



It started with a vision



Melco International Development Limited

# Interim Report 2007

A Hong Kong listed company with stock code : 200



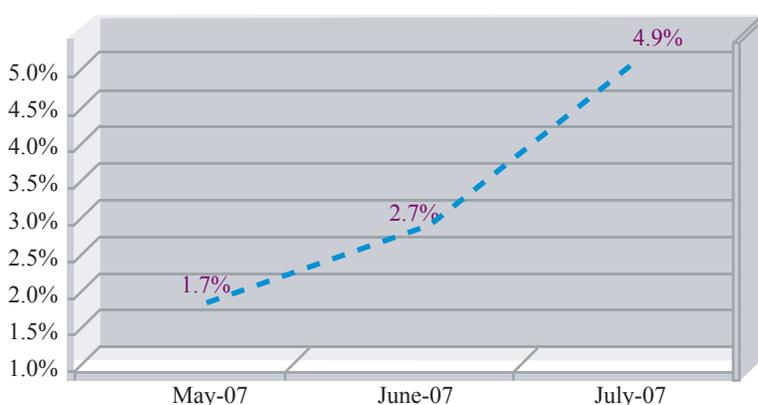
# Management Discussion & Analysis

## Significant Events and Developments

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

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

**Crown Macau’s Market Share in terms of Macau’s Gaming Revenue**



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

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

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

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

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

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

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

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

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

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



# Financial Review

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

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

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

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

- (1) A non-recurring gain on deemed disposal of partial interests in associates – In January 2007, the underwriters of the global offering of American Depositary Shares (“ADS”) of the associate, MPEL, fully exercised the over-allotment option granted to them at the initial public offering price of HK\$147.8 (US\$19) per ADS. As a result, a gain on deemed disposal of partial interests in associates of approximately HK\$386.8 million was recognized during the six months ended 30 June 2007.
- (2) Share of loss of associates amounted to total of HK\$299.9 million, the bulk of which (approximately HK\$297.7 million) was attributable to MPEL, an associate in which the Group has an interest of 41.39%. MPEL recorded a total loss of approximately HK\$752 million (US\$96.4 million) for the six months ended 30 June 2007.
- (3) The absence of a non-recurring write-down of intangible asset amounting to HK\$90.4 million arising from the termination of certain service agreements with Sociedade de Jogos de Macau, S.A. (“SJM”), recorded in the first half of last year.
- (4) In January 2007, the Group subscribed certain new shares and warrants of VDC pursuant to a securities purchase agreement. The new shares of the company subscribed are recognised as available-for-sale investments while the warrants subscribed are recognised as derivative financial instruments. The warrants subscribed have exercise prices ranging from US\$2.65 to US\$5.50 and are exercisable between 31 December 2007 and 31 December 2010. During the period, an increase in the fair value of approximately HK\$211.8 million regarding the warrants was recognised in the condensed consolidated income statement.

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

# Business Review

## Leisure, Gaming and Entertainment

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

	Six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
Macau Gaming (Prior to October 2006)	-	(118,702)
Jumbo Kingdom	(3,085)	3,805
Others	(319)	-
	<u>(3,404)</u>	<u>(114,897)</u>



## MPEL – Macau Gaming

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

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

- (1) The pre-opening operating expenses (other than construction-related costs) amounting to approximately HK\$31.5 million incurred in respect of the development of Crown Macau and City of Dreams.
- (2) An intangible asset write down of approximately HK\$90.4 million resulting from the termination of Mocha Slots' service agreements with SJM. These agreements were terminated as a result of MPEL acquiring its own gaming subconcession in September 2006.



## Jumbo Kingdom

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

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



## Technology

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

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





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

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



## Investment Banking and Financial Services

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

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

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

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

# Property and Other Investments

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

## Share of Loss of Associates

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

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Share of loss of MPEL and its subsidiaries (1)	(297,727)	—
Share of loss of MCR and its subsidiary (2)	(2,145)	—
	<u>(299,872)</u>	<u>—</u>

### (1) Share of loss of MPEL and its subsidiaries

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

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

- (i) Substantial pre-opening expenses incurred in respect of Crown Macau and City of Dreams amounted to approximately US\$35.3 million for the six months ended 30 June 2007.
- (ii) Effective from September 2006, MPEL started to provide for the amortisation of its own gaming license amounted to approximately US\$28.6 million for the six months ended 30 June 2007.
- (iii) Marketing expenses associated with the opening of Crown Macau on 12 May 2007 amounted to approximately US\$11.6 million.

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

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





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

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

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

## (2) Share of loss of MCR and its subsidiary

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

## Share of Loss of Jointly Controlled Entities

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

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

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

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

assets over current liabilities, was maintained at a satisfactory level of 2.4 time (31 December 2006: 6.3 time).

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

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

## Material Acquisitions

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

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

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

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





In consideration of the services to be provided by Elixir and upon achievement of various milestones under the Products Participation Agreement, VDC will allot and issue a maximum of 55,000,000 consideration shares, 88,000,000 consideration warrants and amend the terms of the existing warrants previously issued to Elixir. As at the date hereof, a total of 40 million VDC's shares and 22 million VDC's warrants have been issued to Elixir pursuant to the said Products Participation Agreement.

## Headcount/Employees' Information

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

## Foreign Exchange Exposure

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

## Future Plans for Material Investments or Capital Assets

Material capital expenditure will be incurred when the Company begins to pursue different projects in the coming years. The Company expects the respective project companies to secure required funding themselves using different financing options available. The Company will also provide the required equity capital to the new projects coming ahead, should it be deemed appropriate. Details are given in Note 24 to the condensed financial statements.

## Contingent Liabilities

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

## Dividend

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

# Outlook

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



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

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

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

By Order of the Board of

**Ho, Lawrence Yau Lung**

Chairman and Chief Executive Officer

Hong Kong, 13 September 2007



# Independent Review Report



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

## Introduction

We have reviewed the interim financial information set out on pages 15 to 33, which comprises the condensed consolidated balance sheet of Melco International Development Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

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

Hong Kong, 13 September 2007

# Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Notes	Six months ended 30 June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Revenue	4	418,141	371,400
Other revenues		19,490	9,643
Investment income		911	7,699
Cost of inventories sold		(176,986)	(78,509)
Employee benefits expense		(149,656)	(136,041)
Depreciation of property, plant and equipment		(6,277)	(33,809)
Amortisation of service agreements intangible asset and trading rights		(253)	(2,950)
Commission expenses		(9,587)	(6,481)
Loss on deemed disposal of partial interest in a subsidiary		(11)	–
Gain on deemed disposal of partial interests in associates	5	386,805	–
Fair value changes on derivative financial instruments	6	211,840	–
Other operating expenses		(52,273)	(91,933)
Finance costs		(50,583)	(42,103)
Share of loss of jointly controlled entities		(5,387)	(24)
Share of loss of associates	13	(299,872)	–
Write-down of service agreements intangible asset		–	(90,390)
Gain on early redemption of convertible loan notes		8,827	–
Profit (loss) before tax	7	295,129	(93,498)
Income tax (expense) credit	8	(5,520)	9,215
Profit (loss) for the period		289,609	(84,283)
Attributable to:			
Equity holders of the Company		284,394	(28,983)
Minority interests		5,215	(55,300)
		289,609	(84,283)
Dividend paid	9	12,282	11,605
Earnings (loss) per share	10		
Basic		HK23.16 cents	HK(2.51) cents
Diluted		HK22.11 cents	N/A

# Condensed Consolidated Balance Sheet

AT 30 JUNE 2007

	NOTES	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000
<b>Non-current assets</b>			
Investment properties	11 & 12	141,940	141,940
Property, plant and equipment	11	53,153	39,945
Other intangible assets		2,547	2,547
Interests in jointly controlled entities		113,152	87,901
Interests in associates	13	5,885,141	5,802,612
Amount due from an associate	14	–	578,578
Available-for-sale investments		49,087	19,837
Derivative financial instruments		211,840	–
Goodwill		16,878	16,878
Trading rights		1,520	1,773
Long term deposits		3,262	3,236
Deferred tax assets		1,100	2,781
		<u>6,479,620</u>	<u>6,698,028</u>
<b>Current assets</b>			
Trade receivables	15	1,868,044	662,954
Prepayments, deposits and other receivables		85,369	82,831
Inventories		90,150	61,476
Held-for-trading investments		16,698	14,503
Amounts due from jointly controlled entities		59	855
Amounts due from associates	14	676,002	611,862
Taxation recoverable		1,345	1,345
Pledged bank deposits	12	947	947
Bank balances and cash		1,447,548	1,209,826
		<u>4,186,162</u>	<u>2,646,599</u>
<b>Current liabilities</b>			
Trade payables	16	167,839	270,733
Other payables		137,266	91,598
Consideration payable	17	173,919	–
Dividend payable		120	1,444
Taxation payables		10,032	6,378
Bank borrowings – due within one year	18	1,264,822	49,000
		<u>1,753,998</u>	<u>419,153</u>

# Condensed Consolidated Balance Sheet

AT 30 JUNE 2007

	NOTES	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000
<b>Net current assets</b>		<b>2,432,164</b>	2,227,446
<b>Total assets less current liabilities</b>		<b>8,911,784</b>	8,925,474
<b>Non-current liabilities</b>			
Consideration payable	17	–	170,537
Convertible loan notes – due after one year	19	<b>970,004</b>	1,093,459
		<b>970,004</b>	1,263,996
		<b>7,941,780</b>	7,661,478
<b>Capital and reserves</b>			
Share capital	20	<b>614,088</b>	614,075
Share premium and reserves		<b>7,227,763</b>	6,953,032
Equity attributable to equity holders of the Company		<b>7,841,851</b>	7,567,107
Share options reserve of a subsidiary		<b>584</b>	265
Minority interests		<b>99,345</b>	94,106
		<b>7,941,780</b>	7,661,478

# Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2007

Attributable to the equity holders of the Company

	Attributable to the equity holders of the Company													Equity component of share option		Minority interests	Total
	Share capital	Share premium	Issuable shares	Capital reserve	Special reserve	Convertible loan notes equity reserve	Property revaluation reserve	Other revaluation reserve	Exchange reserve	Legal reserve	Share options	Accumulated profit	Total reserve of a subsidiary				
	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	HK\$'000	HK\$'000
At 1 January 2006	562,919	1,776,249	196,667	337,641	(110,880)	327,677	-	45,866	(43)	254	7,752	413,864	3,558,165	-	686,293	4,244,478	
Exchange differences arising on translation of foreign operations and income directly recognised in equity	-	-	-	-	-	-	-	-	70	-	-	-	70	-	-	70	
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	(28,983)	(28,983)	-	(53,300)	(84,283)	
Total recognised income (expense) for the period	-	-	-	-	-	-	-	-	70	-	-	(28,983)	(28,913)	-	(53,300)	(84,213)	
Exercise of share options	6,521	10,674	-	-	-	-	-	-	-	-	-	-	17,195	-	-	17,195	
Shares issued at premium	31,600	1,162,960	-	-	-	-	-	-	-	-	-	-	1,214,760	-	-	1,214,760	
Share issuance expenses	-	(40,025)	-	-	-	-	-	-	-	-	-	-	(40,025)	-	-	(40,025)	
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	-	45,866	27	254	9,109	384,881	4,713,781	260	633,496	5,347,537	
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	-	(29)	-	-	-	(29)	-	(65)	(94)	
Increase in fair value of investment properties upon transfer from land and buildings	-	-	-	-	-	-	5,796	-	-	-	-	-	5,796	-	-	5,796	
Net income directly recognised in equity	-	-	-	-	-	-	5,796	-	(29)	-	-	-	5,767	-	(65)	5,702	
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	2,865,738	2,865,738	-	(21,474)	2,844,264	
Total recognised income (expense) for the period	-	-	-	-	-	-	5,796	-	(29)	-	-	2,865,738	2,871,505	-	(21,539)	2,849,966	
Exercise of share options	1,724	5,410	-	-	-	-	-	-	-	-	-	-	7,134	-	-	7,134	
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	604	604	
Decrease in minority interest on disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(518,466)	(518,466)	
Increase in minority interest on deemed disposal of partial interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33	33	
Recognition of equity-settled share based payments	-	-	-	-	-	-	-	-	-	-	-	4,907	-	4,907	5	8	4,920
Transfer to share premium upon exercise of share option	-	1,290	-	-	-	-	-	-	-	-	(1,290)	-	-	-	-	-	
Realisation of special reserve and other revaluation reserve upon disposal of subsidiaries and interests in jointly controlled entities	-	-	-	-	32,637	-	-	(13,506)	-	-	-	(19,131)	-	-	-	-	
Dividend paid	-	-	-	(21,295)	-	-	-	-	-	-	-	-	(21,295)	-	-	(21,295)	
Dividend in specie	-	-	-	(8,925)	-	-	-	-	-	-	-	-	(8,925)	-	-	(8,925)	
At 31 December 2006 and 1 January 2007	614,075	3,124,940	-	296,016	(78,243)	327,677	5,796	32,380	(2)	254	12,726	3,231,488	7,567,107	265	94,106	7,661,478	

# Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2007

Attributable to the equity holders of the Company

	Share capital	Share premium	Issuable shares	Capital reserve	Special reserve	Convertible				Legal reserve	Share options reserve	Accumulated profit	Equity component of share option reserve of a subsidiary		Minority interests	Total
						loan notes equity reserve	Property revaluation reserve	Other revaluation reserve	Exchange reserve				reserve of a subsidiary	interests		
	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	HK\$'000
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	595	-	-	-	595	-	(51)	544
Gain on fair value change of available-for-sale investments	-	-	-	-	-	-	-	8,633	-	-	-	-	8,633	-	-	8,633
Net income directly recognised in equity	-	-	-	-	-	-	-	8,633	595	-	-	-	9,228	-	(51)	9,177
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	284,384	284,384	-	5,215	289,609
Total recognised income for the period	-	-	-	-	-	-	-	8,633	595	-	-	284,384	283,622	-	5,164	288,786
Exercise of share options	13	173	-	-	-	-	-	-	-	-	-	-	186	-	-	186
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	77	77
Increase in minority interests on deemed disposal of partial interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11	11
Recognition of equity-settled share based payments	-	-	-	-	-	-	-	-	-	-	4,696	-	4,696	319	183	5,198
Transfer to share premium upon exercise of share option	-	34	-	-	-	-	-	-	-	-	(34)	-	-	-	-	-
Transfer of share option reserve upon expiry of share options	-	-	-	-	-	-	-	-	-	-	(48)	48	-	-	-	-
Realisation of convertible loan notes equity reserve upon redemption of convertible loan notes	-	-	-	-	-	(11,478)	-	-	-	-	-	-	(11,478)	-	-	(11,478)
Transfer of convertible loan notes equity reserve to accumulated profit upon redemption of convertible loan notes	-	-	-	-	-	(8,946)	-	-	-	-	-	8,946	-	-	-	-
Dividend paid	-	-	-	(12,282)	-	-	-	-	-	-	-	-	(12,282)	-	(196)	(12,478)
At 30 June 2007	614,088	3,125,147	-	283,734	(78,243)	307,253	5,796	41,013	593	254	17,340	3,524,878	7,841,851	584	99,345	7,941,780

**Note:** The issuable shares as at 1 January 2006 formed part of the consideration for acquisition of additional interest in a subsidiary that was issued on the actual date of grant of the concession of a piece of land (the "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 2007

	Six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(1,236,333)	(4,974)
Net cash from (used in) investing activities:		
Repayment from associates	514,438	–
Investment in jointly controlled entities	(30,000)	–
Purchases of available-for-sale investments	(20,617)	–
Other investing cash flows	(18,742)	(82,912)
Advance to a minority shareholder for a subconcession	–	(312,000)
Acquisition of hotels and entertainment complex under development	–	(309,205)
Advances made to jointly controlled entities	–	(199,596)
Proceeds from disposal of property, plant and equipment	–	232
	<u>445,079</u>	<u>(903,481)</u>
Net cash from financing activities:		
Bank borrowings raised	1,215,822	22,000
Redemption of convertible loan notes	(156,000)	–
Other financing cash flows	(30,846)	(41,237)
Proceeds from issue of shares	–	1,214,760
Borrowings from a minority shareholder	–	551,354
	<u>1,028,976</u>	<u>1,746,877</u>
Net increase in cash and cash equivalents	237,722	838,422
Cash and cash equivalents at the beginning of the period	1,209,826	2,350,284
Cash and cash equivalents at the end of the period, represented by bank balances and cash	<u>1,447,548</u>	<u>3,188,706</u>

# Notes to the Condensed Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2007

## 1. BASIS OF PREPARATION

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

## 2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

HKAS 1 (Amendment)	Capital Disclosures <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>
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment <sup>5</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

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

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

## 3. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

#### 4. SEGMENTAL INFORMATION

Segment information about these businesses is presented below:

Six months ended 30 June 2007 (unaudited):

	Leisure, gaming and entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment banking and financial services <i>HK\$'000</i>	Property and other investments <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External sales	41,940	192,269	133,712	50,220	–	418,141
Inter-segment sales	589	1,345	190	6,911	(9,035)	–
Total revenue	<u>42,529</u>	<u>193,614</u>	<u>133,902</u>	<u>57,131</u>	<u>(9,035)</u>	<u>418,141</u>
Segment result	<u>(3,404)</u>	<u>8,603</u>	<u>39,396</u>	<u>50,868</u>	<u>(4,406)</u>	<u>91,057</u>
Unallocated corporate expenses						(47,547)
Finance costs						(50,583)
Share of loss of jointly controlled entities						(5,387)
Share of loss of associates						(299,872)
Loss on deemed disposal of partial interest in a subsidiary						(11)
Gain on early redemption of convertible loan notes						8,827
Gain on deemed disposal of partial interests in associates						386,805
Fair value changes on derivative financial instruments						211,840
Profit before tax						295,129
Income tax expense						(5,520)
Profit for the period						<u>289,609</u>

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

Six months ended 30 June 2006 (unaudited):

	Leisure, gaming and entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment banking and financial services <i>HK\$'000</i>	Property and other investments <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External sales	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	(90,390)	–	–	–	–	(90,390)
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						(24)
Loss before tax						(93,498)
Income tax credit						9,215
Loss for the period						<u>(84,283)</u>

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

## 5. GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN ASSOCIATES

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

## 6. FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

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

## 7. PROFIT (LOSS) BEFORE TAX

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Profit (loss) before tax has been arrived at after charging:		
Impairment loss on trade receivables	–	1,768
and after crediting:		
Dividend income from unlisted investments	544	269
Dividend income from listed investments	218	273
Gain from fair value adjustment of held-for-trading investments	149	7,157
	<u>544</u>	<u>7,157</u>

## 8. INCOME TAX (EXPENSE) CREDIT

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 17.5% for the six months ended 30 June 2007 (six months ended 30 June 2006: 17.5%). Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

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

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

## 9. DIVIDEND

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

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

## 10. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
<b>Earnings (loss)</b>		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (profit (loss) for the period attributable to equity holders of the Company)	<b>284,394</b>	(28,983)
Effect of dilutive potential ordinary shares (note):		
Interest on convertible loan notes	<b>3,596</b>	–
Adjustments to the share of results of a subsidiary based on potential dilution of its earnings per share	<b>(215)</b>	–
Earnings (loss) for the purpose of diluted earnings (loss) per share	<b>287,775</b>	(28,983)
	<b>287,775</b>	(28,983)
	<b>2007</b>	2006
	Six months ended 30 June	
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	<b>1,228,159,114</b>	1,155,817,309
Effect of dilutive potential ordinary shares (note):		
Share options	<b>10,058,461</b>	–
Convertible loan notes	<b>63,306,832</b>	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<b>1,301,524,407</b>	1,155,817,309

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

## 11. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group spent approximately HK\$19,477,000 on leasehold improvements, purchase of restaurants' vessels, ferries and pontoons for the expansion of its leisure and entertainment business and its corporate office.

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 2007, the carrying amount of such property interests amounted to approximately HK\$141,940,000 (31 December 2006: HK\$141,940,000).

The fair values of the Group's investment properties as at 30 June 2007 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.

## 12. PLEDGE OF ASSETS

At 30 June 2007, the Group's bank deposits and investment properties which amounted to approximately HK\$947,000 and HK\$85,000,000, respectively, were pledged for obtaining the banking facilities granted to a subsidiary of the Company (31 December 2006: bank deposit of approximately HK\$947,000 and investment properties of approximately HK\$85,000,000).

## 13. INTERESTS IN ASSOCIATES

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

## 14. AMOUNT DUE FROM AN ASSOCIATE

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

## 15. TRADE RECEIVABLES

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

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

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

*Notes:*

- (a) The Group's Leisure, Gaming and Entertainment Segment and Property and Other Investments Segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30 to 90 days would be granted.
- (b) Trade receivable arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment Banking and Financial Services Segment as at 30 June 2007 amounted to approximately HK\$1,804,934,000 (31 December 2006: HK\$588,236,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

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

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

## 16. TRADE PAYABLES

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

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

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

## 17. CONSIDERATION PAYABLE

The amount represents payable to a shareholder of MPEL, Publishing and Broadcasting Limited ("PBL"), during an arrangement to dispose of certain subsidiaries of the Company to MPEL during the year ended 31 December 2006. The payable amount of HK\$180,000,000 is stated at amortised cost and is unsecured, non-interest bearing and not repayable within twelve months from 31 December 2006. As at 30 June 2007, such consideration payable become repayable within twelve months from the balance sheet date and is therefore shown as current liabilities.

## 18. BANK BORROWINGS – DUE WITHIN ONE YEAR

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

## 19. 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 has also issued another convertible loan note due on 7 February 2010 with a principal amount of HK\$56,000,000, which is also interest-bearing at 4% per annum. Both convertible loan notes were issued for the purpose of developing a land consisting 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 Group has exercised the early redemption option and early redeemed the convertible loan note as at 30 June 2007.

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 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. The Group has exercised the early redemption option and early redeemed the convertible loan note as at 30 June 2007.

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 a piece of land at Cotai, 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.

## 20. SHARE CAPITAL

	Number of ordinary shares		Amount	
	30 June 2007 (unaudited)	31 December 2006	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000
Authorised:				
At the beginning of the period/year of HK\$0.5 each	1,400,000,000	1,400,000,000	700,000	700,000
Increase in authorised ordinary share capital (Note)	600,000,000	—	300,000	—
At the end of the period/year of HK\$0.5 each	<u>2,000,000,000</u>	<u>1,400,000,000</u>	<u>1,000,000</u>	<u>700,000</u>
Issued and fully paid:				
At the beginning of the period/year of HK\$0.5 each	1,228,150,716	1,125,838,540	614,075	562,919
Issue of shares	—	85,822,222	—	42,911
Exercise of shares options	25,000	16,489,954	13	8,245
At the end of the period/year of HK\$0.5 each	<u>1,228,175,716</u>	<u>1,228,150,716</u>	<u>614,088</u>	<u>614,075</u>

**Note:** On 10 May 2007, an ordinary resolution was passed by the shareholders of the Company to approve the increase of authorised ordinary share capital of the Company from HK\$700,000,000 to HK\$1,000,000,000 by the creation of 600,000,000 new shares of HK\$0.5 each.

The shares issued rank pari passu in all respects with the then existing shares.

## 21. CAPITAL AND OTHER COMMITMENTS

<b>As at 30 June 2007 HK\$'000 (unaudited)</b>	<b>As at 31 December 2006 HK\$'000</b>
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Capital commitments contracted for but not provided in respect of the acquisition of property, plant and equipment, hotels and entertainment complex under development

<u>                    -</u>	<u>                    7,278</u>
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On 11 April 2006, the Group has 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 commencing April 2006. However, on 4 February 2007, the Group mutually entered into a Deed of Termination, Settlement and Release with Shuffle Master to terminate the Agreement without penalty.

## 22. RELATED PARTY TRANSACTIONS

- (a) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK\$34,083,000 (31 December 2006: HK\$34,834,000).

The prepayments, deposits and other receivables include approximately HK\$194,000 (31 December 2006: HK\$346,000) 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\$4,505,000 (31 December 2006: HK\$6,896,000).

- (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>2007</b>	2006
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Catering income earned from directors and related companies <sup>#</sup>	<b>2,323</b>	3,036
Insurance premiums charged by a related company <sup>#</sup>	<b>898</b>	896
Brokerage commission income earned from a related company <sup>#</sup>	<b>2,043</b>	1,097
Sales of computer hardware and software to related companies <sup>#</sup>	<b>38,065</b>	62,728
Sales of computer hardware and software to associates	<b>61,574</b>	–
Sales of computer hardware and software to a jointly controlled entity	<b>48</b>	–
Management fee paid to a related company <sup>#</sup>	–	1,665
Rental expense charged by a related company <sup>#</sup>	–	120
Travelling expense charged by a related company <sup>#</sup>	–	806
Travelling and entertainment expense charged by associates	<b>168</b>	–
Interest expense on shareholder's loan	–	622
Interest expense on convertible loan notes to a related company <sup>#</sup>	<b>32,989</b>	31,375
Income from provision of management services to certain electronic gaming machine lounges of a related company <sup>#</sup>	–	82,422
Service income of providing system maintenance services and technical support to related companies <sup>#</sup>	<b>330</b>	3,436
Service income of providing system maintenance services and technical support to associates	<b>521</b>	–
Purchase of property, plant and equipment from a related company <sup>#</sup>	–	17,064
Loan interest income received from associates	<b>12,023</b>	–
Rental income received from associates	<b>1,714</b>	–
Consultancy fee received from associates	<b>485</b>	–
Service income received from associates	<b>12,264</b>	–

<sup>#</sup> These transactions are made with related companies in which a close family member of a substantial shareholder of the Company has beneficial interests.

### 23. CONTINGENT LIABILITIES

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

## 24. POST BALANCE SHEET EVENTS

- (i) In March 2007, the Group entered into a Sale and Purchase Agreement (the "Sale and Purchase Agreement") with the other shareholder (the "Shareholder") of a jointly controlled entity owned as to 60% by the Group and 40% by the Shareholder, namely, PAL Development Limited ("PAL"), for the sale of about 29.5% interest in PAL by the Group to the Shareholder for a total consideration of approximately Singaporean dollars 20 million (equivalent to approximately HK\$101,649,000). The Shareholder, which is a company listed on the Singapore Stock Exchange, will satisfy the consideration by way of issuance of its new shares. After the completion of the Sale and Purchase Agreement, the Group will hold about 30.5% interest in PAL and about 28.5% interest in the Shareholder. The completion of the Sale and Purchase Agreement is subject to certain condition precedents.
- (ii) On 13 June 2007, the Group entered into a Products Participation Agreement with VendingData Corporation ("VDC"), a company having its shares listed on the American Stock Exchange. Pursuant to the Products Participation Agreement, during a term of six years from the date of the completion, a subsidiary of the Company, Elixir Group Limited ("Elixir"), will provide agency services to source and refer gaming operators in the exclusive territory to VDC for the entering into of the electronic gaming machine ("EGM") leases on a revenue sharing basis directly with VDC and to supply, at market prices, the necessary EGM to VDC for the fulfillment of its obligations under such leases. In consideration of the services to be provided by Elixir and upon achievement of various milestones under the Products Participation Agreement, VDC will allot and issue a maximum of 55,000,000 shares, 88,000,000 warrants and amend the terms of the existing warrants previously issued to Elixir. The initial issuance of VDC shares to Elixir pursuant to the Products Participation Agreement was approved by VDC shareholders on 11 September 2007, resulting in the issuance of 40,000,000 shares to Elixir. Elixir currently holds 41,000,000 outstanding shares of VDC, representing approximately 53% of VDC's enlarged outstanding shares. Accordingly, VDC has become a subsidiary of the Group and has changed its name to Elixir Gaming Technologies, Inc.
- (iii) As at 30 June 2007, a wholly-owned subsidiary of the Company, Melco Financial Group Limited (the "Vendor"), held approximately 63.39% shareholding in VC, a subsidiary of the Company listed on the Growth Enterprise Market of the Stock Exchange. Subsequently on 10 July 2007, the Vendor entered into (i) a placing agreement (the "First Placing Agreement") with VC and a subsidiary of VC, VC Brokerage Limited (the "Placing Agent"); and (ii) a subscription agreement (the "First Subscription Agreement") with VC.

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

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

- (v) On 22 August 2007, the Company's wholly-owned subsidiary, Melco Leisure and Entertainment Group Limited, had entered into a non-binding Letter of Intent with Virtual China Travel Services Co. Limited ("VCTS"), a company listed on the TSX Venture Exchange, in relation to (1) proposed subscription of 350,000,000 common shares of VCTS at the price of CDN\$0.10 per share (the "Subscription") by the Company in a private placement; and (2) at the same time as completion of the Subscription, VCTS will acquire entire issued share capital of Melco China Resort Investment Limited, a company in the process of acquiring four ski resorts in the People's Republic of China and 45% owned by the Company. Upon the completion of the aforementioned transactions, VCTS will become a subsidiary of the Company and own the four ski resorts.
- (vi) In September 2007, the Group agreed to extend the repayment date of the amount due from MPEL, of approximately HK\$578,578,000 by twelve months to May 2009. In connection with this arrangement, the consideration payable to PBL as disclosed in note 17 was agreed to become repayable on the same date.
- (vii) On 5 September 2007, the Company has given an undertaking in connection with the HK\$13.65 billion (US\$1.75 billion) loan facilities obtained by MPEL. The undertaking given by the Company is to ensure that a contingent contribution of up to a maximum amount of HK\$975,000,000 (US\$125,000,000) will be provided, upon request of the facility agent acting on behalf of the lenders, to pay contingencies (if any) associated with the construction of the City of Dreams project of MPEL in the absence of other available funding for completion of the project. The Company will maintain a standby letter of credit for the said maximum amount to support its contingent obligation. PBL has given a similar undertaking and entered into a similar arrangement in connection with the said loan facilities.
- (viii) Subsequently on 6 September 2007, the Vendor holds approximately 52.19% shareholding in VC and the Vendor entered into another placing and subscription agreement (the "Second Placing and Subscription Agreement") with VC and a third party placing agent (the "Third Party Placing Agent").

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

# Disclosure of Interests

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

As at 30th June 2007, 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 positions 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
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	404,041,630 (Note 2)	32.90%
	Beneficial owner	7,232,612	0.59%
Dr. Lo Ka Shui	Beneficial owner	2,000,000	0.16%

## (b) Share options granted by the Company (Note 3)

Name of Director	Number of share options				Date of grant	Exercisable period	Exercise price HK\$
	Outstanding at 1st January 2007	Grant during the period	Exercised during the period	Outstanding at 30th June 2007			
Mr. Chung Yuk Man, Clarence	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>1,640,000</u>	<u>-</u>	<u>-</u>	<u>1,640,000</u>			

## (c) Convertible loan notes issued by the Company

Name of Director	Capacity	Number of underlying shares held	Approximate percentage of the issued share capital of the Company
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694 (Note 4)	9.60%

*Notes:*

1. As at 30th June 2007, the total number of issued shares of the Company was 1,228,175,716.
2. 115,509,024 shares of the Company are held by Lasting Legend Ltd., representing approximately 9.40% of the issued share capital of the Company and 288,532,606 shares of the Company are held by Better Joy Overseas Ltd., representing approximately 23.49% of the issued share capital of the Company. Lasting Legend Ltd. and Better Joy Overseas Ltd. are owned by persons and trusts associated with Mr. Ho, Lawrence Yau Lung.
3. During the period, no share options of the directors were lapsed or cancelled.
4. Pursuant to an agreement dated 11th 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 5th September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which are including Mr. Ho, Lawrence Yau Lung and his family members. 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 to make an offer under Rule 26 of The Hong Kong Code on Takeovers and Mergers (the "Takeovers Code") on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code would arise on full conversion.

## **(ii) Long positions in shares and underlying shares of associated corporations of the Company**

### **(A) Value Convergence Holdings Limited ("Valued Convergence")**

- (a) Ordinary shares of HK\$0.10 each of Value Convergence

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of issued ordinary shares of Value Convergence held</b>	<b>Approximate percentage of the issued share capital of Value Convergence</b>
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	165,163,008 (Note 2)	65.06%

(b) Share options granted by Value Convergence (Note 3)

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 4)	0.19%

Notes:

1. As at 30th June 2007, the total number of issued shares of Value Convergence was 253,860,179.
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 interested in approximately 33.49% of the issued share capital of the Company which in turn holds approximately 63.39% 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.
3. During the period, no share options mentioned above were lapsed or cancelled.
4. The personal interest of Mr. Ho, Lawrence Yau Lung represents his derivative interest in Value Convergence comprising the options which were granted on 9th July 2002 and may be exercised during the period from 9th July 2002 to 8th July 2012 at an exercise price of HK\$1.00 per Value Convergence's share.

**(B) Melco PBL Entertainment (Macau) Limited ("MPEL")**

(a) Ordinary shares of US\$0.01 each of MPEL

Name of Director	Capacity	Number of issued ordinary shares of MPEL held	Approximate percentage of the issued share capital of MPEL
Mr. Ho, Lawrence Yau Lung	Held by controlled corporation	500,000,000 (Note 2)	41.39%

(b) Restricted shares award granted by MPEL (Notes 3 & 7)

Name of Director	Capacity	Number of underlying shares of MPEL held	Approximate percentage of the issued share capital of MPEL
Mr. Ho, Lawrence Yau Lung	Beneficial owner	947,450 (Note 4)	0.078%
Mr. Tsui Che Yin, Frank	Beneficial owner	11,850 (Note 5)	0.001%
Mr. Chung Yuk Man, Clarence	Beneficial owner	31,600 (Note 6)	0.003%

*Notes:*

1. As at 30th June 2007, the total number of issued shares of MPEL was 1,208,043,646.
2. Mr. Ho, Lawrence Yau Lung is taken to be interested in 500,000,000 shares of MPEL as a result of him being beneficially interested in approximately 33.49% of the issued share capital of the Company which in turn holds approximately 41.39% of the issued share capital of MPEL.
3. The personal interests of the above directors represent their derivative interests in MPEL comprising the restricted shares which were granted by MPEL on 19th December 2006, the date on which the American Depositary Shares representing the ordinary shares of MPEL were listed on the NASDAQ Global Market, at a grant price of US\$0.01 per share, which is the par value of the share of MPEL, pursuant to the restricted shares award agreement under the Share Incentive Plan adopted by MPEL in 2006. The restricted shares granted to the above directors have a vesting period ranging from six months to three years.
4. These 947,450 restricted shares will vest on 19th December 2009.
5. These 11,850 restricted shares have vested on 19th June 2007.
6. Among the 31,600 restricted shares, 15,800 restricted shares have vested on 19th June 2007 and 33.4%, 33.3% and 33.3% of the remaining 15,800 restricted shares will vest on each of 19th December 2007, 2008 and 2009 respectively.
7. During the period, no restricted shares mentioned above were lapsed or cancelled.

Save as disclosed above, as at 30th June 2007, 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 30th June 2007, 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/ underlying shares held	Approximate percentage of the issued share capital of the Company
Better Joy Overseas Ltd.	Beneficial owner	288,532,606 (Note 2)	23.49%
Lasting Legend Ltd.	Beneficial owner	115,509,024 (Note 2)	9.40%
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	404,041,630 (Note 3)	32.90%
	Beneficial owner	7,232,612	0.59%
Ms. Lo Sau Yan, Sharen	Family	411,274,242 (Note 4)	33.49%
Janus Capital Management LLC	Beneficial owner	111,547,200	9.08%
Julius Baer Investment Management LLC	Beneficial owner	78,890,545	6.42%
JP Morgan Chase & Co.	Beneficial owner	71,532,200 (Note 5)	5.82%
State Street Corporation	Beneficial owner	133,807,801 (Note 6)	10.89%

## (b) Convertible loan notes

Name	Capacity	Number of underlying shares held	Approximate percentage of the issued share capital of the Company
Great Respect Limited	Beneficial owner	117,912,694 (Note 7)	9.60%
Dr. Ho Hung Sun, Stanley	Held by trust	117,912,694 (Note 7 & 8)	9.60%
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694 (Note 7)	9.60%
Ms. Lo Sau Yan, Sharen	Held by trust	117,912,694 (Note 7)	9.60%
SG Trust (Asia) Ltd.	Held by controlled corporation	117,912,694 (Note 7)	9.60%

### Notes:

1. As at 30th June 2007, the total number of issued shares of the Company was 1,228,175,716.
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. 115,509,024 shares of the Company are held by Lasting Legend Ltd., representing approximately 9.40% of the issued share capital of the Company and 288,532,606 shares of the Company are held by Better Joy Overseas Ltd., representing approximately 23.49% of the issued share capital of the Company. Lasting Legend Ltd. and Better Joy Overseas Ltd. are owned by persons and trusts associated with Mr. Ho, Lawrence Yau Lung.
4. Ms. Lo Sau Yan, Sharen is the spouse of Mr. Ho, Lawrence Yau Lung and is deemed to be interested in the shares of the Company in which Mr. Ho, Lawrence Yau Lung is interested under the SFO.
5. Among the 71,532,200 shares of the Company, 13,732,100 shares are held in lending pool.
6. The interest is held in lending pool.
7. Pursuant to an agreement dated 11th May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Ho, Lawrence Yau Lung and his family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity for the making of an offer under Rule 26 of the Takeovers Code on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code will be made on full conversion.
8. Dr. Ho Hung Sun, Stanley also holds 3,127,107 shares and 18,587,789 shares of the Company through a controlled corporation, Lanceford Company Limited and in person respectively.

Save as disclosed herein, so far as the Directors were aware, as at 30th June 2007, no other persons had interests or short positions in the shares, underlying shares and debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, nor were there any other persons required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, or directly or indirectly interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

# Information on Share Option Scheme

At an extraordinary general meeting of the Company held on 8th March 2002, the shareholders of the Company approved the adoption of a share option scheme (the "Scheme") under which the directors of the Company may, at their discretion, grant to any participants of the Scheme which include the Company's directors (including independent non-executive directors), executives, employees, consultants, professionals and other advisers of the Group, share options to subscribe for the Company's shares, subject to the terms and conditions as stipulated therein. A summary of the movement of the share options for the six months ended 30th June 2007 is as follows:

Category of participant	Number of share options					Outstanding at 30th June 2007 <sup>3</sup>	Date of grant of share option <sup>1</sup>	Share price	Exercise price of share options <sup>2</sup>
	Outstanding at 1 <sup>st</sup> January 2007	Reclassified during the period	Granted during the period	Exercised during the period <sup>4</sup>	Lapsed during the period			at date of grant of share options <sup>2</sup>	
								HK\$	
Directors <sup>5</sup>	140,000	-	-	-	-	140,000	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>1,640,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,640,000</b>			
Employees <sup>9</sup>	1,020,000	-	-	-	-	1,020,000	17.09.2004	1.6875	1.6875
Employees <sup>10</sup>	585,400	400,000	-	(25,000)	(35,000)	925,400	01.02.2005	7.4000	7.4000
Employees <sup>11</sup>	3,400,000	1,100,000	-	-	-	4,500,000	13.02.2006	11.7500	11.8000
<b>Sub-total</b>	<b>5,005,400</b>	<b>1,500,000</b>	<b>-</b>	<b>(25,000)</b>	<b>(35,000)</b>	<b>6,445,400</b>			
Others <sup>12</sup>	200,000	-	-	-	-	200,000	19.02.2004	1.1750	1.2025
Others <sup>13</sup>	9,600,000	-	-	-	-	9,600,000	17.09.2004	1.6875	1.6875
Others	400,000	(400,000)	-	-	-	-	01.02.2005	7.4000	7.4000
Others <sup>14</sup>	1,200,000	(1,100,000)	-	-	-	100,000	13.02.2006	11.7500	11.8000
<b>Sub-total</b>	<b>11,400,000</b>	<b>(1,500,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,900,000</b>			
<b>Total</b>	<b>18,045,400</b>	<b>-</b>	<b>-</b>	<b>(25,000)</b>	<b>(35,000)</b>	<b>17,985,400</b>			

## Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercisable period.
2. The number of share options granted and the exercise price of the share options were adjusted after the completion of the rights issue in 24th September 2003 and share subdivision on 19th May, 2005.

3. As at 30th June 2007, the Company had 17,985,400 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 17,985,400 additional ordinary shares of the Company and additional share capital of approximately HK\$8,992,700 and share premium of approximately HK\$91,016,260 before issuance expenses.
4. In respect of the share options exercised during the period, the weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$15.404.
5. As at 30th June 2007, 140,000 share options may be exercised during the period from 17th March 2008 to 7th March 2012.
6. As at 30th June 2007, 200,000 share options may be exercised during the period from 17th September 2009 to 7th March 2012.
7. Among the 400,000 share options as at 30th June 2007, 130,000 share options may be exercised during the period from 1st April 2008 to 31st January 2016, 130,000 share options may be exercised during the period from 1st April 2010 to 31st January 2016 and 140,000 share options may be exercised during the period from 1st April 2012 to 31st January 2016.
8. Among the 900,000 share options as at 30th June 2007, 300,000 share options may be exercised during the period from 3rd April 2008 to 2nd April 2016, 300,000 share options may be exercised during the period from 3rd April 2010 to 2nd April 2016 and 300,000 share options may be exercised during the period from 3rd April 2012 to 2nd April 2016.
9. Among the 1,020,000 options as at 31 December 2006, 370,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 450,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 110,000 options may be exercised during the period from 17 September 2006 to 7 March 2012 and 90,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.
10. Among the 925,400 share options as at 30th June 2007, 45,000 options may be exercised during the period from 17th September 2006 to 7th March 2012 and 880,400 options may be exercised during the period from 17th March 2008 to 7th March 2012.
11. Among the 4,500,000 options as at 30th June 2007, 1,370,000 options may be exercised during the period from 1st April 2008 to 31st January 2016, 1,370,000 options may be exercised during the period from 1st April 2010 to 31st January 2016, 1,410,000 options may be exercised during the period from 1st April 2012 to 31st January 2016, 113,000 options may be exercised during the period from 3rd April 2008 to 31st January 2016, 113,000 options may be exercised during the period from 3rd April 2010 to 31st January 2016 and 124,000 options may be exercised during the period from 3rd April 2012 to 31st January 2016.
12. As at 30th June 2007, 200,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.
13. Among the 9,600,000 options as at 30th June 2007, 4,700,000 options may be exercised during the period from 17th March 2005 to 7th March 2012, 4,700,000 options may be exercised during the period from 17th September 2005 to 7th March 2012, 100,000 options may be exercised during the period from 17th September 2006 to 7th March 2012 and 100,000 options may be exercised during the period from 17th March 2008 to 7th March 2012.
14. Among the 100,000 options as at 30th June 2007, 30,000 options may be exercised during the period from 1st April 2008 to 31st January 2016, 30,000 options may be exercised during the period from 1st April 2010 to 31st January 2016 and 40,000 options may be exercised during the period from 1st April 2012 to 31st January 2016.

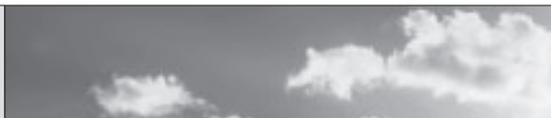
# Corporate Governance

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

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

- (i) Pursuant to the code provision A.2.1 of the HKSE Code, the roles of the Chairman and Chief Executive Officer of a listed company should be separate and should not be performed by the same individual. However, in view of the present composition of the Board, the in depth knowledge of Mr. Ho, Lawrence Yau Lung of the operations of the Group and of the gaming and entertainment sector in Macau in general, his extensive business network and connections in that sector and the scope of operations of the Group, the Board believes it is in the best interests of the Company for Mr. Ho, Lawrence Yau Lung to assume the roles of Chairman and Chief Executive Officer at this time and such arrangement be subject to review by the Board from time to time.
- (ii) Code provision A.4.1 of the HKSE Code provides that Non-executive Directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all Non-executive Directors of the Company are not appointed for specific term. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on directors’ service are appropriate given that directors ought to be committed to representing the long term interests of the Company’s shareholders and the retirement and re-election requirements of Non-executive Directors have given the Company’s shareholders the right to approve continuation of Non-executive Directors’ offices.

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



## Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct and rules governing dealings by all directors in the securities of the Company. Having made specific enquiry of the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings and code of conduct regarding securities transactions by directors set out in the Model Code throughout the six months ended 30th June 2007.

## Purchase, Redemption or Sale of the Company’s Listed Securities

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

## Audit Committee

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

## Independent Review

The interim results for the six months ended 30 June 2007 are unaudited, but have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, by the Company’s auditors, whose independent review report has been included in page 14 of this report.

## Board of Directors

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