Melco

Melco International Development Limited

annual report 2006

新濠國際發展有限公司 二零零六年年報

A Hong Kong listed company with stock code 香港上市股票代號:200

VISION 集團抱負

To bring hope and pleasure to people from all over the world, and contribute to the well-being of our communities.

為世界各地人士帶來希望與歡樂，並對社會作出貢獻。

MISSION 集團使命

To be a leading provider of premium leisure and entertainment experiences to create maximum value for stakeholders.

領導市場，為大眾提供優質消閒及娛樂體驗，並為股東創造最理想的回報。

MOTTO 格言

Fun Without Boundaries.

樂趣無限。

CORPORATE VALUES 集團信念

Motivation 幹勁
Enrichment 豐盛
Loyalty 忠誠
Credibility 誠信
Optimization 優化

This report is printed on environmentally-friendly paper.
此年報以環保紙印製。

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Corporate Information

EXECUTIVE DIRECTORS
Mr. HO, Lawrence Yau Lung
(Chairman & Chief Executive Officer)
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
(Chief Operating Officer)

NON-EXECUTIVE DIRECTOR
Mr. NG Ching Wo

INDEPENDENT NON-EXECUTIVE DIRECTORS
Sir Roger LOBO
Dr. LO Ka Shui
Mr. SHAM Sui Leung, Daniel

EXECUTIVE COMMITTEE
Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
Mr. WANG, John Peter Ben*
Mr. TSANG Yuen Wai, Samuel*

AUDIT COMMITTEE
Sir Roger LOBO *(Chairman)*
Mr. SHAM Sui Leung, Daniel
Mr. NG Ching Wo

REMUNERATION COMMITTEE
Dr. LO Ka Shui *(Chairman)*
Sir Roger LOBO
Mr. NG Ching Wo

NOMINATION COMMITTEE
Mr. NG Ching Wo *(Chairman)*
Sir Roger LOBO
Mr. HO, Lawrence Yau Lung

FINANCE COMMITTEE
Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
Mr. WANG, John Peter Ben*

REGULATORY COMPLIANCE COMMITTEE
Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Dr. LO Ka Shui
Mr. TSANG Yuen Wai, Samuel*

COMPANY SECRETARY
Mr. TSANG Yuen Wai, Samuel

QUALIFIED ACCOUNTANT
Mr. TAM Chi Wai, Dennis

REGISTERED OFFICE
38th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

AUDITORS
Deloitte Touche Tohmatsu

SOLICITORS
Richards Butler
Arculli Fong & Ng

PRINCIPAL BANKERS
Standard Chartered Bank
(Hong Kong) Limited
Credit Suisse
UBS AG

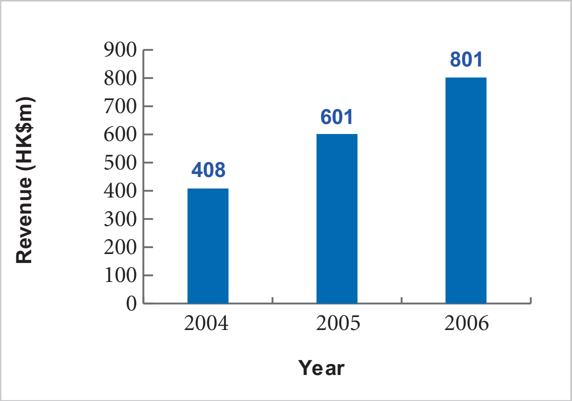
SHARE REGISTRAR AND TRANSFER OFFICE
Standard Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE
200

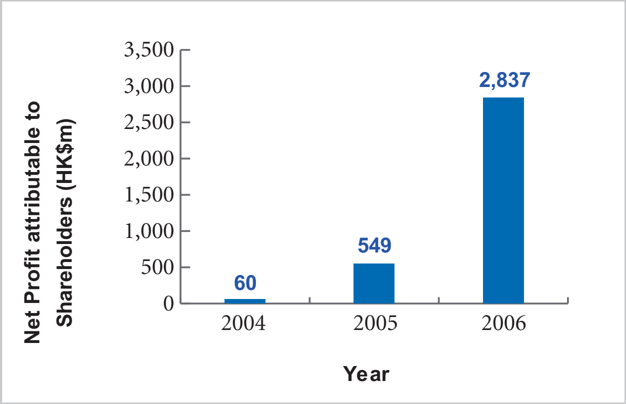
* non-voting co-opted members

Financial Highlights

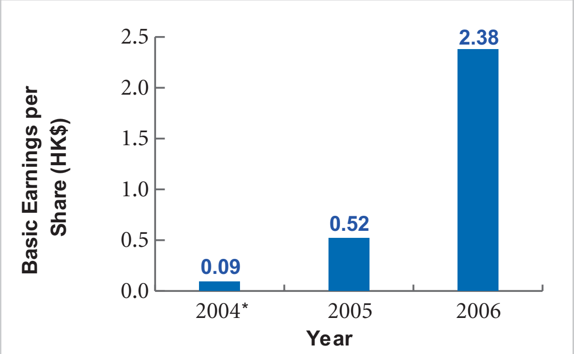
Revenue



Net Profit attributable to Shareholders

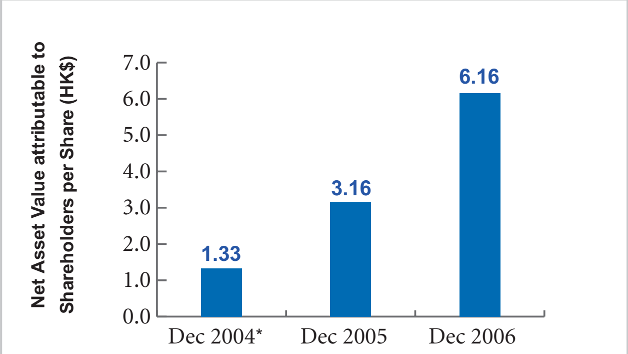


Basic Earnings per Share



* Adjusted for share subdivision completed in May 2005

Net Asset Value attributable to Shareholders per Share



* Adjusted for share subdivision completed in May 2005

- Revenue increased by 33% to HK$801 million for 2006 as compared with HK$601 million in 2005.

- Net profit attributable to shareholders increased by 417% to HK$2,837 million for 2006, as compared with HK$549 million in 2005, of which approximately HK$3,102 million was attributable to the gain on deemed disposal of partial interests in Melco PBL Entertainment (Macau) Limited following its successful listing on NASDAQ in December 2006.

- Basic earnings per share increased by 358% to HK$2.38 for 2006.

- Net asset value attributable to shareholders per share increased by 95% to HK$6.16 for 2006.

- Proposed final dividend for 2006 of HK1 cent per share.

Corporate Profile

Melco International Development Limited ("Melco") is one of the companies with the longest history in Hong Kong. Founded in 1910, Melco was among the first one hundred companies established in the city and was listed on the Hong Kong Stock Exchange in 1927. Today, under the leadership of its Chairman & CEO Lawrence Ho, Melco is a dynamic conglomerate with a major business focus in Leisure, Gaming & Entertainment. The Group's promising performance and distinctive leadership in the industry are also well recognized worldwide. Melco International Development Limited is a constituent of the MSCI Hong Kong Index, part of the MSCI Standard Index Series.

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

Melco's Leisure, Gaming & Entertainment Division comprises the Group's gaming activities and Jumbo Kingdom.

Melco conducts its gaming activities in Asia via an exclusive joint venture with Australia's largest conglomerate and gaming group – Publishing & Broadcasting Limited ("PBL"). Melco PBL Entertainment is a NASDAQ-listed company owning one of only six gaming concessions and subconcessions to own and operate gaming business in the Macau Special Administrative Region. The exclusive joint venture brings together local expertise, world-class management and superior branding in its aspiration to thrive in the gaming markets of Asia.

Melco PBL Entertainment currently has three major gaming assets in Macau, namely, Crown Macau, Mocha, and City of Dreams. The joint venture is also in the process of acquiring a development site on Macau Peninsula with plans to establish its third hotel and casino complex in Macau.

In Hong Kong, Melco carries on the tradition of operating the world famous floating landmark – Jumbo Kingdom. The Group has two other supporting divisions in Technology and Investment Banking.

The Group's Technology Business is represented by Elixir Group, a premier gaming technology solutions provider, and iAsia – the software developer that is also a leading provider of comprehensive financial trading systems in Asia.

The Group's Investment Banking and Financial Services Business is conducted via the Hong Kong listed subsidiary – Value Convergence Holdings Limited.

Melco has grown substantially in recent years and has opened offices in Hong Kong, Macau, Beijing, Shanghai, Shenzhen and Manila. As at 31 December 2006, the Group has 1,142 employees (including Melco PBL Entertainment's employees).

Corporate Structure

Melco Group

Investment Banking & Financial Services

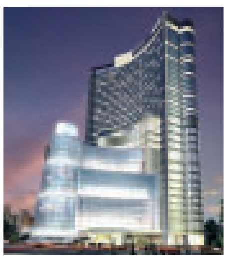
Value Convergence Holdings Limited a HK-listed company stock code: 8101

Focus on Hong Kong, Macau and China's capital financing needs

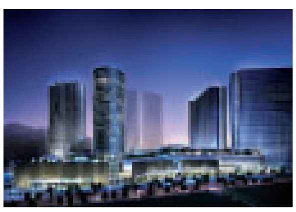
Leisure, Gaming and Entertainment

Melco PBL Entertainment (Macau) Limited – a NASDAQ-listed company ticker symbol "MPEL"

Crown Macau, Taipa – High Roller market

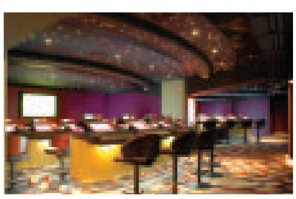


The City of Dreams, Cotai – Emerging Mass market



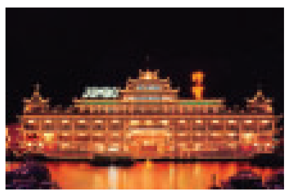
Third Hotel & Casino Complex on Macau Peninsula – Day Trippers market

Mocha Clubs all over Macau – Leisure Grind market



PAL Development Limited – Lottery market in China

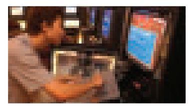
Jumbo Kingdom

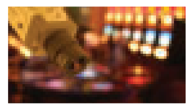


Other Asian gaming ventures

Technology

Elixir and iAsia

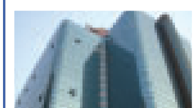




Focus on the gaming technology and financial trading solutions

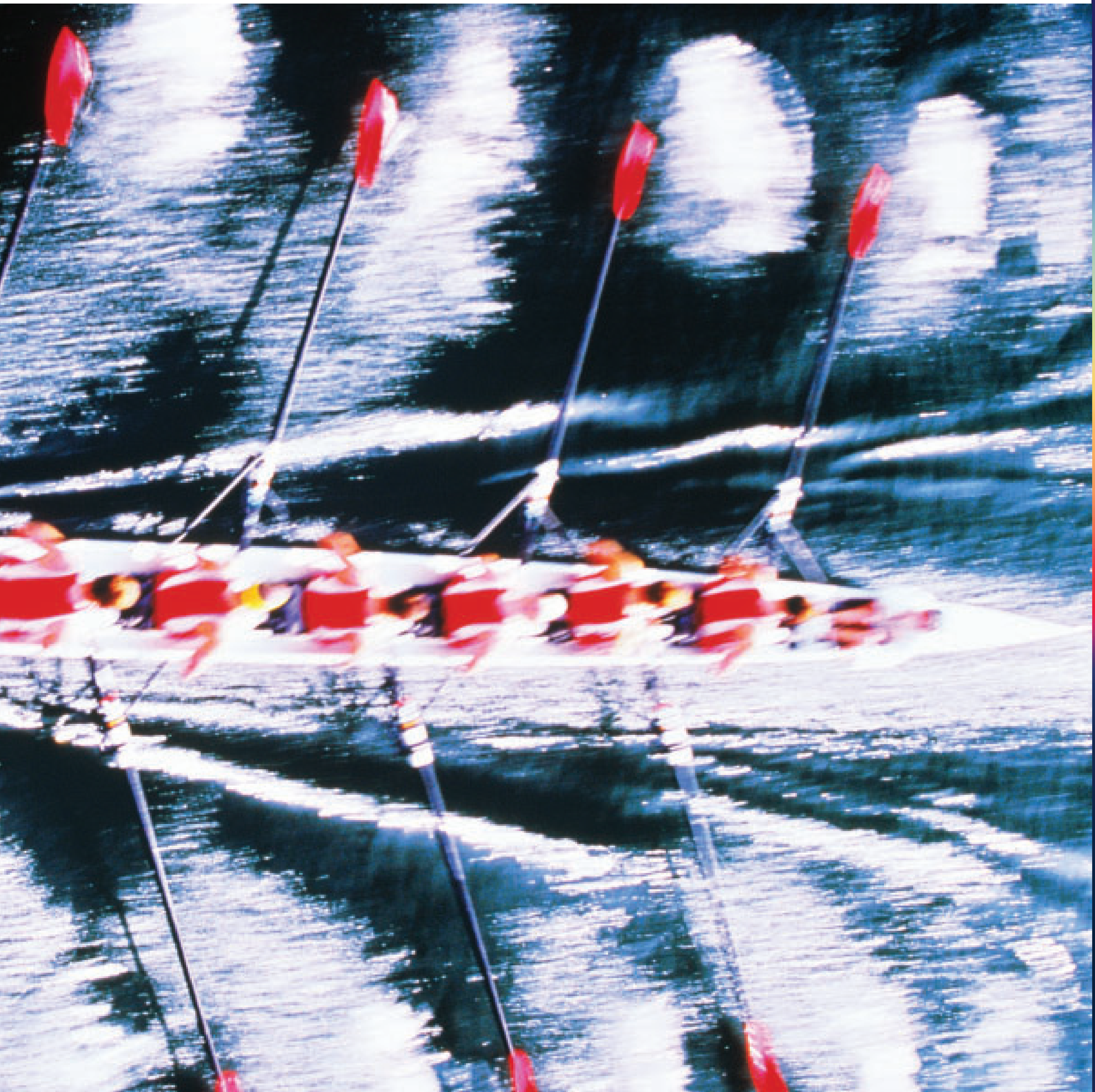
Property & Other Investments

Property and treasury



Chairman & CEO's Statement

As our vision statement says, we strive to bring hope and fun to people from around the world. Our business is people-based and service-oriented, with the interests of our stakeholders as our top priority



Chairman & CEO's Statement

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

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

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

All of Melco PBL Entertainment's leisure and gaming projects are moving forward swiftly and with superb efficiency. Currently, our Mocha operations account for around 20% of all electronic gaming positions in Macau. Subsequent to the acquisition of the last gaming subconcession in October, we gained 100% control over our lucrative Mocha operation as we were no longer required to pay a proportion of Mocha's revenue to a third party license holder. This has immediately boosted our revenues from this premium gaming operation. The Mocha Club concept continues to develop and flourish as the sixth Mocha Club opened in December.

Meanwhile, the Group's major leisure and gaming projects are moving smoothly towards completion. Crown Macau celebrated its topping out ceremony in November, and is currently preparing for the Grand Opening.

Construction work on the exciting City of Dreams project, phase one of which scheduled to launch in 2008, has also commenced. During the year we formed partnerships with globally renowned companies such as Hard Rock International, Hyatt International, Dragone Entertainment GmbH and construction conglomerate Leighton-China State-John Holland, each of which is helping us create truly exceptional standards and facilities for the City of Dreams. Plans on a third casino project are also in progress as negotiations for a prime site near the Macau ferry terminal are taking place.

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

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

Chairman & CEO's Statement

Leisure and Entertainment related businesses in Asia.

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

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

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

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

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

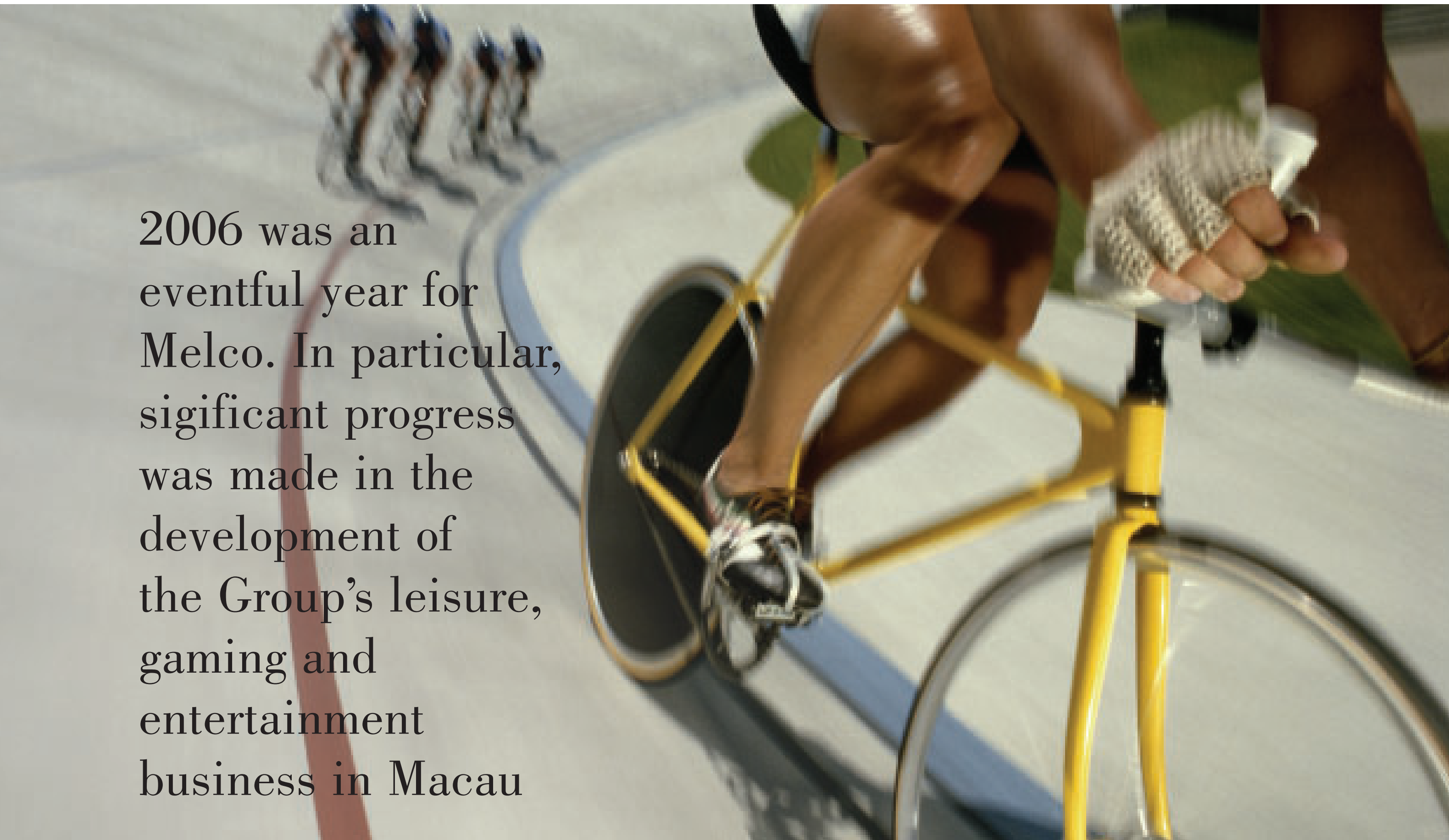
Our financial services division, represented by our listed subsidiary Value Convergence Holdings Limited, has identified some very promising business opportunities that should provide a steady and solid growth potential for the next decade.

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

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

Lawrence Ho
Chairman and CEO

Management Discussion and Analysis



SIGNIFICANT EVENTS AND DEVELOPMENTS

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

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

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

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

Management Discussion and Analysis

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

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

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

(i) Melco would become the largest single shareholder of LottVision;

(ii) LottVision would own approximately 69.47% of PAL;

(iii) Melco's effective interest in PAL would become approximately 50.33%.

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

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

(1) Distribution of Lottery Vending Terminals in China;

(2) Provision of Venue Management Consultancy Services to lottery sales outlets in China; and

(3) Provision of technological solutions for interactive lottery games on mobile phones.

FINANCIAL REVIEW

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

To facilitate the review, the segment information shown in Note 8 to the consolidated financial statements is reproduced below with some minor re-arrangements:

Management Discussion and Analysis

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

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

Management Discussion and Analysis

LEISURE, GAMING AND ENTERTAINMENT

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

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

Melco PBL – Macau Gaming (prior to October 2006)

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

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

(1) Substantial pre-opening expenses were incurred in respect of Crown Macau and City of Dreams. According to the financial statements of Melco PBL Entertainment, the total pre-opening expenses amounted to approximately US$11.7 million for the full year ended 31 December 2006.

(2) An intangible asset write-off of approximately HK$90.4 million resulting from the termination of Mocha Slots' service agreements with Sociedade de Jogos de Macau, S.A.. These agreements were terminated as a result of Melco PBL acquiring its own gaming subconcession in October 2006.

Management Discussion and Analysis

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

Jumbo Kingdom

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

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

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

Gaming License Bidding Costs

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

TECHNOLOGY

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

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

Management Discussion and Analysis

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

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

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

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

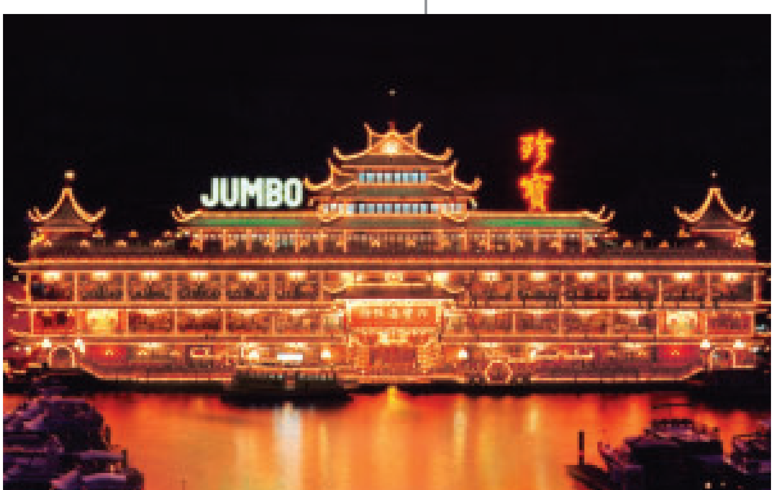
iAsia Technology made a positive contribution to the Group amounting to HK$2.7 million for the year (2005 – HK$1 million), representing a spectacular increase of over 170%. Based in Hong Kong, iAsia is engaged in the provision of comprehensive online trading and related systems and services to financial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

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

INVESTMENT BANKING AND FINANCIAL SERVICES

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

The Group's investment banking and financial service business is conducted through Value Convergence Holdings Limited ("Value Convergence", Stock Code: 8101), a company listed on the GEM Board of the Stock Exchange of Hong Kong Limited. Value



Management Discussion and Analysis

Convergence recorded a consolidated turnover of approximately HK$182.0 million in 2006, representing an increase of around 58% as compared to 2005.

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

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

PROPERTY AND OTHER INVESTMENTS

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

LOSS ON DISPOSAL OF SUBSIDIARIES

Effective from October 2006, the Macau gaming business conducted through Melco PBL ceased to be accounted for as subsidiaries of the Group and began to be accounted for as jointly-controlled entities. Pursuant to an agreement with PBL, the Group's effective interest in the Macau joint venture decreased from 60% to 50%. As a result, an accounting loss amounting to HK$12.1 million (2005 – Nil) was created. Full details and explanations are given in Note 13 to the consolidated financial statements.

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

In 2006, a small loss of HK$33,000 was recognized as a result of the exercise of certain share options by minority shareholders of a subsidiary (2005 – HK$24,000). In 2005, a gain of HK$514.4 million was recognized as a result of the formation of the Melco PBL Joint Venture. Full details and explanations are given in Note 12 to the consolidated financial statements.

GAIN ON DEEMED DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES

In December 2006, Melco PBL Entertainment was listed on NASDAQ in the US and approximately 15.3% of the enlarged share capital (prior to the exercise of the greenshoe which took place after the year end) was offered to public shareholders in the form of an IPO. According to prevailing Accounting Standards, this constituted a deemed disposal of interests in jointly controlled entities (Group's effective interest reduced from 50% to 42.3%) and Melco PBL Entertainment would henceforth be accounted for as an associate. The deemed disposal resulted in a gain of approximately HK$3.1 billion (2005 – Nil) to the Group. Full details and explanations are given in Note 32 to the consolidated financial statements.

GAIN ON FORMATION OF A JOINTLY CONTROLLED ENTITY

In September 2006, PAL, in which the Group has an interest of 60%, was formed to pursue lottery business in Asia. Upon the formation of this jointly controlled entity, the Group realized a gain of HK$20 million (2005 – Nil) which arose as a difference between the contributed value of certain intangible assets and the fair value of such assets as estimated by a professional valuer. Full details and explanations are given in Note 31 to the consolidated financial statements.

SHARE OF (LOSS) PROFIT OF JOINTLY CONTROLLED ENTITIES

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

	Year ended 31 Dec 2006 ***HK$'000***	Year ended 31 Dec 2005 *HK$'000*
Share of (loss) profit of Melco PBL Entertainment and its subsidaries	**(189,736)**	2,234
Share of (loss) of PAL	**(2,099)**	–
	(191,835)	2,234

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

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

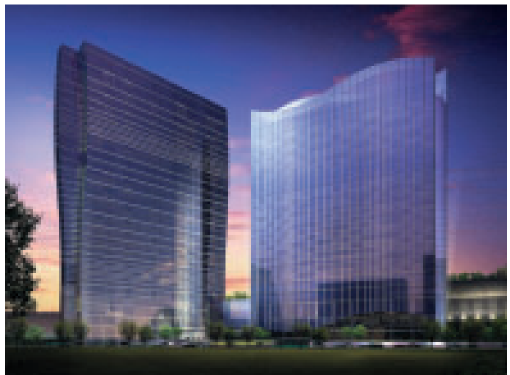
During this period, the Group's attributable loss arising from its 50% ownership of Melco PBL Entertainment amounted to approximately HK$189.7 million. The substantial losses were primarily due to the following:

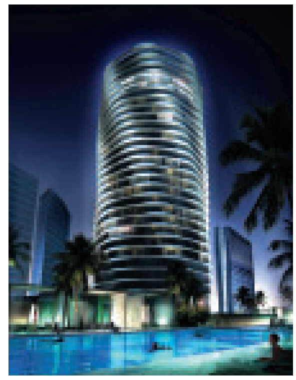
(1) Substantial pre-opening expenses were incurred in respect of Crown Macau and City of Dreams. According to the financial statements of Melco PBL Entertainment, the total pre-opening expenses amounted to approximately US$11.7 million for the full year ended 31 December 2006.

(2) Effective from September 2006, Melco PBL Entertainment started to provide for the amortization of the gaming license and its relevant costs. According to the financial statements of Melco PBL Entertainment, for the three months ended 31 December 2006, approximately US$14.3 million, US$11.2 million and US$10.2 million for the amortization, the written-off of deferred financing costs for the subconcession facility and the relevant interest charges thereon, respectively, were charged to income statement in relation to the gaming license.

For the year ended 31 December 2005, the Group's share from Melco PBL Entertainment recorded a profit of approximately

Management Discussion and Analysis





HK$2.2 million. This was primarily due to the interest income earned on time deposits prior to the cash being deployed for the development projects.

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

UNALLOCATED CORPORATE EXPENSES

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

FINANCE COSTS

Finance costs increased by 171% from approximately HK$31.7 million in 2005 to HK$85.9 million in 2006. The increase was primarily due to (i) increase in bank interest payable as a result of the increased funding needs of Value Convergence and (ii) increase in "deemed" interest payable (ie no cash flow implications) in relation to the convertible loan notes. Full details and explanations are given in Note 14 to the consolidated financial statements.

INCOME TAX CREDIT/(EXPENSE)

Income tax credit amounted to approximately HK$4.6 million versus an income tax expense of HK$6.0 million in 2005. This was primarily due to a deferred tax credit of HK$13.5 million in 2006 (2005 – HK$1.9 million) and the full details of which are shown in Notes 17 and 48 to the consolidated financial statements.

OUTLOOK

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

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE/CHARGE ON GROUP ASSETS

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

As at 31 December 2006, total assets of the Group amounted to HK$9,344.6 million (2005 – HK$5,652.9 million) which were financed by shareholders' equity of HK$7,567.1 million (2005 – HK$3,558.2 million), minority interests of HK$94.1 million (2005

Management Discussion and Analysis

– HK$686.3 million), current liabilities of HK$419.2 million (2005 – HK$306.5 million), and non-current liabilities of HK$1,264.0 million (2005 – HK$1,101.9 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 6.3 (2005: 9.4).

For the year under review, the Group recorded a net cash outflow of HK$1,140.5 million (2005 – inflow of HK$1,955.3 million). As at 31 December 2006, cash and cash equivalents of the Group amounted to HK$1,209.8 million (2005 – HK$2,350.3 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowing, obligation under finance leases, convertible loan notes, long term payable and shareholder's loan) over shareholders' equity, was at a satisfactory level of 0.17 time as at 31 December 2006 (2005 – 0.31 time). The Group adopts a prudent treasury policy. Cash and bank balances consisted of about 11% of cash and bank balances and 89% of short term fixed deposits. All borrowings and cash and bank balances are denominated in Hong Kong dollars and U.S. dollars to maintain stable exposure to foreign exchange risks.

As at 31 December 2006, the Group's total convertible loan notes amounted to HK$1,093.5 million, which were due in 2009 and 2010. The Group's long term payable amounted to HK$170.5 million, which was unsecured, non-interest bearing and due in 2008.

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

MATERIAL ACQUISITIONS

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

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

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, the Company contributed an amount of approximately HK$1,244,800,000 (US$160,000,000) to Melco PBL Gaming (Macau) Limited through Melco PBL Entertainment for the acquisition of the Macau gaming subconcession from Wynn Resorts (Macau) SA.

On 9 May 2006, Melco PBL International Limited ("Melco PBL International"), a jointly controlled entity of the Group, entered into an agreement ("Sale and Purchase Agreement") with Dr. Stanley Ho in relation to the sale of 20% of the issued share capital of Mocha Slots Group Limited ("Sale Shares") and related loan ("Sale Loan") from Dr. Ho to Melco PBL International for an aggregate consideration of approximately HK$295.7 million, with approximately HK$250 million being the consideration for the Sale Shares and approximately HK$45.7 million being the consideration for the Sale Loan. The sale and purchase of the Sale Shares and the assignment of the Sale Loan under the Sale and Purchase Agreement were completed on the same day the Sale and Purchase Agreement was signed.

On 17 May 2006, Melco PBL Entertainment's direct wholly-owned subsidiary Melco PBL (Macau Peninsula) Limited, a jointly controlled entity of the Group, entered into an agreement to purchase the entire issued share capital of a company holding the rights to a land lease grant in respect of a plot of land with an area of 6,480 square meters located at Zona dos Novos Aterros do Porto Exterior (NAPE), the Macau Peninsula, at an aggregate

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consideration amounting to approximately HK$1.5 billion. The acquisition is subject to the fulfillment of a number of conditions and is expected to be completed in the third quarter of 2007. An amount of HK$100 million was paid as stakeholder money on signing of the sale and purchase agreement. The balance of the consideration is payable in cash on completion of the acquisition. Melco PBL Entertainment intends to develop its third hotel and casino project in Macau on the site.

HEADCOUNT/EMPLOYEES' INFORMATION

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

1. **Recruitment**
   Melco is an equal opportunity employer and we recruit talents with outstanding abilities and commitment to professional excellence. We identify and validate talents through different recruitment sources and 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 deliver value and, on the other hand, would enhance personal growth.

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

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

FOREIGN EXCHANGE EXPOSURE

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Material capital expenditure will be incurred when the Company begins to pursue different projects in the coming years. The Company expects the respective project companies to secure required funding themselves using different financing options available. The Company will also provide the required equity capital to the new projects coming ahead, should it be deemed appropriate. Details are given in Notes 56 and 57 to the consolidated financial statements.

CONTINGENT LIABILITIES

On 31 December 2006, the Company provided a total guarantee of approximately HK$12,603,000 (2005 – HK$4,680,000) to a supplier and an insurance company in respect of goods purchased and service provided by its subsidiaries and the amount utilized is approximately HK$1,247,000 (2005 – HK$1,082,000).

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CORPORATE GOVERNANCE PRACTICES

In 2005, the Group adopted its Code on Corporate Governance ("Company Code"), which sets out the corporate standards and practices used by the Group in directing and managing its business affairs. The Company Code was prepared with reference to the principles, Code Provisions and Recommended Best Practices stipulated in the Code on Corporate Governance Practices issued by the Stock Exchange, which came into effect on 1 January 2005. The Company Code not only formalizes the Group's existing corporate governance principles and practices, but also serves to assimilate practices with benchmarks prescribed by the Stock Exchange, ultimately ensuring that the Group runs a highly transparent operation and is accountable to its shareholders.

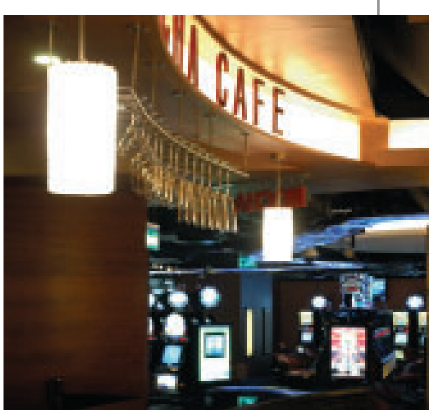
CORPORATE RECOGNITION

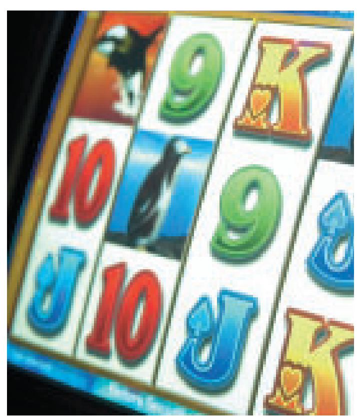
During the year, the Group received a number of accolades for its outstanding business performance as well as high corporate governance standard.

In recognition of the Group's excellent corporate governance practices, its Chairman, Mr. Lawrence Ho was awarded 'Directors of the Year Award 2005' by the Hong Kong Institute of Directors. In the survey conducted by *Institutional Investor*, a leading global investment and capital market research and publishing organization, Mr. Ho was named the "Best CEO" in the 'Conglomerates' category. The award reviews and ranks Asian companies annually for "best practices" in investor and shareholder relations.

With a caring spirit, Melco was recognized, for the second consecutive year, as a Caring Company by The Hong Kong Council of Social Service, an umbrella organization of over 300 non-governmental organizations (NGOs) providing over 90% of the social welfare services in Hong Kong. Melco was also recognized as one of the 'Business Superbrands' by Superbrands Hong Kong. The "Superbrand" award selection process adheres to a set of strict criteria rating attributes such as consumers' awareness of the brand, company reputation, market share and brand quality.

As a socially responsible young entrepreneur in Hong Kong, Mr Ho was elected as one of the 'Ten Outstanding Young Persons' in 2006. Presented annually by the Junior Chamber of Commerce International Hong Kong, the award recognizes young people demonstrating professional excellence and commitment to the community. Mr Ho also received the 5th China Enterprise Award for Creative Businessmen in Beijing and was named "Leader of Tomorrow 2005" by Hong Kong Tatler for his leadership wisdom and traits.





Management Discussion and Analysis

INVESTOR RELATIONS

Melco believes maintaining communication and operational transparency is vital to building good investors relations. During the year, the Group actively participated in investor conferences organized by well-known securities houses and regularly met with analysts and institutional investors. Various site visits to our development sites in Macau were also organized for investors.

The Group will continue to actively enhance communication with investors to foster investor relations. The Group would like to thank all investors for their continuous support over the years.

SOCIAL RESPONSIBILITY

Apart from growing its business, the Group is also committed to supporting charitable events and activities that can help improve the society. The Melco Volunteer Team was set up in 2004 to encourage staff to actively involve in worthwhile charitable causes and activities such as goodwill visits, raffle sales and fundraising campaigns in both Macau and Hong Kong. Through taking part in community and social service activities, the Group hopes to nurture a sense of social responsibility among its staff.

In the past year, Melco employees of all levels took part in the following charitable and environmental protection activities and events in Hong Kong and Macau:

(Jan) Elderly Visit & Chinese New Year Loving Gift Packs organized by Hong Kong Physically Handicapped and Able-bodied Association (HK PHAB)
(Feb) The Macau Melco Fives 2006
(Apr) The Community Chest's Treasure Hunt at Fisherman's Wharf, Macau
(May) City Junior Chamber's Fundraising Football Match for Supporting China Student
(Jun) Society for Abandoned Animals Charity Gala Premiere 'A Bite of Love'
(Jul) World Wide Fund for Nature Diamond Membership
(Jul) The Community Chest's Melco's Planting Day 2006
(Sept) Playday at Jumbo Kingdom jointly organized with Playright Children's Play Association
(Sept) Mid-Autumn Visit organized by HKPHAB
(Oct) Orbis Pinday
(Oct) The Community Chest's Dress Special Day
(Nov) The Community Chest's New Territories Walk for Million
(Dec) The Community Chest's Run-up IFC Two 2007
(Dec) UNICEF 15km Run

The "Greening in Melco" environmental protection initiative promotes a "green" culture in the Group. It encourages employees to recycle papers, cans and plastic bottles. Melco Green Team also participated in fundraising walk and nature appreciation visits organized by World Wide Fund for Nature. Employees were able to enjoy the natural beauty of Mai Po while learning more about work of World Wide Fund for Nature in environmental protection and

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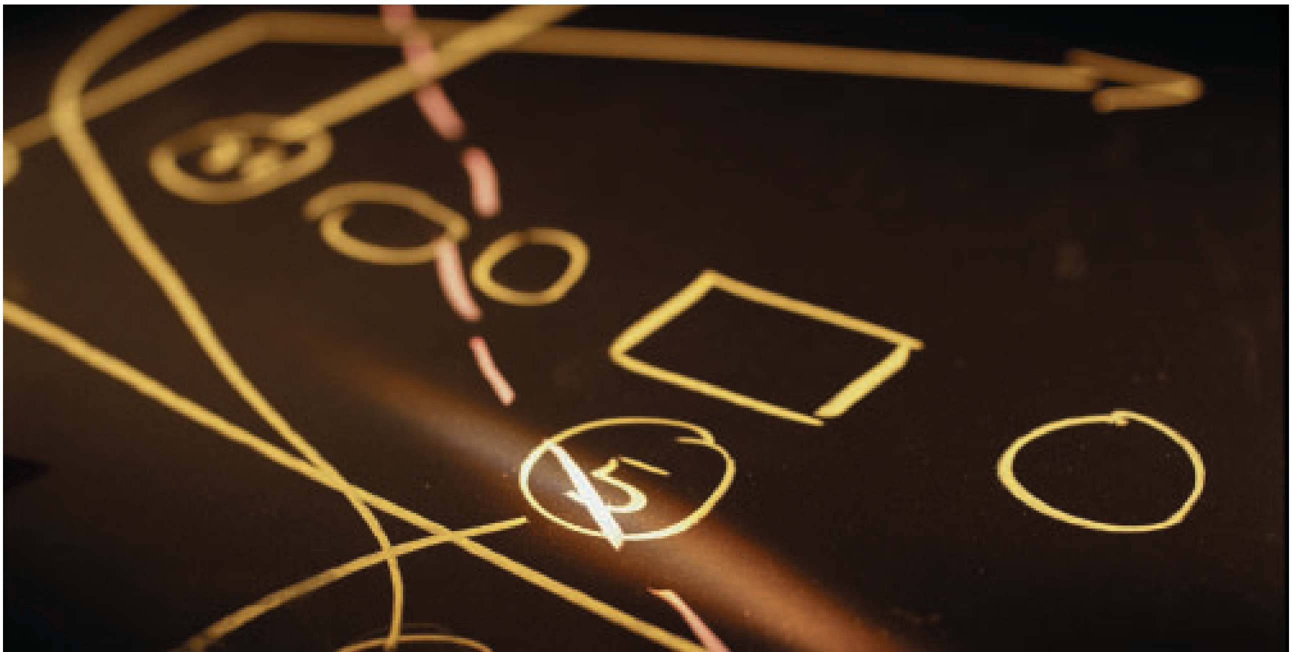
conservations. To further promote green awareness among the Group, Melco Green Team launched a "Lunar Year End Recycling Campaign" to collect reusable or recyclable materials (including waste papers, books, aluminum cans and plastic bottles) at designated spots. This campaign was well received and very successful.

Management Profile



Mr. HO, Lawrence Yau Lung (aged 30)
Chairman and Chief Executive Officer
Mr. Ho was appointed Group Managing Director of the Company in November 2001. He was subsequently appointed as Chairman and Chief Executive Officer on 15 March 2006. Mr. Ho is also a Co-Chairman and Chief Executive Officer of Melco PBL Entertainment (Macau) Limited, a company listed on the Nasdaq Global Market owning one of only six gaming concessions and subconcessions required to own and operate gaming business in Macau. As the CEO of Melco, Mr. Ho oversees and is responsible for the overall strategic development, management and operations of the Melco Group.

Mr. Ho is a graduate of the University of Toronto, Canada and holds a Bachelor of Arts degree, majoring in commerce.

Mr. Ho is active in community services and serves on numerous boards and committees in Hong Kong, Macau and mainland China. He sits on the Board of Directors of The Community Chest and is the Chairman of The Chamber of Hong Kong Listed Companies. He is also a Member of The Chinese People's Political Consultative Conference, Shanghai Committee; Member of Science and Technology Council of Macau Special Administrative Region; Member of All China Youth Federation, Member of Macau Basic Law Promotional Association; Chairman of Macau International Volunteers Association; Member of Campaign Committee of The Community Chest; Member of Board of Governors of The Canadian Chamber of Commerce in Hong Kong; Honorary Lifetime Director of the Chinese General Chamber of Commerce, Hong Kong; President of Macau Canadian Chamber of Commerce; Member of Association of Property Agents and Real Estate Developers of Macau and Lifetime Member of Macao Chinese General Chamber of Commerce.

In recognition of Mr. Ho's excellent directorship and entrepreneurial spirit, Institutional Investor, a leading research and publishing organization, honoured Mr. Ho as the "Best CEO" in the 'Conglomerates' category by the end of 2005. Mr. Ho also won the 'Directors of the Year Award 2005' in November 2005. The award is presented annually by the Hong Kong Institute of Directors in recognition of excellent corporate governance practice among Hong Kong listed companies. Mr Ho also received the 5th China Enterprise Award for Creative Businessmen in Beijing and was named "Leader of Tomorrow 2005" by Hong Kong Tatler for his leadership wisdom and traits. As a socially responsible young entrepreneur in Hong Kong, Mr. Ho was elected as one of the "Ten Outstanding Young Persons" in 2006.

Mr. TSUI Che Yin, Frank (aged 49)
Executive Director
Mr. Tsui has more than 20 years of experience in investment and banking, having held senior management positions at various international financial institutions. Prior to joining the Company, he was the president of China Assets Investment Management Limited which is the investment manager of China Assets (Holdings) Limited, a listed investment holding company in Hong Kong.

Mr. Tsui graduated with a bachelor's and a master's degree in business administration from the Chinese University of Hong Kong and with a law degree from the University of London. He is a member of the Certified General Accountants Association of Canada and the Hong Kong Securities Institute.

Mr. Tsui has been an Executive Director of the Company since November 2001.

Mr. CHUNG Yuk Man, Clarence, *FCPA*, *FCCA* (aged 44)
Executive Director and Chief Operating Officer
Mr. Chung has more than 19 years of experience in investment banking, accounting and finance areas. Before joining the Group in December 2003, he was the chief financial officer at Megavillage Group, an investment banker at Lazard managing an Asian buy-out fund, a vice-president at Pacific Century Group; and a qualified accountant with Arthur Andersen.

Mr. Chung holds a bachelor degree in business administration from the Chinese University of Hong Kong, is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants; and a member of the Society of Management Accountants of Canada.

Mr. Chung has been an Executive Director of the Company since May 2006.

Mr. NG Ching Wo (aged 56)
Non-executive Director
Mr. Ng is a senior partner of Arculli Fong & Ng, Lawyers. Mr. Ng received his L.L.B. from the University of Alberta in Canada and was admitted to practise as a barrister and solicitor in Alberta in 1981. He is qualified as a solicitor in both the United Kingdom and Hong Kong. Mr. Ng's practice focused primarily in the area of cross-border corporate and commercial work and he has experience in mergers and acquisitions, take-overs of private and listed companies, cross-border initial public offerings, tax planning, large-scale international joint ventures and technology transfer.

Mr. Ng sits on the board of a number of companies listed in Hong Kong.

Mr. Ng has been a Non-executive Director of the Company since September 2004.

Sir Roger LOBO, *C.B.E., LL.D., J.P.* (aged 84)
Independent Non-executive Director
Sir Roger is a prominent figure in Hong Kong and Macau and has served on numerous public offices in the past. He was an Executive Council Member between 1967 and 1985, a Legislative Council Member between 1972 and 1985 (Senior Legislative Council Member between 1980 and 1985) and a Member of Urban Council (1965-1978). In addition, he was Chairman of the Advisory Committee on Post-Retirement Employment (1987-1998), Chairman of Hong Kong

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Broadcasting Authority (1989-1997) and Chairman and Member of various committees of Independent Commission Against Corruption (1975-1985).

Sir Roger is currently serving on many civic and social services offices. These offices include Vice-Patron of the Community Chest of Hong Kong and The Society of Rehabilitation and Crime Prevention, Hong Kong; Member of the Board of Trustees of Business and Professionals Federation of Hong Kong; Council Member of Caritas Hong Kong; and Honorary Commissioner of Civil Aid Services.

Sir Roger sits on the board of a number of other companies, including Shun Tak Holdings Limited and PCCW Limited (both Hong Kong listed) and Johnson & Johnson (HK) Limited.

Sir Roger has been an Independent Non-executive Director of the Company since February 1998.

Dr. LO Ka Shui, *G.B.S., J.P.* (aged 60)
Independent Non-executive Director
Dr. Lo is the Chairman and Managing Director of Great Eagle Holdings Limited and the non-executive Chairman of Eagle Asset Management (CP) Limited (Manager of the publicly listed Champion Real Estate Investment Trust). He is a Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, China Mobile Limited and some other publicly listed companies in Hong Kong and was a Director of Hong Kong Exchanges and Clearing Limited. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research and a Board Member of the Airport Authority Hong Kong.

Dr. Lo holds a Bachelor of Science (Biophysics) degree from McGill University and a M.D. from Cornell University, certified in Cardiology. He has more than 27 years' experience in the property, hotel and financial industries.

Dr. Lo has been an Independent Non-executive Director of the Company since September 2004.

Mr. SHAM Sui Leung, Daniel (aged 51)
Independent Non-executive Director
Mr. Sham qualified as a chartered accountant in England and Wales, and worked as a certified public accountant in Hong Kong for over 20 years. He was a partner of Moores Rowland Mazars for 14 years until he retired on 31 December, 2003. After his retirement, he rejoined Moores Rowland Mazars as a consultant in late 2004 and worked in that capacity until March, 2006.

Mr. Sham graduated with a Bachelor of Arts in Economics at University of Leeds. He was a member of the Auditing Standard Committee, the Expert Panel on Listing and the Expert Panel on Securities and the Accountants' Report Task Force of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He was also a member of the Disciplinary Panel of HKICPA.

Mr. Sham has all-round experience in accounting, auditing and other related works, especially in the fields of corporate finance and securities regulations. He is currently an independent non-executive director of AEON Stores (Hong Kong) Co., Limited and Value Convergence Holdings Limited, both of which are listed on the Stock Exchange of Hong Kong Limited.

Mr. Sham has been an Independent Non-executive Director of the Company since June 2006.

SENIOR MANAGEMENT

Mr. WANG, John Peter Ben (aged 46)
Chief Financial Officer
Mr. Wang joined the Group in 2004. He had over 19 years of experience in the financial and investment banking industry prior to joining the Group. Mr. Wang previously worked for Deutsche (HK), CLSA (HK), Bear Stearns (HK), Barclays

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(Singapore), SG Warburgs (London) and Salomon Brothers (London), the London Stock Exchange and Deloitte Haskins & Sells (London). He qualified as a chartered accountant with the Institute of Chartered Accountants in England and Wales in 1985.

Mr. TSANG Yuen Wai, Samuel (aged 52)
Group Legal Counsel & Company Secretary
Mr. Tsang is a solicitor admitted in Hong Kong, England and Australia. As Group Legal Counsel and Company Secretary, Mr. Tsang oversees the legal, corporate and compliance matters of the Group. Mr. Tsang has worked as a lawyer with major law firms and listed conglomerates in Hong Kong for over 16 years. He holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management. Mr. Tsang joined the Group in November 2001.

Mr. Patrick SUN (aged 48)
Executive Director and Chief Executive Officer of Value Convergence Holdings Limited
Mr. Sun has more than 20 years of experience in the investment banking business. Before joining the Group, he had been an executive director of SW Kingsway Capital Holdings Limited (a company listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange")); the Senior Country Officer of JP Morgan Chase and head of its investment banking business in Hong Kong; and also group executive director and co-head of investment banking of Jardine Fleming Holdings Limited. Mr. Sun is currently the non-executive Chairman of Solomon Systech (International) Limited (a company listed on the Stock Exchange), and an independent non-executive director of The Link Management Limited (as manager of The Link Real Estate Investment Trust which is listed on the Stock Exchange) and Everbright Pramerica Fund Management Company Limited.

Mr. Sun holds a Bachelor of Science degree from the Wharton School, University of Pennsylvania in the United States and completed the Stanford Executive Program of the Stanford Business School. He is a qualified accountant in the United Kingdom and Hong Kong.

Management Profile

Mr. KO Chun Fung, Henry (aged 47)
Chief Executive Officer of iAsia Online Systems Limited
Mr. Ko worked with the Hong Kong listed Star Telecom Group since 1993 and was promoted to the position of Executive Director in 1996. He spearheaded the company's PCS license bidding and re-aligned the Star Telecom Group's joint ventures in the Asia Pacific region. In 1997, he founded Star Telecom Overseas (Cayman Islands) Limited and brought Baring Communications Equity Asia (BCEA) on board as a shareholder while pursuing telecom and Internet investment opportunities in the Asian region. Mr. Ko joined iAsia Technology Limited in 1999 as Co-Chief Executive Officer. After a corporate restructuring in 2004, Mr. Ko headed the iAsia Online Systems Limited which became a leading financial trading solutions vendor in Hong Kong.

Mr. Ko obtained a Bachelor of Engineering degree (1st honours) in 1982. In 1990 he received an Australian Postgraduate Course Award to study at the Australian Graduate School of Management, from where he obtained his MBA degree.

Mr. YUEN Tien Yau, Gordon (aged 49)
Chief Executive Officer of Elixir Group Limited
Mr. Yuen graduated from York University, Ontario, Canada with a Bachelor of Arts degree (Honours) in Business Administration. Mr. Yuen contributed to the success of a number of major financial institutions and IT companies where he was a key managerial member. Those companies include HSBC, American Express International, Inc., American Express Bank, Pcesio, and a member of companies in Asia. He serves as Chief Executive Officer of Elixir since it was set up in 2002.

Ms. WONG Lai Lai, Wendy (aged 46)
Director, Project and Human Resources
Ms. Wendy Wong has been a professional specializing in people management for more than 20 years. Holding a master Degree in Human Resources Management from Macquarie University of Australia, Wendy had worked in various companies across different industries including conglomerate, professional firm, chemical and pharmaceutical. Before joining the Group in February 2006, Wendy was the Head of Human Resources, Region China, at Ciba Specialty Chemicals, a Swiss based leading global specialty chemicals group, responsible for the entire Human Resources function including manpower planning, remuneration strategy, performance management, education and talent development.

Mr. TAM Chi Wai, Dennis, *PhD*, *CPA (Aust)*, *CMA* (aged 37)
Group Finance Director and Qualified Accountant
Mr. Tam joined the Group in 2006. Before joining Melco, he was Finance Director of Quality Healthcare Medical Services and had held management positions in various multinational companies including Marsh & McLennan and BF Goodrich. He obtained his Master Degree in Accounting from Monash University and completed his PhD program at Washington Intercontinental University. Mr. Tam is a Fellow of the Financial Services Institute of Australasia, a Member of CPA Australia and a Member of the Institute of Certified Management Accountants, Australia.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 62 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 53.

No interim dividend was paid to the shareholders during the year (2005: HK$0.01 per ordinary share). A special dividend of 60,382 American Depositary Shares ("ADSs") amounting to approximately HK$8,925,000 and a cash dividend amounting to approximately HK$21,295,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK$0.01 per ordinary share to the shareholders on the register of members on 10 May 2007.

FIXED ASSETS

Details of movements in investment properties and property, plant and equipment during the year are set out in notes 22 and 23, respectively, to the consolidated financial statements.

HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT

Details of movements in hotels and entertainment complex under development during the year are set out in note 24 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

On 1 March 2006, 22,222,222 ordinary shares of HK$0.5 each were issued which form part of the consideration for acquisition of additional interest in a subsidiary upon the actual date of grant of the concession of a piece of land by the Macau Government.

In order to finance the Group's expansion and general operations, the Company issued 63.6 million ordinary shares of HK$0.5 each for a consideration of HK$19.1 per share. The issue was made on 2 June 2006 to independent investors. The new shares rank pari passu with the existing shares in all respects.

Details of movements in share capital and share options of the Company during the year are set out in notes 49 and 51, respectively, to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 131. This summary does not form part of the audited financial statements.

Directors' Report

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2006, the Company's reserves available for distribution consisted of capital reserve of approximately HK$296,016,000 (2005: HK$337,841,000) of which approximately HK$12,282,000 has been proposed as final dividend. In addition, the Company's share premium account, in the amount of approximately HK$3,124,940,000 (2005: HK$1,776,248,000), may be distributed in the form of fully paid bonus shares. Saved as disclosed above, the Company had no reserve available for distribution in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for less than 30% of the Group's total revenue for the year. The five largest suppliers accounted for approximately 51% of the Group's total purchases for the year and the largest supplier accounted for approximately 16% of the total purchases.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Dr. Ho Hung Sun, Stanley	(Resigned on 15 March 2006)
Mr. Ho, Lawrence Yau Lung	(Chairman and Chief Executive Officer effective from 15 March 2006)
Mr. Tsui Che Yin, Frank	
Mr. Chung Yuk Man, Clarence	(Appointed on 18 May 2006)

Non-executive director:

Mr. Ng Ching Wo

Independent non-executive directors:

Sir Roger Lobo	
Mr. Kwan Chiu Yin, Robert	(Resigned on 15 March 2006)
Dr. Lo Ka Shui	
Mr. Sham Sui Leung, Daniel	(Appointed on 14 June 2006)

In accordance with Articles 94 and 103(A) of the Company's Articles of Association, Mr. Tsui Che Yin, Frank, Mr. Chung Yuk Man, Clarence, Dr. Lo Ka Shui and Mr. Sham Sui Leung, Daniel will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ho, Lawrence Yau Lung, Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence has a service contract with Melco Services Limited, a wholly-owned subsidiary of the Company, which may be terminated by either party by written notice of not less than three months.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE LOAN NOTES

As at 31 December 2006, the interests of each director and chief executive and their associates in the shares, underlying shares or convertible loan notes of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(i) Long position in shares and underlying shares of the Company

(a) Ordinary shares of HK$0.50 each of the Company

Name of director	**Capacity**	**Number of issued ordinary shares held** *(Note 1)*	**Approximate percentage of the issued share capital of the Company**
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations *(Note 2)*	404,041,630	32.90%
	Beneficial owner	7,232,612	0.59%
Dr. Lo Ka Shui	Beneficial owner	2,000,000	0.16%
Mr. Chung Yuk Man, Clarence	Beneficial owner	707,000	0.06%

Directors' Report

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE LOAN NOTES (continued)

(b) Share options of the Company

Name of director	At beginning of the year	Granted during the year	Exercised during the year	At end of the year	Date of grant	Exercisable period	Exercise price HK$
Mr. Ho, Lawrence Yau Lung	1,800,000	–	(1,800,000)	–	19 February 2004	19 February 2006 to 7 March 2012	1.2025
Mr. Tsui Che Yin, Frank	32,612	–	(32,612)	–	8 March 2002	8 September 2002 to 7 March 2012	0.5000
	1,800,000	–	(1,800,000)	–	19 February 2004	19 February 2006 to 7 March 2012	1.2025
Mr. Chung Yuk Man, Clarence	500,000*	–	(500,000)	–	19 February 2004	19 February 2006 to 7 March 2012	1.2025
	140,000*	–	(140,000)	–	17 September 2004	17 September 2006 to 7 March 2012	1.6875
	140,000*	–	–	140,000	17 September 2004	17 March 2008 to 7 March 2012	1.6875
	200,000*	–	–	200,000	1 February 2005	17 September 2009 to 7 March 2012	7.4000
	–	130,000	–	130,000	13 February 2006	1 April 2008 to 31 January 2016	11.8000
	–	130,000	–	130,000	13 February 2006	1 April 2010 to 31 January 2016	11.8000
	–	140,000	–	140,000	13 February 2006	1 April 2012 to 31 January 2016	11.8000
Dr. Lo Kai Shui	–	100,000	–	100,000	3 April 2006	3 April 2008 to 2 April 2016	15.8700
	–	100,000	–	100,000	3 April 2006	3 April 2010 to 2 April 2016	15.8700
	–	100,000	–	100,000	3 April 2006	3 April 2012 to 2 April 2016	15.8700

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE LOAN NOTES (continued)

Name of director	At beginning of the year	Granted during the year	Exercised during the year	At end of the year	Date of grant	Exercisable period	Exercise price *HK$*
Sir Roger Lobo	–	100,000	–	100,000	3 April 2006	3 April 2008 to 2 April 2016	15.8700
	–	100,000	–	100,000	3 April 2006	3 April 2010 to 2 April 2016	15.8700
	–	100,000	–	100,000	3 April 2006	3 April 2012 to 2 April 2016	15.8700
Mr. Ng Ching Wo	–	100,000	–	100,000	3 April 2006	3 April 2008 to 2 April 2016	15.8700
	–	100,000	–	100,000	3 April 2006	3 April 2010 to 2 April 2016	15.8700
	–	100,000	–	100,000	3 April 2006	3 April 2012 to 2 April 2016	15.8700
	4,612,612	1,300,000	(4,272,612)	1,640,000			

* *Share options have been reclassified as Mr. Chung Yuk Man, Clarence has been appointed as a director of the Company with effect from 18 May 2006.*

(c) *Convertible loan notes of the Company (Note 3)*

Name of director	Capacity	Number of underlying shares of the Company *(Note 1)*	Approximate percentage of the issued share capital of the Company
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694	9.60%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE LOAN NOTES (continued)

Notes:

1. As at 31 December 2006, the total number of issued shares of the Company was 1,228,150,716.

2. Mr. Ho, Lawrence Yau Lung was taken to be interested in 115,509,024 shares of the Company as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.41% of the issued share capital of the Company. He was also taken to be interested in 288,532,606 shares of the Company as a result of him being interested in 65% of issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 23.49% of the issued share capital of the Company.

3. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Lawrence Ho and his family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity to make an offer under Rule 26 of The Hong Kong Code on Takeovers and Mergers (the "Takeovers Code") on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code will be made on full conversion.

(ii) Long position in shares and underlying shares of the associated corporation of the Company, Value Convergence Holdings Limited ("Value Convergence")

(a) Ordinary shares of HK$0.1 each of Value Convergence

Name of director	Capacity	Number of issued ordinary shares of Value Convergence held *(Note 1)*	Approximate percentage of the issued share capital of Value Convergence
Mr. Ho, Lawrence Yau Lung	Held by controlled corporation	165,163,008 *(Note 2)*	65.09%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE LOAN NOTES (continued)

Notes:

1. As at 31 December 2006, the total number of issued shares of Value Convergence was 253,740,179.

2. Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 160,930,381 shares of Value Convergence as a result of him being beneficially interested in approximately 33.49% of the issued share capital of the Company which in turn holds approximately 63.42% of the issued share capital of Value Convergence; and (ii) 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.67% of the issued share capital of Value Convergence.

(b) *Share options of Value Convergence*

Name of director	Capacity	Number of underlying shares of Value Convergence held	Approximate percentage of the issued share capital of Value Convergence
Mr. Ho, Lawrence Yau Lung	Beneficial owner	491,057 *(Note)*	0.19%

Note: The personal interest of Mr. Ho, Lawrence Yau Lung represents his derivative interest in Value Convergence comprising the options which were granted on 9 July 2002 and may be exercised during the period from 9 July 2002 to 8 July 2012 at an exercise price of HK$1.00 per Value Convergence's share.

Save as disclosed above, none of the directors or chief executive and their associates had any interests or short positions in any shares, underlying shares or convertible loan notes of the Company or any of its associated corporations as at 31 December 2006.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the register of substantial shareholders maintained by the Company, pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

(a) Ordinary shares of HK$0.50 each of the Company

Name	**Capacity**	**Number of issued ordinary shares held**	**Approximate percentage of the issued share capital of the Company** *(Note 1)*
Better Joy Overseas Ltd.	Beneficial owner	288,532,606 *(Note 2)*	23.49%
Lasting Legend Ltd.	Beneficial owner	115,509,024 *(Note 2)*	9.41%
Mr. Ho, Lawrence Yau Lung	Held by controlled corporation	404,041,630 *(Note 3)*	32.90%
	Beneficial owner	7,232,612	0.59%
Ms. Sharen Lo	Family	411,274,242 *(Note 4)*	33.49%
Janus Capital Management LLC	Beneficial owner	110,144,000	8.97%
JPMorgan Chase & Co	Held by controlled corporation	76,282,400 *(Note 5)*	6.21%
Julius Baer Investment Management LLC	Beneficial owner	86,002,192	7.00%

SUBSTANTIAL SHAREHOLDERS (continued)

(b) Convertible loan notes of the Company

Name	Capacity	Number of issued ordinary shares held *(Note 1)*	Approximate percentage of the issued share capital of the Company
State Street Corporation	Beneficial owner	122,927,714 *(Note 6)*	10.00%
Great Respect Limited	Beneficial owner	117,912,694 *(Note 7)*	9.60%
Dr. Ho Hung Sun Stanley	Held by trust	117,912,694 *(Note 7)*	9.60%
Mr. Ho, Yau Lung Lawrence	Held by trust	117,912,694 *(Note 7)*	9.60%
Ms. Sharen Lo	Held by trust	117,912,694 *(Note 7)*	9.60%
SG Trust (Asia) Ltd.	Held by controlled corporation	117,912,694 *(Note 7)*	9.60%
Sociedade de Turismo e Diversões de Macau, S.A. ("STDM")	Beneficial owner	63,658,536 *(Note 8)*	5.18%

Notes:

1. As at 31 December 2006, the total number of issued shares of the Company was 1,228,150,716.

2. The shares held by Better Joy Overseas Ltd. and Lasting Legend Ltd. also represent the corporate interest of Mr. Ho, Lawrence Yau Lung in the Company.

3. Mr. Ho, Lawrence Yau Lung was taken to be interested in 115,509,024 shares of the Company as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.41% of the issued share capital of the Company. Mr. Ho, Lawrence Yau Lung was also taken to be interested in 288,532,606 shares of the Company as a result of him being beneficially interested in 65% of the issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 23.49% of the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS (continued)

4. Ms. Sharen Lo is the spouse of Mr. Ho, Lawrence Yau Lung and is deemed to be interested in shares of the Company in which Mr. Ho, Lawrence Yau Lung is interested under the SFO.

5. Among the 76,282,400 shares, 16,304,700 shares are held in lending pool.

6. The interest is held in lending pool.

7. (a) Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarge issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Lawrence Ho and his family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity to make an offer under Rule 26 of the Takeovers Code on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeover Code will be made on full conversion.

   (b) Dr. Ho Hung Sun, Stanley also holds 3,127,107 shares and 18,587,789 shares of the Company in person and through a controlled corporation respectively.

8. (a) Two convertible loan notes for the principal amounts of HK$100 million and HK$56 million carrying the rights to subscribe for shares at an initial conversion price of HK$4.00 and HK$8.2 respectively were issued by the Company to STDM on 9 November 2004 and 8 February 2005. As at 31 December 2006, the total outstanding principal amount of the said convertible loan notes is HK$156 million. Due to the share subdivision completed on 19 May 2005, the said conversion prices of HK$4.00 and HK$8.2 have been adjusted to HK$2.00 and HK$4.1 respectively. If STDM exercises the conversion rights attached to the said convertible loan notes in full, a total of 63,658,536 shares of the Company will be issued to STDM. STDM's said conversion rights are subject to the Company's early redemption rights and can only be exercised if the Company does not exercise its right to redeem the convertible loan notes before the conversion rights are exercised.

   (b) STDM also holds 222 shares of the Company.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no person as having a notifiable interest or short position of the issued share capital of the Company as at 31 December 2006.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as for the share option schemes disclosed in note 51 to the consolidated financial statements and the convertible loan notes disclosed in notes 24 and 47 to the consolidated financial statements, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 60 to the consolidated financial statements, no contracts of significance to which the Company, or any of its holding companies, subsidiaries, or fellow subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group has entered into the following connected transactions which are required to be disclosed in accordance with Chapter 14A of the Listing Rules :

On 28 December 2006, Elixir Group (Macau) Limited, an indirect wholly-owned subsidiary of the Company, had conditionally entered into service arrangements with STDM and Sociedade de Jogos de Macau, S.A. ("SJM") for the provision of system integration services for the amounts of about HK$9.1 million and HK$107.1 million and maintenance services for an aggregate amount of about HK$6.0 million for SJM ("Service Arrangements").

Dr. Stanley Ho, the former chairman and executive director of the Company, resigned from these posts with effect from 15 March 2006. Since Dr. Ho ceased to be a director of the Company within twelve months preceding the date of making of the Service Arrangements, he is regarded as a connected person of the Company for connected transactions purpose under the Listing Rules. STDM and SJM (a non wholly-owned subsidiary of STDM), being associates of Dr. Stanley Ho, are also connected persons of the Company for such purpose. Consequently, the Service Arrangements constitute non-exempt connected transactions of the Company under Rule 14A.16(5) of the Listing Rules. The Service Arrangements and all transactions contemplated thereunder had been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 8 February 2007. Details of the Service Arrangements were set out in the announcement and circular of the Company dated 28 December 2006 and 18 January 2007 respectively.

Disclosure of the abovementioned connected transactions of the Group has been made in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

Apart from the foregoing, none of the related party transactions set out in note 60 to the consolidated financial statements falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 61 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Dr. Stanley Ho, the former chairman and executive director of the Company (who resigned from these position on 15 March 2006), has direct or indirect beneficial interests in Shun Tak Holdings Limited, its subsidiaries and associates (the "Shun Tak Group") as shareholders. In addition, Dr. Stanley Ho has beneficial interests in STDM, its subsidiaries and associates (the "STDM Group") as shareholders. Further, Dr. Stanley Ho is a director of and actively involved in the management of the Shun Tak Group and the STDM Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

During the year and up to the date of this report, the businesses of property investment, leisure, entertainment, gaming and hospitality (which includes restaurant operations) carried on by the Shun Tak Group and the STDM Group were considered to compete or likely to compete, either directly or indirectly, with the businesses of the Group.

Dr. Stanley Ho is also the chairman and a director of Seng Hang Bank Limited in Macau ("Seng Hang Bank"). As part of the business of Seng Hang Bank consists of securities and financial advisory services, the directors believe that there is a potential risk that part of the business of Seng Hang Bank may compete with the investment banking business of the Group to be developed in Macau.

As the board of directors of the Company is independent of the boards of the Shun Tak Group, the STDM Group and Seng Hang Bank, the Group is capable of carrying on the aforementioned businesses independently of, and at an arm's length from the businesses of these companies.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2006.

EMOLUMENT POLICY

The employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market standards.

The Company has adopted share option schemes as an incentive to directors and eligible employees. Details of the schemes are set out in note 51 to the consolidated financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of the Independent Non-executive Directors of the Company and the Company considers all existing Independent Non-executive Directors to be independent.

AUDIT COMMITTEE

The Company has an audit committee which was established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The audit committee, comprising a non-executive director and two independent non-executive directors, met two times during the financial year. During the meetings, the audit committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports and connected transactions of the Group and discussed with management the auditing, internal control and financial reporting matters.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2006.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$1,248,000.

AUDITORS

The consolidated financial statements of the Company for the year ended 31st December 2006 have been audited by Messrs. Deloitte Touche Tohmatsu, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Messrs. Deloitte Touche Tohmatsu have been appointed as auditors of the Company since the retirement of Messrs. PricewaterhouseCooper at the 2005 annual general meeting of the Company held on 18 May 2005.

On behalf of the Board

Ho, Lawrence Yau Lung
Chairman & Chief Executive Officer
Hong Kong
30 March 2007

Corporate Governance Report

Corporate Governance Practices

(a) *Application of Corporate Governance Principles*

The Group is committed to promoting and maintaining the highest standard corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders, and (iv) the improvement in management of risks and the enhancement of performance by the Group. The Group has applied the principles set out in the Code on Corporate Governance Practices ("HKSE Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("Listing Rules") with these objectives in mind.

(b) *Promulgation of Company's Corporate Governance Code*

To this end, the Group has promulgated a set of Code on Corporate Governance ("Company Code") which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by referencing to the principles, Code Provisions and Recommended Best Practices set out in the HKSE Code. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the HKSE Code and ultimately ensuring high transparency and accountability to the Group's shareholders. The Company Code has been posted on the Company's website.

(c) *Establishment of Board Committees*

On 3 August 2005, the Company set up the following board committees (the Audit Committee was established and had been in existence before that date):

(i) Executive Committee;

(ii) Audit Committee (terms of reference of the audit committee adopted on 24 March 1999 were superseded by the new terms of reference adopted on 3 August 2005);

(iii) Remuneration Committee;

(iv) Nomination Committee;

(v) Finance Committee; and

(vi) Regulatory Compliance Committee.

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

(d) *Compliance of Company and HKSE's Code's Provisions*

The Group has complied with all provisions in the Company Code and the HKSE Code throughout the financial year ended 31 December 2006 with two deviations mentioned below.

(e) *Deviations from HKSE Code*

HKSE Code provision A.4.1 provides that non-executive directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all non-executive directors of the Company are not appointed for specific term. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on directors' service are appropriate given that directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of non-executive directors have given the Company's shareholders the right to approve continuation of non-executive directors' offices.

Pursuant to HKSE Code Provision A.2.1, the roles of Chairman and Chief Executive Officer of a listed company should be separate and should not be performed by the same individual. However, in view of the present composition of the Board, the in depth knowledge of Mr. Ho, Lawrence Yau Lung of the operations of the Group and of the gaming and entertainment sector in Macau in general, his extensive business network and connections in that sector and the scope of operations of the Group, the Board believes it is in the best interests of the Company for Mr. Ho, Lawrence Yau Lung to assume the roles of Chairman and Chief Executive Officer at this time and that such arrangement be subject to review by the Board from time to time.

Securities Transactions by Directors

The Company has adopted a code of conduct regarding directors' securities transactions on terms as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Directors of the Company, all Directors have complied with the required standard of dealings and code of conduct regarding securities transactions by directors as set out in the Model Code for the year 2006.

The Board of Directors – Function and Composition

The Board is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company, which is delegated to the Chief Executive Officer/Managing Director and the management. Lists of (1) duties and powers delegated to the Company's Chairman and Managing Director and matters reserved for decision of the Board and (2) division of responsibilities between the Company's Chairman and Managing Director are given at the Company's website under the section "Corporate Governance".

The Board comprises a total of seven Directors, with three Executive Directors, namely, Mr. Ho, Lawrence Yau Lung[1] (Chairman and Chief Executive Officer), Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence[2]; 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[4]. An Independent Non-executive Director has appropriate professional qualifications, accounting and financial management expertise.

Dr. Ho Hung Sun, Stanley, the former Chairman of the Company is the father of Mr. Ho, Lawrence Yau Lung, the Chairman and Chief Executive Officer of the Company.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Corporate Governance Report

The Directors acknowledge their responsibility for preparing the financial statements set out in this Annual Report which give a true and fair view and are prepared in accordance with the relevant statutory requirements and applicable accounting standards in force.

Board Operation
The Board meets regularly over the Company's affairs and operations. In 2006, the Board held seven meetings. The attendance record of each member of the Board is set out below:

Executive Directors	**Attendance**
Ho, Lawrence Yau Lung *(Chairman and Chief Executive Officer)*	7/7[1]
Tsui Che Yin, Frank	7/7
Chung Yuk Man, Clarence *(Chief Operating Officer)*	3/3[2]
Ho Hung Sun, Stanley	2/2[3]
Non-executive Director	
Ng Ching Wo	4/7
Independent Non-executive Directors	
Sir Roger Lobo	6/7
Lo Ka Shui	6/7
Sham Sui Leung, Daniel	3/3[4]
Kwan Chiu Yin, Robert	0/2[5]

Remuneration Committee
As mentioned above, a Remuneration Committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and

(b) to determine the remuneration packages for executive directors and senior management and to make recommendations to the board on the remuneration of Non-executive Directors.

Other details of the role and function of the Remuneration Committee are given at the Company's website under the section "Corporate Governance".

The Remuneration Committee is made up of the Company's Non-executive Director and Independent Non-executive Directors, namely Dr. Lo Ka Shui (Chairman), Sir Roger Lobo and Mr. Ng Ching Wo.

In 2006, the Remuneration Committee held four meetings. The attendance record of each member of the Committee is set out below:

	Attendance
Lo Ka Shui *(Chairman)*	4/4
Sir Roger Lobo	4/4
Ng Ching Wo	4/4

The formulation of the Group's remuneration strategy and policy is based on the principles of equity and market competitiveness so as to drive staff to work towards the mission of the Group and to retain talents. The Company has also adopted a share option scheme as an incentive to Directors and employees. Details of the scheme are set out in Note 51 to the consolidated financial statements.

The emoluments of the Directors are determined with regard to the performance of individuals, the Company's operating results and market standards. During the year, the Remuneration Committee has considered and approved (a) bonus payments to employees of the Group, (b) salary increases of senior management of the Group, (c) range of salary increases for employees of the Group and (d) the Directors' fees. The Committee has also made recommendations to the Board in relation to the remuneration packages of the Directors appointed during the year in line with the Group's remuneration strategy and policy.

Nomination Committee

As mentioned above, a Nomination Committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board;

(b) to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and

(c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The Nomination Committee is made up of the Company's Executive Director, Non-executive Director and Independent Non-executive Director, namely Mr. Ng Ching Wo (Chairman), Sir Roger Lobo and Mr. Ho, Lawrence Yau Lung.

In 2006, the Nomination Committee held one meeting. The attendance record of each member of the Committee is set out below:

	Attendance
Ng Ching Wo *(Chairman)*	1/1[6]
Sir Roger Lobo	1/1
Ho, Lawrence Yau Lung	Not applicable[7]
Kwan Chiu Yin, Robert	0/1[5]

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board. The Committee has also recommended the appointment of Mr. Chung Yuk Man, Clarence and Mr. Sham Sui Leung, Daniel as an Executive Director and an Independent Non-executive Director respectively to the Board.

Corporate Governance Report

Executive Committee
As mentioned above, an executive committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to oversee the implementation of the Company's strategic objectives and risk management policies; and

(b) to oversee the business and operations of all of the business units of the Group.

The Executive Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank, Mr. Chung Yuk Man, Clarence[8] and members of the Company's senior management. The Executive Committee held meetings from time to time to discuss operational matters of the Company's business and new projects.

Finance Committee
As mentioned above, a finance committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to conduct review on matters such as Group wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets; and

(b) to review major acquisitions and investments and their funding requirements.

The Finance Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence. The Finance Committee held meetings from time to time to discuss financial matters of the Company's new and existing business.

Regulatory Compliance Committee
As mentioned above, a regulatory compliance committee was formed on 3 August 2005 for, inter alia, the following purposes:–

(a) to review and advise upon matters in respect of the present or future regulation of the Company's gaming and financial services businesses; and

(b) to comply with applicable laws and regulations, including the Listing Rules.

The Regulatory Compliance Committee is made up of the Company's Executive Directors and Independent Non-executive Director, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank, Dr. Lo Ka Shui and the Group Legal Counsel (non-voting capacity). The Regulatory Compliance Committee held meetings from time to time to discuss the ongoing compliance matters of the Group.

Audit Committee
The Company's Audit Committee was formed on 24 March 1999 and is composed of a Non-executive Director and two Independent Non-executive Directors of the Company as at 31 December 2006, namely, Sir Roger Lobo (Chairman), Mr. Sham Sui Leung, Daniel and Mr. Ng Ching Wo. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements and interim reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group. Other details of the role and function of the Audit Committee are available on the Company's website under the section "Corporate Governance".

In 2006, the Audit Committee held two meetings. The attendance record of each member of the Committee is set out below:

	Attendance
Sir Roger Lobo *(Chairman)*	2/2[9]
Ng Ching Wo	2/2
Sham Sui Leung, Daniel	1/1[10]
Kwan Chiu Yin, Robert	0/1[5]

The Audit Committee has carefully reviewed the Company's half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in HKSE Code. In the course of doing so, the Committee has met the Company's management, qualified accountant and external auditors several times during 2006.

Auditors' Remuneration

For the year ended 31 December 2006, the Company paid to its auditors, Deloitte Touche Tohmatsu, around HK$4.8 million for audit and non-audit services provided to the Company. Out of this amount, HK$3.0 million was for audit services and the balance of HK$1.8 million was for non-audit services (such as interim review of the Group's financial statements, audit of the Group's ORSO schemes for certain subsidiaries, audit work related to the spin-off, agreed-upon procedures for agreeing the Company's final results announcement and tax services).

Internal Control

The Board recognises its overall responsibility for the establishment and maintenance of a sound system of internal control and the review of its effectiveness in order to safeguard the shareholders' investment and the Group's assets.

(a) *Internal Control System*

The Group's system of internal control consists of various policies, procedures and control activities designed to provide reasonable assurance against material misstatement or loss. The sound system of internal control is developed to safeguard the Group's assets and resources against unauthorized use or disposition, ensure the transactions are executed in accordance with management's authorization and ensure the accounting records are reliable for preparing financial information internally and publicly.

(b) *Internal Audit Function*

The Group has its Internal Audit Department to assist the Board to independently review the Group's internal controls throughout the year ended 31 December 2006. The Internal Audit Department reports directly to the Audit Committee and brings appropriate matters identified during the course of audits to the Audit Committee's attention. The Internal Audit Department also has the rights to consult the Audit Committee without reference to the management. This reporting structure allows the Internal Audit Department to maintain its independence.

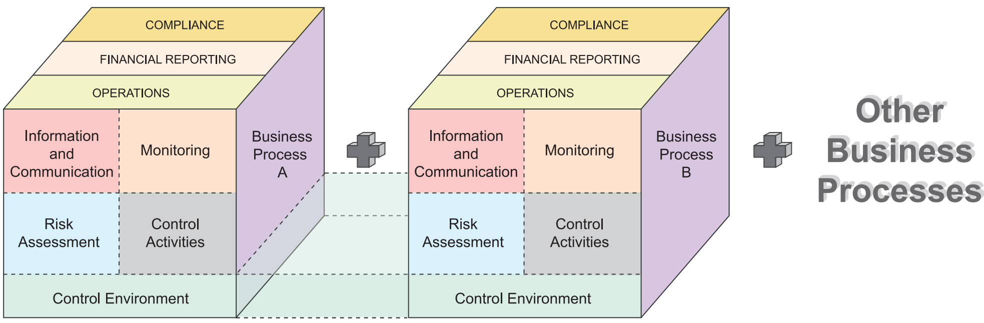
(c) *Internal Audit Charter*

The mission, scope of work, accountability, independence, authority and responsibility of the Internal Audit Department are clearly stated in a written Internal Audit Charter, which is approved and periodically reviewed by the Audit Committee.

(d) *Risk Assessment and Internal Control Review*

The Internal Audit Department adopts a risk and control based audit approach and has established an integrated framework of internal controls in assessing the adequacy and effectiveness of the Group's system of internal control on an on-going basis. The integrated framework is developed by referring to the COSO ("The Committee of Sponsoring Organizations of the Treadway Commission") framework, as recommended by the Hong Kong Institute of Certified Public Accountants.

The five components of the integrated framework serve as the assessment criteria for the review, as illustrated below:



Integrated framework of internal controls

(1) *Control Environment*

Control environment is the foundation for other components of the internal control system. Factors of control environment include ethical values and competence of personnel, direction provided by the Board and effectiveness of management.

(2) *Risk Assessment*

Risk assessment involves the identification and analysis of risks underlying the achievement of process objectives, including risks relating to the changing regulatory and operating environment, which serves as a basis for determining how such risks should be mitigated and managed.

(3) *Control Activities*

Control activities entail a diverse range of policies and procedures that help to ensure management directives are carried out and any actions that may be needed to address risks in order to achieve process objectives.

(4) *Information and Communication*

Information and communication comprises effective processes and systems to identify, capture and report operational, financial and compliance-related information in a form and timeframe that enable staff to carry out their responsibilities.

(5) *Monitoring*

Monitoring is a process that assesses the adequacy and quality of the internal control system's performance over time. Deficiencies in internal controls should be reported to the appropriate level upstream, which may be, for example, senior management, the Audit Committee, or the Board.

During the year, the Internal Audit Department has assisted the Board to conduct an annual risk assessment and internal control review to identify significant risks faced by the Group and evaluate the existing internal controls to mitigate these risks.

(e) *Internal Audit Planning*
Annual internal audit plan for the Group is formulated based on the results of the annual assessment of risks and review of internal control. The annual plan so formulated is reviewed by the Audit Committee. In addition to the internal audit plan, Internal Audit Department also conducts other projects and investigations as may be required.

(f) *Price-sensitive Information*
In respect of procedures and internal controls for the handling and dissemination of price-sensitive information, a mechanism has been established to identify, analyze and disclose any material price-sensitive information with reference to the "Guide on disclosure of price-sensitive information" issued by the Hong Kong Exchanges and Clearing Limited. Besides, the Group's staff handbook contains the general prohibition from buying or selling the Group's securities while staff members are in possession of any insider information about the Group. Staff members are also prohibited from disclosing such information to persons who do not have a demonstrable need to know the information.

The Board has reviewed and is satisfied with the adequacy and effectiveness of the Group's system of internal control including, in particular, the operational, financial and compliance controls and risk management functions and no significant internal control deficiency has been identified.

Shareholders' Rights

Pursuant to Article 66 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on requisition, as provided by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Companies Ordinance"). In accordance with Section 113 of the Companies Ordinance, members holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company can request the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company.

The Company regards the annual general meeting of the Company ("AGM") an important event as it provides an opportunity for the Board to communicate with the shareholders. Active participation by the shareholders at the AGM is highly welcomed. Notices of AGM and related papers are sent to the shareholders no less than 21 days before the meeting.

The Company Secretarial Department and the Public Relations Department respond to letters and telephone enquiries from shareholders/investors. Whenever a shareholder has any enquiries on matters in relation to the Company, he or she may put such enquires in writing and address the same to the Company Secretary at the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong or through email to info@melco-group.com. The website of the Company at http://www.melco-group.com also provides a medium to make information of the Company and the Group available to the shareholders with a section on "Corporate Governance" included.

Corporate Governance Report

Notes:

(1) Mr. Ho, Lawrence Yau Lung was appointed as the Chairman and Chief Executive Officer with effect from 15 March 2006.

(2) Mr. Chung Yuk Man, Clarence was appointed as an Executive Director with effect from 18 May 2006.

(3) Dr. Stanley Ho resigned as the Chairman and an Executive Director with effect from 15 March 2006.

(4) Mr. Sham Sui Leung, Daniel was appointed as an Independent Non-executive Director with effect from 14 June 2006.

(5) Mr. Kwan Chiu Yin, Robert resigned as an Independent Non-executive Director and ceased to be a member of the Nomination Committee and the Audit Committee with effect from 15 March 2006.

(6) Mr. Ng Ching Wo was appointed as the Chairman of Nomination Committee with effect from 14 June 2006.

(7) Mr. Ho, Lawrence Yau Lung was appointed as a member of the Nomination Committee with effect from 14 June 2006.

(8) Mr. Chung Yuk Man, Clarence was redesignated from a non-voting co-opted member to a member of the Executive Committee with effect from 18 May 2006.

(9) Sir Roger Lobo was appointed as the Chairman of the Audit Committee with effect from 14 June 2006.

(10) Mr. Sham Sui Leung, Daniel was appointed as a member of the Audit Committee with effect from 14 June 2006.

Independent Auditors' Report

Deloitte.
德勤

TO THE MEMBERS OF MELCO INTERNATIONAL DEVELOPMENT LIMITED
新濠國際發展有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Melco International Development Limited (the "Company") and its subsidiaries (the "Group") set out on pages 53 to 130, which comprise the consolidated and Company's balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	2005 *HK$'000*
Revenue	7	**800,609**	600,640
Other income	9	**18,562**	1,422
Investment income	10	**14,958**	3,407
Cost of inventories sold		**(237,116)**	(182,533)
Employee benefits expense	11	**(269,283)**	(169,734)
Depreciation of property, plant and equipment		**(56,529)**	(35,322)
Amortisation of service agreements intangible asset and trading rights		**(10,489)**	(507)
Commission expenses		**(10,185)**	(6,854)
(Loss) gain on deemed disposal of partial interests in subsidiaries	12	**(33)**	514,407
Loss on disposal of subsidiaries	13	**(12,140)**	–
Gain on formation of a jointly controlled entity	31	**20,000**	–
Gain on deemed disposal of interests in jointly controlled entities	32	**3,102,253**	–
Increase in fair value of investment properties		**–**	8,000
Other operating expenses		**(225,590)**	(140,943)
Finance costs	14	**(85,879)**	(31,747)
Share of (loss) profit of jointly controlled entities	31	**(191,835)**	2,234
Adjustment to goodwill	27	**(11,554)**	–
Write-down of service agreements intangible asset	15	**(90,390)**	–
Profit before tax	16	**2,755,359**	562,470
Income tax credit (expense)	17	**4,622**	(6,010)
Profit for the year		**2,759,981**	556,460
Attributable to:			
Equity holders of the Company		**2,836,755**	548,718
Minority interests		**(76,774)**	7,742
		2,759,981	556,460
Dividends recognised as distribution during the year	20	**41,825**	16,168
Earnings per share	21		
Basic		**HK$2.38**	HK$0.52
Diluted		**HK$2.09**	HK$0.47

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Investment properties	22	**141,940**	85,000
Property, plant and equipment	23	**39,945**	256,151
Hotels and entertainment complex under development	24	**–**	1,881,824
Prepaid lease payments	25	**–**	36,394
Deposit for land use right	26	**–**	48,590
Other intangible assets	30	**2,547**	2,547
Interests in jointly controlled entities	31	**87,901**	2,234
Interests in associates	32	**5,802,612**	–
Amount due from an associate	40	**578,578**	–
Available-for-sale investments	34	**19,837**	20,517
Goodwill	27	**16,878**	299,088
Service agreements intangible asset		**–**	100,373
Trademark		**–**	23,637
Trading rights	28	**1,773**	2,279
Long term deposits	35	**3,236**	8,074
Deferred tax assets	48	**2,781**	1,495
		6,698,028	2,768,203
Current assets			
Trade receivables	36	**662,954**	399,727
Prepayments, deposits and other receivables		**82,831**	45,177
Inventories	37	**61,476**	34,656
Prepaid lease payments	25	**–**	4,646
Investment in convertible loan notes	38	**–**	4,000
Held-for-trading investments	39	**14,503**	45,002
Amounts due from jointly controlled entities	40	**855**	19
Amounts due from associates	40	**611,862**	–
Amount due from a related company	41	**–**	948
Taxation recoverable		**1,345**	–
Pledged bank deposits	43	**947**	270
Bank balances and cash	44	**1,209,826**	2,350,284
		2,646,599	2,884,729
Current liabilities			
Trade payables	45	**270,733**	103,936
Other payables		**91,598**	105,700
Amount due to a minority shareholder	40	**–**	9,104
Amount due to a jointly controlled entity	40	**–**	9
Amounts due to related companies		**–**	6,051
Dividend payable		**1,444**	–
Taxation payables		**6,378**	8,594
Bank borrowing – due within one year	46	**49,000**	28,000
Obligation under finance leases		**–**	21
Shareholder's loan		**–**	45,085
		419,153	306,500
Net current assets		**2,227,446**	2,578,229
Total assets less current liabilities		**8,925,474**	5,346,432

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current liabilities			
Deferred tax liabilities	48	**–**	64,728
Long term payable	13	**170,537**	–
Convertible loan notes – due after one year	47	**1,093,459**	1,037,163
Obligation under finance leases – due after one year		**–**	63
		1,263,996	1,101,954
		7,661,478	4,244,478
Capital and reserves			
Share capital	49	**614,075**	562,919
Reserves		**6,953,032**	2,995,266
Equity attributable to equity holders of the Company		**7,567,107**	3,558,185
Share options reserve of a subsidiary		**265**	–
Minority interests		**94,106**	686,293
		7,661,478	4,244,478

The financial statements on pages 53 to 130 were approved and authorised for issue by the Board of Directors on 30 March 2007 and are signed on its behalf by:

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Investment in subsidiaries	33	**629,849**	46,349
Other intangible asset	30	**2,000**	2,000
		631,849	48,349
Current assets			
Prepayments, deposits and other receivables		**4,797**	4,577
Amounts due from subsidiaries	42	**3,465,279**	1,975,334
Amounts due from associates	40	**191,113**	–
Bank balances and cash	44	**1,027,793**	2,081,958
Taxation recoverable		**1,345**	–
		4,690,327	4,061,869
Current liabilities			
Other payables		**7,480**	6,691
Dividend payable		**1,444**	–
Amounts due to subsidiaries	42	**68,119**	70,201
		77,043	76,892
Net current assets		**4,613,284**	3,984,977
Total assets less current liabilities		**5,245,133**	4,033,326
Non-current liability			
Convertible loan notes – due after one year	47	**1,093,459**	1,037,163
		4,151,674	2,996,163
Capital and reserves			
Share capital	49	**614,075**	562,919
Reserves	50	**3,537,599**	2,433,244
		4,151,674	2,996,163

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to the equity holders of the Company															
	Share capital HK$'000	Share premium HK$'000	Issuable shares HK$'000 (Note 1)	Capital reserve HK$'000 (Note 2)	Special reserve HK$'000 (Note 3)	Convertible loan notes equity reserve HK$'000	Property revaluation reserve HK$'000	Other revaluation reserve HK$'000	Exchange reserve HK$'000	Legal reserve HK$'000 (Note 4)	Share options reserve HK$'000	Accu-mulated (losses) profit HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2005	463,244	567,980	–	354,009	–	4,374	–	–	–	254	5,435	(165,445)	1,229,851	–	97,442	1,327,293
Increase in other revaluation reserve resulting from acquisition of a subsidiary	–	–	–	–	–	–	–	76,477	–	–	–	–	76,477	–	–	76,477
Realisation of other revaluation reserve upon deemed disposal of partial interest in subsidiaries	–	–	–	–	–	–	–	(30,591)	–	–	–	30,591	–	–	–	–
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	–	(43)	–	–	–	(43)	–	(22)	(65)
Net income (expense) directly recognised in equity	–	–	–	–	–	–	–	45,886	(43)	–	–	30,591	76,434	–	(22)	76,412
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	548,718	548,718	–	7,742	556,460
Total recognised income for the year	–	–	–	–	–	–	–	45,886	(43)	–	–	579,309	625,152	–	7,720	632,872
Exercise of share options	10,110	10,697	–	–	–	–	–	–	–	–	–	–	20,807	–	–	20,807
Shares issued at premium	70,000	1,207,500	–	–	–	–	–	–	–	–	–	–	1,277,500	–	–	1,277,500
Share issuance expenses	–	(38,397)	–	–	–	–	–	–	–	–	–	–	(38,397)	–	–	(38,397)
Shares conversion on convertible loan notes	19,565	25,435	–	–	–	–	–	–	–	–	–	–	45,000	–	–	45,000
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	7,617	7,617
Increase in minority interests on deemed disposal of partial interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	647,311	647,311
Recognition of equity-settled share based payments	–	–	–	–	–	–	–	–	–	–	5,350	–	5,350	–	–	5,350
Transfer to share premium upon exercise of share option	–	3,033	–	–	–	–	–	–	–	–	(3,033)	–	–	–	–	–
Increase in minority interest resulting from acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	105,886	105,886
Decrease in minority interest upon acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(105,763)	(105,763)
Shares issuable on acquisition of additional interest in a subsidiary	–	–	196,667	–	–	–	–	–	–	–	–	–	196,667	–	–	196,667
Special reserve arise on acquisition of additional interest in a subsidiary	–	–	–	–	(110,880)	–	–	–	–	–	–	–	(110,880)	–	(73,920)	(184,800)
Recognition of equity component of convertible loan notes	–	–	–	–	–	323,303	–	–	–	–	–	–	323,303	–	–	323,303
Dividend paid	–	–	–	(16,168)	–	–	–	–	–	–	–	–	(16,168)	–	–	(16,168)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to the equity holders of the Company															
	Share capital	Share premium	Issuable shares	Capital reserve	Special reserve	Convertible loan notes equity reserve	Property revaluation reserve	Other revaluation reserve	Exchange reserve	Legal reserve	Share options reserve	Accumulated (losses) profit	Total	Share options reserve of a subsidiary	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note 1)*	*HK$'000* *(Note 2)*	*HK$'000* *(Note 3)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note 4)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2005	562,919	1,776,248	196,667	337,841	(110,880)	327,677	–	45,886	(43)	254	7,752	413,864	3,558,185	–	686,293	4,244,478
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	–	41	–	–	–	41	–	(65)	(24)
Increase in fair value of investment properties upon transfer from land and buildings	–	–	–	–	–	–	5,796	–	–	–	–	–	5,796	–	–	5,796
Net income directly recognised in equity	–	–	–	–	–	–	5,796	–	41	–	–	–	5,837	–	(65)	5,772
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	2,836,755	2,836,755	–	(76,774)	2,759,981
Total recognised income for the year	–	–	–	–	–	–	5,796	–	41	–	–	2,836,755	2,842,592	–	(76,839)	2,765,753
Exercise of share options	8,245	16,084	–	–	–	–	–	–	–	–	–	–	24,329	–	–	24,329
Shares issued at premium	31,800	1,182,960	–	–	–	–	–	–	–	–	–	–	1,214,760	–	–	1,214,760
Share issuance expenses	–	(40,025)	–	–	–	–	–	–	–	–	–	–	(40,025)	–	–	(40,025)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,016	3,016
Shares issued on acquisition of additional interest in a subsidiary *(Note 1)*	11,111	185,556	(196,667)	–	–	–	–	–	–	–	–	–	–	–	–	–
Decrease in minority interests on disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(518,550)	(518,550)
Increase in minority interest on deemed disposal of partial interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	33	33
Recognition of equity-settled share based payments	–	–	–	–	–	–	–	–	–	–	9,091	–	9,091	265	153	9,509
Transfer to share premium upon exercise of share options	–	4,117	–	–	–	–	–	–	–	–	(4,117)	–	–	–	–	–
Realisation of special reserve and other revaluation reserve upon disposal of subsidiaries and interests in jointly controlled entities	–	–	–	–	32,637	–	–	(13,506)	–	–	–	(19,131)	–	–	–	–
Dividend paid	–	–	–	(32,900)	–	–	–	–	–	–	–	–	(32,900)	–	–	(32,900)
Dividend in specie	–	–	–	(8,925)	–	–	–	–	–	–	–	–	(8,925)	–	–	(8,925)
At 31 December 2006	614,075	3,124,940	–	296,016	(78,243)	327,677	5,796	32,380	(2)	254	12,726	3,231,488	7,567,107	265	94,106	7,661,478

Note 1: The issuable shares as at 31 December 2005 form part of the consideration for acquisition of additional interest in a subsidiary which would be issued on the actual date of grant of the concession of a piece of land by the Macau Government. The land was officially granted by the Macau Government on 1 March 2006 and the Company then allotted and issued the 22,222,222 shares accordingly.

Note 2: Pursuant to a scheme of capital reduction, which became effective on 29 June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK$357,784,733 were transferred to a capital reserve account. The capital reserve account is distributable to the shareholders of the Company if there is no outstanding debt or claim against the Company which was in existence on the effective date of the capital reduction. In view of the fact that the Company receives no claim, demand, action or proceedings in respect of any such debt or claim since June 1993 and in view of the fact that any such debt or claim has been statute-barred under Hong Kong law and irrecoverable against the Company, the Company is of the view that the reserve is distributable to the Company's shareholders.

Note 3: The special reserve represents the difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interest in a subsidiary acquired in 2005.

Note 4: All entities incorporated in Macau are required to set aside a minimum of 10% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. Such legal reserve represents an amount set aside from the income statement and is not available for distribution to the shareholders of the entity. The appropriation of legal reserve is recorded in financial statements in the period in which it is approved by the board.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**2,755,359**	562,470
Adjustments for:		
Dividend income	**(3,659)**	(2,756)
Depreciation of property, plant and equipment	**56,529**	35,322
Amortisation of service agreements intangible asset and trading rights	**10,489**	507
Amortisation of prepaid lease payments	**3,674**	1,936
Loss (gain) on deemed disposal of partial interests in subsidiaries	**33**	(514,407)
Loss on disposal of subsidiaries	**12,140**	–
Gain on formation of a jointly controlled entity	**(20,000)**	–
Gain on deemed disposal of interests in jointly controlled entities	**(3,102,253)**	–
Increase in fair value of investment properties	**–**	(8,000)
Written back of allowance for doubtful debts	**–**	(1,790)
Allowance for doubtful debts	**4,972**	2,843
Share-based payment expense	**9,509**	5,350
Loss on disposal of property, plant and equipment	**8,954**	500
Impairment loss on available-for-sale investments	**–**	120
Share of loss (profit) of jointly controlled entities	**191,835**	(2,234)
Finance costs	**85,879**	31,747
Adjustment to goodwill	**11,554**	–
Write-down of service agreements intangible asset	**90,390**	–
Operating cash flows before movements in working capital	**115,405**	111,608
Increase in inventories	**(28,497)**	(30,888)
Increase in trade receivables	**(280,019)**	(65,335)
Increase in prepayments, deposits and other receivables	**(73,302)**	(2,768)
Decrease (increase) in held-for-trading investments	**30,499**	(4,361)
(Increase) decrease in amounts due from related companies	**(3)**	1,140
Increase in amount due from a joint controlled entity	**(836)**	–
Increase in amounts due to related companies	**–**	820
Increase in trade payables	**175,052**	43,474
Increase in other payables	**221,177**	13,942
(Decrease) increase in amount due to a minority shareholder	**(9,104)**	9,104
(Decrease) increase in amount due to a jointly controlled entity	**(9)**	9
Cash from operations	**150,363**	76,745
Income tax paid	**(9,862)**	(1,208)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**140,501**	75,537

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
INVESTING ACTIVITIES			
Investment in MPBL Gaming	13	**(1,244,800)**	–
Acquisition of hotels and entertainment complex under development		**(870,208)**	(217,005)
Advances made to associates		**(199,588)**	–
Purchase of property, plant and equipment		**(113,798)**	(167,309)
Investment in jointly controlled entities		**(70,000)**	–
Net cash outflow on disposal of subsidiaries	52	**(53,446)**	–
Increase in prepaid lease payments		**(9,270)**	(42,976)
Increase in pledged bank deposits		**(677)**	(93)
Dividend received		**3,659**	2,756
Proceeds from disposal of available-for-sale investments		**680**	3,117
Proceeds from disposal of property, plant and equipment		**179**	2,627
Proceeds from disposal of partial interests in subsidiaries	12	**–**	1,271,368
Decrease in long term deposits		**–**	6,706
Decrease in certificate of deposits		**–**	1,100
Acquisition of additional interest in a subsidiary	53	**–**	(200,000)
Increase in deposits for land use right		**–**	(48,590)
Increase in amount due from a jointly controlled entity		**–**	(8,103)
Acquisition of other intangible assets		**–**	(2,000)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(2,557,269)**	601,598
FINANCING ACTIVITIES			
Proceeds from issue of shares		**1,214,760**	1,277,500
Advance from a minority shareholder		**110,528**	–
Proceeds from exercise of share options		**24,329**	20,807
Bank borrowings raised		**21,000**	13,000
Advances from related companies		**7,225**	–
Proceeds from disposal of convertible loan notes		**4,000**	–
Capital contribution from minority shareholders		**3,016**	7,617
Dividend paid		**(40,381)**	(16,168)
Share issuance expenses		**(40,025)**	(38,397)
Interest paid		**(28,124)**	(7,267)
Repayment of obligation under finance lease		**(18)**	(836)
Advance from a shareholder		**–**	21,927
NET CASH FROM FINANCING ACTIVITIES		**1,276,310**	1,278,183
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,140,458)**	1,955,318
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**2,350,284**	394,966
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**1,209,826**	2,350,284

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

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

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

3. RECLASSIFICATION

During the year ended 31 December 2006, certain intangible assets included in goodwill on acquisition of interest in Mocha Slot Group Limited and its subsidiaries ("Mocha Slots") has been reclassified. The amounts reclassified include intangible asset relating to Mocha Slots' slot lounges services agreements of approximately HK$100,373,000 and trademark of approximately HK$23,637,000 and respective deferred tax liabilities of approximately HK$14,881,000 and minority interest of approximately HK$21,826,000.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has a power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition of additional interest in a subsidiary, the difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interest in the subsidiary is debited to special reserve. On subsequent disposal of the subsidiary, the attributable special reserve is transferred to accumulated profit.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

If the potential benefit of the acquired subsidiaries' income tax loss carry-forwards or other deferred tax assets did not satisfy the criteria for recognition when a business combination is initially accounted for but is subsequently realised, the amount is recognised as income in accordance with HKAS 12 "Income Taxes". In addition, the carrying amount of goodwill is reduced to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date. The amount for the reduction in the carrying amount of the goodwill is recognised as an expense immediately.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment in subsidiaries

Investment in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities (continued)

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements of the Group using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Investments in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements of the Group using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of discounts and sales related tax.

Revenue from management of electronic gaming machine lounge is recognised on an accrual basis in accordance with the contractual terms of the respective service agreements.

Revenue from the provision of catering services, management services and investment banking and financial services are recognised when the services are provided.

Revenue from sales of technology solution systems are recognised over the period of the contract based on the percentage of completion method, which is measured by reference to the costs incurred to date as a percentage of total estimated costs for each contract.

Revenue from sales of other products is recognised when goods are delivered and titles have passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rate per annum:

Restaurants, vessels, ferries and pontoons	5% to 10%
Buildings	2.5% to 4%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10% to $33^1/_3$%
Gaming machine	20%
Motor vehicles	10% to 20%

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the asset is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the asset is derecognised.

Hotels and entertainment complex under development

Hotels and entertainment complex in the course of development are classified as non-current assets and are stated at cost less accumulated amortisation and accumulated impairment loss. Cost comprises acquisition cost relating to the leasehold interests in lands and direct development costs attributable to such properties. Interests in lands are amortised over the expected useful life and are included as part of cost of hotels and entertainment complex under development.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Consideration paid for land use rights are recorded as prepaid lease payments and are charged to the consolidated income statement on a straight-line basis over the term of relevant land use rights acquired.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currencies are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains or losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Retirement benefits costs

Payments to defined contribution schemes and Mandatory Provident Fund Schemes are charged as an expense as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity settled share-based payment transactions

Share options granted to directors, employees and other eligible persons

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the consolidated income statement, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profit.

Prior to the application of HKFRS 2, the Company and the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1 January 2005, the Company and the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005.

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets acquired in a business combination (continued)

Impairment losses (other than goodwill)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial assets

Financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprised financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries, jointly controlled entities, associates and related companies, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated income statement when there is an objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is an objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of convertible loan notes, financial liabilities and equity instruments are set out below.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity (continued)

Convertible loan notes (continued)

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the retained earnings. No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Financial liabilities

Financial liabilities including trade payables, other payables, amounts due to subsidiaries, a minority shareholder, a jointly controlled entity and related companies, obligation under finance leases, dividend payable, long term payable and bank borrowing are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company or Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition (continued)

For financial liabilities, they are removed from the Company's or Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in the consolidated income statement.

Impairment losses (other than goodwill and intangible assets with indefinite useful lives – see the accounting policies in respect of goodwill and intangible assets above)

At each balance sheet date, the Company and Group review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

Borrowing costs

All borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items, especially technology solution system identified that are of minimal resale value due to technological changes. The management estimates the net realisable value for such inventory based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of trade receivables and amounts due from associates

In determining whether there is an objective evidence of impairment loss, the Group takes into consideration the estimation of its future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, bank balances, bank borrowing, amounts due from associates, trade receivables, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimise currency risk. The Group's principal businesses are conducted and recorded in Hong Kong dollars and Macau Pataca. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to convertible loan notes. The Group currently does not have any hedging policy to minimise the exposure to the change in fair value of the convertible loan notes.

Cash flow interest rate risk

Short-term floating rate bank borrowing, which are Hong Kong Interbank Offered Rate ("HIBOR") based, are used to fund margin financings of the securities brokerage business which are typically prime-based and is therefore exposed to cash flow interest rate risk. The principal risk lies with the interest rate differential between HIBOR and the prime rate. The Group's policy is to focus in mitigating the cash flow interest rate risk through the monitoring of interest rate gap between the short-term bank borrowing and margin financing facilities and revises the margin financing rate if necessary.

Bank balances are placed with various authorised institutions with various bank interest rates. Since the impact of cash flow interest rate exposure is minimal, no hedging against cash flow interest rate exposure has been carried out by the management.

Price risk

The Group had held-for-trading investments and available-for-sale investments at the balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6. FINANCIAL INSTRUMENTS (continued)

(a) Financial risk management objectives and policies (continued)

Credit risk

The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties or debtor which the Group and the Company has provided financial guarantees is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet and the amount as disclosed in note 58. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations are mainly in Hong Kong and Macau. The Group's significant concentration of credit risk is mainly the amounts due from associates where the Group consider the credit risk is minimal as the financial position of the associates has been strengthened after the issuance of the American Depositary Shares ("ADSs") by the associates in 2006 (see note 32). Also, the amounts due from associates recorded as current assets has been fully settled subsequent to the year ended 31 December 2006.

Bank balances are placed in various authorised institutions and the directors of the Company consider that the credit risk for such is minimal.

(b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values except for the items where specific disclosure has been made in the consolidated financial statements.

7. REVENUE

An analysis of the Group's revenue is as follows:

	2006	2005
	HK$'000	*HK$'000*
Sales of technology solution systems	**264,178**	197,459
Catering service income	**99,262**	91,191
Income from electronic gaming machines lounges	**132,989**	129,242
Brokerage commission from dealing in securities and futures and options contracts	**105,186**	57,433
Interest income from clients	**61,254**	30,305
Interest income from authorised institutions	**106,984**	57,707
Underwriting, sub-underwriting, placing and sub-placing commission	**10,077**	9,232
Arrangement, management, advisory and other fee income	**5,520**	18,117
Property rental income	**13,218**	8,003
Management fee income	**1,200**	1,200
Others	**741**	751
	800,609	600,640

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

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

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

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

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

2006

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

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2006

	Leisure, Gaming and Entertainment	Technology	Investment Banking 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**
Interests in associates					**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**
OTHER INFORMATION					
Capital additions	**878,781**	**2,783**	**2,060**	**6,613**	**890,237**
Depreciation	**51,967**	**1,701**	**1,440**	**1,421**	**56,529**
Amortisation of service agreements intangible asset and trading rights	**9,983**	**–**	**506**	**–**	**10,489**
Write-down of service agreements intangible asset	**90,390**	**–**	**–**	**–**	**90,390**
Loss on disposal of property, plant and equipment	**8,861**	**–**	**–**	**93**	**8,954**
Allowance for doubtful debts, net	**1,743**	**249**	**2,980**	**–**	**4,972**

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2005

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

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2005

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

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

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

	2006	2005
	HK$'000	*HK$'000*
Hong Kong	**404,299**	279,906
Macau	**396,310**	320,734
	800,609	600,640

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

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

9. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Service fees from jointly controlled entities	**5,107**	–
Exchange gain	**10,200**	–
Others	**3,255**	1,422
	18,562	1,422

10. INVESTMENT INCOME

	2006	2005
	HK$'000	*HK$'000*
Gain from fair value adjustment of held-for-trading investments	**11,299**	651
Dividend income from unlisted investments	**3,244**	2,090
Dividend income from listed investments	**415**	666
	14,958	3,407

11. EMPLOYEE BENEFITS EXPENSE

	2006	2005
	HK$'000	*HK$'000*
Wages, salaries and staff welfare	**187,099**	126,499
Sales commission	**57,166**	31,972
Unutilised annual leave	**1,828**	858
Termination benefits	**137**	266
Social security costs	**172**	113
Provision for long service payment	**208**	102
Retirement benefit scheme contributions	**3,568**	3,225
Forfeiture of retirement benefit scheme contributions	**(182)**	(13)
Share-based employee expense	**9,509**	5,350
Recruitment cost	**9,778**	1,362
Total employee benefits expense including directors' emoluments *(note 18)*	**269,283**	169,734

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

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

On 11 November 2004, the Company entered into a Heads of Agreement ("Heads of Agreement") with PBL to establish a joint venture group for pursuance of gaming and hospitality business ("JV Group") led by Melco PBL Entertainment (Macau) Limited (formerly known as Melco PBL Holdings Limited) ("Melco PBL Entertainment"), a 50/50 joint venture of the Company and PBL. The Heads of Agreement was superseded by a Subscription Agreement ("Subscription Agreement") entered into between the Company, PBL and PBL Asia Investments Limited, a wholly-owned subsidiary of PBL, on 23 December 2004.

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

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

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

13. LOSS ON DISPOSAL OF SUBSIDIARIES

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

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

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

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

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

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

14. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**21,826**	5,646
Obligations under finance leases	**58**	44
Shareholder's loan	**623**	1,079
Effective interest expense on convertible loan notes	**62,536**	24,978
Imputed interest expense on long term payable	**836**	–
	85,879	31,747

15. WRITE-DOWN OF SERVICE AGREEMENTS INTANGIBLE ASSET

Subsequent to the entering of an agreement to acquire a gaming subconcession in Macau (see note 13), Mocha Slots and SJM had mutually agreed to terminate all the slot lounge service agreements and given the imminent termination of all of these service agreements in contemplation of obtaining the gaming subconcession, the intangible asset relating to these service agreements of Mocha Slots with SJM was written down by approximately HK$90,390,000, with reference to a valuation report provided by an independent qualified professional valuer not connected to the Group. The remaining service agreements intangible asset of approximately HK$9,983,000 was fully amortised during the year ended 31 December 2006.

16. PROFIT BEFORE TAX

	2006	2005
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging:		
Auditors' remuneration	**2,979**	2,483
Allowance for doubtful debts, net	**4,972**	1,053
Loss on disposal of property, plant and equipment	**8,954**	500
Impairment loss on available-for-sale investments	**–**	120
and after crediting:		
Gross rental income	**13,218**	8,003
Less: outgoings	**(5,828)**	(83)
Net rental income	**7,390**	7,920

17. INCOME TAX (CREDIT) EXPENSE

	2006	2005
	HK$'000	*HK$'000*
Current tax:		
– Hong Kong	**3,285**	224
– Other jurisdictions	**4,427**	8,151
	7,712	8,375
Under(over)provision in prior years:		
– Hong Kong	**1,127**	91
– Other jurisdictions	**–**	(552)
	1,127	(461)
Deferred taxation *(note 48)*		
– Current	**(13,461)**	(1,364)
– Attributable to a change in tax rate	**–**	(540)
	(13,461)	(1,904)
	(4,622)	6,010

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

17. INCOME TAX (CREDIT) EXPENSE (continued)

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

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

18. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2005: eight) directors were as follows:

2006

	Dr. Stanley Ho HK$'000 (Note 1)	Mr. Lawrence Ho HK$'000 (Note 3)	Mr. Frank Tsui HK$'000	Mr. Clarence Chung HK$'000 (Note 2)	Mr. Ng Ching Wo HK$'000	Sir Roger Lobo HK$'000	Mr. Robert Kwan HK$'000 (Note 1)	Dr. Lo Ka Shui HK$'000	Mr. Daniel Sham HK$'000 (Note 2 & 3)	Total HK$'000
Fees	2	–	–	–	380	380	68	280	360	1,470
Other emoluments										
Salaries and other benefits	–	4,813	2,278	1,182	–	–	–	–	–	8,273
Retirement benefit scheme contributions	–	24	12	8	–	–	–	–	–	44
Share-based compensation	–	118	118	499	495	495	–	495	–	2,220
Total emoluments	2	4,955	2,408	1,689	875	875	68	775	360	12,007

18. DIRECTORS' EMOLUMENTS (continued)

Note 1: Dr. Stanley Ho and Mr. Robert Kwan resigned as directors of the Company on 15 March 2006.

Note 2: Mr. Clarence Chung and Mr. Daniel Sham were appointed as directors of the Company on 18 May 2006 and 14 June 2006, respectively.

Note 3: Mr. Lawrence Ho and Mr. Daniel Sham are also the directors of Value Convergence Holdings Limited, who received total emoluments of HK$612,000 and HK$195,000 thereof, respectively.

2005

	Dr. Stanley Ho	Mr. Lawrence Ho	Mr. Frank Tsui	Mr. Ho Cheuk Yuet	Mr. Ng Ching Wo	Sir Roger Lobo	Mr. Robert Kwan	Dr. Lo Ka Shui	Total
	HK$'000	*HK$'000* *(Note 2)*	*HK$'000*	*HK$'000* *(Note 1)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	10	–	–	34	170	321	310	221	1,066
Other emoluments									
Salaries and other benefits	–	2,329	1,950	–	–	–	–	–	4,279
Retirement benefit scheme contributions	–	24	12	–	–	–	–	–	36
Share-based compensation	–	133	133	–	–	–	–	–	266
Total emoluments	10	2,486	2,095	34	170	321	310	221	5,647

Note 1: Mr. Ho Cheuk Yuet resigned as a director of the Company on 5 September 2005.

Note 2: Mr. Lawrence Ho was also the director of Value Convergence Holdings Limited, who received a total emolument of HK$612,000 thereof.

No director waived or agreed to waive any emoluments in the years ended 31 December 2006 and 2005. No emoluments have been paid to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year, 1,300,000 share options (2005: Nil) were granted to directors of the Company in respect of their services provided to the Group, further details are set out in note 51.

19. EMPLOYEES' EMOLUMENTS

Of five individuals with the highest emoluments in the Group, three directors (2005: two directors), of the Company whose emoluments are included in note 18 above. The emoluments of the remaining two (2005: three) individuals were as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**3,943**	4,454
Retirement benefit scheme contributions	**19**	36
Share-based compensation	**100**	356
	4,062	4,846

Their emoluments were within the following bands:

	Number of employees	
	2006	2005
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**2**	2
	2	3

20. DIVIDENDS

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

20. DIVIDENDS (continued)

Notes:

(1) In respect to the listing of ADSs of Melco PBL Entertainment on the NASDAQ Stock market in the United States of America ("NASDAQ") on 19 December 2006, a distribution in specie was offered to the shareholders of the Company. Under the distribution in specie, qualifying shareholders holding not less than 4,000 shares whose names appeared in the Register of Members of the Company on the record date for the distribution in specie, which was 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 60,382 ADSs amounting to approximately HK$8,925,000 were issued to the shareholders of the Company.

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

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

21. EARNINGS PER SHARE

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

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

21. EARNINGS PER SHARE (continued)

	2006	2005
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,191,262**	1,051,429
Effect of dilutive potential ordinary shares:		
Share options	**15,278**	28,312
Convertible loan notes	**181,571**	114,945
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,388,111**	1,194,686

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share has been adjusted for the share subdivision on 19 May 2005 (Note 49).

22. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2005	77,000
Net increase in fair value recognised in the consolidated income statement	8,000
At 31 December 2005 and 1 January 2006	85,000
Transfer from prepaid lease payments and buildings	56,940
At 31 December 2006	141,940

The carrying value of investment properties shown above comprises:

	2006	2005
	HK$'000	*HK$'000*
Land in Hong Kong	**85,000**	85,000
Land outside Hong Kong	**56,940**	–
	141,940	85,000

22. INVESTMENT PROPERTIES (continued)

The Group's investment properties comprise leasehold land in Hong Kong and Macau held under long term lease and short term lease respectively.

The fair value of the Group's investment properties at 31 December 2006 and 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Savills (Macau) Limited, an independent qualified professional valuer not connected with the Group. The valuation, which follows The HKIS Valuation Standards on Properties (First Edition 2005) published by Hong Kong Institute of Surveyors, was arrived at by reference to sales evidence as available on the market.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

23. PROPERTY, PLANT AND EQUIPMENT

	Restaurants vessels, ferries and pontoons	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Gaming machine	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
COST								
At 1 January 2005	62,550	140	17,533	96,566	60,774	263	485	238,311
Exchange adjustments	–	–	7	11	–	7	–	25
Additions	2,680	3,861	23,394	36,138	100,274	1,064	–	167,411
Transfer	–	–	–	485	–	–	(485)	–
Disposals	(1,506)	–	(731)	(3,453)	(1,723)	–	–	(7,413)
At 31 December 2005	63,724	4,001	40,203	129,747	159,325	1,334	–	398,334
Exchange adjustments	–	–	19	24	–	14	–	57
Additions	–	833	38,960	1,432	75,764	1,722	–	118,711
Transfer to investment properties	–	(4,694)	–	–	–	–	–	(4,694)
Disposal of subsidiaries	–	–	(56,569)	(44,247)	(233,241)	(1,175)	–	(335,232)
Disposals	–	–	(9,063)	(3,650)	(1,165)	–	–	(13,878)
At 31 December 2006	63,724	140	13,550	83,306	683	1,895	–	163,298
ACCUMULATED DEPRECIATION								
At 1 January 2005	36,942	52	6,151	64,307	3,659	26	–	111,137
Exchange adjustments	–	–	5	4	–	1	–	10
Provided for the year	3,522	67	6,633	10,169	14,670	261	–	35,322
Disposals	(1,039)	–	(37)	(2,870)	(340)	–	–	(4,286)
At 31 December 2005	39,425	119	12,752	71,610	17,989	288	–	142,183
Exchange adjustments	–	–	17	17	–	6	–	40
Provided for the year	3,575	124	8,770	9,023	34,437	600	–	56,529
Transfer to investment properties	–	(186)	–	–	–	–	–	(186)
Disposal of subsidiaries	–	–	(8,763)	(9,477)	(51,982)	(246)	–	(70,468)
Disposals	–	–	(2,832)	(1,503)	(410)	–	–	(4,745)
At 31 December 2006	43,000	57	9,944	69,670	34	648	–	123,353
NET BOOK VALUE								
At 31 December 2006	20,724	83	3,606	13,636	649	1,247	–	39,945
At 31 December 2005	24,299	3,882	27,451	58,137	141,336	1,046	–	256,151

At 31 December 2006, the net book value of furniture, fixtures and equipment of the Group includes an amount of Nil (2005: HK$89,000) in respect of assets held under finance leases.

At 31 December 2006, the Group's building of approximately HK$83,000 is located in Hong Kong under long term lease. At 31 December 2005, the Group's buildings of approximately HK$85,000 and HK$3,797,000 are located in Hong Kong and Macau, respectively.

24. HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT

	THE GROUP	
	Land	**Building**
	HK$'000	*HK$'000*
Arising on acquisition of a subsidiary *(note 53)*	400,000	33,241
Acquisition of additional interest in another piece of land *(note)*	1,175,000	–
	1,575,000	33,241
Amortisation of interests in lands	(31,650)	–
Capitalisation of amortisation of interests in lands	31,650	–
Other construction costs	–	273,583
At 31 December 2005 and 1 January 2006	1,575,000	306,824
Transfer from deposit for land use right *(note 26)*	48,590	–
Land premium paid on land interests	98,682	–
Amortisation of interests in lands	(48,869)	–
Capitalisation of amortisation of interests in lands	48,869	–
Other construction costs	–	771,526
Disposal of subsidiaries *(note 52)*	(1,722,272)	(1,078,350)
At 31 December 2006	–	–

The hotels and entertainment complex under development represents leasehold interests in two pieces of lands in Macau and the relevant construction cost incurred. Additional payments to the Macau Government are required when the lands are officially granted and the respective lease term are finalised by the Macau Government. During the year ended 31 December 2006, the Group paid the remaining payment of approximately HK$98,682,000 (2005: Nil) in respect of a piece of land upon the grant of the land by Macau Government.

Note: Pursuant to an agreement dated on 11 May 2005, Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Company, acquired from Great Respect Limited, a company controlled by a discretionary family trust in which Mr. Lawrence Ho and his family members are the beneficiaries, the remaining 49.2% interest in a piece of land located at Taipa, Macau, on the Cotai Strip ("Cotai Land") at a consideration of HK$1,175,000,000, subject to certain conditions precedents from Great Respect Limited. Upon receipt of the cash consideration, Great Respect Limited then subscribed for the Company's convertible loan notes having a principal amount of HK$1,175,000,000, which is non-interest bearing and convertible into shares of the Company at a conversion price of HK$9.965 per share, after adjustment for the share subdivision on 19 May 2005. The Macau Government had offered a medium term lease in respect of the Cotai Land for development of an integrated entertainment resort to Melco Hotels on 21 April 2005.

25. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land outside Hong Kong under short-term lease.

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current assets	–	4,646
Non-current assets	–	36,394
	–	41,040

Amortisation of prepaid lease payments before the related land was transferred to investment properties amounted to approximately HK$3,674,000 for the year ended 31 December 2006 (2005: HK$1,936,000).

26. DEPOSIT FOR LAND USE RIGHT

At 31 December 2005, the Group paid approximately HK$48,590,000 for the acquisition of a land use right in Macau. This deposit was transferred to hotels and entertainment complex under development upon the official grant of land during the year ended 31 December 2006 (Note 24).

27. GOODWILL

	THE GROUP
	HK$'000
At 1 January 2005	302,634
Realised upon deemed disposal of partial interests in subsidiaries	(109,650)
Arising on acquisition of additional interest in a subsidiary *(note 53)*	106,104
At 1 January 2006	299,088
Reduction of goodwill due to utilisation of pre-acquisition tax losses	(11,554)
Reduction of goodwill due to disposal of subsidiaries *(note 52)*	(270,656)
At 31 December 2006	16,878

Particulars regarding impairment testing on goodwill are disclosed in note 29.

28. TRADING RIGHTS

	THE GROUP *HK$'000*
COST	
At 1 January 2005 and 2006 and 31 December 2006	5,066
AMORTISATION	
At 1 January 2005	2,280
Provided for the year	507
At 1 January 2006	2,787
Provided for the year	506
At 31 December 2006	3,293
CARRYING VALUE	
At 31 December 2006	1,773
At 31 December 2005	2,279

Trading rights represent rights to trade on The Stock Exchange of Hong Kong Limited ("SEHK") and Hong Kong Futures Exchange Limited ("HKFE"). They are stated at cost and amortised using the straight-line method over its estimated useful life of 10 years from 6 March 2000, the effective day of the merger of the SEHK, HKFE and Hong Kong Securities Clearing Company Limited.

29. IMPAIRMENT TESTING ON GOODWILL

THE GROUP

As explained in Note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives set out in note 27 have been allocated to two individual cash generating units (CGUs) determined based on the related segments. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2006 allocated to these units are as follows:

	Goodwill *HK$'000*
Investment banking and financial services	8,323
Technology	8,555
	16,878

29. IMPAIRMENT TESTING ON GOODWILL (continued)

During the year ended 31 December 2006, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 3-year period, which represents the management's best estimate of future cash flow from respective CGU, and a discount rate of approximately 8% – 10% (2005: 8%). The cash flows beyond the 3-year period are extrapolated using a zero growth rate for an indefinite period. Another key assumption is the budgeted revenue, which is determined based on the CGUs' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

30. OTHER INTANGIBLE ASSETS

	THE GROUP
	HK$'000
COST	
At 1 January 2005, 1 January 2006 and 31 December 2006	3,839
IMPAIRMENT	
At 1 January 2005, 1 January 2006 and 31 December 2006	1,292
CARRYING VALUE	
At 31 December 2005 and 2006	2,547

	THE COMPANY
	HK$'000
COST	
At 1 January 2006 and 31 December 2006	2,000

Other intangible assets represent club memberships with indefinite useful lives and are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

31. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

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

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 realised a gain of HK$20,000,000 on the intangible assets contributed with reference to the fair value of the intangible assets as arrived on the basis of a valuation carried out by an independent professional valuer not connected to the Group.

(2) The Group owns 60% interest in this jointly controlled entity. Pursuant to certain terms and conditions given in the shareholders agreement, the financial and operating policies of the jointly controlled entity require unanimous approval of the shareholders, as such, it is accounted for as a jointly controlled entity.

31. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

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

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

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

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.

32. INTERESTS IN ASSOCIATES

During the year ended 31 December 2006, the Group effectively disposed of its 20% interest in MPBL (Greater China) to Melco PBL Entertainment, which was a jointly controlled entity of the Group (see note 13). Subsequently at the end of year 2006, Melco PBL Entertainment has been listed on the NASDAQ through the issuance of ADS resulting in a deemed disposal of jointly controlled entities of the Group. As a result of this deemed disposal, the Company's interest in Melco PBL Entertainment further reduced to approximately 42.34%, Melco PBL Entertainment then became an associate and the Group recognised a gain of approximately HK$3,102,253,000 with reference to the Group's share of net assets of Melco PBL Entertainment immediately before and after the listing of the ADS.

	2006	2005
	HK$'000	*HK$'000*
Cost of investment in associates		
Listed in the United States of America	**5,802,612**	–
Fair value of listed investments	**27,567,133**	–

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

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

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

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

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

33. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**629,849**	46,349

Details of the Company's principal subsidiaries at 31 December 2006 are set out in note 62.

34. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	**19,837**	21,837
Impairment losses	**–**	(1,320)
	19,837	20,517

The amount represents unlisted equity investments for which the fair value cannot be reliably measured because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

In the current year, the Group disposed of certain unlisted equity investments with carrying amount of HK$680,000, which had been carried at cost less impairment before disposal. No gain or loss has been recognised in the consolidated income statement for the current year.

35. LONG TERM DEPOSITS

THE GROUP

As at 31 December 2006, amounts represent deposits with various exchanges and clearing houses. As at 31 December 2005, amounts represent deposits with various exchanges and clearing houses and deposits for acquisition of property, plant and equipment. These amounts are non-interest bearing.

36. TRADE RECEIVABLES

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

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

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

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 arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment Banking and Financial Services Segment as at 31 December 2006 amounted to approximately HK$588,236,000 (2005: HK$319,499,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

36. TRADE RECEIVABLES (continued)

Notes: (continued)

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

(c) Other trade receivables on the Group's Technology Segment are due immediately from date of billing but the Group will generally grant a normal credit period of 30 days on average to its customers.

37. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Food and beverages	**1,164**	1,346
Consumable stores	**2,296**	594
Merchandise	**58,016**	32,716
	61,476	34,656

38. INVESTMENT IN CONVERTIBLE LOAN NOTES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Unlisted convertible loan notes	**–**	4,000

The amount represents debt element of the convertible loan notes while the derivative portion relating to the conversion option was accounted for separately with insignificant fair value. The convertible loan notes have a maturity date of 6 January 2006 and they have been settled in full at the maturity date.

39. HELD-FOR-TRADING INVESTMENTS

THE GROUP

Held-for-trading investments as at 31 December 2006 represents equity securities listed in Hong Kong of approximately HK$14,503,000 (2005: listed in Taiwan of approximately HK$495,000 and listed in Hong Kong of approximately HK$44,507,000).

40. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES/ASSOCIATES/ MINORITY SHAREHOLDER

THE GROUP AND THE COMPANY

Except for the amount due from an associate of approximately HK$578,578,000 which is unsecured, interest bearing at HIBOR rate and not repayable within twelve months from the balance sheet date, the remaining amounts are unsecured, non-interest bearing and repayable on demand.

41. AMOUNT DUE FROM A RELATED COMPANY

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
STDM *(note)*	–	948

Note: The amount due from STDM, a related company of which Dr. Stanley Ho is a director and has direct beneficial interests, is unsecured, non-interest bearing and repayable on demand.

42. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

Included in amounts due from subsidiaries are i) loan to a subsidiary of HK$241.9 million (2005: HK$211.9 million) which is unsecured, interest bearing at prime rate minus 2% per annum or HIBOR plus 1.25% to 2% per annum and repayable upon written notice given from the Company; ii) loan to a subsidiary of Nil (2005: HK$523.7 million which is unsecured, interest bearing at 9% per annum and repayable on demand). Other amounts due from (to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

43. PLEDGED OF ASSETS

THE GROUP

At 31 December 2006, 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 (2005: bank deposit of approximately HK$270,000 and investment properties of HK$85,000,000 were pledged for tendering of contracts with the Macau government by a subsidiary of the Group and for obtaining the banking facilities for a subsidiary of the Group respectively).

The deposits carry fixed interest rate of about 4%.

44. BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less.

From the Group's ordinary business, it acts as a trustee and in other fiduciary capacities that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its consolidated balance sheet. As at 31 December 2006, the Group maintained segregated accounts with HKFE Clearing Corporation Limited ("HKCC") and the authorised institutions in conjunction with its future and brokerage businesses as a result of its normal business transactions with amounts of approximately HK$2,697,000 (2005: HK$1,670,000) and HK$551,852,000 (2005: HK$192,418,000) respectively, which are not otherwise dealt with in the financial statements.

45. TRADE PAYABLES

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

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

Note: The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the Investment Banking and Financial Services Segment are usually two trading days after trade date. These trade payables are repayable on demand and aged within 30 days.

46. BANK BORROWING – DUE WITHIN ONE YEAR

The amount represents short-term bank borrowing of HK$49,000,000 which is repayable on demand and unsecured (2005: HK$28,000,000 repayable on demand and partially secured by a charge over certain marketable securities from margin clients), and they are related to the Investment Banking and Financial Services Segment. One of the subsidiary of the Company also provided a corporate guarantee for these facilities. The interest rates for the loans are HIBOR plus a spread, thus exposing the Group to cash flow interest rate risk. The terms of the facilities are generally renewed annually.

47. CONVERTIBLE LOAN NOTES

THE GROUP AND THE COMPANY

On 9 November 2004, the Company issued a convertible loan note due on 8 November 2009 with a principal amount of HK$100,000,000, which is interest-bearing at 4% per annum. In addition, on 8 February 2005, the Company issued another convertible loan note due on 7 February 2010 with a principal amount of HK$56,000,000, which is interest-bearing at 4% per annum. Both convertible loan notes were issued for the acquisition of equity interests in Great Wonders (Note 53). The fair value of the convertible loan note with a principal amount of HK$56,000,000 is determined to be HK$70,591,000 with reference to the attributable underlying assets and liabilities of Great Wonders acquired at the date of acquisition.

The convertible loan note due on 8 November 2009 is convertible into fully paid ordinary shares of HK$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK$2 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 8 November 2009.

The convertible loan note due on 7 February 2010 is convertible into fully paid ordinary shares of HK$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK$4.1 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 7 February 2010.

On 11 April 2005, convertible loan note due on 30 June 2005 and 30 June 2006 with an aggregate amount of HK$45,000,000 was converted into the ordinary shares of the Company. Total number of ordinary shares converted is 39,130,432 shares of HK$0.5 each, after adjustment for the share subdivision on 19 May 2005.

On 5 September 2005, the Company issued a convertible loan note due on 4 September 2010 with a principal amount of HK$1,175,000,000, which is non-interest bearing. This convertible loan note was issued for the acquisition of additional interest of the Cotai Land in Macau (Note 24). This convertible loan note is convertible into fully paid ordinary shares of HK$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK$9.965 per share convertible in the period, commencing 5 years from the date of issuance until, and including, the maturity date which is 4 September 2010.

The convertible loan notes contain two components, liability and equity elements. Upon the application of HKAS 32 "*Financial Instruments: Disclosure and Presentation*", the convertible loan notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible loan notes equity reserve". The effective interest rate of the liability component is 4.5% – 6.25%.

47. CONVERTIBLE LOAN NOTES (continued)

The movement of the liability component of the convertible loan notes for the year is set out below:

	2006	2005
	HK$'000	*HK$'000*
Liability component at the beginning of the year	**1,037,163**	140,626
Convertible into Company's shares	**–**	(45,000)
Issue of convertible loan notes	**–**	922,288
Interest on convertible loan notes *(Note 14)*	**62,536**	24,978
Interest paid	**(6,240)**	(498)
Interest payable transferred to amounts due to related companies	**–**	(5,231)
Liability component at the end of the year shown as non-current liabilities	**1,093,459**	1,037,163

The fair value of the liability component of the convertible loan notes at 31 December 2006, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, was approximately HK$981,057,000 (2005: HK$991,125,000).

48. DEFERRED TAX LIABILITIES

THE GROUP

The followings are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the year and prior reporting period:

	THE GROUP		
	Accelerated tax depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	(29,627)	12,490	(17,137)
Effect of change in tax rate	540	–	540
Acquired on acquisition of a subsidiary *(Note 53)*	(48,000)	–	(48,000)
Credit (charge) to consolidated income statement for the year	1,705	(341)	1,364
At 1 January 2006	(75,382)	12,149	(63,233)
Disposal of subsidiaries *(Note 52)*	63,338	(10,785)	52,553
Credit to consolidated income statement for the year	12,044	1,417	13,461
At 31 December 2006	–	2,781	2,781

48. DEFERRED TAX LIABILITIES (continued)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets	**2,781**	1,495
Deferred tax liabilities	**–**	(64,728)
	2,781	(63,233)

As at the balance sheet date, the Group has unused tax losses of approximately HK$326,930,000 (2005: HK$389,021,000). A deferred tax asset has been recognised in respect of HK$15,900,000 (2005: HK$69,426,000) to the extent that realisation of the related tax benefit through future taxable profit is probable. A deferred tax asset is recognised on the consolidated balance sheet in view that the relevant subsidiary in the Investment Banking and Financial Services Segment has been profit making in recent years. No deferred tax asset has been recognised in respect of the remaining tax loss due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$4,651,000 at year ended 31 December 2005 that will expire in 2008. All other losses may be carried forward indefinitely.

THE COMPANY

As at the balance sheet date, the Company has nil (2005: HK$533,000) unused tax loss. No deferred tax asset has been recognised in respect of the tax loss at 31 December 2005 due to the unpredictability of future profit streams.

49. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2006	2005	**2006**	2005
			HK$'000	*HK$'000*
Authorised:				
At the beginning of the year of HK$0.5 each (2005: HK$1 each)	**1,400,000,000**	700,000,000	**700,000**	700,000
Subdivision of one share of HK$1 each into two shares of HK$0.5 each *(note a)*	**–**	700,000,000	**–**	–
At the end of the year of HK$0.5 each	**1,400,000,000**	1,400,000,000	**700,000**	700,000
Issued and fully paid:				
At the beginning of the year of HK$0.5 each (2005: HK$1 each)	**1,125,838,540**	463,244,054	**562,919**	463,244
Exercise of share options before subdivision	**–**	8,210,000	**–**	8,210
Conversion of convertible loan notes	**–**	19,565,216	**–**	19,565
Subdivision of one share of HK$1 each into two shares of HK$0.5 each *(note a)*	**–**	491,019,270	**–**	–
Issue of shares *(notes b, c and d)*	**85,822,222**	140,000,000	**42,911**	70,000
Exercise of shares options after subdivision	**16,489,954**	3,800,000	**8,245**	1,900
At the end of the year of HK$0.5 each	**1,228,150,716**	1,125,838,540	**614,075**	562,919

Notes:

(a) On 18 May 2005, an ordinary resolution was passed by the shareholders of the Company to approve the subdivision (the "Subdivision") of each issued and unissued shares of HK$1 each in the authorised share capital into two ordinary shares of HK$0.5 each. The Subdivision became effective on 19 May 2005.

(b) On 1 March 2006, 22,222,222 ordinary shares of HK$0.5 each were issued which form part of the consideration for acquisition of additional interest in a subsidiary upon the actual date of grant of the concession of a piece of land by the Macau Government.

(c) In 2005, in order to finance the Group's expansion and general operations, the Company issued 140,000,000 ordinary shares of HK$0.5 each for a consideration of HK$9.125 per share. The shares was issued on 20 May 2005 to independent investors. The new shares rank pari passu with the existing shares in all respects.

(d) In 2006, in order to finance the Group's expansion and general operations, the Company issued 63,600,000 ordinary shares of HK$0.5 each for a consideration of HK$19.1 per share. The shares was issued on 2 June 2006 to independent investors. The new shares rank pari passu with the existing shares in all respects.

50. RESERVES

	Share premium HK$'000	Issuable shares HK$'000	Capital reserve HK$'000	Convertible loan notes equity reserve HK$'000	Share options reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000
THE COMPANY							
At 1 January 2005	567,980	–	354,009	4,374	5,435	(238,604)	693,194
Net profit for the year	–	–	–	–	–	25,663	25,663
Issue of shares	1,207,500	–	–	–	–	–	1,207,500
Share issuance expenses	(38,397)	–	–	–	–	–	(38,397)
Exercise of share options	10,697	–	–	–	–	–	10,697
Share conversion on convertible loan notes	25,435	–	–	–	–	–	25,435
Recognition of equity – settled share based payment	–	–	–	–	5,350	–	5,350
Transfer to share premium upon exercise of share options	3,033	–	–	–	(3,033)	–	–
Recognition of equity components of convertible loan notes	–	–	–	323,303	–	–	323,303
Shares issuable on acquisition of additional interest in a subsidiary	–	196,667	–	–	–	–	196,667
Dividend paid	–	–	(16,168)	–	–	–	(16,168)
At 31 December 2005	1,776,248	196,667	337,841	327,677	7,752	(212,941)	2,433,244
Net loss for the year	–	–	–	–	–	(10,819)	(10,819)
Issue of shares	1,182,960	–	–	–	–	–	1,182,960
Share issuance expenses	(40,025)	–	–	–	–	–	(40,025)
Exercise of share options	16,084	–	–	–	–	–	16,084
Recognition of equity – settled share based payment	–	–	–	–	9,091	–	9,091
Transfer to share premium upon exercise of share options	4,117	–	–	–	(4,117)	–	–
Shares issued on acquisition of additional interest in a subsidiary	185,556	(196,667)	–	–	–	–	(11,111)
Dividend paid	–	–	(41,825)	–	–	–	(41,825)
At 31 December 2006	3,124,940	–	296,016	327,677	12,726	(223,760)	3,537,599

Note: The issuable shares form part of the consideration for acquisition of additional interest in a subsidiary upon the actual date of grant of the concession of a piece of land by the Macau Government on 1 March 2006 (see Note 53).

51. SHARE OPTION SCHEMES

(a) Share option scheme of the Company

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme included the Company's directors (including independent non-executive directors), executives, employees, consultants, professionals and other advisers of the Group. The Scheme became effective on 8 March 2002 following its approval by the Company's shareholders at an extraordinary general meeting on the same date and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of share of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 19 November 2003, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 44,399,400 shares of HK$0.5 each. The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to directors, chief executive or substantial shareholders of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon the exercise of all options granted to such person within any 12-month period being more than 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant.

51. SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the closing price of the Company's share on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the share options; (ii) the average closing price of the Company's shares on the Stock Exchange for the five days immediately preceding the date of the offer of the share options; and (iii) the nominal value of the Company's shares on the date of the offer of the share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year ended 31 December 2006:

Category of participant	Outstanding at 1.1.2005	Granted in 2005	Exercised during 2005	Outstanding at 1.1.2006	Reclassification during the year	Granted during the year	Exercised during the year[4]	Outstanding at 31.12.2006	Date of grant of share options	Share price at date of grant of share options[2]	Exercise price of share options[2]
Directors	32,612	–	–	32,612	–	–	(32,612)	–	8 March 2002	HK$0.41	HK$0.5
Directors	7,200,000	–	(3,600,000)	3,600,000	500,000	–	(4,100,000)	–	19 February 2004	HK$1.175	HK$1.2025
Directors[5]	–	–	–	–	280,000	–	(140,000)	140,000	17 September 2004	HK$1.6875	HK$1.6875
Directors[6]	–	–	–	–	200,000	–	–	200,000	1 February 2005	HK$7.4	HK$7.4
Directors[7]	–	–	–	–	–	400,000	–	400,000	13 February 2006	HK$11.75	HK$11.8
Directors[8]	–	–	–	–	–	900,000	–	900,000	3 April 2006	HK$15.7	HK$15.87
Sub-total	7,232,612	–	(3,600,000)	3,632,612	980,000	1,300,000	(4,272,612)	1,640,000			
Employees	4,455,340	–	(2,400,000)	2,055,340	–	–	(2,055,340)	–	13 September 2002	HK$0.5534	HK$0.5534
Employees	16,340,000	–	(8,120,000)	8,220,000	(2,000,000)	–	(6,220,000)	–	19 February 2004	HK$1.175	HK$1.2025
Employees[9]	3,868,000	–	(1,200,000)	2,668,000	(1,180,000)	–	(468,000)	1,020,000	17 September 2004	HK$1.6875	HK$1.6875
Employees[10]	–	2,059,400	–	2,059,400	(1,000,000)	–	(474,000)	585,400	1 February 2005	HK$7.4	HK$7.4
Employees[11]	–	–	–	–	(1,200,000)	4,600,000	–	3,400,000	13 February 2006	HK$11.75	HK$11.8
Sub-total	24,663,340	2,059,400	(11,720,000)	15,002,740	(5,380,000)	4,600,000	(9,217,340)	5,005,400			

51. SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

Category of participant	Outstanding at 1.1.2005	Granted in 2005	Exercised during 2005	Outstanding at 1.1.2006	Reclassification during the year	Granted during the year	Exercised during the year[4]	Outstanding at 31.12.2006	Date of grant of share options	Share price at date of grant of share options[2]	Exercise price of share options[2]
Others	3,900,000	–	(3,900,000)	–	–	–	–	–	13 September 2002	HK$0.5534	HK$0.5534
Others[12]	2,000,000	–	(1,000,000)	1,000,000	1,500,000	–	(2,300,000)	200,000	19 February 2004	HK$1.175	HK$1.2025
Others[13]	9,000,000	–	–	9,000,000	900,000	–	(300,000)	9,600,000	17 September 2004	HK$1.6875	HK$1.6875
Others[14]	–	–	–	–	800,000	–	(400,000)	400,000	1 February 2005	HK$7.4	HK$7.4
Others[15]	–	–	–	–	1,200,000	–	–	1,200,000	13 February 2006	HK$11.75	HK$11.8
Sub-total	14,900,000	–	(4,900,000)	10,000,000	4,400,000	–	(3,000,000)	11,400,000			
Total	46,795,952	2,059,400	(20,220,000)	28,635,352	–	5,900,000	(16,489,952)	18,045,400			

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. The number of share options granted and the exercise price of the share options were adjusted after the completion of the rights issue on 24 September 2003 and share subdivision on 19 May 2005.

3. As at 31 December 2006, the Company had 18,045,400 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,045,400 additional ordinary shares of the Company and additional share capital of approximately HK$9,022,700 and share premium of approximately HK$91,430,000 before issuance expenses.

4. In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$13.15 (2005: HK$9.67).

5. At 31 December 2006, 140,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.

6. At 31 December 2006, 200,000 options may be exercised during the period from 17 September 2009 to 7 March 2012.

7. Among 400,000 options as at 31 December 2006, 130,000 options may be exercised during the period from 1 April 2008 to 31 January 2016, 130,000 options may be exercised during the period from 1 April 2010 to 31 January 2016, and 140,000 options may be exercised during the period from 1 April 2012 to 31 January 2016.

51. SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

8. Among 900,000 options as at 31 December 2006, 300,000 options may be exercised during the period from 3 April 2008 to 2 April 2016, 300,000 options may be exercised during the period from 3 April 2010 to 2 April 2016 and 300,000 options may be exercised during the period from 3 April 2012 to 2 April 2016.

9. Among 1,020,000 options as at 31 December 2006, 370,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 450,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 110,000 options may be exercised during the period from 17 September 2006 to 7 March 2012 and 90,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.

10. Among 585,400 options as at 31 December 2006, 70,000 options may be exercised during the period from 17 September 2006 to 7 March 2012, and 515,400 options may be exercised during the period from 17 March 2008 to 7 March 2012.

11. Among 3,400,000 options as at 31 December 2006, 860,000 options may be exercised during the period from 1 April 2008 to 31 January 2016, 910,000 options may be exercised during the period from 1 April 2010 to 31 January 2016 1,280,000 options may be exercised during the period from 1 April 2012 to 31 January 2016, 113,000 options may be exercised during the period from 3 April 2008 to 31 January 2016, 113,000 options may be exercised during the period from 3 April 2010 to 31 January 2016 and 124,000 options may be exercised during the period from 3 April 2012 to 31 January 2016.

12. At 31 December 2006, 200,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.

13. Among 9,600,000 options as at 31 December 2006, 4,700,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 4,700,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 100,000 options may be exercised during the period from 17 September 2006 to 7 March 2012 and 100,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.

14. At 31 December 2006, 400,000 options may be exercised during the period from 17 September 2008 to 7 March 2012.

15. Among 1,200,000 options as at 31 December 2006, 540,000 options may be exercised during the period from 1 April 2008 to 31 January 2016, 490,000 options may be exercised during the period from 1 April 2010 to 31 January 2016 and 170,000 options may be exercised during the period from 1 April 2012 to 31 January 2016.

During the year ended 31 December 2006, options were granted on 13 February 2006 and 3 April 2006. The estimated fair values of the options granted on those dates is approximately HK$25,803,000 and HK$7,045,000 respectively. During the year ended 31 December 2005, options were granted on 1 February 2005. The estimated fair value of the options granted on that date is HK$3,066,000. The weighted average fair value of option granted during the year ended 31 December 2006 is HK$5.6 (2005: HK$1.5).

51. SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share options grant date		
	3 April 2006	**13 February 2006**	**1 February 2005**
Exercise price	HK$15.87	HK$11.8	HK$7.4
Expected volatility	58.37%	48.27%	42.86%
Expected life	2.5 – 6.5 years	2.6 – 6.6 years	2 – 5 years
Risk-free rate	4.331 – 4.545%	4.135 – 4.229%	2.734 – 3.39%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 100 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expenses of approximately HK$9,509,000 for the year ended 31 December 2006 (2005: HK$5,350,000) in relation to the share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

(b) Share option scheme of Value Convergence Holdings Limited ("Value Convergence"), a subsidiary of the Company

The Share Option Scheme ("Share Option Scheme") was adopted by Value Convergence on 29 November 2001 (which superseded the previous share option scheme of Value Convergence adopted on 14 March 2001).

As at 31 December 2006, options to subscribe for an aggregate of 2,137,163, 7,623,065, 654,934 and 2,400,000 underlying shares granted on 9 July 2002, 25 March 2004, 15 March 2006 and 27 December 2006 ("Share Options") pursuant to the Share Option Scheme at an exercise price of HK$1.0 per share, HK$0.64 per share, HK$1.18 per share and HK$1.292 per share, respectively, were outstanding, which in total represents approximately 5.1% (2005: 5.7%) of the shares of Value Convergence in issue as at 31 December 2006. The adjusted closing price of Value Convergence's shares immediately before 9 July 2002 and the closing prices of Value Convergence's shares immediately before 25 March 2004, 15 March 2006 and 27 December 2006 were HK$0.65, HK$0.64, HK$1.06 and HK$1.24 per share, respectively. The Share Options have a duration of 10 years from the date of grant, i.e. between 9 July 2002 to 8 July 2012, between 25 March 2004 to 24 March 2014, between 15 March 2006 to 14 March 2016 and between 27 December 2006 to 26 December 2016 respectively. According to the Share Option Scheme, any Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by Value Convergence Group. The following are details of the outstanding Share Options as at 31 December 2006:

51. SHARE OPTION SCHEMES (continued)

(b) Share option scheme of Value Convergence Holdings Limited ("Value Convergence"), a subsidiary of the Company (continued)

Categories of grantees	Exercise price per share	Number of underlying shares to be issued upon the exercise of the Share Options 2006	2005
Directors of Value Convergence	HK$1.0	**982,114**	982,114
Directors of Value Convergence	HK$1.292	**2,400,000**	–
Employees	HK$1.0	**24,942**	694,842
Employees	HK$0.64	**5,723,065**	8,900,565
Employees	HK$1.18	**654,934**	–
Other eligible persons	HK$1.0	**1,130,107**	1,581,212
Other eligible persons	HK$0.64	**1,900,000**	2,050,000
Total		**12,815,162**	14,208,733

During the year ended 31 December 2006, certain Share Options to subscribe for a total of 349,552 underlying shares granted to 3 employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of Value Convergence. During the year ended 31 December 2006, certain Share Options to subscribe for a total of 1,096,453 and 3,002,500 underlying shares at an exercise price of HK$1.0 and HK$0.64 per share, respectively, granted to a total of 20 employees were exercised (2005: 42 employees). Since the date of the grant of the Share Options up to 31 December 2006 and 31 December 2005, none of the Share Options were cancelled. Movements in the number of Share Options outstanding during the year are as follows:

	Number of Share Options 2006	2005
At beginning of the year	**14,208,733**	27,349,283
Share Options granted during the year	**3,054,934**	–
Exercised during the year	**(4,098,953)**	(11,486,227)
Lapsed during the year	**(349,552)**	(1,654,323)
At end of the year	**12,815,162**	14,208,733

During the year ended 31 December 2006, options were granted on 15 March 2006 and 27 December 2006 where Value Convergence's share price were HK$1.18 and HK$1.19, respectively. The estimated fair values of the options granted on those dates are approximately HK$405,000 and HK$1,746,000 respectively (2005: Nil). No vesting period for options granted on 15 March 2006 and the vesting period of share options granted on 27 December 2006 is from one to three years. The weighted average fair value of option granted during the year ended 31 December 2006 is HK$0.7.

51. SHARE OPTION SCHEMES (continued)

(b) Share option scheme of Value Convergence Holdings Limited ("Value Convergence"), a subsidiary of the Company (continued)

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share options grant date			
	15 March 2006	27 December 2006		
Market price at date of grant	HK$1.18	HK$1.19	HK$1.19	HK$1.19
Exercise price	HK$1.18	HK$1.292	HK$1.292	HK$1.292
Expected volatility	139.45%	100.32%	100.32%	100.32%
Expected life	1 year	2 years	3 years	4 years
Risk-free rate	4.15%	3.527%	3.602%	3.656%
Vesting period	N/A	1 year	2 years	3 years

Expected volatility for the options granted on 15 March 2006 and 27 December 2006 was determined by using the historical volatility of Value Convergence's share price over the previous 260 days and 250 days respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non transferability, exercise restrictions and behavioural considerations. Value Convergence recognised the total expense of approximately HK$419,105 for the year ended 31 December 2006 (2005: Nil) in relation to share options granted.

52. DISPOSAL OF SUBSIDIARIES

As disclosed in note 13, the Company disposed of its interests in MPBL (Greater China) during the year ended 31 December 2006. The net assets of MPBL (Greater China) at the date of disposal were as follows:

	HK$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	264,764
Hotels and entertainment complex under development	2,800,622
Trademark	23,637
Trade and other receivables	47,361
Inventories	1,677
Bank balances and cash	53,446
Amount due from a related company	951
Trade and other payables	(243,534)
Taxation payables	(2,538)
Obligation under finance lease	(141)
Shareholder's loan	(45,708)
Deferred tax liabilities	(52,553)
Amounts due to group companies	(1,114,656)
Minority interests	(518,550)
	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 *(note 13)*	1,642,995
Amount due to Publishing and Broadcasting Limited *(note 13)*	(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 (2005: HK$149,695,000), loss for the year of approximately HK$152,108,000 (2005: HK$6,507,000) and net cash outflow of approximately HK$96,271,000 (2005: net cash inflow of HK$106,527,000).

53. ACQUISITION OF SUBSIDIARIES

Acquisition for the year ended 31 December 2005

The Group completed the acquisition of additional 20% issued share capital of Great Wonders, a company in which the Group held 50% equity interest as at 31 December 2004. The principal activities of Great Wonders was to apply to the Macau Government for the concession of the land located at Taipa, Macau and to develop the land into a hotel and entertainment complex with one of the largest casino and electronic gaming machine areas. Great Wonders accepted in principle a written offer issued by the Macau Government dated 24 June 2005 to grant to Great Wonders a medium term lease of the property.

The fair value of the assets and liabilities of Great Wonders at the date of acquisition of the 20% issued share capital of Great Wonders are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
		(note)	
Hotels and entertainment complex under development	33,241	400,000	433,241
Amount due from a shareholder	969	–	969
Amount due to the Group	(33,229)	–	(33,229)
Other payables	(27)	–	(27)
Deferred tax liabilities	–	(48,000)	(48,000)
	954	352,000	352,954
Minority interest			(105,886)
			247,068
Represented by:			
Interest in a jointly controlled entity			176,477
Issue of convertible loan note *(note 47)*			70,591
			247,068

Subsequent to the acquisition, the Group has injected its 70% equity interests of Great Wonders to the JV Group pursuant to a Subscription Agreement. Please see note 12 for details.

53. ACQUISITION OF SUBSIDIARIES (continued)

On 28 July 2005, the Group completed the acquisition of the remaining 30% equity interest in Great Wonders from STDM at a consideration of HK$400,000,000, of which HK$200,000,000 is settled in cash and the remaining HK$200,000,000 will be settled by the issue of 22,222,222 ordinary shares of the Company (Note). Goodwill amounting to approximately HK$106,104,000, which represented the surplus of the consideration over the 30% of the fair value of Great Wonders at the date of acquisition of the remaining 30% equity interest in Great Wonders, arised as result. The difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interests in Great Wonders is charged to special reserve.

Note: Pursuant to the agreement with STDM, the 22,222,222 ordinary shares of the Company with par value of HK$0.5 each will be issued on the actual date of grant of the concession of the land by the Macau government. The fair value of the shares to be issued is approximately HK$196,667,000 with reference to the quoted market price of the Company's share at the date of the exchange of HK$8.85. The land has been officially granted by the Macau Government on 1 March 2006 and the Company then allotted and issued the 22,222,222 shares to STDM, accordingly.

54. MAJOR NON-CASH TRANSACTIONS

The consideration for the purchase of subsidiaries and the acquisition of additional interest in the Cotai Land during the year ended 31 December 2005 comprised convertible loan notes and shares as disclosed in note 53 and note 24, respectively.

55. OPERATING LEASES

(a) The Group as lessee

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
The Group made rental payment for properties under operating leases as follows:		
Minimum lease payments	**31,552**	20,279
Contingent rental payments	**–**	442
	31,552	20,721

55. OPERATING LEASES (continued)

(a) The Group as lessee (continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**23,284**	29,418
In the second to fifth year inclusive	**24,035**	79,058
Over five years	**–**	39,036
	47,319	147,512

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for a term ranging from 3 to 4 years. In addition, the Group may pay additional rental expenses in respect of certain premises which are dependent upon the level of revenue achieved by particular slot lounges for the year ended 31 December 2005.

(b) The Group as lessor

In 2004, the Group has entered into lease arrangements with Sociedade de Jogos de Macau, S.A. ("SJM"), a subsidiary of STDM, and the other lessee for leasing of its owned gaming machines. In addition to a fixed monthly rent of HK$7,767 (equivalent to MOP8,000) per month for one of the lease arrangements, the Group will be entitled to lease receipts calculated at an agreed percentage of net win from each gaming machine leased on an accrual basis in accordance with the respective lease arrangements. This lease arrangement is superseded with another service agreement where the Group provides management service to certain slot lounges owned by SJM and receives management service income in return during the year ended 31 December 2005.

55. OPERATING LEASES (continued)

(b) The Group as lessor (continued)

At 31 December 2006, the Group has entered into lease arrangements with certain tenants for its leased properties and investment properties. Certain of the properties held have committed tenants for the next three to six years. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**9,099**	14,810
In the second to fifth year inclusive	**13,237**	24,240
Over five years	**3,501**	–
	25,837	39,050

The Company had no significant operating leases at the balance sheet date.

56. CAPITAL COMMITMENTS

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

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

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

57. OTHER COMMITMENTS

(i) On 11 April 2006, the Group entered into an agreement ("Agreement") with a gaming technology alliance ("Shuffle Master") regarding the grant of an exclusive right to distribute certain gaming machines by the Group. In return, the Group would pay a portion of the profit from the sale of the gaming machines to the Shuffle Master in accordance with the Agreement of not less than approximately HK$43,204,000, HK$44,874,000 and HK$44,335,000, respectively, for the three years starting from April 2006. However, on 4 February 2007, the Group mutually entered into a Deed of Termination, Settlement and Release with Shuffle Master to terminate the Agreement without any penalty.

(ii) On 18 August 2006, the Group entered into a shareholders agreement ("PAL Agreement") with the shareholder of a jointly controlled entity, PAL, regarding the formation and operational affairs of PAL. Pursuant to the terms of PAL Agreement, the Group agreed to inject, inter alia, an aggregate amount of HK$100 million cash into PAL on or before 31 January 2007. As at 31 December 2006, the Group had already contributed an amount of HK$70 million cash into PAL. The remaining balance was injected into PAL on 22 January 2007.

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

58. CONTINGENT LIABILITIES

At 31 December 2006, the Company provides a total guarantee of approximately HK$12,603,000 (2005: HK$4,680,000) to a supplier and an insurance company in respect of the goods purchased and service provided by its subsidiaries and the amount utilised is approximately HK$1,247,000 (2005: HK$1,082,000)

59. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and Mandatory Provident Fund Schemes (the "MPF Schemes") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Schemes are switched to the MPF Schemes and all new eligible employees joining the Group on or after December 2000 are under the MPF Schemes. No more contribution was made to the ORSO Scheme after the switch.

Both the Group and the employees contribute a fixed percentage of the relevant payroll to the MPF Scheme.

The Group's contribution to both retirement schemes are expensed as incurred. The Group's mandatory contributions to the MPF Schemes are vested immediately. The Group's contributions to the ORSO Scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

60. RELATED PARTY TRANSACTIONS

(a) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK$34,834,000 (2005: HK$51,038,000).

The trade receivables include amounts due from SJM, a subsidiary of STDM, in relation to the provision of management services of HK$Nil (2005: HK$10,125,000).

The prepayments, deposits and other receivables include approximately HK$346,000 (2005: HK$3,829,000) of amount due from customer on contracts in relation to sales of computer hardware and software to related companies.

(b) The accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK$6,896,000 (2005: HK$3,407,000).

60. RELATED PARTY TRANSACTIONS (continued)

(c) Apart from the acquisition of subsidiaries and the acquisition of additional interest in the land as disclosed in note 24 and note 53, respectively, the Group entered into the following related parties transactions:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Catering income earned from directors of the Company and related companies#	**5,573**	6,363
Insurance premiums charged by a related company#	**1,011**	1,122
Brokerage commission/interest income earned from certain directors of the Group or their relatives	**125**	145
Brokerage commission income earned from a related company#	**2,245**	–
Sales of computer hardware and software to related companies#	**122,349**	100,534
Sales of computer hardware and software to jointly controlled entities*	**22,634**	–
Management fees received from a related company#	**2,722**	393
Rental expense charged by a related company#	**173**	407
Travelling expense charged by a related company#	**1,419**	549
Interest expense on shareholder's loan	**623**	1,079
Interest expense on convertible loan notes to a related company#	**62,536**	24,978
Income from provision of management services to certain electronic gaming machines lounges of a related company#	**126,953**	128,180
Service income of providing network support, technical support and other services to related companies#	**7,300**	–
Service income of providing network support, technical support and other services to jointly controlled entities*	**913**	–
Purchase of property, plant and equipment from a related company#	**17,064**	7,982
Service charge paid to a minority shareholder	**–**	11,204
Souvenirs sold to related companies#	**553**	717
Loan interest income received from a jointly controlled entity*	**2,931**	–
Rental income received from a jointly controlled entity*	**840**	–
Consultancy fee received from a jointly controlled entity*	**2,183**	–
Service income received from jointly controlled entities*	**5,107**	–

Related companies are companies which close family members of a director, Mr. Lawrence Ho, have direct beneficial interests.

* Jointly controlled entities represented Melco PBL Entertainment and its subsidiaries which the Group has 50% interest before Melco PBL Entertainment's ADSs are listed on the NASDAQ.

60. RELATED PARTY TRANSACTIONS (continued)

(d) On 28 December 2006, a subsidiary of the Company entered into a service arrangement on conditional basis with each of STDM and SJM for certain system integration and maintenance services for an aggregate value of approximately HK$9.1 million and HK$113.1 million, respectively. The arrangements had been ratified and approved in February 2007 at an extraordinary general meeting.

(e) Compensation of key management personnel
The remuneration of directors and other members of key management during the year was as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**18,685**	13,635
Post-employment benefits	**100**	120
Share-based payments	**4,774**	1,610
	23,559	15,365

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals, the Company's operating results and market standards.

61. POST BALANCE SHEET EVENT

In March 2007, the Group entered into a Sale and Purchase Agreement ("Sale and Purchase Agreement") with the other shareholder ("Shareholder") of its jointly controlled entity, namely, PAL Development Limited ("PAL"), for the sale of about 29.5% interest in PAL by the Group to the Shareholder for a total consideration of approximately Singaporean dollars 20 million (equivalent to approximately HK$101,649,000). The Shareholder, which is a company listed on the Singapore Stock Exchange, will satisfy the consideration by way of issuance of its new shares. After the completion of the Sale and Purchase Agreement, the Group will hold about 30.5% interest in PAL and about 28.5% interest in the Shareholder.

62. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
Melco Leisure and Entertainment Group Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Aberdeen Restaurant Enterprises Limited[2]	Hong Kong	Restaurant operations and property investment in Hong Kong	8,060 A shares of HK$1,000 each and 33,930 B shares of HK$500 each	86.68%
Tai Pak Sea-Food Restaurant Limited[2]	Hong Kong	Catering, restaurant vessel holding and letting in Hong Kong	5 founders' shares of HK$100 each and 13,495 ordinary shares of HK$100 each	84.76%
Jumbo Catering Management Limited[2]	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK$5,000	86.68%
Melco Technology Group Limited[1]	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%
iAsia Online Systems Limited[2]	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US$1	100%
Elixir Group Limited[2]	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK$1 each	100%
Elixir Group (Macau) Limited[2]	Macau	Provision of hardware and software in Macau	2 quota shares of MOP450,000 and MOP50,000 each	100%
Elixir Gaming Technology Philippines, Inc.[2]	Philippines	Provision of hardware and software in Philippines	10,000 common shares of 100 pesos each	100%
Melco Financial Group Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Value Convergence Holdings Limited[2, 3]	Hong Kong	Investment holding in Hong Kong	253,740,179 ordinary shares of HK$0.1 each	63.42%

62. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
VC Brokerage Limited[2]	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK$1 each	63.42%
VC Futures Limited[2]	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK$1 each	63.42%
VC Capital Limited[2]	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK$1 each	63.42%
VC Capital (Shenzhen) Limited[2]	PRC	Provision of consultancy services in the PRC	HK$1,000,000	63.42%
VC Securities Investments Limited[2]	Hong Kong	Investment holding in Hong Kong	2 ordinary of HK$1 each	63.42%
VC Asset Management Limited[2]	Hong Kong	Provision of asset management services to clients in Hong Kong	15,000,000 ordinary shares of HK$1 each	63.42%
VC Investment Management Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	63.42%
VC Finance Limited[2]	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK$1 each	63.42%
VC Research Limited[2]	Hong Kong	Provision of research services in Hong Kong	500,000 ordinary shares of HK$1 each	63.42%
VC Financial Advisory (Macau) Limited[2]	Macau	Provision of financial consultancy and related services in Macau	2 ordinary shares of MOP24,000 and MOP1,000 each	63.42%
VC Services Limited[2]	Hong Kong	Provision of management services to group companies in Hong Kong	10,000 ordinary shares of HK$1 each	63.42%

62. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
Melco Services Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Melco Investment Holdings Limited[1]	British Virgin Islands	Investment holding in Macau	1 ordinary share of US$1	100%
Zonic Technology Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Bright Ally Investments Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%

1 Share(s) held directly by the Company
2 Share(s) held indirectly by the Company
3 The shares of this company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

Five Years Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group of the last five financial years is set out below:

RESULTS

	For the year ended 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	82,838	165,263	408,076	600,640	**800,609**
(Loss) profit for the year	(38,130)	(33,982)	64,208	556,460	**2,759,981**
Attributable to:					
Equity holders of the Company	(35,596)	(26,334)	59,722	548,718	**2,836,755**
Minority interests	(2,534)	(7,648)	4,486	7,742	**(76,774)**
	(38,130)	(33,982)	64,208	556,460	**2,759,981**

ASSETS AND LIABILITIES

	At 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	418,769	674,518	1,584,827	5,652,932	**9,344,627**
Total liabilities	(18,387)	(150,844)	(279,360)	(1,408,454)	**(1,683,149)**
	400,382	523,674	1,305,467	4,244,478	**7,661,478**
Equity attributable to equity holders of the Company	376,124	460,722	1,229,851	3,558,185	**7,567,107**
Share options reserve of a subsidiary	–	–	–	–	**265**
Minority interests	24,258	62,952	75,616	686,293	**94,106**
	400,382	523,674	1,305,467	4,244,478	**7,661,478**

Notice of the 92nd Annual General Meeting

NOTICE is hereby given that the 92nd annual general meeting of Melco International Development Limited (the "Company") will be held at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Thursday, 10 May 2007 at 3:00 p.m. for the following purposes:

1. To consider and receive the audited financial statements and the reports of the directors and auditors for the financial year ended 31 December 2006.

2. To declare a final dividend for the year ended 31 December 2006.

3. To re-elect directors and to fix the remuneration of the directors.

4. To re-appoint auditors and to fix their remuneration.

5. As special business to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT:**

(a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to repurchase shares of the Company be and it is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be repurchased on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and

iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting."

"Shares" means shares of all classes in the capital of the Company and other securities which carry a right to subscribe or purchase shares of the Company."

6. As special business to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

(I) "**THAT:**

(a) subject to paragraph (c) of this Resolution and pursuant to Section 57B of the Companies Ordinance, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such power be and it is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of any rights of subscription or conversion under any existing warrants, bonds, debentures, notes and other securities issued by the Company which carry rights to subscribe for or are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution plus;

(bb) (if the directors of the Company are so authorised by a separate resolution of the shareholders of the Company) the nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution), and the said approval shall be limited accordingly;

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; and

iii. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; and

"Rights Issue" means an offer of shares of the Company or issue of options, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities entitled to the offer) on a fixed record date in proportion to their then holdings of such shares of the Company (or, where appropriate, such other securities), subject in all cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company."

(II) "**THAT** the directors of the Company be and they are hereby authorised to exercise the powers of the Company referred to in paragraph (a) of the resolution set out as Resolution (I) in item 6 of the notice of this meeting in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution."

7. As special business to consider and, if thought fit, pass the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT** the authorised share capital of the Company be increased from HK$700,000,000.00 divided into 1,400,000,000 shares of HK$0.50 each to HK$1,000,000,000.00 divided into 2,000,000,000 shares of HK$0.50 each by the creation of an additional 600,000,000 shares of HK$0.50 each."

By Order of the Board of
Melco International Development Limited
Tsang Yuen Wai, Samuel
Company Secretary

Hong Kong, 30 March 2007

Notice of the 92nd Annual General Meeting

Registered Office:
38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the notice is entitled to appoint one or more proxies to attend and on a poll vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy must be deposited at the Company's registered office together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. The register of members will be closed from Friday, 4 May 2007 to Thursday, 10 May 2007, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of shareholders who are entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Standard Registrars Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 3 May 2007.

4. With regard to item 5 above, the directors wish to draw the attention of the shareholders to the circular which summarises the more important provisions of the Listing Rules relating to the repurchase of shares on The Stock Exchange of Hong Kong Limited by a company and which is despatched to the shareholders together with the annual report. The present general mandate to repurchase shares given by the shareholders expires at the forthcoming annual general meeting and, accordingly, a renewal of that general mandate is now being sought.

5. With regard to item 6 above, the directors wish to state that, currently, they have no plans to issue any additional new shares of the Company (other than pursuant to any of items (ii), (iii) or (iv) contained in paragraph (c) of the Resolution (I)). The present general mandate to issue shares given by the shareholders expires at the forthcoming annual general meeting and, accordingly, a renewal of that general mandate is now being sought.

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