Melco
International Development Limited
新濠國際發展有限公司

Annual Report 2005
二零零五年年報

A Hong Kong listed company with stock code 香港上市股票代號：200

Mission Statement
集團使命

The Group's mission can be summarized in three main points:

1. To maintain Melco's long and glorious tradition of achievement by transforming itself into a major leisure and entertainment enterprise in Macau and Asia, supplemented by focused contributions from its other core businesses.

2. To provide quality and innovative products and services by employing the latest technologies to maximise business growth and achieve consistent, high returns for shareholders.

3. To maintain high standards of corporate governance and management ethics, provide optimal environment and opportunities for employees, and adopt a responsible and caring role in our wider society.

集團使命可總括為以下三點：

1. 在各核心業務的全力支援下發展為澳門以至全亞洲的大型消閒及娛樂企業，全力延續新濠長久以來的驕人佳績。

2. 利用最先進科技，提供優質而創新的產品及服務，促進業務增長，為股東帶來更穩定而豐厚的回報。

3. 為僱員提供理想的工作環境及發展機會，克盡公民之責，關心社會，熱心公益，維持高水平的企業管治及管理操守。

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EXECUTIVE DIRECTORS
Mr. HO, Lawrence Yau Lung
(Chairman & Chief Executive Officer)
Mr. TSUI Che Yin, Frank

NON-EXECUTIVE DIRECTOR
Mr. NG Ching Wo

INDEPENDENT NON-EXECUTIVE DIRECTORS
Sir Roger LOBO
Dr. LO Ka Shui

EXECUTIVE COMMITTEE
Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Mr. CHAN Ying Tat, Ted
Mr. CHUNG Yuk Man, Clarence
Mr. TSANG Yuen Wai, Samuel

AUDIT COMMITTEE
Sir Roger LOBO
Mr. NG Ching Wo

REMUNERATION COMMITTEE
Dr. LO Ka Shui *(Chairman)*
Sir Roger LOBO
Mr. NG Ching Wo

NOMINATION COMMITTEE
Sir Roger LOBO *(Chairman)*
Mr. NG Ching Wo

FINANCE COMMITTEE
Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence

REGULATORY COMPLIANCE COMMITTEE
Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Dr. LO Ka Shui
Mr. TSANG Yuen Wai, Samuel

COMPANY SECRETARY
Mr. TSANG Yuen Wai, Samuel

QUALIFIED ACCOUNTANT
Mr. CHUNG Yuk Man, Clarence

REGISTERED OFFICE
38th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

AUDITORS
Deloitte Touche Tohmatsu

SOLICITORS
Richards Butler
Arculli Fong & Ng

PRINCIPAL BANKERS
Bank of China Limited
Standard Chartered Bank
(Hong Kong) Limited
Credit Suisse
Banco Nacional Ultramarino, S.A.

SHARE REGISTRAR AND TRANSFER OFFICE
Standard Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE
200

Financial Highlights

GROWTH

Eight-fold profit growth marks winning operation. Melco continues to break new grounds, paving the way for sustainable growth

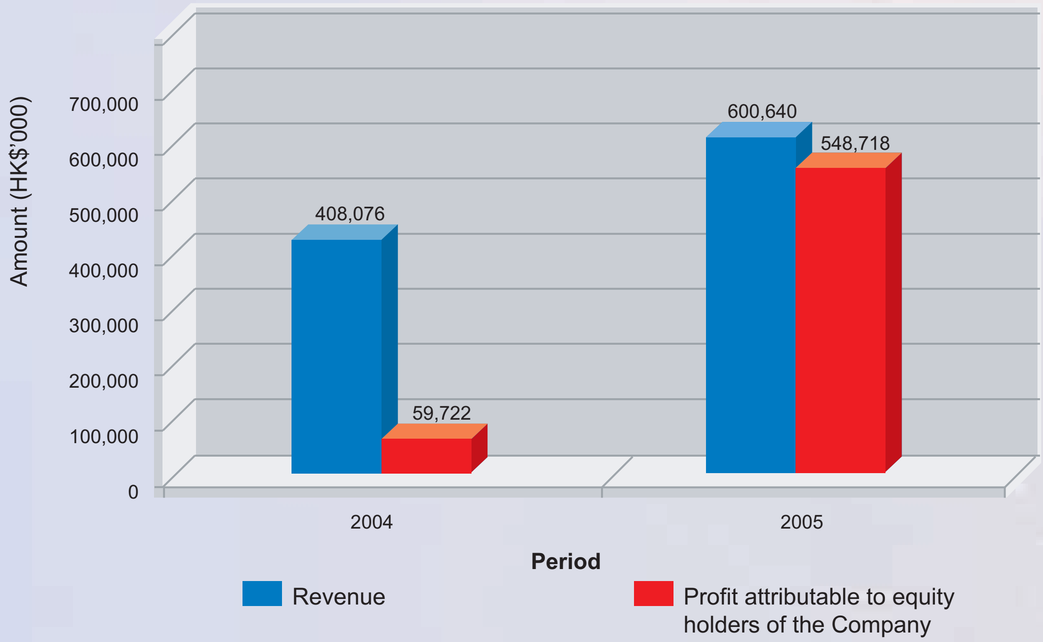
Turnover increased by 47% to HK$600.6 million for 2005 as compared with HK$408.1 million in 2004.

Net profit attributable to shareholders surged 819% to HK$548.7 million for 2005 as compared with HK$59.7 million in 2004, of which HK$514.4 million was deemed profit upon the disposal of partial interests in subsidiaries arising from the formation of the Melco PBL joint venture.

Basic earnings per share were 52.19 HK cents for 2005, representing an increase of 468% as compared with 9.19 HK cents in 2004.

Proposed final dividend payment for 2005 of 1 HK cent per share.

Revenue & Profit Attributable to Equity Holders of the Company



Corporate Profile

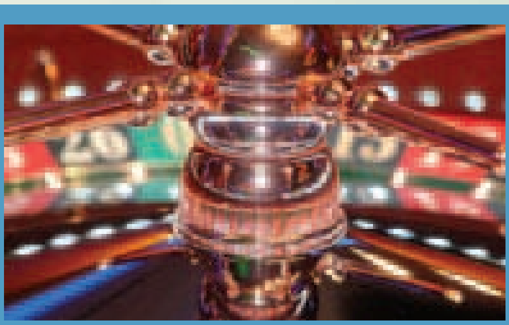
Melco International Development Limited ("Melco") is an actively managed conglomerate, listed on the Hong Kong Stock Exchange, with 3 main lines of business, spearheaded by Leisure, Gaming & Entertainment. The Group's main gaming activities are conducted via an exclusive joint venture with one of Australia's largest conglomerates and gaming groups – Publishing & Broadcasting Limited ("PBL"). The Melco PBL joint venture's three main gaming assets are, namely, Crown Macau, The City of Dreams and Mocha. Crown Macau is the first 6-star casino-hotel in Macau and is targeted at high rollers. The City of Dreams is a world-class integrated entertainment resort, to be built on 27 acres of land in Cotai, featuring an underwater casino. It comprises 3 hotels offering a total of 2,000 hotel rooms in addition to time-sharing service apartments, iconic theatres for permanent shows, retail and restaurant outlets, and nightclubs. The Mocha Slot Lounges, on the other hand, presents slot machine parlours in a unique café setting. They have been highly successful and dominate the grind market in Macau.

In Hong Kong, Melco carries on the tradition of operating the world famous floating landmark – Jumbo Kingdom. The Group has two other supporting businesses in the Technology and Investment Banking areas.

The Group's Technology Business is represented by Elixir Group, a leading gaming IT infrastructure and system integration specialist, and iAsia – the software developer that is also a leading provider of comprehensive financial trading systems in Asia. In April 2006, Melco and Shuffle Master, Inc., a leading gaming supply company, formed a gaming technology alliance, for a term of twenty years, to develop located gaming technologies for legalized gaming jurisdictions in Asia. This alliance includes an exlusive distributorship of the existing gaming products of both Shuffle Master and its Australian-based Stargames Corporation Pty Limited, co-development of an R&D Center and a world-class manufacturing base.

The Investment Banking and Financial Services Business is conducted via the Group's Hong Kong listed subsidiary – Value Convergence Holdings Limited.

Melco has grown substantially in recent years and has opened offices in Hong Kong, Macau, Beijing, Shanghai, Shenzhen and Manila, employing a total of over 800 staff.

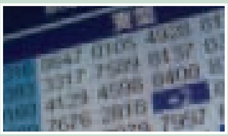


Corporate Structure

Melco Group

Investment Banking & Financial Services

VC Financial (8101.HK)

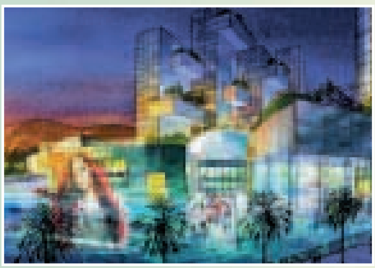


Focus on Hong Kong, Macau and China's capital financing needs

Leisure, Gaming and Entertainment

High roller market "Crown Macau" at Taipa

Emerging mass market "The City of Dreams" at Cotai



Leisure grind market "Mocha Slots" all over Macau

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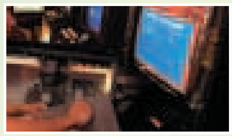
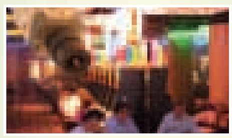
Technology

Elixir and iAsia

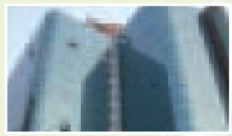


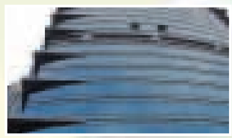


Focus on the gaming technology

Property & Other Investments

Property and treasury





Chairman & CEO's Statement

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

As the only Chinese city in which casinos are legal, Macau is rapidly developing into the world's largest gaming center. The establishment of leisure and entertainment facilities in Macau will also see the city evolving into a top-notch international leisure and entertainment destination. With a vision to expand gaming business in Asia, Melco partnered with PBL, Australia's largest media and gaming conglomerate, to capitalize on the rising opportunities in the gaming market. During the review year, the Melco PBL joint venture introduced a plan to build "The City of Dreams" a premium integrated entertainment resort the first of its kind in Asia. Together with Crown Macau and Mocha Slots, catering to the high rollers and the grind market respectively, the Group's gaming assets will cover all facets of the market.

ENERGETIC

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

Chairman & CEO's Statement

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

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

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

By Order of the Board,
Ho, Lawrence Yau Lung
Chairman & Chief Executive Officer
Hong Kong
31 March 2006

Management Discussion & Analysis

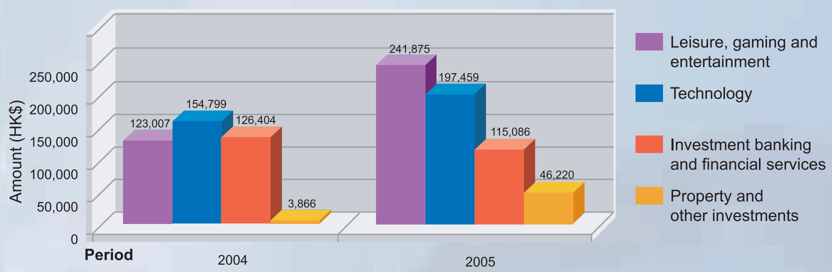
BUSINESS REVIEW AND FINANCIAL REVIEW

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

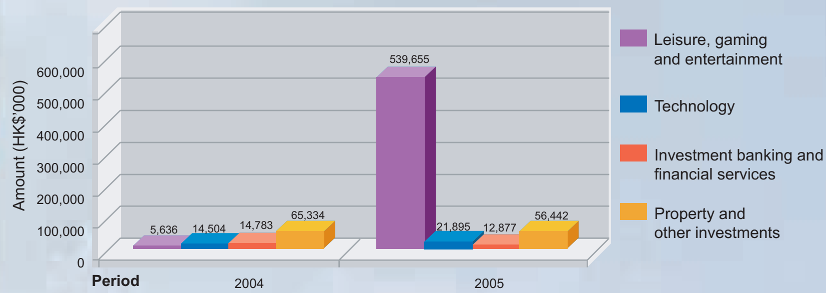
All of the Group's business divisions achieved segmental profitability during the year. These business divisions generated four main streams of segmental results including (i) Leisure, Gaming and Entertainment, (ii) Investment Banking and Financial Services, (iii) Technology and (iv) Property and Other Investments.

The contribution and growth of these four business segments during the year are illustrated below and the details are explained in this section.

Revenue Composition in Amount



Segment Results Analysis in Amount



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

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

As at 31 December 2005, shareholders' equity amounted to HK$3,558.2 million, with a substantial increase of 189% as compared to that of 2004.

Management Discussion & Analysis

LEISURE, GAMING AND ENTERTAINMENT

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

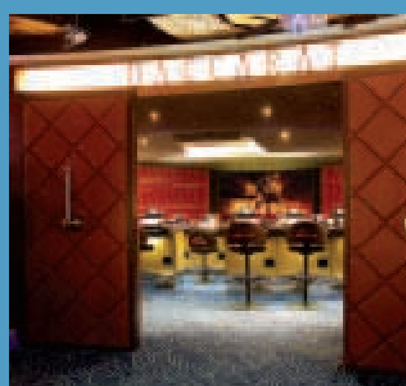
In the year under review, the Leisure, Gaming & Entertainment Division recorded a turnover of HK$241.9 million (2004 – HK$123 million) and segmental profit surged 95 times to HK$539.7 million (2004 – HK$5.6 million), of which HK$514.4 million was deemed profit upon the disposal of partial interests in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

Mocha Slots

Mocha Slots focuses on the leisure grind market and is renowned as the showcase for electronic gaming in the world. Launched in 2003, Mocha Slots is an innovative spin combining the concept of slot machine parlors with a relaxing, cafe-style setting. As at 31 December 2005, the widely recognized Mocha Slots has six outlets with over 1000 machines in operation, capturing around 27% of Macau's electronic gaming market. Each Mocha Slot Hall offers a variety of themes for our valued customers. Three new Mocha Slots were opened during the year under review, including the Mocha Hotel Tapai Square, Mocha Hotel Sintra and Mocha Hotel Taipa.

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

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



Management Discussion & Analysis

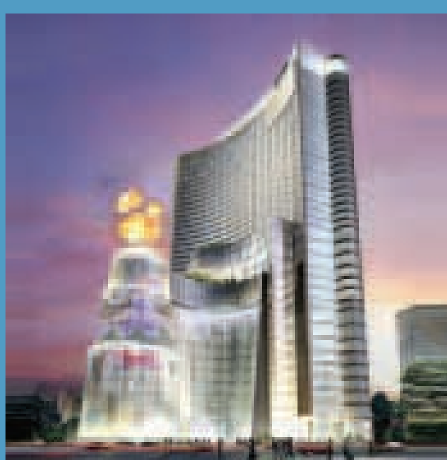
Crown Macau

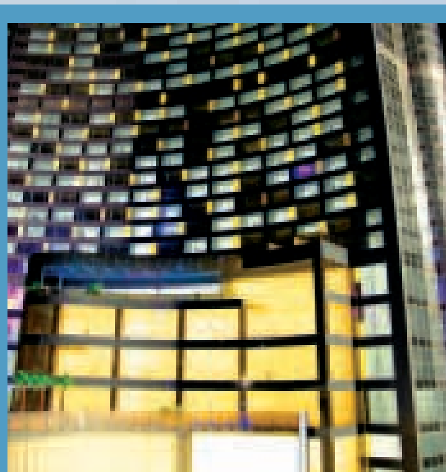
Recognizing that over 60% of Macau's gaming revenue is currently derived from VIP gaming or high limit players, Melco PBL announced in September 2004 the plan to build Crown Macau, the first 6-star luxurious casino & hotel in Taipa, which targets at global high rollers.

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

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

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





Management Discussion & Analysis

The City of Dreams

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

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

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

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

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

Management Discussion & Analysis

Jumbo Kingdom

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

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

INVESTMENT BANKING AND FINANCIAL SERVICES

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

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

Management Discussion & Analysis

TECHNOLOGY

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

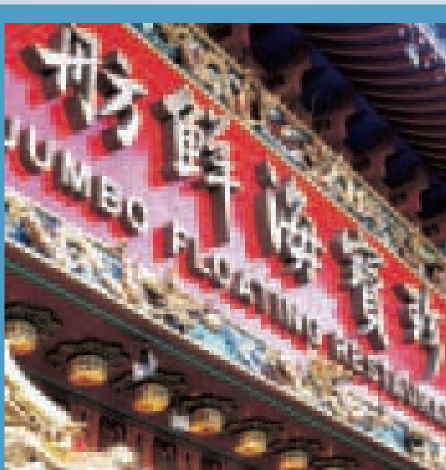
Based in Macau, Elixir has established itself as a premier gaming IT infrastructure specialist capable of offering clients a full range of system integration and network services. During the year, Elixir completed the installation of surveillance systems and slot machines for a number of new casinos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

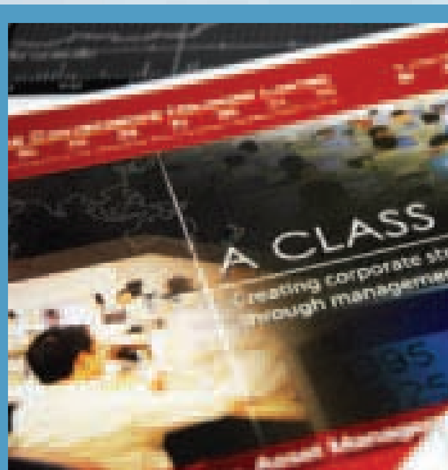
The iAsia group of companies, based in Hong Kong, provides comprehensive online trading and related systems and services to financial institutions and intermediaries, principally in Asia. During the year, iAsia developed a new Bullion Deal Matching System, which has been well received in the market.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

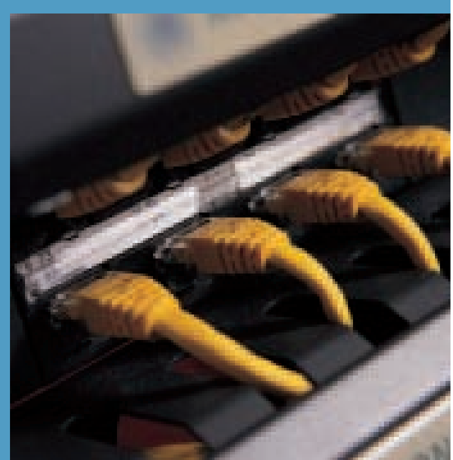
iAsia also has significant contribution to the technological sophistication of the Group's financial services unit with its IT system support services.

PROPERTY AND OTHER INVESTMENTS

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







Management Discussion & Analysis

OUTLOOK

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

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

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

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

Management Discussion & Analysis

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

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

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

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

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

MATERIAL ACQUISITIONS

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

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

Pursuant to a Subscription Agreement dated 23 December 2004, the Company formed a joint venture with PBL in March 2005 to undertake all the gaming and hospitality business in Macau and Asia. The Company contributed 80% interests of Mocha Slots and 70% interests of Great Wonders to Melco PBL Entertainment (Greater China) Limited ("Melco PBL Entertainment"), a company owned as to 80% indirectly by Melco PBL Holdings and 20%

Management Discussion & Analysis

indirectly by the Company, while PBL contributed HK$1.27 billion (equivalent to US$163 million) cash to Melco PBL Entertainment. In addition, the Company also contributed 50.8% interests of Melco Hotels to Melco PBL Entertainment.

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

HEADCOUNT/EMPLOYEES' INFORMATION

Coupled with our business expansion, the number of employees has increased from 710 employees as at 31 December 2004 to 842 employees as at 31 December 2005. This represents more than 18% increase and 132 new positions within the Group. Among the 842 employees, 417 are located in Hong Kong and the remaining is based in Macau and the PRC. Majority of the newly created positions are for our Macau business. The related staff costs for 2005, including Directors' emoluments and the share options expenses, amounted to HK$137.8 million (2004: HK$112.6 million).

Melco believes that the key to success lies in its people. We strive to create an environment that makes people proud to be a "Melco person". All of our employees are given equal opportunities for advancement and personal growth. We believe only by growing our business we create opportunities and deliver value to our people. Thus, we encourage our people to offer their best at work and grow with our business. We build staff loyalty through recognition, involvement and participation.

QUALITY SERVICE

Melco's people policy, systems and practices are directly aligned with the Group's mission and values, and are conducive to desired behaviors, which contribute to business success.

1. *Recruitment*
   Melco is an equal opportunity employer and we recruit talents with above average Professional competence, personal qualities and commitment and we hire the right people to co-shape our future. We identify and validate talents through different recruitment sources and we regularly review our recruitment structure and assessment criteria. We also employ suitable tools to assess candidates' potential.

Management Discussion & Analysis

2. *Performance and Rewards*
   Melco demands and appreciates high performance. Our reward principle is primarily performance based and we reward our people competitively based on their job responsibilities, performance and contribution to business results as well as professional and managerial competencies.

3. *Learning & Development*
   Melco provides training to develop the necessary and other skills needed to satisfy business needs, which, on the one hand, would improve performance and delivered value and, on the other hand, would enhance personal growth.

   We adopt a systematic approach in structuring our training programs and training programs are focused to individual and corporate needs. Training objectives would first be established with the desired outcomes clearly defined and quantified and results are continually reviewed.

FOREIGN EXCHANGE EXPOSURE

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

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

CONTINGENT LIABILITIES

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

CORPORATE GOVERNANCE

During the year, the Group introduced a Code on Corporate Governance ("Code"), which sets out the corporate standards and practice used by the Group to direct and manage its business affairs. It was prepared with reference to the principles, code provisions and recommended best practices stipulated in the Code on Corporate Governance Practices issued by the Hong Kong Stock Exchange ("HKSE Code"), which came into effect on 1 January 2005. In addition to formalizing the Group's existing corporate governance principles and practices, the Code also serves to assimilate practices with benchmarks prescribed by the HKSE Code to ensure that the Group runs a highly transparent operation and is accountable to its shareholders.

Management Discussion & Analysis

CORPORATE RECOGNITION

During the year, the Group received a number of accolades for its outstanding business performance as well as high standard of corporate governance.

In recognition of the Group's excellent corporate governance practices, the Group's Chairman & CEO, Mr. Lawrence Ho, was awarded "Directors of the Year Award 2005" by the Hong Kong Institute of Directors. In a survey conducted by Institutional Investor, a leading global investment and capital market research and publishing organization, Mr. Ho was named the "Best CEO" in the 'Conglomerates' category. The award reviews and ranks Asian companies annually for "best practices" in investor and shareholder relations. The rankings in 2005 were based on the opinions of 227 buy-side individuals and 251 sell-side analysts from both local and international firms.

In addition, Mr. Ho was named "Leader of Tomorrow 2005" by Hong Kong Tatler. The annual award recognizes entrepreneurial spirit, leadership wisdom and traits. Mr. Ho won the award for his efforts in turning a loss-making business into an entertainment empire. Melco also received the High Flyer's Corporate Achiever Award (Leisure, Gaming and Entertainment) from the HK Business Magazine and the Top Performer Award from the South China Morning Post.

INVESTOR RELATIONS

Melco believes that maintaining communication and transparency is vital to building good investors relations. During the year, the Group participated in numerous investor conferences organized by major international brokerages. Senior management of the Group went on non-deal roadshows regularly to other major financial centres in order to maintain constant contacts with overseas investors. In addition, site visits were regularly organized for analysts and investors to fully understand our business.

The Group places great emphasis on providing clear information to investors regarding its business strategy and direction, the progress of its projects and the industry environment in which the Group operates.

Management Discussion & Analysis

SOCIAL RESPONSIBILITY & ENVIRONMENTAL PROTECTION

Apart from growing its business, the Group is also committed to supporting charitable events and activities. The Melco Volunteer Team was set up in 2004 to encourage active participation in charitable causes and activities such as goodwill visits, raffle sales and fundraising campaigns in both Macau and Hong Kong.

Over the past year, Melco employees of all levels took part in a number of charitable and environmental protection events in both Hong Kong & Macau. These included:

- A Partnership Program for the Disadvantaged, co-organised with the Hong Kong Physically Handicapped and Able-bodied (HK PHAB), comprising the following activities:
    - Tuen Ng Caring Act & Visit (Jun 2005)
    - Mid Autumn Loving Party at Jumbo Kingdom (Sept 2005)
    - HK Disneyland Visit (Nov 2005)
    - Chinese New Year Caring Act & Visit (Jan 2006)
- "Greening in Melco" is a new environmental protection initiative promoting a greening culture in the Group through the following means:
    - Recycling boxes set-up in our HK & Macau offices to encourage recycling of papers, cans, and plastic bottles.
    - "Green Power Flag Day" fund raising event organized by Green Power to promote enviornmental protection.
    - "A Green Day At Yuen Long" organized by The Chamber of Hong Kong Listed Companies to learn about the latest technologies in environmental protection.
- Other charity visits and participation in fund raising activities included:
    - Visit the Needy (Apr 2005) organized by the Senior Citizen Home Safety Association
    - Soccer King Charity Match (Aug 2005) organized by The Community Chest
    - Visit the Methodist Epworth Village Community Centre (Oct 2005) organized by The Community Chest
    - Walk for Millions (New Territories) (Nov 2005) organized by The Community Chest
    - Walk for Millions 2005 Macau (Dec 2005)
    - The Macau Melco Fives 2006 (Feb 2006)

Through these meaningful activities, the Group hopes to nurture a sense of social responsibility among all Melco staff.

caringcompany

Major Events

January – June 2005

Melco announced the Share subdivision.

Melco PBL Entertainment launched Mocha Taipa Square for the leisure & grind gaming market.

Melco PBL announced the plan to build The City of Dreams, a world-class Integrated Entertainment Resort with the world's first underwater casino in Cotai, Macau. Melco PBL owns a full portfolio of world class entertainment projects targeting at the leisure grind market, mass market and high rollers in Macau.

Elixir sponsored the Asian Gaming Expo in Macau.

Major Events

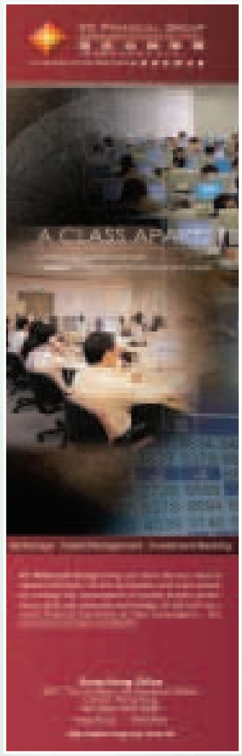
July – December 2005

The Chua Lam Gourmet Kitchen was launched in Macau by the Jumbo Catering Management Group.

Melco's 2005 Interim Profit Surged 770% to HK$534.2 million.

6-star luxurious hotel named Crown Macau.

VC sponsored the 10th Macau Investment Forum.



Melco PBL Entertainment successfully launched 2 other Mocha slot clubs in Hotel Sintra and Hotel Taipa to further tap the leisure & grind gaming market. The Stylish ambience and latest electronic entertainment hit Macau's hottest spot.

Management Profile

CURRENT BOARD MEMBERS

Mr. HO, Lawrence Yau Lung
Chairman and Chief Executive Officer (aged 29)

Mr. Ho, Lawrence Yau Lung was appointed the Group Managing Director of Melco International Development Limited, a group listed on the Hong Kong Stock Exchange, in November 2001 after he completed a General Offer for shares of the Company and became the majority shareholder. He was appointed as Chairman and Chief Executive Officer on 15 March 2006.

Before heading Melco and Value Convergence, Mr. Ho worked at Jardine Fleming and Citibank N.A. Mr. Ho is a graduate of the University of Toronto, Canada and holds a Bachelor of Arts degree, majoring in commerce. Mr. Ho is also the son of Dr. Ho Hung Sun Stanley, founder of the Shun Tak Group and Sociedade de Turismo e Diversões de Macau, S.A.

Mr. Ho serves on numerous boards and committees in Hong Kong, Macau & mainland China. He is a Member of The Chinese People's Political Consultative Conference, Shanghai Committee; Member of Science and Technology Council of Macau Special Administrative Region; Member of All China Youth Federation; Member of Macau Basic Law Promotional Association; Chairman of Macau International Volunteers Association; Chairman of The Chamber of Hong Kong Listed Companies; Member of Campaign Committee of The Community Chest; Board of Governors of The Canadian Chamber of Commerce in Hong Kong; Honorary Lifetime Director of the Chinese General Chamber of Commerce, Hong Kong; President of Macau Canadian Chamber of Commerce; Member of Association of Property Agents and Real Estate Developers of Macau and Lifetime Member of Macao Chinese General Chamber of Commerce.

In recognition of Mr. Ho's excellent directorship and entrepreneurial spirit, Institutional Investor, a leading research and publishing organization, has honoured Mr. Ho as the "BEST CEO" in the 'Conglomerates' category by the end of 2005. Mr. Ho also won the 'Directors of the Year Award 2005' in November 2005. The award is presented annually by the Hong Kong Institute of Directors in recognition of excellent corporate governance practice among Hong Kong listed companies. Under Mr. Ho's superior leadership, Melco has been awarded the "Top Performer Award (Leisure & Macau Category)" and "Corporate High Flyer (Leisure & Entertainment Category)" by South China Morning Post and Hong Kong Business respectively in 2005.

Melco is an actively managed conglomerate with a market capitalization of HK$14 billion and has 3 main lines of business, spearheaded by Leisure, Gaming & Entertainment in Macau & Asia via an exclusive joint venture with one of Australia's largest conglomerates and gaming groups – Publishing & Broadcasting Limited. As the CEO, Mr. Ho oversees and is responsible for the overall strategic development, management and operations of the Group.

Management Profile

Mr. TSUI Che Yin, Frank
Executive Director (aged 48)

Mr. Tsui has more than 20 years of experience in direct investment and investment banking, having held senior management positions at various international financial institutions. Prior to joining the Company, he was the president of China Assets Investment Management Limited which is the investment manager of China Assets (Holdings) Limited, a listed investment holding company in Hong Kong.

Mr. Tsui graduated with a bachelor's and a master's degree in business administration from the Chinese University of Hong Kong and with a law degree from the University of London. He is a member of the Certified General Accountants Association of Canada and the Hong Kong Securities Institute.

Mr. Tsui has been an Executive Director of the Company since November 2001.

Mr. NG Ching Wo
Non-executive Director (aged 55)

Mr. Ng is a partner of Arculli Fong & Ng, Lawyers. Mr. Ng received his L.L.B. from the University of Alberta in Canada and was admitted to practise as a barrister and solicitor in Alberta in 1981. He is qualified as a solicitor in both the United Kingdom and Hong Kong. Mr. Ng's practice focused primarily in the area of cross-border corporate and commercial work and he has experience in mergers and acquisitions, take-overs of private and listed companies, cross-border initial public offerings, tax planning, large-scale international joint ventures and technology transfer.

Mr. Ng sits on the board of a number of companies listed in Hong Kong.

Mr. Ng has been a Non-executive Director of the Company since September 2004.

Management Profile

Sir Roger LOBO, C.B.E., LL.D., J.P.
Independent Non-executive Director (aged 83)

Sir Roger is a prominent figure in Hong Kong and Macau and has served on numerous public offices in the past. He was an Executive Council Member between 1967 and 1985, a Legislative Council Member between 1972 and 1985 (Senior Legislative Council Member between 1980 and 1985) and a Member of Urban Council (1965-1978). In addition, he was Chairman of the Advisory Committee on Post-Retirement Employment (1987-1998), Chairman of Hong Kong Broadcasting Authority (1989-1997) and Chairman and Member of various committees of Independent Commission Against Corruption (1975-1985).

Sir Roger is currently serving on many civic and social services offices. These offices include Vice-Patron of the Community Chest of Hong Kong and The Society of Rehabilitation and Crime Prevention, Hong Kong; Member of the Board of Trustees of Business and Professionals Federation of Hong Kong; Council Member of Caritas Hong Kong; and Honorary Commissioner of Civil Aid Services.

Sir Roger sits on the board of a number of other companies, including Shun Tak Holdings Limited and PCCW Limited (both Hong Kong listed) and Johnson & Johnson (HK) Limited.

Sir Roger has been an Independent Non-executive Director of the Company since February 1998.

Dr. LO Ka Shui, G.B.S., J.P.
Independent Non-executive Director (aged 59)

Dr. Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited. He is a Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, China Mobile (Hong Kong) Limited and some other publicly listed companies in Hong Kong. He was also a Director of Hong Kong Exchanges and Clearing Limited and a past chairman of its Listing Committees of the Main Board and the Growth Enterprises Market, a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research and a Board Member of the Airport Authority Hong Kong.

Dr. Lo holds a Bachelor of Science (Biophysics) degree from McGill University and a M.D. from Cornell University, certified in Cardiology. He has more than 26 years' experience in the property, hotel and financial industries.

Dr. Lo has been an Independent Non-executive Director of the Company since September 2004.

TEAMWORK

Management Profile

FORMER BOARD MEMBERS

Dr. HO Hung Sun, Stanley, G.B.S.
Former Chairman (aged 84)

Dr. Ho is an outstanding entrepreneur in Asia with various key positions in both Hong Kong and Macau. In Hong Kong, he is Group Executive Chairman of Shun Tak Holdings Limited, Chairman of Value Convergence Holdings Limited and President of The Real Estate Developers Association of Hong Kong. In Macau, he is the Managing Director of Sociedade de Turismo e Diversões de Macau, S.A. and Sociedade de Jogos de Macau, S.A., Vice-Chairman of the Board of Directors of CAM-Macau International Airport Company Limited, Chairman of Seng Heng Bank Limited, and Chairman of the Board of Directors of Macau Jockey Club.

Dr. Ho is Standing Committee Member of the 10th National Committee of the Chinese People's Political Consultative Conference; Honorary Lifetime Chairman of The University of Hong Kong Foundation for Educational Development and Research; Member of Court of The Hong Kong Polytechnic University; Trustee of Macau Foundation; Member of the Economic Council of Macau Special Administrative Region; as well as Council Member of University of Macau.

Dr. Ho is also a vice patron of the Community Chest of Hong Kong, a member of the board of trustees and Advisory Council of the Better Hong Kong Foundation, and a patron of the Society of the Academy for Performing Arts.

Dr. Ho is the holder of honorary doctorates of social sciences of The University of Hong Kong, The Hong Kong Polytechnic University and University of Macau. He was awarded the Honorary Degree of Doctor of Business Administration by The Open University of Hong Kong in 2004.

Dr. Ho has been the Company's Chairman since 1987. He resigned as Chairman and Executive Director of the Company on 15 March 2006.

Mr. KWAN Chiu Yin, Robert, M.A. (CANTAB), F.C.A., C.P.A., J.P.
Former Independent Non-Executive Director (aged 69)

Mr. Kwan is a retired Certified Public Accountant, received his Master of Arts Degree at Cambridge University and qualified as a Fellow of the Institute of Chartered Accountants in England and Wales and Fellow of the Hong Kong Institute of Certified Public Accountants. He was the past Chairman of Deloitte Touche Tohmatsu, Certified Public Accountants and Ocean Park Corporation.

Mr. Kwan has been active in community services and has served on numerous committees and public offices. He is currently serving as a Member of the Office of The Ombudsman, a Voting Member of Tung Wah Group of Hospitals Advisory Board, a Founding Voting Member of The University of Hong Kong Foundation for Educational Development and Research and is currently an Independent Non-executive Director of Shun Tak Holdings Limited, Cheung Kong (Holdings) Limited and Pak Fah Yeow International Limited.

Mr. Kwan was appointed Independent Non-executive Director of the Company in February 1998. He resigned as Independent Non-executive Director of the Company on 15 March 2006.

Management Profile

SENIOR MANAGEMENT - Corporate Office

Mr. CHUNG Yuk Man, Clarence, F.C.P.A., F.C.C.A.
Chief Financial Officer (aged 43)

Mr. Chung has more than 18 years of experience in investment banking, accounting and finance areas. Before joining the Group in December 2003, he was the chief financial officer at Megavillage Group, an investment banker at Lazard managing an Asian buy-out fund, a vice-president at Pacific Century Group; and a qualified accountant with Arthur Andersen.

Mr Chung holds a bachelor degree in business administration from the Chinese University of Hong Kong, is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants; and a member of the Society of Management Accountants of Canada.

Mr. TSANG Yuen Wai, Samuel
Group Legal Counsel & Company Secretary (aged 51)

Mr. Tsang is a solicitor admitted in Hong Kong, England and Australia. As Group Legal Counsel and Company Secretary, Mr. Tsang oversees the legal, corporate and compliance matters of the Group. Mr. Tsang has worked as a lawyer with major law firms and listed conglomerates in Hong Kong for over 15 years. He holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management. Mr. Tsang joined the Group in November 2001.

Mr. WANG, John Peter Ben
Director of Capital Markets (aged 45)

Mr. Wang is responsible for all capital market and fund raising activities for the Group. He also supervises and co-ordinates all investor relation activities.

Mr. Wang has over 18 years of experience in the securities and investment banking industry prior to joining the Group. He previously worked for Deutsche (HK), CLSA (HK), Bear Stearns (HK), Barclays (Singapore), SG Warburgs (London) and Salomon Brothers (London), the London Stock Exchange and Deloitte Haskins & Sells (London). Mr. Wang is also a qualified chartered accountant.

Management Profile

SENIOR MANAGEMENT - Leisure, Gaming and Entertainment

Mr. CHAN Ying Tat, Ted
Director and General Manager of Mocha Slot Management Limited (aged 34)

Mr. Chan is a director and General Manager of Mocha Slot Management Limited. He is responsible for the management and the daily operation of the electronic gaming business. Mr. Chan is also the Assistant and reports directly to Mr. Lawrence Ho, in the areas of overall strategic development and management of the Group. Before joining the Company in June 2002, Mr. Chan worked in the capacity of Director of Development of First Shanghai Financial Holding Limited, specializing in internet trading solution and China business development. Mr. Chan graduated with a bachelor's degree in business administration from the Chinese University of Hong Kong and with a master's degree in Financial Management from the University of London.

Mr. Greg HAWKINS
Chief Executive Officer of Crown Macau, Melco PBL Joint Venture (aged 42)

Mr. Greg Hawkins joined the Melco PBL joint venture from SKYCITY Entertainment Group (listed on Australia and New Zealand) where he most recently held the position of General Manager - Gaming. This role oversaw gaming activities and strategy across multiple casino businesses in New Zealand. He acted as a Director of SKYCITY Australia and also spent a period overseeing the operations of the Adelaide casino as well as the extensive slot and gaming F&B business operated in the Auckland, New Zealand site.

Prior to this Mr. Hawkins was part of the initial executive team that set up and successfully opened the Crown Entertainment Complex in Melbourne, Australia; including operations at a temporary facility that was established while construction occurred on the main casino and hotel complex.

Mr. Hawkins has also held senior management positions within the Victorian TAB (Tabcorp) gaming division and has extensive general hospitality experience. Mr. Hawkins holds a Bachelors Degree in Applied Science with a focus on mathematics and general sciences. He has been in the CEO role at Crown Macau for 3 months and is currently overseeing the pre-opening and business planning activities for this project.

Mr. TSUI Kwok Fung, David
Director of Property Development (aged 41)

Mr. Tsui has 20 years of experience managing property development projects in the United States and the Asia Pacific Region. He oversees the Group's property projects in Macau. Before joining the Group in September 2005, Mr. Tsui has held senior management positions in Parsons Brinckerhoff (Managing Director, East China) and Pacific Century Regional Developments (Vice President).

Mr. Tsui holds a degree in architecture from the University of Southern California. He is a registered Architect in United States and a member of the American Institute of Architect.

Management Profile

SENIOR MANAGEMENT - Technology

Mr. KO Chun Fung, Henry
Director of iAsia Online Systems Limited (aged 46)

Prior to joining the Group, Mr. Ko worked in Star Paging (Taiwan) Limited, one of the most successful telecom companies in Hong Kong, as General Manager. He was promoted to the position of Executive Director of Star Telecom Group in 1996. He spearheaded the company's PCS license bidding which had led to a major success of the organization. Mr. Ko was responsible for re-aligning the Star Telecom Group which had successfully formed joint ventures in the Asia Pacific region. In 1997, he founded Star Telecom Overseas (Cayman Islands) Limited and brought Baring Communications Equity Asia (BCEA) on board as a shareholder while pursuing telecom and Internet investment opportunities in Asia Region. Mr. Ko joined iAsia Technology Limited in 1999 as a Co-Chief Executive Officer.

Mr. Ko obtained a Bachelor of Engineering degree (1st honours) in 1982. In 1990 he received an Australian Postgraduate Course Award to study MBA at the Australian Graduate School of Management.

Mr. YUEN Tien Yau, Gordon
Director of Elixir Group Limited (aged 48)

Mr. Yuen graduated from York University, Ontario, Canada with a Bachelor of Arts degree (Honours) in Business Administration. He has been an active keynote speaker of major financial and information conferences around the technology company specialising in web-publishing, e-commerce and on-line transactions for financial and investment communities. Mr. Yuen has also contributed to the success of a few major financial institutions and IT companies when he was a key managerial staff. Those companies include HSBC, American Express International, Inc. and American Express Bank.

TEAMWORK

Management Profile

SENIOR MANAGEMENT - Financial Services

Mr. NG Man Hoi, Paul
Chief Operating Officer of Value Convergence Holdings Limited (aged 48)

Mr. Ng possesses over 20 years of experience in the finance and banking industry. He joined the CEF Group in 1992 and was transferred to the present VC Brokerage Limited, a wholly owned subsidiary of the Company, in December 2001. During his service with the CEF Group, Mr. Ng had assumed the positions of Group Financial Controller and Head of Group Operations & System, and had worked in Singapore for about 3 years. Prior to joining the CEF Group, he held responsible positions at The Chase Manhattan Bank, N. A. and Dao Heng Bank in the areas of financial management and management information systems. Mr. Ng holds a Master of Business Administration from Newport University, U.S.A.

Directors' Report

The directors present their annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 59 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 55.

An interim dividend of HK$0.01 per ordinary share, amounting to approximately HK$11,258,000, was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK$0.01 per ordinary share to the shareholders on the register of members on 17 May 2006.

FIXED ASSETS

Details of movements in the investment properties and property, plant and equipment during the year are set out in notes 20 and 21, respectively, to the financial statements.

HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT

Detail of movements in hotels and entertainment complex under development during the year are set out in note 22 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

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 share 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.

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

Details of movements during the year in the share capital and share options of the Company are set out in notes 48 and 50, respectively, to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated and reclassified as appropriate, is set out on page 138. This summary does not form part of the audited financial statements.

Directors' Report

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2005, the Company's reserves available for distribution consisted of capital reserve of approximately HK$337,841,000 (2004: HK$354,009,000) of which HK$11,604,000 has been proposed as final dividend. The Company considered it has fulfilled those conditions required for distribution of capital reserve. In addition, the Company's share premium account, in the amount of approximately HK$1,776,248,000 (2004: HK$567,980,000), may be distributed in the form of fully paid bonus shares. Save as disclosed above, the Company had no reserve available for distribution in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenues attributable to the Group's five largest customers taken together was less than 30% of the Group's total revenues for the year ended 31 December 2005.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounts for 30% and 60% respectively of the Group's total purchases for the year ended 31 December 2005.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Dr. Ho Hung Sun, Stanley	(Resigned on 15 March 2006)
Mr. Ho, Lawrence Yau Lung	(Chairman and Chief Executive Officer from 15 March 2006)
Mr. Tsui Che Yin, Frank	

Non-executive directors:

Mr. Ng Ching Wo	
Mr. Ho Cheuk Yuet	(Resigned on 5 September 2005)

Independent non-executive directors:

Sir Roger Lobo	
Mr. Kwan Chiu Yin, Robert	(Resigned on 15 March 2006)
Dr. Lo Ka Shui	

In accordance with Article 103(A) of the Company's Articles of Association, Sir Roger Lobo and Mr. Ng Ching Wo will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ho, Lawrence Yau Lung and Mr. Tsui Che Yin, Frank has a service contract with Melco Services Limited, a wholly-owned subsidiary of the Company, commencing on 1 January 2005 which may be terminated by either party by written notice of not less than three months.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE LOAN NOTES

As at 31 December 2005, the interests of each director and chief executive and their associates in the shares, underlying shares or convertible loan notes of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(i) Long position in shares and underlying shares of the Company

(a) Ordinary shares of HK$0.50 each of the Company

Name of director	Capacity	Number of issued ordinary shares/ underlying shares held	Approximate percentage of the issued share capital of the Company *(Note 1)*
Dr. Ho Hung Sun, Stanley	Held by controlled corporations *(Note 2)*	7,298,456	0.65%
	Beneficial owner	22,749,278	2.02%
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations *(Note 3)*	404,041,630	35.89%
	Beneficial owner	7,232,612 *(Note 4)*	0.64%
Mr. Tsui Che Yin, Frank	Beneficial owner	7,232,612 *(Note 5)*	0.64%
Dr. Lo Ka Shui	Beneficial owner	2,000,000	0.18%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE LOAN NOTES (continued)

(b) Share options of the Company

Name of director	At beginning of year	Granted during year	Exercised during year	At end of year	Date of grant	Exercisable period	Exercise price HK$
Mr. Ho, Lawrence Yau Lung	1,800,000	–	(1,800,000)	–	19 February 2004	19 February 2005 to 7 March 2012	1.2025
	1,800,000	–	–	1,800,000	19 February 2004	19 February 2006 to 7 March 2012	1.2025
Mr. Tsui Che Yin, Frank	32,612	–	–	32,612	8 March 2002	8 September 2002 to 7 March 2012	0.5000
	1,800,000	–	(1,800,000)	–	19 February 2004	19 February 2005 to 7 March 2012	1.2025
	1,800,000	–	–	1,800,000	19 February 2004	19 February 2006 to 7 March 2012	1.2025
	7,232,612	–	(3,600,000)	3,632,612			

(c) Convertible loan notes of the Company (note 6)

Name of director	Capacity	Number of underlying shares of the Company	Approximate percentage of the issued share capital of the Company *(Note 1)*
Dr. Ho Hung Sun, Stanley	Held by trust	117,912,694	10.47%
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694	10.47%

Notes:

1. As at 31 December 2005, the total number of issued shares of the Company is 1,125,838,540.

2. Dr. Ho Hung Sun, Stanley is taken to be interested in 7,298,456 shares of the Company as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.65% of the issued share capital of the Company. Apart from that, Dr. Ho Hung Sun, Stanley personally holds 22,749,278 shares of the Company.

Directors' Report

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE LOAN NOTES (continued)

3. Mr. Ho, Lawrence Yau Lung is taken to be interested in 115,509,024 shares of the Company as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 10.26% of the issued share capital of the Company. He is also taken to be interested in 288,532,606 shares of the Company as a result of him being interested in 65% of issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 25.63% of the issued share capital of the Company.

4. The personal interests of Mr. Ho, Lawrence Yau Lung consist of 5,432,612 ordinary shares and 1,800,000 share options.

5. The personal interests of Mr. Tsui Che Yin, Frank consist of 5,400,000 ordinary shares and 1,832,612 share options.

6. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited ("Great Respect"), Melco PBL Entertainment (Greater China) Limited (formerly named as Melco Entertainment Limited) ("Melco PBL Entertainment") 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 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 9.48% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect is a company controlled by a discretionary family trust of Dr. Ho Hung Sun, Stanley, the beneficiaries of which are members of Dr. Ho Hung Sun, Stanley's family including Dr. Ho Hung Sun, Stanley, Mr. Ho, Lawrence Yau Lung 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) Long position in shares and underlying shares of the associated corporation of the Company, Value Convergence Holdings Limited ("Value Convergence")

(a) Ordinary shares of HK$0.1 each of Value Convergence

Name of director	Capacity	Number of issued ordinary shares of Value Convergence held	Approximate percentage of the issued share capital of Value Convergence *(Note 1)*
Dr. Ho Hung Sun, Stanley	Held by controlled corporation	7,384,651 *(Note 2)*	2.96%
Mr. Ho, Lawrence Yau Lung	Held by controlled corporation	4,232,627 *(Note 3)*	1.70%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE LOAN NOTES (continued)

Notes:

1. As at 31 December 2005, the total number of issued shares of Value Convergence is 249,641,226.

2. Dr. Ho Hung Sun, Stanley is taken to be interested in 7,384,651 shares of Value Convergence as a result of him being beneficially interested in 65% of the issued share capital of Bailey Development Limited which in turn holds approximately 2.96% of the issued share capital of Value Convergence.

3. Mr. Ho, Lawrence Yau Lung is taken to be interested in 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 1.70% of the issued share capital of Value Convergence.

(b) Share options of Value Convergence

Name of director	Nature of interest	Number of underlying shares of Value Convergence held	Approximate percentage of the issued share capital of Value Convergence
Mr. Ho, Lawrence Yau Lung	Beneficial owner	491,057 *(Note)*	0.20%

Note:

The personal interest of Mr. Ho, Lawrence Yau Lung represents his derivative interest in Value Convergence comprising the 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 Value Convergence's share.

Save as disclosed above, none of the directors or chief executives and their associates had any interests or short positions in any shares, underlying shares or convertible loan notes of the Company or any of its associated corporations as at 31 December 2005.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of substantial shareholders maintained by the Company, pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

(a) Ordinary shares of HK$0.50 each of the Company

Name	Capacity	Number of issued ordinary shares/ underlying shares held	Approximate percentage of the issued share capital of the Company *(Note 1)*
Better Joy Overseas Ltd.	Beneficial owner	288,532,606 *(Note 2)*	25.63%
Lasting Legend Ltd.	Beneficial owner	115,509,024 *(Note 2)*	10.26%
Dr. Ho Hung Sun, Stanley	Held by controlled corporations	7,298,456 *(Note 3)*	0.65%
	Beneficial owner	22,749,278	2.02%
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	404,041,630 *(Note 4)*	35.89%
	Beneficial owner	7,232,612 *(Note 5)*	0.64%
Ms. Sharen Lo	Family	411,274,242 *(Note 6)*	36.53%
Shun Tak Shipping Company, Limited	Held by controlled corporations	78,166,294	6.94%
Janus Capital Management LLC	Beneficial owner	91,473,000	8.12%

Directors' Report

SUBSTANTIAL SHAREHOLDERS (continued)

(b) Convertible loan notes

Name	Capacity	Number of underlying shares of the Company	Approximate percentage of the issued share capital of the Company *(Note 1)*
Great Respect Limited	Beneficial owner	117,912,694 *(Note 7)*	10.47%
Dr. Ho Hung Sun, Stanley	Held by trust	117,912,694 *(Note 7)*	10.47%
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694 *(Note 7)*	10.47%
Ms. Sharen Lo	Held by trust	117,912,694 *(Note 7)*	10.47%
SG Trust (Asia) Ltd.	Held by controlled corporation	117,912,694 *(Note 7)*	10.47%
Sociedade de Turismo e Diversões de Macau, S.A. ("STDM")	Beneficial owner	85,880,758 *(Note 8)*	7.63%

Notes:

1. As at 31 December 2005, the total number of issued shares of the Company is 1,125,838,540.

2. The shares held by Better Joy Overseas Ltd. and Lasting Legend Ltd. also represent the corporate interests of Mr. Ho, Lawrence Yau Lung in the Company.

3. Dr. Ho Hung Sun, Stanley is taken to be interested in 7,298,456 shares of the Company as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.65% of the issued share capital of the Company.

4. Mr. Ho, Lawrence Yau Lung is taken to be interested in 115,509,024 shares of the Company as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 10.26% of the issued share capital of the Company. Mr. Ho, Lawrence Yau Lung is also taken to be interested in 288,532,606 shares of the Company 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 25.63% of the issued share capital of the Company.

5. The personal interests of Mr. Ho, Lawrence Yau Lung consist of 5,432,612 ordinary shares and 1,800,000 share options.

Directors' Report

SUBSTANTIAL SHAREHOLDERS (continued)

(b) Convertible loan notes

Notes:

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

7. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect, Melco PBL Entertainment 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 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 9.48% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect is a company controlled by a discretionary family trust of Dr. Ho Hung Sun, Stanley, the beneficiaries of which are members of Dr. Stanley Ho's family including Dr. Ho Hung Sun, Stanley, Mr. Ho, Lawrence Yau Lung 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.

8. Two convertible loan notes respectively for the principal amounts of HK$100 million and HK$56 million carrying the respectively 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 pursuant to two agreements disclosed in the announcements and the circulars of the Company respectively dated 13 September 2004, 11 October 2004, 23 November 2004 and 5 January 2005. As at 31 December 2005, 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 of the Company 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 rights to redeem the convertible loan notes before the conversion rights are exercised.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no person as having a notifiable interest or short position of the issued share capital of the Company as at 31 December 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as for the share option scheme disclosed in note 50 to the financial statements, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 57 to the financial statements, no contracts of significance to which the Company, or any of its holding companies, subsidiaries, or fellow subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group has entered into the following connected transactions which are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

1. On 17 March 2005, the Company entered into a conditional agreement ("Third Agreement") with STDM for acquiring the remaining 30% equity interests in a joint venture company, namely Great Wonders, Investments, Limited ("Great Wonders"), held by STDM for a consideration of HK$400 million. The Company entered into an agreement with STDM on 8 September 2004 ("First Agreement") and another agreement on 11 November 2004 ("Second Agreement") whereby the Company acquired 50% equity interest in Great Wonders for a consideration of HK$100 million under the First Agreement and then further acquired 20% equity interest in Great Wonders for a consideration of HK$56 million under the Second Agreement. Details of the First Agreement had been disclosed in the announcement and circular of the Company dated 13 September 2004 and 11 October 2004 respectively. Details of the Second Agreement had been disclosed in the announcement and circular of the Company dated 23 November 2004 and 5 January 2005 respectively. With the completion of the First Agreement and the Second Agreement on 9 November 2004 and 8 February 2005, the Group's equity interest in Great Wonders increased to 70%. The consideration of HK$400 million payable under the Third Agreement would be satisfied by the Company, as to HK$200 million, by way of cash payment upon completion and as to the balance of HK$200 million, by way of issue of 22,222,222 new shares of the Company at an issue price of HK$9.00 per share ("Consideration Shares") to STDM upon completion or the actual date of the grant of the concession of a parcel of land with an area of 5,230 square meters located at Baixa da Taipa, Macau ("Land") by the Macau Government to Great Wonders, whichever was later. STDM was a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who was the Chairman and Executive Director of the Company prior to 15 March 2006, had an equity interest in, as well as being a director of, STDM. As a result, the Third Agreement and the issue of the Consideration Shares constituted a major and connected transaction for the Company. The Third Agreement and all transactions contemplated thereunder had been approved by the independent shareholders of the Company at an extraordinary general meeting held on 17 June 2005. Details of the Third Agreement and the transactions contemplated thereunder had been disclosed in the announcement and the circular of the Company dated 22 March 2005 and 2 June 2005 respectively. The Consideration Shares were issued by the Company to STDM on 1 March 2006, being the date of grant of the concession of the Land by the Macau Government to Great Wonders.

Directors' Report

CONNECTED TRANSACTIONS (continued)

2. Mocha Slot Management Limited ("Mocha Management"), a wholly-owned subsidiary of Mocha Slot Group Limited ("Mocha Slot") and a non-wholly owned subsidiary of the Company within the Melco PBL Joint Venture, had entered into the Slot Halls Service Arrangement comprising four separate service agreements in identical terms (dated 21 March 2005 in respect of the three slot halls located at Hotel Royal, Kingsway Commercial Centre and San Kin Yip Building and dated 22 March 2005 in respect of the slot hall located at Hotel Taipa Square) with Sociedade de Jogos de Macau, S.A. ("SJM"), being a subsidiary of STDM, for the provision of certain services in relation to the operation of certain slot halls of SJM in Macau for an initial period of five years commencing from the respective dates of the agreements. Subject to the approval of the Macau Government, after expiration of the initial five year period, the service period can be extended for equal periods of five years each. The Slot Halls Service Arrangement replaced the fixed ten year Equipment Lease Agreements (details of which had been disclosed in the announcements and circular of the Company dated 1 April 2004, 13 April 2004 and 23 April 2004 respectively). Subsequently in the second half of 2005, Mocha Management entered into two additional service agreements dated 6 September 2005 (in respect of slot hall located at Hotel Taipa) and 1 December 2005 (in respect of slot hall located at Hotel Sintra) respectively with identical terms of the previously executed service agreements with SJM for the provision of the same services to the said two additional slot halls. SJM was a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who was the Chairman and Executive Director of the Company before 15 March, 2006, had an equity interest in, as well as being a director of, SJM and STDM respectively.

   As the services under the Slot Halls Service Arrangement are to be provided to SJM on a continuing basis, the Slot Halls Service Arrangement and all transactions contemplated thereunder constituted a continuing connected transaction for the Company under the Listing Rules. In consideration for the provision of the services, Mocha Management shall be entitled to receive a monthly service fee from SJM representing 31% of the aggregate gross income of all the electronic gaming machines installed in the sites in the relevant month. Gross income of each electronic gaming machines is defined as the net win from each such machine before deduction of any tax or levy as prescribed by the relevant legislations or rules in Macau. By taking into account various statistics available in relation to the gaming industry in Macau and assuming a daily net win of HK$1,500 per electronic gaming machine installed in the sites, the 31% of the aggregate amount payable by SJM to Mocha Management will not exceed HK$146.82 million, HK$238.91 million and HK$528.49 million for each of the three financial years ending 31 December 2007 respectively ("Annual Caps"). The Slot Halls Service Arrangement and the Annual Caps had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 18 May 2005. Details of such continuing connected transaction had been disclosed in the announcement and circular of the Company dated 11 April 2005 and 29 April 2005 respectively.

   Reference is made to the announcements made by the Company dated 9 March 2006 and 23 March 2006 respectively. In contemplation of the potential grant of a gaming subconcession in Macau to PBL Macau ("Subconcession") as disclosed in the Company's announcement dated 9 March 2006 and the continuation of the slot halls business under the Subconcession, the Company, Mocha Slot, Mocha Management and SJM entered into a legally binding Termination Agreement on 15 March 2006 pursuant to which both Mocha Management and SJM agree to amicably terminate the service agreements signed under the Slot Halls Service Arrangement in respect of all six slot halls upon the obtaining of the Subconcession by PBL Macau. Details of the termination of the Slot Halls Service Arrangement had been disclosed in the announcement of the Company dated 23 March 2006.

CONNECTED TRANSACTIONS (continued)

3. On 13 April 2005, Elixir Group (Macau) Limited ("Elixir Macau") had conditionally entered into a service arrangement with SJM for the provision of system integration services and related maintenance services (the "Service Arrangement") for the respective amounts of approximately HK$48.18 million and HK$2.75 million. SJM was a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who was the Chairman and Executive Director of the Company prior to 15 March 2006, had an equity interest in, as well as being a director of, SJM and STDM respectively. Accordingly, the Service Arrangement and all transactions contemplated thereunder constituted connected transaction for the Company. The provision of the relevant system integration services and related maintenance services to SJM by Elixir Macau had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 18 May 2005. Details of the Service Arrangement were set out in the announcement and circular of the Company dated 13 April 2005 and 29 April 2005 respectively.

4. On 20 December 2005, Elixir Macau had conditionally entered into service arrangements with each of SJM and Mocha Slot respectively, for the provision of system integration services and related maintenance services to SJM for an aggregate value of about HK$69.02 million and about HK$1.51 million respectively and for the provision of system integration services to Mocha Slot for an aggregate value of about HK$142.58 million (the "Second Service Arrangements"). SJM was a connected person for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who was the Chairman and Executive Director of the Company prior to 15 March 2006, had an equity interest in, as well as being a director of, SJM and STDM respectively. Also, by reason of the fact that Dr. Stanley Ho has an equity interest in Mocha Slot, Mocha Slot is considered as a connected person of the Company under the Listing Rules. Accordingly, the Second Service Arrangements and all transactions contemplated thereunder constituted connected transactions for the Company. The Second Service Arrangements and transactions contemplated thereunder had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 22 February 2006. Details of the Second Service Arrangements were set out in the announcement and the circular of the Company dated 20 December 2005 and 10 January 2006 respectively.

Directors' Report

CONNECTED TRANSACTIONS (continued)

5. On 10 May 2005, Melco Hotels and Resorts (Macau) Limited ("Melco Hotels"), a wholly-owned subsidiary of the Company as at 10 May 2005, accepted in principle an offer from the Macau Government to grant to Melco Hotels a long term lease in respect of a plot of land with an area of approximately 113,325 square metres in Taipa, Macau on the Cotai Strip, for the construction and development of an integrated entertainment resort, now known as "The City of Dreams". Melco Entertainment Limited (now known as "Melco PBL Entertainment (Greater China) Limited") ("Melco Entertainment") is a company which is indirectly owned as to 80% by Melco PBL Holdings Limited and as to the balance of 20% by Melco Leisure and Entertainment Group Limited ("Melco Leisure"). Melco Leisure is a wholly-owned subsidiary of the Company while Melco PBL Holdings Limited is a 50/50 joint venture between the Company and Publishing and Broadcasting Limited ("PBL"). On 11 May 2005, Melco Entertainment entered into a conditional agreement ("1st Agreement") with Great Respect Limited ("Great Respect") and the Company, pursuant to which Melco Entertainment agreed to purchase 49.2% interest in the joint venture established under the Memorandum of Agreement dated 28 October 2004 between Melco Leisure and Great Respect ("Joint Venture") for a cash consideration of HK$1,175 million and Great Respect had undertaken to immediately subscribe the entire amount of the consideration to be received by it on completion of the 1st Agreement for convertible loan notes ("Convertible Loan Notes") due 2010 to be issued by the Company and subscribed by Great Respect under the 1st Agreement and conferring the right to subscribe for new shares at an initial conversion price of HK$9.965 per new shares, subject to adjustment in accordance with the terms and conditions of the Convertible Loan Notes. On 11 May 2005, Melco Entertainment also entered into another conditional agreement ("2nd Agreement") with Melco Leisure pursuant to which Melco Leisure will transfer its 50.8% interest in the Joint Venture and its interest in Melco Hotels to Melco Entertainment, in accordance with the requirements of the Shareholders Agreement dated 8 March 2005 ("Shareholders Agreement") between the Company and PBL and the Declaration Agreement dated 9 March 2005 between Melco Leisure and Melco Entertainment and in consideration of the mutual benefits to be derived by, and reciprocal covenants of, the Company and PBL under the Shareholders Agreement. Completion of the 1st Agreement and the 2nd Agreement were not inter-conditional. Since Great Respect was a company controlled by a discretionary family trust of Dr. Stanley Ho, who was the Chairman and Executive Director (prior to 15 March 2006), and a connected person of the Company, accordingly the 1st Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules which is also a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. The 1st Agreement and the 2nd Agreement and the transactions contemplated thereunder had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 10 August 2005. Details of the 1st Agreement and the 2nd Agreement were set out in the announcement and the circular of the Company dated 13 May 2005 and 22 July 2005 respectively. Completions of the 1st Agreement and the 2nd Agreement took place on 5 September 2005. Melco Hotels became a wholly-owned subsidiary of Melco Entertainment as of 3 November 2005.

CONNECTED TRANSACTIONS (continued)

6. On 30 August 2005, Melco Investment Holdings Limited ("Melco Investment"), a wholly-owned subsidiary of the Company, acquired the title to 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 ("Macau Property") from the registered owner, namely San Pong Investment Company Limited ("San Pong"), an independent third party which engages in the business of property development in Macau pursuant to a sale and purchase agreement dated 29 July 2005 for a consideration of HK$45,000,000. The Macau Property was acquired by the Company for investment purpose. Prior to the acquisition, the Macau Property had been leased by San Pong to Mocha Slot under a lease dated 28 December 2003 ("Lease"), which in turn sub-leased such property on identical terms of the Lease to SJM for operation of an electronic gaming machines lounge in September 2004 ("Sub-Lease"). Since the Lease and the Sub-Lease remain valid and effective and binding on Melco Investment after its acquisition of the Macau Property and both Mocha Slot and SJM were connected persons of the Company for the purpose of the Listing Rules by virtue of the fact that Dr. Stanley Ho, who was the Chairman and Executive Director of the Company before 15 March 2006, had 20% equity interests in Mocha Slot and an equity interest in, as well as being a director of, SJM and STDM respectively, the Lease constituted a continuing connected transaction for the Company of the Listing Rules but was exempt from the independent shareholders' requirement under the Listing Rules by virtue of the fact that each of the relevant percentage ratios is on an annual basis equal to or more than 2.5% but less than 25% and the annual consideration is less than HK$10,000,000 and the Sub-Lease constituted an exempt continuing connected transaction for the Company by reason of the fact that SJM is not required to pay any rentals under the Sub-Lease to Mocha Slot (as the rentals of the Macau Property are to be borne by Mocha Management under the Slot Halls Service Arrangement as detailed in paragraph 2 above). The rentals, receivable by Melco Investment from Mocha Slot under the Lease, are subject to the annual caps of HK$640,000 for the year ending 31 December 2005, HK$2,112,000 for the respective years ending 31 December 2006 and 31 December 2007, HK$2,323,200 for the respective years ending 31 December 2008 and 31 December 2009, HK$2,555,520 for the respective years ending 31 December 2010 and 31 December 2011 and HK$2,811,120 for the respective years ending 31 December 2012 and 31 December 2013. Details of this continuing connected transaction were set out in the announcement of the Company dated 9 September 2005.

Pursuant to Rule 14A.38 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions mentioned in paragraphs (2) and (6) above as required under the aforesaid Listing Rules. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Disclosure of the abovementioned continuing connected transaction and connected transactions of the Group have been made in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

Directors' Report

CONNECTED TRANSACTIONS (continued)

Apart from the foregoing, none of the related party transactions set out in note 57 to the financial statements fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 58 to the financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Dr. Stanley Ho and Madam Lucina Laam King Ying, have direct or indirect beneficial interests in Shun Tak Holdings Limited, its subsidiaries and associates (the "Shun Tak Group") as shareholders. In addition, Dr. Stanley Ho has beneficial interests in STDM, its subsidiaries and associates (the "STDM Group") as shareholders. Further, Dr. Stanley Ho is a director of the Shun Tak Group and the STDM Group.

During the year and up to the date of this report, the businesses of property investment and hospitality (which includes restaurant operations) carried out by the Shun Tak Group and the STDM Group were considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Dr. Stanley Ho is actively involved in the management of the Shun Tak Group.

Dr. Stanley Ho is also actively involved in the management of the STDM Group which operates principally outside Hong Kong.

As the board of directors of the Company is independent of the boards of the Shun Tak Group and the STDM Group, the Group is therefore capable of carrying on such businesses independently of, and at an arm's length from the businesses of these companies.

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

There was no purchase, sales or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2005.

EMOLUMENT POLICY

The employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market standards.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 50 to the financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of the Independent Non-executive Directors of the Company and the Company considers all existing independent non-executive directors to be independent.

Directors' Report

AUDIT COMMITTEE

The Company has an audit committee which was established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The audit committee, comprising a non-executive and two independent non-executive directors, met two times during the financial year. During the meetings, the audit committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports of the Group, connected transactions and discussed with management the auditing, internal control and financial reporting matters.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2005.

DONATIONS

During the year, the Group made charitable and other donations accounting to approximately HK$726,000.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have been appointed as auditors of the Company since the retirement of Messrs. PricewaterhouseCooper at the 2005 annual general meeting of the Company held on 18 May 2005. A resolution will be submitted to the forthcoming Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Ho, Lawrence Yau Lung
Chairman & Chief Executive Officer
Hong Kong
31 March 2006

Corporate Governance Report

Corporate Governance Practices

(a) *Application of Corporate Governance Principles*

The Group is committed to promoting and maintaining the highest standard corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders, and (iv) the improvement in management of risk and the enhancement of performance by the Group. The Group has applied the principles set out in the Code on Corporate Governance Practices ("HKSE Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("Listing Rules") with these objectives in mind.

(b) *Promulgation of Company's Corporate Governance Code*

To this end, the Group has promulgated a set of Code on Corporate Governance ("Company Code") which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by referencing to the principles, Code Provisions and Recommended Best Practices set out in the HKSE Code, which came into effect on 1 January 2005. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the HKSE Code and ultimately ensuring high transparency and accountability to the Company's shareholders.

(c) *Compliance of Company and HKSE's Code's Provisions*

The Group has complied with all provisions in the Company Code and the HKSE Code throughout the financial year ended 31 December 2005 with one deviation mentioned below.

On 3 August 2005, the Company set up the following board committees (except the Audit Committee) and adopted its own code on corporate governance:–

(i) Executive Committee;

(ii) Audit Committee (terms of reference of the audit committee adopted on 24 March 1999 were superseded by the new terms of reference adopted on 3 August 2005);

(iii) Remuneration Committee;

(iv) Nomination Committee;

(v) Finance Committee; and

(vi) Regulatory Compliance Committee.

The Company Code contains the provisions of the HKSE Code and other provisions, and has been posted on the Company's website.

Corporate Governance Report

Apart from the audit committee and remuneration committee required by the HKSE Code, the Company has established four additional board committees to ensure maintenance of a high corporate governance standard. Terms of reference of all board committees set up by the Company have been posted on the Company's website, as have (1) division of responsibilities between the Company's Chairman and Managing Director and (2) duties and powers delegated to the Company's Managing Director and matters reserved for decision of the board.

(d) *Deviation from HKSE Code*

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

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors as its own code of conduct regarding directors' securities transactions on terms as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Directors of the Company, all Directors have complied with the required standard of dealings and code of conduct regarding securities transactions by directors as set out in the Model Code for the year 2005.

The Board of Directors – Function and Composition

The Board of Directors ("Board") of the Company is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the Managing Director and the management.

The Board comprised a total of eight Directors, with three Executive Directors, namely, Dr. Ho Hung Sun, Stanley (Chairman) *(see Note 1)*, Mr. Ho, Lawrence Yau Lung (Group Managing Director) *(see Note 1)* and Mr. Tsui Che Yin, Frank; two Non-executive Directors, namely, Mr. Ho Cheuk Yuet *(see Note 2)* and Mr. Ng Ching Wo; and three Independent Non-executive Directors, namely, Sir Roger Lobo, Mr. Kwan Chiu Yin, Robert *(see Note 3)* and Dr. Lo Ka Shui. An Independent Non-executive Director has appropriate professional qualifications, accounting and financial management expertise.

Dr. Ho Hung Sun, Stanley, Chairman of the Board, is the father of Mr. Ho, Lawrence Yau Lung, the Group Managing Director of the Company.

Corporate Governance Report

Each of the Independent Non-executive Directors *(see Note 4)* has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Directors acknowledge their responsibility for preparing the financial statements set out in this Annual Report which give a true and fair view and are prepared in accordance with the relevant statutory requirements and applicable accounting standards in force.

Board Operation

The Board meets regularly over the Company's affairs and operations. In 2005, the Board held six meetings. The attendance record of each member of the Board is set out below:

Executive Directors	**Attendance**
Ho Hung Sun, Stanley *(Chairman)*	5/6
Ho, Lawrence Yau Lung *(Group Managing Director)*	6/6
Tsui Che Yin, Frank	6/6
Non-executive Directors	
Ho Cheuk Yuet	1/6
Ng Ching Wo	4/6
Independent Non-executive Directors	
Kwan Chiu Yin, Robert	4/6
Sir Roger Lobo	6/6
Lo Ka Shui	5/6

Remuneration Committee

As mentioned above, a remuneration committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the remuneration packages for executive directors and senior management and to make recommendations to the board on the remuneration of non-executive directors.

Other details of the role and function of the remuneration committee are given at the Company's website under the section "Corporate Governance".

The Remuneration Committee is made up of the Company's Non-executive Director and Independent Non-executive Directors, namely Dr. Lo Ka Shui (Chairman), Sir Roger Lobo and Mr. Ng Ching Wo.

Corporate Governance Report

No meeting has been held in 2005 to review the remuneration packages of Executive Directors, which are modest by market standards, as the Company does not see a need to review them. The directors' fees of the Company's Independent Non-executive Directors have been increased in August 2005 according to market levels and the additional work they are requested to take on, following the formation of the remuneration committee, the nomination committee and the regulatory compliance committee on which they sit. The remuneration committee held a meeting on 31 March 2006 to consider and approve (a) bonus payments to employees of the Group, (b) salary increases of senior management of the Group and (c) range of salary increase for employees of the Groups. Dr. Lo Ka Shui, Sir Roger Lobo and Mr. Ng Ching Wo attended this meeting.

The remuneration committee will meet and determine the emoluments policy and long-term incentive schemes as well as the basis of determining the emoluments payable to the Company's directors in 2006.

Nomination Committee

As mentioned above, a nomination committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board;

(b) to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and

(c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The Nomination Committee is made up of the Company's Non-executive Director and Independent Non-executive Directors, namely Sir Roger Lobo (Chairman), Mr. Robert Kwan and Mr. Ng Ching Wo. The Nomination Committee held its first meeting on 28 March 2006 to review the structure, size and composition of the Company's board of directors and to recommend a replacement for Mr. Robert Kwan. Sir Roger Lobo and Mr. Ng Ching Wo attended this meeting.

The nomination committee will meet and determine the nomination procedures and the process and criteria to select and recommend candidates for directorship in 2006.

Executive Committee

As mentioned above, an executive committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to oversee the implementation of the Company's strategic objectives and risk management policies; and

(b) to oversee the business and operations of all of the business units of the Group.

Corporate Governance Report

The Executive Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank and members of the Company's senior management. The Executive Committee held meetings from time to time to discuss operational matters of the Company's business and new projects.

Finance Committee

As mentioned above, a finance committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to conduct review on matters such as Group wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets; and

(b) to review major acquisitions and investments and their funding requirements.

The Finance Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank and the Group Chief Financial Officer. The Finance Committee held meetings from time to time to discuss financial matters of the Company's new and existing business.

Regulatory Compliance Committee

As mentioned above, a regulatory compliance committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to review and advise upon matters in respect of the present or future regulation of the Company's gaming and financial services businesses; and

(b) to comply with applicable laws and regulations, including the Listing Rules.

The Regulatory Compliance Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank, Dr. Lo Ka Shui and the Group Legal Counsel. The Regulatory Compliance Committee held meetings from time to time to discuss the ongoing compliance matters of the Group.

Audit Committee

The Company's Audit Committee was formed on 24 March 1999 and is composed of a Non-executive Director and two Independent Non-executive Directors of the Company as at 31 December 2005, namely, Mr. Robert Kwan (Chairman), Sir Roger Lobo and Mr. Ng Ching Wo. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements and interim reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group. Other details of the role and function of the Audit Committee are available on the Company's website under the section "Corporate Governance".

Corporate Governance Report

In 2005, the Audit Committee held two meetings. The attendance records of each member of the Committee is set out below:

	Attendance
Kwan Chiu Yin, Robert *(Chairman)*	2/2
Sir Roger Lobo	2/2
Ng Ching Wo	1/2

The Audit Committee has carefully reviewed the Company's half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in HKSE Code. In the course of doing so, the Committee has met the company's management, qualified accountant and external auditors several times during 2005.

Auditors' Remuneration

For the year ended 31 December 2005, the Group provided its auditors, around HK$4.4 million for their audit and non-audit services provided to the Group. Of this sum, HK$2.5 million is for audit services. The balance of HK$1.9 million is for non-audit services such as interim review of the Group's financial statements, agreed-upon procedures in relation to agreeing the Company's final results announcement and tax services.

Internal Controls

The Group's system of internal control is designed to provide reasonable assurance against material misstatement or loss. The sound system is developed to safeguard the Group's assets and resources against unauthorized use or disposition, ensure the transactions are executed in accordance with management's authorization and ensure the accounting records are reliable for preparing financial information internally or publicly.

Evaluation of the Group's internal control is independently conducted by the Internal Audit Department on an on-going basis. The tasks include:

– review and access selected aspects of the Group's activities and internal controls with unrestricted right of access;

– conduct comprehensive audits of the practices, policies and procedures, income and expenditure, and internal controls of selected business units of the Group periodically;

– perform special reviews and investigations on areas identified by management or the Audit Committee;

– examine and investigate any violation of business ethics or conflict of interests; and

– report the results of review to the management and suggest recommendations.

Corporate Governance Report

The Internal Audit Department reports directly to the Managing Director/Chief Executive Officer and the Audit Committee and brings appropriate matters identified during the course of audits to the Audit Committee's attention. The Internal Audit Department also has the right to consult the Audit Committee without reference to management. This reporting structure allows the Internal Audit Department to maintain its independence.

The internal audit adopts a risk and control based audit approach. The annual audit plan of Internal Audit Department is reviewed by the Audit Committee. In addition to the audit plan, Internal Audit Department conducts other projects and investigative work as may be required.

The Directors have reviewed and are satisfied with the effectiveness of the Group's internal control system, including, in particular, financial, operational and compliance controls and risk management functions.

Shareholders' Rights

Pursuant to Article 66 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on requisition, as provided by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Companies Ordinance"). In accordance with Section 113 of the Companies Ordinance, members holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company can request the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company.

The Company regards the annual general meeting of the Company ("AGM") an important event as it provides an opportunity for the Board to communicate with the shareholders. Active participation by the shareholders at the AGM is highly welcomed. Notices of AGM and related papers are sent to the shareholders no less than 21 days before the meeting.

The Company Secretarial Department and the Public Relations Department respond to letters and telephone enquiries from shareholders/investors. Whenever a shareholder has any enquiries on matters in relation to the Company, he or she may put such enquires in writing and address the same to the Company Secretary at the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong or through an email contact info@melco.hk.cn. The website of the Company at www.melco.hk.cn also provides a medium to make information of the Company and the Group available to the shareholders with a section on "Corporate Governance" included.

Corporate Governance Report

Notes:

(1) With effect from 15 March 2006, Dr. Ho Hung Sun, Stanley resigned as Chairman and as an executive director of the Company. Mr. Ho, Lawrence Yau Lung, was appointed as the Chairman and Chief Executive Officer of the Company effective 15 March 2006. Pursuant to HKSE Code Provision A.2.1, the roles of 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. Lawrence Ho 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. Lawrence Ho to assume the roles of chairman and chief executive officer at this time and that such arrangement be subject to review by the Board from time to time.

(2) Mr. Ho Cheuk Yuet resigned as non-executive director with effect from 5 September 2005.

(3) With effect from 15 March 2006, Mr. Kwan Chiu Yin, Robert resigned as an independent non-executive director of the Company. Following the resignation of Mr. Robert Kwan as an independent non-executive director of the Company, the Company will temporarily have only two independent non-executive directors and will temporarily not be compliant with Rule 3.10(1) and (2) of the Listing Rules. The Company is in the process of identifying a suitable replacement for Mr. Robert Kwan to serve as an independent non-executive director of the Company and an appointment will be made and announced as soon as practicable (and in any event not later than the three-month period stipulated by Rule 3.11 of the Listing Rules), in order to ensure compliance by the Company with Rule 3.10 of the Listing Rules.

(4) Save and except Mr. Robert Kwan who resigned as an independent non-executive director of the Company with effect from 15 March 2006.

Auditors' Report

Deloitte.
德勤

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

We have audited the financial statements of Melco International Development Limited (the "Company") and its subsidiaries (the "Group") from pages 55 to 137 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2006

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

Consolidated Balance Sheet

At 31 December 2005

	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

The financial statements on pages 55 to 137 were approved and authorised for issue by the Board of Directors on 31 March 2006 and are signed on its behalf by:

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

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

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2005

	Attributable to the equity holders of the Company														
	Share capital HK$'000	Share premium HK$'000	Issuable shares HK$'000 (Note 1)	Capital reserve HK$'000 (Note 2)	Special reserve HK$'000 (Note 3)	Convertible loan notes equity reserve HK$'000	Investment property revaluation reserve HK$'000	Other revaluation reserve HK$'000	Exchange reserve HK$'000	Legal reserve HK$'000 (Note 4)	Share options reserve HK$'000	Accumulated (losses) profit HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
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

Consolidated Statement of Changes In Equity

For the year ended 31 December 2005

	Attributable to the equity holders of the Company														
	Share capital HK$'000	Share premium HK$'000	Issuable shares HK$'000 (Note 1)	Capital reserve HK$'000 (Note 2)	Special reserve HK$'000 (Note 3)	Convertible loan notes equity reserve HK$'000	Investment property revaluation reserve HK$'000	Other revaluation reserve HK$'000	Exchange reserve HK$'000	Legal reserve HK$'000 (Note 4)	Share options reserve HK$'000	Accumulated (losses) profit HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
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

Consolidated Statement of Changes In Equity

For the year ended 31 December 2005

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 HK$'000	2004 HK$'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)

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	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

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).

Notes to the Financial Statements

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

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.

Notes to the Financial Statements

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

Financial Instruments (continued)

Classification and measurement of financial assets and financial liabilities (continued)

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.

Notes to the Financial Statements

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

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.

Notes to the Financial Statements

For the year ended 31 December 2005

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

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)

Notes to the Financial Statements

For the year ended 31 December 2005

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

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

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)	–	–	–

Notes to the Financial Statements

For the year ended 31 December 2005

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

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

	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.

Notes to the Financial Statements

For the year ended 31 December 2005

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

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

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.

Notes to the Financial Statements

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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.

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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%

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

Notes to the Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 financials 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.

Notes to the Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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).

Notes to the Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity (continued)

Convertible loan notes (continued)

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.

Notes to the Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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	2004
	HK$'000	*HK$'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

Notes to the Financial Statements

For the year ended 31 December 2005

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.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

2005

	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	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.

Notes to the Financial Statements

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2005

	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	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

Notes to the Financial Statements

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

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

Notes to the Financial Statements

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2004

	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

Notes to the Financial Statements

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments (continued)

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

Notes to the Financial Statements

For the year ended 31 December 2005

10. INVESTMENT INCOME (LOSS)

	2005 HK$'000	2004 HK$'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 HK$'000	2004 HK$'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.

Notes to the Financial Statements

For the year ended 31 December 2005

12. GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES (continued)

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

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For the year ended 31 December 2005

14. PROFIT BEFORE TAX

	2005 HK$'000	2004 HK$'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 HK$'000	2004 HK$'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.

Notes to the Financial Statements

15. INCOME TAX EXPENSE (continued)

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

Notes to the Financial Statements

For the year ended 31 December 2005

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).

Notes to the Financial Statements

For the year ended 31 December 2005

19. EARNINGS PER SHARE

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

	2005 HK$'000	2004 HK$'000 (restated)
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the Company)	**548,718**	59,722
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**24,897**	838
Adjustments to the share of 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 '000	2004 '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).

Notes to the Financial Statements

19. EARNINGS PER SHARE (continued)

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.

Notes to the Financial Statements

For the year ended 31 December 2005

21. PROPERTY, PLANT AND EQUIPMENT

	Restaurant vessels, ferries and pontoons	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Gaming machine	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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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.

Notes to the Financial Statements

For the year ended 31 December 2005

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.

Notes to the Financial Statements

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

28. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

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).

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28. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

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.

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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 1January 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.

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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.

33. TRADE RECEIVABLES (continued)

Note: (continued)

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

For the year ended 31 December 2005

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.

44. CONVERTIBLE LOAN NOTES (continued)

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.

Notes to the Financial Statements

For the year ended 31 December 2005

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	**Others**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

Notes to the Financial Statements

For the year ended 31 December 2005

47. DEFERRED TAX LIABILITIES (continued)

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 to the Financial Statements

48. SHARE CAPITAL (continued)

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.

Notes to the Financial Statements

For the year ended 31 December 2005

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.

Notes to the Financial Statements

50. SHARE OPTIONS SCHEMES (continued)

(a) Share option scheme of the Company (continued)

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.

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

(a) Share option scheme of the Company (continued)

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 to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

(a) Share option scheme of the Company (continued)

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.

50. SHARE OPTIONS SCHEMES (continued)

(a) Share option scheme of the Company (continued)

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.

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

(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

Notes to the Financial Statements

50. SHARE OPTIONS SCHEMES (continued)

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

(i) Pre-IPO share options plan (continued)

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).

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

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

(ii) Share options scheme (continued)

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

50. SHARE OPTIONS SCHEMES (continued)

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

(ii) Share options scheme (continued)

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.

Notes to the Financial Statements

For the year ended 31 December 2005

51. ACQUISITION OF SUBSIDIARIES (continued)

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

	Acquiree's carrying amount before combination *HK$'000*	Fair value adjustments *HK$'000* *(note)*	Fair value *HK$'000*
Hotels and entertainment complex under development	33,241	400,000	433,241
Amount due from a shareholder	969	–	969
Amount due to the Group	(33,229)	–	(33,229)
Other payables	(27)	–	(27)
Deferred tax liabilities	–	(48,000)	(48,000)
	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.

Notes to the Financial Statements

51. ACQUISITION OF SUBSIDIARIES (continued)

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

Notes to the Financial Statements

53. OPERATING LEASES (continued)

(a) The Group as lessee (continued)

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.

Notes to the Financial Statements

For the year ended 31 December 2005

53. OPERATING LEASES (continued)

(b) The Group as lessor (continued)

	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).

Notes to the Financial Statements

57. RELATED PARTY TRANSACTIONS (continued)

(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**	–

Notes to the Financial Statements

For the year ended 31 December 2005

57. RELATED PARTY TRANSACTIONS (continued)

(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

(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 ("PBL Macau") to be applied towards the purchase of the Subconcession to operate gaming operations in Macau ("Subconcession") under the Subconcession Agreement entered into between Wynn Resort Limited, Wynn Resorts (Macau) S.A. and PBL at a consideration of US$900,000,000.

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

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

Upon the Company becoming a holder of 40% of issued share capital of PBL Macau, PBL and the Company shall (a) enter into a shareholders' agreement 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 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.

Notes to the Financial Statements

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%

Notes to the Financial Statements

For the year ended 31 December 2005

59. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

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%

59. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

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.

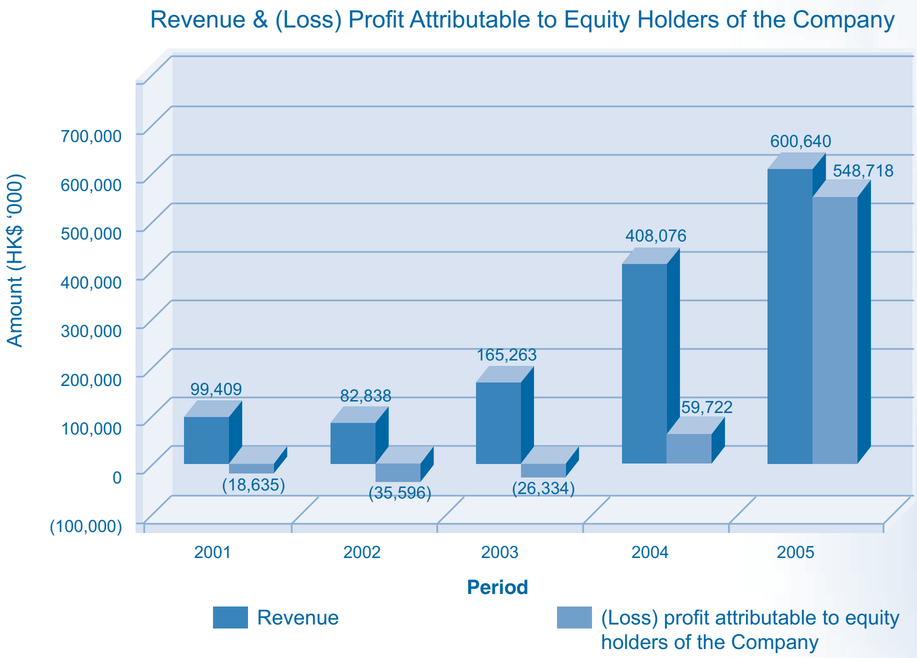
None of the subsidiaries had issued any debt securities at the end of the year.

Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group of the past five financial years is set out below:

RESULTS

	For the year ended 31 December				
	2001	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (restated)	***HK$'000***
Revenue	99,409	82,838	165,263	408,076	**600,640**
(Loss) profit attributable to equity holders of the Company	(18,635)	(35,596)	(26,334)	59,722	**548,718**



ASSETS AND LIABILITIES

	At 31 December				
	2001	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (restated)	***HK$'000***
Total assets	410,960	418,769	674,518	1,584,827	**5,581,304**
Total liabilities	(10,099)	(18,387)	(150,844)	(279,360)	**(1,393,573)**
Minority interests	(26,392)	(24,257)	(62,952)	(75,616)	**(629,546)**
Total equity	374,469	376,125	460,722	1,229,851	**3,558,185**

Note: Prior year has been adjusted to reflect the change in accounting policy as described in note 2 to the financial statements.

Schedule of Principal Properties

For the year ended 31st December 2005

The following table sets forth the Group's major properties as at 31 December 2005:

Hotels and entertainment complex under development

Name/ location	Stage of completion	Estimated completion date	Approximate site area (sq.m.)	Estimated gross floor area (sq.m.)	Usage	Effective % held
Crown Macau Baixa da Taipa, Macau, BT17	16%	2007	5,230	95,837	Hotels and entertainment complex	60%
City of Dreams Taipa, Macau, on the Cotai Strip	Design stage	2008	113,325	403,692	Hotels and entertainment complex	60%

Notice of the 91st Annual General Meeting

NOTICE is hereby given that the 91st annual general meeting of Melco International Development Limited (the "Company") will be held at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Wednesday, 17th May, 2006 at 3:30 p.m. for the following purposes:

1. To consider and receive the audited financial statements and the reports of the directors and auditors for the financial year ended 31st December, 2005.

2. To declare a final dividend for the year ended 31st December, 2005.

3. To re-elect directors and to fix the remuneration of the directors.

4. To re-appoint auditors and to fix their remuneration.

5. As special business to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT:**

(a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to repurchase shares of the Company be and it is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be repurchased on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and

iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting."

"Shares" means shares of all classes in the capital of the Company and other securities which carry a right to subscribe or purchase shares of the Company."

Notice of the 91st Annual General Meeting

6. As special business to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

(I) "**THAT:**

(a) subject to paragraph (c) of this Resolution and pursuant to Section 57B of the Companies Ordinance, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such power be and it is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of any rights of subscription or conversion under any existing warrants, bonds, debentures, notes and other securities issued by the Company which carry rights to subscribe for or are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution plus;

(bb) (if the directors of the Company are so authorised by a separate resolution of the shareholders of the Company) the nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution), and the said approval shall be limited accordingly;

Notice of the 91st Annual General Meeting

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and

iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; and

"Rights Issue" means an offer of shares of the Company or issue of options, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities entitled to the offer) on a fixed record date in proportion to their then holdings of such shares of the Company (or, where appropriate, such other securities), (subject in all cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

(II) "**THAT** the directors of the Company be and they are hereby authorised to exercise the powers of the Company referred to in paragraph (a) of the resolution set out as Resolution (I) in item 6 of the notice of this meeting in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution."

By Order of the Board
Tsang Yuen Wai, Samuel
Company Secretary

Hong Kong, 31st March, 2006

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

Notice of the 91st Annual General Meeting

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the notice is entitled to appoint one or more proxies to attend and on a poll vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy must be deposited at the Company's registered office together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. The register of members will be closed from Thursday, 11th May, 2006 to Wednesday, 17th May, 2006, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of shareholders who are entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 10th May, 2006.

4. With regard to item 5 above, the directors wish to draw the attention of the shareholders to the circular which summarises the more important provisions of the Listing Rules relating to the repurchase of shares on The Stock Exchange of Hong Kong Limited by a company and will be despatched to the shareholders together with the annual report. The present general mandate to repurchase shares given by the shareholders expires at the forthcoming annual general meeting and, accordingly, a renewal of that general mandate is now being sought.

5. With regard to item 6 above, the directors wish to state that, currently, they have no plans to issue any additional new shares of the Company (other than pursuant to any of items (ii), (iii) or (iv) contained in paragraph (c) of the Resolution (I)). The present general mandate to issue shares given by the shareholders expires at the forthcoming annual general meeting and, accordingly, a renewal of that general mandate is now being sought.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QUALITY SERVICE 優質服務
TEAMWORK 團結

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