



Melco International Development Limited

新 濠 國 際 發 展 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Website : <http://www.melco-group.com>

(Stock code: 200)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

FINANCIAL HIGHLIGHTS

- Revenue increased by 33% to HK\$801 million for 2006 as compared with HK\$601 million in 2005.
- Net profit attributable to shareholders increased by 417% to HK\$2,837 million for 2006, as compared with HK\$549 million in 2005, of which approximately HK\$3,102 million was attributable to the gain on deemed disposal of partial interests in Melco PBL Entertainment (Macau) Limited following its successful listing on NASDAQ in December 2006.
- Basic earnings per share increased by 358% to HK\$2.38 for 2006.
- Net asset value attributable to shareholders per share increased by 95% to HK\$6.16 for 2006.
- Proposed final dividend for 2006 of HK1 cent per share.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	5	800,609	600,640
Other income		18,562	1,422
Investment income		14,958	3,407
Cost of inventories sold		(237,116)	(182,533)
Employee benefits expense		(269,283)	(169,734)
Depreciation of property, plant and equipment		(56,529)	(35,322)
Amortisation of service agreements intangible asset and trading rights		(10,489)	(507)
Commission expenses		(10,185)	(6,854)
(Loss) gain on deemed disposal of partial interests in subsidiaries	6	(33)	514,407
Loss on disposal of subsidiaries	7	(12,140)	–
Gain on formation of a jointly controlled entity	12	20,000	–
Gain on deemed disposal of interests in jointly controlled entities	13	3,102,253	–
Increase in fair value of investment properties		–	8,000
Other operating expenses		(225,590)	(140,943)
Finance costs		(85,879)	(31,747)
Share of (loss) profit of jointly controlled entities	12	(191,835)	2,234
Adjustment to goodwill		(11,554)	–
Write-down of service agreements intangible asset	8	(90,390)	–
Profit before tax		2,755,359	562,470
Income tax credit (expense)	9	4,622	(6,010)
Profit for the year		2,759,981	556,460
Attributable to:			
Equity holders of the Company		2,836,755	548,718
Minority interests		(76,774)	7,742
		2,759,981	556,460
Dividends recognised as distribution during the year	10	41,825	16,168
Earnings per share	11		
Basic		HK\$2.38	HK\$0.52
Diluted		HK\$2.09	HK\$0.47

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Investment properties		141,940	85,000
Property, plant and equipment		39,945	256,151
Hotels and entertainment complex under development		–	1,881,824
Prepaid lease payments		–	36,394
Deposit for land use right		–	48,590
Other intangible assets		2,547	2,547
Interests in jointly controlled entities	12	87,901	2,234
Interests in associates	13	5,802,612	–
Amount due from an associate		578,578	–
Available-for-sale investments		19,837	20,517
Goodwill		16,878	299,088
Service agreements intangible asset		–	100,373
Trademark		–	23,637
Trading rights		1,773	2,279
Long term deposits		3,236	8,074
Deferred tax assets		2,781	1,495
		6,698,028	2,768,203
Current assets			
Trade receivables	14	662,954	399,727
Prepayments, deposits and other receivables		82,831	45,177
Inventories		61,476	34,656
Prepaid lease payments		–	4,646
Investment in convertible loan notes		–	4,000
Held-for-trading investments		14,503	45,002
Amounts due from jointly controlled entities		855	19
Amounts due from associates		611,862	–
Amount due from a related company		–	948
Taxation recoverable		1,345	–
Pledged bank deposits		947	270
Bank balances and cash		1,209,826	2,350,284
		2,646,599	2,884,729
Current liabilities			
Trade payables	15	270,733	103,936
Other payables		91,598	105,700
Amount due to a minority shareholder		–	9,104
Amount due to a jointly controlled entity		–	9
Amounts due to related companies		–	6,051
Dividend payable		1,444	–
Taxation payables		6,378	8,594
Bank borrowing – due within one year		49,000	28,000
Obligation under finance leases		–	21
Shareholder's loan		–	45,085
		419,153	306,500
Net current assets		2,227,446	2,578,229
Total assets less current liabilities		8,925,474	5,346,432
Non-current liabilities			
Deferred tax liabilities		–	64,728
Long term payable	7	170,537	–
Convertible loan notes – due after one year		1,093,459	1,037,163
Obligation under finance leases – due after one year		–	63
		1,263,996	1,101,954
		7,661,478	4,244,478
Capital and reserves			
Share capital		614,075	562,919
Reserves		6,953,032	2,995,266
Equity attributable to equity holders of the Company		7,567,107	3,558,185
Share options reserve of a subsidiary		265	–
Minority interests		94,106	686,293
		7,661,478	4,244,478

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are 38/F., The Centrium, 60 Wyndham Street, Central, Hong Kong.

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

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

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company and the Group have applied, for the first time, a number of new standard ("HKASs"), amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments have been required.

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segments ²
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies ³
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁵
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁶
HK(IFRIC) – INT 11	Group and treasury share transactions ⁷
HK(IFRIC) – INT 12	Service concession arrangements ⁸

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

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 March 2006

⁴ Effective for annual periods beginning on or after 1 May 2006

⁵ Effective for annual periods beginning on or after 1 June 2006

⁶ Effective for annual periods beginning on or after 1 November 2006

⁷ Effective for annual periods beginning on or after 1 March 2007

⁸ Effective for annual periods beginning on or after 1 January 2008

3. RECLASSIFICATION

During the year ended 31 December 2006, certain intangible assets included in goodwill on acquisition of interest in Mocha Slot Group Limited and its subsidiaries ("Mocha Slots") has been reclassified. The amounts reclassified include intangible asset relating to Mocha Slots' slot lounges services agreements 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.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

5. REVENUE, BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

The Leisure, Gaming and Entertainment Segment, which mainly comprises provision of catering, entertainment, gaming and related services.

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

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

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

Segment information about these businesses is presented below:

2006

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External sales	248,960	264,178	182,037	105,434	–	800,609
Inter-segment sales	1,737	57,393	550	32,564	(92,244)	–
Total revenue	<u>250,697</u>	<u>321,571</u>	<u>182,587</u>	<u>137,998</u>	<u>(92,244)</u>	<u>800,609</u>
Segment result	<u>(182,072)</u>	<u>26,336</u>	<u>49,343</u>	<u>105,588</u>	<u>(7,945)</u>	(8,750)
Loss on deemed disposal of partial interests in subsidiaries						(33)
Loss on disposal of subsidiaries						(12,140)
Gain on formation of a jointly controlled entity						20,000
Gain on deemed disposal of interests in jointly controlled entities						3,102,253
Share of loss of jointly controlled entities						(191,835)
Unallocated corporate expenses						(68,257)
Finance costs						(85,879)
Profit before tax						2,755,359
Income tax credit						4,622
Profit for the year						<u>2,759,981</u>

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

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
BALANCE SHEET					
Assets					
Segment assets	68,994	312,362	692,385	1,204,388	2,278,129
Interests in jointly controlled entities					87,901
Interests in associates					5,802,612
Unallocated corporate assets					1,175,985
Consolidated total assets					<u>9,344,627</u>
Liabilities					
Segment liabilities	16,065	155,295	175,453	508	347,321
Unallocated corporate liabilities					1,335,828
Consolidated total liabilities					<u>1,683,149</u>
OTHER INFORMATION					
Capital additions	878,781	2,783	2,060	6,613	890,237
Depreciation	51,967	1,701	1,440	1,421	56,529
Amortisation of service agreements intangible asset and trading rights	9,983	–	506	–	10,489
Write-down of service agreements intangible asset	90,390	–	–	–	90,390
Loss on disposal of property, plant and equipment	8,861	–	–	93	8,954
Allowance for doubtful debts, net	<u>1,743</u>	<u>249</u>	<u>2,980</u>	<u>–</u>	<u>4,972</u>

2005

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External sales	241,875	197,459	115,086	46,220	–	600,640
Inter-segment sales	1,057	122,477	900	30,853	(155,287)	–
Total revenue	<u>242,932</u>	<u>319,936</u>	<u>115,986</u>	<u>77,073</u>	<u>(155,287)</u>	<u>600,640</u>
Segment result	<u>25,224</u>	<u>33,766</u>	<u>21,849</u>	<u>47,494</u>	<u>(11,871)</u>	116,462
Gain on deemed disposal of partial interests in subsidiaries						514,407
Share of profit of jointly controlled entities						2,234
Unallocated corporate expenses						(38,886)
Finance costs						(31,747)
Profit before tax						562,470
Income tax expense						(6,010)
Profit for the year						<u>556,460</u>

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

	Leisure, Gaming and Entertainment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Investment Banking and Financial Services <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
BALANCE SHEET					
Assets					
Segment assets	2,533,527	132,879	416,527	2,301,630	5,384,563
Interests in jointly controlled entities					2,234
Unallocated corporate assets					266,135
Consolidated total assets					<u>5,652,932</u>
Liabilities					
Segment liabilities	86,383	88,378	64,076	238	239,075
Unallocated corporate liabilities					1,169,379
Consolidated total liabilities					<u>1,408,454</u>
OTHER INFORMATION					
Capital additions	464,932	2,769	806	5,728	474,235
Depreciation	29,846	903	2,627	1,946	35,322
Amortisation of trading rights	–	–	507	–	507
Loss on disposal of property, plant and equipment	214	–	267	19	500
Allowance for doubtful debts, net	63	(231)	2,711	(1,490)	1,053
Impairment loss on available-for-sale investments	–	–	120	–	120

(b) **Geographical segments**

The Leisure, Gaming and Entertainment, Technology, Investment Banking and Financial Services and Property and Other Investments divisions are located in Hong Kong and Macau.

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong	404,299	279,906
Macau	396,310	320,734
	<u>800,609</u>	<u>600,640</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment, hotels and entertainment complex under development and intangible assets	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	1,867,788	2,563,919	8,124	11,235
Macau	366,637	2,819,751	882,081	462,963
Others	43,704	893	32	37
	<u>2,278,129</u>	<u>5,384,563</u>	<u>890,237</u>	<u>474,235</u>

6. (LOSS) GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

Certain share options of a subsidiary of the Company are exercised by the share option holders, who are minority shareholders of the subsidiary. As a result of exercise of share options, the Group then recognised a loss on deemed disposal of partial interest in the subsidiary of approximately HK\$33,000 (year ended 31 December 2005: HK\$24,000) during the year ended 31 December 2006.

On 11 November 2004, the Company entered into a Heads of Agreement ("Heads of Agreement") with Publishing and Broadcasting Limited ("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 Entertainment"), 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 Company, PBL and PBL Asia Investments Limited, a wholly-owned subsidiary of PBL, on 23 December 2004.

Pursuant to the Subscription Agreement, the Company contributed its 80% interests of Mocha Slot Group Limited and its subsidiaries ("Mocha Slot") and 70% interests of Great Wonders, Investments, Limited ("Great Wonders") to Melco PBL Entertainment (Greater China) Limited ("MPBL (Greater China)"), which was then a company owned as to 80% indirectly by Melco PBL Entertainment and 20% indirectly by the Company, while PBL contributed HK\$1.27 billion (equivalent to US\$163 million) cash to MPBL (Greater China). In addition, a shareholders agreement was entered into between the Company and PBL upon the completion of the Subscription Agreement whereby 50.8% interests of Melco Hotels and Resorts (Macau) Limited ("Melco Hotels") was also contributed by the Company to MPBL (Greater China).

As a result of the above arrangements, the Company effectively held 60% interests of MPBL (Greater China) and controlled the majority of the board of directors of MPBL (Greater China). PBL held 40% interests in MPBL (Greater China). Since its inception, MPBL (Greater China) had been designated as the principal investment vehicle for all expansion and acquisition activities, if any, in the gaming and hospitality businesses in the Greater China region including Macau. The Subscription Agreement was completed on 8 March 2005.

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

7. LOSS ON DISPOSAL OF SUBSIDIARIES

On 4 March 2006, PBL entered into an agreement with Wynn Resorts (Macau) S.A. ("Wynn Macau") to acquire a Macau gaming subconcession for the operation of casino games of chance and other casino games in Macau. PBL Asia Limited ("PBL Asia"), a subsidiary of PBL, incorporated a subsidiary, Melco PBL Gaming (Macau) Limited (formerly known as PBL Entertainment (Macau) Limited) ("MPBL Gaming") to acquire the Macau gaming subconcession. PBL invested HK\$622,400,000 (US\$80,000,000) as share capital of MPBL Gaming in order to finance the acquisition of the Macau gaming subconcession.

Pursuant to a Memorandum of Agreement dated 5 March 2006 and a Supplemental Agreement dated 26 May 2006 entered into between the Company and PBL, PBL agreed to transfer its entire interest in MPBL Gaming to Melco PBL Investment Limited, a wholly-owned subsidiary of Melco PBL Entertainment. In addition, the Company and PBL contributed an amount of approximately HK\$1,244,800,000 (US\$160,000,000) each with a total of approximately HK\$2,489,600,000 (US\$320,000,000) to MPBL Gaming through Melco PBL Entertainment.

The HK\$2,489,600,000 (US\$320,000,000) contributed to Melco PBL Entertainment was then used to subscribe for the 7,200,000 Class B shares of MPBL Gaming. The Class B shares enjoy a right to vote and full participation in any dividends and capital distribution and to participate in a liquidation and enjoy all other economic benefits or rights derived from MPBL Gaming. These transactions were completed in October 2006 and MPBL Gaming became a subsidiary of Melco PBL Entertainment.

In addition, the Company transferred its 20% equity interest in MPBL (Greater China), which was originally owned by the Company's wholly-owned subsidiary, Melco Leisure and Entertainment Group Limited, to Melco PBL International Limited, a wholly-owned subsidiary of Melco PBL Entertainment. Hence, MPBL (Greater China) becomes an indirectly wholly-owned subsidiary of Melco PBL Entertainment.

Furthermore, the Company had agreed to pay an amount of HK\$180,000,000 to PBL in consideration of the above arrangements. The consideration payable to PBL is unsecured, non-interest bearing and not repayable within twelve months from the balance sheet date. The amount due to PBL is stated as long term payable on the consolidated balance sheet at amortised cost of approximately HK\$170,537,000 as at 31 December 2006.

As result of the above arrangements, the Company in effect disposed of its 20% equity interest in MPBL (Greater China) to Melco PBL Entertainment, which is a 50/50 joint venture of the Company and PBL, resulting in a loss of 10% equity interest in MPBL (Greater China). The difference between the attributable interests in MPBL (Greater China) and MPBL Gaming and the consideration payable to PBL, amounting to approximately HK\$12,140,000, is therefore recognised as loss on disposal of subsidiaries during the year ended 31 December 2006.

8. WRITE-DOWN OF SERVICE AGREEMENTS INTANGIBLE ASSET

Subsequent to the entering of an agreement to acquire a gaming subconcession in Macau (see note 7), Mocha Slots and SJM had 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 and SJM was written down by approximately HK\$90,390,000, with reference to a valuation report provided by an independent qualified professional valuer not connected to the Group. The remaining service agreements intangible asset of approximately HK\$9,983,000 was fully amortised during the year ended 31 December 2006.

9. INCOME TAX (CREDIT) EXPENSE

	2006 HK\$'000	2005 HK\$'000
Current tax:		
– Hong Kong	3,285	224
– Other jurisdictions	4,427	8,151
	<u>7,712</u>	<u>8,375</u>
Under(over)provision in prior years:		
– Hong Kong	1,127	91
– Other jurisdictions	–	(552)
	<u>1,127</u>	<u>(461)</u>
Deferred taxation		
– Current	(13,461)	(1,364)
– Attributable to a change in tax rate	–	(540)
	<u>(13,461)</u>	<u>(1,904)</u>
	<u>(4,622)</u>	<u>6,010</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year. Taxation arising in other jurisdictions are calculated at the rate prevailing in the respective jurisdictions.

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

	2006 HK\$'000	2005 HK\$'000
Profit before tax	<u>2,755,359</u>	<u>562,470</u>
Tax at Hong Kong Profits Tax rate of 17.5%	482,188	98,432
Tax effect of share of loss of jointly controlled entities	33,571	–
Tax effect of expenses not deductible for tax purposes	64,017	8,628
Tax effect of income not taxable for tax purposes	(594,449)	(100,286)
Under(over)provision in respect of prior years, net	1,127	(461)
Tax effect of different tax rates of the subsidiaries operating in other jurisdictions	(2,029)	(3,679)
Tax effect of unrecognised deferred tax assets	17,592	10,122
Decrease in opening deferred tax liabilities as a result from decrease in applicable tax rate	–	(540)
Utilisation of tax losses previously not recognised	(7,679)	(6,234)
Others	1,040	28
Tax (credit) charge for the year	<u>(4,622)</u>	<u>6,010</u>

10. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim dividend paid: Nil (2005: HK1 cent) per share	–	11,258
Dividend in specie (note 1)	8,925	–
Special dividend paid: HK3.7 cents (2005: Nil) per share (note 1)	21,295	–
2005 final dividend paid: HK1 cent (2004: HK0.5 cent) per share	11,605	4,910
	<u>41,825</u>	<u>16,168</u>

Notes:

- (1) In respect to the listing of the American Depositary Shares (“ADSs”) of Melco PBL Entertainment on the NASDAQ Stock market in the United States of America (“NASDAQ”) on 19 December 2006, a distribution in specie was offered to the shareholders of the Company. Under the distribution in specie, qualifying shareholders holding not less than 4,000 shares whose names appeared in the Register of Members of the Company on the record date for the distribution in specie, which was 19 December 2006, would be entitled to receive 1 ADS for every whole multiple of 4,000 shares held on the record date. The final offer price of US\$19 per ADS was translated into Hong Kong dollars of HK\$147.8. A total of 60,382 ADSs amounting to approximately HK\$8,925,000 were issued to the shareholders of the Company.

Qualifying shareholders holding not less than 4,000 shares whose names appeared in the register of members of the Company on the record date for the distribution in specie and who had elected to receive a cash payment in lieu of all the ADSs to which they would otherwise be entitled would be entitled to receive an amount of approximately HK\$0.037 for every share held by them on the record date for the distribution in specie. Qualifying shareholders holding less than 4,000 shares whose names appeared in the Register of Members of the Company on the record date for the distribution in specie would be entitled to receive a cash payment of approximately HK\$0.037 for every share held by them on the record date for the distribution in specie.

- (2) On 30 March 2007, the directors of the Company proposed that final dividend for 2006 of HK1 cent per share would be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting. The proposed dividend for 2006 is payable to all shareholders whose names are on the Register of Members as at 10 May 2007.

11. EARNINGS PER SHARE

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

	2006 HK\$'000	2005 HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	2,836,755	548,718
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	62,536	24,978
Adjustment to the share of result of a subsidiary based on potential dilution of its earnings per share	(373)	(8,046)
Earnings for the purpose of diluted earnings per share	<u>2,898,918</u>	<u>565,650</u>
	2006 '000	2005 '000

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	1,191,262	1,051,429
Effect of dilutive potential ordinary shares:		
Share options	15,278	28,312
Convertible loan notes	<u>181,571</u>	<u>114,945</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,388,111</u>	<u>1,194,686</u>

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

12. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 HK\$'000 (Note 1)	2005 HK\$'000
Cost of unlisted investments in jointly controlled entities	90,000	–
Share of post-acquisition (loss) profit	(2,099)	2,234
	<u>87,901</u>	<u>2,234</u>

As at 31 December 2006, the Group had interests in the following principal jointly controlled entity:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
PAL Development Limited ("PAL")	Hong Kong/ PRC	Ordinary shares	60% (note 2)	Investment holding

Notes:

- During the year ended 31 December 2006, the Group formed a jointly controlled entity with an independent third party where the Group contributed certain cash and intangible assets and the joint venture party contributed certain businesses to the jointly controlled entity. Upon the formation of this jointly controlled entity, the Group then realised a gain of HK\$20,000,000 on the intangible assets contributed with reference to the fair value of the intangible assets as arrived on the basis of a valuation carried out by an independent professional valuer not connected to the Group.
- The Group owns 60% interest in this jointly controlled entity. Pursuant to certain terms and conditions given in the shareholders agreement, the financial and operating policies of the jointly controlled entity require unanimous approval of the shareholders, as such, it is accounted for as a jointly controlled entity.

As at 31 December 2005, the Group had interests in the following jointly controlled entities, which became associates of the Group after the listing of the ADSs of Melco PBL Entertainment on NASDAQ completed in December 2006.

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

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

	2006 HK\$'000	2005 HK\$'000
Total assets	183,467	4,491
Total liabilities	(28,897)	(23)
Minority interest	(8,069)	–
Net assets	<u>146,501</u>	<u>4,468</u>
Group's share of net assets of jointly controlled entities	<u>87,901</u>	<u>2,234</u>
Revenue	<u>107,740</u>	<u>4,883</u>
(Loss) profit for the year	<u>(382,970)</u>	<u>4,468</u>
Group's share of (loss) profit of jointly controlled entities for the year	<u>(191,835)</u>	<u>2,234</u>

The above table list out the jointly controlled entity of the Group which in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of directors of the Company, result in particulars of excessive length.

13. INTERESTS IN ASSOCIATES

During the year ended 31 December 2006, the Group effectively disposed of its 20% interest in MPBL (Greater China) to Melco PBL Entertainment, which was a jointly controlled entity of the Group (see note 7). Subsequently at the end of year 2006, Melco PBL Entertainment has been listed on the NASDAQ through the issuance of ADS resulting in a deemed disposal of jointly controlled entities of the Group. As a result of this deemed disposal, the Company's interest in Melco PBL Entertainment further reduced to approximately 42.34%, Melco PBL Entertainment then became an associate and the Group recognised a gain of approximately HK\$3,102,253,000 with reference to the Group's share of net assets of Melco PBL Entertainment immediately before and after the listing of the ADS.

	2006 HK\$'000	2005 HK\$'000
Cost of investment in associates listed in the United States of America	5,802,612	–
Fair value of listed investments	<u>27,567,133</u>	<u>–</u>

As at 31 December 2006, the Group had interests in the following principal associate:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
Melco PBL Entertainment	Cayman Islands/ Macau	Ordinary shares	42.34%	Investment holding

The summarised financial information in respect of the Group's associate is set out below:

	2006 HK\$'000	2005 HK\$'000
Total assets	16,042,332	–
Total liabilities	(2,337,369)	–
Net assets	<u>13,704,963</u>	<u>–</u>
Group's share of net assets of associates	<u>5,802,612</u>	<u>–</u>

Note: No revenue, loss for the year and the Group's share of results of associates for the year are presented as Melco PBL Entertainment became an associate of the Group near the end of 2006.

14. TRADE RECEIVABLES

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Trade receivables (excluding receivables balance arising from margin clients' securities transactions) (Notes a, b & c)	367,143	228,520
Allowance for doubtful receivables	(9,700)	(6,730)
	<u>357,443</u>	<u>221,790</u>
Trade receivables arising from margin clients' securities transactions (Note b)	305,511	177,937
	<u>662,954</u>	<u>399,727</u>

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

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Within 30 days	291,026	173,935
31 – 90 days	37,535	22,930
Over 90 days	28,882	24,925
	<u>357,443</u>	<u>221,790</u>

Notes:

- 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.
- Trade receivables arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment Banking and Financial Services Segment as at 31 December 2006 amounted to approximately HK\$588,236,000 (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 clients' pledged securities, repayable on demand and bear interest at commercial rates. The decision for rate changes is on management's discretion subject to notification to clients. Securities are assigned with specific margin ratios for calculating their margin values. Loans granted to securities margin clients are further subject to the discounted value of securities deposited with reference to these specific margin ratios. Additional funds or collateral are required if the loan outstanding exceeds the eligible margin value of securities deposited. As at 31 December 2006, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately HK\$2,435,797,000 (2005: HK\$5,266,133,000). No aging analysis on margin clients' receivables is disclosed as an aging analysis is not meaningful in view of the nature of the business of securities margin financing.
- 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.

15. TRADE PAYABLES

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

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Within 30 days	82,285	38,330
31-90 days	3,973	19,551
Over 90 days	27,215	12,674
	<u>113,473</u>	<u>70,555</u>
Trade payables arising from the ordinary course of business of dealing in securities transactions (<i>Note</i>)	157,260	33,381
	<u>270,733</u>	<u>103,936</u>

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.

16. DISPOSAL OF A SUBSIDIARY

As disclosed in note 7, the Company disposed of its interests in MPBL (Greater China) during the year ended 31 December 2006. The net assets of MPBL (Greater China) at the date of disposal were as follows:

	HK\$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	264,764
Hotels and entertainment complex under development	2,800,622
Trademark	23,637
Trade and other receivables	47,361
Inventories	1,677
Bank balances and cash	53,446
Amount due from a related company	951
Trade and other payables	(243,534)
Taxation payables	(2,538)
Obligation under finance lease	(141)
Shareholder's loan	(45,708)
Deferred tax liabilities	(52,553)
Amounts due to group companies	(1,114,656)
Minority interests	(518,550)
	<u>1,214,778</u>
Attributable goodwill	270,656
	<u>1,485,434</u>
Loss on disposal	(12,140)
Total consideration	<u>1,473,294</u>
Satisfied by:	
Interests in jointly controlled entities (<i>note 7</i>)	1,642,995
Amount due to Publishing and Broadcasting Limited (<i>note 7</i>)	(169,701)
	<u>1,473,294</u>
Net cash outflow arising on disposal:	
Bank balances and cash disposal of	<u>(53,446)</u>

During the year ended 31 December 2006, MPBL (Greater China) contributed revenue of approximately HK\$140,207,000 (2005: HK\$149,695,000), loss for the year of approximately HK\$152,108,000 (2005: HK\$6,507,000) and net cash outflow of approximately HK\$96,271,000 (2005: net cash inflow of HK\$106,527,000).

17. CAPITAL COMMITMENTS

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Capital commitments contracted for but not provided in respect of the acquisition of property, plant and equipment, hotels and entertainment complex under development	7,278	1,405,808

On 30 November 2005, Great Wonders accepted a formal offer from the Macau Government to acquire the land at a consideration of approximately HK\$145,085,000 (MOP149,728,000). Great Wonders paid a deposit of HK\$48,590,000 (MOP50,000,000) for the land. The remaining balance interest-bearing at 5% per annum and shall be payable in 4 half yearly instalments in equal amounts, which had been fully settled during the year ended 31 December 2006. Also, Melco Hotels had accepted in principal another offer from the Macau government to acquire the Cotai land in Macau at a consideration of approximately HK\$493,339,000 (MOP509,125,000) in 2005. No payment has been made in respect of this offer by Melco Hotels since then. Melco Hotels, which is a subsidiary of MPBL (Greater China), was disposed of during the year ended 31 December 2006.

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

18. OTHER COMMITMENTS

- (i) 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. However, on 4 February 2007, the Group mutually entered into a Deed of Termination, Settlement and Release with Shuffle Master to terminate the Agreement without any penalty.
- (ii) On 18 August 2006, the Group entered into a shareholders agreement ("PAL Agreement") with the shareholder of a jointly controlled entity, PAL, regarding the formation and operational affairs of PAL. Pursuant to the terms of PAL Agreement, the Group agreed to inject, inter alia, an aggregate amount of HK\$100 million cash into PAL on or before 31 January 2007. As at 31 December 2006, the Group had already contributed an amount of HK\$70 million cash into PAL. The remaining balance was injected into PAL on 22 January 2007.

- (iii) On 11 October 2006, the Group entered into a securities purchase agreement to subscribe certain new shares of a company plus warrants, in which no control in this company will be obtained after such subscription, at a total subscription price of HK\$20,617,000 (US\$2,650,000) on or before 31 January 2007. Such subscription was made on 23 January 2007.

CHAIRMAN & CEO'S STATEMENT

The year 2006 has been an exciting year in which Macau and Melco together took a number of giant strides forward. Macau took on the mantle as the world's top gaming destination in terms of turnover, overtaking former frontrunner Las Vegas. With soaring visitation, development of Macau's infrastructure and visitor facilities surged ahead, as the territory embraced its new position as a premium leisure destination for tourists from across China and Asia. Meanwhile, Melco has grown alongside the new Macau, firmly grasping new opportunities and consolidating its leading role in the dynamic and fast-growing leisure, entertainment and gaming market.

Melco PBL Entertainment (Macau) Limited ("Melco PBL Entertainment"), our leisure and gaming partnership with PBL, drove growth over the year and celebrated some major milestones. The acquisition of Macau's last gaming subconcession in October, which has allowed us to become the holder of one of only six gaming concessions and subconcessions to own and operate gaming business in Macau, enabled us to exercise direct control over our gaming and entertainment operations. It not only increased our potential income but opened up exciting new doors for growth and development.

In December, Melco PBL Entertainment was listed on NASDAQ in the US. The listing allowed us to raise funds by offering a small portion of our gaming business to US investors, at the same time significantly boosting our international profile and improving our valuation.

All of Melco PBL Entertainment's leisure and gaming projects are moving forward swiftly and with superb efficiency. Currently, our Mocha operations account for around 30% of all electronic gaming positions in Macau. Subsequent to the acquisition of the last gaming subconcession in October, we gained 100% control over our lucrative Mocha operation as we were no longer required to pay a proportion of Mocha's revenue to a third party license holder. This has immediately boosted our revenues from this premium gaming operation. The Mocha Club concept continues to develop and flourish as the sixth Mocha Club opened in December.

Meanwhile, the Group's major leisure and gaming projects are moving smoothly towards completion. Crown Macau celebrated its topping out ceremony in November, and is currently preparing for the Grand Opening. Construction work on the exciting City of Dreams project, phase one of which scheduled to launch in 2008, has also commenced. During the year we formed partnerships with globally renowned companies such as Hard Rock International, Hyatt International, Dragone Entertainment GmbH and construction conglomerate Leighton-China State-John Holland, each of which are helping us create truly exceptional standards and facilities for the City of Dreams. Plans on a third casino project are also in progress as negotiations for a prime site near the Macau ferry terminal are taking place.

As our vision statement states, we strive to bring hope and fun to people from around the world. Our business is people-based and service-oriented, with the interests of our stakeholders as our top priority. Not only do we work our very best to cater to the aspirations of our customers, but we also think ahead to create more value for our stakeholders.

With the staunch support from our shareholders and the dedication of our staff, the Group has successfully established a solid base in each of our core businesses. We will continue to refine and elaborate our established business model and strategic footprint in the course of identifying and realizing business opportunities. We will look for horizontal and vertical development opportunities under the current business model to continue our pursuit to become a dynamic conglomerate with a focus on Leisure and Entertainment related businesses in Asia.

We believe that in the decades ahead, the Greater China region will offer the best business opportunities. Our group is strategically positioned to take advantage of this unprecedented growth engine. Chinese Mainland and Macau will be our primary business focus. Our macro strategy is to take advantage of the fast growing economy in China and Macau, to further expand our activities in each of the core businesses.

Much is to come in our leisure and entertainment market. Through our NASDAQ listed associate Melco PBL Entertainment, we will continue to expand our gaming investments in Macau. We believe that with the increasing affluence of the Chinese people and the support from the Central government, Macau stands to benefit from this unprecedented opportunity and is destined to become one of the most important and successful leisure and entertainment centers in the world. Melco PBL Entertainment is uniquely positioned to benefit from the Melco Group's market expertise and connections in its future endeavors in Macau.

The Group has an unparallel edge in Macau which has now transformed into the leisure and entertainment retreat for the Chinese people, in addition to its unique appeal to people from around the world. As the livelihood of the local Macanese people and people in the Chinese Mainland continues to improve, the demand for better living environment, higher quality of life and higher-end leisure and entertainment products will increase over time. We expect that the current demand for quality land sites in Macau will only become more acute as the Macanese economy continues to grow. As a result of the immensely successful gaming market in Macau, coupled with an acute shortage of land, securing prime land sites has become the biggest challenge and first and foremost task for any investors in Macau. In order to ensure that our business model and business strategy can be implemented, we believe that it is prudent and strategically important to position ourselves at an early stage to satisfy the development needs of our core divisions and to take advantage of the growing economy. Despite that property investment has been one of the Group's core businesses, our strategy is to be engaged in properly related projects only if they create a synergy effect with our other core businesses.

Outside of Macau, Melco and PBL will continue its pursuit of casino gaming opportunities in Asia exclusively together.

Further leveraging on our experience in the leisure and entertainment arena, we have successfully established a foothold in the lottery market in China. Our technical edge proved to be of much value to the Chinese lottery market players. In the coming months, you will see our presence in this market expand rapidly.

Our financial services division, represented by our listed subsidiary Value Convergence Holdings Limited, has identified some very promising business opportunities that should provide a steady and solid growth potential for the next decade.

The fact that Macau has become the world's top gaming destination in terms of gaming revenue further underscores our confidence in the Group's future. With a solid base in Macau and a unique position in the Greater China region, the Group stands to benefit from one of the fastest and biggest economies in the world going forward. I have the utmost confidence to continue to create more values for our stakeholders who have generously given us their unreserved support all along.

Finally, I would like to express my gratitude to all of our employees for their creativity, hard work and loyalty over the past year in keeping the Group firmly set in its forward momentum.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Events and Developments

2006 was an eventful year for Melco. In particular, significant progress was made in the development of the Group's leisure, gaming and entertainment business in Macau.

In March 2006, Melco PBL (our joint venture with Publishing and Broadcasting Limited ("PBL")) entered into a series of transactions to acquire the last remaining gaming subconcession in Macau from Wynn Resorts (Macau) SA. In October, the acquisition was approved by the Macau Government and Melco PBL Gaming (Macau) Limited formally became one of the six license holders to operate gaming business in Macau.

In November, following a corporate restructuring, all the Melco PBL gaming operations were grouped under Melco PBL Entertainment. In December, Melco PBL Entertainment was listed on NASDAQ by way of an offering of 17.2% of its enlarged share capital (after exercise of greenshoe) in the form of new shares to US investors. Gross proceeds, before deduction of issuance costs, amounted to approximately US\$1.32 billion, making it the largest IPO ever launched by an Asian company on NASDAQ and the fourth largest IPO in the United States in year 2006.

The construction of Melco PBL Entertainment's projects in Macau remains on track. Crown Macau, which primarily caters for high rollers, is scheduled to have its trial opening on 28 April 2007. City of Dreams, a premium integrated urban entertainment resort targeting the mass market, broke ground in April 2006 and phase one of the project is expected to complete towards the end of 2008. During the year, various partnerships have been formed with world-renowned companies to operate the facilities at the City of Dreams. These included hotel operators Hyatt International and Hard Rock International and world-class performing company Dragone Entertainment GmbH.

Melco PBL Entertainment entered into a transaction in May 2006 to acquire a site on the waterfront of the Macau Peninsula for the development of its third casino hotel complex targeting the day-trippers. This acquisition is expected to be completed in the third quarter of 2007.

In an initiative to further develop Melco's leisure and entertainment business and to tap the rapid growth of the lottery markets in Asia, particularly China, PAL Development Limited ("PAL") was established as a joint venture company between an indirect wholly-owned subsidiary of Melco and Singapore listed LottVision in September 2006. PAL was initially owned as to 60% by the Group and 40% by LottVision.

Subsequent to the balance sheet date, on 28 March 2007, it was announced that Melco would swap approximately 29.47% of its shareholding in PAL for approximately 28.5% of the enlarged share capital of LottVision after issue of the consideration shares. By virtue of this transaction:

- (i) Melco would become the largest single shareholder of LottVision;
- (ii) LottVision would own approximately 69.47% of PAL;
- (iii) Melco's effective interest in PAL would become approximately 50.33%.

Melco also has a call option to subscribe up to a maximum of 88 million LottVision new shares at S\$0.1034 per share and its shareholding in LottVision will increase to 37.4% of the enlarged issued share capital of LottVision following the issue of the consideration shares and upon exercise of the call option in full. Its effective interest in PAL would increase to approximately 56.5% if the call options are exercised in full.

PAL is currently engaged in three main business streams in the lottery space:

- (1) Distribution of Lottery Vending Terminals in China;
- (2) Provision of Venue Management Consultancy Services to lottery sales outlets in China; and
- (3) Provision of technological solutions for interactive lottery games on mobile phones.

FINANCIAL REVIEW

The Group engages in four main business streams, namely (i) Leisure, Gaming and Entertainment, (ii) Technology, (iii) Investment Banking and Financial Services and (iv) Property and Other Investments.

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

	Year ended 31 Dec 2006 HK\$'000	Year ended 31 Dec 2005 HK\$'000
Segment Result: Leisure, Gaming and Entertainment	(182,072)	25,224
Segment Result: Technology	26,336	33,766
Segment Result: Investment Banking and Financial Services	49,343	21,849
Segment Result: Property and Other Investments	105,588	47,494
Intra-group eliminations	(7,945)	(11,871)
Group operating result	(8,750)	116,462
Loss on disposal of subsidiaries	(12,140)	–
(Loss) gain on deemed disposal of partial interest in subsidiaries	(33)	514,407
Gain on deemed disposal of interests in jointly controlled entities	3,102,253	–
Gain on formation of a jointly controlled entity	20,000	–
Share of (loss) profit of jointly controlled entities	(191,835)	2,234
Unallocated corporate expenses	(68,257)	(38,886)
Finance costs	(85,879)	(31,747)
Profit before tax	2,755,359	562,470
Income tax credit (expense)	4,622	(6,010)
Profit for the year	2,759,981	556,460
Minority interests	76,774	(7,742)
Profit for the year attributable to shareholders	2,836,755	548,718

Consolidated operating EBITDA for the Group (excluding the Macau gaming business conducted through Melco PBL Entertainment and its predecessors) amounted to HK\$108.8 million for the year ended 31 December 2006 (2005 – HK\$64.7 million). According to the financial statements of Melco PBL Entertainment, operating EBITDA of Melco PBL Entertainment amounted to US\$13.2 million for the year ended 31 December 2006 (2005 – US\$7.4 million).

LEISURE, GAMING AND ENTERTAINMENT

For the year ended 31 December 2006, losses from this segment amounted to HK\$182.1 million (2005 – Profit of HK\$25.2 million) and are made up of the following:

	Year ended 31 Dec 2006 HK\$'000	Year ended 31 Dec 2005 HK\$'000
Melco PBL – Macau Gaming (prior to October 2006)	(164,601)	25,574
Jumbo Kingdom	1,849	(350)
Gaming License Bidding Costs	(19,320)	–
	(182,072)	25,224

Melco PBL – Macau Gaming (prior to October 2006)

Prior to October 2006, the Macau gaming operations (operated through a joint venture with PBL) was effectively owned as to 60% by the Group and 40% by PBL. Consequently, the results of Melco PBL's Macau operations for the first nine months ended 30 September 2006 were fully consolidated into the Group's financial statements. Effective from 1 October 2006, following a restructuring of the Group and the formal grant of the gaming subconcession by the Macau Government, Melco's effective interest in the joint venture decreased to 50%, resulting in Melco PBL being re-classified as jointly controlled entities. As a result, the attributable results of Melco PBL Entertainment and its subsidiaries for the three months ended 31 December 2006 was shown under "share of losses of jointly controlled entities".

For the first nine months of 2006, Melco PBL's Macau operations recorded a negative contribution of approximately HK\$164.6 million, versus a positive contribution of HK\$25.6 million for the whole year in 2005. The drastic change was primarily due to the following:

- (1) Substantial pre-opening expenses were incurred in respect of Crown Macau and City of Dreams. According to the financial statements of Melco PBL Entertainment, the total pre-opening expenses amounted to approximately US\$11.7 million for the full year ended 31 December 2006.
- (2) An intangible asset write-off of approximately HK\$90.4 million resulting from the termination of Mocha Slots' service agreements with Sociedade de Jogos de Macau, S.A.. These agreements were terminated as a result of Melco PBL acquiring its own gaming subconcession in October 2006.

According to the financial statements of Melco PBL Entertainment, Mocha generated an operating EBITDA of approximately US\$13.2 million for the year ended 31 December 2006 (2005 – US\$7.4 million). Average number of gaming machines at Mocha (on a time-weighted basis) increased from 634 in 2005 to 937 in 2006 and the gross daily gaming revenue per machine (on a time-weighted basis) decreased from US\$229 in 2005 to US\$210 in 2006. For the fourth quarter of 2006, this figure reached a record of US\$248.

Jumbo Kingdom

Jumbo Kingdom staged a turnaround in 2006 with a positive contribution of HK\$1.8 million against a loss of HK\$0.4 million in 2005.

Jumbo Kingdom includes the Jumbo and Tai-Pak floating restaurants located in Aberdeen, Hong Kong, and Jumbo's Chua Lam Gourmet Kitchen in Macau. A premier tourist destination and fine-dining establishment, Jumbo Kingdom has continually upgraded its facilities over the past 30 years. In 2003, Jumbo Kingdom carried out a multi-million dollar renovation that transformed it into a modern floating complex for fine dining, sightseeing and cultural attractions, and represents a must-see destination for any visitor to Hong Kong.

Following its renovation in 2003 and an extensive marketing campaign launched to rebuild the brand, Jumbo Kingdom recently won Hong Kong's prestigious "Superbrand 2006/2007" award.

Gaming License Bidding Costs

Together with our joint venture partner PBL, Melco is continually looking to explore gaming opportunities outside Macau. In 2006, Melco, PBL and Eighth Wonders formed a partnership to bid for a gaming license in Singapore. Unfortunately, the bid turned out to be unsuccessful. As a result, our share of the costs involved in the bidding, amounting to approximately HK\$19.3 million (2005 – Nil), was written off in 2006.

TECHNOLOGY

Profit from the segment amounted to HK\$26.3 million (2005-HK\$33.8 million) and is made up of the following:

	Year ended 31 Dec 2006 HK\$'000	Year ended 31 Dec 2005 HK\$'000
Elixir Technology	23,707	32,844
iAsia Technology	2,669	963
Others	(40)	(41)
	<u>26,336</u>	<u>33,766</u>

Elixir is the major technology arm of the Melco Group based in Macau. As a premier gaming technology solutions provider in Asia, it is principally engaged in the distribution of electronic gaming machines and other gaming products to casino operators. It also supplies integrated systems to hotels and casino operators such as installation of casino surveillance systems and LED display.

Contribution from Elixir dropped by 28% to HK\$23.7 million in 2006 from HK\$32.8 million in 2005. This was primarily because Elixir was going through a transformational change in 2006, repositioning itself from an equipment distributorship to becoming Asia's only gaming machine supplier with R&D and manufacturing capabilities which would, in due course, include developing Elixir's own games.

Benefiting from the growth in gaming in the region, Elixir has successfully established Elixir Gaming Technology Philippines, Inc in Philippines for the servicing and distribution of gaming machines in the region, including Indo China. In early 2006 Elixir began setting up a gaming research & development centre in Macau to focus on the development of gaming machine content and gaming technologies for Asian markets.

In order to allow Elixir to have greater flexibility to develop its business in Asia, Elixir terminated its Asia gaming technology alliance with Stargames Corporation Pty Ltd., the Australian subsidiary of Shuffle Master, Inc. (NASDAQ national Market: SHFL) in February 2007.

iAsia Technology made a positive contribution to the Group amounting to HK\$2.7 million for the year (2005 – HK\$1 million), representing a spectacular increase of over 170%. Based in Hong Kong, iAsia is engaged in the provision of comprehensive online trading and related systems and services to financial institutions and intermediaries, principally in Asia. During the year, iAsia developed a new and well-received Bullion Deal Matching System. It has continued to improve and integrate its existing online trading modules and related systems, and the new Bullion Deal Matching System has enhanced the comprehensiveness of its systems.

The Group's IT systems for investment banking and financial services are all supported by iAsia, and iAsia has contributed significantly to improving the technological sophistication of the Group's financial services unit.

INVESTMENT BANKING AND FINANCIAL SERVICES

Contribution from investment banking and financial services (before finance costs) increased significantly from HK\$21.8 million in 2005 to HK\$49.3 million, representing a spectacular increase of 126%.

The Group's investment banking and financial service business is conducted through Value Convergence Holdings Limited ("Value Convergence", Stock Code: 8101), a company listed on the GEM Board of the Stock Exchange of Hong Kong Limited. Value Convergence recorded a consolidated turnover of approximately HK\$182.0 million in 2006, representing an increase of around 58% as compared to 2005.

The improved operating results for the year were mainly attributable to enhanced operating performance from the brokerage business as well as increased contribution from the Group's investment trading portfolio.

Going forward, Value Convergence will actively pursue fresh initiatives such as the provision of fund management services and new investment products, as well as embarking on business acquisitions beneficial to the overall growth of the Group's business.

PROPERTY AND OTHER INVESTMENTS

Contribution from property and other investments increased from HK\$47.5 million to HK\$105.6 million, representing an increase of 122%. The increase is mainly attributable to the increase in income from the Group's treasury functions.

LOSS ON DISPOSAL OF SUBSIDIARIES

Effective from October 2006, the Macau gaming business conducted through Melco PBL ceased to be accounted for as subsidiaries of the Group and began to be accounted for as jointly-controlled entities. Pursuant to an agreement with PBL, the Group's effective interest in the Macau joint venture decreased from 60% to 50%. As a result, an accounting loss amounting to HK\$12.1 million (2005 – Nil) was created. Full details and explanations are given in Note 7 to the financial statements.

(LOSS) GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN SUBSIDIARIES

In 2006, a small loss of HK\$33,000 was recognized as a result of the exercise of certain share options by minority shareholders of a subsidiary (2005: HK\$24,000). In 2005, a gain of HK\$514.4 million was recognized as a result of the formation of the Melco PBL Joint Venture. Full details and explanations are given in Note 6 to the financial statements.

GAIN ON DEEMED DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES

In December 2006, Melco PBL Entertainment was listed on NASDAQ in the US and approximately 15.3% of the enlarged share capital (prior to the exercise of the greenshoe which took place after the year end) was offered to public shareholders in the form of an IPO. According to prevailing Accounting Standards, this constituted a deemed disposal of interests in jointly controlled entities (Group's effective interest reduced from 50% to 42.3%) and Melco PBL Entertainment would henceforth be accounted for as an associate. The deemed disposal resulted in a gain of approximately HK\$3.1 billion (2005 – Nil) to the Group. Full details and explanations are given in Note 13 to the financial statements.

GAIN ON FORMATION OF A JOINTLY CONTROLLED ENTITY

In September 2006, PAL, in which the Group has an interest of 60%, was formed to pursue lottery business in Asia. Upon the formation of this jointly controlled entity, the Group realized a gain of HK\$20 million (2005 – Nil) which arose as a difference between the contributed value of certain intangible assets and the fair value of such assets as estimated by a professional valuer. Full details and explanations are given in Note 12 to the financial statements.

SHARE OF (LOSS) PROFIT OF JOINTLY CONTROLLED ENTITIES

Share of (loss) profit of jointly controlled entities is made up of the following:

	Year ended 31-Dec-06 HK\$'000	Year ended 31-Dec-05 HK\$'000
Share of (loss) profit of Melco PBL Entertainment and its subsidiaries	(189,736)	2,234
Share of (loss) of PAL	(2,099)	–
	<u>(191,835)</u>	<u>2,234</u>

(i) Share of (Loss) Profit of Melco PBL Entertainment and its Subsidiaries

As explained above, subsequent to a restructuring which took place in October 2006, the Group's interest in the Macau gaming operations of Melco PBL was grouped under Melco PBL Entertainment and the Group's effective interest decreased from 60% to 50%. As a result, the Group's attributable loss of Melco PBL Entertainment and its subsidiaries were shown in the financial statements for the three months ended 31 December 2006 under the category of share of loss of jointly controlled entities.

During this period, the Group's attributable loss arising from its 50% ownership of Melco PBL Entertainment amounted to approximately HK\$189.7 million. The substantial losses were primarily due to the following:

- (1) Substantial pre-opening expenses were incurred in respect of Crown Macau and City of Dreams. According to the financial statements of Melco PBL Entertainment, the total pre-opening expenses amounted to approximately US\$11.7 million for the full year ended 31 December 2006.
- (2) Effective from September 2006, Melco PBL Entertainment started to provide for the amortization of the gaming license and its relevant costs. According to the financial statements of Melco PBL Entertainment, for the three months ended 31 December 2006, approximately US\$14.3 million, US\$11.2 and US\$10.2 for the amortization, the written-off of deferred financing costs for the subconcession facility and the relevant interest charges thereon, respectively, were charged to income statement in related to the gaming license.

For the year ended 31 December 2005, the predecessor of Melco PBL Entertainment recorded a gain of approximately HK\$2.2 million. This was primarily due to the interest income earned on time deposits prior to the cash being deployed for the development projects.

(ii) Share of Loss of PAL

As explained above, in an effort to tap the growing lottery markets in Asia, especially China, PAL was formed as a jointly controlled entity in September 2006. For the four months ended 31 December 2006, the operational losses attributable to the Group amounted to HK\$2.1 million (2005 – Nil). The losses were primarily due to pre-opening expenses incurred prior to the operation of the lottery sales outlets in China.

UNALLOCATED CORPORATE EXPENSES

Unallocated corporate expenses increased by 75% from approximately HK\$38.9 million in 2005 to HK\$68.2 million in 2006. The increase was primarily due to the increased staff costs and office rental and utility expenses at head office level as a result of the Group's rapid expansion in 2006.

FINANCE COSTS

Finance costs increased by 171% from approximately HK\$31.7 million in 2005 to HK\$85.9 million in 2006. The increase was primarily due to (i) increase in bank interest payable as a result of the increased funding needs of Value Convergence and (ii) increase in "deemed" interest payable (ie no cash flow implications) in relation to the convertible loan notes.

INCOME TAX CREDIT (EXPENSES)

Income tax credit amounted to approximately HK\$4.6 million versus an income tax expense of HK\$6.0 million in 2005. This was primarily due to a deferred tax credit of HK\$13.5 million in 2006 (2005 – HK\$1.9 million) and the full details of which are shown in Note 9 to the financial statements.

OUTLOOK

The listing of Melco PBL Entertainment in the US marked an important chapter in the development of the Group. Not only does it substantially relieve the funding burden on Melco, but it also releases a lot of Melco's human resources previously dedicated to Melco PBL to the development of other business initiatives. Going forward, in addition to the continual improvement of the operating performance of our existing business units, we will leverage off our strength in Macau as well as our strong connections in Greater China to tap the various business opportunities that are available to us.

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 borrowing.

As at 31 December 2006, total assets of the Group amounted to HK\$9,344.6 million (2005 – HK\$5,652.9 million) which were financed by shareholders' fund of HK\$7,567.1 million (2005 – HK\$3,558.2 million), minority interests of HK\$94.1 million (2005 – HK\$686.3 million), current liabilities of HK\$419.2 million (2005 – HK\$306.5 million), and non-current liabilities of HK\$1,264.0 million (2005 – HK\$1,101.9 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 6.3 (2005: 9.4).

For the year under review, the Group recorded a net cash outflow of HK\$1,140.5 million (2005 – inflow of HK\$1,955.3 million). As at 31 December 2006, cash and cash equivalents of the Group amounted to HK\$1,209.8 million (2005 – HK\$2,350.3 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowing, obligation under finance leases, convertible loan notes, long term payable and shareholder's loan) over shareholders' equity, was at a satisfactory level of 0.17 time as at 31 December 2006 (2005 – 0.31 time). The Group adopts a prudent treasury policy. Cash and bank balances consisted of about 11% of cash and bank balances and 89% 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 at 31 December 2006, the Group's total convertible loan notes amounted to HK\$1,093.5 million, which were due in 2009 and 2010. The Group's long term payable amounted to HK\$170.5 million, which was unsecured, non-interest bearing and due in 2008.

As at 31 December 2006, the Group's total available banking facilities from various banks amounted to HK\$220.7 million (2005 – HK\$229.8 million), of which HK\$60 million (2005 – HK\$80 million) was secured by margin clients listed securities, HK\$49.8 million (2005 – HK\$49.8 million) was secured by pledging HK\$85 million of the Group's investment properties, and HK\$0.9 million (2005: HK\$0.3 million) was secured by pledging the same amount of the Group's time deposit. As at 31 December 2006, the Group had used HK\$49 million and HK\$0.9 million of unsecured and secured banking facilities respectively (2005 – unsecured HK\$23 million; secured HK\$5 million). The said amount of HK\$49 million had matured and was repaid by 4 January 2007.

MATERIAL ACQUISITIONS

In 2006, the Group had entered into/completed the following acquisitions:

On 1 March 2006, the land for the development of Crown Macau was officially granted to the Melco PBL. Subsequent to that, the Company issued 22,222,222 new shares to Sociedade de Turismo e Diversoes de Macau, S.A. in accordance with previously signed agreements between the two companies.

On 9 March 2006 and 26 May 2006, the Company signed a Memorandum of Agreement and a Supplemental Agreement with PBL respectively, whereby, subject to the approval of the Macau Government, the Company or its wholly-owned subsidiary would become an indirect shareholder of Melco PBL Entertainment (Macau) Limited. In the recent acquisition of the gaming subconcession in Macau by PBL Entertainment from Wynn Resorts (Macau) S.A., the Company contributed US\$160 million to the purchase of the subconcession.

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 of 20% of the issued share capital of Mocha Slots Group Limited ("Sale Shares") held by Dr. Ho to Melco PBL International, and related loan from Dr. 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 day the Sale and Purchase Agreement was signed.

On 17 May 2006, Melco PBL Entertainment's direct wholly-owned subsidiary Melco PBL (Macau Peninsula) Limited, 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), the Macau Peninsula, at an aggregate consideration amounting to approximately HK\$1.5 billion. The acquisition is subject to the fulfillment of a number of conditions and is expected to be completed in the third 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. Melco PBL Entertainment intends to develop its third hotel and casino project in Macau on the site.

HEADCOUNT/EMPLOYEES' INFORMATION

To support its business expansion, the Group's workforce has grown. As at 31 December 2006, it had 485 employees against 431 as at 31 December 2005 (note). The over 12.5% increase included the addition of 54 new positions in the Group. Of all the employees, 419 were based in Hong Kong and the rest worked in Macau and the PRC. The majority of the newly created positions were for the Macau business and Melco Corporate Office. Staff costs for the year of 2006, including emoluments for Directors and share options expenses, amounted to HK\$269.3 million (2005: HK\$169.7 million).

Note: Originally it was 842 employees reported as at 31 December 2005. However, 411 employees under Mocha and Design & Construction project team were transferred to Melco PBL Entertainment at the end of year 2006.

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy for its operating entities to operate in their corresponding local currencies to minimize currency risks. The Group's principal businesses are conducted and recorded in Hong Kong dollars and Macau Pataca. As the impact from foreign exchange exposure is minimal, no hedging against foreign currency exposure is necessary.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Material capital expenditure will be incurred when the Company begins to pursue different projects in the coming years. The Company expects the respective project companies to secure required funding themselves using different financing options available. The Company will also provide the required equity capital to the new projects coming ahead, should it be deemed appropriate. Details are given in notes 17 and 18 to the financial statements.

CONTINGENT LIABILITIES

On 31 December 2006, the Company provided a total guarantee of approximately HK\$12,603,000 (2005: HK\$4,680,000) to a supplier and an insurance company in respect of goods purchased and service provided by its subsidiaries and the

amount utilized is approximately HK\$1,247,000 (2005: HK\$1,802,000).

DIVIDENDS

The directors are pleased to recommend a final dividend of HK1 cent per ordinary share (2005: HK1 cent) payable to shareholders whose names are on the Register of Members as at 10 May 2007. No interim dividend was paid to the shareholders during the year (2005: HK1 cent per ordinary share). A special dividend of 60,382 American Depositary Shares amounting to approximately HK\$8,925,000 and a cash dividend amounting to approximately HK\$21,295,000 was paid to the shareholders during the year, the total dividend payout for the year 2006 shall be HK4.7 cents per ordinary share.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 4 May 2007 to Thursday, 10 May 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Standard Registrars Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 pm. on Thursday, 3 May 2007.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("HKSE Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2006, with deviations as mentioned below.

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.

Pursuant to HKSE Code Provision A.2.1, 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 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 that such arrangement be subject to review by the Board from time to time.

AUDIT COMMITTEE

An Audit Committee has been established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises a Non-executive Director and two Independent Non-executive Directors of the Company as at 31 December 2006. The Audit Committee has reviewed the Group's results of the year 2006.

PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITORS

The figures in respect of this preliminary announcement of the Group's consolidated balance sheet, consolidated income statement and related notes for the year ended 31 December 2006 have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

PURCHASE, REDEMPTION OF SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises three Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman and Chief Executive Officer), Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence; one Non-executive Director, namely, Mr. Ng Ching Wo; and three Independent Non-executive Directors, namely, Sir Roger Lobo, Dr. Lo Ka Shui and Mr. Sham Sui Leung, Daniel.

By Order of the Board of
Melco International Development Limited
Ho, Lawrence Yau Lung
Chairman & Chief Executive Officer

Hong Kong, 30 March 2007