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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. Revenue increased by 13% to HK$418 million for the six months ended 30 June 2007 as compared with HK$371 million for the six months ended 30 June 2006.

2. Net profit attributable to shareholders was HK$284 million for the six months ended 30 June 2007, as compared with a loss of HK$29 million for the six months ended 30 June 2006.

3. Basic earnings per share was HK23.16 cents for the six months ended 30 June 2007, against basic loss per share of HK2.51 cents for the six months ended 30 June 2006.

4. Net asset value attributable to shareholders per share increased by 3.6% to HK$6.38 as of 30 June 2007, as compared with HK$6.16 as of 31 December 2006.

5. The Group's first hotel-cum-casino project primarily catered to the high rollers, Crown Macau, opened on 12 May 2007.

6. Elixir entered into a Products Participation Agreement with US-listed VendingData Corporation ("VDC") and moved into a high-margin recurring revenue business model in Asia. VDC has become a subsidiary of the Group pursuant to the said agreement.

7. The lottery related business carried out by PAL Development Limited ("PAL") has accelerated its penetration into the burgeoning market. PAL's service network is now covering approximately 500 sales outlets for sports lottery in China.

8. Working with the world's foremost industry experts, Melco China Resort Investment Limited ("MCR"), which was formed in March 2007, plans to deliver world-class year round ski resort experiences to patrons in China comparable to those of Canada, the US and Europe.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	NOTES	Six months ended 30 June 2007 HK$'000 (unaudited)	2006 HK$'000 (unaudited)
Revenue	4	**418,141**	371,400
Other revenues		**19,490**	9,643
Investment income		**911**	7,699
Cost of inventories sold		**(176,986)**	(78,509)
Employee benefits expense		**(149,656)**	(136,041)
Depreciation of property, plant and equipment		**(6,277)**	(33,809)
Amortisation of service agreements intangible asset and trading rights		**(253)**	(2,950)
Commission expenses		**(9,587)**	(6,481)
Loss on deemed disposal of partial interest in a subsidiary		**(11)**	–
Gain on deemed disposal of partial interests in associates	5	**386,805**	–
Fair value changes on derivative financial instruments	6	**211,840**	–
Other operating expenses		**(52,273)**	(91,933)
Finance costs		**(50,583)**	(42,103)
Share of loss of jointly controlled entities		**(5,387)**	(24)
Share of loss of associates	10	**(299,872)**	–
Write-down of service agreements intangible asset		**–**	(90,390)
Gain on early redemption of convertible loan notes		**8,827**	–
Profit (loss) before tax		**295,129**	(93,498)
Income tax (expense) credit	7	**(5,520)**	9,215
Profit (loss) for the period		**289,609**	(84,283)
Attributable to:			
Equity holders of the Company		**284,394**	(28,983)
Minority interests		**5,215**	(55,300)
		289,609	(84,283)
Dividend recognised as distribution during the period	8	**12,282**	11,605
Earnings (loss) per share	9		
Basic		**HK23.16 cents**	HK(2.51) cents
Diluted		**HK22.11 cents**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

	NOTES	30 June 2007 HK$'000 (unaudited)	31 December 2006 HK$'000
Non-current assets			
Investment properties		**141,940**	141,940
Property, plant and equipment		**53,153**	39,945
Other intangible assets		**2,547**	2,547
Interests in jointly controlled entities		**113,152**	87,901
Interests in associates	10	**5,885,141**	5,802,612
Amount due from an associate	11	**–**	578,578
Available-for-sale investments		**49,087**	19,837
Derivative financial instruments		**211,840**	–
Goodwill		**16,878**	16,878
Trading rights		**1,520**	1,773
Long term deposits		**3,262**	3,236
Deferred tax assets		**1,100**	2,781
		6,479,620	6,698,028
Current assets			
Trade receivables	12	**1,868,044**	662,954
Prepayments, deposits and other receivables		**85,369**	82,831
Inventories		**90,150**	61,476
Held-for-trading investments		**16,698**	14,503
Amounts due from jointly controlled entities		**59**	855
Amounts due from associates	11	**676,002**	611,862
Taxation recoverable		**1,345**	1,345
Pledged bank deposits		**947**	947
Bank balances and cash		**1,447,548**	1,209,826
		4,186,162	2,646,599
Current liabilities			
Trade payables	13	**167,839**	270,733
Other payables		**137,266**	91,598
Consideration payable		**173,919**	–
Dividend payable		**120**	1,444
Taxation payables		**10,032**	6,378
Bank borrowings – due within one year	14	**1,264,822**	49,000
		1,753,998	419,153

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AT 30 JUNE 2007

	NOTES	**30 June 2007 HK$'000 (unaudited)**	31 December 2006 HK$'000
Net current assets		**2,432,164**	2,227,446
Total assets less current liabilities		**8,911,784**	8,925,474
Non-current liabilities			
Consideration payable		**–**	170,537
Convertible loan notes – due after one year		**970,004**	1,093,459
		970,004	1,263,996
		7,941,780	7,661,478
Capital and reserves			
Share capital		**614,088**	614,075
Share premium and reserves		**7,227,763**	6,953,032
Equity attributable to equity holders of the Company		**7,841,851**	7,567,107
Share options reserve of a subsidiary		**584**	265
Minority interests		**99,345**	94,106
		7,941,780	7,661,478

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. BASIS OF PREPARATION

The condensed consolidated 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. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA that are effective for the Group's financial year beginning 1 January 2007. The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current and prior accounting periods. Accordingly, no prior period adjustments have been required.

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]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]

[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
[5] Effective for annual periods beginning on or after 1 November 2006

The Group has not early applied the new standards or 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 results and the financial position of the Group.

3. 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, entertainment, gaming and related services.

The Technology Segment 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 a subsidiary, Value Convergence Holdings Limited ("VC")) mainly comprises (a) provision of corporate finance advisory service and (b) broking and dealing for clients in securities, futures and options contracts.

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

4. SEGMENTAL INFORMATION

Segment information about these businesses is presented below:

Six months ended 30 June 2007 (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	**41,940**	**192,269**	**133,712**	**50,220**	**–**	**418,141**
Inter-segment sales	**589**	**1,345**	**190**	**6,911**	**(9,035)**	**–**
Total revenue	**42,529**	**193,614**	**133,902**	**57,131**	**(9,035)**	**418,141**
Segment result	**(3,404)**	**8,603**	**39,396**	**50,868**	**(4,406)**	**91,057**
Unallocated corporate expenses						**(47,547)**
Finance costs						**(50,583)**
Share of loss of jointly controlled entities						**(5,387)**
Share of loss of associates						**(299,872)**
Loss on deemed disposal of partial interest in a subsidiary						**(11)**
Gain on early redemption of convertible loan notes						**8,827**
Gain on deemed disposal of partial interests in associates						**386,805**
Fair value changes on derivative financial instruments						**211,840**
Profit before tax						**295,129**
Income tax expense						**(5,520)**
Profit for the period						**289,609**

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

4. **SEGMENTAL INFORMATION** *(Continued)*

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. **GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN ASSOCIATES**

In January 2007, the underwriters of the global offering of American Depositary Shares ("ADSs") of the associate, Melco PBL Entertainment (Macau) Limited ("MPEL"), fully exercised the over allotment option granted to them. The exercise in full of the over allotment option resulted in the sale by MPEL of an additional 9,037,500 ADSs, representing 27,112,500 ordinary shares, at the initial public offering price of HK$147.8 (US$19) per ADS less the underwriting commission. As a result, a gain on deemed disposal of interests in associates of approximately HK$386,805,000 was recognised during the period ended 30 June 2007.

6. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

During the period ended 30 June 2007, the Group subscribed certain new shares and warrants of VendingData Corporation ("VDC"), a company having its shares listed on the American Stock Exchange, pursuant to a securities purchase agreement. The new shares of VDC subscribed is recognised as available-for-sales investments while the warrants subscribed is recognised as derivative financial instruments. The warrants subscribed have exercise price range from US$2.65 to US$5.50 and are exercisable during the period from 31 December 2007 to 31 December 2010. During the period, an increase in fair value of approximately HK$211,840,000 regarding the warrants was recognised in the condensed consolidated income statement.

7. INCOME TAX (EXPENSE) CREDIT

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 17.5% for the six months ended 30 June 2007 (six months ended 30 June 2006: 17.5%). 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 was no estimated assessable profit.

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The income tax (expense) credit comprises:		
Hong Kong Profits Tax	**(3,119)**	–
Other jurisdictions	**(720)**	(1,955)
Deferred taxation	**(1,681)**	11,170
Income tax (expense) credit	**(5,520)**	9,215

8. DIVIDEND

During the period ended 30 June 2007, a dividend of HK$0.01 per share amounting to approximately HK$12,282,000 (six months ended 30 June 2006: HK$0.01 per share amounting to approximately HK$11,605,000) was paid to shareholders as the final dividend for 2006.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

9. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (profit (loss) for the period attributable to equity holders of the Company)	**284,394**	(28,983)
Effect of dilutive potential ordinary shares *(note)*:		
Interest on convertible loan notes	**3,596**	–
Adjustments to the share of results of a subsidiary based on potential dilution of its earnings per share	**(215)**	–
Earnings (loss) for the purpose of diluted earnings (loss) per share	**287,775**	(28,983)

	Six months ended 30 June	
	2007	2006
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**1,228,159,114**	1,155,817,309
Effect of dilutive potential ordinary shares (note):		
Share options	**10,058,461**	–
Convertible loan notes	**63,306,832**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,301,524,407**	1,155,817,309

Note: During the period ended 30 June 2007 and 2006, the computation of diluted earnings (loss) per share does not assume the conversion of certain of the Company's outstanding convertible loan notes since their exercise would result in an increase in earnings per share during the period ended 30 June 2007 and a decrease in loss per share during the period ended 30 June 2006.

10. INTERESTS IN ASSOCIATES

MPEL and its subsidiaries became associates since the listing of MPEL's ADSs on the NASDAQ in December 2006 . As at 30 June 2007, the Group had approximately 41.39% interests in MPEL and 45% interests in another associate, namely Melco China Resort Investment Limited ("MCR"). The Group recognised attributable loss of approximately HK$297,727,000 for MPEL and HK$2,145,000 for MCR, respectively, during the period ended 30 June 2007.

11. AMOUNT DUE FROM AN ASSOCIATE

As at 31 December 2006, an amount due from an associate of approximately HK$578,578,000 was unsecured, interest bearing at HIBOR rate and not repayable within twelve months from the balance sheet date. As at 30 June 2007, such amount of approximately HK$578,578,000 become repayable within twelve months from the balance sheet date and is therefore included in amounts due from associates shown as current assets. The remaining amounts due from associates as at 30 June 2007 are unsecured, interest free and repayable on demand.

12. TRADE RECEIVABLES

	As at 30 June 2007 *HK$'000* **(unaudited)**	As at 31 December 2006 *HK$'000*
Trade receivables (excluding receivables balance arising from margin clients' securities transactions) *(Notes a, b & c)*	**430,926**	367,143
Allowance for doubtful receivables	**(9,700)**	(9,700)
	421,226	357,443
Trade receivables arising from margin clients' securities transactions *(Note b)*	**1,446,818**	305,511
	1,868,044	662,954

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

	As at 30 June 2007 *HK$'000* **(unaudited)**	As at 31 December 2006 *HK$'000*
Within 30 days	**341,314**	291,026
31 – 90 days	**22,685**	37,535
Over 90 days	**57,227**	28,882
	421,226	357,443

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 2007 amounted to approximately HK$1,804,934,000 (31 December 2006: HK$588,236,000). 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 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.

13. 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 2007 HK$'000 (unaudited)	As at 31 December 2006 HK$'000
Within 30 days	**10,243**	82,285
31-90 days	**2,563**	3,973
Over 90 days	**42,015**	27,215
	54,821	113,473
Trade payables arising from the ordinary course of business of dealing in securities transactions *(note)*	**113,018**	157,260
	167,839	270,733

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.

14. BANK BORROWINGS – DUE WITHIN ONE YEAR

The bank borrowings increased by approximately HK$1,215,822,000 during the period. As at 30 June 2007, the bank borrowings carry interest at market rate of 4.85% – 8% and are repayable within one year. The proceeds were used to finance the margin clients' securities transactions and the amounts have been fully repaid subsequent to the balance sheet date.

15. CONTINGENT LIABILITIES

At 30 June 2007, the Company provides a total guarantee of approximately HK$12,603,000 (31 December 2006: HK$12,603,000) to a supplier and an insurance company in respect of the goods purchased and services provided by its subsidiaries and the amount utilised is approximately HK$152,000 (31 December 2006: HK$1,247,000).

16. POST BALANCE SHEET EVENTS

(i) In March 2007, the Group entered into a Sale and Purchase Agreement (the "Sale and Purchase Agreement") with the other shareholder (the "Shareholder") of a jointly controlled entity owned as to 60% by the Group and 40% by the Shareholder, namely, PAL Development Limited ("PAL"), for the sale of about 29.5% interest in PAL by the Group to the Shareholder for a total consideration of approximately Singaporean dollars 20 million (equivalent to approximately HK$101,649,000). The Shareholder, which is a company listed on the Singapore Stock Exchange, will satisfy the consideration by way of issuance of its new shares. After the completion of the Sale and Purchase Agreement, the Group will hold about 30.5% interest in PAL and about 28.5% interest in the Shareholder. The completion of the Sale and Purchase Agreement is subject to certain condition precedents.

(ii) On 13 June 2007, the Group entered into a Products Participation Agreement with VendingData Corporation ("VDC"), a company having its shares listed on the American Stock Exchange. Pursuant to the Products Participation Agreement, during a term of six years from the date of the completion, a subsidiary of the Company, Elixir Group Limited ("Elixir"), will provide agency services to source and refer gaming operators in the exclusive territory to VDC for the entering into of the electronic gaming machine ("EGM") leases on a revenue sharing basis directly with VDC and to supply, at market prices, the necessary EGM to VDC for the fulfillment of its obligations under such leases. In consideration of the services to be provided by Elixir and upon achievement of various milestones under the Products Participation Agreement, VDC will allot and issue a maximum of 55,000,000 shares, 88,000,000 warrants and amend the terms of the existing warrants previously issued to Elixir. The initial issuance of VDC shares to Elixir pursuant to the Products Participation Agreement was approved by VDC shareholders on 11 September 2007, resulting in the issuance of 40,000,000 shares to Elixir. Elixir currently holds 41,000,000 outstanding shares of VDC, representing approximately 53% of VDC's enlarged outstanding shares. Accordingly, VDC has become a subsidiary of the Group and has changed its name to Elixir Gaming Technologies, Inc.

(iii) As at 30 June 2007, a wholly-owned subsidiary of the Company, Melco Financial Group Limited (the "Vendor"), held approximately 63.39% shareholding in VC, a subsidiary of the Company listed on the Growth Enterprise Market of the Stock Exchange. Subsequently on 10 July 2007, the Vendor entered into (i) a placing agreement (the "First Placing Agreement") with VC and a subsidiary of VC, VC Brokerage Limited (the "Placing Agent); and (ii) a subscription agreement (the "First Subscription Agreement") with VC.

Pursuant to the First Placing Agreement, the Vendor agreed to place, through the Placing Agent, up to 50,680,000 shares of VC at a price of HK$2.20 per share to not less than six independent placees. After the completion of the First Placing Agreement on 11 July 2007, the Vendor's shareholding in VC decreased to approximately 43.43%. Afterward, the Vendor agreed to subscribe for up to 50,680,000 new shares of VC at a price of HK$2.20 per share pursuant to the First Subscription Agreement. Upon the completion of the First Subscription Agreement on 24 July 2007, the Vendor's shareholding in VC then increased from approximately 43.43% to 52.84%.

(iv) On 30 July 2007, the Group and PBL formed a 50:50 joint venture, Melco PBL SPV Limited (the "SPV"), for the purpose of issuing exchangeable bonds ("Exchangeable Bonds") with an aggregate principal amount of HK$1,560 million (US$200 million) plus up to an additional HK$390 million (US$50 million) issuable pursuant to an over-allotment option, to fund a share purchase program for acquiring ADS of MPEL. On 11 September 2007, the Exchangeable Bonds with an aggregate principal amount of HK$1,560 million (US$200 million) were issued and have been listed on the Singapore Stock Exchange. The Exchangeable Bonds will be jointly and severally guaranteed by the Company, Crown Melbourne Limited and Burswood Limited (both of which are wholly-owned subsidiaries of PBL).

(v) On 22 August 2007, the Company's wholly-owned subsidiary, Melco Leisure and Entertainment Group Limited, had entered into a non-binding Letter of Intent with Virtual China Travel Services Co. Limited ("VCTS"), a company listed on the TSX Venture Exchange, in relation to (1) proposed subscription of 350,000,000 common shares of VCTS at the price of CDN$0.10 per share (the "Subscription") by the Company in a private placement; and (2) at the same time as completion of the Subscription, VCTS will acquire entire issued share capital of Melco China Resort Investment Limited, a company in the process of acquiring four ski resorts in the People's Republic of China and 45% owned by the Company. Upon the completion of the aforementioned transactions, VCTS will become a subsidiary of the Company and own the four ski resorts.

(vi) In September 2007, the Group agreed to extend the repayment date of the amount due from MPEL, of approximately HK$578,578,000 by twelve months to May 2009. In connection with this arrangement, the consideration payable to PBL was agreed to become repayable on the same date.

(vii) On 5 September 2007, the Company has given an undertaking in connection with the HK$13.65 billion (US$1.75 billion) loan facilities obtained by MPEL. The undertaking given by the Company is to ensure that a contingent contribution of up to a maximum amount of HK$975,000,000 (US$125,000,000) will be provided, upon request of the facility agent acting on behalf of the lenders, to pay contingencies (if any) associated with the construction of the City of Dreams project of MPEL in the absence of other available funding for completion of the project. The Company will maintain a standby letter of credit for the said maximum amount to support its contingent obligation. PBL has given a similar undertaking and entered into a similar arrangement in connection with the said loan facilities.

(viii) Subsequently on 6 September 2007, the Vendor holds approximately 52.19% shareholding in VC and the Vendor entered into another placing and subscription agreement (the "Second Placing and Subscription Agreement") with VC and a third party placing agent (the "Third Party Placing Agent").

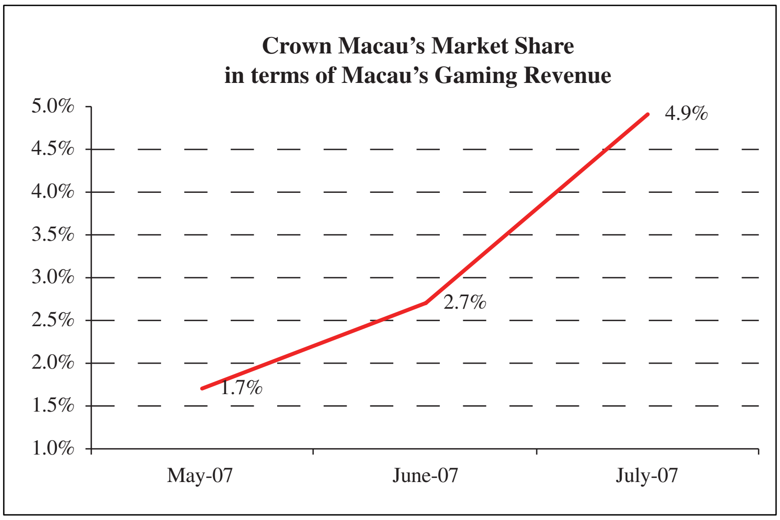
Pursuant to the Second Placing and Subscription Agreement, the Vendor agreed to place, through the Third Party Placing Agent, up to 61,000,000 shares of VC at a price of HK$4.20 per share to not less than six independent placees. After the completion of the placing on 11 September 2007, the Vendor's shareholding in VC decreased to approximately 32.41%. Afterward, the Vendor agreed to subscribe for up to 61,000,000 new shares of VC at a price of HK$4.20 per share pursuant to the Second Placing and Subscription Agreement. Upon the completion of the subscription, the Vendor's shareholding in VC will increase from approximately 32.41% to 43.57%. As a result of the placing and subscription, VC will cease to be a subsidiary of the Company and become an associate of the Company upon completion of the Second Placing and Subscription Agreement.

MANAGEMENT DISCUSSION & ANALYSIS

SIGNIFICANT EVENTS AND DEVELOPMENTS

Melco International Development Limited ("Melco" or the "Group") achieved some significant breakthroughs in the first half of 2007, especially with respect to the development of its leisure, gaming and entertainment division. Crown Macau, the Group's first hotel-cum-casino project primarily catered to the high rollers, opened on 12 May 2007 and operates under Nasdaq-listed Melco PBL Entertainment (Macau) Limited ("MPEL"), part of a broader exclusive pan-Asian gaming joint venture with Publishing and Broadcasting Limited ("PBL") which owns and operates Crown casino and hotel complex in Melbourne. Crown Macau is the first Crown brand extension in Asia and has inherited the international casino operation expertise, which is believed to be one of the critical success factors in consolidating the premium position of Crown Macau in the booming casino market in Macau.

Crown Macau was open for 50 days during the first half of 2007. Net revenue totalled HK$203 million (US$26 million). In the first 50 days of operations, average daily VIP rolling chip volume at Crown Macau was US$20 million which increased to US$44 million in July 2007 and over US$55 million by early August 2007. This demonstrated an ongoing sequential improvement in Crown Macau's core VIP business. Crown Macau's market share in terms of Macau's gaming revenue also increased from 1.7% in May 2007 to 4.9% in July 2007.



The gaming market in Macau as a whole has enjoyed unparalleled growth over the last few years, fuelled by the strong growth of the VIP segment. Our decision to position Crown Macau as an up-market VIP property is proving to be a sound one. The Group believes Crown Macau will receive full recognition as a pre-eminent VIP gaming experience in Macau in future.

Development of the City of Dreams remains on track. With all substructure and piling works having been substantially completed during the first quarter of 2007, phase one of the City of Dreams is targeted for opening at the end of March 2009. Although MPEL has negotiated a one-year extension to its promissory agreement to purchase the Macau Peninsula site, it remains committed to developing the Macau Peninsula project, once it has completed acquisition of the site.

To capitalize on the burgeoning gaming market in Asia, Elixir, the Group's technology arm, entered into a Products Participation Agreement with US-listed VendingData Corporation ("VDC") in June 2007. It was agreed that Elixir will use its extensive Asian network to procure electronic gaming machines for VDC in Asian countries. In return, VDC will issue consideration shares to Elixir as it achieves certain agreed goals. The agreement will provide Elixir with a steady stream of revenue and help consolidate its presence across Asia. Pursuant to the terms of the agreement, which has been approved by VDC shareholders on 11 September 2007 resulting in the issuance of 40 million VDC shares to Elixir, VDC has become a subsidiary of Elixir and has changed its name into Elixir Gaming Technologies, Inc. and is moving forward on the placements of the electronic gaming machine leases on a revenue sharing basis in Asia.

By drawing on its strong Research and Development capabilities and extensive experience in the Asian gaming industry, Elixir has been able to launch its first "home-grown" branded gaming machines, together with a library of hundreds of games. With the launch of its own branded gaming machines, Elixir has placed itself at the forefront of the gaming technology sector.

Leveraging on our experience in the leisure and entertainment business, the Group has forayed into the lottery market in Asia via PAL Development Limited ("PAL"), a jointly-controlled company owned as to 60% by the Group and 40% by a Singapore-listed company. During the review period, PAL has accelerated its penetration into this fast-growing market by offering venue management consultancy services and technology support to lottery operators in China.

Beijing Telenet Information Technology Limited ("BTI"), a 51%-owned company of PAL, is the leading point-of-sale (POS) terminal supplier in 22 provinces in China. Leveraging on its local connections and established foothold in China's lottery market, PAL has further expanded into offering venue management consultancy services to approximately 500 sales outlets for sports lottery in Anhui, Chongqing and Ningxia provinces and two themed outlets incorporating the latest video lottery terminals for welfare lottery in Chongqing and Inner Mongolia. PAL has also been proactively identifying opportunities to spearhead new game technology to propel the mobile lottery business during the review period. Backed by the successful operations in China, PAL's plans to enter the lottery markets in Korea and India are moving towards fruition.

As China is transiting to a consumption-led economy, a massive middle-income group is emerging and Chinese people are willing to spend more on premium leisure activity such as skiing. In an initiative to further expand the Group's leisure and entertainment business, the Group has established Melco China Resort Investment Limited ("MCR"), an associate owned as to 45% by the Group, in March 2007. MCR has identified the largest and most exceptional portfolio of irreplaceable, existing ski resorts with the best mountains, location advantages, dominant market positions and healthy expansion potential. Working with the world's foremost industry experts, MCR plans to deliver world-class year round ski resort experiences to patrons in China comparable to those of Canada, the US and Europe.

The Group's financial arm, Value Convergence Holdings Limited ("Value Convergence", Stock Code: 8101), a company listed on the GEM Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), seeks to grow organically and through strategic acquisitions in related businesses. Currently, it is in negotiation regarding a possible acquisition of a controlling interest in The Macau Chinese Bank Limited, a licensed bank incorporated in Macau Special Administrative Region of the PRC. Such a move would transform Value Convergence into a full-fledged financial services company in Macau, a market in the Greater China Region with strategic importance and high growth potential.

Value Convergence has entered into two rounds of share placements subsequent to 30 June 2007 and raised total net proceeds of approximately HK$357 million. The net proceeds would be utilized as general working capital or applied to the possible acquisition of the Macau Chinese Bank Limited. Upon completion of the share placements, the effective interest of the Group in Value Convergence dropped from 63.39% to 43.57%.

Melco is now a New Generation Asian Conglomerate with a leading position in leisure and entertainment industry. Its promising performance and distinctive leadership in the industry are also well recognized worldwide. During the first six months of 2007, Melco received the Corporate Governance Asia Annual Recognition Award from Corporate Governance Asia and was awarded a number of major recognitions in the 'Asia's Best Managed Companies 2007' list compiled by the renowned FinanceAsia magazine, including 'Best Managed Companies', 'Best Corporate Governance', and 'Best Investor Relations', all of which reflected the positive assessments of the Group by the investment community. Melco will continue upholding its high level of corporate governance within the Group and its subsidiaries and ultimately bringing the highest possible returns to the shareholders.

FINANCIAL REVIEW

The Group is engaged in four main business streams: (i) Leisure, Gaming and Entertainment, (ii) Technology, (iii) Investment Banking and Financial Services, and (iv) Property and Other Investments.

To facilitate the review, the segment information shown in Note 4 to the Consolidated Financial Statements is reproduced below with some minor re-arrangements:

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Segmental Result: Leisure, Gaming and Entertainment	**(3,404)**	(114,897)
Segmental Result: Technology	**8,603**	15,327
Segmental Result: Investment Banking and Financial Services	**39,396**	30,415
Segmental Result: Property and Other Investments	**50,868**	48,594
Intra-group elimination	**(4,406)**	(5,479)
Group operating result	**91,057**	(26,040)
Gain on deemed disposal of partial interests in associates	**386,805**	–
Loss on deemed disposal of partial interest in a subsidiary	**(11)**	–
Share of loss of associates	**(299,872)**	–
Share of loss of jointly controlled entities	**(5,387)**	(24)
Fair value changes on derivative financial instruments	**211,840**	–
Gain on early redemption of convertible loan notes	**8,827**	–
Unallocated corporate expenses	**(47,547)**	(25,331)
Finance costs	**(50,583)**	(42,103)
Profit/(loss) before tax	**295,129**	(93,498)
Income tax (expense)/credit	**(5,520)**	9,215
Profit/(loss) for the period	**289,609**	(84,283)
Minority interests	**(5,215)**	55,300
Profit/(loss) for the period attributable to shareholders	**284,394**	(28,983)

Consolidated profit attributable to shareholders amounted to approximately HK$284.4 million for the six months ended 30 June 2007, against a loss of HK$29.0 million recorded for the same period in 2006. This significant change was mainly due to the following:

(1) A non-recurring gain on deemed disposal of partial interests in associates – In January 2007, the underwriters of the global offering of American Depositary Shares ("ADS") of the associate, MPEL, fully exercised the over-allotment option granted to them at the initial public offering price of HK$147.8 (US$19) per ADS. As a result, a gain on deemed disposal of partial interests in associates of approximately HK$386.8 million was recognized during the six months ended 30 June 2007.

(2) Share of loss of associates amounted to total of HK$299.9 million, the bulk of which (approximately HK$297.7 million) was attributable to MPEL, an associate in which the Group has an interest of 41.39%. MPEL recorded a total loss of approximately HK$752 million (US$96.4 million) for the six months ended 30 June 2007.

(3) The absence of a non-recurring write-down of intangible asset amounting to HK$90.4 million arising from the termination of certain service agreements with Sociedade de Jogos de Macau, S.A. ("SJM"), recorded in the first half of last year.

(4) In January 2007, the Group subscribed certain new shares and warrants of VDC pursuant to a securities purchase agreement. The new shares of the company subscribed are recognised as available-for-sale investments while the warrants subscribed are recognised as derivative financial instruments. The warrants subscribed have exercise prices ranging from US$2.65 to US$5.50 and are exercisable between 31 December 2007 and 31 December 2010. During the period, an increase in the fair value of approximately HK$211.8 million regarding the warrants was recognised in the condensed consolidated income statement.

Consolidated operating EBITDA for the Group amounted to HK$50 million for the six months ended 30 June 2007 (six months ended 30 June 2006: HK$75.8 million). The reduction was primarily due to different accounting treatments of our Macau gaming business which was fully consolidated in the six months ended 30 June 2006 but was accounted for using the equity accounting method effective from 1 October 2006.

BUSINESS REVIEW

LEISURE, GAMING AND ENTERTAINMENT

For the six months ended 30 June 2007, losses from this segment amounted to HK$3.4 million (six months ended 30 June 2006: losses of HK$114.9 million), made up of the following:

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Macau Gaming (Prior to October 2006)	**–**	(118,702)
Jumbo Kingdom	**(3,085)**	3,805
Others	**(319)**	–
	(3,404)	(114,897)

MPEL – Macau Gaming

Prior to October 2006, the Macau gaming operations (operated through a joint venture with PBL) were effectively owned as to 60% by the Group and 40% by PBL. Consequently, the results of MPEL's Macau operations for the first six months ended 30 June 2006 were fully consolidated into the Group's financial statements. Following a restructuring of the Group, the formal grant of the gaming subconcession by the Macau Government and the separate listing of MPEL on the NASDAQ in 2006, the Group's effective interest in MPEL decreased to 41.39%, resulting in MPEL being re-classified as an associate. As a result, the attributable results of MPEL and its subsidiaries for the six months ended 30 June 2007 were shown under "share of losses of associates".

The negative contribution of approximately HK$118.7 million for the first half of 2006 was primarily due to the following:

(1) The pre-opening operating expenses (other than construction-related costs) amounting to approximately HK$31.5 million incurred in respect of the development of Crown Macau and City of Dreams.

(2) An intangible asset write down of approximately HK$90.4 million resulting from the termination of Mocha Slots' service agreements with SJM. These agreements were terminated as a result of MPEL acquiring its own gaming subconcession in September 2006.

Jumbo Kingdom

Jumbo Kingdom includes the Jumbo and Tai-Pak floating restaurants located in Aberdeen in Hong Kong, and Jumbo's Chua Lam Gourmet Kitchen in Macau. Jumbo Kingdom made a negative contribution of HK$3.1 million for the six months ended 30 June 2007 (six months ended 30 June 2006: profit of HK$3.8 million). This was primarily because the Jumbo floating restaurant underwent maintenance work during March 2007 – April 2007 for upgrading its safety features and catering services were temporarily suspended during the period. Upon completion of the maintenance work, the floating restaurant resumed operation by the end of April 2007.

With its long history and worldwide reputation, Jumbo Kingdom will continue to provide customers with the highest standards of service and strive to maintain its status as one of the largest and most unique floating restaurants in the world.

TECHNOLOGY

The Group's technology segment provides gaming technology consultation services in Macau, and is involved in the development and sale of financial trading and settlement systems in Asia. Profit from this segment was HK$8.6 million for the six months ended 30 June 2007 (six months ended 30 June 2006: HK$15.3 million) and was made up of the following contributions:

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Elixir Technology	**5,208**	14,538
iAsia Technology	**3,413**	789
Others	**(18)**	–
	8,603	15,327

Elixir, based in Macau, is the major technology arm of the Group and specializes in the design, development, and supply of gaming products and technology solutions. Contribution from Elixir dropped by 64% to HK$5.2 million for the six months ended 30 June 2007 (six months ended 30 June 2006: HK$14.5 million). This was primarily because Elixir was going through a transformational change and repositioning itself from an equipment distributor to becoming Asia's only gaming machine supplier with R&D and manufacturing capabilities.

During the review period, iAsia made a positive contribution to the Group amounting to HK$3.4 million for the six months ended 30 June 2007 (six months ended 30 June 2006: HK$0.8 million), representing an increase of 333%. This increase was due to iAsia's work to actively expand its client base. iAsia recently entered into a contract with a major Taiwanese bank for the provision of a regional multi-products trading platform. It was also appointed by Hong Kong Precious Metal Exchange Limited as the sole provider of an Electronic Bullion Trading Platform, the first of its kind in Hong Kong. The system offers matching of bullion trading of Loco London and Loco Hong Kong, 100oz contracts and 10oz contracts, for over 170 members of CGSE.

INVESTMENT BANKING AND FINANCIAL SERVICES

Contribution from the Group's investment banking and financial services segment increased steadily to HK$39.4 million for the six months ended 30 June 2007, from HK$30.4 million in the same period last year.

The Group's investment banking and financial services division is operated via Value Convergence which offers corporate finance advisory services as well as brokering and dealing for clients in securities, futures and options contracts.

According to the financial statements of Value Convergence, Value Convergence recorded a turnover of HK$133.9 million for the six months ended 30 June 2007 (six months ended 30 June 2006: HK$93.8 million). Profit before taxation for the review period rose by HK$3.9 million to approximately HK$19.3 million (six months ended 30 June 2006: HK$15.4 million). After taking into account a tax provision of HK$4.8 million made in the review period, net profit decreased slightly against the same period last year, by around HK$0.9 million, to stand at approximately HK$14.5 million (six months ended 30 June 2006: HK$15.4 million).

The three key business divisions of Value Convergence, namely the brokerage division, corporate finance division, and asset management division, each reported solid achievements during the review period. The brokerage business achieved improved income from brokerage commissions, which translated into a leap in segmental profit of 378% over the same period last year.

PROPERTY AND OTHER INVESTMENTS

This division handles property and other investments carried out by the Group. For the six months ended 30 June 2007, it recorded a turnover of HK$50.2 million (six months ended 30 June 2006: HK$49.5 million) and segmental profit of HK$50.9 million (six months ended 30 June 2006: HK$48.6 million).

SHARE OF LOSS OF ASSOCIATES

Share of loss of associates is made up of the following:

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Share of loss of MPEL and its subsidiaries (1)	**(297,727)**	–
Share of loss of MCR and its subsidiary (2)	**(2,145)**	–
	(299,872)	–

(1) Share of loss of MPEL and its subsidiaries

After the listing of MPEL on NASDAQ in the US in December 2006 and the exercise of the greenshoe which took place in January 2007, MPEL and its subsidiaries are accounted as associates.

During this period, the Group's attributable loss arising from its 41.39% ownership of MPEL amounted to approximately HK$297.7 million. According to the financial statements of MPEL, the substantial losses were primarily due to the following:

(i) Substantial pre-opening expenses incurred in respect of Crown Macau and City of Dreams amounted to approximately US$35.3 million for the six months ended 30 June 2007.

(ii) Effective from September 2006, MPEL started to provide for the amortisation of its own gaming license amounted to approximately US$28.6 million for the six months ended 30 June 2007.

(iii) Marketing expenses associated with the opening of Crown Macau on 12 May 2007 amounted to approximately US$11.6 million.

Results for the six months ended 30 June 2007 include the operations of Crown Macau, which opened on 12 May 2007. They also reflect the impact of the Group's acquisition of a gaming subconcession in September 2006. This resulted in a change in the reporting of gaming revenues from the Group's Mocha Clubs, which shifted from a service fee basis prior to the acquisition of the subconcession, to being based on gaming revenue according to net win following the acquisition.

According to the financial statements of MPEL, MPEL recorded a net revenue of HK$510 million (US$65.4 million) for the six months ended 30 June 2007, as opposed to HK$85 million (US$10.9 million) for the same period last year. This increase was mainly driven by the opening of Crown Macau. Net loss was HK$752 million (US$96.4 million) for the six months ended 30 June 2007 as compared to a net loss of HK$100 million (US$12.8 million) for the same period last year. Net loss attributable to Melco, a 41.39% shareholder of MPEL, amounted to HK$297.7 million during the review period.

The operating costs and expenses of MPEL increased substantially during the period under review. These increase were largely due to the opening of Crown Macau and the commencement of amortization of MPEL's gaming subconcession, increased amortization of land use rights for projects under development, and increased pre-opening, selling and marketing investment costs associated with the development of Crown Macau and City of Dreams.

Crown Macau was open for 50 days during the first half of 2007. Net revenue totaled HK$203 million (US$26 million). In the VIP table games segment, rolling chip volume totaled HK$7,940 million (US$1,018 million) for the second quarter of 2007. Drop in the mass market table games segment amounted to HK$421 million (US$54 million), and gaming machine revenue amounted to HK$14 million (US$1.8 million) for the second quarter of 2007. Not all hotel rooms at Crown Macau were available during the review period, but the 60 hotel rooms that were available contributed HK$13 million (US$1.7 million) of non-gaming revenue to Crown Macau during the first half of 2007.

Operating in six locations and with a total of approximately 1,000 machines, Mocha Clubs recorded a revenue of HK$306 million (US$39.2 million) during the first half of 2007. Mocha Clubs is planning to open shortly its seventh outlet at Mocha Square, a move which will add approximately 130 gaming machines to its machine base. In addition, the two phases of expansion currently taking place at an existing facility at Hotel Royal will be completed in October and December 2007 respectively. Taking into consideration both of these developments, Mocha Clubs will have over 1,250 gaming machines by the end of 2007.

(2) Share of loss of MCR and its subsidiary

MCR was formed in March 2007. For the four months ended 30 June 2007, the operational loss attributable to the Group amounted to HK$2.1 million (six months ended 30 June 2006: Nil). The loss was primarily due to pre-opening expenses incurred prior to the operation of ski resorts in China.

SHARE OF LOSS OF JOINTLY CONTROLLED ENTITIES

For the six months ended 30 June 2007, the share of loss of jointly controlled entities amounting to HK$5.4 million (six months ended 30 June 2006: loss of HK$24,000) was entirely attributable to PAL, which is a jointly controlled entity owned as to 60% by the Group. Such loss was primarily due to the infrastructure and expansion costs incurred at the early stage of development. As PAL is still in its early investment phase, contribution to the Group's profitability is unlikely to be meaningful in 2007.

OUTLOOK

With diversified businesses in Leisure and Entertainment, Technology and Financial Services, Melco is a dynamic conglomerate for a new generation in Asia – a generation of consumers who are eager for new experiences and ways to live their lives to the fullest. The Group is responding to the changing dynamics with vibrant, imaginative products and services that fulfill the demands and dreams of this increasingly affluent and ambitious generation.

Having established itself as the world's number one gaming capital in terms of turnover, Macau has attracted a number of international gaming operators. Their opening of integrated Las Vegas-style resorts and casinos has marked the beginning of a new era in Macau's gaming history and development. Following the opening of Crown Macau, MPEL, the Group's Macau gaming business unit, has further ambitious plans ready for roll-out, including the City of Dreams, further expansion of its successful Mocha Clubs operation, and plans of the third casino hotel on Macau peninsula. By leveraging its strong local connections and PBL's international casino operation experiences, Melco aims to capture some of the immense opportunities currently developing in Macau, and right across the Asian region.

Given the backdrop of a burgeoning economy in China, Chinese people become more affluent and are moving up the 'consumption ladder', with increasing discretionary spending on leisure and entertainment. Melco will identify more opportunities in China's robust lottery market and tap on the huge market potential of other entertainment businesses in future.

While pursuing these ambitious goals, Melco will continue upholding the highest standards of corporate governance, accountability and social responsibility, while remaining committed to bringing its shareholders the highest possible returns.

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

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

As of 30 June 2007, total assets of the Group were HK$10,665.8 million (31 December 2006: HK$9,344.6 million) which were financed by shareholders' funds of HK$7,841.9 million (31 December 2006: HK$7,567.1 million), minority interests of HK$99.3 million (31 December 2006: HK$94.1 million), current liabilities of HK$1,754.0 million (31 December 2006: HK$419.2 million), and non-current liabilities of HK$970.0 million (31 December 2006: HK$1,264.0 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 2.4 time (31 December 2006: 6.3 time).

During the six months ended 30 June 2007, the Group recorded a net cash inflow of HK$237.7 million (year ended 31 December 2006: outflow of HK$1,140.5 million). As of 30 June 2007, cash and cash equivalents of the Group totaled HK$1,447.5 million (31 December 2006: HK$1,209.8 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowings, convertible loan notes and consideration payable) over shareholders' fund, was at a satisfactory level of 0.31 time as of 30 June 2007 (31 December 2006: 0.17 time). The Group adopts a prudent treasury policy. Cash and bank balance consisted of about 8% of cash and 92% of short term fixed deposits. All borrowings and cash and bank balances are denominated in Hong Kong dollars and U.S. dollars to maintain stable exposure to foreign exchange risks.

As of 30 June 2007, the Group's total convertible loan note amounted to HK$970.0 million which was non-interest bearing and due in 2010. The Group's consideration payable amounted to HK$173.9 million, which was unsecured, non-interest bearing and due in May 2008, and the repayment date of which was further extended to May 2009 subsequently in September 2007. As of 30 June 2007, the Group's total available banking facilities from various banks amounted to HK$228.2 million (31 December 2006: HK$220.7 million), of which HK$60 million (31 December 2006: HK$60 million) was secured by margin clients listed securities, HK$49.8 million (31 December 2006: HK$49.8 million) was secured by pledging HK$85 million of the Group's investment properties, and HK$0.9 million (31 December 2006: HK$0.9 million) was secured by pledging the same amount of the Group's time deposit. As of 30 June 2007, the Group utilized HK$122.8 million and HK$0.9 million of unsecured and secured banking facilities respectively (31 December 2006: unsecured HK$49 million; secured HK$0.9 million). These have excluded the IPO financing for an amount of HK$1,142 million relating to the investment banking and financial services segment. The aggregate amount of HK$1,264.8 million was repaid by 9 July 2007.

MATERIAL ACQUISITIONS

In the first half of 2007, the Group had entered into/completed the following acquisitions.

On 11 October 2006, Elixir entered into a Securities Purchase Agreement to subscribe one million new shares of VDC for a total subscription price of US$2,650,000 and the grant of certain existing warrants by VDC to Elixir for a further purchase of 16,000,000 new shares of VDC.

In January 2007, the subscription of one million shares in VDC by Elixir was completed and the existing warrants were issued to Elixir. The existing warrants are exercisable by Elixir at any time during the period from 31 December 2007 to 31 December 2010.

On 13 June 2007, Elixir entered into a Products Participation Agreement with VDC. Pursuant to the Products Participation Agreement, Elixir Group will provide agency services to source and refer gaming operators in the Asian countries to VDC for the entering into the electronic gaming machines ("EGM") leases on a revenue sharing basis directly with VDC and to supply, at market prices, the necessary EGM to VDC for the fulfillment of its obligations under such leases.

In consideration of the services to be provided by Elixir and upon achievement of various milestones under the Products Participation Agreement, VDC will allot and issue a maximum of 55,000,000 consideration shares, 88,000,000 consideration warrants and amend the terms of the existing warrants previously issued to Elixir.

HEADCOUNT/EMPLOYEES' INFORMATION

As a result of the Group's business expansion, the number of employees (excluding the employees of MPEL, PAL and MCR) has increased from 485 as of 31 December 2006 to 503 as of 30 June 2007. This represents an over 4% increase and 18 new positions within the Group. Among the 503 employees, 429 are located in Hong Kong and the remaining is based in Macau and the PRC. The majority of the newly created positions are for our Macau operation. The related staff costs for the first six months of 2007, including Directors' emoluments and share options expenses, amounted to HK$149.7 million (six months ended 30 June 2006: HK$136.0 million). The total number of the Group's employees (including the employees of MPEL, PAL and MCR) is 5,722 as of 30 June 2007.

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy for its operating entities to operate in their corresponding local currencies to minimize currency risks. The Group's principal businesses are conducted and recorded in Hong Kong dollars and Macau Pataca. As the impact from foreign exchange exposure is minimal, no hedging against foreign currency exposure is necessary.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Material capital expenditure will be incurred when the Company begins to pursue different projects in the coming years. The Company expects the respective project companies to secure required funding themselves using different financing options available. The Company will also provide the required equity capital to the new projects coming ahead, should it be deemed appropriate. Details are given in Note 16 to the consolidated financial statements.

CONTINGENT LIABILITIES

At 30 June 2007, the Company provides a total guarantee of approximately HK$12,603,000 (31 December 2006: HK$12,603,000) to a supplier and an insurance company in respect of the goods purchased and services provided by its subsidiaries and the amount utilised is approximately HK$152,000 (31 December 2006: HK$1,247,000).

CORPORATE GOVERNANCE

In 2005, the Group adopted its Code on Corporate Governance (the "Company Code"), which sets out the corporate standards and practices used by the Group in directing and managing its business affairs. The Company Code was prepared with reference to the principles, Code Provisions and Recommended Best Practices stipulated in the Code on Corporate Governance Practices (the "HKSE Code") contained in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, which came into effect on 1 January 2005. The Company Code not only formalizes the Group's existing corporate governance principles and practices, but also serves to assimilate practices with benchmarks prescribed by the Stock Exchange, ultimately ensuring that the Group runs a highly transparent operation and is accountable to its shareholders.

The Company has complied with all provisions in the Company Code and the HKSE Code throughout the six months ended 30 June 2007, except for the following deviations:

(i) Pursuant to the code provision A.2.1 of the HKSE Code, the roles of the Chairman and Chief Executive Officer of a listed company should be separate and should not be performed by the same individual. However, in view of the present composition of the Board, the in depth knowledge of Mr. Ho, Lawrence Yau Lung of the operations of the Group and of the gaming and entertainment sector in Macau in general, his extensive business network and connections in that sector and the scope of operations of the Group, the Board believes it is in the best interests of the Company for Mr. Ho, Lawrence Yau Lung to assume the roles of Chairman and Chief Executive Officer at this time and such arrangement be subject to review by the Board from time to time.

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

The Group received numerous corporate governance awards during past years and recently was awarded the Corporate Governance Asia Annual Recognition Award by Corporate Governance Asia Magazine and was duly recognized by FinanceAsia Magazine as one of Asia's Best Managed Companies. Melco was also a founding signatory of the Hong Kong Corporate Governance Charter launched by The Chamber of Hong Kong Listed Companies. The aim of The Charter is to strengthen and foster a corporate governance culture among listed companies in Hong Kong.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

AUDIT COMMITTEE

An Audit Committee has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises a Non-executive Director and two Independent Non-executive Directors of the Company. The Audit Committee has reviewed the interim results for the six months ended 30 June 2007 and the 2007 interim report.

INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2007 are unaudited, but have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, by the Company's auditors, whose independent review report will be included in the interim report.

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

The Company has not redeemed any of its listed securities during the six months ended 30 June 2007. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 30 June 2007.

BOARD OF DIRECTORS

As at the date hereof, the board of directors of the Company comprises three Executive Directors, namely Mr. Ho, Lawrence Yau Lung (Chairman and Chief Executive Officer), Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence (Chief Operating Officer); 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.

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

Hong Kong, 13 September 2007