

▶ Business and Financial Review

In order to facilitate the review, the segmental information shown in Note 5 to the financial statements is reproduced below with some minor re-arrangements:

	6 mths ended 30-Jun-06 HK\$'000	6 mths ended 30-Jun-05 HK\$'000
Segmental Result: Leisure, Gaming and Entertainment	(24,507)	40,694
Segmental Result: Technology	15,327	6,744
Segmental Result: Investment Banking and Financial Services	30,415	7,688
Segmental Result: Property and Other Investments	48,594	3,222
Intra-group elimination	(5,479)	–
Group operating result	64,350	58,348
Write-down of service agreements intangible asset	(90,390)	–
Gain on deemed disposal of partial interest in subsidiaries	–	514,431
Unallocated corporate expenses	(25,331)	(22,034)
Finance costs	(42,103)	(5,235)
Share of (loss)/profit of jointly controlled entities	(24)	2,200
(Loss)/profit before tax	(93,498)	547,710
Income tax credit/(expense)	9,215	(4,486)
(Loss)/profit for the period	(84,283)	543,224
Minority interests	55,300	(9,063)
(Loss)/profit for the period attributable to shareholders	(28,983)	534,161

Profit/(Loss) attributable to shareholders

Loss attributable to shareholders amounted to HK\$29 million for the six months ended 30 June 2006 against a profit of HK\$534.2 million recorded for the same period in 2005.

This change is primarily due to the following non-recurring items:

- (1) The absence of a gain of HK\$514.4 million from disposal of partial interest in subsidiaries which was booked in the first half of last year.
- (2) A non-recurring write-down of intangible assets amounting to HK\$90.4 million (six months ended 30 June 2005: nil) arising from the termination of certain services agreements with SJM.
- (3) Pre-opening operating expenses amounting to HK\$31.5 million (six months ended 30 June 2005: nil) incurred in respect of the development of Crown Macau and City of Dreams.

Consolidated EBITDA (Earnings before Interest, Tax, Depreciation & Amortization)

Consolidated EBITDA for the Group before the write-down of intangible assets for the six months ended 30 June 2006 amounted to HK\$75.8 million as compared to HK\$51.6 million for the same period in 2005 after excluding the gain on deemed disposal of partial interest in subsidiaries, implying an increase of 47%.

▶ Leisure, Gaming and Entertainment

Segmental result of the leisure, gaming and entertainment division turned from a profit of HK\$40.7 million for the six months ended 30 June 2005 to a loss of HK\$24.5 million for the six months ended 30 June 2006. This was primarily due to the pre-opening operating expenses (other than construction-related costs) amounting to approximately HK\$31.5 million (six months ended 30 June 2005: nil) incurred in respect of the development of Crown Macau and City of Dreams.

Mocha Slots



Mocha Slot Group Limited and its subsidiaries (“Mocha Slots”) currently operates over 1,000 machines in various locations across Macau, capturing around 31% of the total slot market revenue in Macau for the period under review. The Group has been able to consolidate customer loyalty through its popular club membership scheme. Launched in 2004, the scheme offers members a wide array of privileges and benefits. Today, over 56,000 people have participated in the Mocha Slot Club membership scheme. Other attractions that draw people to the Club include a wide variety of linked jackpot games with different themes and a wide range of jackpot levels.

The operating performance of Mocha Slots is shown below.

	6 mths ended 30-Jun-06 HK\$'000	6 mths ended 30-Jun-05 HK\$'000
Revenue	85,934	62,670
Cost of goods sold	(2,353)	(2,328)
Gross profit	83,581	60,342
Sundry income	1,693	582
Operating expenses (excluding rental expenses)	(45,998)	(25,378)
Operating EBITDAR*	39,276	35,546
Rental expenses	(7,224)	(4,600)
Operating EBITDA**	32,052	30,946

* EBITDAR is defined as Earnings before interest, tax, depreciation, amortization and rental

** EBITDA is defined as Earnings before interest, tax, depreciation and amortization

Revenue at Mocha Slots is primarily derived from our 31% share of the gross gaming revenue. Under the existing arrangement, SJM is entitled to the remaining gross gaming revenue but is responsible for paying to the Macau Government the gaming tax and other premises and duties, which amount to an aggregate of approximately 39% of the gross gaming revenue.

For the period under review, revenue and operating EBITDAR increased to HK\$85.9 million (six months ended 30 June 2005: HK\$62.7 million) and HK\$39.3 million (six months ended 30 June 2005: HK\$35.5 million) respectively. Operating expenses (before rental expenses) increased by 81% compared to the corresponding period. This was primarily due to the increased number of venues and machines that we ran. We were running 6 venues (around 1,060 machines) in the first half of 2006 while we were only running 4 venues (around 630 machines) in the corresponding period in 2005.

The net win per machine per day during the period under review is shown below:

Average net win per machine per day (HK\$)	6 mths ended 30-Jun-06	6 mths ended 30-Jun-05
Mocha Slots	1,446	1,798
Macau market average	1,154	1,172

For the period under review, the average net win per machine per day at Mocha Slots continued to outperform the market average significantly. However, the average daily net win dropped by HK\$352 as compared to the corresponding period in 2005. The reasons are given as follows:

- (i) Two of the new venues were opened in the latter part of last year/early part of this year. Typically in our business, there is a ramp-up period of about 3 months for a new venue.
- (ii) Pursuant to the requirement of the Macau Government, no more than one casino operator can operate in one building. Therefore, our venue at Kampek (with around 300 machines), which happens to be situated in a building in which a SJM casino is in operation, would have to be closed down as soon as the gaming license is granted to us. Therefore, we have not been doing any marketing or promotion campaigns for that venue since March, resulting in lower daily net win. We have now identified a new site to replace this venue and extensive marketing and promotion campaigns will be resumed as soon as we formally obtain our own license.

We are confident that an upward trend will emerge as soon as we start operating our Mocha Slots under our own license.

Economic effect had we been running our Mocha Slots under our own license (for illustration only)

As mentioned earlier, revenue and profitability will increase substantially after we have obtained our own gaming license as we will not need to give up 29% of gross gaming revenue to SJM. To demonstrate such an effect, had we operated Mocha Slots under our own license, the operating results for the six months ended 30 June 2006 would have been as follows:

	Under our own license HK\$'000	Under SJM's license HK\$'000	Difference (%)
Revenue after gaming tax	165,698	85,934	+93%
Operating EBITDAR	119,040	39,276	+203%
Operating EBITDA	111,816	32,052	+249%

City of Dreams



The development of City of Dreams took its first step towards realization upon the ground breaking ceremony held on 10 April 2006. The development is expected to take around two years with completion scheduled in the second half of 2008.

The centerpiece of City of Dreams is an approximately 40,000-square-metre underwater-themed casino that features world-class gaming facilities and houses over 450 gaming tables and around 3,000 slot machines.

City of Dreams will also provide around 2,000 rooms ranging from hotels to deluxe serviced apartments. Hyatt of Macau Ltd., an affiliate of Hyatt International Corporation, has been appointed as the first hotel operator in City of Dreams to manage and operate two of the four deluxe hotels. It is expected that Grand Hyatt will provide about 380 rooms while Hyatt Regency will provide about 600 to 800 guest rooms.

City of Dreams is currently under construction, and as such did not contribute towards the Group's financial performance in the period under review.

Crown Macau



Crown Macau is expected to commence operation in the first half of 2007. Standing at 160 metres, Crown Macau will be the first six-star casino hotel in the city and the tallest building on Taipa Island. It targets high rollers from around the world and embraces various entertainment facilities, including a number of elegant and unique restaurants and a deluxe spa centre. With a total construction area of around 109,000 square metres, the casino-hotel will comprise 227 deluxe VIP guest rooms, of which 26 will be VIP suites and 8 will be presidential villas. The 33-storey complex will include a 6-storey up-market casino with total gaming space of around 16,000 square metres, housing over 220 gaming tables and more than 500 slot machines.

To finance the Crown Macau project, Great Wonders, Investments, Limited ("Great Wonders") and Melco PBL Entertainment (Greater China) Limited ("Melco PBL Entertainment") have entered into an agreement with a syndicate of six banks for a HK\$1.28 billion transferable term loan facility. This was the largest syndicated loan arranged in Macau by local banks and reflected the strong confidence of the banking community in the Group's management and prospects.

Crown Macau is currently under construction, and as such did not contribute towards the Group's financial performance in the period under review.

Third Casino in Macau

In May 2006, the Group entered into a transaction with the view to acquire a development site in Macau Peninsula on which a third hotel/casino complex will be built. This acquisition is expected to be completed by the first quarter of 2007.

Jumbo Kingdom

Following extensive renovations and a revamped marketing campaign, Hong Kong's iconic Jumbo Kingdom floating restaurant again delivered profitability for the Jumbo Kingdom. For the period under review, Jumbo's turnover amounted to HK\$53.2 million (six months ended 30 June 2005: HK\$48.9 million), showing an increase of 9% and making a positive contribution to the Group as a whole.



▶ Technology

The Group's technology division, comprised of the Elixir and iAsia group of companies, saw strong growth in profitability for the period under review. Turnover for the period was HK\$88.5 million (six months ended 30 June 2005: HK\$75.5 million), with segmental profit after elimination of intercompany transactions effect of HK\$5.5 million going up by 46% to HK\$9.8 million (six months ended 30 June 2005: HK\$6.7 million).



On 11 April 2006, the Group announced the formation of a gaming technology alliance with Shuffle Master. This alliance positions Elixir as one of the major technology suppliers in Asia. Under the twenty-year alliance, Elixir will develop localized gaming technologies for the growing number of legalized gaming jurisdictions in Asia. In addition, Elixir will become the exclusive Asian distributor of the existing gaming products of Shuffle Master and its Australian-based subsidiary, Stargames Corporation Pty Limited. The alliance also includes the co-development of an R&D centre and a world-class manufacturing base.

In June 2006, Elixir signed an agreement with VendingData of USA to distribute Dolphin RFID casino chips to the majority of casino properties in Macau. It also has non-exclusive rights to distribute the chips outside Macau.

The above alliances allow Elixir to engage in the businesses of the most advanced and well-received gaming related products, which are expected to make a significant contribution to the Group in the long run.

In the first half of 2006, iAsia has made great efforts to expand its client base in the banking sector. In addition to the existing bank clients such as BOC International, Po Sang Bank, Seng Heng Bank and BCM Bank, iAsia has been shortlisted by three more banks as the system vendor. It has also signed contracts to supply securities trading solution to ICEA and FX trading solutions to Sun Hung Kai Online. Further, it will develop a payment gateway for the lottery operators in China which may bring in additional revenue in the second half.

▶ Investment Banking and Financial Services

The Group's investment banking and financial services division operates via Value Convergence Holdings Limited ("Value Convergence", Stock Code: 8101), a company listed on the GEM Board of the Hong Kong Stock Exchange. During the period under review, Value Convergence recorded a turnover of HK\$93.4 million (six months ended 30 June 2005: HK\$51.4 million). Segmental



profit before finance costs rose to HK\$30.4 million (six months ended 30 June 2005: HK\$7.7 million), representing an increase of 295% compared with the same period in the previous year. The segmental profit after finance costs was HK\$20.6 million (six months ended 30 June 2005: HK\$5.8 million).

Value Convergence focuses on four main business lines in Hong Kong, Macau and the Pearl River Delta Region: investment banking and financial services, brokerage, corporate finance, and asset management. Value Convergence recorded significantly improved operating results during the period under review due to the improved performance of its brokerage business and proprietary trading. In addition, stringent cost control measures have been put in place to increase its competitiveness in the marketplace.

With a solid foundation in investment banking and financial services, Value Convergence is planning to expand its product portfolio and the geographical coverage of its services. Plans to establish a direct investment fund and a real estate investment fund, capturing opportunities in the leisure, entertainment and property sectors in Macau, are under way and progressing well during the review period.

▶ Property and Other Investments

This division handles treasury functions, property investments and other investments held by the Group. For the six months ended 30 June 2006, it recorded a turnover and segmental profit of HK\$49.5 million (six months ended 30 June 2005: HK\$10.5 million) and HK\$48.6 million (six months ended 30 June 2005: HK\$3.2 million) respectively. The increases are primarily a result of the increase in income from the Group's treasury functions.

▶ Other Significant P&L Items

Intangible assets' write-down

This relates to the prudent write-down of the intangible assets as a result of the imminent termination of the service agreements with SJM regarding operating the Mocha Slots venues. The intangible assets were recognized, when the Group acquired the Mocha Slots interests.

The total intangible assets recorded were HK\$97.7 million. Mocha Slots and SJM have mutually agreed to terminate all the slot lounge service agreements upon our acquisition of the gaming subconcession in Macau. Accordingly, we consider it prudent to write-down the intangible assets from HK\$97.7 million to HK\$7.3 million as at 30 June 2006, in accordance with standard accounting conventions and requirements.

Finance costs

During the review period, finance costs increased substantially to HK\$42.1 million from HK\$5.2 million for the six months ended 30 June 2005. The increase was mainly attributable to the deemed interest expenses on the liability component of convertible loan notes issued for material acquisitions in 2005 amounting to HK\$28.3 million in order to comply with HKAS 32. It should be noted that this deemed interest expense did not result in any cash outflows.

▶ Liquidity and Financial Resources/Capital Structure/Charge on Group Assets

The Group finances its business operations and investments with internal resources, cash revenues generated from operating activities and short-term bank loans.

As of 30 June 2006, total assets of the Group amounted to HK\$7,417.9 million (31 December 2005: HK\$5,652.9 million) which were financed by shareholders' fund of HK\$4,714 million (31 December 2005: HK\$3,558.2 million), minority interests of HK\$633.5 million (31 December 2005: HK\$686.3 million), current liabilities of HK\$951.3 million (31 December 2005: HK\$306.5 million), and non-current liabilities of HK\$1,119.1 million (31 December 2005: HK\$1,101.9 million). The current ratio, expressed as current assets over current liabilities, of the Group was maintained at a satisfactory level of 4.2 (31 December 2005: 9.4).

During the six months ended 30 June 2006, the Group recorded a net cash inflow of HK\$838.4 million (31 December 2005: HK\$1,955.3 million). As of 30 June 2006, cash and cash equivalents of the Group totaled HK\$3,188.7 million (31 December 2005: HK\$2,350.3 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowings, obligation under finance lease, convertible loan notes and shareholder's loan) over shareholders' fund, was at a satisfactory level of 0.24 time as of 30 June 2006 (31 December 2005: 0.31 time). The Group adopts a prudent treasury policy. Cash and bank balances consisted of about 5% of cash and bank balances and 95% of short term fixed deposits. All borrowings and cash and bank balances are denominated in Hong Kong dollars and U.S. dollars to maintain stable exposure to foreign exchange risks.

As of 30 June 2006, the Group's total available banking facilities from various banks amounted to HK\$1,509.8 million (31 December 2005: HK\$229.8 million), of which HK\$80 million (31 December 2005: HK\$80 million) was secured by margin clients listed securities, HK\$49.8 million (31 December 2005: HK\$49.8 million) was secured by pledging HK\$85 million of the Group's investment properties, and HK\$1.28 billion (31 December 2005: nil), which is a syndicated loan for the development of Crown Macau, the securities provided or to be provided by the Group include the first legal charge over the land and property of Crown Macau, assignment of income of Great Wonders, a promissory note representing the loan amount issued by Great Wonders and Melco PBL Entertainment, pledge of shares in Great Wonders, assignment of the benefits of the insurance policies and building contracts relating to the development of Crown Macau and a floating charge of all assets of Great Wonders. As of 30 June 2006, the Group utilized HK\$47 million and HK\$3 million of unsecured and secured banking facilities respectively (31 December 2005: unsecured HK\$23 million; secured HK\$5 million). Both amounts had matured and were repaid by 6 July 2006.

▶ Material Acquisitions

In the first half of 2006, the Group had entered into/completed the following acquisitions.

On 1 March 2006, the land on which the Crown Macau development would be built was officially granted to the Melco PBL. Following the grant of the land, the Company had issued 22,222,222 new shares to Sociedade de Turismo e Diversões de Macau, S.A. (“STDM”) in accordance with agreements previously entered into between the Company and STDM.

On 9 March 2006 and 26 May 2006, the Company entered into a Memorandum of Agreement and a Supplemental Agreement with PBL, whereby, subject to the approval of the Macau Government, the Company or its wholly-owned subsidiary will become an indirect shareholder of PBL Entertainment (Macau) Limited, which recently acquired a gaming subconcession in Macau from Wynn Resorts (Macau) S.A. (“Wynn Macau”). The Company had contributed US\$160 million towards the purchase price of the subconcession (first as loan and subsequently as subscription money), of which sum US\$40 million had been paid in March and the balance was paid recently.

On 9 May 2006, Melco PBL International Limited (“Melco PBL International”), a jointly controlled entity of the Group, 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 of 20% of the issued share capital of Mocha Slots Group Limited (“Sale Shares”), and the related 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.

On 17 May 2006, Swift Profit Investments Limited (“Purchaser”), a jointly controlled entity of the Group, 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 (NAPE), in Macau Peninsula. The aggregate consideration payable by the Purchaser is approximately HK\$1.5 billion. The acquisition is subject to a number of condition precedents and is anticipated to be completed in the first quarter of 2007. An amount of HK\$100 million was paid as stakeholder money on signing of the sale and purchase agreement. The balance of the consideration is payable in cash on completion of the acquisition. The Melco PBL joint venture intends to make use of this site to develop its third hotel and casino project in Macau.

▶ Employees

As a result of the Group's business expansion, the number of employees has increased from 842 as of 31 December 2005 to 916 as of 30 June 2006. This represents an over 9% increase and 74 new positions within the Group. Among the 916 employees, 422 are located in Hong Kong and the remaining are based in Macau and the PRC. The majority of the newly created positions are for our Macau business. The related staff costs for the first six months of 2006, including Directors' emoluments and share options expenses, amounted to HK\$104.4 million (six months ended 30 June 2005: HK\$65.3 million).

▶ Foreign Exchange Exposure

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimize currency risks. The Group's principal businesses are conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure is minimal. Hence, no hedging against foreign currency exposure is necessary.

▶ Future Plans for Material Investments or Capital Assets

Material capital expenditure will be incurred for the development of the projects within the joint venture with PBL in the coming years. The Company expects the respective project companies within the joint venture to arrange for their required fundings as far as possible using different financing options available. The Company will also provide the required equity capital to these project companies.

▶ Contingent Liabilities

On 30 June 2006, the Company provided a guarantee of HK\$4,680,000 (31 December 2005: HK\$4,680,000) to a supplier in respect of goods purchased by its subsidiaries.

▶ Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: HK\$0.01 per share).

By Order of the Board

Ho, Lawrence Yau Lung
Chairman & Chief Executive Officer

Hong Kong, 15 September 2006