

# On A Roll

A winning combination of local expertise,  
world-class management, and inspired branding.



**Melco**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### ► Significant Events and Developments

The first half of 2006 saw a significant breakthrough in the development of our leisure, gaming and entertainment business in Macau. In March 2006, Melco PBL (a 50:50 joint venture with Publishing and Broadcasting Limited (“PBL”)) entered into a series of transactions to acquire the last remaining gaming subconcession in Macau. The acquisition of a gaming license is a major milestone for the Group as this transforms Melco PBL from a mere industry participant riding on Sociedade de Jogos de Macau, S.A. (“SJM”)’s license into a fully fledged license holder in Macau.

The subconcession to PBL Entertainment (Macau) Limited (“PBL Macau”) (a special purpose company set up to hold the gaming license) was formally approved and granted by the Macau Government on 8 September 2006. Subject to completion of the remaining standard legal procedures, Melco PBL, in which Melco International Development Limited (“Melco”) has a de facto interest of 50%, will be able to instantly enjoy 100% of the economic benefits of its Macau gaming business.

Furthermore, on 29 August 2006, our joint venture partner, PBL received formal approval from the Victorian Commission for Gambling Regulation and the Gaming and Wagering Commission of Western Australia to the joint venture with Melco. This clears the remaining regulatory hurdle in Australia for the joint venture and signifies the endorsement of Melco’s good standing by Australian gaming regulatory bodies.

By virtue of having our own gaming license in Macau, we will be able to tap the abundant opportunities directly. To start with, we will be able to independently operate all our gaming businesses in Macau without having to give up a significant portion of the gaming revenue to SJM for the right to operate under its license – as would have been the case under the previous arrangement. Moreover, we will have the total flexibility to run our own casinos or add new ones without being constrained by SJM. In addition, subject to Macau Government’s approval, we may further enhance our return by entering into revenue-sharing arrangements with other seasoned gaming operators.

As a result of the Group’s increasing importance in the capital markets, Melco has been officially included as a constituent stock in the MSCI Hong Kong Index since May 2006.

## ▶ Outlook

In 2004, Macau overtook Atlantic City in the US to become the world's second-largest gaming market, and it is still growing fast. With another 16 casino projects currently in the pipeline for completion by 2010, Macau is fast transforming into a leisure and entertainment destination in Asia. At the heart of Macau's growth is its gaming and entertainment industry, which has given the city a unique edge in the Greater China region.

Being a license holder, the Group is in a very strong position to capitalize on Macau's growth and transformation. Crown Macau is scheduled to open in April of 2007, and City of Dreams in the second half of 2008, supplemented by the highly successful chain of Mocha Slot Clubs. In addition, the Group has recently unveiled a third casino project, to be sited on the waterfront of the Macau Peninsula on which a mass-market oriented casino will be built to cater for the day-tripper market.

With a stronghold in Hong Kong and Macau, the Group intends to expand its operations to cover the whole of Asia. Together with our exclusive partner PBL, we have an ideal platform on which to capitalize on the lucrative opportunities in Asia and beyond.

## ► Business and Financial Review

In order to facilitate the review, the segmental information shown in Note 5 to the financial statements is reproduced below with some minor re-arrangements:

	6 mths ended 30-Jun-06 HK\$'000	6 mths ended 30-Jun-05 HK\$'000
Segmental Result: Leisure, Gaming and Entertainment	(24,507)	40,694
Segmental Result: Technology	15,327	6,744
Segmental Result: Investment Banking and Financial Services	30,415	7,688
Segmental Result: Property and Other Investments	48,594	3,222
Intra-group elimination	(5,479)	—
Group operating result	64,350	58,348
Write-down of service agreements intangible asset	(90,390)	—
Gain on deemed disposal of partial interest in subsidiaries	—	514,431
Unallocated corporate expenses	(25,331)	(22,034)
Finance costs	(42,103)	(5,235)
Share of (loss)/profit of jointly controlled entities	(24)	2,200
(Loss)/profit before tax	(93,498)	547,710
Income tax credit/(expense)	9,215	(4,486)
(Loss)/profit for the period	(84,283)	543,224
Minority interests	55,300	(9,063)
(Loss)/profit for the period attributable to shareholders	(28,983)	534,161

### Profit/(Loss) attributable to shareholders

Loss attributable to shareholders amounted to HK\$29 million for the six months ended 30 June 2006 against a profit of HK\$534.2 million recorded for the same period in 2005.

This change is primarily due to the following non-recurring items:

- (1) The absence of a gain of HK\$514.4 million from disposal of partial interest in subsidiaries which was booked in the first half of last year.
- (2) A non-recurring write-down of intangible assets amounting to HK\$90.4 million (six months ended 30 June 2005: nil) arising from the termination of certain services agreements with SJM.
- (3) Pre-opening operating expenses amounting to HK\$31.5 million (six months ended 30 June 2005: nil) incurred in respect of the development of Crown Macau and City of Dreams.

### Consolidated EBITDA (Earnings before Interest, Tax, Depreciation & Amortization)

Consolidated EBITDA for the Group before the write-down of intangible assets for the six months ended 30 June 2006 amounted to HK\$75.8 million as compared to HK\$51.6 million for the same period in 2005 after excluding the gain on deemed disposal of partial interest in subsidiaries, implying an increase of 47%.



## ▢ Leisure, Gaming and Entertainment

Segmental result of the leisure, gaming and entertainment division turned from a profit of HK\$40.7 million for the six months ended 30 June 2005 to a loss of HK\$24.5 million for the six months ended 30 June 2006. This was primarily due to the pre-opening operating expenses (other than construction-related costs) amounting to approximately HK\$31.5 million (six months ended 30 June 2005: nil) incurred in respect of the development of Crown Macau and City of Dreams.

### Mocha Slots



Mocha Slot Group Limited and its subsidiaries ("Mocha Slots") currently operates over 1,000 machines in various locations across Macau, capturing around 31% of the total slot market revenue in Macau for the period under review. The Group has been able to consolidate customer loyalty through its popular club membership scheme. Launched in 2004, the scheme offers members a wide array of privileges and benefits. Today, over 56,000 people have participated in the Mocha Slot Club membership scheme. Other attractions that draw people to the Club include a wide variety of linked jackpot games with different themes and a wide range of jackpot levels.

The operating performance of Mocha Slots is shown below.

	6 mths ended 30-Jun-06 HK\$'000	6 mths ended 30-Jun-05 HK\$'000
Revenue	85,934	62,670
Cost of goods sold	(2,353)	(2,328)
Gross profit	83,581	60,342
Sundry income	1,693	582
Operating expenses (excluding rental expenses)	(45,998)	(25,378)
Operating EBITDAR*	39,276	35,546
Rental expenses	(7,224)	(4,600)
Operating EBITDA**	32,052	30,946

\* EBITDAR is defined as Earnings before interest, tax, depreciation, amortization and rental

\*\* EBITDA is defined as Earnings before interest, tax, depreciation and amortization

Revenue at Mocha Slots is primarily derived from our 31% share of the gross gaming revenue. Under the existing arrangement, SJM is entitled to the remaining gross gaming revenue but is responsible for paying to the Macau Government the gaming tax and other premises and duties, which amount to an aggregate of approximately 39% of the gross gaming revenue.

For the period under review, revenue and operating EBITDAR increased to HK\$85.9 million (six months ended 30 June 2005: HK\$62.7 million) and HK\$39.3 million (six months ended 30 June 2005: HK\$35.5 million) respectively. Operating expenses (before rental expenses) increased by 81% compared to the corresponding period. This was primarily due to the increased number of venues and machines that we ran. We were running 6 venues (around 1,060 machines) in the first half of 2006 while we were only running 4 venues (around 630 machines) in the corresponding period in 2005.

The net win per machine per day during the period under review is shown below:

<b>Average net win per machine per day (HK\$)</b>	<b>6 mths ended 30-Jun-06</b>	<b>6 mths ended 30-Jun-05</b>
Mocha Slots	1,446	1,798
Macau market average	1,154	1,172

For the period under review, the average net win per machine per day at Mocha Slots continued to outperform the market average significantly. However, the average daily net win dropped by HK\$352 as compared to the corresponding period in 2005. The reasons are given as follows:

- (i) Two of the new venues were opened in the latter part of last year/early part of this year. Typically in our business, there is a ramp-up period of about 3 months for a new venue.
- (ii) Pursuant to the requirement of the Macau Government, no more than one casino operator can operate in one building. Therefore, our venue at Kampek (with around 300 machines), which happens to be situated in a building in which a SJM casino is in operation, would have to be closed down as soon as the gaming license is granted to us. Therefore, we have not been doing any marketing or promotion campaigns for that venue since March, resulting in lower daily net win. We have now identified a new site to replace this venue and extensive marketing and promotion campaigns will be resumed as soon as we formally obtain our own license.

We are confident that an upward trend will emerge as soon as we start operating our Mocha Slots under our own license.

***Economic effect had we been running our Mocha Slots under our own license (for illustration only)***

As mentioned earlier, revenue and profitability will increase substantially after we have obtained our own gaming license as we will not need to give up 29% of gross gaming revenue to SJM. To demonstrate such an effect, had we operated Mocha Slots under our own license, the operating results for the six months ended 30 June 2006 would have been as follows:

	Under our own license HK\$'000	Under SJM's license HK\$'000	Difference (%)
Revenue after gaming tax	165,698	85,934	+93%
Operating EBITDAR	119,040	39,276	+203%
Operating EBITDA	111,816	32,052	+249%

## City of Dreams



The development of City of Dreams took its first step towards realization upon the ground breaking ceremony held on 10 April 2006. The development is expected to take around two years with completion scheduled in the second half of 2008.

The centerpiece of City of Dreams is an approximately 40,000-square-metre underwater-themed casino that features world-class gaming facilities and houses over 450 gaming tables and around 3,000 slot machines.

City of Dreams will also provide around 2,000 rooms ranging from hotels to deluxe serviced apartments. Hyatt of Macau Ltd., an affiliate of Hyatt International Corporation, has been appointed as the first hotel operator in City of Dreams to manage and operate two of the four deluxe hotels. It is expected that Grand Hyatt will provide about 380 rooms while Hyatt Regency will provide about 600 to 800 guest rooms.

City of Dreams is currently under construction, and as such did not contribute towards the Group's financial performance in the period under review.



## Crown Macau



Crown Macau is expected to commence operation in the first half of 2007. Standing at 160 metres, Crown Macau will be the first six-star casino hotel in the city and the tallest building on Taipa Island. It targets high rollers from around the world and embraces various entertainment facilities, including a number of elegant and unique restaurants and a deluxe spa centre. With a total construction area of around 109,000 square metres, the casino-hotel will comprise 227 deluxe VIP guest rooms, of which 26 will be VIP suites and 8 will be presidential villas. The 33-storey complex will include a 6-storey up-market casino with total gaming space of around 16,000 square metres, housing over 220 gaming tables and more than 500 slot machines.

To finance the Crown Macau project, Great Wonders, Investments, Limited ("Great Wonders") and Melco PBL Entertainment (Greater China) Limited ("Melco PBL Entertainment") have entered into an agreement with a syndicate of six banks for a HK\$1.28 billion transferable term loan facility. This was the largest syndicated loan arranged in Macau by local banks and reflected the strong confidence of the banking community in the Group's management and prospects.

Crown Macau is currently under construction, and as such did not contribute towards the Group's financial performance in the period under review.

## Third Casino in Macau

In May 2006, the Group entered into a transaction with the view to acquire a development site in Macau Peninsula on which a third hotel/casino complex will be built. This acquisition is expected to be completed by the first quarter of 2007.

## Jumbo Kingdom

Following extensive renovations and a revamped marketing campaign, Hong Kong's iconic Jumbo Kingdom floating restaurant again delivered profitability for the Jumbo Kingdom. For the period under review, Jumbo's turnover amounted to HK\$53.2 million (six months ended 30 June 2005: HK\$48.9 million), showing an increase of 9% and making a positive contribution to the Group as a whole.





## ► Technology

The Group's technology division, comprised of the Elixir and iAsia group of companies, saw strong growth in profitability for the period under review. Turnover for the period was HK\$88.5 million (six months ended 30 June 2005: HK\$75.5 million), with segmental profit after elimination of intercompany transactions effect of HK\$5.5 million going up by 46% to HK\$9.8 million (six months ended 30 June 2005: HK\$6.7 million).



On 11 April 2006, the Group announced the formation of a gaming technology alliance with Shuffle Master. This alliance positions Elixir as one of the major technology suppliers in Asia. Under the twenty-year alliance, Elixir will develop localized gaming technologies for the growing number of legalized gaming jurisdictions in Asia. In addition, Elixir will become the exclusive Asian distributor of the existing gaming products of Shuffle Master and its Australian-based subsidiary, Stargames Corporation Pty Limited. The alliance also includes the co-development of an R&D centre and a world-class manufacturing base.

In June 2006, Elixir signed an agreement with VendingData of USA to distribute Dolphin RFID casino chips to the majority of casino properties in Macau. It also has non-exclusive rights to distribute the chips outside Macau.

The above alliances allow Elixir to engage in the businesses of the most advanced and well-received gaming related products, which are expected to make a significant contribution to the Group in the long run.

In the first half of 2006, iAsia has made great efforts to expand its client base in the banking sector. In addition to the existing bank clients such as BOC International, Po Sang Bank, Seng Heng Bank and BCM Bank, iAsia has been shortlisted by three more banks as the system vendor. It has also signed contracts to supply securities trading solution to ICEA and FX trading solutions to Sun Hung Kai Online. Further, it will develop a payment gateway for the lottery operators in China which may bring in additional revenue in the second half.

## ► Investment Banking and Financial Services

The Group's investment banking and financial services division operates via Value Convergence Holdings Limited ("Value Convergence", Stock Code: 8101), a company listed on the GEM Board of the Hong Kong Stock Exchange. During the period under review, Value Convergence recorded a turnover of HK\$93.4 million (six months ended 30 June 2005: HK\$51.4 million). Segmental



profit before finance costs rose to HK\$30.4 million (six months ended 30 June 2005: HK\$7.7 million), representing an increase of 295% compared with the same period in the previous year. The segmental profit after finance costs was HK\$20.6 million (six months ended 30 June 2005: HK\$5.8 million).

Value Convergence focuses on four main business lines in Hong Kong, Macau and the Pearl River Delta Region: investment banking and financial services, brokerage, corporate finance, and asset management. Value Convergence recorded significantly improved operating results during the period under review due to the improved performance of its brokerage business and proprietary trading. In addition, stringent cost control measures have been put in place to increase its competitiveness in the marketplace.

With a solid foundation in investment banking and financial services, Value Convergence is planning to expand its product portfolio and the geographical coverage of its services. Plans to establish a direct investment fund and a real estate investment fund, capturing opportunities in the leisure, entertainment and property sectors in Macau, are under way and progressing well during the review period.

## ► **Property and Other Investments**

This division handles treasury functions, property investments and other investments held by the Group. For the six months ended 30 June 2006, it recorded a turnover and segmental profit of HK\$49.5 million (six months ended 30 June 2005: HK\$10.5 million) and HK\$48.6 million (six months ended 30 June 2005: HK\$3.2 million) respectively. The increases are primarily a result of the increase in income from the Group's treasury functions.

## ► **Other Significant P&L Items**

### ***Intangible assets' write-down***

This relates to the prudent write-down of the intangible assets as a result of the imminent termination of the service agreements with SJM regarding operating the Mocha Slots venues. The intangible assets were recognized, when the Group acquired the Mocha Slots interests.

The total intangible assets recorded were HK\$97.7 million. Mocha Slots and SJM have mutually agreed to terminate all the slot lounge service agreements upon our acquisition of the gaming subconcession in Macau. Accordingly, we consider it prudent to write-down the intangible assets from HK\$97.7 million to HK\$7.3 million as at 30 June 2006, in accordance with standard accounting conventions and requirements.

### ***Finance costs***

During the review period, finance costs increased substantially to HK\$42.1 million from HK\$5.2 million for the six months ended 30 June 2005. The increase was mainly attributable to the deemed interest expenses on the liability component of convertible loan notes issued for material acquisitions in 2005 amounting to HK\$28.3 million in order to comply with HKAS 32. It should be noted that this deemed interest expense did not result in any cash outflows.

## ▶ **Liquidity and Financial Resources/Capital Structure/Charge on Group Assets**

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

As of 30 June 2006, total assets of the Group amounted to HK\$7,417.9 million (31 December 2005: HK\$5,652.9 million) which were financed by shareholders' fund of HK\$4,714 million (31 December 2005: HK\$3,558.2 million), minority interests of HK\$633.5 million (31 December 2005: HK\$686.3 million), current liabilities of HK\$951.3 million (31 December 2005: HK\$306.5 million), and non-current liabilities of HK\$1,119.1 million (31 December 2005: HK\$1,101.9 million). The current ratio, expressed as current assets over current liabilities, of the Group was maintained at a satisfactory level of 4.2 (31 December 2005: 9.4).

During the six months ended 30 June 2006, the Group recorded a net cash inflow of HK\$838.4 million (31 December 2005: HK\$1,955.3 million). As of 30 June 2006, cash and cash equivalents of the Group totaled HK\$3,188.7 million (31 December 2005: HK\$2,350.3 million). The 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 0.24 time as of 30 June 2006 (31 December 2005: 0.31 time). The Group adopts a prudent treasury policy. Cash and bank balances consisted of about 5% of cash and bank balances and 95% of short term fixed deposits. All borrowings and cash and bank balances are denominated in Hong Kong dollars and U.S. dollars to maintain stable exposure to foreign exchange risks.

As of 30 June 2006, the Group's total available banking facilities from various banks amounted to HK\$1,509.8 million (31 December 2005: HK\$229.8 million), of which HK\$80 million (31 December 2005: HK\$80 million) was secured by margin clients listed securities, HK\$49.8 million (31 December 2005: HK\$49.8 million) was secured by pledging HK\$85 million of the Group's investment properties, and HK\$1.28 billion (31 December 2005: nil), which is a syndicated loan for the development of Crown Macau, the securities provided or to be provided by the Group include the first legal charge over the land and property of Crown Macau, assignment of income of Great Wonders, a promissory note representing the loan amount issued by Great Wonders and Melco PBL Entertainment, pledge of shares in Great Wonders, assignment of the benefits of the insurance policies and building contracts relating to the development of Crown Macau and a floating charge of all assets of Great Wonders. As of 30 June 2006, the Group utilized HK\$47 million and HK\$3 million of unsecured and secured banking facilities respectively (31 December 2005: unsecured HK\$23 million; secured HK\$5 million). Both amounts had matured and were repaid by 6 July 2006.



## ► Material Acquisitions

In the first half of 2006, the Group had entered into/completed the following acquisitions.

On 1 March 2006, the land on which the Crown Macau development would be built was officially granted to the Melco PBL. Following the grant of the land, the Company had issued 22,222,222 new shares to Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") in accordance with agreements previously entered into between the Company and STDM.

On 9 March 2006 and 26 May 2006, the Company entered into a Memorandum of Agreement and a Supplemental Agreement with PBL, whereby, subject to the approval of the Macau Government, the Company or its wholly-owned subsidiary will become an indirect shareholder of PBL Entertainment (Macau) Limited, which recently acquired a gaming subconcession in Macau from Wynn Resorts (Macau) S.A. ("Wynn Macau"). The Company had contributed US\$160 million towards the purchase price of the subconcession (first as loan and subsequently as subscription money), of which sum US\$40 million had been paid in March and the balance was paid recently.

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

On 17 May 2006, Swift Profit Investments Limited ("Purchaser"), a jointly controlled entity of the Group, entered into an agreement to purchase the entire issued share capital of a company holding the rights to a land lease grant in respect of a plot of land with an area of 6,480 square meters located at Zona dos Novos Aterros do Porto Exterior (NAPE), in Macau Peninsula. The aggregate consideration payable by the Purchaser is approximately HK\$1.5 billion. The acquisition is subject to a number of condition precedents and is anticipated to be completed in the first quarter of 2007. An amount of HK\$100 million was paid as stakeholder money on signing of the sale and purchase agreement. The balance of the consideration is payable in cash on completion of the acquisition. The Melco PBL joint venture intends to make use of this site to develop its third hotel and casino project in Macau.

## ▶ **Employees**

As a result of the Group's business expansion, the number of employees has increased from 842 as of 31 December 2005 to 916 as of 30 June 2006. This represents an over 9% increase and 74 new positions within the Group. Among the 916 employees, 422 are located in Hong Kong and the remaining are based in Macau and the PRC. The majority of the newly created positions are for our Macau business. The related staff costs for the first six months of 2006, including Directors' emoluments and share options expenses, amounted to HK\$104.4 million (six months ended 30 June 2005: HK\$65.3 million).

## ▶ **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**

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 for their required fundings as far as possible using different financing options available. The Company will also provide the required equity capital to these project companies.

## ▶ **Contingent Liabilities**

On 30 June 2006, the Company provided a guarantee of HK\$4,680,000 (31 December 2005: HK\$4,680,000) to a supplier in respect of goods purchased by its subsidiaries.

## ▶ **Dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: HK\$0.01 per share).

**By Order of the Board**

**Ho, Lawrence Yau Lung**  
Chairman & Chief Executive Officer

Hong Kong, 15 September 2006

## ▶ Independent Review Report

# Deloitte.

## 德勤

TO THE BOARD OF DIRECTORS OF  
MELCO INTERNATIONAL DEVELOPMENT LIMITED  
(incorporated in Hong Kong with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 14 to 36.

### Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Company’s management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 7 September 2006



## ▶ Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2006

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

## ▶ Condensed Consolidated Balance Sheet

AT 30 JUNE 2006

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

## ▶ Condensed Consolidated Balance Sheet

AT 30 JUNE 2006

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



# Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2006

Attributable to the equity holders of the Company

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

# Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2006

Attributable to the equity holders of the Company

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

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

## **Condensed Consolidated Cash Flow Statement**

FOR THE SIX MONTHS ENDED 30 JUNE 2006

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



## ▶ **Notes to the Condensed Financial Statements**

*FOR THE SIX MONTHS ENDED 30 JUNE 2006*

### **1. BASIS OF PREPARATION**

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

### **2. RECLASSIFICATION**

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

#### 4. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

## 5. SEGMENTAL INFORMATION

Segment information about these businesses is presented below:

**Six months ended 30 June 2006 (unaudited):**

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

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

Six months ended 30 June 2005 (unaudited):

	Leisure, Gaming and Entertainment HK\$'000	Technology HK\$'000	Investment Banking and Financial Services HK\$'000	Property and Other Investments HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
External sales	113,375	75,453	51,447	10,452	–	250,727
Inter-segment sales	344	–	354	5,325	(6,023)	–
Total revenue	<u>113,719</u>	<u>75,453</u>	<u>51,801</u>	<u>15,777</u>	<u>(6,023)</u>	<u>250,727</u>
Segment result	<u>40,694</u>	<u>6,744</u>	<u>7,688</u>	<u>3,222</u>	<u>–</u>	<u>58,348</u>
Gain on deemed disposal of partial interest in subsidiaries	514,431	–	–	–	–	514,431
Unallocated corporate expenses						(22,034)
Finance costs						(5,235)
Share of profit of jointly controlled entities						<u>2,200</u>
Profit before tax						547,710
Income tax expense						<u>(4,486)</u>
Profit for the period						<u>543,224</u>

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

## 6. GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN SUBSIDIARIES

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

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



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

As a result of the above arrangements, the Group's effective equity interests in Mocha Slots, Great Wonders and Melco Hotels were decreased from 80%, 70% and 50.8%, respectively, to 48%, 42% and 30.5%, respectively, the Group then recognised a gain on deemed disposal of partial interests in subsidiaries of approximately HK\$514,431,000 during the period ended 30 June 2005 accordingly.

## 7. WRITE-DOWN OF SERVICE AGREEMENTS INTANGIBLE ASSET

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

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

## 8. (LOSS) PROFIT BEFORE TAX

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

## 9. INCOME TAX (CREDIT) EXPENSE

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

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

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

## 10. DIVIDEND

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

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

## 11. (LOSS) EARNINGS PER SHARE

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

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

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

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

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

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

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

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

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

## **13. ADVANCE TO A MINORITY SHAREHOLDER FOR A SUBCONCESSION**

On 5 March 2006, the Company entered into the Memorandum of Agreement with PBL, which was amended by a supplemental agreement on 26 May 2006, pursuant to which the Company agreed to make or cause to be made by its wholly-owned subsidiary to provide a subordinated interest free loan of HK\$1,248,000,000 (US\$160,000,000) to a company to be incorporated ("PBL Macau") to be applied towards the purchase of the subconcession to operate gaming operations in Macau ("Subconcession") under the Subconcession Agreement entered into between Wynn Macau and PBL at a consideration of HK\$7,020,000,000 (US\$900,000,000) ("Premium").

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

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

- (i) by the Company making or causing to be made a subordinated interest free loan of HK\$1,248,000,000 (US\$160,000,000) to PBL Macau, which sum will be applied towards the Premium;
- (ii) by PBL subscribing or causing to be subscribed an amount of HK\$624,000,000 (US\$80,000,000) for new shares of PBL Macau and making or causing to be made a subordinated interest free loan of HK\$1,248,000,000 (US\$160,000,000) to PBL Macau, constituting an aggregate funding obligation of PBL of HK\$1,872,000,000 (US\$240,000,000); and



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

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

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

- (i) enter into arrangements relating to PBL Macau under which the Company and PBL will share the risks, liabilities, commitments, capital contributions and economic values and benefits of the projects and businesses of PBL Macau on a 50:50 basis under their jointly controlled entities; and
- (ii) amend the Deed entered into between the Company and PBL dated 8 March 2005 relating to the gaming and hospitality business in Macau (the "Deed") to reflect the agreement that all gaming ventures of the Company's jointly controlled entities and all future gaming ventures undertaken by the Company's jointly controlled entities within the location specified under the Deed will be owned and carried on a 50:50 basis.

#### **14. PLEDGE OF ASSETS**

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

## 15. TRADE RECEIVABLES

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

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

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

### Notes:

- (a) The Group's Leisure, Gaming and Entertainment Segment and Property and Other Investments Segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30 to 90 days would be granted.

- (b) Trade receivable arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment Banking and Financial Services Segment as at 30 June 2006 amounted to approximately HK\$452,067,000 (31 December 2005: HK\$319,499,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

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

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

#### 16. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

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

#### 17. AMOUNT DUE FROM A RELATED COMPANY

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

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

## 18. TRADE PAYABLES

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

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

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

## 19. AMOUNT DUE TO A MINORITY SHAREHOLDER

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

## 20. CONVERTIBLE LOAN NOTES

On 9 November 2004, the Company issued a convertible loan note due on 8 November 2009 with a principal amount of HK\$100,000,000, which is interest-bearing at 4% per annum. In addition, on 8 February 2005, the Company also issued another convertible loan note due on 7 February 2010 with a principal amount of HK\$56,000,000, which is also interest-bearing at 4% per annum. Both convertible loan notes were issued for the purpose of developing a land which will consist of hotel and entertainment complex with casino and electronic gaming machine lounge.

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



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

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

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

## 21. SHARE CAPITAL

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

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

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

## 22. CAPITAL AND OTHER COMMITMENTS

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

In addition, Great Wonders had accepted a formal offer from the Macau government to acquire a piece of land at a consideration of approximately HK\$145,085,000 (MOP149,728,000). As at 30 June 2006 and 31 December 2005, Great Wonders had paid an amount of HK\$48,590,000 (MOP50,000,000) in respect of such land. The remaining balance of approximately HK\$96,495,000 (MOP99,728,000) was interest-bearing at 5% per annum and shall be payable in 4 half yearly instalments in equal amounts. The first instalment shall be paid within six months from 1 March 2006, which was the date of publication of the grant of concession of the land in the Macau Government Gazette. On 14 July 2006, Great Wonders have settled all the balance together with the accrued interest for an amount of approximately HK\$98,614,000 (MOP101,572,000).

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

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

## 23. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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



## 24. OTHER ACQUISITION

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

- (a) On 9 May 2006, Melco PBL International, a jointly controlled entity, entered into an agreement ("Sale and Purchase Agreement") with Dr. Stanley Ho in relation to the sale by Dr. Stanley Ho to Melco PBL International 20% of the issued share capital of Mocha Slots ("Sale Shares") and the loan from Dr. Stanley Ho ("Sale Loan") for an aggregate consideration of approximately HK\$295.7 million, with approximately HK\$250 million being the consideration for the Sale Shares and approximately HK\$45.7 million being the consideration for the Sale Loan. The sale and purchase of the Sale Shares and the assignment of the Sale Loan under the Sale and Purchase Agreement were completed on the same date on which the Sale and Purchase Agreement was signed.
- (b) On 17 May 2006, Swift Profit Investments Limited ("Purchaser"), a jointly controlled entity, entered into an agreement to purchase the entire issued share capital of a company holding the rights to a land lease grant in respect of a plot of land with an area of 6,480 square meters located at Zona dos Novos Aterros do Porto Exterior, in Macau Peninsula. The aggregate consideration payable by the Purchaser is approximately HK\$1.5 billion, which is payable in cash and the acquisition is expected to be completed in the first quarter of year 2007. An amount of HK\$100 million was paid as a down payment on signing of the sale and purchase agreement. The balance of the aggregate consideration is payable on completion of the acquisition.

## ► Disclosure of Interests

### Directors' Interests in Shares, Underlying Shares and Convertible Loan Notes

As at 30 June 2006, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and convertible loan notes of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

#### (i) 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 held	Approximate percentage of the issued share capital of the Company (Note 1)
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations (Note 2)	404,041,630	32.99%
	Beneficial owner	7,232,612	0.59%
Mr. Tsui Che Yin, Frank	Beneficial owner	7,232,612	0.59%
Mr. Chung Yuk Man, Clarence	Beneficial owner	567,000	0.05%
Dr. Lo Ka Shui	Beneficial owner	2,000,000	0.16%

(b) Share options of the Company

Name of Director	At beginning of the period	Grant during the period	Exercised during the period	At end of the period	Date of grant	Exercisable period	Exercise price HK\$
Mr. Ho, Lawrence Yau Lung	1,800,000	–	(1,800,000)	–	19.02.2004	19.02.2006 to 07.03.2012	1.2025
Mr. Tsui Che Yin, Frank	32,612	–	(32,612)	–	08.03.2002	08.09.2002 to 07.03.2012	0.5000
	1,800,000	–	(1,800,000)	–	19.02.2004	19.02.2006 to 07.03.2012	1.2025
Mr. Chung Yuk Man, Clarence	500,000	–	(500,000)	–	19.02.2004	19.02.2006 to 07.03.2012	1.2025
	140,000	–	–	140,000	17.09.2004	17.09.2006 to 07.03.2012	1.6875
	140,000	–	–	140,000	17.09.2004	17.03.2008 to 07.03.2012	1.6875
	200,000	–	–	200,000	01.02.2005	17.09.2009 to 07.03.2012	7.4000
	–	130,000	–	130,000	13.02.2006	01.04.2008 to 31.01.2016	11.8000
	–	130,000	–	130,000	13.02.2006	01.04.2010 to 31.01.2016	11.8000
	–	140,000	–	140,000	13.02.2006	01.04.2012 to 31.01.2016	11.8000
Dr. Lo Ka Shui	–	100,000	–	100,000	03.04.2006	03.04.2008 to 02.04.2016	15.8700
	–	100,000	–	100,000	03.04.2006	03.04.2010 to 02.04.2016	15.8700
	–	100,000	–	100,000	03.04.2006	03.04.2012 to 02.04.2016	15.8700
Sir Roger Lobo	–	100,000	–	100,000	03.04.2006	03.04.2008 to 02.04.2016	15.8700
	–	100,000	–	100,000	03.04.2006	03.04.2010 to 02.04.2016	15.8700
	–	100,000	–	100,000	03.04.2006	03.04.2012 to 02.04.2016	15.8700
Mr. Ng Ching Wo	–	100,000	–	100,000	03.04.2006	03.04.2008 to 02.04.2016	15.8700
	–	100,000	–	100,000	03.04.2006	03.04.2010 to 02.04.2016	15.8700
	–	100,000	–	100,000	03.04.2006	03.04.2012 to 02.04.2016	15.8700
	<u>4,612,612</u>	<u>1,300,000</u>	<u>(4,132,612)</u>	<u>1,780,000</u>			

(c) Convertible loan notes of the Company (Note 3)

Name of Director	Capacity	Number of underlying shares held	Approximate percentage of the issued share capital of the Company (Note 1)
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694 (Note 3)	9.63%

Notes:

- As at 30 June 2006, the total number of issued shares of the Company was 1,224,701,374.
- 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 9.43% 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 23.56% of the issued share capital of the Company.
- Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.78% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which are 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\$0.10 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)
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations (Note 2)	165,163,008	65.33%

*Notes:*

1. As at 30 June 2006, the total number of issued shares of Value Convergence was 252,797,679.
2. Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 160,930,381 shares of Value Convergence as a result of him being beneficially interest in approximately 33.58% of the issued share capital of the Company which in turn holds approximately 63.66% of the issued share capital of Value Convergence; and (ii) 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.67% of the issued share capital of Value Convergence.



(b) Share options of Value Convergence

Name of Director	Capacity	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)	0.19%

*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, as at 30 June 2006, none of the directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and convertible loan notes of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange.

## Substantial Shareholders

As at 30 June 2006, the interests and short positions of substantial shareholders of the Company and other persons in the shares, underlying shares and debentures of the Company which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein; or (c) were directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

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

Name	Capacity	Number of issued ordinary 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)	23.56%
Lasting Legend Ltd.	Beneficial owner	115,509,024 (Note 2)	9.43%
Dr. Ho Hung Sun, Stanley	Held by controlled corporations	7,298,456 (Note 3)	0.60%
	Beneficial owner	22,749,278	1.86%
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	404,041,630 (Note 4)	32.99%
	Beneficial owner	7,232,612	0.59%
Ms. Sharen Lo	Family	411,274,242 (Note 5)	33.58%
Shun Tak Shipping Company, Limited	Held by controlled corporations	78,166,294	6.38%

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Approximate percentage of the issued share capital of the Company (Note 1)</b>
Sociedade de Turismo e Diversões de Macau, S.A. ("STDM")	Beneficial owner	22,222,222	1.81%
Janus Capital Management LLC	Beneficial owner	103,493,000	8.45%
State Street Corporation	Beneficial owner	122,188,703 (Note 6)	9.98%
Julius Baer Investment Management LLC	Beneficial owner	70,566,857	5.76%

*(b) Convertible loan notes*

<b>Name</b>	<b>Capacity</b>	<b>Number of underlying shares held</b>	<b>Approximate percentage of the issued share capital of the Company (Note 1)</b>
Great Respect Limited	Beneficial owner	117,912,694 (Note 7)	9.63%
Dr. Ho Hung Sun, Stanley	Held by trust	117,912,694 (Note 7)	9.63%
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694 (Note 7)	9.63%
Ms. Sharen Lo	Held by trust	117,912,694 (Note 7)	9.63%
SG Trust (Asia) Ltd.	Held by controlled corporation	117,912,694 (Note 7)	9.63%
STDM	Beneficial owner	63,658,536 (Note 8)	5.20%

*Notes:*

1. As at 30 June 2006, the total number of issued shares of the Company was 1,224,701,374.
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 0.60% 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 9.43% 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 23.56% of the issued share capital of the Company.
5. 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.
6. The interest is held to its lending pool.
7. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.78% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which are 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 the Takeovers Code on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code would arise a full conversion.

8. Two convertible loan notes respectively for the principal amounts of HK\$100 million and HK\$56 million carrying the respective rights to subscribe for shares at an initial conversion price of HK\$4.00 and HK\$8.2 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 dated 13 September 2004, 11 October 2004, 23 November 2004 and 5 January 2005. As at 30 June 2006, 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 herein, so far as the Directors were aware, as at 30 June 2006, no other persons had interests or short positions in the shares, underlying shares and debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO, nor were there any other persons required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, or directly or indirectly interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.



## ▶ Information of Share Option Scheme

The following share options were outstanding under the Scheme during the six months period ended 30 June 2006:

Category of participant	As 1 January 2006	Number of share options			As 30 June 2006	Date of grant of share options <sup>1</sup>	Share price	Exercise price of share options <sup>2,3</sup>
		Reclassify during the period	Granted during the period <sup>2</sup>	Exercised during the period <sup>2,4</sup>			at date of grant of share options <sup>2</sup> HK\$	
Directors	32,612	-	-	(32,612)	-	08.03.2002	0.4100	0.5000
Directors	3,600,000	500,000	-	(4,100,000)	-	19.02.2004	1.1750	1.2025
Directors <sup>5</sup>	-	280,000	-	-	280,000	17.09.2004	1.6875	1.6875
Directors <sup>6</sup>	-	200,000	-	-	200,000	01.02.2005	7.4000	7.4000
Directors <sup>7</sup>	-	-	400,000	-	400,000	13.02.2006	11.7500	11.8000
Directors <sup>8</sup>	-	-	900,000	-	900,000	03.04.2006	15.7000	15.8700
<b>Sub-total</b>	<b>3,632,612</b>	<b>980,000</b>	<b>1,300,000</b>	<b>(4,132,612)</b>	<b>1,780,000</b>			
Employee <sup>9</sup>	2,055,340	-	-	-	2,055,340	13.09.2002	0.55335	0.55335
Employee <sup>10</sup>	8,220,000	(1,100,000)	-	(6,920,000)	200,000	19.02.2004	1.1750	1.2025
Employee <sup>11</sup>	2,668,000	(280,000)	-	(388,000)	2,000,000	17.09.2004	1.6875	1.6875
Employee <sup>12</sup>	2,059,400	(200,000)	-	-	1,859,400	01.02.2005	7.4000	7.4000
Employee <sup>13</sup>	-	-	4,600,000	-	4,600,000	13.02.2006	11.7500	11.8000
<b>Sub-total</b>	<b>15,002,740</b>	<b>(1,580,000)</b>	<b>4,600,000</b>	<b>(7,308,000)</b>	<b>10,714,740</b>			
Others	1,000,000	600,000	-	(1,600,000)	-	19.02.2004	1.1750	1.2025
Others <sup>14</sup>	9,000,000	-	-	-	9,000,000	17.09.2004	1.6875	1.6875
Others	-	-	-	-	-	13.02.2006	11.7500	11.8000
<b>Sub-total</b>	<b>10,000,000</b>	<b>600,000</b>	<b>-</b>	<b>(1,600,000)</b>	<b>9,000,000</b>			
<b>Total</b>	<b>28,635,352</b>	<b>-</b>	<b>5,900,000</b>	<b>(13,040,612)</b>	<b>21,494,740</b>			

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 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 30 June 2006, the Company had 21,494,740 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 21,494,740 additional ordinary shares of the Company and additional share capital of approximately HK\$10,747,370 and share premium of approximately HK\$98,188,000 before issue expenses.

4. In respect of the share options exercised during the period, the weighted average share price is HK\$11.61.
5. Among 280,000 share options as at 30 June 2006, 140,000 share options may be exercised during the period from 17 September 2006 to 7 March 2012 and 140,000 share options may be exercised during the period from 17 March 2008 to 7 March 2012.
6. As at 30 June 2006, 200,000 share options may be exercised during the period from 17 September 2009 to 7 March 2012.
7. Among 400,000 share options as at 30 June 2006, 130,000 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 130,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016 and 140,000 share options may be exercised during the period from 1 April 2012 to 31 January 2016.
8. Among 900,000 share options as at 30 June 2006, 300,000 share options may be exercised during the period from 3 April 2008 to 2 April 2016, 300,000 share options may be exercised during the period from 3 April 2010 to 2 April 2016 and 300,000 share options may be exercised during the period from 3 April 2012 to 2 April 2016.
9. Among 2,055,340 share options as at 30 June 2006, 1,027,670 share options may be exercised during the period from 13 September 2002 to 7 March 2012 and 1,027,670 share options may be exercised during the period from 13 March 2003 to 7 March 2012.
10. As at 30 June 2006, 200,000 share options may be exercised during the period from 19 February 2006 to 7 March 2012.
11. Among 2,000,000 share options as at 30 June 2006, 800,000 share options may be exercised during the period from 17 March 2005 to 7 March 2012, 800,000 share options may be exercised during the period from 17 September 2005 to 7 March 2012, 210,000 share options may be exercised during the period from 17 September 2006 to 7 March 2012 and 190,000 share options may be exercised during the period from 17 March 2008 to 7 March 2012,
12. Among 1,859,400 share options as at 30 June 2006, 944,000 share options may be exercised during the period from 17 September 2006 to 7 March 2012, 915,400 share options may be exercised during the period from 17 March 2008 to 7 March 2012.
13. Among 4,600,000 share options as at 30 June 2006, 1,400,000 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 113,000 share options may be exercised during the period from 3 April 2008 to 31 January 2016, 1,400,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016 and 113,000 share options may be exercised during the period from 3 April 2010 to 31 January 2016, 1,450,000 share options may be exercised during the period from 1 April 2012 to 31 January 2016 and 124,000 share options may be exercised during the period from 3 April 2012 to 31 January 2016.
14. Among 9,000,000 share options as at 30 June 2006, 4,500,000 share options may be exercised during the period from 17 March 2005 to 7 March 2012 and 4,500,000 share options may be exercised during the period from 17 September 2005 to 7 March 2012.

Regarding the share options granted during the period to directors, employees and others, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because, in the absence of a readily available market for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

## **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 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 Group’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 review period with deviations mentioned below.

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

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. The additional board committees established by the Company are: –

- (a) Executive Committee;
- (b) Nomination Committee;
- (c) Finance Committee; and
- (d) Regulatory Compliance Committee.

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*

- (i) HKSE Code provision A.2.1 provides that 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. Ho, Lawrence Yau Lung of the operations of the Group and of the gaming and entertainment sector in Macau in general, his extensive business network and connections in that sector and the scope of the operations of the Group, the Board believes it is in the best interests of the Company for Mr. Ho, Lawrence Yau Lung to assume the roles of Chairman and Chief Executive Officer at this time and such arrangement be subject to review by the Board from time to time.
- (ii) HKSE 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 of Listed Issuers ("Model Code") 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 six months period ended 30th June 2006.

## ▶ **Purchase, Redemption or Sale of the Company's Listed Securities**

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

## ▶ **Independent Review**

The interim results for the six months ended 30 June 2006 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by Deloitte Touche Tohmatsu, whose independent review report is included in this interim report.

The 2006 interim results and this interim report have also been reviewed by the Audit Committee of the Company. Regular meetings have been held by the Committee since its establishment. The Committee meets at least twice a year.