# Melco International Development Limited

*(Incorporated in Hong Kong with limited liability)*

*Website : http://www.melco-group.com*

(Stock Code : 200)

## ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

**FINANCIAL HIGHLIGHTS**

- Revenue increased by 27% to HK$1,016 million for 2007 as compared with HK$801 million in 2006.
- Net profit attributable to shareholders decreased by 5% to HK$2,691 million for 2007, as compared to HK$2,837 million in 2006.
- Basic earnings per share decreased by 8% to HK$2.19 for 2007.
- Net asset value attributable to shareholders per share increased by 36% to HK$8.4 as at 31 December 2007.
- Proposed final dividend for 2007 of one HK cent per share.

## CONSOLIDATED INCOME STATEMENT

*FOR THE YEAR ENDED 31 DECEMBER 2007*

| | NOTES | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | **804,895** | 618,572 |
| Agency fee | 6(a) | **1,232,057** | – |
| Other income | | **34,139** | 18,100 |
| Investment income | | **2,840** | 3,674 |
| Cost of inventories sold | | **(531,867)** | (237,116) |
| Employee benefits expense | | **(180,983)** | (180,810) |
| Depreciation of property, plant and equipment | | **(19,252)** | (55,089) |
| Amortisation of service agreements intangible asset and trading rights | | **–** | (9,983) |
| Commission expenses | | **(43)** | (36) |
| Loss on deemed disposal of partial interests in subsidiaries | 5 | **(76,948)** | – |
| Loss on deemed disposal of subsidiaries | 6 | **(143,368)** | (12,140) |
| Gain on disposal of interests in jointly controlled entities | 11 | **532,604** | – |
| Gain on formation of a jointly controlled entity | 11 | **–** | 20,000 |
| Gain on deemed disposal of interests in jointly controlled entities | 12 | **–** | 3,102,253 |
| Gain on deemed disposal of partial interests in associates | 12 | **1,549,361** | – |
| Increase in fair value of investment properties | | **10,060** | – |
| Fair value changes on derivative financial instruments | | **190,126** | – |
| Other expenses | | **(155,099)** | (202,721) |
| Finance costs | | **(76,235)** | (64,053) |
| Share of losses of jointly controlled entities | 11 | **(157,713)** | (191,835) |
| Share of losses of associates | 12 | **(519,538)** | – |
| Write-down of service agreements intangible asset | | **–** | (90,390) |
| Gain on extension of long term payable | 6(b) | **9,656** | – |
| Gain on early redemption of convertible loan notes | | **8,827** | – |

| | NOTES | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| Profit before tax | | **2,513,519** | 2,718,426 |
| Income tax credit | 7 | **69** | 4,736 |
| Profit for the year from continuing operations | | **2,513,588** | 2,723,162 |
| **Discontinued operation** | | | |
| Profit for the year from discontinued operation | 8 | **155,075** | 36,819 |
| Profit for the year | | **2,668,663** | 2,759,981 |
| Attributable to: | | | |
| Equity holders of the Company | | **2,690,639** | 2,836,755 |
| Minority interests | | **(21,976)** | (76,774) |
| | | **2,668,663** | 2,759,981 |
| Dividends recognised as distribution during the year | 9 | **12,282** | 41,825 |
| Earnings per share | 10 | | |
| **For continuing and discontinued operations** | | | |
| Basic | | **HK$2.19** | HK$2.38 |
| Diluted | | **HK$1.98** | HK$2.09 |
| **For continuing operations** | | | |
| Basic | | **HK$2.08** | HK$2.36 |
| Diluted | | **HK$1.88** | HK$2.07 |

## CONSOLIDATED BALANCE SHEET

*AT 31 DECEMBER 2007*

| | *NOTES* | **2007** **HK$'000** | 2006 *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | | **152,000** | 141,940 |
| Property, plant and equipment | | **59,636** | 39,945 |
| Other intangible assets | | **2,000** | 2,547 |
| Interests in jointly controlled entities | 11 | **81,119** | 87,901 |
| Interests in associates | 12 | **8,689,271** | 5,802,612 |
| Amount due from an associate | | **578,578** | 578,578 |
| Available-for-sale investments | | **156,337** | 19,837 |
| Trading rights | | **–** | 1,773 |
| Goodwill | | **8,555** | 16,878 |
| Long term deposits | | **–** | 3,236 |
| Pledged bank deposits | 14 | **972,500** | – |
| Deferred tax assets | | **1,592** | 2,781 |
| | | **10,701,588** | 6,698,028 |
| **Current assets** | | | |
| Trade receivables | 13 | **259,705** | 662,954 |
| Prepayments, deposits and other receivables | | **110,497** | 82,831 |
| Inventories | | **25,764** | 61,476 |
| Held-for-trading investments | | **430** | 14,503 |
| Derivative financial instruments | | **223,626** | – |
| Amounts due from jointly controlled entities | | **–** | 855 |
| Amounts due from associates | | **682,757** | 611,862 |
| Taxation recoverable | | **–** | 1,345 |
| Pledged bank deposits | 14 | **947** | 947 |
| Bank balances and cash | | **308,865** | 1,209,826 |
| | | **1,612,591** | 2,646,599 |

| | NOTES | **2007** HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade payables | 15 | **162,529** | 270,733 |
| Other payables | | **96,480** | 91,598 |
| Shareholder's loan | | **250,000** | – |
| Dividend payable | | **118** | 1,444 |
| Taxation payable | | **3,726** | 6,378 |
| Financial guarantee liability | 16 | **45,217** | – |
| Bank borrowings – due within one year | | **80,000** | 49,000 |
| | | **638,070** | 419,153 |
| **Net current assets** | | **974,521** | 2,227,446 |
| **Total assets less liabilities** | | **11,676,109** | 8,925,474 |
| **Non-current liabilities** | | | |
| Financial guarantee liability | 16 | **167,025** | – |
| Long term payable | 6(b) | **168,142** | 170,537 |
| Convertible loan notes – due after one year | | **999,399** | 1,093,459 |
| | | **1,334,566** | 1,263,996 |
| | | **10,341,543** | 7,661,478 |
| **Capital and reserves** | | | |
| Share capital | | **614,238** | 614,075 |
| Reserves | | **9,704,875** | 6,953,032 |
| Equity attributable to equity holders of the Company | | **10,319,113** | 7,567,107 |
| Share options reserve of a subsidiary | | **–** | 265 |
| Minority interests | | **22,430** | 94,106 |
| | | **10,341,543** | 7,661,478 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2007*

**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 consolidated 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 three divisions, namely (i) Leisure, Gaming and Entertainment Division; (ii) Technology Division; and (iii) Property and Other Investments Division. In prior years, the Group was also engaged in the Investment and Financial Services. That operation was discontinued in current year (see note 8).

**2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Company and the Group has applied, for the first time, a number of standard, amendment 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 the Company and the Group's financial year beginning 1 January 2007.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures |
| HKFRS 7 | Financial instruments: Disclosures |
| HK(IFRIC) – INT 7 | Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2 |
| HK(IFRIC) – INT 9 | Reassessment of embedded derivatives |
| HK(IFRIC) – INT 10 | Interim financial reporting and impairment |

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. Accordingly, no prior period adjustments have been required. The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKFRS 8 | Operating Segments[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HK(IFRIC) – INT 11 | HKFRS 2: Group and Treasury Share Transactions[2] |
| HK(IFRIC) – INT 12 | Service Concession Arranagements[3] |
| HK(IFRIC) – INT 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC) – INT 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3] |

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Company and the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

### (a) Business segments

For management purposes, the Group is currently organised into three operating divisions including Leisure, Gaming and Entertainment, Technology, and Property and Other Investments. In 2006, the Group also operated Investment and Financial Services Segment. 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 Property and Other Investments Segment, which mainly comprises property investments, other investments and related activities.

The Investment and Financial Services segment was operated through a non-wholly owned subsidiary of the Company, Value Convergence Holdings Limited ("VC"), which mainly comprised (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. As disclosed in note 8, VC was deemed disposed of during 2007. The Investment and Financial Services segment was thus discontinued during the year ended 31 December 2007.

**2007**

| | Continuing Operations | | | | | Discontinued Operation | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Leisure, Gaming and Entertainment | Technology | Property and Other Investments | Elimination | Total | Investment and Financial Services | Elimination | Total | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| External sales | 125,573 | 573,496 | 105,826 | – | 804,895 | 210,626 | – | 210,626 | 1,015,521 |
| Inter-segment sales | 1,150 | 2,178 | 10,946 | (14,274) | – | 483 | (483) | – | – |
| Total revenue | 126,723 | 575,674 | 116,772 | (14,274) | 804,895 | 211,109 | (483) | 210,626 | 1,015,521 |
| Segment result | (74,229) | 23,282 | 118,884 | (296) | 67,641 | 69,023 | (483) | 68,540 | 136,181 |
| Agency fee income | | | | | 1,232,057 | | | – | 1,232,057 |
| Loss (gain) on deemed disposal of partial interests in subsidiaries | | | | | (76,948) | | | 37,194 | (39,754) |
| (Loss) gain on deemed disposals of subsidiaries | | | | | (143,368) | | | 78,080 | (65,288) |
| Gain on disposal of interests in jointly controlled entities | | | | | 532,604 | | | – | 532,604 |
| Gain on deemed disposal of interests in associates | | | | | 1,549,361 | | | – | 1,549,361 |
| Fair value changes on derivative financial instruments | | | | | 190,126 | | | – | 190,126 |
| Finance costs | | | | | (76,235) | | | (19,862) | (96,097) |
| Share of losses of jointly controlled entities | (157,713) | – | – | – | (157,713) | | | – | (157,713) |
| Share of losses of associates | | | | | | | | | |
| – Allocated | (527,468) | – | – | – | (527,468) | | | – | (527,468) |
| – Unallocated | | | | | 7,930 | | | – | 7,930 |
| Gain on extension of long term payable | | | | | 9,656 | | | – | 9,656 |
| Gain on early redemption of convertible loan notes | | | | | 8,827 | | | – | 8,827 |
| Cost of agency service | | | | | (14,551) | | | – | (14,551) |
| Unallocated corporate income | | | | | 13,562 | | | – | 13,562 |
| Unallocated corporate expenses | | | | | (101,962) | | | – | (101,962) |
| Profit before tax | | | | | 2,513,519 | | | 163,952 | 2,677,471 |
| Income tax credit (expense) | | | | | 69 | | | (8,877) | (8,808) |
| Profit for the year | | | | | 2,513,588 | | | 155,075 | 2,668,663 |

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

**2007**

| | Leisure, Gaming and Entertainment HK$'000 | Technology HK$'000 | Property and Other Investments HK$'000 | Other HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| BALANCE SHEET | | | | | |
| Assets | | | | | |
| Segment assets | **47,340** | **396,698** | **1,814,822** | **–** | **2,258,860** |
| Interests in jointly controlled entities | **81,119** | **–** | **–** | **–** | **81,119** |
| Interests in associates | **8,426,030** | **–** | **–** | **263,241** | **8,689,271** |
| Unallocated corporate assets | | | | | **1,284,929** |
| Consolidated total assets | | | | | **12,314,179** |
| Liabilities | | | | | |
| Segment liabilities | **15,974** | **227,203** | **404** | **–** | **243,581** |
| Unallocated corporate liabilities | | | | | **1,729,055** |
| Consolidated total liabilities | | | | | **1,972,636** |

**2007**

| | Continuing operations | | | | Discontinued operation | |
|---|---|---|---|---|---|---|
| | Leisure, Gaming and Entertainment *HK$'000* | Technology *HK$'000* | Property and Other Investments *HK$'000* | Total *HK$'000* | Investment and Financial Services *HK$'000* | Consolidated *HK$'000* |
| OTHER INFORMATION | | | | | | |
| Capital additions *(Note)* | **151,359** | **5,816** | **20,284** | **177,459** | **1,715** | **179,174** |
| Depreciation | **11,039** | **2,364** | **5,849** | **19,252** | **1,129** | **20,381** |
| Amortisation of trading rights | **–** | **–** | **–** | **–** | **364** | **364** |
| Loss on disposal of property, plant and equipment | **140** | **9** | **172** | **321** | **1** | **322** |
| Allowance for doubtful debts, net | **1,095** | **1,212** | **–** | **2,307** | **88** | **2,395** |
| Agency fee received | **(1,232,057)** | **–** | **–** | **(1,232,057)** | **–** | **(1,232,057)** |

*Note:* Apart from capital additions disclosed above, the Group acquired Elixir Gaming Technologies, Inc. ("EGT") with goodwill of approximately HK$1,464,150,000 and property, plant and equipment of approximately HK$199,584,000 during the year, where EGT becomes an associate before the year ended 31 December 2007 (see note 6(a)).

2006

| | Continuing Operations | | | | | Discontinued Operation | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Leisure, Gaming and Entertainment | Technology | Property and Other Investments | Elimination | Total | Investment and Financial Services | Elimination | Total | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| External sales | 248,960 | 264,178 | 105,434 | – | 618,572 | 182,037 | – | 182,037 | 800,609 |
| Inter-segment sales | 1,737 | 57,393 | 32,564 | (91,694) | – | 550 | (550) | – | – |
| Total revenue | 250,697 | 321,571 | 137,998 | (91,694) | 618,572 | 182,587 | (550) | 182,037 | 800,609 |
| Segment result | (182,072) | 26,336 | 95,589 | (7,395) | (67,542) | 59,342 | (550) | 58,792 | (8,750) |
| Loss on deemed disposal of partial interests in subsidiaries | | | | | – | | | (33) | (33) |
| Loss on deemed disposal of subsidiaries | | | | | (12,140) | | | – | (12,140) |
| Gain on formation of a jointly controlled entity | | | | | 20,000 | | | – | 20,000 |
| Gain on deemed disposal of interests in jointly controlled entities | | | | | 3,102,253 | | | – | 3,102,253 |
| Share of losses of jointly controlled entities | (191,835) | – | – | – | (191,835) | | | – | (191,835) |
| Unallocated corporate expenses | | | | | (68,257) | | | – | (68,257) |
| Finance costs | | | | | (64,053) | | | (21,826) | (85,879) |
| Profit before tax | | | | | 2,718,426 | | | 36,933 | 2,755,359 |
| Income tax credit (expense) | | | | | 4,736 | | | (114) | 4,622 |
| Profit for the year | | | | | 2,723,162 | | | 36,819 | 2,759,981 |

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

2006

| | Leisure, Gaming and Entertainment | Technology | Investment and Financial Services | Property and Other Investments | Consolidated |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| BALANCE SHEET | | | | | |
| Assets | | | | | |
| Segment assets | 68,994 | 312,362 | 692,385 | 1,204,388 | 2,278,129 |
| Interests in jointly controlled entities | 87,901 | – | – | – | 87,901 |
| Interests in associates | 5,802,612 | – | – | – | 5,802,612 |
| Unallocated corporate assets | | | | | 1,175,985 |
| Consolidated total assets | | | | | 9,344,627 |
| Liabilities | | | | | |
| Segment liabilities | 16,065 | 155,295 | 175,453 | 508 | 347,321 |
| Unallocated corporate liabilities | | | | | 1,335,828 |
| Consolidated total liabilities | | | | | 1,683,149 |

2006

| | Continuing operations | | | | Discontinued operation | |
|---|---|---|---|---|---|---|
| | Leisure, Gaming and Entertainment | Technology | Property and Other Investments | Total | Investment and Financial Services | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| OTHER INFORMATION | | | | | | |
| Capital additions | 878,781 | 2,783 | 6,613 | 888,177 | 2,060 | 890,237 |
| Depreciation | 51,967 | 1,701 | 1,421 | 55,089 | 1,440 | 56,529 |
| Amortisation of service agreements intangible asset and trading rights | 9,983 | – | – | 9,983 | 506 | 10,489 |
| Write-down of service agreements intangible asset | 90,390 | – | – | 90,390 | – | 90,390 |
| Loss on disposal of property, plant and equipment | 8,861 | – | 93 | 8,954 | – | 8,954 |
| Allowance for doubtful debts, net | 1,743 | 249 | – | 1,992 | 2,980 | 4,972 |

**(b) Geographical segments**

The Leisure, Gaming and Entertainment, Technology, Investment 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 based on geographical location of customers, irrespective of the origin of the goods or services.

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **460,432** | 404,299 |
| Macau | **483,814** | 396,310 |
| Other Asia Countries | **71,275** | – |
| | **1,015,521** | 800,609 |

Revenue from the Group's discontinued operation was derived from Hong Kong.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and hotels and entertainment complex under development and goodwill, 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 goodwill** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **1,934,195** | 1,867,788 | **33,319** | 8,124 |
| Macau | **300,628** | 366,637 | **1,349** | 882,081 |
| Other Asia Countries | **24,037** | 43,704 | **144,506** | 32 |
| | **2,258,860** | 2,278,129 | **179,174** | 890,237 |

*Note:* Apart from capital additions disclosed above, the Group acquired Elixir Gaming Technologies, Inc. ("EGT") with goodwill of approximately HK$1,464,150,000 and property, plant and equipment of approximately HK$199,584,000 during the year, where EGT becomes an associate before the year ended 31 December 2007 (see note 6(a)).

**5. LOSS ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES**

During the year ended 31 December 2007, the Group's interest in EGT, a subsidiary acquired during the year, decreased resulting from a placement of shares by EGT (see note 6(a) for details of the transactions with EGT).

As a result of the above decrease in interests in EGT, the Group then recognised a loss on deemed disposal of partial interests in subsidiaries of approximately HK$76,948,000 (2006: Nil), being the excess of the goodwill attributable to the decrease in interests over the increase in the net assets of EGT attributable to the Group's interest arising from the deemed disposal.

## 6. LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES

(a) During the year ended 31 December 2007, the Group subscribed 1,000,000 shares ("First Shares") and 16,000,000 warrants ("First Warrants") of EGT, pursuant to a securities purchase agreement. The First Shares of EGT subscribed are accounted for as available-for-sales investments and the First Warrants subscribed are recognised as derivative financial instruments upon initial recognition. EGT is a company having its shares listed on the American Stock Exchange. The First Warrants subscribed originally have exercise price ranged from US$2.65 to US$5.50 and are exercisable during the period from 31 December 2007 to 31 December 2010.

On 13 June 2007, the Group entered into a Products Participation Agreement ("PPA") with EGT. Pursuant to the PPA, during a term of six years from the date of the completion, a subsidiary of the Company, Elixir Group Limited ("Elixir"), will provide agency services to source and refer gaming operators in certain specific countries to EGT for the entering into of the electronic gaming machine ("EGM") leases on a revenue sharing basis directly with EGT and to supply, at market prices, the necessary EGM to EGT for the fulfillment of its obligations under such leases.

In consideration of the services to be provided by Elixir and upon achievement of various milestones under the PPA, EGT will allot and issue a maximum of 55,000,000 shares, 88,000,000 warrants and amend the terms of the existing warrants previously issued to Elixir. In September 2007, the Group has achieved certain milestones under the PPA resulting in i) the issuance of 40,000,000 shares ("Second Shares") and 22,000,000 warrants ("Second Warrants") to Elixir; ii) the First Warrants become immediately exercisable and iii) the exercise price of 10,000,000 warrants included in the First Warrants is reduced by US$2.00 where the adjusted exercise price ranged from US$1.00 to US$3.50. The exercise price of the remaining 6,000,000 First Warrants remain US$2.65. As a result of the issuance of Second Shares and Second Warrants, an agency fee income of HK$1,232,057,000 is thus recognised, which represent the fair values of the Second Shares based on the market price of EGT and the Second Warrants determined using binomial model, and EGT then became a subsidiary of the Company (see note 17 for details).

In October 2007, EGT completed a placement of shares to parties other than the Company. EGT remained a subsidiary of the Company after the completion of EGT placement of shares and the loss on deemed disposal of partial interests in subsidiaries was included in the amount disclosed in note 5.

In December 2007, the Group entered into an agreement ("Disposal Agreement") to dispose of 6,000,000 First Warrants with an exercise price of US$1.00 to US$3.50 plus 10,000,000 Second Warrants to an independent third party ("Purchaser") at a consideration of approximately HK$102,960,000. According to the Disposal Agreement, the First Warrants and Second Warrants are disposed of by the Group subject to the exercise of the First Warrants and Second Warrants by the Purchaser. After the completion of the disposal and exercise of warrants, EGT becomes an associate of the Company. Thereafter, upon exercise of the Second Warrants by the Purchaser, the Group therefore recognised a loss on deemed disposal of subsidiaries of approximately HK$143,368,000 during the year ended 31 December 2007 representing the increase in share of net assets in EGT less goodwill realised on deemed disposal. After the completion of the Disposal Agreement, the Group had 10,000,000 First Warrants and 12,000,000 Second Warrants with a total fair value of approximately HK$392,908,000, determined using binomial model.

Subsequent to the deemed disposal, the Group entered into another agreement with EGT to convert 12,000,000 Second Warrants to 4,800,000 shares of EGT for additional interest in this associate.

During the year ended 31 December 2007, an increase in fair value of approximately HK$190,126,000 regarding the First Warrants and Second Warrants was recognised in the consolidated income statement, which represent the fair value change of the First Warrants from date of purchase to the date that EGT became subsidiary plus the fair value change of First Warrants and Second Warrants from the date that EGT became an associate to the year ended 31 December 2007. The fair values of the First Warrants and Second Warrants are determined using binomial model.

(b) On 4 March 2006, Publishing and Broadcasting Limited ("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 (Macau) Limited ("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 wholly-owned subsidiary of Melco PBL Entertainment.

In addition, the Company transferred its 20% equity interest in Melco PBL Entertainment (Greater China) Limited ("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 ("MPBL International"), a wholly-owned subsidiary of Melco PBL Entertainment. Hence, MPBL (Greater China) becomes an indirect 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 31 December 2006. Subsequently during the year ended 31 December 2007, the repayment for the consideration payable has been extended by PBL so that a gain on extension of long term payable of approximately HK$9,656,000 has been recognised. The amount due to PBL is stated as long term payable on the consolidated balance sheet at amortised cost of approximately HK$168,142,000 as at 31 December 2007 (2006: HK$170,537,000).

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 interest in MPBL (Greater China) and MPBL Gaming and the consideration payable to PBL, amounting to approximately HK$12,140,000, was therefore recognised as loss on deemed disposal of subsidiaries during the year ended 31 December 2006.

## 7. INCOME TAX (CREDIT) EXPENSE

| | **Continuing operations** | | **Discontinued operation** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Current tax: | | | | | | |
| - Hong Kong | **–** | 1,885 | **7,196** | 1,400 | **7,196** | 3,285 |
| - Other jurisdictions | **1,473** | 4,427 | **–** | – | **1,473** | 4,427 |
| | **1,473** | 6,312 | **7,196** | 1,400 | **8,669** | 7,712 |
| Underprovision in prior years: | | | | | | |
| - Hong Kong | **50** | 1,127 | **–** | – | **50** | 1,127 |
| Deferred taxation | **(1,592)** | (12,175) | **1,681** | (1,286) | **89** | (13,461) |
| | **(69)** | (4,736) | **8,877** | 114 | **8,808** | (4,622) |

Hong Kong Profits Tax is calculated at 17.5% (2006: 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 charge (credit) for the year can be reconciled to the profit before tax per consolidated income statement as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before tax: | | |
| Continuing operations | **2,513,519** | 2,718,426 |
| Discontinued operation | **163,952** | 36,933 |
| | **2,677,471** | 2,755,359 |
| Tax at Hong Kong Profits Tax rate of 17.5% | **468,557** | 482,188 |
| Tax effect of share of losses of associates and jointly controlled entities | **118,519** | 33,571 |
| Tax effect of expenses not deductible for tax purposes | **63,280** | 64,017 |
| Tax effect of income not taxable for tax purposes | **(650,285)** | (594,449) |
| Underprovision in respect of prior years, net | **50** | 1,127 |
| Tax effect of different tax rates of the subsidiaries operating in other jurisdictions | **(1,574)** | (2,029) |
| Tax effect of unrecognised deferred tax assets | **14,388** | 17,592 |
| Utilisation of tax losses previously not recognised | **(4,008)** | (7,679) |
| Others | **(119)** | 1,040 |
| Tax charge (credit) for the year | **8,808** | (4,622) |

## 8. DISCONTINUED OPERATION

During the year ended 31 December 2007, the Group's interest in VC decreased resulting from i) the exercise of certain VC share options by the share option holders, who are minority shareholders of VC, and ii) the two placements of shares by VC.

The first placement was completed in July 2007 where 50,680,000 shares were issued at HK$2.2 per share and the Company's shareholding in VC decreased to about 52.22%. VC remained a subsidiary of the Company after the first placement and the resulting gain on deemed disposal of partial interests in subsidiaries of approximately HK$37,194,000 (2006: loss of HK$33,000), which represents the increase in the net assets of VC attributable to the Groups interest arising from the deemed disposal, was recognised during the year ended 31 December 2007.

The second placement was completed in September 2007 where 61,000,000 shares were issued at HK$4.1 per share and the Company's shareholding in VC decreased to about 43.57%. VC therefore becomes an associate of the Company after the second placement.

VC was deemed disposed of during the year and the Investment and Financial Services segment was therefore discontinued and a gain on deemed disposal of subsidiaries of approximately HK$78,080,000 (2006: Nil) was recognised during the year ended 31 December 2007.

The results and cash flows of this discontinued operation included in the consolidated income statement and the consolidated cash flow statement are set out below.

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year from discontinued operation** | | |
| Revenue | **210,626** | 182,037 |
| Other and investment income | **1,334** | 11,746 |
| Gain (loss) on deemed disposal of partial interests in subsidiaries | **37,194** | (33) |
| Expenses | **(163,282)** | (156,817) |
| Profit before tax | **85,872** | 36,933 |
| Income tax expense | **(8,877)** | (114) |
| Profit for the year from discontinued operation | **76,995** | 36,819 |
| Gain on deemed disposal of subsidiaries | **78,080** | – |
| | **155,075** | 36,819 |
| **Cash flows from discontinued operation** | | |
| Net cash flows used in operating activities | **(1,452,462)** | (57,956) |
| Net cash flows from investing activities | **612** | 2,599 |
| Net cash flows from financing activities | **1,442,633** | 54,016 |
| Net cash flows | **(9,217)** | (1,341) |

## 9. DIVIDENDS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividend in specie *(note 1)* | – | 8,925 |
| Special dividend paid: Nil cents (2006: HK3.7 cents) per share *(note 1)* | – | 21,295 |
| 2006 final dividend paid: HK1 cent (2005: HK1 cent) per share | **12,282** | 11,605 |
| | **12,282** | 41,825 |

*Notes:*

(1) In respect to the listing of American Depositary Share ("ADS") 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 on 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 60,392 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 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 31 March 2008, the directors of the Company proposed that final dividend for 2007 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 2007 is payable to all shareholders whose names are on the Register of Members as at 9 May 2008.

## 10. EARNINGS PER SHARE

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

| | Continuing and discontinued operations | | Continuing operations | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Earnings** | | | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company) | **2,690,639** | 2,836,755 | **2,549,313** | 2,806,012 |
| Effect of dilutive potential ordinary shares: | | | | |
| Interest on convertible loan notes | **62,382** | 62,536 | **62,382** | 62,536 |
| Adjustment to the share of result of a subsidiary based on potential dilution of its earnings per share | **(475)** | (373) | **–** | – |
| Earnings for the purpose of diluted earnings per share | **2,752,546** | 2,898,918 | **2,611,695** | 2,868,548 |

| | **2007** | 2006 | **2007** | 2006 |
|---|---|---|---|---|
| | ***'000*** | *'000* | ***'000*** | *'000* |
| **Number of shares** | | | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,228,241** | 1,191,262 | **1,228,241** | 1,191,262 |
| Effect of dilutive potential ordinary shares: | | | | |
| Share options | **9,978** | 15,278 | **9,978** | 15,278 |
| Convertible loan notes | **149,306** | 181,571 | **149,306** | 181,571 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,387,525** | 1,388,111 | **1,387,525** | 1,388,111 |

**From discontinued operation**

Basic earnings per share for the discontinued operation is HK$0.115 per share (2006: HK$0.026 per share) and diluted earning per share for the discontinued operations is HK$0.102 per share (2006: HK$0.022 per share), based on the profit for the year from the discontinued operations attributable to equity holders of the Company of HK$141,326,000 adjusted by share of result of a subsidiary based on potential dilution of its earnings per share of HK$475,000 (2006: HK$30,743,000 adjusted by share of result of a subsidiary based on potential dilution of its earnings per share of HK$373,000) and the denominators detailed above for both basic and diluted earnings per share.

## 11. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | THE GROUP | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| | | (Note 1) |
| Cost of unlisted investments in jointly controlled entities | **225,706** | 90,000 |
| Share of post-acquisition loss | **(144,587)** | (2,099) |
| | **81,119** | 87,901 |

As at 31 December, 2007, 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 |
|---|---|---|---|---|
| Melco PBL SPV Limited ("Melco PBL SPV") | Cayman Islands/ Hong Kong | Ordinary shares | 50% | Investment holding |

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 *(Notes 1, 2 & 3)* | Principal activities |
|---|---|---|---|---|
| PAL Development Limited | Hong Kong/ PRC | Ordinary shares | 60% | Provision of lottery services in the Asia Pacific Region |

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.

*Notes:*

(1) 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 recognised 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.

(2) The Group owned 60% interest in PAL Development Limited ("PAL"). 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 was accounted for as a jointly controlled entity.

(3) During the year ended 31 December 2007, the Group has disposed of its interest in PAL to Power Way Group Limited ("Power Way"), a newly incorporated company, formed by the Group and certain independent third parties (collectively referred as "Shareholders"). On the same date, after the transfer of the interests in PAL and certain subsidiaries (collectively the "Assets") from the Shareholders to Power Way, it then disposed of the Assets to a company independent of the Shareholders ("Wafer") in exchange for certain shares, representing approximately 19% of the total outstanding shares of Wafer and convertible loan note of Wafer. Power Way becomes an associate of the Company (note 12). As a result of the disposal, the difference between carrying amount of the Group's interest in PAL of approximately HK$104,775,000 and the Group's relevant interest in the aggregate fair value of the assets held by Power Way of approximately HK$637,379,000 amounting to approximately HK$532,604,000 is recognised as a gain on disposal of interests in jointly controlled entities during the year ended 31 December 2007. The fair value of the Wafer shares and convertible loan note held by Power Way are determined with reference to the market price of Wafer's shares and by using Black-Scholes pricing model, respectively.

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total assets | **2,277,593** | 183,467 |
| Total liabilities | **(2,115,356)** | (28,897) |
| Minority interest | **–** | (8,069) |
| Net assets | **162,237** | 146,501 |
| Group's share of net assets of jointly controlled entities | **81,119** | 87,901 |
| Revenue | **5,023** | 107,740 |
| Loss for the year | **(311,050)** | (382,970) |
| Group's share of losses of jointly controlled entities for the year | **(157,713)** | (191,835) |

**12. INTERESTS IN ASSOCIATES**

(a) During the year ended 31 December 2006, the Group effectively disposed of its 20% interest in Melco (Greater China) to Melco PBL Entertainment, which was a jointly controlled entity of the Group (see note 6(b)). 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.

(b) In January 2007, the underwriters of the global offering of ADSs of the associate, Melco PBL Entertainment, fully exercised the over allotment option granted to them. The exercise in full of the over allotment option resulted in the issuance by Melco PBL Entertainment of an additional 9,037,500 ADSs, representing 27,112,500 ordinary shares. In addition, Melco PBL Entertainment completed a second offering of 37,500,000 ADSs, representing 112,500,000 ordinary shares in November 2007. The Group's interest in Melco PBL Entertainment is therefore decreased from 42.34% to 37.85% and a gain on deemed disposal of interests in associates of approximately HK$1,549,361,000 was therefore recognised during the year ended 31 December 2007.

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of investment in associates | | |
| Listed in the United States of America ("US") | **6,795,754** | 5,802,612 |
| Listed in Hong Kong | **255,641** | – |
| Unlisted | **637,380** | – |
| Increase in share of net assets of associates upon deemed disposal of partial interests in associates | **1,549,361** | – |
| Share of exchange and hedging reserves | **(29,327)** | – |
| Share of post-acquisition results | **(519,538)** | – |
| | **8,689,271** | 5,802,612 |
| Fair value of listed investments (note a) | **16,521,660** | 27,567,133 |

As at 31 December 2007, the Group had interests in the following principal associates:

| **Name** | **Place of incorporation/ operation** | **Class shares held** | **Percentage of interest in ownership** | **Principal activities** |
|---|---|---|---|---|
| Melco PBL Entertainment *(Note b)* | Cayman Islands/ Macau | Ordinary shares | 37.85% | Operating of electronic gaming machine lounges, casino games of chance and other casino games and hotel business in Macau |
| VC | Hong Kong/ Hong Kong | Ordinary shares | 43.50% | Provision of financial and investment services |
| Melco China Resort Investment Limited | Cayman Islands/ PRC | Ordinary shares | 45% | Operating of ski resorts in People's Republic of China |
| Power Way | British Virgin Islands/ Hong Kong | Ordinary shares | 54.79% *(Note c)* | Investment holding |
| EGT *(Note d)* | US/US | Ordinary shares | 39.86% | Provision of electronic gaming machines to gaming operators in the Asian Pacific Region |

*Note:*

(a) Fair value of listed investments are determined at the market price of listed shares as of year end on respective stock exchange.

(b) The ADS of Melco PBL Entertainment are listed on the NASDAQ.

(c) The Group holds 54.79% interest in Power Way. Pursuant to certain terms and conditions in the shareholders agreement, the financial and operating policies of Power Way require approval of the Group together with certain other shareholders of Power Way, as such, it is accounted for as an associate.

(d) The shares of EGT are listed on American Stock Exchange.

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 above table lists the associates 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 associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

Included in the cost of investment in associates is goodwill of approximately HK$738,099,000 (2006: Nil) arising on acquisition of a subsidiary, EGT, which then becomes an associate of the Group during the year ended 31 December 2007. This amount of goodwill is determined based on fair values of EGT's assets and liabilities which were determined on a professional basis.

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total assets | **31,090,150** | 16,042,332 |
| Total liabilities | **(10,736,463)** | (2,337,369) |
| Net assets | **20,353,687** | 13,704,963 |
| Group's share of net assets of associates | **7,951,172** | 5,802,612 |
| Revenue | **3,119,618** | – |
| Loss for the year | **(1,244,840)** | – |
| Group's share of results of associates for the year | **(519,538)** | – |

*Note:* As Melco PBL Entertainment was not accounted for an associate of the Group until almost the end of 2006, there were no "revenue", "loss for the year" and "Group's share of results of associates for 2006" being presented.

## 13. TRADE RECEIVABLES

| | **THE GROUP** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables (excluding receivables balance arising from margin clients' securities transactions) *(Notes a, b & c)* | **263,015** | 367,143 |
| Allowance for doubtful receivables | **(3,310)** | (9,700) |
| | **259,705** | 357,443 |
| Trade receivables arising from margin clients' securities transactions *(Note c)* | **–** | 305,511 |
| | **259,705** | 662,954 |

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

| | THE GROUP | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **200,792** | 291,026 |
| 31 – 90 days | **7,665** | 37,535 |
| Over 90 days | **51,248** | 28,882 |
| | **259,705** | 357,443 |

*Notes:*

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

(b) Trade 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.

(c) As a result of the deemed disposal of VC upon completion of its placement in 2007 (Note 8), 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 and Financial Services Segment as at 31 December 2007 was nil (2006: HK$588,236,000). 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 2007, the total market value of securities pledged as collateral in respect of the loans to margin clients was nil (2006: HK$2,435,797,000). No aging analysis on margin clients' receivables was disclosed as an aging analysis was not meaningful in view of the nature of the business of securities margin financing.

Included in the Group's trade receivables balance are debtors with a carrying amount of HK$66,491,000 (2006: HK$60,744,000) which are past due over their credit terms for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **8,786** | 5,767 |
| 31-90 days | **7,540** | 30,592 |
| Over 90 days | **50,165** | 24,385 |
| Total | **66,491** | 60,744 |

The Group performed assessment on individual trade receivable balance and recognised allowance on specific balance.

**Movement in the allowance for doubtful debts**

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at the beginning of the year | **9,700** | 6,730 |
| Impairment recognised | **2,395** | 4,972 |
| Amounts written off as uncollectible | **–** | (2,002) |
| Disposal of a subsidiary | **(8,785)** | – |
| Balance at the end of the year | **3,310** | 9,700 |

**14. PLEDGE OF ASSETS**

At 31 December 2007, the Group's bank deposit and investment properties amounting to approximately HK$947,000 and HK$85,000,000 were pledged for obtaining the banking facilities for a subsidiary of the Group (2006: HK$947,000 and HK$85,000,000).

The deposits carry fixed interest rate of about 3.15% (2006: 4% per annum).

Also, as at 31 December 2007, the Company placed a bank deposit of HK$972,500,000 (equivalent to US$125,000,000) (2006: Nil) for an undertaking in connection with the loan facilities obtained by Melco PBL Entertainment (see note 19).

## 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 | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **125,781** | 82,285 |
| 31-90 days | **3,406** | 3,973 |
| Over 90 days | **33,342** | 27,215 |
| | **162,529** | 113,473 |
| Trade payables arising from the ordinary course of business of dealing in securities transactions (Note) | **–** | 157,260 |
| | **162,529** | 270,733 |

*Note:* The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the Investment and Financial Services Segment are usually two trading days after trade date. As a result of the deemed disposal of VC upon completion of its placement in 2007 (Note 8), trade payable arising from the ordinary course of business of dealing in securities transactions become nil (2006: HK$270,733,000). These trade payables were repayable on demand and aged within 30 days.

## 16. FINANCIAL GUARANTEE LIABILITY

On 30 July 2007, the Company and PBL formed a 50:50 joint venture, Melco PBL SPV, for the purpose of issuing exchangeable bonds ("Exchangeable Bonds") with an aggregate principal amount of HK$1,560 million (US$200 million) plus up to an additional HK$390 million (US$50 million) issuable pursuant to an over-allotment option, to fund a share purchase program for acquiring ADS of Melco PBL Entertainment. On 11 September 2007 and 24 September 2007, the Exchangeable Bonds with an aggregate principal amount of HK$1,560 million (US$200 million) and HK$390 million (US$50 million) respectively were issued which will mature in September 2012 and have been listed on the Singapore Stock Exchange. The Exchangeable Bonds are jointly and severally guaranteed by the Company and Crown Limited. The financial guarantee liability is recognised initially at its fair value of approximately HK$225,706,000 with a respective increase in interest in Melco PBL SPV.

During the year ended 31 December 2007, approximately HK$13,464,000 is amortised as financial guarantee income included in other income of the consolidated income statement. As at 31 December 2007, the carrying amount of the financial guarantee liability is approximately HK$212,242,000 of which approximately HK$45,217,000 is shown as current liability and the remaining amount of approximately HK$167,025,000 is shown as non-current liability. As at 31 December 2007, the directors of the Company consider that there is no event that leads to the recognition of additional provision in respect of the guarantee granted.

The fair value of the financial guarantee as initial recognition is calculated using the binomial model and the inputs into the model were as follows:

| | |
|---|---|
| Expected volatility | 37% |
| Interest rate | 3.9%-4.3% |
| Dividend yield | Nil |

## 17. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2007, the Company acquired 53% interests in EGT in accordance to the PPA as disclosed in note 6(a).

The net assets acquired and the goodwill arising are as follows:

| | **Acquiree's Carrying value** |
|---|---|
| | *HK$'000* |
| Property, plant and equipment | **199,584** |
| Intangible assets | **43,787** |
| Trade and other receivables | **47,716** |
| Inventories | **10,805** |
| Bank balances and cash | **8,439** |
| Trade and other payables | **(313,173)** |
| | **(2,842)** |
| Minority interest | **1,028** |
| Interest attributable to warrant holders | **(417,331)** |
| Net liabilities attributable to interest acquired | **(419,145)** |
| Goodwill | **1,464,150** |
| | **1,045,005** |
| Represented by: | |
| Settlement of receivable from providing agency services provided through issuance of shares by EGT | **1,020,630** |
| Available-for-sale investments | **24,375** |
| | **1,045,005** |
| Cash inflow arising on acquisition | |
| Bank balances and cash acquired | **8,439** |

Goodwill arising on acquisition of EGT is in relation to the anticipated profit generated from the EGM business referred by the Group as disclosed in note 6(a).

*Note:* Subsequently, in December 2007, as described in note 6(a), EGT became an associate of the Group. As of that date, the fair value of the assets and liabilities has been determined on a provisional basis, awaiting the receipt of professional valuations.

## 18. DEEMED DISPOSAL OF SUBSIDIARIES

As disclosed in note 6(a) and 8, EGT and VC were deemed disposed of during the year ended 31 December 2007. The net assets of EGT and VC at the date of disposal were as follows:

| | *HK$'000* |
|---|---|
| NET ASSETS DISPOSED OF: | |
| Property, plant and equipment | **338,385** |
| Other intangible assets | **44,334** |
| Long term deposits | **3,057** |
| Trading rights | **1,409** |
| Deferred tax assets | **1,100** |
| Trade and other receivables | **1,922,116** |
| Inventories | **13,122** |
| Held-for-trading investments | **13,564** |
| Bank balances and cash | **273,401** |
| Trade and other payables | **(549,804)** |
| Taxation payables | **(9,219)** |
| Bank borrowings | **(1,131,146)** |
| Amount due to group companies | **(32,435)** |
| Loan from the Company | **(241,900)** |
| | **645,984** |
| Minority interests | **(339,942)** |
| Interest attributable to warrant holders | **(258,079)** |
| Net assets attributable to interest disposed of | **47,963** |
| Attributable goodwill | **1,223,955** |
| | **1,271,918** |
| Loss on deemed disposal | **(65,288)** |
| Total consideration | **1,206,630** |
| Satisfied by: | |
| Interests in associates | **1,103,670** |
| Cash received | **102,960** |
| | **1,206,630** |
| Net cash outflow arising on disposal: | |
| Bank balances and cash disposed of | **(273,401)** |
| Less: Cash received | **102,960** |
| | **(170,441)** |

The impact of VC disposed of on the Group's results and cash flows in the current and prior year are disclosed in note 8.

During the year ended 31 December 2007, EGT contributed revenue of approximately HK$28,828,000, loss for the year of approximately HK$32,951,000 and net cash inflow of approximately HK$206,263,000 to the Group.

As disclosed in note 6(b), 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) |
| Amounts due to related companies | (13,276) |
| Taxation payables | (2,538) |
| Obligation under finance lease | (141) |
| Shareholder's loan | (45,708) |
| Deferred tax liabilities | (52,553) |
| Amount due to the Company | (990,852) |
| Amount due to a minority shareholder | (110,528) |
| Minority interests | (518,550) |
| | 1,214,778 |
| Attributable goodwill | 270,656 |
| | 1,485,434 |
| Loss on disposal | (12,140) |
| Total consideration | 1,473,294 |
| Satisfied by: | |
| Interests in jointly controlled entities | 1,642,995 |
| Amount due to PBL *(note 6(b))* | (169,701) |
| | 1,473,294 |
| Net cash outflow arising on disposal: | |
| Bank balances and cash disposal of | (53,446) |

During the year ended 31 December 2006, MPBL (Greater China) contributed revenue of approximately HK$140,207,000, loss for the year of approximately HK$152,108,000 and net cash outflow of approximately HK$96,271,000.

## 19. CONTINGENT LIABILITIES

At 31 December 2007, the Company provides a total guarantee of approximately HK$8,453,000 (2006: HK$12,603,000) to a supplier and an insurance company in respect of the goods purchased and service provided by its subsidiaries and the amount utilised is nil (2006: HK$1,247,000).

On 5 September 2007, the Company has given an undertaking in connection with the HK$13.65 billion (US$1.75 billion) loan facilities obtained by Melco PBL Gaming (Macau) Limited ("Melco PBL Gaming"). The undertaking given by the Company is to ensure that a contingent contribution of up to a maximum amount of HK$972,500,000 (US$125,000,000) will be provided, upon request of the facility agent acting on behalf of the lenders, to pay contingencies (if any) associated with the construction of the City of Dreams project of Melco PBL Gaming in the absence of other available funding for completion of the project. The Company maintain a standby letter of credit for the said maximum amount to support its contingent obligation. PBL (which was subsequently replaced by Crown Limited) has given a similar undertaking and entered into a similar arrangement in connection with the said loan facilities.

The Company and the Group recognised financial guarantee liabilities in respect of the Exchangeable Bonds issued by Melco PBL SPV which are jointly and severally guaranteed by the Company and Crown Limited. Details of the guarantee are disclosed in note 16.

## CHAIRMAN & CEO'S STATEMENT

The year 2007 was a fruitful year for Melco, in which breakthrough achievements were made in various business sectors. Buoyant economic atmosphere and improved investment sentiment had provided us with a favorable business environment within which to operate our businesses. Apart from achieving improved performance in our leisure, gaming and entertainment division, we also recorded marked progress in our financial services and technology divisions. With four listed companies specialized in various industries, the Melco Group has become a New Generation Asian Conglomerate having a leading position in the respective business sectors.

Our leisure, gaming and entertainment division saw the biggest advancement in the past year. Crown Macau, our first hotel-cum-casino project opened in May 2007, is focused on the market dominating VIP gaming segment. As our Mocha Clubs are intended for non-casino based venues, Crown Macau marked our formal entry into Macau's booming casino sector as a licensed gaming operator, represented by an associated company. In less than a year, Crown Macau has claimed a remarkable 18% market share backed by an immensely successful high rolling chip VIP business. Crown Macau is expected to maintain strong performance in the near future. With two other projects, namely the City of Dreams and the Macau Peninsula project moving on track, the Group is poised to gain increased prominence in the Macau gaming market.

We made two strategic moves in 2007. Seeking to tap the growing spending power of Chinese consumers and their pursuit of high-end leisure, recreation and sporting products and services, we expanded into ski resort operations in China with the establishment of Melco China Resort Investment Limited. Several high quality ski resorts in Northeastern China have been acquired and are being revamped and re-branded into premium four-season resorts that rival other world- class ski resorts. These resorts are expected to commence operation in 2008 and will offer customers superior skiing facilities and impeccable hospitality experience unseen in China before. We are optimistic about the prospects of this new segment becoming an important revenue source of the Group in the future.

We also made a foray into the regional lottery market in the past year. We participated in the robust China lottery market through offering a broad range of lottery products and value-added technical and venue management services. We now own one of the largest lottery sales networks in China. Beyond China, we have also identified business opportunities in other Asian Pacific countries. A consortium of which we are a member won a license in Korea that will give the consortium the exclusive right to run Welfare Lotto for five years.

Other business divisions of the Group also reported encouraging results. In the technology sector, Elixir signed new gaming machine deployment contracts on a revenue participation model. This new business model enables us to derive revenue from the high margin slot machine industry and has allowed us to rapidly gain a significant presence in the markets of the Philippines, Vietnam and Cambodia. Our financial services arm Value Convergence also benefited from the burgeoning stock market in Hong Kong and recorded outstanding financial results in the past year. VC Capital, the corporate finance arm of Value Convergence, successfully sponsored and lead managed a major new listing in Hong Kong for a Chinese company. This exercise underscored VC Capital's professional skills and competence in handling large regional deals.

Looking ahead, despite the turmoils in the global financial markets, we remain upbeat and optimistic about the economic prospects of the Greater China Region and the surrounding areas. As Macau solidifies its position as the leading leisure and gaming destination in the global market place, we will take advantage of our established leading position to capture new business opportunities as they arise. We are also well positioned to reap benefits from the growing affluence of the Chinese people. We will continue our strategic developments across Asia in the interests of the Group and are confident that our core business divisions will deliver strong performances and improve shareholders' value.

Finally, I would like to thank all shareholders for their support and our employees for their creativity, hard work and loyalty. They are the key factors that drive the continuous growth of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### SIGNIFICANT EVENTS AND DEVELOPMENTS

2007 saw another year of continuing development in our core business of leisure, gaming and entertainment.

Crown Macau, the Group's first hotel-cum-casino project targeting high rollers, opened on 12 May 2007. It is operated under Nasdaq-listed Melco PBL Entertainment (Macau) Limited ("MPEL"), a joint venture originally formed by the Group with Publishing and Broadcasting Limited, which gaming business (including its interests in MPEL) has been acquired by Crown Limited. According to MPEL's estimates, Crown Macau's market share jumped from under 2% in May to around 18% by February 2008, making it the biggest VIP gaming venue in Macau.

Development of the City of Dreams has been on track. Superstructure work on the main podium is approximately 95% completed. The Hard Rock Hotel Tower and Crown Towers already had 30 floors and 12 floors completed respectively. Furthermore, MPEL continued to review and develop plans for the project on the Macau peninsula. Since the conditional agreement to purchase the project on the Macau peninsula is subject to certain conditions precedent under the control of third party, MPEL had asked for an extension of the completion date. It remains committed to developing the project.

In June 2007, the Group's technology arm Elixir Group Limited ("Elixir") (a wholly owned subsidiary of the Group) entered into a Products Participation Agreement with US-listed VendingData Corporation (which was later renamed and now known as Elixir Gaming Technologies, Inc. (AMEX Ticker : EGT) ) ("EGT"). According to the terms of the Products Participation Agreement, Elixir would refer gaming operators in Asian countries to EGT for slot machine revenue participation contracts. In consideration of Elixir's services, EGT, after obtaining its shareholders approval for the transaction in September 2007, has allotted and issued securities to Elixir. As at the date hereof, Elixir is the principal shareholder of EGT holding approximately 39.9% of the total issued share capital of EGT. As of today, EGT has established presence in the Philippines and Cambodia and is prepared to open a representative office in Ho Chi Minh City, Vietnam during 2008.

During the year, the Group also entered the Asian lottery market by setting up PAL Development Limited ("PAL"). PAL is principally engaged in various lottery related businesses in China. During the year, PAL was injected into Melco LottVentures Limited ("Melco LottVentures", Stock Code: 8198) (formerly known as Wafer Systems Limited) in return for a strategic stake. Following the injection of Melco's lottery business, Melco LottVentures is now principally engaged in various lottery-related businesses and ventures in China and through PAL, it manages approximately over 500 venues in China for the Sports Lottery. Currently, PAL provides a comprehensive range of lottery-related services including venue management consultancy services, lottery terminal distribution and wholesale distribution of scratch cards. Melco LottVentures also manufactures lottery vending terminals for both China Sports Lottery Administration Centre and China Welfare Lottery Issuance Centre through its point of sales ("POS") equipment manufacturing subsidiary Wu Sheng Computer Technology (Shanghai) Co., Ltd.

Subsequent to the balance sheet date, Melco LottVentures made the first move outside of the China market to enter the South Korean lottery market through an agreement to acquire the entire issued share capital of its Korean business partner, KTeMs Co., Ltd. ("KTeMs"), which is a consortium member holding the exclusive license to operate the national lotto games in South Korea.

During the year, Melco China Resort Investment Limited ("MCR"), a 45%-owned associate of the Group, was set up to facilitate the development of Group's ski resort business in China. Working with the world's top industry experts, MCR has acquired a large and exceptional portfolio comprising 5 existing ski resorts in Heilongjiang Province, Jilin Province and Beijing with established market positions and exciting development potential.

## FINANCIAL REVIEW

The segmental information shown in Note 4 to the financial statements is reproduced below with some minor re-arrangements:

| | **Year ended 31 Dec 2007** *HK$'000* | Year ended 31 Dec 2006 *HK$'000* |
|---|---|---|
| Segmental Result: Leisure, Gaming and Entertainment | **(74,229)** | (182,072) |
| Segmental Result: Technology | **23,282** | 26,336 |
| Segmental Result: Investment and Financial Services | **69,023** | 59,342 |
| Segmental Result: Property and Other Investments | **118,884** | 95,589 |
| Intra-group elimination | **(779)** | (7,945) |
| Group operating result | **136,181** | (8,750) |
| Agency fee income | **1,232,057** | – |
| Loss on deemed disposals of partial interests in subsidiaries | **(39,754)** | (33) |
| Loss on deemed disposal of subsidiaries | **(65,288)** | (12,140) |
| Gain on disposal of interests in jointly controlled entities | **532,604** | – |
| Gain on deemed disposal of interests in jointly controlled entities | **–** | 3,102,253 |
| Gain on deemed disposal of partial interests in associates | **1,549,361** | – |
| Gain on formation of a jointly controlled entity | **–** | 20,000 |
| Share of losses of jointly controlled entities | **(157,713)** | (191,835) |
| Share of losses of associates | **(519,538)** | – |
| Fair value changes on derivative financial instruments | **190,126** | – |
| Gain on extension of long term payable | **9,656** | – |
| Gain on early redemption of convertible loan notes | **8,827** | – |
| Cost of agency service | **(14,551)** | – |
| Unallocated corporate income | **13,562** | – |
| Unallocated corporate expenses | **(101,962)** | (68,257) |
| Finance costs | **(96,097)** | (85,879) |
| Profit before tax | **2,677,471** | 2,755,359 |
| Income tax (expense) credit | **(8,808)** | 4,622 |
| Profit for the period | **2,668,663** | 2,759,981 |
| Minority interests | **21,976** | 76,774 |
| Profit for the period attributable to shareholders | **2,690,639** | 2,836,755 |

## LEISURE, GAMING AND ENTERTAINMENT

For the year ended 31 December 2007, losses from this segment amounted to HK$74.2 million (year ended 31 December 2006: losses of HK$182.1 million) and are made up as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Macau Gaming (prior to October 2006) | **–** | (164,601) |
| Jumbo Kingdom | **(3,243)** | 1,849 |
| Elixir Gaming Technologies, Inc. | **(70,398)** | – |
| Gaming License Bidding Costs | **–** | (19,320) |
| Others | **(588)** | – |
| | **(74,229)** | (182,072) |

*MPEL – Macau Gaming*

Prior to October 2006, the Macau gaming operations (operated through a joint venture with Crown Limited) were effectively owned as to 60% by the Group and 40% by Crown Limited. Consequently, the results of MPEL's Macau operations for the nine months ended 30 September 2006 were fully consolidated into the Group's financial statements. Following a restructuring of the Group, the formal grant of the gaming subconcession by the Macau Government and the separate listing of MPEL on the NASDAQ in 2006, the Group's effective interest in MPEL decreased to 42.34% in December 2006, resulting in MPEL being re-classified as an associate in 2007. As a result, the attributable results of MPEL and its subsidiaries for the year ended 31 December 2007 are shown under "share of losses of associates".

*Jumbo Kingdom*

Jumbo Kingdom includes the Jumbo and the Tai-Pak floating restaurants in Aberdeen, Hong Kong and the Jumbo's Chua Lam Gourmet Kitchen in Macau. Jumbo Kingdom reported loss of HK$3.2 million for the year ended 31 December 2007 (year ended 31 December 2006: profit of HK$1.8 million). The Jumbo floating restaurant underwent maintenance work and safety feature upgrade during the year in March and April requiring suspension of business. The floating restaurant resumed operation in late April 2007.

*Elixir Gaming Technologies*

Listed on the American Stock Exchange, EGT focuses on placing electronic gaming machines on a revenue share model in Asian countries. EGT has established a strong presence in Asia with its participation contracts in the Philippines, Cambodia, Vietnam and other Asian markets.

On 13 June 2007, EGT entered into a Products Participation Agreement with Elixir. Pursuant to the agreement, Elixir sources and refers gaming operators in Asian countries to EGT for the entering into electronic gaming machine leases on a revenue sharing basis. In return, EGT issues new shares and warrants to Elixir (a wholly owned subsidiary of Melco), subject to the achievement of various milestones. In September 2007, Elixir owned a total of 41 million EGT shares accounting for approximately 53.5% of the issued share capital of EGT and EGT became a subsidiary of the Group. After the completion of the disposal of warrants, EGT becomes an associate of the Company in December 2007.

EGT made a negative contribution of HK$70.4 million for the period ended 31 December 2007 following the acquisition in September 2007 (year ended 31 December 2006: Nil). The loss was primarily attributable to the non-recurring charges of share option expenses, loss on extinguishment of long term debt and restructuring costs due to management redundancies and reductions in service and other staff as a result of completing the transition to a full distributor model.

According to the financial statements of EGT, EGT recorded revenues of HK$95 million (US$12.2 million) for the year ended 31 December 2007, as opposed to HK$61 million (US$7.8 million) for the year ended 31 December 2006. Net loss was HK$1,829 million (US$235.1 million) for the year ended 31 December 2007, compared to a net loss of HK$114 million (US$14.6 million) for the year ended 31 December 2006. The loss was primarily due to the non-cash, non-operating charges of HK$1,677 million (US$215.6 million), of which HK$1,330 million (US$170.9 million) reflected the value of warrants and shares issued to Elixir.

*Gaming License Bidding Costs*

In 2006, the Group, Crown Limited, and Eighth Wonders formed a partnership to bid for a gaming license in Singapore. 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, was written off in 2006.

## TECHNOLOGY

The Group's technology segment provides gaming technology consultation services in Macau, and is involved in the development and sale of financial trading and settlement systems in Asia. Profit from this segment was HK$23.3 million for the year ended 31 December 2007 (year ended 31 December 2006: HK$26.3 million) and are made up as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Elixir Technology | **15,774** | 23,707 |
| iAsia Technology | **7,548** | 2,669 |
| Others | **(40)** | (40) |
| | **23,282** | 26,336 |

*Elixir Technology*

The Group's major technology arm, Elixir, is a fully-fledged gaming product supplier specializing in the design, development and supply of gaming products. Elixir is also a provider of information communications technology to various gaming concession holders in Macau and gaming venue operators throughout Asia.

Elixir made a positive contribution of approximately HK$15.8 million for the year ended 31 December 2007 (year ended 31 December 2006: HK$23.7 million). The decrease was primarily because Elixir was going through a transformational change and repositioning itself from an equipment distributor to becoming Asia's only gaming machine supplier with R&D and manufacturing capabilities.

*iAsia Technology*

For the year ended 31 December 2007, iAsia made a positive contribution to the Group amounting to HK$7.5 million (year ended 31 December 2006: HK$2.7 million), representing an increase of 177%. This increase was owed to iAsia's effort to expand its client base.

## INVESTMENT AND FINANCIAL SERVICES

The Group's investment and financial services division operates via Value Convergence Holdings Limited ("Value Convergence", Stock Code: 8101), a company listed on the GEM Board of the Stock Exchange of Hong Kong Limited.

For the year ended 31 December 2007, Value Convergence successfully completed two rounds of share placements. After the completion of the second share placement by Value Convergence in September 2007, the Group's shareholding in Value Convergence decreased to 43.57%. Value Convergence thus ceased to be a subsidiary and has become an associate of the Group as from September 2007. Under current accounting convention, the Investment and Financial Services Segment is thus considered to be a discontinued operation.

Contribution from the Group's investment and financial services segment increased to HK$69.0 million before Value Convergence became an associate in September 2007, up from HK$59.3 million for the year ended 31 December 2006.

As disclosed in Note 8, Value Convergence recorded turnover of HK$210.6 million for the year ended 31 December 2007 (year ended 31 December 2006: HK$182.0 million). Net profit for the year ended 31 December 2007 amounted to approximately HK$155.1 million (year ended 31 December 2006: HK$36.8 million).

## PROPERTY AND OTHER INVESTMENTS

This division handles property and other investments for the Group. For the year ended 31 December 2007, it recorded turnover of HK$116.8 million (year ended 31 December 2006 HK$138.0 million) and segmental profit of HK$118.9 million (year ended 31 December 2006: HK$95.6 million).

## AGENCY FEE INCOME

During the year ended 31 December 2007, the Group subscribed to 1,000,000 shares ("First Shares") and 16,000,000 warrants ("First Warrants") of EGT, pursuant to a securities purchase agreement. The First Shares of EGT subscribed are accounted for as available-for-sale investments and the First Warrants subscribed are recognised as derivative financial instruments upon initial recognition. EGT is a company having its shares listed on the American Stock Exchange. The First Warrants subscribed originally have exercise price ranging from US$2.65 to US$5.50 and are exercisable during the period from 31 December 2007 to 31 December 2010.

On 13 June 2007, the Group entered into a Products Participation Agreement ("PPA") with EGT. Pursuant to the PPA, during a term of six years from the date of the completion, a subsidiary of the Company, Elixir, will provide agency services to source and refer gaming operators in certain specific countries to EGT for the entering into of the electronic gaming machine ("EGM") leases on a revenue sharing basis directly with EGT and to supply, at market prices, the necessary EGM to EGT for the fulfillment of its obligations under such leases. In consideration of the services to be provided by Elixir and upon achievement of various milestones under the PPA, EGT will allot and issue a maximum of 55,000,000 shares, 88,000,000 warrants and amend the terms of the existing warrants previously issued to Elixir.

In September 2007, the Group has achieved certain milestones under the PPA resulting in i) the issuance of 40,000,000 shares ("Second Shares") and 22,000,000 warrants ("Second Warrants") to Elixir; ii) the First Warrants became immediately exercisable and iii) the exercise price of 10,000,000 warrants included in the First Warrants is reduced by US$2.00 where the adjusted exercise price ranged from US$1.00 to

US$3.50. The exercise price of the remaining 6,000,000 First Warrants remains US$2.65. As a result of the issuance of Second Shares and Second Warrants, an agency fee income of HK$1,232 million is thus recognised and EGT then became a subsidiary of the Group.

## LOSS ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

Loss on deemed disposal of partial interests in subsidiaries are made up as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Loss arising from deemed disposal of partial interest in EGT | **(76,948)** | – |
| Gain (loss) arising from deemed disposal of partial interest in Value Convergence | **37,194** | (33) |
| | **(39,754)** | (33) |

(a) During the year ended 31 December 2007, the Group's interest in EGT, a subsidiary acquired during the year, decreased resulting from a placement of shares by EGT (see Note 5 for details of the transactions with EGT).

As a result of the above decrease in interests in EGT, the Group then recognised a loss on deemed disposal of partial interests in subsidiaries of approximately HK$76.9 million during the year ended 31 December 2007 (year ended 31 December 2006: Nil).

(b) During the year ended 31 December 2007, the Group's interest in Value Convergence decreased resulting from i) the exercise of certain Value Convergence share options by the share option holders, who are minority shareholders of Value Convergence, and ii) the two placements of shares by Value Convergence.

The first placement was completed in July 2007 where 50,680,000 shares were issued at HK$2.2 per share and the Company's shareholding in Value Convergence decreased to about 52.22%. Value Convergence remained a subsidiary of the Company after the first placement and the resulting gain on deemed disposal of partial interests in subsidiaries of approximately HK$37.2 million (year ended 31 December 2006: loss of HK$33,000 due to the exercise of certain share options of Value Convergence) was recognised during the year ended 31 December 2007.

## LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES

Loss on deemed disposal of subsidiaries are made up of the following:

| | Year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Loss on deemed disposal of Macau Gaming Business | **–** | (12,140) |
| Loss on deemed disposal of EGT | **(143,368)** | – |
| Gain on deemed disposal of Value Convergence | **78,080** | – |
| | **(65,288)** | (12,140) |

(a) In December 2007, the Group disposed of 6,000,000 First Warrants of EGT, a subsidiary acquired during the year, with an exercise price of US$1.00 to US$3.50 plus 10,000,000 Second Warrants of EGT to an independent third party, who then immediately exercised these warrants, at a consideration of approximately HK$103 million.

After the completion of the disposal of warrants, EGT has become an associate of the Group. The Group therefore recognised a loss on deemed disposal of subsidiaries of approximately HK$143.4 million (year ended 31 December 2006: Nil) for the year ended 31 December 2007, representing the increase in share of net assets in EGT less goodwill realised on deemed disposal. Full details and explanations are given in Note 6 to the consolidated financial statements.

(b) As explained above, Value Convergence was deemed to be a discontinued operation. A gain on deemed disposal of subsidiaries of approximately HK$78.1 million (year ended 31 December 2006: Nil) was recognized for the year ended 31 December 2007. Full details and explanations are given in Note 8 to the consolidated financial statements.

(c) Effective from October 2006, the Macau gaming business conducted through MPEL 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 Crown Limited, the Group's effective interest in the Macau joint venture decreased from 60% to 50%. As a result, an accounting loss amounting to approximately HK$12.1 million for the year ended 31 December 2006 was created. Full details and explanations are given in Note 6 to the consolidated financial statements.

## GAIN ON DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES

During the year ended 31 December 2007, the Group disposed of its interest in PAL to Power Way Group Limited ("Power Way"), a newly incorporated company, formed by the Group and certain independent third parties (collectively referred as "Shareholders"). On the same date, after the transfer of PAL and certain businesses and subsidiaries (collectively the "Assets") from the Shareholders to Power Way, it then disposed of the Assets to Wafer Systems Limited (which has renamed and is now known as Melco LottVentures) in exchange for certain shares and convertible loan notes of Melco LottVentures. Power Way becomes an associate of the Company. As a result of the disposal, the difference between the attributable interest in Power Way shared by the Group and the share of net assets of PAL disposed of, amounting to approximately HK$532.6 million (year ended 31 December 2006: Nil) was recognised as a gain on disposal of interests in jointly controlled entities during the year ended 31 December 2007.

## GAIN ON DEEMED DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES

In December 2006, MPEL 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 in January 2007) 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 MPEL would henceforth be accounted for as an associate. The deemed disposal resulted in a gain of approximately HK$3.1 billion to the Group. Full details and explanations are given in Note 12 to the consolidated financial statements.

## GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN ASSOCIATES

In January 2007, the underwriters of the global offering of ADSs of the associate, MPEL, fully exercised the over allotment option granted to them. The exercise in full of the over allotment option resulted in the issuance by MPEL of an additional 9,037,500 ADSs, representing 27,112,500 ordinary shares. In addition, MPEL completed a second offering of 37,500,000 ADSs, representing 112,500,000 ordinary shares in November 2007. The Group's interest in MPEL therefore decreased from 42.34% to 37.85% and a gain on deemed disposal of partial interests in associates of approximately HK$1.5 billion (year ended 31 December 2006: Nil) was therefore recognised during the year ended 31 December 2007. Full details and explanations are given in Note 12 to the consolidated financial statements.

## GAIN ON FORMATION OF A JOINTLY CONTROLLED ENTITY

In September 2006, the Group formed a jointly controlled entity, PAL, 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 recognised a gain of HK$20 million for the year ended 31 December 2006 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. Full details and explanations are given in Note 11 to the consolidated financial statements.

## SHARE OF LOSSES OF JOINTLY CONTROLLED ENTITIES

Share of losses of jointly controlled entities is made up of the following:

| | Year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Share of loss of PAL and its subsidiaries (a) | **13,126** | 2,099 |
| Share of loss of MPEL and its subsidiaries (b) | **–** | 189,736 |
| Share of loss of Melco PBL SPV (c) | **144,587** | – |
| | **157,713** | 191,835 |

**(a) Share of loss of PAL and its subsidiaries**

PAL was previously owned as to 60% by the Group. During the year ended 31 December 2007, the Group disposed of its interest in PAL to Power Way, a newly incorporated company formed by the Group and other independent third parties. The disposal was completed in December 2007 and PAL ceased to become a jointly controlled entity of the Group.

For the year ended 31 December 2007, the operational loss attributable to the Group amounted to HK$13.1 million (year ended 31 December 2006: HK$2.1 million). The loss was primarily due to the infrastructure and development costs incurred at the early stage of development.

PAL is engaged in various lottery-related businesses and ventures in China. Its business comprises the following:

(i) Distribution of lottery vending terminals in China via Beijing Telenet Information Technology Limited ("BTI"), a jointly controlled entity owned as to 51% by PAL. BTI is the largest authorized lottery vending terminal supplier approved by Sports Lottery.

(ii) Provision of venue management services to over 500 venues for Sports Lottery in 7 provinces in China.

(iii) Wholesales distribution of scratch cards for both Sports Lottery and Welfare Lottery in China.

(iv) Provision of technological solutions for Interactive Lottery Games on Mobile Phones.

**(b) Share of loss of MPEL 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 MPEL was grouped under MPEL and the Group's effective interest decreased from 60% to 50%. As a result, the Group's attributable loss of MPEL and its subsidiaries were shown in the consolidated financial statements for the three months ended 31 December 2006 under the category of share of loss of jointly controlled entities. After the listing of MPEL on the NASDAQ in the US in December 2006, MPEL and its subsidiaries have been accounted for as associates.

During the three months ended 31 December 2006, the Group's attributable loss arising from its 50% ownership of MPEL amounted to approximately HK$189.7 million.

**(c) Share of loss of Melco PBL SPV Limited**

On 30 July 2007, the Group and Crown Limited formed a 50:50 joint venture, Melco PBL SPV Limited ("Melco PBL SPV"), for the purpose of issuing exchangeable bonds ("Exchangeable Bonds") with an aggregate principal amount of HK$1,560 million (US$200 million) plus up to an additional HK$390 million (US$50 million) issuable pursuant to an over-allotment option, to fund a share purchase program for acquiring ADS of MPEL.

On 11 September 2007 and 24 September 2007, the Exchangeable Bonds with an aggregate principal amount of HK$1,560 million (US$200 million) and HK$390 million (US$50 million) respectively were issued both of which will mature in September 2012 and have been listed on the Singapore Stock Exchange. The Exchangeable Bonds are jointly and severally guaranteed by the Group and Crown Limited.

For the year ended 31 December 2007, the operational loss attributable to the Group amounted to HK$144.6 million (year ended 31 December 2006: Nil). The attributable loss was mainly due to the unrealized loss on MPEL's ADSs which Melco PBL SPV acquired, fair value changes on exchangeable bonds and the transaction costs in relation to the issuance of the exchangeable bonds.

## SHARE OF (LOSS) PROFIT OF ASSOCIATES

Share of (loss) profit of associates is made up of the following:

| | Year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Share of loss of MPEL and its subsidiaries (1) | **(525,591)** | – |
| Share of loss of MCR and its subsidiaries (2) | **(15,279)** | – |
| Share of profit of Power Way (3) | **13,402** | – |
| Share of profit of Value Convergence (4) | **7,930** | – |
| | **(519,538)** | – |

**(1) Share of loss of MPEL and its subsidiaries**

Following a restructuring of the Group, the formal grant of the gaming subconcession by the Macau Government and the separate listing of MPEL on the NASDAQ in 2006, the Group's effective interest in MPEL decreased to 42.34% as at 31 December 2006 and further to 37.85% as at 31 December 2007, resulting in MPEL being re-classified as an associate of the Group. Hence, the attributable results of MPEL and its subsidiaries to the Group for the year ended 31 December 2007 are shown under "share of losses of associates".

During the year, the Group's attributable loss arising from its 37.85% ownership of MPEL amounted to approximately HK$525.6 million. According to the financial statements of MPEL, the substantial losses were primarily due to the following:

(i) Substantial pre-opening expenses incurred in respect of Crown Macau and City of Dreams amounted to approximately US$40.0 million for the year ended 31 December 2007.

(ii) Effective from September 2006, MPEL started to provide for the amortisation of its own gaming license amounted to approximately US$57.2 million for the year ended 31 December 2007.

(iii) Marketing expenses associated with the opening of Crown Macau on 12 May 2007 amounted to approximately US$12.0 million.

Results for the year ended 31 December 2007 included the operations of Crown Macau, which opened on 12 May 2007. They also reflected the impact of the Group's acquisition of a gaming subconcession in September 2006. This resulted in a change in the reporting of gaming revenues from the Group's Mocha Clubs, which shifted from a service fee basis prior to the acquisition of the sub-concession, to being based on gaming revenue according to net win following the acquisition.

According to the financial statements of MPEL, MPEL recorded net revenue of HK$2,790 million (US$358.6 million) for the year ended 31 December 2007, as opposed to HK$281 million (US$36.1 million) for the year ended 31 December 2006. The increase was primarily due to the opening of Crown Macau and the impact of the acquisition of the gaming sub-concession in September 2006, which resulted in a change in reporting of gaming revenues from the Mocha Clubs from a service fee basis prior to acquisition of the sub-concession, to gaming revenue based on net win after gaming taxes since the acquisition of the sub-concession.

Net loss was HK$1,386 million (US$178.2 million) for the year ended 31 December 2007, compared to a net loss of HK$572 million (US$73.5 million) for the year ended 31 December 2006. Net loss attributable to Melco, a 37.85% shareholder of MPEL, amounted to HK$525.6 million during the year.

The operating costs and expenses of MPEL increased substantially during the year. These increases were largely due to the opening of Crown Macau and the commencement of amortization of MPEL's gaming sub-concession, increased amortization of land use rights for projects under development, and increased pre-opening, selling and marketing investment costs associated with the development of Crown Macau and the City of Dreams.

Net revenue of Crown Macau totaled HK$2,157 million (US$277.2 million). In the VIP table games segment, rolling chip volume totaled HK$111.4 billion (US$14.3 billion) for the year. Drop in the mass market table games segment amounted to HK$1,872 million (US$240.6 million), and revenue from gaming machines amounted to HK$76 million (US$9.8 million).

In December 2007, MPEL completed the property reconfiguration to accommodate additional VIP gaming business expected to be generated by AMA International Limited ("AMA"), a junket aggregator. With the arrangement with AMA, the rolling chip volume of Crown Macau significantly increased by 77% to US$8.5 billion in the fourth quarter of 2007, as compared to US$4.8 billion in the third quarter.

According to the financial statements of MPEL, Mocha generated an adjusted EBITDA of approximately US$22.1 million for the year ended 31 December 2007 (year ended 31 December 2006: US$10.9 million).

In the fourth quarter of 2007, the number of gaming machines in operation at the Mocha Clubs averaged approximately 1,088 in seven locations. The seventh Mocha Club opened on October 2007 at Mocha Square, adding approximately 130 gaming machines. The site was temporarily closed on 31 December 2007 for remedial renovation works and is currently scheduled to resume operations in May 2008. An expansion of the Hotel Royal Mocha outlet was completed and opened on 5 February 2008. The current installed base of Mocha Club gaming machines remains approximately 1,100.

**(2) Share of loss of MCR and its subsidiaries**

MCR was formed in March 2007. For the ten months ended 31 December 2007, the operational loss attributable to the Group amounted to HK$15.3 million (year ended 31 December 2006: Nil). The loss was primarily due to infrastructure and development cost incurred at the early stage of development of ski resorts in China.

MCR is principally engaged in the ownership, operation and development of ski resorts in China as village centered, mountain resort and four seasons leisure destinations. MCR's current portfolio includes i) Sun Mountain Yabuli in Heilongjiang Province – the host venue for the 2009 World University Games; ii) Sky Mountain Beidahu in Jilin Province – the host venue for Asian Winter Games in 2007; iii) Adventure Mountain Changchun in Jilin Province; iv) Lotus Mountain Club in Panshi in Jilin Province and v) Star Mountain Beijing.

**(3) Share of profit of Power Way**

During the year ended 31 December 2007, the Group disposed of its interest in PAL to Power Way, a newly incorporated company, formed by the Group and the Shareholders. On the same date, after the transfer of the Assets from the Shareholders to Power Way, it then disposed of the Assets to Melco LottVentures in exchange for certain shares and convertible loan note of Melco LottVentures. The Group holds 54.79% interest in Power Way. Pursuant to certain terms and conditions in the shareholders agreement, the financial and operating policies of Power Way require approval of the Group together with other shareholders of Power Way, as such, it is accounted for as an associate effective from 13 December 2007.

For the period ended 31 December 2007, the attributable profit to the Group amounted to approximately HK$13.4 million (year ended 31 December 2006: Nil). The profit was mainly attributable to net gains on fair value changes on convertible note issued by Melco LottVentures.

**(4) Share of profit of Value Convergence**

Following the restructuring of the Group in September 2007, the effective interest in Value Convergence decreased to 43.57%, resulting in Value Convergence regarded as an associate of the Group. Hence, the attributable profit of Value Convergence to the Group amounted to approximately HK$7.9 million (year ended 31 December 2006: Nil).

According to the financial statements of Value Convergence, Value Convergence's consolidated revenue was approximately HK$323.7 million, an increase of about 77% compared with 2006. Consolidated profit attributable to shareholders increased by approximately HK$24 million against last year to approximately HK$50.4 million for the year ended 31 December 2007.

## FAIR VALUE CHANGES ON DERIVIATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2007, an increase in fair value of approximately HK$190.1 million (year ended 31 December 2006: Nil) regarding the First Warrants and Second Warrants of EGT was recognised in the consolidated income statement as fair value changes on derivative financial instruments.

## COST OF AGENCY SERVICE

For the year ended 31 December 2007, cost of agency service amounted to approximately HK$14.6 million (year ended 31 December 2006: Nil).

## UNALLOCATED CORPORATE INCOME AND COPRPORATE EXPENSES

Unallocated corporate income mainly represented amortised financial guarantee income in relation to the joint and several financial guarantee provided by the Company and Crown Limited for the exchangeable bonds issued by the Melco PBL SPV. Full details are given in Note 16 of the consolidated financial statements.

Unallocated corporate expenses increased by 50% from approximately HK$68.3 million in 2006 to HK$102.0 million in 2007. The increase was primarily due to increased staff costs, office rental and utility expenses at head office level as a result of the Group's rapid expansion in 2007.

## FINANCE COSTS

Finance costs increased by 12% from approximately HK$85.9 million in 2006 to HK$96.1 million in 2007. The increase was primarily due to the increase in "deemed" interest payable (i.e. no cash flow implications) in relation to the long term payable to Crown Limited.

## INCOME TAX (EXPENSE) CREDIT

Income tax expense amounted to approximately HK$8.8 million in 2007 versus an income tax credit of HK$4.6 million in 2006. This was primarily due to a deferred tax expense of HK$0.1 million in 2007 (2006: credit of HK$13.5 million) and a current tax expense of HK$8.7 million in 2007 (2006: HK$7.7), full details of which are shown in Note 7 to the consolidated financial statements.

## OUTLOOK

With our significant developments in the core Leisure, Entertainment & Gaming segment and its supporting Technology and Financial Services sectors, Melco has proven itself to be a dynamic conglomerate in Asia in the new era characterized by consumers eager for new experiences and living life to the fullest.

Macau's gaming revenue has continued to grow at an unprecedently high pace in 2007 and the first two months in 2008. Following the opening of Crown Macau which focuses on VIP gaming and the sequential gain in market share, the Group's Macau gaming business unit looks ever more promising. Armed with strong local connections and international casino operation experiences, Melco aims to capture some of the immense opportunities surfacing in Macau and different Asian regions.

To grow the Group's leisure and entertainment business, MCR has secured the largest and most exceptional portfolio of irreplaceable ski resorts matching in standing with those in Canada, the US and Europe.

The lottery industry in China is going through revolutionary changes at the moment. The Group has already seen substantial growth in lottery sales in the last two years from the introduction of new games such as scratch cards. Melco will continue to identify business opportunities in this booming Asian lottery market in the years to come.

Looking forward, Melco will continue to respond promptly to changing market dynamics with vibrant, innovative products and services that meet the demands and expectations of the increasingly affluent generation who is hungry for excitement. While pursuing these ambitious goals and continuing to strive for the highest possible returns for shareholders, Melco also promises to abide by the highest corporate governance standards and honor its corporate social responsibility.

**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 borrowings.

As of 31 December 2007, total assets of the Group were HK$12,314.2 million (31 December 2006: HK$9,344.6 million) which were financed by shareholders' funds of HK$10,319.1 million (31 December 2006: HK$7,567.1 million), minority interests of HK$22.4 million (31 December 2006: HK$94.1 million), current liabilities of HK$638.1 million (31 December 2006: HK$419.2 million), and non-current liabilities of HK$1,334.6 million (31 December 2006: HK$1,264.0 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 2.5 (31 December 2006: 6.3).

During the year ended 31 December 2007, the Group recorded a net cash outflow of HK$901 million (year ended 31 December 2006: outflow of HK$1,140.5 million). As of 31 December 2007, cash and cash equivalents of the Group totaled HK$308.9 million (31 December 2006: HK$1,209.8 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowings, convertible loan notes, long term payable and shareholder's loan) over shareholders' fund, was at a satisfactory level of 0.15 time as of 31 December 2007 (31 December 2006: 0.17 time). The Group adopts a prudent treasury policy. Cash and bank balance consisted of about 51% of cash and bank balances and 49% of short term fixed deposits. All borrowings and cash and bank balances are mainly denominated in Hong Kong dollars and U.S. dollars to maintain stable exposure to foreign exchange risks. Also, as at 31 December 2007, the

Company placed a bank deposit of HK$972.5 million (equivalent to US$125 million) (31 December 2006: Nil) for an undertaking in connection with the loan facilities obtained by MPEL.

As of 31 December 2007, the Group's total convertible loan note amounted to HK$999.4 million which was non-interest bearing and due in 2010. The Group's long term payable amounted to HK$168.1 million, which was unsecured, non-interest bearing and due in 2009. As of 31 December 2007, the Group's total available banking facilities from various banks amounted to HK$130.7 million (31 December 2006: HK$220.7 million), of which none (31 December 2006: HK$60 million) was secured by margin clients listed securities, HK$49.8 million (31 December 2006: HK$49.8 million) was secured by pledging HK$85 million of the Group's investment properties, and HK$0.9 million (31 December 2006: HK$0.9 million) was secured by pledging the same amount of the Group's time deposit. As of 31 December 2007, the Group utilized HK$80 million and HK$0.9 million of unsecured and secured banking facilities respectively (31 December 2006: unsecured HK$49 million; secured HK$0.9 million).

## MATERIAL ACQUISITIONS AND DISPOSALS

During the year under review, the Group had entered into/completed the following acquisitions and disposals.

In January 2007, Elixir subscribed one million new shares and 16 million warrants of EGT, a company listed on the American Stock Exchange, pursuant to a Securities Purchase Agreement. The 16 million warrants subscribed have exercise prices ranged from US$2.65 to US$5.50 and are exercisable by Elixir at any time during the period from 31 December 2007 to 31 December 2010.

On 13 June 2007, Elixir entered into a PPA with EGT. Pursuant to the PPA, Elixir will provide agency services to source and refer gaming operators in the Asian countries to EGT for the entering into of the EGM leases on a revenue sharing basis directly with EGT and to supply, at market prices, the necessary EGM to EGT for the fulfillment of its obligations under such leases.

In consideration of the services to be provided by Elixir and upon achievement of certain milestones under the PPA, EGT has allotted and issued a total of 40,000,000 new shares and 88,000,000 warrants to Elixir in early September 2007. Based on the total 41,000,000 outstanding shares of EGT, representing approximately 53.5% of EGT's then enlarged outstanding shares held by Elixir, EGT was regarded as a subsidiary of the Group.

However, following the completion of the private placement of its 15,000,000 new shares by EGT to various institutional investors in the United States in October 2007 and the subsequent sale of 16,000,000 readily exercisable EGT warrants by Elixir in December 2007, the shareholding interest in EGT held by Elixir decreased to approximately 39.9% and EGT ceased to be a subsidiary and becomes an associated company of the Company since late December 2007.

Subsequent to the deemed disposal, the Group entered into an agreement with EGT to convert 12,000,000 Second Warrants to 4,800,000 shares of EGT for additional interest in this associate.

The Group's investment and financial services division operates via Value Convergence, which offers corporate finance advisory services as well as brokering and dealing for clients in securities, futures and options contracts. Value Convergence became an associate in September 2007 following the second share placement by Value Convergence and was then deemed disposed of. The Investment and Financial Services Segment was thus discontinued during the year ended 31 December 2007.

## HEADCOUNT/EMPLOYEES' INFORMATION

As a result of the Group's business expansion, the number of employees (excluding the employees of MPEL, PAL and MCR) has increased from 485 as of 31 December 2006 to 523 as of 31 December 2007. This represents an over 8% increase and 38 new positions within the Group. Among the 523 employees, 431 are located in Hong Kong and the remaining is based in Macau and the PRC. The majority of the newly created positions are for our Macau business and Melco corporate office. The related staff costs for the year ended 31 December 2007, including Directors' emoluments and share options expenses, amounted to HK$288.0 million (year ended 31 December 2006: HK$269.3 million). The total number of the Group's employees (including the employees of MPEL, PAL and MCR) is 7,355 as of 31 December 2007.

Melco believes that the key to success lies in its people. We strive to create an environment that makes people proud to be a "Melco person". All of our employees are given equal opportunities for advancement and personal growth. We believe only by growing our business we create opportunities and deliver value to our people. Thus, we encourage our people to offer their best at work and grow with our business. We build staff loyalty through recognition, involvement and participation.

Melco's people policy, systems and practices are directly aligned with the Group's mission and values, and are conducive to desired behaviors, which contribute to business success.

### 1. Recruitment

Melco is an equal opportunity employer and we recruit talents with above average Professional competence, person qualities and commitment and we hire the right people to co-shape our future. We identify and validate talents through different recruitment sources and we regularly review our recruitment structure and assessment criteria. We also employ suitable tools to assess candidates' potential.

2. **Performance and Rewards**

   Melco demands and appreciates high performance. Our reward principle is primarily performance based and we reward our people competitively based on their job responsibilities, performance and contribution to business results as well as professional and managerial competencies.

3. **Learning & Development**

   Melco provides training to develop the necessary and other skills needed to satisfy business needs, which, on the one hand, would improve performance and delivered value and, on the other hand, would enhance personal growth.

   We adopt a systematic approach in structuring our training programs and training programs are focused to individual and corporate needs. Training objective would first be established with the desired outcomes clearly defined and qualified and results are continually reviewed.

## 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.

## CONTINGENT LIABILITIES

At 31 December 2007, the Company provides a total guarantee of approximately HK$8,453,000 (31 December 2006: HK$12,603,000) to a supplier and an insurance company in respect of the goods purchased and service provided by its subsidiaries and the amount utilised is nil (31 December 2006: HK$1,247,000).

On 5 September 2007, the Company has given an undertaking in connection with the HK$13.65 billion (US$1.75 billion) loan facilities obtained by Melco PBL Gaming. The undertaking given by the Company is to ensure that a contingent contribution of up to a maximum amount of HK$972,500,000 (US$125,000,000) will be provided, upon request of the facility agent acting on behalf of the lenders, to pay contingencies (if any) associated with the construction of the City of Dreams project of Melco PBL Gaming in the absence of other available funding for completion of the project. The Company maintains a standby letter of credit for the said maximum amount to support its contingent obligation. Crown Limited has given a similar undertaking and entered into a similar arrangement in connection with the said loan facilities.

The Company and the Group recognised financial guarantee liabilities in respect of the Exchangeable Bonds issued by Melco PBL SPV which are jointly and severally guaranteed by the Company and Crown Limited. Details of the guarantee are disclosed in note 16.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.01 per share for the year ended 31 December 2007 (year ended 31 December 2006: HK$0.01 per share). The proposed final dividend will be payable on or before 21 May 2008 to shareholders whose names appear on the register of members of the Company on 9 May 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 2 May 2008 to Friday, 9 May 2008, 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, Tricor Standard Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 30 April 2008.

## 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 2007, except for the deviations mentioned below:

Pursuant to Code Provision A.2.1 of the HKSE Code, 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 of directors (the "Board") of the Company, 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.

Code provision A.4.1 of the HKSE Code 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.

## 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. The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2007.

## 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 2007 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 OR SALE OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year ended 31 December 2007. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2007.

## 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 (Chief Operating Officer); 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, 31 March 2008