

Summary of Financial Results for the for the First Quarter Ended June 2007

July 24, 2007

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 Stock code: 6676
 Stock exchange listing: First Section, Tokyo Stock Exchange; First Section, Nagoya Stock Exchange
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(Rounded down to million yen)

1. Financial results for the first quarter ended June 2007 (From April 1, 2007 to June 30, 2007)

(1) Consolidated Results of operations

	Net sales		Operating income		Ordinary income	
	Million yen	YoY change %	Million yen	YoY change %	Million yen	YoY change %
FY2008 1Q	33,647	10.0	1,297	-36.2	1,401	-32.7
FY2007 1Q	30,586	18.3	2,034	16.1	2,081	32.0
FY March 2007	134,547	—	5,148	—	5,446	—

	Net income (for the period)		Net income per share (basic)	Net income per share (diluted)
	Million yen	%	Yen	Yen
FY2008 1Q	777	-28.9	33.63	33.63
FY2007 1Q	1,093	55.8	47.29	47.28
FY March 2007	2,728	—	118.1	118.0

(2) Consolidated financial position

	Total assets	Net assets	Shareholder's equity Ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2008 1Q	59,123	27,468	46.5	1,189.20
FY2007 1Q	50,757	25,810	50.9	1,116.37
FY March 2007	62,575	26,962	43.1	1,166.24

Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities	Balance of cash and cash equivalents at the end of period
	Million yen	Million yen	Million yen	Million yen
FY2008 1Q	-2,963	752	668	6,424
FY2007 1Q	-147	-70	-295	9,741
FY March 2007	1,379	-710	-2,993	7,979

2. Dividends

(Record date)	Dividend per share		
	End of interim	Year-end	Annual
	Yen	Yen	Yen
FY March 2007	15.00	15.00	30.00
FY March 2008 (forecast)	15.00	15.00	30.00

【 Reference 】

3. Consolidated forecast for the fiscal year ending March 2008 (April 1, 2007 – March 31, 2008)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Interim	72,000	15.6	1,450	-56.2	1,450	-57.4	850	-57.0	36.75
Full year	158,000	17.4	5,500	6.8	5,500	1.0	3,200	17.3	138.37

4. Others

- (1) Changes in significant subsidiaries during the first quarter (changes in subsidiaries associated with change in scope of consolidation): Yes
[New subsidiary: 1 (Company name: Arvel Corp.)
Excluded: 1 (Company name: MELCO ASSET MANAGEMENT LIMITED)]
- (2) Use of simplified accounting method: Yes
- (3) Change in accounting method compared with previous fiscal year: None

* Explanation regarding appropriate use of business forecasts and other special instructions

Above forecasts regarding future performance are assessed based on information available at the time this report was prepared, but the forecasts embody uncertainties. Therefore, actual results may differ significantly from the forecasts due to business conditions and other factors.

【Results of Operations and Financial Condition】

1. Results of Operations

Market conditions were challenging during the first quarter as sales of PCs and peripherals were weak even in the wake of the recent introduction of a new PC operating system.

The Melco Group was able to adopt an offensive stance despite these challenges. The Group took full advantage of a big drop in prices of DRAMs, a key component in our memory products, to cut costs and significantly reduce prices.

Storage product sales continued to post strong growth, increasing 12.9% year on year in the first quarter. Network product sales were largely unchanged despite the difficult market conditions. Significantly, there was a big increase in sales of digital home products, a category that is a key element of the Group's growth strategy. The *Choi Tele* one-seg tuner made a large contribution to sales growth. This product had not yet been introduced in the past fiscal year's first quarter. In addition, as for the supply accessory products, sales of Arvel Corp., which was newly consolidated in the current fiscal year, made a big contribution to first quarter sales growth. Due to sales growth in these new business fields, total first quarter sales increased 10% year on year.

Regarding earnings, we expected first half earnings to be much lower than in the previous fiscal year, when earnings included the benefit of a one-time contribution from flash memories. However, improving profitability of memory products and storage products produced in earnings that exceeded our initial plan. As a result, first quarter operating income was 89.4% of the operating income target for the first half.

Due to these factors, first quarter sales increased 10.0% year on year to 33,647 million yen, operating income decreased 36.2% to 1,297 million yen, ordinary income decreased 32.6% to 1,401 million yen, and net income decreased 28.9% to 777 million yen.

[Consolidated net sales by operating segment]

	(Yen in millions)				
	1Q of FY ended March 2007		1Q of FY ending March 2008		YoY change
	Amount	Pct. (%)	Amount	Pct. (%)	(%)
Memories	9,364	30.6	9,155	27.2	-2.2
Storage devices	11,215	36.7	12,658	37.6	12.9
Networks	5,583	18.3	5,520	16.4	-1.1
Digital home	583	1.9	1,371	4.1	135.2
Supply accessories	746	2.4	2,098	6.2	181.0
DOS/N Parts	1,264	4.1	1,028	3.1	-18.7
Liquid-crystal display (LCD)	1,107	3.6	822	2.4	-25.7
Services	547	1.8	733	2.2	33.9
Others	172	0.6	259	0.8	50.2
Total	30,586	100.0	33,647	100.0	10.0

2. Financial Condition

Assets amounted to 59,123 million yen at the end of the first quarter, 3,451 million yen less than at the end of the previous fiscal year. Current assets decreased 4,352 million yen to 51,143 million yen. This was mainly attributable to a 6,852 million yen decline in trade notes and accounts receivable due to seasonal factors and to a 5,075 million yen increase in inventories due to strategic procurement activities. Non-current assets increased 900 million

yen to 7,979 million yen. The main reason was a 661 million yen increase in tangible and intangible fixed assets associated with the rebuilding of a core IT system.

Liabilities totaled 31,655 million yen, 3,957 million yen less than at the end of the previous fiscal year. Current liabilities decreased 4,642 million yen to 29,903 million yen. The primary cause was a decrease of 3,030 million yen resulting from the payment of a withholding tax on dividends paid at the end of the previous fiscal year by Buffalo to Melco Holdings. However, this represents merely a provisional payment required by tax laws. Since dividends received from subsidiaries are normally tax free, Melco Holdings received a refund of this provisional payment in July. Long-term liabilities increased 685 million yen to 1,751 million yen mainly because of the inclusion of 429 million yen in long-term loans at newly consolidated subsidiary Arvel.

Net assets increased 504 million yen to 27,468 million yen, which is basically the difference between first quarter net income of 777 million yen and dividend payments of 346 million yen. The equity ratio improved from 43.1% at the end of March to 46.5% at the end of June.

(Cash flows)

There was a net decrease of 1,554 million yen in cash and cash equivalents in the first quarter to 6,424 million yen.

(Operating activities)

Net cash used in operating activities was 2,963 million yen. Cash was provided by income before income taxes and minority interests of 1,377 million yen and a 7,340 million yen decrease in trade receivables. However, there was a 4,680 million yen increase in inventories because of strategic procurement activities and a 2,958 million yen decrease in trade payables. Furthermore, income taxes paid totaled 3,652 million yen, including the provisional withholding tax payment associated with a dividend received by Melco Holdings from Buffalo at the end of the previous fiscal year.

(Investing activities)

Net cash provided by investing activities was 752 million yen. The major components were proceeds of 1,280 million yen from sales of investment securities, payments of 159 million yen for property and equipment, and payments of 230 million yen for intangible fixed assets.

(Financing activities)

Net cash provided by financing activities was 668 million yen. Major components of financing cash flows were proceeds of 1,000 million yen from short-term borrowings and dividend payments of 346 million yen.

3. Outlook for fiscal year ending in March 2008

The Melco Group will probably continue to face a difficult operating environment in the second quarter of the fiscal year, but the PC market is expected to start recovering in the fiscal year's second half.

For storage products, strong growth in demand is expected to continue. Wireless LAN products, the main category of network products, are likely to play a central role in popularizing home networks. This technology is being used in a growing array of applications other than games and PCs. Widespread use of home networks is vital to realization of the digital home, where people will view TV broadcasts on PCs, access video content via the Internet, and enjoy many other benefits.

In the second quarter, the Group plans to begin full-scale measures to achieve suitable inventory levels in association with the consolidation of Arvel. Additionally, we will continue to take aggressive actions to sell its products in other countries. This reflects management's belief that now is the best time to capitalize on opportunities overseas. These actions will require up-front investments to set the stage for future growth. Furthermore, the cost of memory products, which has been slowly declining, is expected to start rebounding. Collectively, these factors may have a temporary negative impact on earnings. The Group plans to use the second quarter to lay the groundwork for growth in the second half the afterward. Our objective is to take advantage of our strong start in the first quarter in order to take strategic actions that respond swiftly and forcefully to changes in market conditions.

The Group was fortunate to have a first quarter performance that represented a high achievement rate relative to the targets for the entire first half. Nevertheless, there are no revisions at this time to the first half and fiscal year forecasts that were announced on April 26, 2007.

4. Other items

(1) Changes in significant subsidiaries during the first quarter (changes in subsidiaries associated with change in scope of consolidation)

Arvel Corp., which was acquired by Melco Holdings, became a consolidated subsidiary. Liquidation of Melco Asset Management Limited was completed during the first quarter. Consequently, only the income statement of this company up to the liquidation date is included in the consolidated statement of income.

(2) Use of simplified accounting method

1. An annual estimated tax rate based on the statutory effective tax rate is used to calculate annual tax expenses.
2. Simplified methods are used for some standards for posting allowances.

(3) Change in accounting method compared with previous fiscal year: None