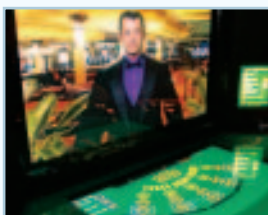
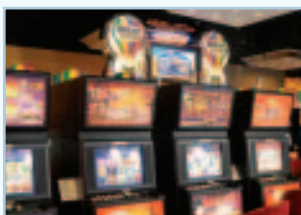


Business Review

Leisure, Gaming and Entertainment Division

Melco's leisure, gaming and entertainment division remained the Group's primary source of turnover accounting for 45% of turnover during the period under review. Turnover for the division during the six months ended 30th June 2005, amounted to HK\$113 million, an increase of 200% over the corresponding period a year prior. Segmental profit was up at HK\$555.1 million, representing a successful turnaround from a loss of HK\$5.2 million a year earlier. The large disparity between the previous year and the current period ended 30th June, 2005 is due to the inclusion of turnover and profit achieved by the Mocha Slot Group Limited (Mocha Slots), and HK\$514.4 million which arose from the deemed disposal of partial interests in Mocha Slots and Great Wonders, Investments, Limited (Great Wonders). Great Wonders, formerly a partially owned entity of Sociedade de Turismo e Diversoes de Macau, S.A. (STDM) with development and ownership rights to the Crown Macau project was purchased in total by the Melco-PBL joint venture subsequently to the period end making Melco-PBL the sole owner of Great Wonders.

Mocha



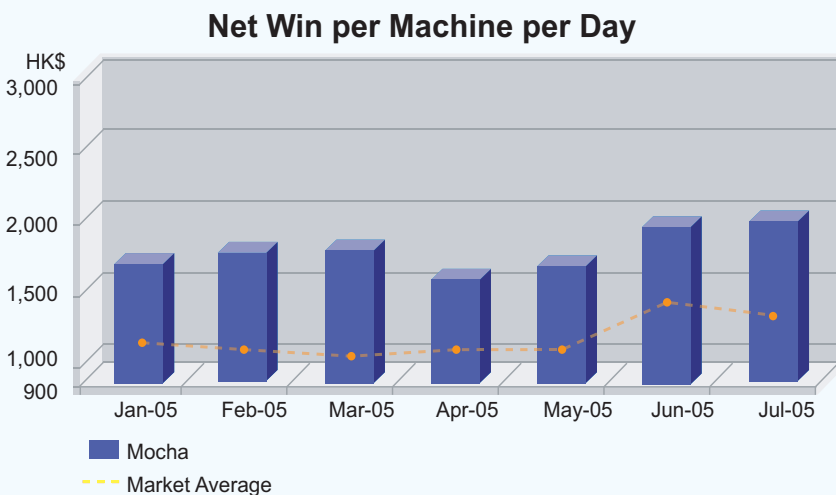
The primary contributor to the Group's leisure, gaming and entertainment turnover was the highly successful Mocha Slots' electronic gaming business. Mocha Slots is consistently the initial mover in the market, introducing new forms of gaming from traditional table games to electronic gaming machines. It is currently well situated to take advantage of Macau's increasing number of novice and recreational gamers with electronic gaming machines strategically located in and nearby 2 and 3-star hotels. Turnover from Mocha Slots amounted to HK\$63 million for the six months ended 30th June 2005. With the opening of its fourth Mocha Slot Club at the Hotel Taipa Square in April 2005, Mocha Slots now operates around 700 electronic gaming machines in this rapidly expanding sector, comprising nearly 25% of Macau's total number of slot machines.

The average daily net win per machine, the key performance indicator of the machines' profitability, has consistently experienced impressive increases since Mocha Slots' inception into the Group.

This is strong proof of Mocha Slots' ability to penetrate into the grind market. The number of slot machines in Macau has grown from around 800 in September 2003 to 2,800 machines present. In spite of this rapid growth, Mocha's average daily net win has experienced remarkable above market performance against the industry average. Mocha Slots achieved and continues to maintain the highest daily net win per machine in Macau, as shown in the following table and chart through the first half of 2005.

Mocha

Average daily net win (HK\$)	June 2005	Jan-June 2005
Macau Market	1,400	1,172
Mocha Slots	2,000	1,798



Eyeing the steep uptrend in total visitor arrivals to Macau, Melco-PBL plans to expand the Mocha Slots' operations. The largest and grandest slot halls will be opened at the City of Dreams in Cotai and the Crown Macau in Taipa. By fourth quarter 2005, it is envisaged that there will be 2 new venues in operation adding an additional 250 gaming machines to the Company's already commanding presence in Macau.

Mocha Slots has been a pioneer in developing the grind market in Macau. It has been successful in and continues to foster customer loyalty by offering the newest and most exclusive electronic games. Mocha's stylistic cafe setting offers tourists and novice gamblers a comfortable unique setting in which to test their luck. Despite the recent influx, slot machines remain underrepresented in the Macau market and present tremendous opportunities for growth. Mocha Slots is set to grow accordingly with its acquired experience and proven daily net wins.

To significantly differentiate the product offerings from the rest of the general market, Mocha Slots provides a wide variety of linked jackpot games with different themes, in-house determined signage's and jackpot ranges, to patrons. Over the past year, Mocha has given away over HK\$10 million jackpot Grand prizes to 24 lucky winners. The most recent Grand jackpot was won by a Mocha Club's patron for HK\$2.74 million.

City of Dreams

The Group continues to build on its strong local expertise and maneuverability in the briskly growing Macau economy by leveraging the gaming and resort experience found in its exclusive partnership with PBL, Australia's largest media and gaming conglomerate.



In May 2005, the Melco-PBL joint venture successfully secured in principle a 25 year renewable lease from the Macau Government for 113,325 sq. meters of land on the Cotai Strip to be used for the development of a world-class integrated entertainment resort termed, "City of Dreams". This marks Melco's concerted effort to aid in the development of Macau's Government scheme to enhance its attraction as a family-oriented vacation destination. The City of Dreams is a world class integrated entertainment resort anchored by an underwater casino with marine sea-life. It comprises 3 hotels with a total of 2,000 hotel rooms, additional uniquely themed time-sharing serviced apartments, iconic theatres for permanent shows, numerous retail, food and beverage outlets, and nightclubs. Construction is targeted to be completed in phases starting from late 2008.

Crown Macau



Branding specs were finalized for Melco-PBL's building of Macau's first ever 6-star casino-hotel. The joint venture partners intend to operate Crown Macau by drawing on the marketing expertise and the strong brand name of the Crown Entertainment Complex in Melbourne, Australia. The Crown Melbourne is at the pinnacle of leisure gaming luxury and will be a strong branding tool in Macau. The Crown Macau will boast the same high standard of VIP gaming and hospitality services and products as those offered by Crown in Melbourne, which is widely recognized as the biggest single site VIP gaming hotel in the world with over 90% of its high rolling players coming from Asia. In addition, substantial cross marketing and cross referrals will be made possible between the two destinations. The Crown Macau is uniquely positioned to become a premier stop for high rollers from around the world.

Construction on the Crown Macau is progressing on time and should facilitate the opening of the casino portion in the second half of 2006, with full project completion in the first half of 2007. Targeting high rollers and big spenders from all over the world, Crown Macau will also embrace a number of elegant unique restaurants and a luxury spa center. Standing at a height of 160 metres, it will be the tallest building on Taipa Island. A total construction area of 106,000 square metres will comprise 227 deluxe VIP guest rooms, of which 26 will be VIP suites and 8 will be presidential villas. Set in luxurious decor, the 32-storey complex will include a 6-storey up-market casino with a total gaming space of around 17,000 square metres, housing 200 gaming tables and over 1,000 slot machines.

Other Gaming Opportunities

The Melco-PBL joint venture is not limited to Macau. As other Asian governments see the benefits that can be realized by allowing for managed gambling, there are expected to be new opportunities for development throughout Asia. One of those opportunities is currently in Singapore, where the Group and PBL are in the process of applying to the Singapore Government for the go ahead to build a S\$2.5 billion integrated resort and casino at Marina Bay. Melco-PBL believes that the integrated resort will further enhance Singapore's status as a business and leisure tourist destination.

Jumbo Kingdom



The Jumbo Kingdom, a long standing Hong Kong icon, is returning to profitability after extensive renovations and newly minted promotional campaigns. Turnover and profit for the review period amounted to HK\$48 million (2004: HK\$34.6 million) and HK\$4.4 million (2004: loss of HK\$5.2 million) respectively.

In addition, the period under review witnessed the grand opening of Chua Lam Gourmet Kitchen in Macau via the Group's Jumbo Catering Management Limited business. The Chua Lam Kitchen in Macau occupies an area of 24,000 sq. ft. and includes numerous restaurants. The Kitchen is expected to become a new dining attraction in Macau.

It is anticipated that the Jumbo Kingdom will continue its Hong Kong and Macau business in the second half of 2005 and will continue contributing to the Group's profits.

Technology Division



The Group's technology division, headed by the Elixir and iAsia group of companies continued its profitability following the restructuring initiated in 2004. Turnover for the six months under review was HK\$75 million (2004: HK\$106 million). Segmental profit stood at HK\$6.7 million as of 30th June, 2005 (HK\$9 million, 30th June 2004).

Elixir has successfully established itself as a premier gaming IT infrastructure specialist who offers clients a full range of system integration and network services. Leveraging its strong ties with SJM, Elixir has been one of the largest IT solution providers for SJM. The iAsia group of companies is engaged in the provision of comprehensive online trading and related systems and services to financial institutions and intermediaries, principally in Asia.

On 14th & 15th June, 2005, Melco and Elixir Group participated in "The Asian Gaming Expo", a must-attend event for many exhibitors as it features the latest gaming equipments, technologies and services. In the expo, the Group displayed a casino-themed exhibition booth and showcased its latest products and services at this world's most exciting gaming marketplace.

The Group's technology division will continue improving its businesses and results in the second half of 2005.

Investment Banking and Financial Services Division



During the period in review, the Group's investment banking and financial services arm, operated as Value Convergence Holdings Limited (VC Holdings) contributed segmental profit in the amount of HK\$7.7 million (2004: HK\$9 million), with a turnover of HK\$51.4 million (2004: HK\$65.3 million).

Pressures from interest rate hikes, economic austerity measures enforced by the Mainland government, and global oil prices contributed to high volatility in capital markets. Hence, the Group's brokerage business was hampered by the lower market turnover of China-related stocks, in which many of the Group's clients invest.

On the other hand, the corporate finance division acted as the sole sponsor and lead manager for a number of listing applications on the Main Board of Hong Kong Stock Exchange. The successful location of these new clients was the result of the Group's effective expansion plan - setting up new offices in Shenzhen, Beijing and Shanghai - in the previous year. These transactions are expected to be completed in the second half of 2005 and generate significant returns for the Group.

In January 2005, the Group obtained a license to operate an asset management business from the Hong Kong Securities and Futures Commission, and a professional asset management service team has been formed. The possibility of establishing investment funds to provide clients with investment alternatives including investment opportunities in Macau and the Pearl River Delta is in development. Besides giving clients more choices, an expanded product portfolio will also help to boost the Group's revenues in the long term.

Property and Other Investments Division

This division consists of treasury function, property investment and other investments held by the Group. Segmental profit amounted to HK\$3.2 million (2004: HK\$59.2 million) with a turnover of HK\$10.5 million (2004: HK\$2.1 million). The reduction in segmental profit is mainly due to the one-off profit arising from the disposal of Art Court in the first half of 2004. It is anticipated that this division's performance will improve in the second half of 2005.

Liquidity and Capital Resources

As of 30th June 2005, total assets of the Group were HK\$4,382 million which was financed by shareholders' funds of HK\$3,152 million, minority interests of HK\$806 million and current liabilities of HK\$217 million and non-current liabilities of HK\$207 million. The current ratio of the Group was 15.6 (31st December 2004: 6.2)

Cash available to the Group was approximately HK\$2,851 million as of 30th June 2005, HK\$2,456 million higher than the balance at 31st December 2004. Gearing ratio, expressed as a percentage of total borrowings over shareholders' funds, was 0.07 time as of 30th June 2005. The Group adopts a prudent treasury policy. The majority of the bank balances and cash is denominated in Hong Kong and US dollars and placed on short term deposits.

The Group has obtained banking facilities of HK\$269.8 million from various banks as of 30th June 2005 (31st December 2004: HK\$224.8 million) and HK\$80 million of these banking facilities was secured by margin clients' listed securities (31st December 2004: HK\$70 million), and banking facilities for HK\$49.8 million were secured by the pledging of HK\$85 million of the Group's assets. As of 30th June 2005, the Group utilized HK\$22 million and HK\$28 million of unsecured and secured banking facilities respectively (31st December 2004: unsecured HK\$15 million) and these amounts were repaid on 6th July 2005.

Regulatory and Compliance

The Group is committed to building and maintaining high standards of corporate governance. The Group applied the principles and complied with all requirements set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, with certain deviations mentioned below, throughout the review period.

Apart from the audit committee and remuneration committee required by the Listing Rules, the Group has established four additional board committees to ensure maintenance of a high corporate governance standard. Terms of reference of all board committees set up by the Group have been posted on the Group's website, as have (1) division of responsibilities between the Group's Chairman and Managing Director and (2) duties and powers delegated to the Group's Managing Director and matters reserved for decision of the board.

Employees

As of 30th June 2005, the Group employed a total of 791 employees, of which 409 and 375 are stationed in Hong Kong and Macau while the rest are stationed in PRC. Staff costs and employee benefit expenses, for the first six months amounted to HK\$65.3 million (2004: HK\$51.8 million). Employees are appointed and promoted according to their suitability for positions. Employees' salaries and related benefits are performance based and subject to review by Management annually. In addition, the Group operates share option schemes, under which options are granted to employees to recognize their contributions and retain them.

Events subsequent to 30th June 2005

- (a) In March 2005, the Group entered into an agreement pursuant to which the Group would acquire the remaining 30% equity interests in Great Wonders from STDM at a consideration of HK\$400 million. The consideration comprises HK\$200 million cash and ordinary shares of the Company amounting to HK\$200 million. The acquisition was approved by the shareholders of the Company at a shareholders' meeting held in mid-June and was completed in late July 2005. In July 2005, Great Wonders accepted an offer from the Macau Government to develop the Crown Macau Hotel with casino facilities on a piece of land at Taipa, Macau. It is anticipated that the said piece of land will be granted to Great Wonders within the fourth quarter 2005 and the whole development project will be completed by March 2007.
- (b) In May 2005, the Group entered into an agreement pursuant to which the Group would acquire from Great Respect Limited (a company controlled by a family trust of Dr. Stanley Ho) (Great Respect) the remaining 49.2% interest in a joint venture which would be granted with the development rights on a piece of land at Cotai, Macau for establishing an integrated entertainment resort named "City of Dreams" pursuant to an offer from the Macau Government made in April 2005. The cash consideration for the acquisition was HK\$1,175 million and Great Respect undertook to subscribe the entire amount of the said consideration for the Convertible Notes of the Company. The transaction was approved by the shareholders of the Company at a shareholders' meeting held in August 2005 and was completed in early September 2005. The Convertible Notes issued by the Company is non-interest bearing and convertible into ordinary shares of the Company at a conversion price of HK\$9.965 per share. It is anticipated that the piece of land for the "City of Dreams" project will be granted to the Group in 2006 and the whole development project will be completed by 2008.

- (c) In July 2005, the board of directors of a wholly owned subsidiary, Melco Investment Holdings Limited, has approved the purchase of a property located in Macau with consideration of approximately HK\$45,000,000. Completion of this transaction has taken place in late August 2005.

Outlook

Macau's economic development is moving ahead at a stellar pace and the city is quickly becoming a desired vacation destination. As the Mainland Chinese Government's individual traveler scheme is further relaxed, an influx of Chinese tourists is expected. Macau's recently granted status as a United Nations World Heritage Site is also expected to be a draw for tourism. Melco is uniquely positioned to take full advantage of the business opportunities this growth presents. With Mocha Slot Clubs targeting the grind market, the City of Dreams project targeting the mass market, and the Crown Macau targeting high rollers, Melco is ready to capture the opportunities brought about by the Macau's boom and transformation in the entertainment industry.

Mocha will continue to look for expansion opportunities in high traffic areas in and nearby 2-star and 3-star hotels. City of Dreams and Crown Macau will have over 3,500 and 1,000 slots respectively. Slot machines account for 50% of revenue in Las Vegas and Australia, while currently contributing only a fraction of overall gambling revenue in Macau. The group is confident that this sector stands to experience exponential growth in the years ahead.

With the perfect platform of Melco-PBL's exclusive pan-Asian partnership, the Group is well prepared to capitalize on other lucrative opportunities available in the gaming and entertainment industry throughout Asia.

Share Subdivision

In order to increase liquidity and better position itself to take advantage of market sentiment, Melco implemented its share sub-division on the Hong Kong Stock Exchange by subdividing each of its shares of HK\$1.00 each into two shares of HK\$0.50 each and change the board lot size from 2,000 shares to 1,000 subdivided shares. The split approved at the annual general meeting by shareholders and subsequently by the Listing Committee of the Stock Exchange of Hong Kong, allows for increased capital flow and liquidity.

By Order of the Board
Ho, Lawrence Yau Lung
Group Managing Director

Hong Kong, 12th September 2005