floating charge over all assets of Great Wonders.

(b) Contingent liabilities

As at 30 September 2006, the Group provided a guarantee of approximately HK$4.7 million to a supplier in respect of goods purchased by its subsidiaries.

Moreover, the Group had entered into a Deed of Counter Indemnity with PBL to indemnify PBL against 40% of the Corporate Guarantee provided by PBL for the loan facility of US$500 million for payment of part of the balance of the acquisition of the Subconcession by MPBL Gaming.

(c) Capital commitments

As at 30 September 2006, the Group had capital commitments contracted for but not provided in respect of the acquisition of property and equipment and construction of hotels and entertainment complex under development amounting to approximately HK$1,427.80 million.

In addition, Melco Hotels had accepted in principle an offer from the Macau government to acquire the piece of land on Cotai in Macau in which the City of Dreams will be built at a premium of approximately HK$494.3 million (equivalent to approximately MOP509.1 million). No payment had been made in respect of this offer by Melco Hotels as at 30 September 2006.

Further, Melco PBL (Macau Peninsula) had entered into a conditional agreement to purchase the entire issued share capital of a company. Such company held the rights to a land lease in respect of a plot of land on the Macau peninsula. The aggregate consideration is HK$1.5 billion, which is payable in cash and the acquisition is expected to be completed in the first quarter of 2007. As at 30 September 2006, an amount of HK$100 million was paid as a downpayment upon signing of the sale and purchase agreement. The balance is payable on completion of the acquisition.

Also, the Group had entered into an agreement ("Agreement") with a gaming machine and system manufacturer regarding the grant of an exclusive right to distribute certain gaming machines by the Group. In return, the Group will pay to the manufacturer a portion of the profit from the sale of the gaming machines in accordance with the Agreement of not less than approximately HK$43.2 million, HK$44.9 million and HK$44.3 million, respectively for the three years starting from April 2006.

Save as disclosed in the above paragraphs (a) to (c), and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptances or acceptance credit, or any guarantees or other contingent liabilities outstanding at the close of business on 30 September 2006.

V. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that based on the expected cash flows, banking facilities available and internal resources of the Group, the Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances for at least the next twelve months from the date of this circular.

VI. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material change in the financial or trading position of the Group since 31 December 2005, the date to which the latest audited consolidated financial statements of the Group were made up.

Deloitte.
德勤

TO THE DIRECTORS OF MELCO INTERNATIONAL DEVELOPMENT LIMITED
新濠國際發展有限公司
(incorporated in Hong Kong with limited liability)

We report on the unaudited pro forma financial information of Melco International Development Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the proposed spin off and separate listing of Melco PBL Entertainment (Macau) Limited, Melco PBL International Limited, Melco PBL Entertainment (Greater China) Limited and its subsidiaries on the NASDAQ National Market might have affected the financial information presented, for the inclusion in Appendix II (the "Unaudited Pro Forma Financial Information") of the circular dated 2 December 2006 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 140 and 143 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the Directors to prepare in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") the Unaudited Pro Forma Financial Information and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information have been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2005 or any future date.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
2 December 2006

Unaudited Pro Forma Assets and Liabilities Statement of the Remaining Group

Under the proposed spin off ("Proposed Spin Off") of Melco PBL Entertainment (Macau) Limited, Melco PBL International Limited, Melco PBL Entertainment (Greater China) Limited and its subsidiaries (collectively referred to as the "Proposed Spin Off Group") from Melco International Development Limited (the "Company") and its subsidiaries (referred to as the "Group") (the Group after the Proposed Spin Off of the Proposed Spin Off Group hereinafter referred to as the "Remaining Group"), the Proposed Spin Off Group will issue additional equity interests to external parties. Subject to the finalisation of the equity interests to be made available for subscription by the Proposed Spin Off Group, the equity interests of the Proposed Spin Off Group owned by the Group will be diluted by 5% to 8.75%. Unaudited pro forma assets and liabilities statement of the Remaining Group under the different scenario are presented below. These unaudited pro forma assets and liabilities statements of the Remaining Group are prepared in a manner consistent with both the format and accounting policies adopted by the Group in its financial statements.

(A) Under Scenario 1

The following is the unaudited pro forma assets and liabilities statement (the "Statement") as at 31 December 2005 to reflect the Proposed Spin Off of the Proposed Spin Off Group from the Group. Under the Proposed Spin Off, the Proposed Spin Off Group will issue additional equity interests to external parties and the equity interest of the Group in the Proposed Spin Off Group will be diluted by 5% (from 50% to 45%). As at 31 December 2005, the gaming, entertainment and hospitality businesses in Macau (the "Macau Business") were carried out by the Proposed Spin Off Group. The Proposed Spin Off contemplates to obtain a separate listing of the shares of the Proposed Spin Off Group on NASDAQ.

The Statement of the Remaining Group is prepared based on the unaudited pro forma assets and liabilities statement of the Group as at 31 December 2005 as extracted from Appendix IV to the circular of the Group dated 30 May 2006 for the acquisition of the subconcession for pursuance of gaming business in Macau, adjusted to reflect the Proposed Spin Off as if it was completed on 31 December 2005.

This Statement is prepared for illustrative purpose only and because of its nature, it may not provide any indication of the financial position of the Remaining Group at any future dates or any future periods.

Unaudited Pro Forma Assets and Liabilities Statement of the Remaining Group

	The Group as at 31 December 2005 per circular dated 30 May 2006	Pro forma adjustment for the financial effect of the Proposed Spin Off		The Remaining Group
	HK$'000	*HK$'000*		*HK$'000*
	(Note a)		*(Note)*	
Non-current assets				
Investment properties	85,000	–		85,000
Property, plant and equipment	31,712	–		31,712
Prepaid lease payments	36,394	–		36,394
Goodwill	28,510	–		28,510
Trading rights	2,279	–		2,279
Interests in jointly controlled entities	2,411,310	2,714,289	(b)	–
		(5,125,599)	(c)	
Interests in associates	–	5,125,599	(c)	5,125,599
Available-for sale investments	20,517	–		20,517
Other intangible assets	2,547	–		2,547
Long term deposits	3,216	–		3,216
Deferred tax assets	1,495	–		1,495
	2,622,980	2,714,289		5,337,269
Current assets				
Trade receivables	389,314	–		389,314
Prepayments, deposits and other receivables	36,387	–		36,387
Inventories	33,981	–		33,981
Prepaid lease payments	4,646	–		4,646
Investment in convertible loan notes	4,000	–		4,000
Held-for-trading investments	45,002	–		45,002
Amount due from a jointly controlled entity/ associates	932,823	–		932,823
Pledged bank deposits	270	–		270
Bank balances and cash	952,567	–		952,567
	2,398,990	–		2,398,990

	The Group as at 31 December 2005 per circular dated 30 May 2006	Pro forma adjustment for the financial effect of the Proposed Spin Off		The Remaining Group
	HK$'000	*HK$'000*		*HK$'000*
	(Note a)		*(Note)*	
Current liabilities				
Trade payables	102,820	–		102,820
Other payables	49,777	–		49,777
Amount due to a minority shareholder	9,104	–		9,104
Amounts due to related companies	5,213	–		5,213
Taxation payable	4,161	–		4,161
Bank borrowing – due within one year	28,000	–		28,000
Obligation under finance lease	21	–		21
	199,096	–		199,096
Net current assets	2,199,894	–		2,199,894
Total assets less current liabilities	4,822,874	2,714,289		7,537,163
Non-current liabilities				
Deferred tax liabilities	131	–		131
Convertible loan notes – due after one year	1,037,163	–		1,037,163
Obligation under finance lease – due after one year	63	–		63
	1,037,357	–		1,037,357
	3,785,517	2,714,289		6,499,806

Note:

(a) The figures of the Group as at 31 December 2005 are extracted from the "Unaudited Pro Forma Assets and Liabilities Statement of the Enlarged Group" in Appendix IV to the circular of the Group dated 30 May 2006 for the acquisition of the subconcession for pursuance of gaming business in Macau (the "Subconcession Pro Forma Financial Information").

The Subconcession Pro Forma Financial Information is prepared to reflect the acquisition of the subconcession for pursuance of gaming business in Macau and the reorganization of the Proposed Spin Off Group.

As set out in the circular of the Group dated 30 May 2006 for the acquisition of the subconcession for pursuance of gaming business in Macau, the Subconcession Pro Forma Financial Information has been properly compiled on the basis stated which is consistent with the accounting policies of the Group and the adjustments are appropriate for the purposes of the Subconcession Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

(b) As at 31 December 2005, the Group owned 50% equity interests in the Proposed Spin Off Group and classified as interests in jointly controlled entities amounted to HK$2,411 million. Under the Proposed Spin Off, the Proposed Spin Off Group will issue additional equity interests to external parties and the equity interest of the Group in the Proposed Spin Off Group will be diluted by 5% (from 50% to 45%). The net subscription amounts received by the Proposed Spin Off Group are estimated to be approximately HK$6,568 million (US$842 million) ("Net Proceeds"). Upon the completion of the Proposed Spin Off, the carrying amount of the Group's interest in the Proposed Spin Off Group will be increased by HK$2,714 million, being the Group's share of 45% of the Net Proceeds adjusted by the dilution impact resulted from the deemed disposal of 5% interests.

(c) As set out in (b) above, the remaining interests in the Proposed Spin Off Group after the completion of the Proposed Spin Off will be decreased from 50% to 45% and hence the remaining interests in the Proposed Spin Off Group after the Proposed Spin Off, amounted to HK$5,126 million, will be reclassified from interests in jointly controlled entities to interests in associates.

(B) Under Scenario 2

The following is the Statement as at 31 December 2005 to reflect the Proposed Spin Off of the Proposed Spin Off Group from the Group. Under the Proposed Spin Off, the Proposed Spin Off Group will issue additional equity interests to external parties and the equity interest of the Group in the Proposed Spin Off Group will be diluted by 8.75% (from 50% to 41.25%). As at 31 December 2005, the Macau Business were carried out by the Proposed Spin Off Group. The Proposed Spin Off contemplates to obtain a separate listing of the shares of the Proposed Spin Off Group on NASDAQ.

The Statement of the Remaining Group is prepared based on the unaudited pro forma assets and liabilities statement of the Group as at 31 December 2005 as extracted from Appendix IV to the circular of the Group dated 30 May 2006 for the acquisition of the subconcession for pursuance of gaming business in Macau, adjusted to reflect the Proposed Spin Off as if it was completed on 31 December 2005.

This Statement is prepared for illustrative purpose only and because of its nature, it may not provide any indication of the financial position of the Remaining Group at any future dates or any future periods.

Unaudited Pro Forma Assets and Liabilities Statement of the Remaining Group

	The Group as at 31 December 2005 per circular dated 30 May 2006	Pro forma adjustment for the financial effect of the Proposed Spin Off		The Remaining Group
	HK$'000	*HK$'000*		*HK$'000*
	(Note a)		*(Note)*	
Non-current assets				
Investment properties	85,000	–		85,000
Property, plant and equipment	31,712	–		31,712
Prepaid lease payments	36,394	–		36,394
Goodwill	28,510	–		28,510
Trading rights	2,279	–		2,279
Interests in jointly controlled entities	2,411,310	2,287,156	(b)	–
		(4,698,466)	(c)	
Interests in associates	–	4,698,466	(c)	4,698,466
Available-for sale investments	20,517	–		20,517
Other intangible assets	2,547	–		2,547
Long term deposits	3,216	–		3,216
Deferred tax assets	1,495	–		1,495
	2,622,980	2,287,156		4,910,136
Current assets				
Trade receivables	389,314	–		389,314
Prepayments, deposits and other receivables	36,387	–		36,387
Inventories	33,981	–		33,981
Prepaid lease payments	4,646	–		4,646
Investment in convertible loan notes	4,000	–		4,000
Held-for-trading investments	45,002	–		45,002
Amount due from a jointly controlled entity/ associates	932,823	–		932,823
Pledged bank deposits	270	–		270
Bank balances and cash	952,567	–		952,567
	2,398,990	–		2,398,990

	The Group as at 31 December 2005 per circular dated 30 May 2006	**Pro forma adjustment for the financial effect of the Proposed Spin Off**		**The Remaining Group**
	HK$'000	*HK$'000*		*HK$'000*
	(Note a)		*(Note)*	
Current liabilities				
Trade payables	102,820	–		102,820
Other payables	49,777	–		49,777
Amount due to a minority shareholder	9,104	–		9,104
Amounts due to related companies	5,213	–		5,213
Taxation payable	4,161	–		4,161
Bank borrowing – due within one year	28,000	–		28,000
Obligation under finance lease	21	–		21
	199,096	–		199,096
Net current assets	2,199,894	–		2,199,894
Total assets less current liabilities	4,822,874	2,287,156		7,110,030
Non-current liabilities				
Deferred tax liabilities	131	–		131
Convertible loan notes – due after one year	1,037,163	–		1,037,163
Obligation under finance lease – due after one year	63	–		63
	1,037,357	–		1,037,357
	3,785,517	2,287,156		6,072,673

Note:

(a) The figures of the Group as at 31 December 2005 are extracted from the "Unaudited Pro Forma Assets and Liabilities Statement of the Enlarged Group" in Appendix IV to the circular of the Group dated 30 May 2006 for the acquisition of the subconcession for pursuance of gaming business in Macau (the "Subconcession Pro Forma Financial Information").

The Subconcession Pro Forma Financial Information is prepared to reflect the acquisition of the subconcession for pursuance of gaming business in Macau and the reorganization of the Proposed Spin Off Group.

As set out in the circular of the Group dated 30 May 2006 for the acquisition of the subconcession for pursuance of gaming business in Macau, the Subconcession Pro Forma Financial Information has been properly compiled on the basis stated which is consistent with the accounting policies of the Group and the adjustments are appropriate for the purposes of the Subconcession Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

(b) As at 31 December 2005, the Group owned 50% equity interests in the Proposed Spin Off Group and classified as interests in jointly controlled entities amounted to HK$2,411 million. Under the Proposed Spin Off, the Proposed Spin Off Group will issue additional equity interests to external parties and the equity interest of the Group in the Proposed Spin Off Group will be diluted by 8.75% (from 50% to 41.25%). The net subscription amounts received by the Proposed Spin Off Group are estimated to be approximately HK$6,568 million (US$842 million) ("Net Proceeds"). Upon the completion of the Proposed Spin Off, the carrying amount of the Group's interest in the Proposed Spin Off Group will be increased by HK$2,287 million, being the Group's share of 41.25% of the Net Proceeds adjusted by the dilution impact resulted from the deemed disposal of 8.75% interests.

(c) As set out in (b) above, the remaining interests in the Proposed Spin Off Group after the completion of the Proposed Spin Off will be decreased from 50% to 41.25% and hence the remaining interests in the Proposed Spin Off Group after the Proposed Spin Off, amounted to HK$4,698 million, will be reclassified from interests in jointly controlled entities to interests in associates.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

2. PARTICULARS OF DIRECTORS

Name	**Address**
Executive Directors	
Mr. Ho, Lawrence Yau Lung	35 Black's Link Hong Kong
Mr. Tsui Che Yin, Frank	13A, Block 4 Braemar Hill Mansions 21 Braemar Hill Road Hong Kong
Mr. Chung Yuk Man, Clarence	Flat B, 31/F., Block 4 The Grand Panorama 10 Robinson Road Mid-level, Hong Kong
Non-executive Director	
Mr. Ng Ching Wo	13B, Elegant Garden 11 Conduit Road Mid-levels Hong Kong
Independent non-executive Directors	
Sir Roger Lobo, C.B.E., LL.D., J.P.	Woodland Heights E1, 2 Wongneichung Gap Road Happy Valley Hong Kong
Dr. Lo Ka Shui, G.B.S., J.P.	Unit 2A, Serenity Place 22 Mount Cameron Road The Peak Hong Kong
Mr. Sham Sui Leung, Daniel	B3, 16/F., Grandview Tower 126-130 Kennedy Road Hong Kong

3. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(i) Interests in Shares and underlying Shares

Name of Director	Nature of interest	Number of Shares interested	Number of underlying Shares interested	Approximate percentage in total issued Share Capital of the Company *(Note 1)*
Mr. Ho, Lawrence Yau Lung	Corporate	404,041,630 *(Note 2)*	117,912,694 *(Note 3)*	42.51%
	Personal	7,232,612	–	0.59%
Mr. Tsui Che Yin, Frank	Personal	7,232,612	–	0.59%
Dr. Lo Ka Shui	Personal	2,000,000	–	0.16%
Mr. Chung Yuk Man, Clarence	Personal	707,000	–	0.06%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company were 1,227,850,716 Shares.

2. Mr. Lawrence Ho is taken to be interested in 115,509,024 Shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.41% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 288,532,606 Shares as a result of him being beneficially interested in 65% of the issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 23.50% of the issued share capital of the Company.

3. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries include Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity for the making of an offer under Rule 26 of The Hong Kong Code on Takeovers and Mergers ("Takeovers Code") on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code would arise on full conversion.

(ii) Share Options

Name of Director	Date of Grant	Expiry Date	Exercise Price (HK$)	No. of Underlying Shares comprised under the Options outstanding	Approximate percentage in total issued Share Capital of the Company
Mr. Chung Yuk Man, Clarence	17 September 2004	7 March 2012	1.6875	140,000	0.01%
	1 February 2005	7 March 2012	7.4000	200,000	0.02%
	13 February 2006	31 January 2016	11.8000	400,000	0.03%
Dr. Lo Ka Shui	3 April 2006	2 April 2016	15.8700	300,000	0.02%
Sir Roger Lobo	3 April 2006	2 April 2016	15.8700	300,000	0.02%
Ng Ching Wo	3 April 2006	2 April 2016	15.8700	300,000	0.02%

(iii) Interests in shares of Value Convergence Holdings Limited

Name of Director	Nature of interest	Number of issued shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence *(Note 1)*
Mr. Ho, Lawrence Yau Lung	Corporate	165,163,008 *(Note 2)*	65.19%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of Value Convergence were 253,337,679.

2. Mr. Lawrence Ho is taken to be interested in (i) 160,930,381 shares of Value Convergence as a result of him being beneficially interested in approximately 33.50% of the issued share capital of the Company which in term holds approximately 63.52% of the issued capital of Value Convergence; and (ii) 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.67% of the issued share capital of Value Convergence.

(iv) Interests in equity derivatives of Value Convergence Holdings Limited

Name of Director	Nature of interest	Number of underlying shares of Value Convergence interested	Approximate percentage of the total number of issued shares of Value Convergence
Mr. Ho, Lawrence Yau Lung	Personal	491,057 *(Note)*	0.19%

Note:

The personal interest of Mr. Lawrence Ho represents his derivative interest in Value Convergence comprising the share options which were granted on 9 July 2002 and may be exercised during the period from 9 July 2002 to 8 July 2012 at an exercise price of HK$1.00 per share of Value Convergence.

Save as disclosed herein, as at the Latest Practicable Date:

(i) none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange;

(ii) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group;

(iii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which was significant in relation to the business of the Group; and

(iv) none of the Directors had a service contract with the Company or any of its subsidiaries not terminable by the employing company within one year without payment of compensation (other than statutory compensation).

4. SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at the Latest Practicable Date, the interests and short positions of substantial shareholders of the Company and other persons in the Shares, underlying Shares and debentures of the Company which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein; or (c) were directly or indirectly interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Nature of interest	Number of Shares interested	Number of underlying Shares interested	Approximate percentage in total issued Share Capital of the Company *(Note 1)*
Better Joy Overseas Ltd.	Beneficial Owner	288,532,606 *(Note 2)*	–	23.50%
Lasting Legend Ltd.	Beneficial Owner	115,509,024 *(Note 2)*	–	9.41%
Great Respect Limited	Beneficial Owner	–	117,912,694 *(Note 3)*	9.60%
Dr. Ho Hung Sun, Stanley	Corporate	456 *(Note 4)*	117,912,694 *(Note3)*	9.60%
	Personal	1,278	–	0.00%
Mr. Ho, Lawrence Yau Lung	Corporate	404,041,630 *(Note 5)*	117,912,694 *(Note 3)*	42.51%
	Personal	7,232,612	–	0.59%
Ms. Sharen Lo	Family	411,274,242 *(Note 6)*	117,912,694 *(Note 3)*	43.10%
SG Trust (Asia) Ltd	Corporate	–	117,912,694 *(Note 6)*	9.60%
STDM	Beneficial Owner	222	63,658,536 *(Note 7)*	5.18%

Name	Nature of interest	Number of Shares interested	Number of underlying Shares interested	Approximate percentage in total issued Share Capital of the Company *(Note 1)*
Shun Tak Shipping Company, Limited	Corporate	78,166,294	–	6.37%
Janus Capital Management LLC	Corporate	110,144,000	–	8.97%
State Street Corporation	Corporate	122,927,714 *(Note 8)*	–	10.01%
Julius Baer Investment Management LLC	Corporate	86,002,192	–	7.00%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company were 1,227,850,716 Shares.

2. The Shares held by Better Joy Overseas Ltd. and Lasting Legend Ltd. also represent the corporate interest of Mr. Lawrence Ho in the Company.

3. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which are Dr. Stanley Ho, Mr. Lawrence Ho and Madam Lucina Laam King Ying. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity for the making of an offer under Rule 26 of the Takeovers Code on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code would arise on full conversion.

4. Dr. Stanley Ho is taken to be interested in 456 Shares as a result of him being beneficially interested in the entire issued share capital of Lanceford Company Limited.

5. Mr. Lawrence Ho is taken to be interested in 115,509,024 Shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.41% of the issued share capital of the Company. Mr. Lawrence Ho is also taken to be interested in 288,532,606 Shares as a result of him being beneficially interested in 65% of the issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 23.50% of the issued share capital of the Company.

6. Ms. Sharen Lo is the spouse of Mr. Lawrence Ho and is deemed to be interested in shares of the Company in which Mr. Lawrence Ho is interested under the SFO.

7. Two convertible notes respectively for the principal amounts of HK$100 million and HK$56 million carrying the respective rights to subscribe for shares at an initial conversion price of HK$4.00 and HK$8.2 respectively were issued by the Company to STDM on 9 November 2004 and 8 February 2005 respectively. As at the Latest Practicable Date, the total outstanding principal amount of the said convertible notes is HK$156 million. Due to the share subdivision on 19 May 2005, the said conversion prices of HK$4.00 and HK$8.2 have been adjusted to HK$2.00 and HK$4.1 respectively. If STDM exercises the conversion rights attached to the said convertible notes in full, a total of 63,658,536 Shares will be issued to STDM. STDM's said conversion rights are subject to the Company's early redemption rights and can only be exercised if the Company does not exercise its right to redeem the convertible loan notes before the conversion rights are exercised.

8. The interest is held to its lending pool.

Save as disclosed herein, so far as the Directors were aware, as at the Latest Practicable Date, no other persons had interests or short positions in the Shares, underlying Shares and debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, nor were there any other persons required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, or directly or indirectly interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

5. QUALIFICATION AND CONSENT OF EXPERTS

(i) The followings are the qualifications of the experts who have given opinions or advice which are contained in the circular.

Name	**Qualification**
Anglo Chinese Corporate Finance, Limited	A deemed licensed corporation under transitional arrangement within the meaning of the SFO to carry out types 1, 4, 6 and 9 regulated activities under the SFO

(ii) As at the Latest Practicable Date, the expert referred to in paragraph 5(i) above does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(iii) As at the Latest Practicable Date, the expert referred to in paragraph 5(i) above does not have any interest, direct or indirect, in any assets which have been, since 31 December 2005 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(iv) The expert referred to in paragraph 5(i) above has given, and has not withdrawn, its written consent to the issue of this circular, with inclusion of the letter of the Independent Financial Adviser set out in the section headed "Letter from the Independent Financial Adviser", on pages 40 to 53 of this circular and the references to its name included herein in the form and context in which they respectively appear.

6. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Article 74 of the articles of association of the Company provides that at any general meeting a resolution put to the vote of the meeting shall be decided by a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the chairman of the meeting; or

(ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

7. COMPETING INTERESTS

Dr. Stanley Ho, the former Chairman and a former Executive Director of the Company (resigned from these positions on 15 March 2006), has an equity interest in, as well as being a director of, STDM and SJM. As part of the businesses of STDM and SJM include gaming and hospitality businesses in Macau, there is a possibility that such part of the businesses of STDM and SJM may compete with the gaming business and hospitality business of the Group. Save as disclosed, as at the date of this circular, none of the Directors and their respective associates had any business or interest in a business which competes or may compete with the business of the Group.

8. SERVICE CONTRACTS AND INTEREST IN ASSETS AND CONTRACTS AND COMPETING BUSINESS

Each of Mr. Lawrence Ho, Mr. Frank Tsui and Mr. Clarence Chung has a service contract with Melco Services Limited, a wholly owned subsidiary of the Company, which may be terminated by either party to the relevant contract by not less than 3 months written notice to the other party.

Save as disclosed above, no Director has a services contract with the Company and/or any of its subsidiaries, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

As at the Latest Practicable Date, to the best of the knowledge of the Directors, none of the Directors or proposed directors of the Company or any expert as named in this Circular had any interest, direct or indirect, in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date and except as disclosed in paragraph 7 ("Competing Interests") above, so far as the Directors were aware, none of the Directors and their respective associates were considered to have interests in any business which competes or may compete, either directly or indirectly, with the businesses of the Group or have or may have any other conflict of interests with the Group pursuant to the Listing Rules.

9. MATERIAL CHANGES SINCE LATEST PUBLISHED ACCOUNTS OF THE COMPANY

(1) On 9 May 2006, Melco PBL International Limited ("Melco PBL International") entered into the Sale and Purchase Agreement with Dr. Stanley Ho in relation to the sale by Dr. Stanley Ho to Melco PBL International of the Sale Shares, representing 20% of the issued share capital of Mocha Slot, and the Sale Loan for an aggregate consideration of approximately HK$295.7 million, with approximately HK$250 million being the consideration for the Sale Shares and approximately HK$45.7 million being the consideration for the Sale Loan. The sale and purchase of the Sale Shares and the assignment of the Sale Loan under the Sale and Purchase Agreement were completed on the same date on which the Sale and Purchase Agreement was signed.

(2) On 17 May 2006, a wholly owned subsidiary of Melco PBL Entertainment (Macau), as purchaser, entered into a conditional agreement to purchase the entire issued share capital of a company holding the rights to a Land Lease Grant in respect of a plot of land with an area of approximately 6,480.00 square meters located at Zona dos Novos Aterros do Porto Exterior (NAPE), in Macau Peninsula. The aggregate consideration payable by the Purchaser is HK$1.5 billion, which is payable in cash and the acquisition is expected to be completed in the first quarter of 2007. An amount of approximately HK$100 million was paid as a down payment on signing of the sale and purchase agreement. The balance of the aggregate consideration is payable on completion of the acquisition.

10. MATERIAL ADVERSE CHANGES

There has not been any material adverse change in the financial or trading position of the Company since the date to which the latest published accounts of the Company were made up.

11. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

12. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the Company or its subsidiaries within the two years immediately preceding the date of this circular up to the Latest Practicable Date:

(i) the subscription agreement dated 23 December 2004 entered into amongst the Company, Melco PBL Entertainment (Macau), PBL and PBL Asia in relation to the establishment of the joint venture group for pursuance of gaming, entertainment and hospitality businesses in Asia;

(ii) the agreement dated 17 March 2005 entered into between STDM and the Company regarding the acquisition of the remaining 30% equity interest in Great Wonders by the Company from STDM for a consideration of HK$400 million;

(iii) the agreement dated 17 March 2005 entered into between the Company and Melco PBL Entertainment (Greater China) Limited ("Melco PBL (Greater China)") regarding the acquisition by Melco PBL (Greater China) from the Company of a 30% equity interest in Great Wonders, to be acquired from STDM pursuant to the agreement mentioned in sub-paragraph (iv) above, for a consideration of HK$400 million;

(iv) the agreement dated 11 May 2005 entered into between Melco PBL (Greater China), Great Respect Limited and the Company regarding the acquisition by Melco PBL (Greater China) of a 49.2% equity interest of Great Respect Limited;

(v) the placing, underwriting and subscription agreement dated 17 May 2005 entered into between the Company, Better Joy Overseas Ltd. (as vendor) and Credit Suisse First Boston (Hong Kong) Limited (as placing agent), in relation to the Placing of 70,000,000 Old Shares (or 140,000,000 New Shares) at a price of HK$18.25 per Old Share (or HK$9.125 per New Share) and the subscription by Better Joy Overseas Ltd. of the same number of Shares;

(vi) the sale and purchase agreement dated 29 July 2005 entered into between San Pong Investment Company Limited ("San Pong") and Melco Investment Holding Limited ("Melco Investment") in relation to the purchase of the property at units C, D, E of Ground Floor of Kingsway at Rua de Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64A to 82 and Rua de Xiamen No. 37A to 59, Macau ("Premises") by Melco Investment from San Pong and the sale and purchase agreement dated 27 June 2006 entered into between San Pong and Melco Investment in relation to the purchase of 28 carparks at unit BR/C of Ground Floor of the Premises;

(vii) the facility agreement dated 13 February 2006 entered into between Great Wonders, Melco PBL (Greater China), Bank of China Limited, Macau Branch, Banco Nacional Ultramarino, S.A., Banco Comercial De Macau, S.A., Industrial and Commercial Bank of China (Asia) Limited, Banco Espiroti Santo Do Oriente, S.A., and Liu Chong Hing Bank Limited, Macau Branch relating to a HK$1,280,000,000 transferable term loan facility;

(viii) the memorandum of agreement dated 5 March 2006 entered into between the Company and PBL (as amended by a supplemental agreement between the same parties entered into on 26 May 2006);

(ix) the agreement dated 15 March 2006 entered into between Mocha Slot Group Limited, Mocha Slot Management Limited and SJM regarding the termination of the Mocha Slot Halls Service Arrangement;

(x) the sale and purchase agreement dated 9 May 2006 entered into between Dr. Stanley Ho and Melco PBL International in relation to the purchase of 20% of the issued share capital of Mocha Slot by Melco PBL International from Dr. Stanley Ho for a consideration of HK$295.7 million;

(xi) the agreement dated 17 May 2006 in relation to purchase the entire issued share capital of a company holding the rights to a Land Lease Grant in respect of a plot of land located in Macau Peninsula for a consideration of HK$1.5 billion; and

(xii) the Deed.

13. MISCELLANEOUS

(i) The registered office of the Company is 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

(ii) The secretary of the Company is Mr. Tsang Yuen Wai, Samuel, a solicitor admitted in Hong Kong, England and Wales and Australia.

(iii) The qualified accountant of the Company is Mr. Chung Yuk Man, Clarence, a Fellow of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants; a member of the Society of Management Accountants of Canada.

(iv) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, during normal business hours on any weekday, except Saturday, Sunday and public holidays, from the date hereof up to and including 18 December 2006:

(i) the memorandum and articles of association of the Company;

(ii) the service contracts entered into between Melco Services Limited and each of Mr. Lawrence Ho, Mr. Frank Tsui and Mr. Clarence Chung referred to in this Appendix;

(iii) the material contracts referred to in the section headed "Material Contracts" in this Appendix;

(iv) the annual reports of the Company for the three years ended 31 December 2005;

(v) the written consent referred to under the section headed "Qualification and Consent of Expert" in this Appendix;

(vi) the letter from the Independent Board Committee; and

(vii) the letter from the Independent Financial Adviser.

Melco

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-group.com
(Stock Code: 200)

NOTICE IS HEREBY GIVEN (the "Notice") that an extraordinary general meeting (the "Meeting") of Melco International Development Limited (the "Company") will be held at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, on 18 December 2006 at 12:00 noon for the purpose of considering and, if thought fit, passing (with or without amendments) the following as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT:**

(a) the Proposed Spin-off be and is hereby approved; and

(b) the board of directors of the Company be and is hereby authorised on behalf of the Company to approve and implement the Proposed Spin-off and all incidental matters and to take all actions in connection therewith or arising therefrom relating to the Proposed Spin-off as they shall think fit.

For this purpose, "Proposed Spin-off" means the proposed spin-off and separate listing of the shares ("Melco PBL Shares") in Melco PBL Entertainment (Macau) Limited (formerly known as "Melco PBL Holdings Limited"), an associated company of the Company, on the NASDAQ Stock Market's Global Market (in the form of American depositary shares representing Melco PBL Shares), as more particularly described in the Company's shareholders' circular dated 2 December 2006, subject to any variations or changes which are considered by the Company's directors to be necessary or desirable and in the best interests of the Company and its shareholders as a whole."

By order of the Board of
Melco International Development Limited
Samuel Tsang
Company Secretary

Hong Kong, 2 December 2006

Registered Office:
38th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting may appoint one or more than one proxies to attend and to vote in his stead. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share of the Company as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the proxy form duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

4. Whether or not you propose to attend the Meeting in person, you are strongly urged to complete and return the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude you from attending the Meeting and voting in person if you so wish. In the event that you attend the Meeting after having lodged the proxy form, it will be deemed to have been revoked.