Notes to the Condensed Financial Statements

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

1. BASIS OF PREPARATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates/jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based Payments

In the current period, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January 2005. In relation to share options granted before 1st January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November 2002 and share options that were granted after 7th November 2002 and had vested before 1st January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November 2002 and had not yet vested on 1st January 2005 (see Note 2A for the financial impact).

Financial Instruments

In the current period, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principle impact of HKAS 32 on the Group is in relation to convertible loan notes issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated (see Note 2A for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39.

Financial assets and financial liabilities other than debt and equity securities

From 1st January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January 2005 onwards. The amount held in investment property revaluation reserve at 1st January 2005 has been transferred to the Group's accumulated losses (see Note 2A for the financial impact).

Deferred Taxes related to Investment Properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated (see Note 2A for the financial impact).

At the date of authorization of these financial statements, the following new HKFRSs and Interpretations were in issue but not yet effective:

HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS – INT 4	Determining whether an arrangement contains a lease
HKFRS – INT 5	Right to interests arising from decommissioning, restoration and environmental rehabilitation funds
Amendment to HKAS 19	Actuarial gains and losses, group plans and disclosures
Amendment to HKFRS 39	Transitional initial recognition of financial assets and financial liabilities
Amendment to HKFRS 39	The fair value option

The Group is not yet in a position to determine whether these standards and interpretations would have a significant impact on how the results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Expenses in relation to share options granted	**(3,439)**	(1,715)
Increase in interest on the liability component of convertible notes	**(301)**	–
Increase in fair value of investment properties	**8,000**	–
Deferred tax arise from increase in fair value of investment properties	**(1,400)**	–
Increase (decrease) in profit for the period	**2,860**	(1,715)

The cumulative effects of the application of the new HKFRSs as at 31st December 2004 and 1st January 2005 are summarised below:

	As at 31st December 2004 (originally stated)	Adjustment	As at 31st December 2004 (restated)	Adjustment	As at 1st January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items					
Investment securities	27,754	–	27,754	(27,754)	–
Available-for-sale investments	–	–	–	27,754	27,754
Other investments	40,641	–	40,641	(40,641)	–
Investments held for trading	–	–	–	40,641	40,641
Deferred tax liabilities	(2,256)	(4,686)	(6,942)	–	(6,942)
Convertible notes – due after one year	(122,500)	4,374	(118,126)	–	(118,126)
Total effects on assets and liabilities	(56,361)	(312)	(56,673)	–	(56,673)
Accumulated losses	(186,782)	(10,121)	(196,903)	26,772	(170,131)
Share options reserve	–	5,435	5,435	–	5,435
Capital reserve	354,009	4,374	358,383	–	358,383
Investment properties revaluation reserve	26,772	–	26,772	(26,772)	–
Total effects on equity	193,999	(312)	193,687	–	193,687

The financial effect of the application of the new HKFRSs to the Group's equity at 1st January 2004 are summarised below:

	As originally stated	Adjustment	As restated
	HK$'000	*HK$'000*	*HK$'000*
Accumulated losses	(251,685)	(4,686)	(256,371)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

The leisure and entertainment segment, which mainly comprises (a) leasing of electronic gaming machines and provision of ancillary management services to casino operators in Macau and (b) provision of catering services.

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

The investment banking and financial services segment (operated through Value Convergence Holdings Limited), which mainly comprises (a) provision of corporate finance advisory service, initial public offerings and mergers and acquisition advisory services; and (b) broking and dealing for clients in securities, futures and options contracts.

The property and other investments segment, which mainly comprises property investments, other investments and related activities.

4. SEGMENTAL INFORMATION

Segment information about these businesses is presented below:

Six months ended 30th June 2005 (unaudited):

	Leisure and entertainment *HK$'000*	Technology *HK$'000*	Investment banking and financial services *HK$'000*	Property and other investments *HK$'000*	Consolidated *HK$'000*
Turnover	113,719	75,453	51,801	15,777	256,750
Inter-segment sales	(344)	–	(354)	(5,325)	(6,023)
Total turnover	113,375	75,453	51,447	10,452	250,727
Segment result	555,125	6,744	7,688	3,222	572,779
Unallocated corporate expenses					(22,034)
Finance costs					(5,235)
Share of results of jointly controlled entities					2,200
Profit before taxation					547,710
Taxation charge					(4,486)
Net profit for the period					543,224

Six months ended 30th June 2004 (unaudited)

	Leisure and entertainment *HK$'000* (restated)	Technology *HK$'000* (restated)	Investment banking and financial services *HK$'000* (restated)	Property and other investments *HK$'000* (restated)	Consolidated *HK$'000* (restated)
Turnover	37,741	105,961	65,292	2,096	211,090
Inter-segment sales	(38)	(187)	–	–	(225)
Total turnover	37,703	105,774	65,292	2,096	210,865
Segment result	(5,228)	9,046	9,017	59,181	72,016
Unallocated cost					(7,505)
Finance costs					(1,235)
Profit before taxation					63,276
Taxation credit					814
Net profit for the period					64,090

5. GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN SUBSIDIARIES

On 23rd November 2004, the Company entered into a Heads of Agreement ("Heads of Agreement") with Publishing and Broadcasting Limited ("PBL") and PBL Asia Investments Limited ("PBL Asia"), a wholly-owned subsidiary of PBL, to establish a joint venture group for pursuance of gaming and hospitality businesses ("JV Group"). The Heads of Agreement was superseded by a Subscription Agreement ("Subscription Agreement") entered into between the parties on 23rd December 2004. Under the Subscription Agreement, the Company contributed its interests in Mocha Slot Group Limited and its subsidiaries ("Mocha Slot") and 70% interests of Great Wonders, to the JV Group while PBL contributed HK$1.27 billion (equivalent to US$ 163 million) cash to the JV Group. The Subscription Agreement was completed on 8th March 2005. As a result of the above arrangements, the Group's effective equity interest in Mocha Slot and Great Wonders were decreased from 80% and 70% to 48% and 42%, respectively, the Group then recognised a gain on deemed disposal of partial interest in subsidiaries of approximately HK$514,431,000 during the period ended 30th June 2005 accordingly.

6. PROFIT BEFORE TAXATION

	Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:		
Allowance for doubtful receivables	**887**	–
Unrealised loss on investments held for trading	**126**	–
and after crediting:		
Dividend income from available-for-sale investments	**1,602**	–
Unrealised gain on other investments	**–**	419

7. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (30th June 2004: 17.5%) on the estimated assessable profit for the period. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

	Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The charge(credit) comprises:		
Hong Kong Profits Tax		
Current period	**96**	–
Overprovision in prior period	**–**	(619)
Other jurisdiction		
Current period	**4,297**	129
Overprovision in prior period	**(1,307)**	–
Deferred taxation	**1,400**	(324)
Taxation charge (credit)	**4,486**	(814)

8. DIVIDEND

During the period ended 30th June 2005, a dividend of HK$0.01 per share (30th June 2004: nil) was paid to shareholders as the final dividend for 2004.

The directors declared an interim dividend of HK$0.01 per share (30th June 2004: HK$0.005 per share) to the shareholders of the Company whose names appear in the Register of Members on 10th October 2005. The above dividend per share data has been adjusted for the share sub-division on 19th May 2005 (Note 17).

9. EARNINGS PER SHARE

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

	Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
	(unaudited)	(unaudited) (restated)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (net profit for the period attributable to equity holders of the Company)	**534,161**	61,401
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**2,702**	90
Adjustments to the share of results of a subsidiary based on potential dilution of its earnings per share	**(33)**	–
Earnings for the purpose of diluted earning per share	**536,830**	61,491

	Six months ended 30th June	
	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**977,307,406**	483,843,084
Effect of dilutive potential ordinary shares:		
Share options	**26,056,087**	13,398,524
Convertible notes	**30,145,674**	2,358,546
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,033,509,167**	499,600,154

The weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earning per share has been adjusted for the share subdivision on 19th May 2005 (Note 17).

10. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's construction in progress increased by approximately HK$33,241,000 as a result of acquisition of a subsidiary (Note 11). In addition, the Group spent approximately HK$56,160,000 in respect of the construction of a property project in Macau. Also, the Group spent approximately HK$24,459,000 on purchase of gaming machines for the expansion of its electronic gaming business.

During the period, the Group disposed of property, plant and equipment with a carrying amount of approximately HK$328,000 for a proceed of approximately HK$550,000, resulting in a gain on disposal of HK$222,000.

The Group's investment properties were revalued by the directors at 30th June 2005. The resulting revaluation surplus of HK$8,000,000 has been credited to the income statement.

An impairment loss of HK$174,000 was recognised during the period in respect of obsolete furniture, fixtures and equipment.

11. ACQUISITION OF A SUBSIDIARY

During the period ended 30th June 2005, the Group completed the acquisition of additional 20% issued share capital of Great Wonders, a company in which the Group held 50% equity interest as at 31st December 2004. The principal activities of Great Wonders was to apply to the Macau Government for the concession of a parcel of land located in Taipa, Macau (the "Land") and to develop the Land into a six-star hotel and entertainment complex with one of the largest casino and electronic gaming machine areas. An offer letter was received from the Macau Government on 24th June 2005 regarding the concession of land.

The fair value of the assets and liabilities of Great Wonders at the date of acquisition are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Interest in a property project	–	400,000	400,000
Construction in progress	33,241	–	33,241
Amount due from a shareholder	969	–	969
Other payable	(33,256)	–	(33,256)
Deferred tax liabilities	–	(48,000)	(48,000)
	954	352,000	352,954
Minority interests	–	–	(105,886)
Interest in a jointly controlled entity eliminated upon acquisition of a subsidiary	–	–	(176,477)
	954	352,000	70,591
Purchase consideration satisfied by:			
Issuance of convertible notes			70,591

Great Wonders contributed nil revenue and incurred a post-acquisition loss of approximately HK$78,000 for the period between the date of acquisition and the balance sheet date. Prior to 1st January 2005, Great Wonders has nil revenue and expense.

Subsequent to the acquisition, the Group has injected its 70% equity interests of Great Wonders to the JV Group pursuant to a Subscription Agreement. Please see Note 5 for details.

12. PLEDGE OF ASSETS

At 30th June 2005, the Group's bank deposit amounting to approximately HK$267,000 (31st December 2004: HK$177,000) was pledged for tendering of contracts with the Macau government by a subsidiary of the Group.

13. TRADE RECEIVABLES

	As at 30th June 2005 HK$'000 (unaudited)	As at 31st December 2004 HK$'000
Trade receivables (excluding receivables balance arising from margin clients securities transactions)	**243,919**	171,681
Allowance for doubtful receivables	**–**	(323)
	243,919	171,358
Trade receivables arising from margin clients securities transactions *(Note b)*	**199,925**	165,656
	443,844	337,014

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

	As at 30th June 2005 HK$'000 (unaudited)	As at 31st December 2004 HK$'000
Within 30 days	**195,476**	157,881
31 – 90 days	**20,739**	10,624
Over 90 days	**27,704**	3,176
	243,919	171,681

(a) The Group's Leisure 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 30th June 2005 amounted to approximately HK$395,895,000 (31st December 2004: HK$306,189,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the 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 and the Company will generally grant a normal credit period of 30 days on average to its customers.

14. AMOUNTS DUE FROM RELATED COMPANIES

	As at 30th June 2005 ***HK$'000*** **(unaudited)**	As at 31st December 2004 *HK$'000*
Sociedade de Turismo e Diversoes de Macau, S.A. ("STDM") *(Note a)*	**–**	519
Gold Carousel Investment Limited ("GCIL") *(Note b)*	**1,200**	600
	1,200	1,119

Notes:

(a) The amount due from STDM, a related company of which Dr. Stanley Ho is a director and has direct beneficial interests, represented receivables in respect of the sales of souvenirs by the Group.

(b) The amount due from GCIL, a related company of which Dr. Stanley Ho is a director, represented receivables in respect of the management services provided by one of the subsidiaries of the Group (note 19(c)(vi)).

15. TRADE PAYABLES

	As at 30th June 2005 ***HK$'000*** **(unaudited)**	As at 31st December 2004 *HK$'000*
Within 30 days	**1,212**	14,313
31-90 days	**6,650**	4,459
Over 90 days	**13,827**	5,224
	21,689	23,996
Trade payables arising from the ordinary course of business of dealing in securities transactions *(Note)*	**78,983**	36,466
	100,672	60,462

Note:

The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the investment banking and financial services segment are usually two trading days after trade date. These trade payables are repayable on demand and are aged within 30 days.

16. CONVERTIBLE NOTES

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

The convertible note due on 8th November 2009 is convertible into fully paid ordinary shares of HK$0.5 each, after adjustment for the share subdivision on 19th May 2005, of the Company at a conversion price of HK$2 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 8th November 2009.

The convertible note due on 7th February 2010 is convertible into fully paid ordinary shares of HK$0.5 each, after adjustment for the share subdivision on 19th May 2005, of the Company at a initial conversion price of HK$4.1 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 7th February 2010.

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

On 11th April 2005, convertible note due on 30th June 2005 and 30th June 2006, which was issued during the year ended 31st December 2004, had been converted into the ordinary shares of the Company. Total number of ordinary shares converted is 39,130,432 shares of HK$0.5 each, after adjustment for the share subdivision on 19th May 2005.

17. SHARE CAPITAL

	Number of ordinary shares		Amount	
	30th June 2005	31st December 2004	**30th June 2005**	31st December 2004
			HK$'000	*HK$'000*
	(unaudited)		**(unaudited)**	
Authorised:				
At beginning and end of the period/year of HK$1 each	**700,000,000**	480,000,000	**700,000**	480,000
Increase in authorised ordinary share capital	**–**	220,000,000	**–**	220,000
Subdivision of one share of HK$1 each into two shares of HK$0.5 each *(Note)*	**700,000,000**	–	**–**	–
At the end of the period/year of HK$0.5 each	**1,400,000,000**	700,000,000	**700,000**	700,000
Issued and fully paid:				
At beginning of the period/year of HK$1 each	**463,244,054**	221,997,007	**463,244**	221,997
Exercise of share options before subdivision	**8,210,000**	11,868,786	**8,210**	11,869
Conversion of convertible notes	**19,565,216**	–	**19,565**	–
Subdivision of one share of HK$1 each into two shares of HK$0.5 each *(Note)*	**491,019,270**	–	**–**	–
Issue of shares	**140,000,000**	229,378,261	**70,000**	229,378
Exercise of shares options after subdivision	**400,000**	–	**200**	–
At the end of the period/year of HK$0.5 each	**1,122,438,540**	463,244,054	**561,219**	463,244

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

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

18. CAPITAL COMMITMENTS

	30th June 2005 *HK$'000* **(unaudited)**	31st December 2004 *HK$'000*
Commitment for the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	**1,372,292**	437
Commitment for the acquisition of property, plant and equipment authorised but not contracted	**639,663**	–

19. RELATED PARTY TRANSACTIONS

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

(a) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK$23,161,000 (31st December 2004: HK$14,876,000).

The trade receivables include amounts due from Sociedade de Jogas de Macau, S.A., a subsidiary of STDM, in relation to the leasing of gaming machines and provision of ancillary management services of approximately HK$10,384,000 (31st December 2004: HK$8,462,000).

The prepayments, deposits and other receivables include nil (31st December 2004: HK$1,044,000) 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$132,000 (31st December 2004: HK$367,735,000).

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

		Six months ended	
		30.6.2005	30.6.2004
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	
Catering income earned from directors and related companies	(i)	**2,533**	1,414
Insurance premiums charged by a related company	(ii)	**1,011**	796
Property management fees charged by a related company	(iii)	**–**	250
Brokerage commission income earned from certain directors of the Group or their relatives	(iv)	**76**	160
Sales of computer hardware and software to related companies	(v)	**39,403**	89,935
Management fees received from a related company	(vi)	**600**	–
Interest expense on loan from a related company	(vii)	**459**	–
Interest expense on convertible notes to related parties	(viii)	**1,791**	–
Income from leasing of gaming machines and provision of ancillary management services to a related company	(ix)	**59,209**	–

Notes:

(i) The Group earned catering income in respect of restaurant operations from certain directors and related companies for services provided at a discount ranging between 15% and 40%.

(ii) The Group paid insurance premiums to Jardine Shun Tak Insurance Brokers Limited, an associate of Shun Tak Holdings Limited ("STHL"), to insure the properties and employees of the Group under the terms and conditions applicable to customers of comparable standing. Dr. Stanely Ho, a director of the Company, is also a director and has direct and indirect beneficial interests in STHL.

(iii) The Group paid management fees to Shun Tak Property Management Limited ("STPML"), a subsidiary of STHL, on a reimbursement basis for building management expenditure paid by STPML on behalf of the Group.

(iv) Brokerage commission income earned from transactions with related parties was at prices and terms no less than those transacted with other third party customers of the Group.

(v) Service fees charge and computer hardware and software sold to related companies were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

(vi) The management fee from GCIL was determined on term agreed between the Group and GCIL.

(vii) Interest expense on loan from a minority shareholder of a subsidiary of the Group was charged at 4 per cent per annum. The loan was unsecured and repayable on demand.

(viii) Interest expense on convertible notes to related parties was charged at 4% per annum.

(ix) The amount represents income from leasing of gaming machines and provision of ancillary management services to SJM.

20. OTHER ACQUISITION

A subsidiary, Melco Hotels and Resorts (Macau) Limited ("Melco Hotels"), has accepted in principle an offer from the Macau Government to grant to Melco Hotels a long term lease of land on the Cotai Strip, Macau. Based on a joint venture memorandum of agreement entered between Great Respect Limited and Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Company, 49.2% interest in Melco Hotels was assigned to Great Respect Limited immediately after the Macau government offered the right to be granted for development rights in respect of land on the Cotai Strip, Macau on 21st April 2005.

Pursuant to an agreement signed with Great Respect Limited on 11th May 2005, Melco Leisure and Entertainment Group Limited has acquired the 49.2% interest in Melco Hotels for a consideration of HK$1,175 million, subject to certain conditions precedents. Upon receipt of the cash consideration, Great Respect Limited has subscribed for the convertible notes having a principal amount of HK$1,175 million, which is non-interest bearing and convertible into shares of the Company at a conversion price of HK$9.965 per share, after adjustment for the share subdivision on 19th May 2005. The above acquisition was completed on 5th September 2005.