

HALF YEAR RESULTS

The Group's result has turned around in the first half of 2004. Turnover for the six months ended 30th June 2004 amounted to approximately HK\$210.9 million (2003: HK\$58.4 million) and unaudited profit attributable to shareholders amounted to approximately HK\$60.1 million, as compared to a loss of approximately HK\$14.9 million for the same period last year. Basic earning per share was 24.84 HK cents (Basic loss per share in 2003: 10.24 HK cents).

During the first half of 2004, the Group has focused on drastically expanding its principal business of leisure and entertainment in Macau by planning and initiating a few major projects in this field. Other than leisure and entertainment business, the Group also builds on its business segments of technology and investment banking and financial services. The Group is emphasizing and investing additional resources in developing its lines of business in the growing Macau market and during the period, approximately 49% of the Group's turnover was generated from Macau.

DIVIDENDS

The directors declared the payment of an interim dividend of 1 HK cent per ordinary share for the six months ended 30th June 2004 (2003: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 7th October 2004 to Tuesday, 12th October 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Standard Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 6th October 2004.

BUSINESS REVIEW

Leisure and Entertainment

In order to speed up and drastically strengthen our leisure and entertainment strategy in Macau, during the period, the Group has strategically acquired an important business unit, Mocha Slot Group Limited ("Mocha"). The consideration of HK\$353 million was settled by an issue of 153,478,261 new shares, and the acquisition was completed on 9 June 2004. Mocha engages in the leasing of a wide variety of electronic gaming machines, including state-of-the-art slot machines and electronic multiplayer machines such as electronic Roulette, Baccarat, Sic-bo and Caribbean Stud, and the provision of related management services to casino operators in Macau. Given the continuing innovations in the market, changes in the electronic gaming industry and the gaming rules and regulations in Macau, Mocha's leasing and services model provides peace of mind to the enclave's casino operators. Mocha currently manages three slot

machine lounges in Macau under the “Mocha Slot” brand in Hotel Royal, Kingsway Hotel and Casino and at Kampek Casino with over 500 slot machines in total (about one quarter of the slot machines in operation in Macau). Since the opening of the first Mocha Slot Lounge in Hotel Royal in September 2003, the Mocha Slot Lounge concept has been a success and is continuing to rechart the course of the Macau gaming industry. The total number of slot machines in Macau has rapidly shot up to over 2,000, showing the market’s acceptance of electronic gaming machines and the emergence of a new type of gaming entertainment. As a first mover and key player, Mocha provides the Group with a strong entry into this niche market segment that has tremendous growth potentials.

As a further means to tap the growing Macau economy and its ever growing number of tourists, the Group has also started the strategic planning of its most ambitious and anchor project in Macau which involves constructing the first ever 6-star hotel and (subject to approval of the Macau government authorities) entertainment complex with one of the largest casino and electronic gaming machine areas.

The operating environment for the catering industry has gradually improved during the first half of 2004. The Group has continued with the renovations of its Jumbo and Tai-Pak restaurants during the period, and this has affected the revenue generated from this unit. The transformation of Jumbo and Tai-Pak restaurants into “Jumbo Kingdom” – a modern complex of fine-dining, shopping, sightseeing and cultural attractions – has been largely completed at the end of the period. New attractions added to Jumbo Kingdom includes: fine-dining restaurant “Dragon Court” which serves quality and innovative cuisine, conference and banquet facilities, sampan dining which revives a classic Hong Kong dining experience with “Typhoon Shelter” seafood meal, retail shops where tourists can choose their favorite souvenirs, ferry pier plaza and open cafe. Other attractions are due to be opened in later part of the year. With the completion of the revamp and launch of “Jumbo Kingdom” and the improvement of Hong Kong economy and operating environment of the fine-dining business, the Group has initiated a marketing campaign in promoting Jumbo Kingdom. We are optimistic that, with our marketing efforts and continued improvement of our food and service qualities and our offerings, the revamped “Jumbo Kingdom” will continue to be a tourist attraction in the Island south. Jumbo has also been planning for an expansion into Macau’s vast entertainment and food market with the up-coming launch of the famous and tremendously successful “Macau Chua Lam Gourmet Food Centre”. It is anticipated that this complex will open in late 2004.

During the period, turnover of our Leisure and Entertainment business increased to HK\$37.7 million (2003: HK\$25.1 million) which was primarily due to the increase in the business of Jumbo. Operation loss for the period was narrowed to HK\$5.2 million (2003: HK\$7.1 million). Since the acquisition of Mocha was only completed in mid-June 2004, the contribution from Mocha to this area was not material for the period.

Technology business

The Group's technology business is primarily conducted through Elixir group of companies ("Elixir") and iAsia group of companies ("iAsia"). Elixir is the premier Gaming IT infrastructure specialist in Macau with the provision of the latest gaming technology solutions including digital CCTV surveillance system, finger print access control system and facial recognition systems, as well as electronic gaming machines and systems. It also offers clients in Macau, Hong Kong and the PRC full range of hardware systems, system integration services and system network services. Elixir has become one of the leading technology solution providers in Macau through the expansion of its clientele to government organizations, banks and gaming clients. Also, Elixir has entered into partnership with world-renowned gaming system suppliers such as IGT, Interblock and R.Franco and is the pioneer in providing a total solution in this arena in Macau. Elixir will continue to cultivate and expand its service scope in Macau so as to maintain its leading position.

iAsia provides comprehensive online trading and related systems and services to financial institutions and intermediates. During the period, in addition to its current product offerings, iAsia developed a new Bullion Deal Matching System which was well received by customers. Also, iAsia has been improving and integrating the existing modules of online trading and related systems to better suit the customers' needs and the inclusion of Bullion Deal Matching System has enhanced the comprehensiveness of the systems. In addition, the Group's financial services business' systems are all supported by iAsia and it has contributed significantly to the technological advancement of the financial services unit.

The Group has undergone reorganization in May 2004, in which Melco Technology Group Limited (a wholly-owned subsidiary of the Group) had purchased all technology related businesses (i.e. interests in iAsia and Elixir) from Value Convergence Holdings Limited ("Value Convergence"), the Group's subsidiary. The consideration of HK\$27.9 million was settled in cash and by way of set-off of an intra group loan.

During the period, the technology business of the Group has successfully turned around and has become profitable. Turnover surged to HK\$105.8 million (2003: HK\$10.0 million), representing an increase of 9.6 times over the same period last year, and a profit of HK\$9.0 million (2003: Loss of HK\$7.5 million) was recorded. The revenue and profit were contributed by Elixir's gaming IT infrastructure business in Macau at HK\$100 million and HK\$8 million respectively. This is a reflection of the vast growth potential of the Macau IT, especially gaming IT, market and the efforts of our Elixir team. The iAsia's financial IT trading and settlement system business has also recorded a profit notwithstanding the static and cultivated state of the market.

Investment banking and financial services

During the first half of 2004, turnover of the investment banking and financial services business reached HK\$65.3 million (2003: HK\$20.7 million), representing an increase of 215.5%. This business has made a profit of HK\$9.0 million (2003: loss of HK\$5.9 million) for the period.

The investment banking and financial services primarily comprise investment banking (corporate finance advisory service, initial public offerings, mergers and acquisition advisory services); and brokerage (securities, futures and options broking and dealing). During the period, the investment banking division has completed several placements and IPO transactions. New offices in Shenzhen, Beijing and Shanghai have been set up in order to expand the deal sourcing capability as well as to provide better financial advisory services to our clients. Considerable effort has been placed in Macau to provide more advisory services to companies operating there to raise funds and tap overseas capital markets.

As a result of increased stock market activities during the period, business volume and transactions of the brokerage division had increased. The division also increased market share in the stock, futures and options markets. These, and the benefits arising from the implementation of strategic and operational initiatives, taken after acquisition of this business in late 2002, have contributed to the division's overall improved performance.

The research team has established a solid reputation in providing quality and independent company analyses and research reports. Also, we are gradually building up our asset management capability, and a team of seasoned asset management professionals has been recruited.

The application for a financial service licence to conduct securities and futures trading and brokerage business in Macau is in the final stage and documents in support of the application have been submitted to the Monetary Authority of Macau on several occasions.

Property and Other Investments

During the period, turnover and segment profit of the property and other investments segment was HK\$2.1 million (2003: HK\$2.5 million) and HK\$59.2 million (2003: HK\$5.3 million) respectively. The decline in turnover is mainly due to reduced property rentals.

In line with the Group's strategy in focusing its core businesses, the Group has disposed of Art Court at a consideration of HK\$83 million. A profit of HK\$57 million was recorded.

Liquidity and Capital Resources

As at 30th June 2004, cash available to the Group was approximately HK\$166 million, HK\$23 million higher than the balance at 31st December 2003. Gearing ratio, expressed as a percentage of total borrowings over shareholders' funds, is 0.17 time as at 30th June 2004 (31st December 2003: Nil). The Group adopts a prudent treasury policy. The majority of the bank balances and cash is denominated in Hong Kong dollars and placed on short term deposits. It is the management's intention to maintain a minimum exposure to foreign exchange risks.

The Group has obtained banking facilities of HK\$149.8 million from various banks. Interest rates for such facilities range from Hong Kong Interbank Offer Rate plus 1.05% to Prime Rate. Banking facilities for HK\$30 million were secured by margin clients' listed securities, and banking facilities for HK\$49.8 million were secured by pledge of Group assets worth HK\$77 million. As at 30th June 2004, the Group had utilized approximately HK\$10 million and HK\$58.2 million of its secured and unsecured banking facilities. During the first half of 2004, the Group has issued convertible notes for the sum of HK\$45 million in acquiring shareholders' loans relating to Mocha. The convertible notes carry interest at 4% per annum. One half of the total amount of the notes (i.e. HK\$22.5 million) is repayable in full on 30 June 2005, and the other half is fully repayable on 30 June 2006.

Employees

As at 30th June 2004, the Group employed a total of 665 employees, of which 416 and 240 are stationed in Hong Kong and Macau while the rest are stationed in PRC. Staff costs (including directors' emoluments), for the first six months amounted to HK\$50.1 million (2003 – HK\$33.2 million). Employees are appointed and promoted according to their suitability for the positions. Employees' salaries and related benefits are performance based and subject to review by Management annually. In addition, the Group operates share option schemes, under which options are granted to employees to recognize their contributions and to retain them. Details of share options granted to employees are set out in section "Information of Share Option Scheme" below.

Events subsequent to 30th June 2004

Leisure and Entertainment

On 8th September 2004, the Group entered into an agreement with Sociedade de Turismo e Diversões de Macau, S.A.R.L ("STDM"), pursuant to which the Company will establish a joint venture company with STDM to apply for concession of a parcel of land in Taipa, Macau, and to develop that land into Macau's first ever six-star hotel and entertainment complex with (pending government approval) one of the largest casino and electronic gaming machine areas to date. The Group's initial outlay for this project is HK\$100 million. This amount will be satisfied by the Company's issuing a 5-year convertible bond to STDM bearing a coupon of 4% per annum from 1st March, 2005 payable every six months. The conversion

price is HK\$4 per share exercisable after 3 years from the date of issue of the bond. If exercised in full, STDM will hold about 6.2% of the Company's enlarged issued share capital. The transaction is subject to independent shareholders' approval for which an extraordinary general meeting of the Company will be held later. By undertaking this project (which is scheduled to be completed in 2006), the Group can (subject to approval of the Macau government authorities) participate in developing and owning a six-star hotel with a casino and an electronic gaming machine hall, which will be managed by Mocha. This will drastically expand the scope and size of the Group's leisure and entertainment business in Macau and will significantly increase the Group's turnover and profit.

Technology

On 30th July 2004, one of the Group's subsidiaries, Elixir Group Limited ("EGL") entered into four agreements with Sociedade de Jogos de Macau, S.A. ("SJM") under which EGL will provide gaming IT infrastructure system integration and maintenance services in respect of digital surveillance camera system, finger print access control system, facial recognition system and electronic gaming machines to SJM. The total value of the agreements is approximately HK\$32.3 million. The transactions have been approved by independent shareholders of the Company. In addition to generating income for the Group, the transactions would help promote Elixir's products and services to customers in gaming and entertainment industries in Macau.

Investment Banking

On 31st August 2004, a unit of our investment banking arm, Value Convergence, and an indirect subsidiary of the Group, VC Brokerage Limited ("VC Brokerage") entered into a loan agreement with CV Capital Partners Limited ("the Borrower") whereby VC Brokerage agreed to make available to the Borrower a term loan facility of up to HK\$70 million for the purposes of assisting the Borrower and certain other parties to acquire approximately 70% of a listed company by agreement and the remaining 30% shareholding through a General Offer. The loan is made in VC Brokerage's ordinary course of business and is secured by adequate security. The loan has attractive returns and is for a term of 12 months after date of first drawdown.

Outlook

With the Closer Economic Partnership Arrangement (CEPA) and the Facilitated Individual Travel (FIT) program beginning to show positive impacts, we believe the Macau economy is absolutely booming, especially in the leisure and entertainment industry, and the Hong Kong economy is finally coming out from its lowest point.

The Group's various business segments are well positioned to take advantage of the economic upturns. The acquisition of Mocha gives the Group entry to the booming Macau gaming business and an important and significant source of revenue. The Group is planning to expand this line of business and has been discussing with Macau casino operators on opening of more Mocha Slot lounges in Macau. Apart from widening the revenue stream of this unit, this strategy also helps the Group's Elixir unit, as Elixir will increase its sale of electronic gaming machines and systems as well as CCTV surveillance systems. In turn, Mocha's leasing of gaming machines business is well supported by Elixir.

The recently announced joint venture with STDM, whereby the Group will develop Macau's first ever six-star hotel and entertainment complex with (pending government approval) one of the largest casino and electronic gaming machine areas, is another exciting project that the Group will engage in. It allows the Group to fully participate and compete in the burgeoning leisure and entertainment industry in Macau. When completed in 2006, it will drastically expand the scope and size of the Group's leisure and entertainment business in Macau and becomes the Group's anchor project. The Group expects substantial income from the hotel and casino operations, which will contribute significantly to our Group's turnover and profit.

The revamped "Jumbo Kingdom" is anticipated to benefit from improved economy and increased number of tourists visiting Hong Kong. Regarding our other business, we are optimistic that our investment banking, financial services and technology businesses will take advantage of improved market sentiments and recovering economies, will expand their service scopes and market coverage and will continue to support our core business of leisure and entertainment business in Macau.

Lastly, we are confident that our core business in Macau and our leisure and entertainment business will drive our Group's business to new height and tremendous growth.

By Order of the Board

Dr Stanley Ho

Chairman

Hong Kong, 15th September 2004