

Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are divided into four divisions, namely (i) Leisure, Gaming and Entertainment Division; (ii) Investment Banking and Financial Services Division; (iii) Technology Division; and (iv) Property and Other Investments Division.

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 *Business Combination*, HKAS 36 *Impairment of Assets* and HKAS 38 *Intangible Assets* where the Group has early adopted in previous year. The application of the other new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Company's and the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Share-based Payments

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

Notes to the Financial Statements

For the year ended 31 December 2005

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

Financial Instruments

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

Convertible loan notes

The principal impact of HKAS 32 on the Company and the Group is in relation to convertible loan notes issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated (see Note 2A for the financial impact).

Classification and measurement of financial assets and financial liabilities

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

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

Notes to the Financial Statements

For the year ended 31 December 2005

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

Financial Instruments (continued)

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

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The adoption of HKAS 17 *Leases* has been no material effect on how the results for the current and prior accounting period are prepared and presented.

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For the year ended 31 December 2005

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

Investment Properties

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

Deferred Taxes related to Investment Properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively resulting in a recognition of HK\$9,492,000 deferred tax liability for the revaluation of the investment properties and HK\$9,492,000 deferred tax asset for unused tax losses on 1 January 2004.

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For the year ended 31 December 2005

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

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

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Recognition of share-based payments as expenses	(5,350)	(5,435)
Increase in fair value of investment properties	8,000	–
Increase in effective interest expense on the liability component of convertible loan notes	(19,249)	–
Decrease in profit for the year	<u>(16,599)</u>	<u>(5,435)</u>
	THE COMPANY	
	2005	2004
	HK\$'000	HK\$'000
Recognition of share-based payments as expenses	(5,350)	(5,435)
Increase in effective interest expense on the liability component of convertible loan notes	(19,249)	–
Decrease in profit for the year	<u>(24,599)</u>	<u>(5,435)</u>

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For the year ended 31 December 2005

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

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

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

	THE GROUP				
	As at 31 December 2004 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 December 2004 (restated) HK\$'000	Adjustment HK\$'000	As at 1 January 2005 (restated) HK\$'000
Balance sheet items					
Investment securities Available-for-sale investments	27,754	–	27,754	(27,754)	–
Other investments	–	–	–	27,754	27,754
Held-for-trading investments	40,641	–	40,641	(40,641)	–
Convertible loan notes – due after one year	–	–	–	40,641	40,641
	(122,500)	4,374	(118,126)	–	(118,126)
Total effects on assets and liabilities	<u>(54,105)</u>	<u>4,374</u>	<u>(49,731)</u>	<u>–</u>	<u>(49,731)</u>

	THE GROUP				
	As at 31 December 2004 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 December 2004 (restated) HK\$'000	Adjustment HK\$'000	As at 1 January 2005 (restated) HK\$'000
Accumulated losses	(186,782)	(5,435)	(192,217)	26,772	(165,445)
Share options reserve	–	5,435	5,435	–	5,435
Convertible loan notes equity reserve	–	4,374	4,374	–	4,374
Investment property revaluation reserve	26,772	–	26,772	(26,772)	–
Minority interests	–	75,616	75,616	–	75,616
Total effects on equity	<u>(160,010)</u>	<u>79,990</u>	<u>(80,020)</u>	<u>–</u>	<u>(80,020)</u>
Minority interests	<u>75,616</u>	<u>(75,616)</u>	<u>–</u>	<u>–</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31 December 2005

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

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

	THE COMPANY				
	As at 31 December 2004 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 December 2004 (restated) HK\$'000	Adjustment HK\$'000	As at 1 January 2005 (restated) HK\$'000
Balance sheet items					
Convertible loan notes – due after one year	<u>(122,500)</u>	<u>4,374</u>	<u>(118,126)</u>	<u>–</u>	<u>(118,126)</u>
Accumulated losses	(233,169)	(5,435)	(238,604)	–	(238,604)
Share option reserve	–	5,435	5,435	–	5,435
Convertible loan notes equity reserve	<u>–</u>	<u>4,374</u>	<u>4,374</u>	<u>–</u>	<u>4,374</u>
Total effects on equity	<u>(233,169)</u>	<u>4,374</u>	<u>(228,795)</u>	<u>–</u>	<u>(228,795)</u>

The application of the new HKFRSs has resulted in the reclassification of minority interest of HK\$62,952,000 to the Group's equity at 1 January 2004.

The application of the new HKFRSs does not have any significant financial effect to the Company's equity at 1 January 2004.

Notes to the Financial Statements

For the year ended 31 December 2005

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

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

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ³
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

3. CHANGES IN ACCOUNTING ESTIMATES

In previous years, the gaming machine was depreciated at 10% per annum. With effect from July 2005 after a reassessment of the useful life of the gaming machine, the gaming machine is to be depreciated at 20% per annum, which reflects the Group's previous experience of the useful lives of its assets. This change in depreciation rate has increased the depreciation charge for the year by approximately HK\$6,306,000.

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition of additional interest in a subsidiary, the difference between the consideration paid and the goodwill and the carrying values of the underlying asset and liabilities attributable to the additional interests in a subsidiary is debited to special reserve. On subsequent disposal of a subsidiary, the attributable special reserve is transferred to accumulated profit.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment in subsidiaries

Investment in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the financial statements of the Group using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the balance sheet or consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Interests in jointly controlled entities are included in the Company's balance sheet at cost, less any identified impairment loss.

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from management of electronic gaming machine lounge is recognised on an accrual basis in accordance with the contractual terms of the respective service agreements.

Revenue from the provision of catering services, management services and investment banking and financial services are recognised when the services are provided.

Revenue from sales of technology solution systems are recognised over the period of the contract based on the percentage of completion method, which is measured by reference to the costs incurred to date as a percentage of total estimated costs for each contract.

Revenue from sales of other products is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rate per annum:

Restaurants, vessels, ferries and pontoons	5% to 10%
Buildings	2.5% to 4%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10% to 33 $\frac{1}{3}$ %
Gaming machine	20%
Motor vehicles	20%

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Hotels and entertainment complex under development

Hotels and entertainment complex in the course of development are classified as non-current assets and are stated at cost less accumulated amortisation and accumulated impairment loss. Cost comprises acquisition cost relating to the leasehold interests in lands and direct development costs attributable to such properties. Interests in lands are amortised over the expected useful life and are included as part of cost of hotels and entertainment complex under development.

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Consideration paid for land use rights are recorded as prepaid lease payments and are charged to profit or loss on a straight-line basis over the term of relevant land use rights acquired. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Segregated accounts

From the Group's ordinary business, it acts as a trustee and in other fiduciary capacities that result in the holding of client's monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its balance sheet. As at 31 December 2005, the Group maintained segregated account with HKFE Clearing Corporation Limited ("HKCC") and the authorised institutions in conjunction with its future and brokerage businesses as a result of its normal business transactions with amounts of approximately HK\$1,670,000 (2004: HK\$1,390,000) and HK\$192,418,000 (2004: HK\$232,532,000) respectively, which are not otherwise dealt with in the financial statements.

Retirement benefits costs

Payments to defined contribution schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Notes to the Financial Statements

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

For share options granted after 1 January 2005 and share options granted before 1 January 2005 but not yet vested as at 1 January 2005, the fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profit.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives (trading rights) is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives (club debentures) are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Impairment

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprised financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade payables, other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity (continued)

Convertible loan notes (continued)

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company or Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Company's or Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Notes to the Financial Statements

For the year ended 31 December 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses (other than goodwill and intangible assets with indefinite useful lives – see the accounting policies in respect of goodwill and intangible assets above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items especially technology solution system identified that are of minimal resale value due to technological changes. The management estimates the net realisable value for such inventory based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is approximately HK\$351,470,000. Details of the recoverable amount calculation are disclosed in note 27.

Income taxes

As at 31 December 2005, a deferred tax asset of HK\$1,495,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

Notes to the Financial Statements

For the year ended 31 December 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, bank balances, borrowings, trade receivables, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimise currency risk. The Group's principal businesses are conducted and recorded in Hong Kong dollars and Macau Pataca. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Interest rate risk

The Group's fair value interest rate risk relates to fixed rate shareholder's loan which is interest bearing at 4% per annum. Short-term floating rate bank borrowings, which are Hong Kong Interbank Offered Rate ("HIBOR")-based, are used to fund margin financings of the securities brokerage business which are typically prime-based and is therefore exposed to cash flow interest rate risk. The principal risk lies with the interest rate differential between HIBOR and the prime rate. The Group mitigates the risk by monitoring the interest rate gap between the shareholder's loan and short-term bank loans and financing facilities and revises the financing rate if necessary.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations are mainly in Hong Kong and Macau. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and the directors of the Company consider that the credit risk for such is minimal.

Notes to the Financial Statements

For the year ended 31 December 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Price risk

The Group's held-for-trading investments and available-for-sale investments are measured at fair value and cost less any identified impairment, respectively, at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. REVENUE

An analysis of the Group's revenue is as follows:

	2005	2004
	HK\$'000	HK\$'000
Sales of technology solution systems	197,459	154,799
Income from electronic gaming machines lounges	129,242	45,170
Catering service income	91,191	76,479
Brokerage commission from dealing in securities and futures and options contracts	57,433	85,589
Interest income from clients	30,305	24,656
Interest income from authorised institutions	57,707	446
Underwriting, sub-underwriting, placing and sub-placing commission	9,232	5,638
Arrangement, management, advisory and other fee income	18,116	10,521
Property rental income	8,002	4,178
Management fee income	1,200	600
Others	753	–
	<u>600,640</u>	<u>408,076</u>

Notes to the Financial Statements

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions including Leisure, Gaming and Entertainment, Technology, Investment Banking and Financial Services, and Property and Other Investments. These divisions are the basis on which the Group reports its primary segment information.

The Leisure, Gaming and Entertainment Segment, which mainly comprises (a) management of electronic gaming machines lounges in Macau (b) provision of catering services, and (c) hotels and entertainment complex operation.

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

The Investment Banking and Financial Services Segment (operated through Value Convergence Holdings Limited), which mainly comprises (a) provision of corporate finance advisory service, initial public offerings and mergers and acquisition advisory service and (b) broking and dealing for clients in securities, futures and options contracts.

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

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

Notes to the Financial Statements

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

2005

	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	241,875	197,459	115,086	46,220	–	600,640
Inter-segment sales	1,057	122,477	900	30,853	(155,287)	–
Total revenue	<u>242,932</u>	<u>319,936</u>	<u>115,986</u>	<u>77,073</u>	<u>(155,287)</u>	<u>600,640</u>
Segment result	<u>539,655</u>	<u>33,766</u>	<u>12,877</u>	<u>56,442</u>	<u>(11,871)</u>	630,869
Unallocated corporate expenses						(38,886)
Finance costs						(31,747)
Share of profit of jointly controlled entities	2,234	–	–	–	–	2,234
Profit before tax						562,470
Income tax expense						(6,010)
Profit for the year						<u>556,460</u>

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

Notes to the Financial Statements

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued) 2005

	Leisure, Gaming and Entertainment <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>	Consolidated <i>HK\$'000</i>
BALANCE SHEET					
Assets					
Segment assets	2,702,646	132,879	416,527	2,196,793	5,448,845
Interests in jointly controlled entities	2,234	-	-	-	2,234
Unallocated corporate assets					130,225
Consolidated total assets					<u>5,581,304</u>
Liabilities					
Segment liabilities	86,383	88,378	64,076	238	239,075
Unallocated corporate liabilities					1,154,498
Consolidated total liabilities					<u>1,393,573</u>
	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>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION					
Capital additions	2,039,933	2,769	806	50,703	2,094,211
Depreciation	29,846	903	2,627	1,946	35,322
Amortisation of trading rights	-	-	507	-	507
Amortisation of prepaid lease payments	-	-	-	1,936	1,936
Loss on disposal of property, plant and equipment	214	-	267	19	500
Allowance for doubtful debts, net	63	(231)	2,711	(1,490)	1,053
Impairment loss on available-for-sale investments	-	-	120	-	120

Notes to the Financial Statements

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2004

	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	123,007	154,799	126,404	3,866	–	408,076
Inter-segment sales	424	14,641	2,230	–	(17,295)	–
Total revenue	<u>123,431</u>	<u>169,440</u>	<u>128,634</u>	<u>3,866</u>	<u>(17,295)</u>	<u>408,076</u>
Segment result	<u>5,636</u>	<u>16,050</u>	<u>14,783</u>	<u>65,334</u>	<u>(1,546)</u>	100,257
Unallocated corporate expenses						(29,360)
Finance costs						(4,199)
Profit before tax						66,698
Income tax expense						(2,490)
Profit for the year						<u>64,208</u>

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

	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>	Consolidated <i>HK\$'000</i>
BALANCE SHEET					
Assets					
Segment assets	598,842	57,226	433,372	290,633	1,380,073
Interest in a jointly controlled entity	100,000	–	–	–	100,000
Unallocated corporate assets					104,754
Consolidated total assets					<u>1,584,827</u>
Liabilities					
Segment liabilities	24,325	22,497	62,675	1,935	111,432
Unallocated corporate liabilities					167,928
Consolidated total liabilities					<u>279,360</u>

Notes to the Financial Statements

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2004

	Leisure, Gaming and Entertainment <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>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION					
Capital additions	114,520	422	669	1,098	116,709
Depreciation	11,519	591	4,390	1,183	17,683
Amortisation of trading rights	–	–	507	–	507
(Gain) loss on disposal of property, plant and equipment	(1,661)	3	(21)	279	(1,400)
Allowance for doubtful debts, net	–	323	1,587	–	1,910
Reversal of impairment of investment securities	–	–	–	(3,117)	(3,117)

(b) Geographical segments

The Leisure, Gaming and Entertainment, Technology, Investment Banking and Financial Services and Property and Other Investments divisions are located in the People's Republic of China ("PRC"), Macau and Hong Kong.

The following is an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods or services.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	279,906	209,327
Macau	320,734	198,486
The PRC	–	263
	<u>600,640</u>	<u>408,076</u>

Notes to the Financial Statements

For the year ended 31 December 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments (continued)

Segment

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, hotels and entertainment complex under development and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, hotels and entertainment complex under development and intangible assets	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,699,829	1,264,058	5,644	23,551
Macau	2,880,582	318,436	2,088,530	92,195
The PRC	893	2,333	37	963
	<u>5,581,304</u>	<u>1,584,827</u>	<u>2,094,211</u>	<u>116,709</u>

9. OTHER INCOME

	2005	2004
	HK\$'000	HK\$'000
Service fee from a jointly controlled entity	–	6,671
Others	1,422	493
	<u>1,422</u>	<u>7,164</u>

Notes to the Financial Statements

For the year ended 31 December 2005

10. INVESTMENT INCOME (LOSS)

	2005 HK\$'000	2004 HK\$'000
Realised loss on trading of other investments	–	(3,425)
Unrealised gain on holding of other investments	–	1,312
Gain from fair value adjustment of held-for-trading investments	651	–
Dividend income from unlisted investment	2,090	–
Dividend income from listed investments	666	938
	<u>3,407</u>	<u>(1,175)</u>

11. EMPLOYEE BENEFITS EXPENSE

	2005 HK\$'000	2004 HK\$'000
Wages, salaries and staff welfare	126,499	103,210
Unutilised annual leave	858	(17)
Termination benefits	266	810
Social security costs	113	54
Provision for long service payment	102	(118)
Retirement benefit scheme contributions	3,225	3,390
Forfeiture of retirement benefit scheme contributions	(13)	(209)
Share-based employee expense	5,350	5,435
Recruitment costs	1,362	–
	<u>137,762</u>	<u>112,555</u>
Total employee benefits expense including directors' emoluments (<i>note 16</i>)	<u>137,762</u>	<u>112,555</u>

12. GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

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

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

Notes to the Financial Statements

For the year ended 31 December 2005

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

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

As a result of the above arrangements, the Group's effective equity interests in Mocha Slot, Great Wonders and Melco Hotels were decreased from 80%, 70% and 50.8%, respectively, to 48%, 42% and 30.5%, respectively, the Group then recognised a gain on deemed disposal of partial interests in subsidiaries of approximately HK\$514,431,000 (2004: Nil) during the year ended 31 December 2005 accordingly.

In addition, certain share options of a subsidiary of the Company are exercised by the share option holders, who are minority shareholders of the subsidiary. As a result of exercise of share options, the Group then recognised a loss on deemed disposal of partial interest in the subsidiary of approximately HK\$24,000 (2004: Nil) during the year ended 31 December 2005.

13. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	5,646	3,043
Obligations under finance leases	44	27
Shareholder's loan	1,079	23
Former shareholder's loan	–	95
Convertible loan notes	24,978	1,011
	<u>31,747</u>	<u>4,199</u>

Notes to the Financial Statements

For the year ended 31 December 2005

14. PROFIT BEFORE TAX

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit before tax has been arrived at after charging:		
Auditors' remuneration	2,483	2,298
Allowance for doubtful debts, net	1,053	1,910
Loss on disposal of property, plant and equipment	500	–
Impairment loss on available-for-sale investments	120	–
and after crediting:		
Gross rental income	8,002	4,178
Less: outgoings	(82)	(82)
Net rental income	<u>7,920</u>	<u>4,096</u>
Gain on disposal of property, plant and equipment	–	1,400
Reversal of impairment of investment securities	–	3,117
Discount on acquisition of subsidiaries	–	1,204
	<u><u> </u></u>	<u><u> </u></u>

15. INCOME TAX EXPENSE

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current tax:		
– Hong Kong	224	1,668
– Other jurisdictions	8,151	–
	<u>8,375</u>	<u>1,668</u>
(Over)underprovision in prior years:		
– Hong Kong	91	(848)
– Other jurisdictions	(552)	–
	<u>(461)</u>	<u>(848)</u>
Deferred taxation (<i>note 47</i>)		
– Current	(1,364)	1,670
– Attributable to a change in tax rate	(540)	–
	<u>(1,904)</u>	<u>1,670</u>
	<u><u>6,010</u></u>	<u><u>2,490</u></u>

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year. Taxation arising in other jurisdictions are calculated at the rate prevailing in the respective jurisdictions.

Notes to the Financial Statements

For the year ended 31 December 2005

15. INCOME TAX EXPENSE (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit before tax	<u>562,470</u>	<u>66,698</u>
Tax at Hong Kong Profits Tax rate of 17.5%	98,432	11,672
Tax effect of expenses not deductible for tax purposes	8,628	89
Tax effect of income not taxable for tax purposes	(100,286)	(9,463)
Overprovision in respect of prior years, net	(461)	(848)
Tax effect of different tax rates of the subsidiaries operating in other jurisdictions	(3,679)	(392)
Tax effect of unrecognised deferred tax assets	10,122	6,968
Decrease in opening deferred tax liabilities as a result from decrease in applicable tax rate	(540)	–
Utilisation of tax losses previously not recognised	(6,234)	(5,536)
Others	28	–
Taxation for the year	<u>6,010</u>	<u>2,490</u>

Notes to the Financial Statements

For the year ended 31 December 2005

16. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2004: nine) directors were as follows:

2005

	Dr. Stanley Ho	Mr. Lawrence Ho	Mr. Frank Tsui	Mr. Ho Cheuk Yuet	Mr. Ng Ching Wo	Sir Roger Lobo	Mr. Robert Kwan	Dr. Lo Ka Shui	Total 2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 1)			(Note 2)			(Note 1)		
Fees	10	-	-	34	170	321	310	221	1,066
Other emoluments									
Salaries and other benefits	-	2,329	1,950	-	-	-	-	-	4,279
Retirement benefit scheme contributions	-	24	12	-	-	-	-	-	36
Total emoluments	10	2,353	1,962	34	170	321	310	221	5,381

Note 1: Dr. Stanley Ho and Mr. Robert Kwan resigned as directors of the Company on 15 March 2006.

Note 2: Mr. Ho Cheuk Yuet resigned as a director of the Company on 5 September 2005.

2004

	Dr. Stanley Ho	Mr. Lawrence Ho	Mr. Frank Tsui	Mr. Ho Cheuk Yuet	Mr. Ng Ching Wo	Sir Roger Lobo	Mr. Robert Kwan	Dr. Lo Ka Shui	Mr. Peter So	Total 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 1)							(Note 3)		
Fees	10	-	-	50	253	300	300	62	13	988
Other emoluments										
Salaries and other benefits	-	2,329	1,899	-	-	-	-	-	-	4,228
Retirement benefit scheme contributions	-	24	12	-	-	-	-	-	-	36
Total emoluments	10	2,353	1,911	50	253	300	300	62	13	5,252

Note 3: Mr. Peter So resigned as a director of the Company on 1 April 2004.

No director waived any emoluments in the years ended 31 December 2005 and 2004.

During the year, no share option (2004: 3,600,000 share options) was granted to directors of the Company in respect of their services provided to the Group, further details of which are set out in note 50.

Notes to the Financial Statements

For the year ended 31 December 2005

17. EMPLOYEES' EMOLUMENTS

Of five individuals with the highest emoluments in the Group, two directors (2004: two directors), of the Company whose emoluments are included in note 16 above. The emoluments of the remaining three (2004: three) individuals were as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	4,454	7,407
Retirement benefit scheme contributions	36	35
	<u>4,490</u>	<u>7,442</u>

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	2	–
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	–	1
	<u>3</u>	<u>3</u>

18. DIVIDENDS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim dividend paid: HK1 cent (2004: HK0.5 cent) per share (<i>note</i>)	11,258	3,776
2004 final dividend proposed: HK0.5 cent (2003: nil) per share	4,910	–
	<u>16,168</u>	<u>3,776</u>

On 31 March 2006, the directors propose that final dividend of HK1 cent per share will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting. The proposed dividend for 2005 is payable to all shareholders whose names are on the Register of Members as at 17 May 2006.

Note: The dividend per share data has been adjusted for the share subdivision on 19 May 2005 (note 48).

Notes to the Financial Statements

For the year ended 31 December 2005

19. EARNINGS PER SHARE

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the Company)	548,718	59,722
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	24,897	838
Adjustments to the share of result of a subsidiary based on potential dilution of its earnings per share	(8,046)	–
Earnings for the purpose of diluted earnings per share	<u>565,569</u>	<u>60,560</u>
	2005 <i>'000</i>	2004 <i>'000</i> (restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,051,429	649,710
Effect of dilutive potential ordinary shares:		
Share options	28,312	40,942
Convertible loan notes	114,945	22,085
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,194,686</u>	<u>712,737</u>

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share has been adjusted for the share subdivision on 19 May 2005 (Note 48).

Notes to the Financial Statements

For the year ended 31 December 2005

19. EARNINGS PER SHARE (continued)

The following table summarises the impact on basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005 cents	2004 cents	2005 cents	2004 cents
Figures before adjustments	107.54	20.06	97.46	18.52
Adjustments arising from changes in accounting policies (see note 2A)	(3.16)	(1.68)	(2.78)	(1.52)
Adjustments arising from share subdivision on 19 May 2005 (note 48)	(52.19)	(9.19)	(47.34)	(8.50)
	<u>52.19</u>	<u>9.19</u>	<u>47.34</u>	<u>8.50</u>

20. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
FAIR VALUE	
At 1 January 2004	159,000
Disposals	<u>(82,000)</u>
At 1 January 2005	77,000
Net increase in fair value recognised in the income statement	<u>8,000</u>
At 31 December 2005	<u>85,000</u>

The Group's investment properties comprise of leasehold land in Hong Kong held under long term lease.

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group. The valuation, which conforms to valuation standards published by Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Notes to the Financial Statements

For the year ended 31 December 2005

21. PROPERTY, PLANT AND EQUIPMENT

	Restaurant vessels, ferries and pontoons HK\$'000	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Gaming machine HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP								
COST								
At 1 January 2004	43,665	614	7,477	90,585	-	-	-	142,341
Acquired on acquisition of subsidiaries	-	-	3,829	16,983	43,637	-	-	64,449
Additions	7,475	-	6,093	9,262	17,137	263	12,030	52,260
Transfers	11,545	-	134	(134)	-	-	(11,545)	-
Disposals	(135)	(474)	-	(20,130)	-	-	-	(20,739)
At 31 December 2004	62,550	140	17,533	96,566	60,774	263	485	238,311
Exchange adjustments	-	-	7	11	-	7	-	25
Additions	2,680	3,861	23,394	36,138	100,274	1,064	-	167,411
Transfer	-	-	-	485	-	-	(485)	-
Disposals	(1,506)	-	(731)	(3,453)	(1,723)	-	-	(7,413)
At 31 December 2005	63,724	4,001	40,203	129,747	159,325	1,334	-	398,334
ACCUMULATED DEPRECIATION								
At 1 January 2004	34,970	189	2,091	76,175	-	-	-	113,425
Provided for the year	1,989	5	4,060	7,944	3,659	26	-	17,683
Disposals	(17)	(142)	-	(19,812)	-	-	-	(19,971)
At 31 December 2004	36,942	52	6,151	64,307	3,659	26	-	111,137
Exchange adjustments	-	-	5	4	-	1	-	10
Provided for the year	3,522	67	6,633	10,169	14,670	261	-	35,322
Disposals	(1,039)	-	(37)	(2,870)	(340)	-	-	(4,286)
At 31 December 2005	39,425	119	12,752	71,610	17,989	288	-	142,183
NET BOOK VALUE								
At 31 December 2005	24,299	3,882	27,451	58,137	141,336	1,046	-	256,151
At 31 December 2004	25,608	88	11,382	32,259	57,115	237	485	127,174

At 31 December 2005, the net book value of furniture, fixtures and equipment of the Group includes an amount of approximately HK\$89,000 (2004: HK\$2,120,000) in respect of assets held under finance leases.

The Group's buildings of approximately HK\$85,000 and HK\$3,797,000 are located in Hong Kong under long term lease and outside Hong Kong under short term lease, respectively.

Notes to the Financial Statements

For the year ended 31 December 2005

22. HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT

	THE GROUP <i>HK\$'000</i>
Interest in a piece of land arised on acquisition of a subsidiary (<i>note 51</i>)	400,000
Acquisition of additional interest in another piece of land (<i>note</i>)	<u>1,175,000</u>
	1,575,000
Amortisation of interests in lands	(31,650)
Capitalisation of amortisation of interests in lands	31,650
Other construction costs	<u>306,824</u>
At 31 December 2005	<u><u>1,881,824</u></u>

The hotels and entertainment complex under development represents leasehold interests in various lands in Macau and construction cost incurred. Additional payments to the Macau government are required when the lands are officially granted by the Macau Government and the respective lease term are finalised.

Note: Pursuant to an agreement signed on 11 May 2005, Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Group, acquired from Great Respect Limited, a company controlled by a discretionary family trust of a director and substantial shareholder of the Company, Dr. Stanley Ho, the remaining 49.2% interest in a piece of land located at Taipa, Macau, on the Cotai Strip ("Cotai Land") at a consideration of HK\$1,175,000,000, subject to certain conditions precedents from Great Respect Limited. Upon receipt of the cash consideration, Great Respect Limited then subscribed for the Company's convertible loan notes having a principal amount of HK\$1,175,000,000, which is non-interest bearing and convertible into shares of the Company at a conversion price of HK\$9.965 per share, after adjustment for the share subdivision on 19 May 2005. The Macau Government had offered a medium term lease in respect of the land for development of an integrated entertainment resort to Melco Hotels on 21 April 2005.

Notes to the Financial Statements

For the year ended 31 December 2005

23. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprises leasehold land outside Hong Kong under short-term lease.

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purposes as:		
Current assets	4,646	–
Non-current assets	36,394	–
	41,040	–

Amortisation of prepaid lease payments amounted to approximately HK\$1,936,000 for the year ended 31 December 2005.

24. DEPOSIT FOR LAND USE RIGHT

THE GROUP

At 31 December 2005, the Group paid approximately HK\$48,590,000 (2004: Nil) for the acquisition of a land use right in Macau (Note 54).

25. GOODWILL

	THE GROUP
	<i>HK\$'000</i>
At 1 January 2004	19,705
Arising on acquisition of a subsidiary	361,427
Arising on acquisition of additional interest in subsidiaries	8,805
	<hr/>
At 1 January 2005	389,937
Realised upon deemed disposal of partial interests in subsidiaries	(144,571)
Arising on acquisition of additional interest in a subsidiary (<i>note 51</i>)	106,104
	<hr/>
At 31 December 2005	351,470

Particulars regarding impairment testing on goodwill are disclosed in note 27.

Notes to the Financial Statements

For the year ended 31 December 2005

26. TRADING RIGHTS

	THE GROUP <i>HK\$'000</i>
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	<u>5,066</u>
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	1,773
Provided for the year	<u>507</u>
At 31 December 2004	2,280
Provided for the year	<u>507</u>
At 31 December 2005	<u>2,787</u>
CARRYING VALUE	
At 31 December 2005	<u><u>2,279</u></u>
At 31 December 2004	<u><u>2,786</u></u>

Trading rights represent rights to trade on The Stock Exchange and Hong Kong Limited ("SEHK") and Hong Kong Futures Exchange Limited ("HKFE"). They are stated at cost and amortised using the straight-line method over its estimated useful life of 10 years from 6 March 2000, the effective day of the merger of the SEHK, HKFE and Hong Kong Securities Clearing Company Limited.

Notes to the Financial Statements

For the year ended 31 December 2005

27. IMPAIRMENT TESTING ON GOODWILL THE GROUP

As explained in Note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives set out in note 25 have been allocated to four individual cash generating units (CGUs) determined based on the related segment. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2005 allocated to these units are as follows:

	Goodwill <i>HK\$'000</i>
Gaming machine	216,857
Hotels and entertainment complex	106,103
Investment banking and financial services	1,800
Technology	26,710
	<u>351,470</u>

During the year ended 31 December 2005, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 3 to 10-year period, which represents the management's best estimate of future cash flow from respective CGU, and a discount rate of 8%. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Nil growth rate is used to extrapolate the cash flow during the finance budget period. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

28. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i> (Note)
Cost of unlisted investment in jointly controlled entities	–	100,000
Share of post-acquisition profit	2,234	–
	<u>2,234</u>	<u>100,000</u>

Notes to the Financial Statements

For the year ended 31 December 2005

28. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

As at 31 December, 2005, the Group had interests in the following jointly controlled entities:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
Melco PBL Holdings Limited	Cayman Islands/ Hong Kong	Ordinary shares	50%	Investment holding
Melco PBL International Limited	Cayman Islands/ Hong Kong	Ordinary shares	50%	Investment holding

Note: On 8 September 2004, the Company entered into an agreement ("First agreement") with Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") to acquire 50% equity interests of Great Wonders at a consideration of HK\$100 million which was satisfied by issuing of convertible loan notes. Great Wonders has applied to the Macau Government for the concession of a parcel of land located in Taipa, Macau (the "Land") and to develop the Land into a six-star hotel and entertainment complex with one of the largest casino and electronic gaming machine areas.

Following the acquisition under the First Agreement, the Company entered into another agreement ("Second Agreement") with STDM on 11 November 2004 pursuant to which the Company acquired an additional 20% issued share capital of Great Wonders from STDM by issuing of convertible loan notes with a principal amount of HK\$56 million. The fair value of convertible loan note issued is determined with reference to the fair value of the attributable underlying assets and liabilities of Great Wonders acquired at the date of acquisition. The Second Agreement was approved by the independent shareholders of the Company at its extraordinary general meeting. Great Wonders became a subsidiary of the Company and its results was consolidated in the Company's consolidated financial statements upon the completion of such acquisition (See Note 51).

Notes to the Financial Statements

For the year ended 31 December 2005

28. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The summarised unaudited financial information in respect of the Group's jointly controlled entities is set out below:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Total assets	4,491	252,418
Total liabilities	(23)	(52,418)
Net assets	<u>4,468</u>	<u>200,000</u>
Group's share of net assets of jointly controlled entities	<u>2,234</u>	<u>100,000</u>
Revenue	<u>4,883</u>	–
Profit for the year	<u>4,468</u>	–
Group's share of profit of jointly controlled entities for the year	<u>2,234</u>	–

29. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at cost	<u>46,349</u>	<u>29,394</u>

Details of the Company's principal subsidiaries at 31 December 2005 are set out in note 59.

30. AVAILABLE-FOR-SALE INVESTMENTS (FORMERLY CLASSIFIED AS INVESTMENT SECURITIES)

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted equity investments, at cost	21,837	26,499
Unlisted debt investments, at cost	–	4,000
Impairment losses	(1,320)	(2,745)
	<u>20,517</u>	<u>27,754</u>

The amount represents unlisted equity investments for which the fair value cannot be reliably measured because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. The impairment losses are not reversible.

Notes to the Financial Statements

For the year ended 31 December 2005

31. OTHER INTANGIBLE ASSETS

	THE GROUP <i>HK\$'000</i>
COST	
At 1 January 2004 and 1 January 2005	1,839
Additions	<u>2,000</u>
At 31 December 2005	<u>3,839</u>
IMPAIRMENT	
At 1 January 2004, 1 January 2005 and 31 December 2005	<u>1,292</u>
CARRYING VALUE	
At 31 December 2005	<u><u>2,547</u></u>
At 31 December 2004	<u><u>547</u></u>
	THE COMPANY <i>HK\$'000</i>
COST	
Additions and at 31 December 2005	<u><u>2,000</u></u>

Other intangible assets represent club memberships with indefinite useful lives and are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

32. LONG TERM DEPOSITS

THE GROUP

Amounts represent deposits for acquisition of property, plant and equipment and deposits with various exchanges and clearing houses. These amounts are non-interest bearing. The fair value of these assets at the balance sheet date approximates to their carrying amount.

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For the year ended 31 December 2005

33. TRADE RECEIVABLES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trade receivables (excluding receivables balance arising from margin clients' securities transactions)	221,790	171,681
Allowance for doubtful receivables	–	(323)
	<u>221,790</u>	<u>171,358</u>
Trade receivables arising from margin clients' securities transactions (<i>Note b</i>)	177,937	165,656
	<u>399,727</u>	<u>337,014</u>

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	173,935	157,881
31 – 90 days	22,930	10,624
Over 90 days	24,925	3,176
	<u>221,790</u>	<u>171,681</u>

Note:

- (a) The Group's Leisure, Gaming and Entertainment Segment and Property and Other Investments Segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30 to 90 days would be granted.
- (b) Trade receivables arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment Banking and Financial Services Segment as at 31 December 2005 amounted to approximately HK\$319,499,000 (2004: HK\$306,189,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

Notes to the Financial Statements

For the year ended 31 December 2005

33. TRADE RECEIVABLES (continued)

Note: (continued)

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

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

The fair value of the Group's trade receivables at 31 December 2005 approximates to the corresponding carrying amount.

34. INVENTORIES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Food and beverages	1,346	2,389
Consumable stores	594	98
Merchandise	32,716	1,281
	<u>34,656</u>	<u>3,768</u>

35. INVESTMENT IN CONVERTIBLE LOAN NOTES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Unlisted convertible loan notes	<u>4,000</u>	<u>–</u>

The amount represents debt element of the convertible loan notes while the derivative portion relating to the conversion option was accounted for separately with insignificant fair value. The convertible loan notes have a maturity date of 6 January 2006 and they have been subsequently settled in full at the maturity date.

36. HELD-FOR-TRADING INVESTMENTS (FORMERLY CLASSIFIED AS OTHER INVESTMENTS)

THE GROUP

Held-for-trading investments as at 31 December 2005 represents equity securities listed in Taiwan and Hong Kong of HK\$495,000 and HK\$44,507,000, respectively. The fair value of the held-for-trading investments are determined based on the quoted market bid price available on the relevant exchange.

Notes to the Financial Statements

For the year ended 31 December 2005

37. AMOUNTS DUE FROM (TO) A JOINTLY CONTROLLED ENTITY/MINORITY SHAREHOLDER THE GROUP

The amounts are unsecured, interest free and have no fixed repayment term. The fair value of the amounts as at the balance sheet date approximates to their carrying amount.

38. AMOUNTS DUE FROM (TO) RELATED COMPANIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
STDM (<i>note a</i>)	948	519
Gold Carousel Investment Limited ("GCIL") (<i>note b</i>)	—	600
	948	1,119

Notes:

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

The fair value of the amounts due from (to) related companies as at the balance sheet date approximates to their carrying amount.

39. AMOUNTS DUE FROM (TO) SUBSIDIARIES THE COMPANY

Included in amounts due from subsidiaries are i) loan to a subsidiary of HK\$211.9 million (2004: HK\$218.9 million) which is unsecured, interest bearing at prime rate minus 2% per annum or HIBOR plus 1.25% to 2% per annum and repayable upon written notice given from the Company; ii) loan to a subsidiary of nil (2004: HK\$93.1 million) which is unsecured, interest bearing at 4% per annum and repayable on demand; iii) loan to a subsidiary of HK\$523.7 million which is unsecured, interest bearing at 9% per annum and repayable on demand. Other amounts due from (to) subsidiaries are unsecured, interest free and repayable on demand.

The fair value of amounts due from (to) subsidiaries at 31 December 2005 approximates to the corresponding carrying amount.

Notes to the Financial Statements

For the year ended 31 December 2005

40. PLEDGED BANK DEPOSITS THE GROUP

At 31 December 2005, the Group's bank deposit and investment properties amounting to approximately HK\$270,000 (2004: HK\$177,000) and HK\$85,000,000 (2004: HK\$77,000,000) were pledged for tendering of contracts with the Macau government by a subsidiary of the Group and for obtaining the banking facilities for a subsidiary of the Group respectively.

The deposits carry fixed interest rate of about 3%. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

41. BANK BALANCES AND CASH THE GROUP AND THE COMPANY

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. The fair value of these assets approximates to the corresponding carrying amount.

42. TRADE PAYABLES

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Within 30 days	38,330	14,313
31-90 days	19,551	4,459
Over 90 days	12,674	5,224
	70,555	23,996
Trade payables arising from the ordinary course of business of dealing in securities transactions (<i>Note</i>)	33,381	36,466
	103,936	60,462

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

The fair value of the Group's trade payables at 31 December 2005 approximates to the corresponding carrying amount.

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43. BANK BORROWING – DUE WITHIN ONE YEAR THE GROUP

The amount represents short-term bank borrowing of HK\$28,000,000 which is repayable on demand. They are partially secured by a charge over certain marketable securities from margin clients of the investment banking and financial services segment. One of the subsidiary of the Company also provided a corporate guarantee for the facilities. The interest rates for the loans are HIBOR plus a spread, thus exposing the Group to cash flow interest rate risk. The terms of the facilities are generally renewed annually. The fair value of the amounts at the balance sheet date approximates to the corresponding carrying amounts.

44. CONVERTIBLE LOAN NOTES THE GROUP AND THE COMPANY

On 9 June 2004, the Company issued convertible loan notes due on 30 June 2005 and 30 June 2006 with principal amount of HK\$22,500,000 and HK\$22,500,000, respectively, which are interest-bearing at 4% per annum. The convertible loan notes were issued to partially replace the shareholders' loans of Mocha Slot acquired by the Company during the year ended 31 December 2004.

On 11 April 2005, convertible loan note due on 30 June 2005 and 30 June 2006 had been converted into the ordinary shares of the Company. Total number of ordinary shares converted is 39,130,432 shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005.

On 9 November 2004, the Company issued a convertible loan note due on 8 November 2009 with a principal amount of HK\$100,000,000, which is interest-bearing at 4% per annum. In addition, on 8 February 2005, the Company has also issued another convertible loan note due on 7 February 2010 with a principal amount of HK\$56,000,000, which is also interest-bearing at 4% per annum. Both convertible loan notes were issued for the acquisition of equity interests in Great Wonders (Note 28). The fair value of the convertible loan note with a principal amount of HK\$56,000,000 is determined with reference to the attributable underlying assets and liabilities of Great Wonders acquired at the date of acquisition.

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

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

Notes to the Financial Statements

For the year ended 31 December 2005

44. CONVERTIBLE LOAN NOTES (continued)

On 5 September 2005, the Company issued a convertible loan note due on 4 September 2010 with principal amount of HK\$1,175,000,000 which is non-interest bearing. This convertible loan note was issued for the acquisition of additional interest of the Cotai Land in Macau (Note 22). This convertible loan note is convertible into fully paid ordinary shares of HK\$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK\$9.965 per share convertible in the period, commencing 5 years from the date of issuance until, and including, the maturity date which is 4 September 2010.

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

The convertible loan notes contain two components, liability and equity elements. Upon the application of HKAS 32 *Financial Instruments: Disclosure and Presentation* (see Note 2A for details), the convertible loan notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible loan notes equity reserve". The effective interest rate of the liability component is 4.5%-6.25%.

The movement of the liability component of the convertible loan notes for the year is set out below:

	2005 HK\$'000	2004 HK\$'000
Liability component at the beginning of the year	140,626	–
Convertible into the Company's shares	(45,000)	–
Issue of convertible loan notes	922,288	140,626
Interest on convertible loan notes (Note 13)	24,978	1,011
Interest paid	(498)	(1,011)
Interest payable transferred to amounts due to related companies	(5,231)	–
Liability component at the end of the year	<u>1,037,163</u>	140,626
Less: Amount due within one year shown under current liabilities	<u>–</u>	<u>(22,500)</u>
	<u><u>1,037,163</u></u>	<u><u>118,126</u></u>

The fair value of the liability component of the convertible loan notes at 31 December 2005, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, was approximately HK\$991,125,000.

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For the year ended 31 December 2005

45. OBLIGATION UNDER FINANCE LEASE THE GROUP

It is the Group's policy to lease certain of its furniture, fixtures and equipment under finance leases. The average lease term is five years. Interest rates underlying all obligation under finance leases are fixed at respective contract dates at 8% (2004: 3%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Amounts payable under finance leases:				
Within one year	28	837	21	817
In more than one year but not more two years	28	–	21	–
In more than two years but not more three years	28	–	21	–
In more than three years but not more than four year	28	–	21	–
In more than four years but not more than five year	1	–	–	–
	<u>113</u>	<u>837</u>	<u>84</u>	<u>817</u>
Less: future finance charges	<u>(29)</u>	<u>(20)</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u>84</u>	<u>817</u>	<u>84</u>	<u>817</u>
Less: Amount due within one year shown under current liabilities			<u>(21)</u>	<u>(817)</u>
			<u>63</u>	<u>–</u>

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. All finance lease obligations are denominated in Hong Kong dollars, the functional currency of the Group's entity which enters into the lease transaction.

The directors consider that the carrying amount of the obligation under finance leases approximates their fair value.

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For the year ended 31 December 2005

46. SHAREHOLDER'S LOAN THE GROUP

Amount represents loan from Dr. Stanley Ho. Such amount is unsecured, interest-bearing at 4 per cent per annum and repayable on demand.

The fair value of the Group's shareholder's loan at 31 December 2005 was approximate to the corresponding carrying amount.

47. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the year and prior reporting period:

	THE GROUP			
	Accelerated tax depreciation	Others	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004, as originally stated	3,147	324	(3,147)	324
Effect of change in accounting policies (Note 2)	9,492	–	(9,492)	–
At 1 January 2004, as restated	12,639	324	(12,639)	324
Acquired on acquisition of a subsidiary	262	–	–	262
Charge (credit) to income statement for the year	1,845	(324)	149	1,670
At 1 January 2005	14,746	–	(12,490)	2,256
Effect of change in tax rate	(540)	–	–	(540)
Acquired on acquisition of a subsidiary	48,000	–	–	48,000
(Credit) charge to income statement for the year	(1,705)	–	341	(1,364)
At 31 December 2005	<u>60,501</u>	<u>–</u>	<u>(12,149)</u>	<u>48,352</u>

As at the balance sheet date, the Group has unused tax losses of approximately HK\$389,021,000 (2004: HK\$360,543,000). A deferred tax asset has been recognised in respect of HK\$69,426,000 (2004: HK\$71,372,000) to the extent that realisation of the related tax benefit through future taxable profit is probable. A deferred tax asset is recognised on the balance sheet in view that the relevant subsidiary in the investment banking and the financial services segment has been profit making in recent years. No deferred tax asset has been recognised in respect of the remaining tax loss due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK\$4,651,000 (2004: Nil) that will expire in 2008. Other losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31 December 2005

47. DEFERRED TAX LIABILITIES (continued) THE COMPANY

As at the balance sheet date, the Company has unused tax loss of approximately HK\$533,000 (2004: HK\$11,862,000). No deferred tax asset has been recognised in respect of the tax loss due to the unpredictability of future profit streams. The tax loss may be carried forward indefinitely.

48. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2005	2004	2005 HK\$'000	2004 HK\$'000
Authorised:				
At the beginning of the year of HK\$1 each	700,000,000	480,000,000	700,000	480,000
Increase in authorised ordinary share capital (note a)	–	220,000,000	–	220,000
Subdivision of one share of HK\$1 each into two shares of HK\$0.5 each (note b)	700,000,000	–	–	–
At the end of the year of HK\$0.5 each (2004: HK\$1 each)	<u>1,400,000,000</u>	<u>700,000,000</u>	<u>700,000</u>	<u>700,000</u>
Issued and fully paid:				
At beginning of the year of HK\$1 each	463,244,054	221,997,007	463,244	221,997
Exercise of share options before subdivision	8,210,000	11,868,786	8,210	11,869
Conversion of convertible loan notes	19,565,216	–	19,565	–
Subdivision of one share of HK\$1 each into two shares of HK\$0.5 each (note b)	491,019,270	–	–	–
Issue of shares (notes c and d)	140,000,000	229,378,261	70,000	229,378
Exercise of shares options after subdivision	3,800,000	–	1,900	–
At the end of the year of HK\$0.5 each (2004: HK\$1 each)	<u>1,125,838,540</u>	<u>463,244,054</u>	<u>562,919</u>	<u>463,244</u>

Notes to the Financial Statements

For the year ended 31 December 2005

48. SHARE CAPITAL (continued)

Notes:

- (a) Pursuant to an ordinary resolution passed on 20 May 2004, the authorised ordinary share capital of the Company was increased from HK\$480,000,000 to HK\$700,000,000 by the creation of 220,000,000 new shares of HK\$1 each.
- (b) On 18 May 2005, an ordinary resolution was passed by the shareholders of the Company to approve the subdivision (the "Subdivision") of each issued and unissued shares of HK\$1 each in the authorised share capital into two ordinary shares of HK\$0.5 each. The Subdivision became effective on 19 May 2005.
- (c) On 9 June 2004, 153,478,261 ordinary shares of HK\$1 each were issued at a price HK\$2.375 per share for a total consideration of HK\$364,511,000 before related expenses for the acquisition of Mocha Slot during the year ended 31 December 2004 (Note 51). In addition, on 29 October 2004, 75,900,000 ordinary shares of HK\$1 each were issued at a price of HK\$5.2 per share by way of placement for a total consideration of HK\$394,680,000 before related expenses for the purpose of funding its operations under Leisure, gaming and entertainment segment.
- (d) In order to finance the Group's expansion and general operations, the Company issued 140,000,000 ordinary shares of HK\$0.5 each for a total consideration of HK\$9.125 per share. The shares was issued on 20 May 2005 to independent investors. The new shares rank pari passu with the existing shares in all respects.

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49. RESERVES

	Share premium HK\$'000	Issuable shares HK\$'000 (Note)	Capital reserve HK\$'000	Convertible loan notes equity reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY							
At 1 January 2004	49,677	–	357,785	–	–	(227,464)	179,998
Net loss for the year	–	–	–	–	–	(11,140)	(11,140)
Recognition of equity							
– settled share based payment	–	–	–	–	5,435	–	5,435
Issue of shares	529,813	–	–	–	–	–	529,813
Share issuance expenses	(16,576)	–	–	–	–	–	(16,576)
Exercise of share options	5,066	–	–	–	–	–	5,066
Recognition of equity components of convertible loan notes	–	–	–	4,374	–	–	4,374
Dividend paid	–	–	(3,776)	–	–	–	(3,776)
At 31 December 2004 and 1 January 2005	567,980	–	354,009	4,374	5,435	(238,604)	693,194
Net profit for the year	–	–	–	–	–	25,663	25,663
Issue of shares	1,207,500	–	–	–	–	–	1,207,500
Share issuance expenses	(38,397)	–	–	–	–	–	(38,397)
Exercise of share options	10,697	–	–	–	–	–	10,697
Share conversion on convertible loan notes	25,435	–	–	–	–	–	25,435
Recognition of equity – settled share based payment	–	–	–	–	5,350	–	5,350
Transfer to share premium upon exercise of share option	3,033	–	–	–	(3,033)	–	–
Recognition of equity components of convertible loan notes	–	–	–	323,303	–	–	323,303
Shares issuable on acquisition of additional interest in a subsidiary	–	196,667	–	–	–	–	196,667
Dividend paid	–	–	(16,168)	–	–	–	(16,168)
At 31 December 2005	<u>1,776,248</u>	<u>196,667</u>	<u>337,841</u>	<u>327,677</u>	<u>7,752</u>	<u>(212,941)</u>	<u>2,433,244</u>

Note: The issuable shares form part of the consideration for acquisition of additional interest in a subsidiary which will be issued on the actual date of grant of concession of the Land by the Macau Government (see Note 51).

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES

(a) Share option scheme of the Company

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme included the Company's directors, including independent non-executive directors, executives, employees, consultants, professionals and other advisers of the Group. The Scheme became effective on 8 March 2002 following its approval by the Company's shareholders at an extraordinary general meeting on the same date and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of share of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 19 November 2003, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 44,399,400 shares of HK\$0.5 each. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon the exercise of all options granted to such person within any 12-month period being more than 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant.

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

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

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the closing price of the Company's share on (the "Stock Exchange") on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer of the share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

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

The following share options were outstanding under the Scheme during the year ended 31 December 2005:

Category of participant	Outstanding at 1.1.2004 ²	Granted in 2004 ²	Exercised during 2004 ²	Outstanding at 1.1.2005 ²	Granted during the year ²	Exercised during the year ^{2,4}	Outstanding at 31.12.2005 ²	Date of grant of share options ¹	Share price at date of grant of share options ²	Exercise price of share options ^{2,3}
Directors ⁵	10,897,836	-	(10,865,224)	32,612	-	-	32,612	8 March 2002	HK\$0.41 ²	HK\$0.5 ²
Directors ⁶	-	7,200,000	-	7,200,000	-	(3,600,000)	3,600,000	19 February 2004	HK\$1.175	HK\$1.2025
Sub-total	10,897,836	7,200,000	(10,865,224)	7,232,612	-	(3,600,000)	3,632,612			
Employee	1,500,004	-	(1,500,004)	-	-	-	-	8 March 2002	HK\$0.41	HK\$0.5
Employees ⁷	6,915,340	-	(2,460,000)	4,455,340	-	(2,400,000)	2,055,340	13 September 2002	HK\$0.5534 ²	HK\$0.5534 ²
Employees ⁸	-	16,340,000	-	16,340,000	-	(8,120,000)	8,220,000	19 February 2004	HK\$1.175	HK\$1.2025
Employees ⁹	-	7,800,000	(3,932,000)	3,868,000	-	(1,200,000)	2,668,000	17 September 2004	HK\$1.6875	HK\$1.6875
Employees ¹⁰	-	-	-	-	2,059,400	-	2,059,400	1 February 2005	HK\$7.4	HK\$7.4
Sub-total	8,415,344	24,140,000	(7,892,004)	24,663,340	2,059,400	(11,720,000)	15,002,740			
Others	8,880,344	-	(4,980,344)	3,900,000	-	(3,900,000)	-	13 September 2002	HK\$0.5534	HK\$0.5534
Others ¹¹	-	2,000,000	-	2,000,000	-	(1,000,000)	1,000,000	19 February 2004	HK\$1.175	HK\$1.2025
Others ¹²	-	9,000,000	-	9,000,000	-	-	9,000,000	17 September 2004	HK\$1.6875	HK\$1.6875
Sub-total	8,880,344	11,000,000	(4,980,344)	14,900,000	-	(4,900,000)	10,000,000			
Total	<u>28,193,524</u>	<u>42,340,000</u>	<u>(23,737,572)</u>	<u>46,795,952</u>	<u>2,059,400</u>	<u>(20,220,000)</u>	<u>28,635,352</u>			

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

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

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The number of share options granted and the exercise price of the share options were adjusted after the completion of the rights issue in 24 September 2003 and share subdivision on 19 May 2005.
3. As at 31 December 2005, the Company had 28,635,352 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 28,635,352 additional ordinary shares of the Company and additional share capital of approximately HK\$14,318,000 and share premium of approximately HK\$37,181,000 before issue expenses.
4. In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK\$9.67 (2004: HK\$3.74).
5. As at 31 December 2005, 32,612 options may be exercised during the period from 8 September 2002 to 7 March 2012.
6. As at 31 December 2005, 3,600,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.
7. Among 2,055,340 options as at 31 December 2005, 1,027,670 options may be exercised during the period from 13 September 2002 to 7 March 2012 and 1,027,670 options may be exercised during the period from 13 March 2003 to 7 March 2012.
8. As at 31 December 2005, 8,220,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.
9. Among 2,668,000 options as at 31 December 2005, 800,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 1,188,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 350,000 options may be exercised during the period from 17 September 2006 to 7 March, 2012 and 330,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.
10. Among 2,059,400 options as at 31 December 2005, 944,000 options may be exercised during the period from 17 September 2006 to 7 March 2012, 915,400 options may be exercised during the period from 17 March 2008 to 7 March 2012 and 200,000 options may be exercised during the period from 17 September 2009 to 7 March 2012.
11. At 31 December 2005, 1,000,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.
12. Among 9,000,000 options as at 31 December 2005, 4,500,000 options may be exercised during the period from 17 March 2005 to 7 March 2012 and 4,500,000 options may be exercised during the period from 17 September 2005 to 7 March 2012.

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

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

During the year ended 31 December 2005, options were granted on 1 February 2005. The estimated fair values of the options granted on those dates is approximately HK\$3,066,000 respectively. During the year ended 31 December 2004, options were granted on 19 February 2004 and 17 September 2004. The estimated fair value of the options granted on those dates are HK\$5,613,000 and HK\$4,248,000.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share option grant date		
	1 February 2005	17 September 2004	19 February 2004
Exercise price	HK\$7.4	HK\$1.6875	HK\$1.2025
Expected volatility	42.86%	45.95%	42.18%
Expected life	2-5 years	1.5-4 years	2-2.5 years
Risk-free rate	2.734-3.39%	2.503-3.316%	2.212-2.583%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 100 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately HK\$5,350,000 for the year ended 31 December 2005 (2004: HK\$5,435,000) in relation to share options granted by the Company.

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

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

(i) Pre-IPO share options plan

Options granted on 6 April 2001 (“Pre-IPO Share Options”) pursuant to the Pre-IPO Share Options plan adopted by Value Convergence on 14 March 2001 (“Pre-IPO Share Options Plan”) at an exercise price of HK\$3.6 per share expired on 8 October 2005. The exercise price represents a discount of 30% of the adjusted initial public offering price. The share option granted under the Pre-IPO Share Options Plan have duration of approximately 4.5 years from the date of grant, i.e. between 6 April 2001 to 8 October 2005. According to the Pre-IPO Share Options Plan, any Pre-IPO Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed by the Value Convergence Group. The following are details of the outstanding Pre-IPO Share Options as at 31 December 2005:

Categories of grantees	As at 31 December 2005 Number of underlying shares to be issued upon the exercise of the Pre-IPO Share Options	As at December 31 2004 Number of underlying shares to be issued upon the exercise of the Pre-IPO Share Options
Directors of the Company	–	4,606,510
Employees	–	1,262,188
Total	–	5,868,698

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

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

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

During the year ended 31 December 2005, Pre-IPO Share Options to subscribe for a total of 5,868,698 underlying shares granted to the director of the Company and employees lapsed as one employee failed to exercise the same within 3 months after the relevant employee ceased to be the employee of Value Convergence and the others have not exercised when the share options were expired on 8 October 2005. Since the date of the grant of the Pre-IPO Share Options up to 31 December 2005 and 31 December 2004, none of the Pre-IPO Share Options were exercised or cancelled. Movements in the number of Pre-IPO Share Options outstanding during the year are as follows:

	Number of Pre-IPO Share Options	
	2005	2004
At beginning of the year	5,868,698	9,740,208
Lapsed during the year	(5,868,698)	<u>(3,871,510)</u>
At end of the year	<u>—</u>	<u>5,868,698</u>

(ii) Share options scheme

The Share Options Scheme ("Share Options Scheme") was adopted by Value Convergence on 29 November 2001 (which superseded the previous share options scheme of Value Convergence adopted on 14 March 2001).

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

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

(ii) Share options scheme (continued)

As at 31 December 2005, options to subscribe for an aggregate of 3,258,168 and 10,950,565 underlying shares granted on 9 July 2002 and 25 March 2004 (“Share Options”) pursuant to the Share Options Scheme at an exercise price of HK\$1.0 per share and HK\$0.64 per share, respectively, were outstanding, which in total represents approximately 5.7% (2004: 11.5%) of the shares of Value Convergence in issue as at 31 December 2005. The adjusted closing price of Value Convergence's shares immediately before 9 July 2002 and the closing price of the Value Convergence's shares immediately before 25 March 2004 were HK\$0.65 and HK\$0.64 per share, respectively. The Share Options have duration of 10 years from the date of grant, i.e. between 9 July 2002 to 8 July 2012 and between 25 March 2004 to 24 March 2014, respectively. According to the Share Options Scheme, any Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by the Value Convergence Group. The following are details of the outstanding Share Options as at 31 December 2005:

Categories of grantees	Exercise price per share	As at	As at
		31 December 2005	31 December 2004
		Number of underlying shares to be issued upon the exercise of the Share Options	Number of underlying shares to be issued upon the exercise of the Share Options
Directors of the Company	HK\$1.0	982,114	982,114
Employees	HK\$1.0	694,842	1,782,539
Employees	HK\$0.64	8,900,565	23,160,565
Other eligible persons	HK\$1.0	1,581,212	1,424,065
Other eligible persons	HK\$0.64	2,050,000	–
Total		<u>14,208,733</u>	<u>27,349,283</u>

Notes to the Financial Statements

For the year ended 31 December 2005

50. SHARE OPTIONS SCHEMES (continued)

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

(ii) Share options scheme (continued)

During the year ended 31 December 2005, certain Share Options to subscribe for a total of 1,654,323 underlying shares granted to eight employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of Value Convergence. During the year ended 31 December 2005, certain Share Options to subscribe for a total of 756,227 and 10,730,000 underlying shares at an exercise price of HK\$1.0 and HK\$0.64 per share, respectively, granted to a total of 42 employees were exercised (2004: Nil). Since the date of the grant of the Share Options up to 31 December 2005 and 31 December 2004, none of the Share Options were cancelled. Movements in the number of Share Options outstanding during the year are as follows:

	Number of Share Options	
	2005	2004
At beginning of the year	27,349,283	4,228,002
Share Options granted during the year	–	23,160,565
Exercised during the year	(11,486,227)	–
Lapsed during the year	(1,654,323)	(39,284)
At end of the year	<u>14,208,733</u>	<u>27,349,283</u>

51. ACQUISITION OF SUBSIDIARIES

Acquisition for the year ended 31 December 2005

As stated in note 28, the Group completed the acquisition of additional 20% issued share capital of Great Wonders, a company in which the Group held 50% equity interest as at 31 December 2004. The principal activities of Great Wonders was to apply to the Macau Government for the concession of the Land located at Taipa, Macau and to develop the Land into a six-star hotel and entertainment complex with one of the largest casino and electronic gaming machine areas. Great Wonders accepted in principle a written offer issued by the Macau Government dated 24 June 2005 to grant to Great Wonders a medium term lease of the property.

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For the year ended 31 December 2005

51. ACQUISITION OF SUBSIDIARIES (continued)

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

	Acquiree's carrying amount before combination <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i> <i>(note)</i>	Fair value <i>HK\$'000</i>
Hotels and entertainment complex under development	33,241	400,000	433,241
Amount due from a shareholder	969	–	969
Amount due to the Group	(33,229)	–	(33,229)
Other payables	(27)	–	(27)
Deferred tax liabilities	–	(48,000)	(48,000)
	<u>954</u>	<u>352,000</u>	352,954
Minority interest			<u>(105,886)</u>
			<u>247,068</u>
Represented by:			
Interest in a jointly controlled entity			176,477
Issue of convertible loan note			70,591
			<u>247,068</u>

Subsequent to the acquisition, the Group has injected its 70% equity interests of Great Wonders to the JV Group pursuant to a Subscription Agreement. Please see note 12 for details.

On 28 July 2005, the Group completed the acquisition of the remaining 30% equity interest in Great Wonders from STDM at a consideration of HK\$400,000,000, of which HK\$200,000,000 is settled in cash and the remaining HK\$200,000,000 will be settled by the issue of 22,222,222 ordinary shares of the Company (Note). Goodwill amounting to approximately HK\$106,104,000, which represented the surplus of the consideration over the 30% of the fair value of Great Wonders at the date of acquisition of the remaining 30% equity interest in Great Wonders, arised as result. The difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interests in Great Wonders is charged to special reserve.

Great Wonders has insignificant income or expenditure for the year ended 31 December 2005 and insignificant contribution to the Group's revenue and profit before tax between the date of acquisition and 31 December 2005.

Notes to the Financial Statements

For the year ended 31 December 2005

51. ACQUISITION OF SUBSIDIARIES (continued)

Note: Pursuant to the agreement with STDM, the 22,222,222 ordinary shares of the Company with par value of HK\$0.5 each will be issued on the actual date of grant of the concession of the Land by the Macau government. The fair value of the shares to be issued is approximately HK\$196,667,000 with reference to the quoted market price of the Company's share at the date of the exchange of HK\$8.85. The Land has been officially granted by the Macau Government on 1 March 2006 and the Company then allotted and issued the 22,222,222 shares to STDM, accordingly.

52. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2005, the Group entered into finance lease arrangement in respect of assets with a total capital value of approximately HK\$103,000 at the date of inception.

The consideration for the purchase of subsidiaries and the acquisition of additional interest in the Cotai Land during the year ended 31 December 2005 comprised shares and convertible loan notes as disclosed in note 51 and note 22, respectively.

53. OPERATING LEASES

(a) The Group as lessee

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
The Group made rental payment for properties under operating leases as follows:		
Minimum lease payments	20,279	9,342
Contingent rental payments	442	—
	<u>20,721</u>	<u>9,342</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Within one year	29,418	19,620
In the second to fifth year inclusive	79,058	46,835
Over five years	39,036	—
	<u>147,512</u>	<u>66,455</u>

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For the year ended 31 December 2005

53. OPERATING LEASES (continued)

(a) The Group as lessee (continued)

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for a term ranging from 3 to 10 years. In addition, the Group may pay additional rental expenses in respect of certain premises which are dependent upon the level of revenue achieved by particular slot lounges.

(b) The Group as lessor

At 31 December 2004, the Group has entered into lease arrangements with Sociedade de Jogos de Macau, S.A. ("SJM"), a subsidiary of STD, and the other lessee for leasing of its owned gaming machines. In addition to a fixed monthly rent of HK\$7,767 (equivalent to MOP8,000) per month for one of the lease arrangements, the Group will be entitled to lease receipts calculated at an agreed percentage of net win from each gaming machine leased on an accrual basis in accordance with the respective lease arrangements. This lease arrangement is superseded with another service agreement during the year ended 31 December 2005 where the Group provides management service to certain slot lounges owned by SJM and receives management service income in return.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	–	280
In the second to fifth year inclusive	–	1,118
Over five years	–	1,150
	<u>–</u>	<u>2,548</u>

At 31 December 2005, the Group has entered into lease arrangements with certain tenants for its leased properties and investment properties. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

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For the year ended 31 December 2005

53. OPERATING LEASES (continued)

(b) The Group as lessor (continued)

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Within one year	14,810	2,101
In the second to fifth year inclusive	24,240	387
	<u>39,050</u>	<u>2,488</u>

The Company had no significant operating leases at the balance sheet date.

54. COMMITMENTS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Capital commitments contracted for but not provided in respect of the acquisition of property, plant and equipment, hotels and entertainment complex under development	<u>1,405,808</u>	<u>437</u>

In addition, Great Wonders has accepted a formal offer from the Macau Government to acquire the Land at a consideration of approximately HK\$145,085,000 (MOP149,728,000). As at 31 December 2005, Great Wonders has paid a deposit of HK\$48,590,000 (MOP50,000,000) for the Land. The remaining balance of approximately HK\$96,495,000 (MOP99,728,000) is interest-bearing at 5% per annum and shall be payable in 4 half-yearly instalments in equal amounts. The first instalment shall be paid within six months from the date of publication of the grant of concession of the Land in the Macau Government Gazette.

Also, Melco Hotels has accepted in principal another offer from the Macau government to acquire the Cotai Land in Macau at a consideration of approximately HK\$493,339,000 (MOP509,125,000). No payment has been made in respect of this offer by Melco Hotels as at 31 December 2005.

The Company had no significant capital commitment at the balance sheet date.

55. CONTINGENT LIABILITIES

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

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For the year ended 31 December 2005

56. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme are switched to the MPF Scheme and all new eligible employees joining the Group on or after December 2000 are under the MPF Scheme. No more contribution was made to the ORSO Scheme after the switch.

Both the Group and the employees contribute a fixed percentage of the relevant payroll to the MPF Scheme.

The Group's contribution to both retirement schemes are expensed as incurred. The Group's mandatory contributions to the mandatory provident fund are vested immediately. The Group's contributions to the defined contribution scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

57. RELATED PARTY TRANSACTIONS

- (a) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK\$51,038,000 (2004: HK\$14,876,000).

The trade receivables include amounts due from SJM, in relation to the gaming machines business of approximately HK\$10,125,000 (2004: HK\$8,462,000).

The prepayments, deposits and other receivables include HK\$3,829,000 (2004: HK\$1,044,000) amount due from related companies in relation to sales of computer hardware and software.

- (b) The accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK\$3,407,000 (2004: HK\$368,000).

Notes to the Financial Statements

For the year ended 31 December 2005

57. RELATED PARTY TRANSACTIONS (continued)

(c) Apart from the acquisition of subsidiaries and the acquisition of additional interest in the Land as disclosed in note 51 and note 22, respectively, the Group entered into the following related parties transactions:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Catering income earned from directors and related companies	6,363	4,306
Insurance premiums charged by a related company	1,122	1,004
Property management fees charged by a related company	–	276
Souvenirs sold to a related company	717	681
Brokerage commission income earned from certain directors of the Group or their relatives	145	243
Sales of computer hardware and software to related companies	100,534	81,644
Management fees received from a related company	393	600
Interest expense on loan from a related company	–	23
Interest expense on shareholder's loan	1,079	–
Interest expense on convertible loan notes to related companies	24,978	1,011
Income from electronic gaming machines lounges from a related company	128,180	44,890
Management fee received from a jointly controlled entity	–	6,071
Purchase of property, plant and equipment from a related company	7,982	–
Service charge paid to a minority shareholder	11,204	–
Rental expense paid to a related company	407	–

Notes to the Financial Statements

For the year ended 31 December 2005

57. RELATED PARTY TRANSACTIONS (continued)

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Short-term benefits	13,635	12,566
Post-employment benefits	120	110
Share-based payments	1,610	1,974
	<u>15,365</u>	<u>14,650</u>

The remuneration of directors and key executives is determined by the executive resourcing committee having regard to the performance of individuals and market trends.

58. POST BALANCE SHEET EVENTS

- (i) On 13 February 2006, the Group has signed an agreement with syndicate banks for a HK\$1,280,000,000 transferable term loan facility to finance its hotels and entertainment complex under development.
- (ii) The publication of the grant of concession of the Land in the Macau Government Gazette was made on 1 March 2006 and the Land has therefore been officially granted by the Macau Government to Great Wonders on that date. Pursuant to an agreement with STDM as disclosed in note 51, the Company has allotted and issued 22,222,222 shares of the Company to STDM on 1 March 2006 for settlement of the purchase consideration.
- (iii) On 5 March 2006, the Company entered into the Memorandum of Agreement with PBL, pursuant to which the Company agreed to make or cause to be made by its wholly-owned subsidiary to provide a loan capital contribution of US\$160,000,000 to a company to be incorporated ("PBL Macau") to be applied towards the purchase of the Subconcession to operate gaming operations in Macau ("Subconcession") under the Subconcession Agreement entered into between Wynn Resort Limited, Wynn Resorts (Macau) S.A. and PBL at a consideration of US\$900,000,000.

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

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

Upon the Company becoming a holder of 40% of issued share capital of PBL Macau, PBL and the Company shall (a) enter into a shareholders' agreement or amend the Deed entered into between the Company and PBL dated 8 March 2005 relating to the gaming and hospitality business of Meclo PBL Holdings ("Deed") which will reflect the principle that material dealings of or under the Subconcession shall be subject to the unanimous approval of the board of PBL Macau; (b) the Company and PBL will share the economic benefit of the projects and businesses in Macau on a 50:50 basis; and (c) revise the Deed to reflect the agreement that all projects and business in the locations specified in the Deed shall be owned and carried out on a 50:50 basis.

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59. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
Melco Leisure and Entertainment Group Limited ¹	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
Melco PBL Entertainment (Greater China) Limited (formerly named as Melco Entertainment Limited) ²	Cayman Islands	Investment holding in Macau	40 A shares and 160 B shares of US\$0.01 each	60%
Mocha Slot Group Limited ²	British Virgin Islands	Leasing gaming machines and provision of ancillary management services to the lessees of its gaming machine in Macau	100 ordinary shares of US\$1 each	48%
Mocha Slot Management Limited ²	Macau	Provision of consultancy service for entertainment business and system management in Macau	2 quota shares of MOP24,000 and MOP1,000 each	48%
Melco Hotels and Resorts (Macau) Limited ²	Macau	Hotel properties development in Macau	2 quota shares of MOP24,000 and MOP1,000 each	60%
Great Wonders, Investments, Limited ²	Macau	Hotel properties development in Macau	10,000 ordinary shares of MOP100 each	60%
Aberdeen Restaurant Enterprises Limited ²	Hong Kong	Restaurant operations and property investment in and Hong Kong	8,060 A shares of HK\$1,000 each and 33,930 B shares of HK\$500 each	86.68%
Tai Pak Sea-Food Restaurant Limited ²	Hong Kong	Catering, restaurant vessel holding and letting in Hong Kong	5 founders' shares of HK\$100 each and 13,495 ordinary shares of HK\$100 each	84.76%
Jumbo Catering Management Limited ²	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK\$5,000	86.68%
Melco Technology Group Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%

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

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
iAsia Online Systems Limited ²	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US\$1	100%
Elixir Group Limited ²	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK\$1 each	100%
Elixir Group (Macau) Limited ²	Macau	Provision of hardware and software in Macau	2 quota shares of MOP450,000 and MOP50,000 each	100%
Melco Financial Group Limited ¹	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Value Convergence Holdings Limited ^{2,3}	Hong Kong	Investment holding in Hong Kong	249,641,226 ordinary shares of HK\$0.1 each	64.46%
VC Brokerage Limited ²	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK\$1 each	64.46%
VC Futures Limited ²	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK\$1 each	64.46%
VC Capital Limited ²	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK\$1 each	64.46%
VC Capital (Shenzhen) Limited ²	PRC	Provision of consultancy services in the PRC	HK\$1,000,000	64.46%
VC Securities Investments Limited ²	Hong Kong	Investment holding in Hong Kong	2 ordinary of HK\$1 each	64.46%
VC Asset Management Limited ²	Hong Kong	Provision of asset management services to clients in Hong Kong	7,000,000 ordinary shares of HK\$1 each	64.46%

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

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
VC Investment Management Limited ²	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	64.46%
VC Finance Limited ²	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK\$1 each	64.46%
VC Research Limited ²	Hong Kong	Provision of research services in Hong Kong	500,000 ordinary shares of HK\$1 each	64.46%
VC Financial Advisory (Macau) Limited ²	Macau	Provision of financial consultancy and related services in Macau	2 quota shares of MOP24,000 and MOP1,000 each	64.46%
VC Services Limited ²	Hong Kong	Provision of Management Services to group companies in Hong Kong	10,000 ordinary shares of HK\$1 each	64.46%
Melco Services Limited ¹	British Virgin Islands	Provision of Management Services to group companies in Hong Kong	1 ordinary share of US\$1	100%
Melco Investment Holdings Limited ¹	British Virgin Islands	Investment holding in Macau	1 ordinary share of US\$1	100%
Zonic Technology Limited ²	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%

¹ Share held directly by the Company

² Share held indirectly by the Company

³ The shares of this company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affect the results of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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