

▶ **Notes to the Condensed Financial Statements**

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

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

2. RECLASSIFICATION

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

³ Effective for annual periods beginning on or after 1 May 2006.

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

4. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

5. SEGMENTAL INFORMATION

Segment information about these businesses is presented below:

Six months ended 30 June 2006 (unaudited):

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

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

Six months ended 30 June 2005 (unaudited):

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

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

6. GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN SUBSIDIARIES

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

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

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

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

7. WRITE-DOWN OF SERVICE AGREEMENTS INTANGIBLE ASSET

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

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

8. (LOSS) PROFIT BEFORE TAX

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

9. INCOME TAX (CREDIT) EXPENSE

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

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

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

10. DIVIDEND

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

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

11. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share (net (loss) profit for the period attributable to equity holders of the Company)	(28,983)	534,161
Effect of dilutive potential ordinary shares (<i>note</i>):		
Interest on convertible loan notes	–	2,702
Adjustments to the share of results of a subsidiary based on potential dilution of its (loss) earnings per share	–	(33)
	<u>–</u>	<u>(33)</u>
(Loss) earnings for the purpose of diluted (loss) earnings per share	<u>(28,983)</u>	<u>536,830</u>
	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	1,155,817,309	977,307,406
Effect of dilutive potential ordinary shares (<i>note</i>):		
Share options	–	26,056,087
Convertible loan notes	–	30,145,674
	<u>–</u>	<u>56,201,761</u>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u>1,155,817,309</u>	<u>1,033,509,167</u>

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

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

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

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

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

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

13. ADVANCE TO A MINORITY SHAREHOLDER FOR A SUBCONCESSION

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

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

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

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

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

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

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

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

14. PLEDGE OF ASSETS

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

15. TRADE RECEIVABLES

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

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

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

Notes:

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

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

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

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

16. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

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

17. AMOUNT DUE FROM A RELATED COMPANY

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

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

18. TRADE PAYABLES

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

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

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

19. AMOUNT DUE TO A MINORITY SHAREHOLDER

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

20. CONVERTIBLE LOAN NOTES

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

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

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

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

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

21. SHARE CAPITAL

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

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

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

22. CAPITAL AND OTHER COMMITMENTS

30 June	31 December
2006	2005
HK\$'000	HK\$'000
(unaudited)	

Capital commitments contracted for but not provided in respect of the acquisition of property, plant and equipment, hotels and entertainment complex under development

<u>1,125,696</u>	<u>1,405,808</u>
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In addition, Great Wonders had accepted a formal offer from the Macau government to acquire a piece of land at a consideration of approximately HK\$145,085,000 (MOP149,728,000). As at 30 June 2006 and 31 December 2005, Great Wonders had paid an amount of HK\$48,590,000 (MOP50,000,000) in respect of such land. The remaining balance of approximately HK\$96,495,000 (MOP99,728,000) was interest-bearing at 5% per annum and shall be payable in 4 half yearly instalments in equal amounts. The first instalment shall be paid within six months from 1 March 2006, which was the date of publication of the grant of concession of the land in the Macau Government Gazette. On 14 July 2006, Great Wonders have settled all the balance together with the accrued interest for an amount of approximately HK\$98,614,000 (MOP101,572,000).

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

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

23. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

24. OTHER ACQUISITION

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

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

► Disclosure of Interests

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

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

(i) Long position in shares and underlying shares of the Company

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

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

(b) Share options of the Company

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

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

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

Notes:

- As at 30 June 2006, the total number of issued shares of the Company was 1,224,701,374.
- Mr. Ho, Lawrence Yau Lung is taken to be interested in 115,509,024 shares of the Company as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.43% of the issued share capital of the Company. He is also taken to be interested in 288,532,606 shares of the Company as a result of him being interested in 65% of issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 23.56% of the issued share capital of the Company.
- Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.78% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which are including Dr. Ho Hung Sun, Stanley, Mr. Ho, Lawrence Yau Lung and Madam Lucina Laam King Ying. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity for the making of an offer under Rule 26 of The Hong Kong Code on Takeovers and Mergers ("Takeovers Code") on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code would arise on full conversion.

(ii) Long position in shares and underlying shares of the associated corporation of the Company, Value Convergence Holdings Limited (“Value Convergence”)

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

Name of Director	Capacity	Number of issued ordinary shares of Value Convergence held	Approximate percentage of the issued share capital of Value Convergence (Note 1)
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations (Note 2)	165,163,008	65.33%

Notes:

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

(b) Share options of Value Convergence

Name of Director	Capacity	Number of underlying shares of Value Convergence held	Approximate percentage of the issued share capital of Value Convergence
Mr. Ho, Lawrence Yau Lung	Beneficial owner	491,057 (Note)	0.19%

Note:

The personal interest of Mr. Ho, Lawrence Yau Lung represents his derivative interest in Value Convergence comprising the options which were granted on 9 July 2002 and may be exercised during the period from 9 July 2002 to 8 July 2012 at an exercise price of HK\$1.00 per Value Convergence's share.

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

Substantial Shareholders

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

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

Name	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company (Note 1)
Better Joy Overseas Ltd.	Beneficial owner	288,532,606 (Note 2)	23.56%
Lasting Legend Ltd.	Beneficial owner	115,509,024 (Note 2)	9.43%
Dr. Ho Hung Sun, Stanley	Held by controlled corporations	7,298,456 (Note 3)	0.60%
	Beneficial owner	22,749,278	1.86%
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	404,041,630 (Note 4)	32.99%
	Beneficial owner	7,232,612	0.59%
Ms. Sharen Lo	Family	411,274,242 (Note 5)	33.58%
Shun Tak Shipping Company, Limited	Held by controlled corporations	78,166,294	6.38%

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

(b) *Convertible loan notes*

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

Notes:

1. As at 30 June 2006, the total number of issued shares of the Company was 1,224,701,374.
2. The shares held by Better Joy Overseas Ltd. and Lasting Legend Ltd. also represent the corporate interests of Mr. Ho, Lawrence Yau Lung in the Company.
3. Dr. Ho Hung Sun, Stanley is taken to be interested in 7,298,456 shares of the Company as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.60% of the issued share capital of the Company.
4. Mr. Ho, Lawrence Yau Lung is taken to be interested in 115,509,024 shares of the Company as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.43% of the issued share capital of the Company. Mr. Ho, Lawrence Yau Lung is also taken to be interested in 288,532,606 shares of the Company as a result of him being beneficially interested in 65% of the issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 23.56% of the issued share capital of the Company.
5. Ms Sharen Lo is the spouse of Mr. Ho, Lawrence Yau Lung and is deemed to be interested in shares of the Company in which Mr. Ho, Lawrence Yau Lung is interested in under the SFO.
6. The interest is held to its lending pool.
7. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.78% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which are including Dr. Ho Hung Sun, Stanley, Mr. Ho, Lawrence Yau Lung and Madam Lucina Laam King Ying. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity for the making of an offer under the Takeovers Code on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code would arise a full conversion.

8. Two convertible loan notes respectively for the principal amounts of HK\$100 million and HK\$56 million carrying the respective rights to subscribe for shares at an initial conversion price of HK\$4.00 and HK\$8.2 were issued by the Company to STDM on 9 November 2004 and 8 February 2005 respectively pursuant to two agreements disclosed in the announcements and the circulars of the Company dated 13 September 2004, 11 October 2004, 23 November 2004 and 5 January 2005. As at 30 June 2006, the total outstanding principal amount of the said convertible notes is HK\$156 million. Due to the share subdivision on 19 May 2005, the said conversion prices of HK\$4.00 and HK\$8.2 have been adjusted to HK\$2.00 and HK\$4.1 respectively. If STDM exercises the conversion rights attached to the said convertible notes in full, a total of 63,658,536 shares of the Company will be issued to STDM. STDM's said conversion rights are subject to the Company's early redemption rights and can only be exercised if the Company does not exercise its rights to redeem the convertible loan notes before the conversion rights are exercised.

Save as disclosed herein, so far as the Directors were aware, as at 30 June 2006, no other persons had interests or short positions in the shares, underlying shares and debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO, nor were there any other persons required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, or directly or indirectly interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

▶ Information of Share Option Scheme

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

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

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The number of share options granted and exercise price of the share options were adjusted after the completion of the rights issue in 24 September 2003 and share subdivision on 19 May 2005.
3. As at 30 June 2006, the Company had 21,494,740 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 21,494,740 additional ordinary shares of the Company and additional share capital of approximately HK\$10,747,370 and share premium of approximately HK\$98,188,000 before issue expenses.

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

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

▶ **Corporate Governance Practices**

(a) Application of Corporate Governance Principles

The Group is committed to promoting and maintaining the highest standard corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders, and (iv) the improvement in management of risk and the enhancement of performance by the Group. The Group has applied the principles set out in the Code on Corporate Governance Practices (“HKSE Code”) contained in Appendix 14 of the Listing Rules with these objectives in mind.

(b) Promulgation of Company’s Corporate Governance Code

To this end, the Group has promulgated a set of Code on Corporate Governance (“Company Code”) which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by referencing to the principles, Code Provisions and Recommended Best Practices set out in the HKSE Code, which came into effect on 1 January 2005. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the HKSE Code and ultimately ensuring high transparency and accountability to the Group’s shareholders.

(c) *Compliance of Company and HKSE's Code's Provisions*

The Group has complied with all provisions in the Company Code and the HKSE Code throughout the review period with deviations mentioned below.

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

Apart from the audit committee and remuneration committee required by the HKSE Code, the Company has established four additional board committees to ensure maintenance of a high corporate governance standard. The additional board committees established by the Company are: –

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

Terms of reference of all board committees set up by the Company have been posted on the Company's website, as have (1) division of responsibilities between the Company's Chairman and Managing Director and (2) duties and powers delegated to the Company's Managing Director and matters reserved for decision of the board.

(d) *Deviation from HKSE Code*

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