Melco

INFINITE VISION

MELCO INTERNATIONAL DEVELOPMENT LIMITED

ANNUAL REPORT 2007

A HONG KONG LISTED COMPANY WITH STOCK CODE: 200

TECHNOLOGY

LEISURE AND ENTERTAINMENT

CONTINUOUS GROWTH

Melco is expanding its portfolio of leisure and entertainment facilities to serve the needs of an increasing number of middle-income leisure seekers from China. (New ventures include securing a major stake in the largest and most exceptional offering of ski resorts in China)

FINANCIAL SERVICES

VISION

TO CONTRIBUTE TO THE GROWTH AND FUTURE OF THE COMMUNITIES WE SERVE, INSPIRING HOPE AND HAPPINESS IN PEOPLE ALL OVER THE WORLD.

MISSION

TO BE A DYNAMIC CONGLOMERATE THAT LEADS THE FIELD IN LEISURE AND ENTERTAINMENT; WE CONTINUALLY EXPLORE NEW OPPORTUNITIES FOR GROWTH AND DEVELOPMENT THAT CREATE VALUE FOR ALL STAKEHOLDERS.

BRAND ESSENCE

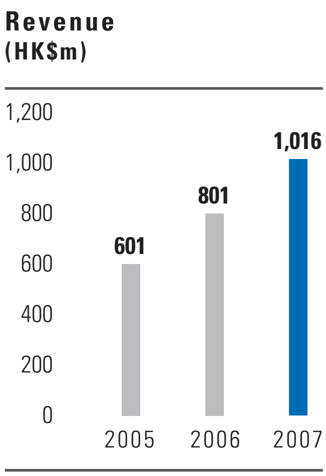
ENTERTAINING POSSIBILITIES
ACHIEVING GROWTH

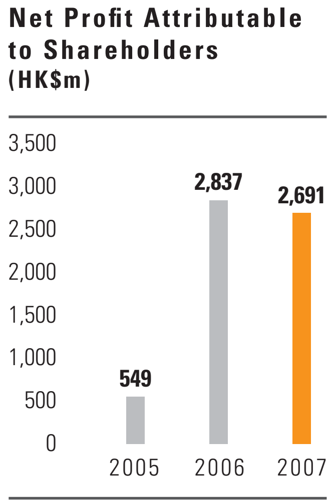
CORPORATE VALUES

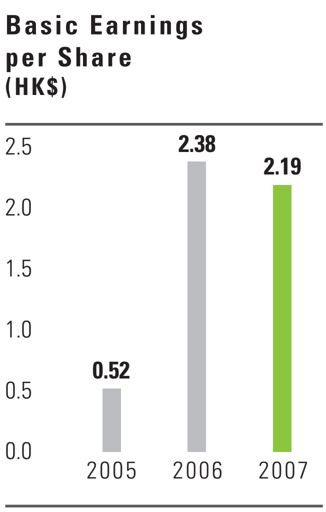
MOTIVATION
ENRICHMENT
LOYALTY
CREDIBILITY
OPTIMISM

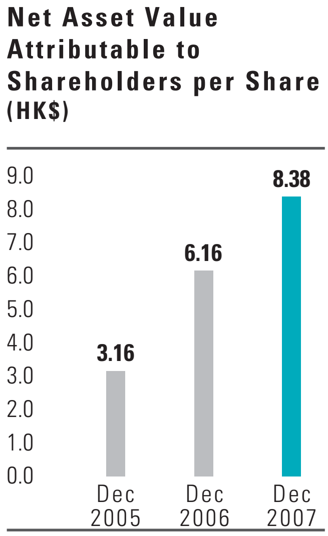
CONTENTS

FINANCIAL HIGHLIGHTS









- Revenue increased by 27% to HK$1,016 million for 2007 as compared with HK$801 million in 2006.
- Net profit attributable to shareholders decreased by 5% to HK$2,691 million for 2007, as compared to HK$2,837 million in 2006.
- Basic earnings per share decreased by 8% to HK$2.19 for 2007.
- Net asset value attributable to shareholders per share increased by 36% to HK$8.38 as at 31 December 2007.
- Proposed final dividend for 2007 of one HK cent per share.

CORPORATE PROFILE

Founded in 1910 and listed in Hong Kong in 1927, Melco International Development Limited ("Melco" or the "Company") is a company with a long history and a bright future. Today, under the leadership of Chairman and CEO Mr. Lawrence Ho, Melco has found new energy and direction as a dynamic conglomerate that leads the field in the leisure and entertainment sector.

Melco is in fact a conglomerate for a new generation in Asia – a generation of consumers who are eager for new experiences and ways to live their lives to the fullest. Our group companies are responding to the changing dynamics with vibrant, imaginative products and services that fulfill the demands and dreams of this increasingly affluent and ambitious generation.

Confidence leads to growth, growth leads to confidence.

Just as growth is central to the Asian economic story, it is a dominant theme in Melco's unfolding story.

Characterizing all of our Group companies is confidence that stems from recent successes in acquisitions, investment in joint ventures, repositioning businesses for long-term growth, and development of unique, proprietary products and services to attain market leadership.

The accolades and rewards that Melco has received over the past several years have further fuelled our confidence, and assured us that we are moving in the right direction. The Group has been the recipient of the High Flyer's Corporate Achiever Award (Leisure, Gaming & Entertainment) and Top Performer Award from the HK Business Magazine and South China Morning Post respectively since 2005. In 2007, Melco received the Corporate Governance Asia Annual Recognition Award by Corporate Governance Asia and was duly recognized that same year by FinanceAsia Magazine as one of Asia's Best Managed Companies.

Melco was a founding signatory of the Hong Kong Corporate Governance Charter launched by The Chamber of Hong Kong Listed Companies. The aim of the Charter is to strengthen and foster a corporate governance culture among listed companies in Hong Kong.

Melco is a constituent of the MSCI Hong Kong Index, part of the MSCI Standard Index Series.

CORPORATE STRUCTURE

MELCO GROUP

Leisure, Gaming and Entertainment

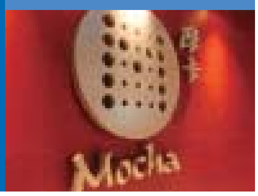
Melco PBL Entertainment (Macau) Limited – a NASDAQ-listed company ticker symbol "MPEL"

Crown Macau, Taipa – High Roller market

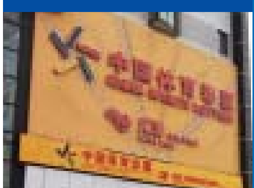
The City of Dreams, Cotai – Emerging Mass market

Third Hotel & Casino Complex, Macau Peninsula – Day Trippers

Mocha Clubs, all over Macau – Leisure Grind maket

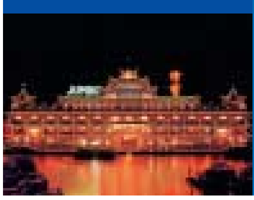


Melco LottVentures Limited – a HK-listed company stock code: 8198

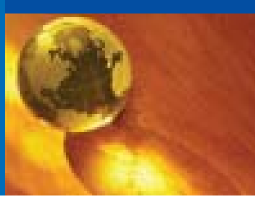


Melco China Resort Investment Limited

Jumbo Kingdom



Other Asian gaming ventures



Technology

Elixir Group

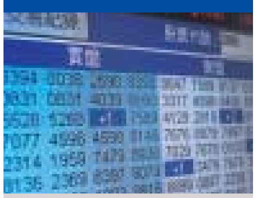
Elixir Gaming Technologies, Inc. – an AMEX listed company ticker symbol "EGT"

Focus on the gaming technology solution

Elixir Macau

Focus on information & communications technology

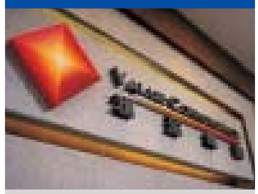
iAsia



Focus on financial trading solutions

Financial Services

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



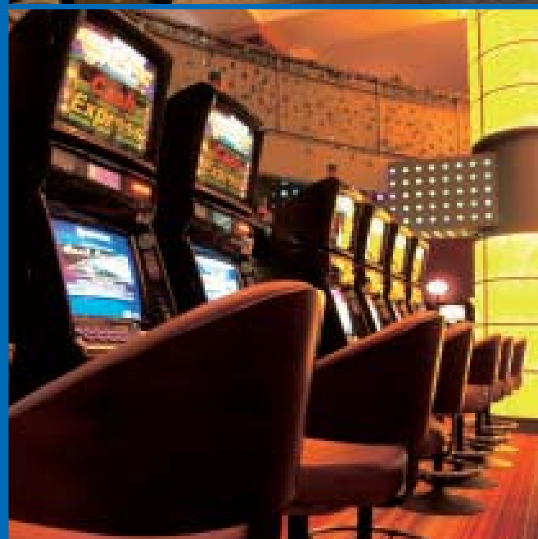
Focus on Hong Kong, Macau and China's capital financing needs

Property & Other Investments

Property & Other Investments


IN CONSTANT PURSUIT OF THE FINEST

In all we do, we work with the cream of the crop to deliver the best in leisure and entertainment.



CHAIRMAN & CEO'S STATEMENT

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

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

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

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

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

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

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

Ho, Lawrence Yau Lung
Chairman and Chief Executive Officer

SKY'S THE LIMIT

Our positions as
a New Generation
Asian Conglomerate and
an industry leader give us
the opportunity to help
shape the communities
we grow in.

MANAGEMENT DISCUSSION AND ANALYSIS

2007 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

SIGNIFICANT EVENTS AND DEVELOPMENTS

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

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

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

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

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

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

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

FINANCIAL REVIEW

The segmental information shown in Note 8 to the financial statements is reproduced below with some minor re-arrangements:

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

LEISURE, GAMING AND ENTERTAINMENT

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

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

MPEL – MACAU GAMING

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

JUMBO KINGDOM

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

ELIXIR GAMING TECHNOLOGIES

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

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

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

According to the financial statements of EGT, EGT recorded revenues of HK$95 million (US$12.2 million) for the year ended 31 December 2007, as opposed to HK$61 million (US$7.8 million) for the year ended 31 December 2006. Net loss was HK$1,825 million (US$234.6 million) for the year ended 31 December 2007, compared to a net loss of HK$114 million (US$14.6 million) for the year ended 31 December 2006. The loss was primarily due to the non-cash, non-operating charges of HK$1,677 million (US$215.6 million), of which HK$1,330 million (US$170.9 million) reflected the value of warrants and shares issued to Elixir.

GAMING LICENSE BIDDING COSTS

In 2006, the Group, Crown Limited, and Eighth Wonders formed a partnership to bid for a gaming license in Singapore. The bid turned out to be unsuccessful. As a result, our share of the costs involved in the bidding, amounting to approximately HK$19.3 million, was written off in 2006.

TECHNOLOGY

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

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

ELIXIR TECHNOLOGY

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

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

iASIA TECHNOLOGY

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

INVESTMENT AND FINANCIAL SERVICES

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

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

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

As disclosed in Note 18, Value Convergence recorded turnover of HK$210.6 million for the year ended 31 December 2007 (year ended 31 December 2006: HK$182.0 million). Net profit for the year ended 31 December 2007 amounted to approximately HK$155.1 million (year ended 31 December 2006: HK$36.8 million).

PROPERTY AND OTHER INVESTMENTS

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

AGENCY FEE INCOME

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

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

In September 2007, the Group has achieved certain milestones under the PPA resulting in i) the issuance of 40,000,000 shares ("Second Shares") and 22,000,000 warrants ("Second Warrants") to Elixir; ii) the First Warrants became immediately exercisable and iii) the exercise price of 10,000,000 warrants included in the First Warrants is reduced by US$2.00 where the adjusted exercise price ranged from US$1.00 to US$3.50. The exercise price of the remaining 6,000,000 First Warrants remains US$2.65. As a result of the issuance of Second Shares and Second Warrants, an agency fee income of HK$1,232 million is thus recognised and EGT then became a subsidiary of the Group.

LOSS ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

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

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

(a) During the year ended 31 December 2007, the Group's interest in EGT, a subsidiary acquired during the year, decreased resulting from a placement of shares by EGT (see Note 12 for details of the transactions with EGT).

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

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

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

LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES

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

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

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

After the completion of the disposal of warrants, EGT has become an associate of the Group. The Group therefore recognised a loss on deemed disposal of subsidiaries of approximately HK$143.4 million (year ended 31 December 2006: Nil) for the year ended 31 December 2007, representing the increase in share of net assets in EGT less goodwill realised on deemed disposal. Full details and explanations are given in Note 13 to the consolidated financial statements.

(b) As explained above, Value Convergence was deemed to be a discontinued operation. A gain on deemed disposal of subsidiaries of approximately HK$78.1 million (year ended 31 December 2006: Nil) was recognized for the year ended 31 December 2007. Full details and explanations are given in Note 18 to the consolidated financial statements.

(c) Effective from October 2006, the Macau gaming business conducted through MPEL ceased to be accounted for as subsidiaries of the Group and began to be accounted for as jointly-controlled entities. Pursuant to an agreement with Crown

Limited, the Group's effective interest in the Macau joint venture decreased from 60% to 50%. As a result, an accounting loss amounting to approximately HK$12.1 million for the year ended 31 December 2006 was created. Full details and explanations are given in Note 13 to the consolidated financial statements.

GAIN ON DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

GAIN ON DEEMED DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES

In December 2006, MPEL was listed on NASDAQ in the US and approximately 15.3% of the enlarged share capital (prior to the exercise of the greenshoe which took place in January 2007) was offered to public shareholders in the form of an IPO. According to prevailing Accounting Standards, this constituted a deemed disposal of interests in jointly controlled entities (Group's effective interest reduced from 50% to 42.3%) and MPEL would henceforth be accounted for as an associate. The deemed disposal resulted in a gain of approximately HK$3.1 billion to the Group. Full details and explanations are given in Note 27 to the consolidated financial statements.

GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN ASSOCIATES

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

GAIN ON FORMATION OF A JOINTLY CONTROLLED ENTITY

In September 2006, the Group formed a jointly controlled entity, PAL, with an independent third party where the Group contributed certain cash and intangible assets and the joint venture party contributed certain businesses to the jointly controlled entity. Upon the formation of this jointly controlled entity, the Group then recognised a gain of HK$20 million for the year ended 31 December 2006 on the intangible assets contributed with reference to the fair value of the intangible assets as arrived on the basis of a valuation carried out by an independent professional valuer not connected to the Group. Full details and explanations are given in Note 26 to the consolidated financial statements.

SHARE OF LOSSES OF JOINTLY CONTROLLED ENTITIES

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

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

(a) Share of loss of PAL and its subsidiaries

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

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

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

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

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

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

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

(b) Share of loss of MPEL and its subsidiaries

As explained above, subsequent to a restructuring which took place in October 2006, the Group's interest in the Macau gaming operations of MPEL was grouped under MPEL and the Group's effective interest decreased from 60% to 50%. As a result, the Group's attributable loss of MPEL and its subsidiaries were shown in the consolidated financial statements for the three months ended 31 December 2006 under the category of share of loss of jointly controlled entities. After the listing of MPEL on the NASDAQ in the US in December 2006, MPEL and its subsidiaries have been accounted for as associates.

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

(c) Share of loss of Melco PBL SPV Limited

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

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

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

SHARE OF (LOSS) PROFIT OF ASSOCIATES

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

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

(1) Share of loss of MPEL and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) Share of loss of MCR and its subsidiaries

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

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

(3) Share of profit of Power Way

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

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

(4) Share of profit of Value Convergence

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

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

FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

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

COST OF AGENCY SERVICE

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

UNALLOCATED CORPORATE INCOME AND CORPORATE EXPENSES

Unallocated corporate income mainly represented amortised financial guarantee income in relation to the joint and several financial guarantee provided by the Company and Crown Limited for the exchangeable bonds issued by the Melco PBL SPV. Full details are given in Note 43 of the consolidated financial statements.

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

FINANCE COSTS

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

INCOME TAX (EXPENSE) CREDIT

Income tax expense amounted to approximately HK$8.8 million in 2007 versus an income tax credit of HK$4.6 million in 2006. This was primarily due to a deferred tax expense of HK$0.1 million in 2007 (2006: credit of HK$13.5 million) and a current tax expense of HK$8.7 million in 2007 (2006: HK$7.7 million), full details of which are shown in Note 17 to the consolidated financial statements.

OUTLOOK

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

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

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

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

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

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

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

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

During the year ended 31 December 2007, the Group recorded a net cash outflow of HK$901 million (year ended 31 December 2006: outflow of HK$1,140.5 million). As of 31 December 2007, cash and cash equivalents of the Group totaled HK$308.9 million (31 December 2006: HK$1,209.8 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowings, convertible loan notes, long term payable and shareholder's loan) over shareholders' fund, was at a satisfactory level of 0.15 time as of 31 December 2007 (31 December 2006: 0.17 time). The Group adopts a prudent treasury policy. Cash and bank balance consisted of about 51% of cash and bank balances and 49% of short term fixed deposits. All borrowings and cash and bank balances are mainly denominated in Hong Kong dollars and U.S. dollars to maintain stable exposure to foreign exchange risks. Also, as at 31 December 2007, the Company placed a bank deposit of HK$972.5 million (equivalent to US$125 million) (31 December 2006: Nil) for an undertaking in connection with the loan facilities obtained by MPEL.

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

MATERIAL ACQUISITIONS AND DISPOSALS

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

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

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

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

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

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

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

HEADCOUNT/EMPLOYEES' INFORMATION

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

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

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

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

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

3. **Learning & Development**

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

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

FOREIGN EXCHANGE EXPOSURE

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Material capital expenditure will be incurred when the Company begins to pursue different projects in the coming years. The Company expects the respective project companies to secure required funding themselves using different financing options available. The Company will also provide the required equity capital to the new projects coming ahead, should it be deemed appropriate. Details are given in note 58 to the consolidated financial statements.

CONTINGENT LIABILITIES

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

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

The Company and the Group recognised financial guarantee liabilities in respect of the Exchangeable Bonds issued by Melco PBL SPV which are jointly and severally guaranteed by the Company and Crown Limited. Details of the guarantee are disclosed in note 43.

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 and CEO, Mr. Lawrence Ho was awarded "Directors of the Year Award 2005" by the Hong Kong Institute of Directors. In a 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 third 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.

These awards have assured us that we are moving in the right direction. Since 2005, the Group has been the recipient of the High Flyer's Corporate Achiever Award (Leisure, Gaming & Entertainment) and Top Performer Award from the HK Business Magazine and South China Morning Post respectively. In 2007, Melco received the Corporate Governance Asia Annual Recognition Award and was duly recognized in the same year by FinanceAsia Magazine as one of Asia's Best Managed Companies.

In 2007, Melco became a founding signatory of the Hong Kong Corporate Governance Charter launched by the Chamber of Hong Kong Listed Companies. The aim of the Charter is to strengthen and foster a corporate governance culture among listed companies in Hong Kong.

2007 AWARD HIGHLIGHTS

- "President Award" by The Community Chest
- "Corporate Governance Asia Annual Recognition Award" by Corporate Governance Asia
- "Asia's Best Managed Companies 2007" awards by Finance Asia under "Best Managed Companies", "Best Corporate Governance" and "Best Investor Relations" categories
- "Double Diamond Corporate Member" of the World Wide Fund Hong Kong

INVESTOR RELATIONS

Melco believes that maintenance of communication and operational transparency is vital to building good investors relations. During the year, the Group actively participated in more than 10 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.

CORPORATE CITIZENSHIP

Melco encourages staff members to reach out and contribute to the sustainable growth and future of the communities in which we live and work because, in Melco's view, it is crucial to maintain harmony between corporations and society. As a well-established corporation Melco believes in an obligation to improve the quality of life for not just our employees, but also for the local community and society at large. This forms the basis of the Group's active support for numerous community and charity initiatives over the years in Hong Kong, Macau and mainland China.

The Melco Volunteer team are encouraged to participate in activities that focus on youth development, education and the environment. In 2007, the Group sponsored and participated over 30 meaningful projects organized by various charitable organizations with 4,000 beneficiaries in Hong Kong, Macau and China while our Melco Volunteer Team participated in one-third of these events.

GREEN AND ENVIRONMENT

In anticipation of the needs of current and future generations, Melco is strongly committed to environmental protection. In the future, Melco looks to further instill environmental responsibility into the Group's core values and business operations. Moreover, Melco incorporates the "Reduce, Reuse, Recycle" philosophy to ensure that materials are being used and disposed of efficiently. When possible, the Group uses paper made exclusively of recycled paper products. Printer toner cartridges and cardboards are also recycled to reduce landfill waste.

In 2007, Melco sponsored and participated:

- (April) World Wide Fund Hong Kong's Tree Planting at Island House
- (July) Greening for The Community Chest
- (June) Platinum Sponsor of International Conference on Climate Change (ICCC 2007) organized by The Hong Kong Institution of Engineers
- (September) World Wide Fund Hong Kong's Double Diamond Corporate Member
- (October) World Wide Fund Hong Kong's Education Tour at Hoi Ha Wan Maritime Education Centre
- (November) World Wide Fund Hong Kong's Walk for Nature at Mai Po

EDUCATION

Melco is committed to enhancing education for the young in hopes of building a better world and a better tomorrow. The Group devotes considerable resources to educational projects, particularly in the Greater China region. In the future, the Group intends to foster the development of cultural education in local schools and to establish scholarship scheme for underprivileged children with outstanding performance.

In 2007, Melco sponsored and participated:

- The set up of the MPI-Melco Gaming and Entertainment Information Technology Research and Development Centre at Macao Polytechnic Institute
- (2007-2008) "Attention Deficit & Hyperactivity Disorder (ADHD) Project" of Heep Hong Society
- (July) Sole Sponsor of 2007 Outstanding Students Tour – Beijing Olympic organized by The Outstanding Young Persons' Association

- (November) Platinum Patron of The Hong Kong Society for the Protection of Children's Annual Ball – Beyond Dreams

- (December) Melco-Red Cross "Pass-it-on" Volunteer Service

YOUTH DEVELOPMENT

Melco contributes to the dynamism of the younger generation in Asia by cultivating personal development in youths. The Group supports specific programs to help rebuild self-awareness and confidence of underprivileged children.

In 2007, Melco sponsored and participated:

- (January) The Community Chest's Hong Kong & Kowloon Walk

- (February) The Community Chest's New Territories Walk

- (March) The Community Chest's Hong Kong's Shenzhen Western Corridor Walk for Millions

- (March) Melco-HKPHAB Ngong Ping 360 Tour

- (May) "Community for the Chest"'s National Renowned Chefs for the Chest

- (August) Melco-Playright Jumbo Playday 2007

- (October) Central Rat Race 2007 in support of MINDSET

- (December) The Community Chest's "Be a Star" Charity Christmas Lunch

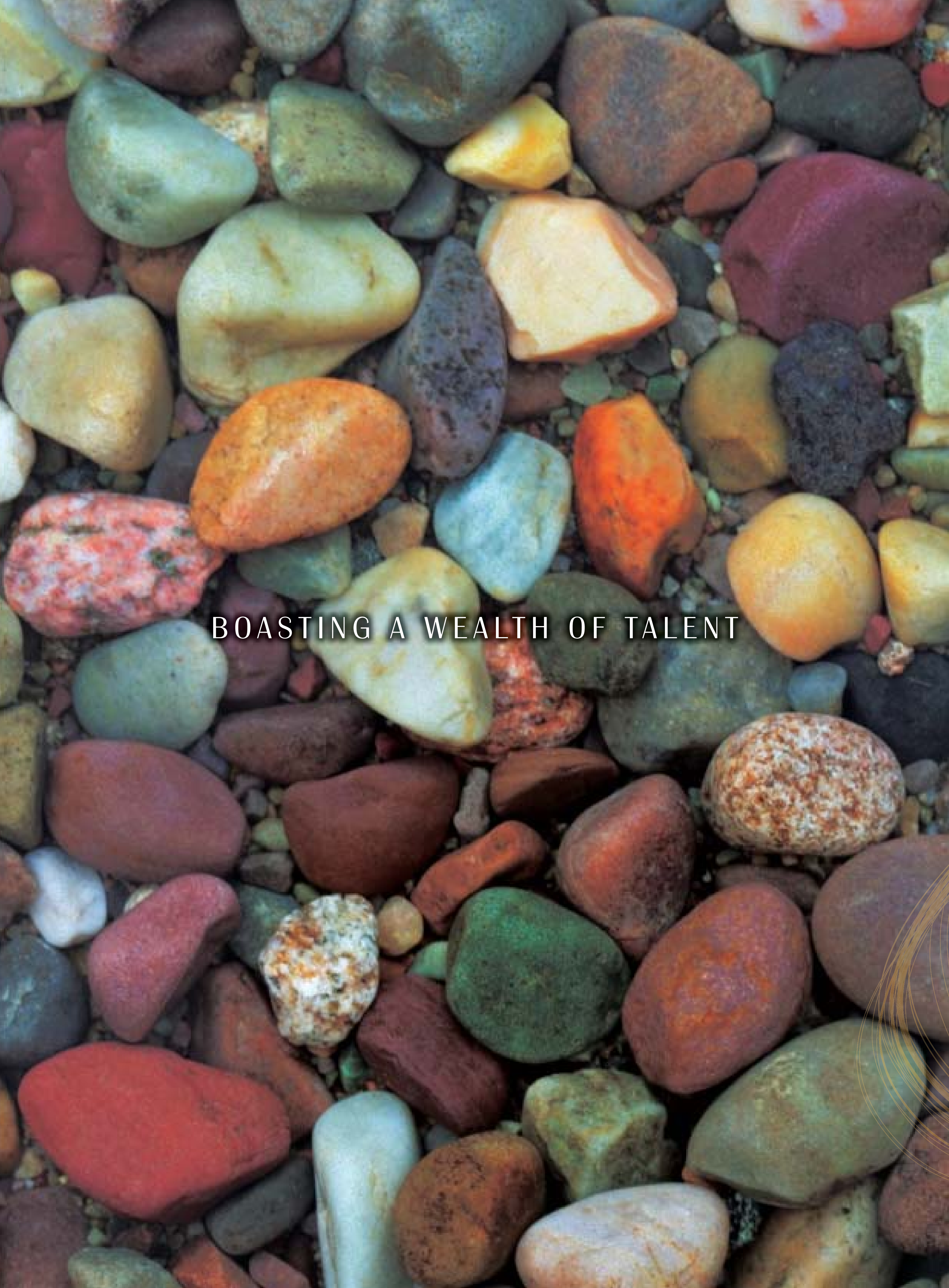
- (December) The 30th Anniversary Concert of The Outstanding Young Persons' Association

- (December) Children's Thalassaemia Foundation in support of their work

- (December) Chi Heng Foundation to support its AIDS Orphans Project

- (December) UNICEF 10km and Half-Marathon Charity Run

To maintain a long-standing commitment to corporate citizenship, Melco has also taken the initiative to publish its first Corporate Social Responsibility Report as a means to communicate directly with stakeholders about the Group's CSR vision, strategies and performance.


BOASTING A WEALTH OF TALENT

We see our visionary management and highly qualified team of staff members as our most valuable assets that help us achieve our goals.

MANAGEMENT PROFILE

Mr. HO, Lawrence Yau Lung (aged 31)

Executive Director (Chairman and Chief Executive Officer)

Mr. Ho was appointed Group Managing Director of the Company in November 2001 after he completed a General Offer for shares of the Company. He was subsequently appointed as Chairman and Chief Executive Officer on 15 March 2006. Mr. Ho is currently an Executive Director (the President and Vice Chairman) of Value Convergence Holdings Limited, a company listed on the Hong Kong Stock Exchange. He 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 to own and operate gaming business in Macau. Melco International Development Limited ("Melco") is a constituent of the MSCI Hong Kong Index, part of the MSCI Standard Index Series. 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; 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.

Over the years, Mr. Ho has been awarded a number of accolades for his 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" presented annually by the Hong Kong Institute of Directors. He 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. As a socially responsible young entrepreneur, Mr. Ho was elected as one of the "Ten Outstanding Young Persons" in 2006. The Stevie Awards recognized Mr. Ho as a Stevie Finalist in the "Best Chairman" category of the "2007 International Business Awards". He was also elected one of the 100 most influential people across Asia Pacific by Asiamoney magazine.

Mr. TSUI Che Yin, Frank (aged 50)

Executive Director

Mr. Tsui has more than 21 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 (aged 45)

Executive Director (Chief Operating Officer)

Mr. Chung has more than 20 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. He is currently a director of Melco PBL Entertainment (Macau) Limited, a company listed on the Nasdaq Global Market and Elixir Gaming Technologies, Inc., a company listed on the American Stock Exchange.

Mr. Chung holds a bachelor degree in business administration from the Chinese University of Hong Kong. He is members of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

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

Mr. NG Ching Wo (aged 57)
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 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 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 61)
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. 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 28 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 52)
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 47)

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 (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. Wang is also a director of Melco PBL Entertainment (Macau) Limited, a company listed on the Nasdaq Global Market.

Mr. TSANG Yuen Wai, Samuel (aged 53)

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 20 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 49)

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 and has participated in numerous capital markets and advisory transactions. Before joining the Group, he had been an executive director of SW Kingsway Capital Holdings Limited (a company listed on the Stock Exchange); the Senior Country Officer of JP Morgan Chase and head of its investment banking business in Hong Kong; as well as the group executive director and co-head of investment banking of Jardine Fleming Holdings Limited. Mr. Sun is currently an independent non-executive director of Solomon Systech (International) Limited and China Railway Group Limited (both companies are listed on the Stock Exchange).

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.

Mr. Sun was deputy convenor of the Listing Committee of the Stock Exchange from 1996 to 2002 and was a member of the Council of the Stock Exchange from 1995 to 2000. From 2002 to 2004, he was honorary chief executive officer of the Chamber of Hong Kong Listed Companies. He was appointed by the Securities and Futures Commission as a member of the Takeovers and Mergers Panel from 1995 to 1997 and again from 1999 to 2001.

Mr. Sun also participated actively in public services. He is a former member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council, the Investment Advisory Committee of the Hong Kong Exchanges and Clearing Limited, the Corporate Advisory Council of the Hong Kong Securities Institute and the Hong Kong Policy Research Institute. He is a member of the General Committee of the Chamber of Hong Kong Listed Companies.

Mr. KO Chun Fung, Henry (aged 48)

Director of iAsia Online Systems Limited

Mr. Ko comes from a technology background and was an Executive Director of the Hong Kong listed Star Telecom Group in the early nineties. While at Star Telecom, he spearheaded the regional development of the Group through its participation in several cellular license biddings and also several telecom and internet joint ventures with the renowned global telecom operators in various Asian countries such as China, India, Singapore, Thailand, Taiwan and Philippines. In 1999, Mr. Ko joined iAsia Technology Limited, which went on to become one of the leading financial online trading solution vendors in Hong Kong, with active involvement as Co-CEO and Executive Director. After a corporate restructuring in 2004, Mr. Ko headed the iAsia Online Systems Limited which became a major technology subsidiary of the Melco Group. In 2007 Mr. Ko was nominated to lead the Group's entry into the lottery industry. Mr. Ko currently is an executive director of Melco LottVentures Limited (formerly known as Wafer Systems Limited), a company listed on the Hong Kong Stock Exchange.

Mr. Ko obtained a Bachelor of Engineering degree (1st honours) in 1982. In 1990 he received a Postgraduate Course Award to study his MBA degree in the AGSM of Australia.

Mr. YUEN Tien Yau, Gordon (aged 50)

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 other global companies where he was a key managerial member. Those companies include HSBC, American Express International, Inc., American Express Bank, PepsiCo, and certain other companies in Asia. He serves as Chief Executive Officer of Elixir service since its inception in 2002. Currently, Mr. Yuen also serves as the Executive Chairman and Chief Executive Officer of Elixir Gaming Technologies, Inc., a US listed company.

Mr. YEUNG, Alfred Kwong Fai, MSc DMS BA DipArch RIBA MCMI MAPM (aged 48)

Group Property Development Director

Mr. Yeung joined our Group in 2007. Having worked globally on projects in United Kingdom, Europe and SE Asia, he has more than 20 years of experience in architecture, planning, project management and property development. Before joining the Group, Mr. Yeung has held senior positions with Brock Carmichael Associates (Manchester and Liverpool) and was the Head of Property Development at Kowloon Canton Railway Corporation (Hong Kong). He was also appointed as Adjunct Associate Professor in architecture by Chinese University of Hong Kong.

Mr. Yeung is a chartered architect by profession, qualified at Liverpool J.M. University and received his Master degree in Construction Management from Bath University. He is a member of Royal Institute of British Architects, Chartered Management Institute and Association for Project Management in UK.

Ms. WONG Lai Lai, Wendy (aged 47)

Director, Project and Human Resources

Ms. Wendy Wong has been a professional specializing in people management for more than 21 years. Holding a master Degree in Human Resources Management from Macquarie University from 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 38)

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.

Mr. LAW Kwok Fai, Alan (aged 46)

Group Internal Audit Director

Mr. Law joined the Group in 2007 as the Group Internal Audit Director. Mr. Law has more than 20 years of experience in public accountancy, financial management, internal control and operational risk management. He held management positions in multinational companies of various industries including KPMG, Peninsula Hotels Group, Standard Chartered Bank and Citigroup. Prior to joining the Group, he was the Quality Assurance Head of Citigroup Hong Kong for 10 years. Mr. Law obtained his Master Degree of Business Administration from the University of Warwick. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and also an associate member of the Institute of Chartered Accountants in England and Wales.


MARCHING TOWARDS A COMMON GOAL

The numerous awards Melco received in the past year affirm its ability to uphold our high corporate governance standards and thereby bring the highest possible returns to all.

CORPORATE GOVERNANCE REPORT

The Group (Melco International Development Limited and its subsidiaries) 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's continuous effort to promote excellence and high standards of corporate governance practices continued to earn market recognition from different stakeholders. Melco International Development Limited ("Melco" or the "Company") received numerous corporate governance awards during past years and was recently awarded the Corporate Governance Asia Annual Recognition Award from Corporate Governance Asia and a number of major honors on the 'Asia's Best Managed Companies 2007' list published by the renowned FinanceAsia magazine, including 'Best Managed Companies', 'Best Corporate Governance', and 'Best Investor Relations', all of which reflected the positive assessments of the Group by the investment community. Melco will continue upholding its high level of corporate governance within the Group and its subsidiaries and ultimately bringing the highest possible returns to the shareholders.

CORPORATE GOVERNANCE PRACTICES

(A) APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES AND PROMULGATION OF COMPANY'S CORPORATE GOVERNANCE CODE

The Company has applied the principles set out in the Code on Corporate Governance Practices (the "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 (the "Listing Rules") with these objectives in mind. To this end, the Company has promulgated a set of Code on Corporate Governance (the "Company Code") which sets out the corporate standards and practices used by the Company 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, which came into effect on 1 January 2005. 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 Company's shareholders. The Company Code has been posted on the Company's website.

(B) COMPLIANCE OF THE CODE PROVISIONS OF THE COMPANY CODE AND HKSE CODE

The Company has complied with all provisions in the Company Code and the HKSE Code throughout the financial year ended 31 December 2007 with two deviations mentioned below:

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

Pursuant to Code Provision A.2.1 of the HKSE Code, the roles of Chairman and Chief Executive Officer of a listed company should be separate and should not be performed by the same individual. However, in view of the present composition of the Board, 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 of Directors (the "Board") of the Company from time to time.

Outlined below are the policies, processes and practices adopted by the Company in compliance with the principles and spirit of the HKSE Code and the Company Code.

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 (Chairman and Chief Executive Officer), Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence (Chief Operating Officer); one Non-executive Director, namely, Mr. Ng Ching Wo; and three Independent Non-executive Directors, namely, Sir Roger Lobo, Dr. Lo Ka Shui and Mr. Sham Sui Leung, Daniel. The Non-executive Director and the Independent Non-executive Directors, all of whom are independent of the management of the Group's businesses, are highly experienced professionals with substantial experience in areas such as legal, accounting and financial management. Their mix of skills and business experience is a major contribution to the future development of the Company. They ensure that the Board maintains high standard of financial and other mandatory reporting, in addition to providing adequate checks and balances to safeguard the interests of shareholders and the Company as a whole.

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.

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.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. This year, Mr. Ho, Lawrence Yau Lung and Sir Roger Lobo will retire and they are eligible to offer themselves for re-election at the forthcoming annual general meeting. Their biographical details have been set out in a circular to assist shareholders to make an informed decisions on their elections.

BOARD MEETINGS

The Board meets regularly over the Company's affairs and operations. The Board held a total of twelve meetings during the year ended 31st December 2007. The Chief Financial Officer and the Company Secretary also attend all board meetings to advise on statutory compliance, accounting and financial matters. All businesses transacted at the meetings were documented and maintained in accordance with applicable laws and regulations.

Set out below is the attendance record of each member of the Board at the board meetings during the year ended 31 December 2007 which illustrates the attention given by the Board in overseeing the Company's affairs:

	No. of meetings attended/ held in the year 2007	**Attendance rate**
Executive Directors		
Ho, Lawrence Yau Lung *(Chairman and Chief Executive Officer)*	12/12	100%
Tsui Che Yin, Frank	12/12	100%
Chung Yuk Man, Clarence *(Chief Operating Officer)*	12/12	100%
Non-executive Director		
Ng Ching Wo	9/12	75%
Independent Non-executive Directors		
Sir Roger Lobo	10/12	83%
Lo Ka Shui	11/12	92%
Sham Sui Leung, Daniel	11/12	92%

PROCEDURE TO ENABLE DIRECTORS TO SEEK INDEPENDENT PROFESSIONAL ADVICE

To assist the directors to discharge their duties to the Company, the Board has established written procedures to enable the directors, upon reasonable request, to seek independent professional advice, at the Company's expense, in appropriate circumstances. No request was made by any director for such independent professional advice in 2007.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms as set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of the Directors of the Company, all Directors have confirmed that they 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 2007.

DELEGATION BY THE BOARD

MANAGEMENT FUNCTIONS

The Board delegates day-to-day operations of the Group to the management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The Board has established in writing which issues require decision of the full Board and which can be delegated by the Board to board committees or management.

BOARD COMMITTEES

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated by the Board to various board committees, which review and make recommendations to the Board on specific areas.

Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee. The terms of reference of the board committees have been posted on the Company's website under "Corporate Governance".

(1) EXECUTIVE COMMITTEE

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 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. It oversees the implementation of the Company's strategic objectives and risk management policies and the business and operations of all of the business units of the Group.

Under the Executive Committee, a Business Development Sub-Committee and a Property Sub-Committee were established.

(i) Business Development Sub-Committee

The Business Development Sub-Committee consists of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank, Mr. Chung Yuk Man, Clarence and members of the Company's senior management. This committee reviews and provides advice to the Executive Committee on the strategies and progress of the business development projects.

(ii) Property Sub-Committee

The Property Sub-Committee consists of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank, Mr. Chung Yuk Man, Clarence and members of the Company's senior management. This committee reviews and provides advice to the Executive Committee on the strategies and progress of the property development projects and examines the proposals for leasing and disposal of property.

(2) AUDIT COMMITTEE

The Audit Committee was formed on 24th March 1999 and is composed of two Independent Non-executive Directors and a Non-executive Director, 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".

During the year 2007, the Audit Committee held a total of two meetings. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/ held in the year 2007	**Attendance rate**
Sir Roger Lobo *(Chairman)*	2/2	100%
Mr. Ng Ching Wo	2/2	100%
Mr. Sham Sui Leung, Daniel	2/2	100%

The Audit Committee has 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 2007.

A statement of director responsibilities for preparing the financial statements is set out in this Annual Report. The Independent Auditor's Report states auditors' reporting responsibilities.

(3) REMUNERATION COMMITTEE

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. It makes 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 determines 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".

During the year 2007, the Remuneration Committee held a total of three meetings. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/ held in the year 2007	**Attendance rate**
Lo Ka Shui *(Chairman)*	3/3	100%
Sir Roger Lobo	3/3	100%
Ng Ching Wo	2/3	67%

Remuneration Policy

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. As a long-term incentive plan and with the aim at motivating directors and employees in the continued pursuit of the Company's goal and objectives, the Company has adopted a share option scheme under which the Company may grant share options to the directors/employees to subscribe for the shares of the Company. In 2007, the Company also adopted two share incentive award schemes, namely, The Melco Share Purchase Scheme Trust and The Melco Share Award Scheme Trust, under which the Company may grant awarded shares to the directors/employees in order to recognize their contributions to the Group.

Emoluments of Directors

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.

(4) NOMINATION COMMITTEE

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. It reviews the structure, size and composition of the Board (including the skills, knowledge and experience); identifies the individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and makes recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

During the year 2007, the Nomination Committee held one meeting for reviewing the structure, size and composition of the Board.

(5) FINANCE COMMITTEE

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 holds meetings from time to time to discuss financial matters of the Company's new and existing business. It conducts review on matters such as Group wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets; and reviews major acquisitions and investments and their funding requirements.

(6) REGULATORY COMPLIANCE COMMITTEE

The Regulatory Compliance Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman) and Mr. Tsui Che Yin, Frank; an Independent Non-executive Director, namely, Dr. Lo Ka Shui and the Group Legal Counsel (non-voting capacity). The Regulatory Compliance Committee holds meetings from time to time to discuss the ongoing compliance matters of the Group. It reviews and advises upon matters in respect of the present or future regulation of the Company's gaming and financial services businesses; and complies with applicable laws and regulations, including the Listing Rules.

(7) CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

For enhancing the social responsibilities practice of the Group and to generate growth and well-being of a new generation in the countries in which the Group invests, the Board established a new committee, Corporate Social Responsibility Committee, in January 2008. The Corporate Social Responsibility Committee is made up of the Company's Independent Non-executive Director and Executive Directors, namely, Sir Roger Lobo (Chairman), Mr. Ho, Lawrence Yau Lung, Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence and the Head of the Corporate Communications Department (non-voting capacity). It formulates the corporate social responsibility strategies and policies of the Group and oversees the development and implementation of the Group's corporate social responsibility matters including policies, practices, Melco Volunteer team and other charitable activities along the defined pillars of Green, Youth and Education.

INTERNAL CONTROL

The Group upholds the highest standards of integrity and credibility to earn respect and trust from our clients.

The Board acknowledges its overall responsibility for the establishment and maintenance of a sound system of internal control and risk management to safeguard the shareholders' investment and the Group's assets.

To fulfill its responsibility, the Board's Executive Committee is assigned to oversee the implementation of the Group's internal control and risk management policies and to monitor the business and operations of all of the business units of the Group. The Board also assigned the Audit Committee to review and supervise the financial reporting process and internal control procedures of the Group.

MANAGEMENT SUPERVISION

The Executive Committee and management have defined the organizational structure of the Group and its business units with clear lines of reporting and authorities and have recruited competent personnel to facilitate the establishment of an internal control system and the flow of necessary information.

The Executive Committee has endorsed the Risk Management Policy for the Group and its business units to provide a risk assessment framework to identify and evaluate the material business risk, operational risk, financial risk and compliance risk. The Committee also endorses other policies, procedures, codes and guidelines to mitigate significant inherent risks embedded in the operational activities. The "Code of Business Conduct and Ethics" is communicated to all employees with the aim of cultivating a high integrity and ethical values within the Group.

The Executive Committee conducts monthly meetings with the management team of business units to review business plan and strategies; business performance against budgets; key operations statistics and internal control issues.

GROUP INTERNAL AUDIT FUNCTION

The Group has an Internal Audit Department which reports directly to the Audit Committee. The annual audit plan is approved in the Audit Committee meeting. The department conducts independent reviews of the group business operations; reports significant internal control and risk management issues; and monitors the resolution status.

The Internal Audit Department reviews and assesses the adequacy and effectiveness of the Group's system of internal control by adopting a risk-based audit approach developed based on the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") as recommended by the Hong Kong Institute of Certified Public Accountants.

The Internal Audit Department adopts the following five components of the integrated framework to conduct review assessment:

Extracted from the Internal Control – Integrated Framework, COSO

(1) CONTROL ENVIRONMENT

Control environment sets the tone of organization, influencing control consciousness of its people. Control environment is the foundation for other components of the internal control, providing discipline and structure. Factors of control environment include ethical values, competence of personnel and direction provided by the Board.

(2) RISK ASSESSMENT

Risk assessment involves the identification and analysis of relevant risks to the achievement of the objectives, including risks relating to the changing economic, industry, regulatory and operating conditions, as a basis for determining how such risks should be mitigated and managed.

(3) CONTROL ACTIVITIES

Control activities are the policies and procedures that help ensure management directives are carried out and actions are taken to address risks affecting achievement of objectives.

(4) INFORMATION AND COMMUNICATION

Information and communication comprises effective processes and systems to identify, capture and communicate operational, financial and compliance-related information in a form and timeframe that enable the 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. This is accomplished through ongoing monitoring activities, separate evaluation or a combination of two. Deficiencies in internal controls should be reported to senior management, the Audit Committee, or the Board.

AUDIT COMMITTEE SUPERVISION

The Audit Committee conducts regular meetings with the Chief Financial Officer, the Group Internal Audit Director and the external auditors to review the financial statements and auditors' reports on financial and internal control matters. The Audit Committee reports to the Board on significant internal control matters, suspected frauds or irregularities, alleged infringement of laws, rules and regulations, which come to their attention.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's system of internal control for the year ended 31st December 2007 covering all material financial, operational and compliance controls and risk management functions, and considers that the system of internal control is adequate and effective.

AUDITORS' REMUNERATION

For the year ended 31st December 2007, the Company paid to its auditors, Deloitte Touche Tohmatsu, approximately HK$4.1 million for audit and non-audit services provided to the Company. Out of this amount, HK$2.8 million was for audit services and the balance of HK$1.3 million was for non-audit services (such as interim review of the Group's financial statements, agreed-upon procedures for the Company's final results announcement and tax services).

COMMUNICATION WITH SHAREHOLDERS

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. Notice of AGM and related papers are sent to the shareholders no less than 21 days before the meeting. The Company supports the Corporate Governance Code's principle to encourage shareholders' participation. Questioning by the shareholders at the AGM is encouraged and welcomed.

The Company Secretarial Department and the Corporate Communications Department respond to letters and telephone enquiries from shareholders/investors. Shareholders and investors are welcome to raise enquiries through our email contact info@melco-group.com or by mail to our Company Secretary at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. 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.

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) (the "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.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 59 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on pages 66 to 67.

No interim dividend was paid to the shareholders during the year (2006: Nil). The directors recommend the payment of a final dividend of HK$0.01 per ordinary share to the shareholders whose names appear on the register of members of the Company on 9 May 2008. The proposed final dividend will be payable on or before 21 May 2008.

FIXED ASSETS

Details of movements in the investment properties and property, plant and equipment during the year are set out in notes 23 and 24, respectively, to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year are set out in notes 48 and 50, respectively, to the 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 148. This summary does not form part of the audited financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2007, the Company's reserves available for distribution consisted of capital reserve of approximately HK$283,734,000 (2006: HK$296,016,000) of which HK$12,291,000 has been proposed as final dividend. The Company considered it has fulfilled those conditions required for distribution of capital reserve. In addition, the Company's share premium account, in the amount of approximately HK$3,125,485,000 (2006: HK$3,124,940,000), 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 approximately 38% of the Group's total turnover for the year (2006: less than 30%) and the largest customer accounted for approximately 17% of the Group's revenue for the year. The five largest suppliers accounted for approximately 46% of the Group's total purchases for the year (2006: 51%) and the largest supplier accounted for approximately 19% of the total purchases (2006: 16%).

At 31 December 2006, 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) had any interest in the Group's five largest suppliers.

At 31 December 2007, Mr. Ho Lawrence Yau Lung, Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence had interests in the shares/share options/restricted shares in Melco PBL Entertainment (Macau) Limited ("MPEL") and/or Elixir Gaming Technlologies, Inc. ("EGT") (EGT and MPEL are two of the five largest customers and EGT is one of the five largest suppliers), details of which are set out in the section "Directors' Interests in Shares, Underlying Shares and Debentures" of this report. All transactions between the Group and the customers and suppliers concerned were carried out on normal commercial terms.

DIRECTORS

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

EXECUTIVE DIRECTORS:

Mr. Ho, Lawrence Yau Lung *(Chairman and 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

In accordance with Article 103(A) of the Company's Articles of Association, Mr. Ho, Lawrence Yau Lung and Sir Roger Lobo will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation from each of the Independent Non-executive Directors concerning their independence to the Company and considers that each of the Independent Non-executive Directors is independent to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out on pages 38 to 41 of this annual report.

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, none of the directors has a service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 57 to the consolidated financial statements, no contracts of significance in relation to the Group's business 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.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests of each director and chief executive and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(I) LONG POSITIONS 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 ordinary shares held	Approximate percentage of the issued share capital of the Company
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	404,041,630 (Note 2)	32.89%
	Beneficial owner	7,232,612	0.59%
Dr. Lo Ka Shui	Beneficial owner	2,000,000	0.16%

(B) SHARE OPTIONS GRANTED BY THE COMPANY

	Number of share options						
Name of Director	Outstanding at 1 January 2007	Grant during the year	Exercised during the year	Outstanding at 31 December 2007	Date of grant	Exercisable period	Exercise price HK$
Mr. Chung Yuk Man, Clarence	140,000	–	–	140,000	17.09.2004	17.03.2008 to 07.03.2012	1.6875
	200,000	–	–	200,000	01.02.2005	17.09.2009 to 07.03.2012	7.4000
	130,000	–	–	130,000	13.02.2006	01.04.2008 to 31.01.2016	11.8000
	130,000	–	–	130,000	13.02.2006	01.04.2010 to 31.01.2016	11.8000
	140,000	–	–	140,000	13.02.2006	01.04.2012 to 31.01.2016	11.8000
Dr. Lo Ka Shui	100,000	–	–	100,000	03.04.2006	03.04.2008 to 02.04.2016	15.8700
	100,000	–	–	100,000	03.04.2006	03.04.2010 to 02.04.2016	15.8700
	100,000	–	–	100,000	03.04.2006	03.04.2012 to 02.04.2016	15.8700
Sir Roger Lobo	100,000	–	–	100,000	03.04.2006	03.04.2008 to 02.04.2016	15.8700
	100,000	–	–	100,000	03.04.2006	03.04.2010 to 02.04.2016	15.8700
	100,000	–	–	100,000	03.04.2006	03.04.2012 to 02.04.2016	15.8700
Mr. Ng Ching Wo	100,000	–	–	100,000	03.04.2006	03.04.2008 to 02.04.2016	15.8700
	100,000	–	–	100,000	03.04.2006	03.04.2010 to 02.04.2016	15.8700
	100,000	–	–	100,000	03.04.2006	03.04.2012 to 02.04.2016	15.8700
	1,640,000	–	–	1,640,000			

Details of the Share Option Scheme and movements of the options under the Share Option Scheme are set out in note 50 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

(I) LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY – CONTINUED

(C) CONVERTIBLE LOAN NOTES ISSUED BY THE COMPANY

Name of Director	Capacity	Number of underlying shares held	Approximate percentage of the issued share capital of the Company
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694 (Note 3)	9.60%

Notes:

1. As at 31 December 2007, the total number of issued shares of the Company was 1,228,475,716.

2. 115,509,024 shares of the Company are held by Lasting Legend Ltd., representing approximately 9.40% of the issued share capital of the Company and 288,532,606 shares of the Company are held by Better Joy Overseas Ltd., representing approximately 23.49% of the issued share capital of the Company. Lasting Legend Ltd. and Better Joy Overseas Ltd. are owned by persons and trusts associated with Mr. Ho, Lawrence Yau Lung.

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. Ho, Lawrence Yau Lung 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 POSITIONS IN SHARES AND UNDERLYING SHARES OF ASSOCIATED CORPORATIONS OF THE COMPANY

(A) VALUE CONVERGENCE HOLDINGS LIMITED ("VALUE CONVERGENCE")

(a) Ordinary shares of HK$0.10 each of Value Convergence

Name of Director	Capacity	Number of ordinary shares of Value Convergence held	Approximate percentage of the issued share capital of Value Convergence
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	165,163,008 (Note 2)	44.64%

(b) Share options granted by 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 3)	0.13%

Notes:

1. As at 31 December 2007, the total number of issued shares of Value Convergence was 369,957,451.

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 33.48% of the issued share capital of the Company which in turn holds approximately 43.50% 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 1.14% of the issued share capital of Value Convergence.

3. 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.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

(II) LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF ASSOCIATED CORPORATIONS OF THE COMPANY – CONTINUED

(B) MELCO PBL ENTERTAINMENT (MACAU) LIMITED ("MPEL")

(a) Ordinary shares of US$0.01 each of MPEL

Name of Director	Capacity	Number of ordinary shares of MPEL held	Approximate percentage of the issued share capital of MPEL
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	510,746,156 (Note 2)	38.67%
Mr. Tsui Che Yin, Frank	Beneficial owner	11,850	0.001%
Mr. Chung Yuk Man, Clarence	Beneficial owner	21,077	0.002%

(b) Restricted shares award granted by MPEL

Name of Director	Capacity	Number of underlying shares of MPEL held	Approximate percentage of the issued share capital of MPEL
Mr. Ho, Lawrence Yau Lung	Beneficial owner	947,450 (Notes 3 & 4)	0.072%
Mr. Chung Yuk Man, Clarence	Beneficial owner	10,523 (Note 5)	0.001%

Notes:

1. As at 31 December 2007, the total number of issued shares of MPEL was 1,320,938,903.60.

2. Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 500,000,000 shares of MPEL which are being held by Melco Leisure and Entertainment Group Limited ("Melco Leisure"), a wholly owned subsidiary of the Company; and (ii) 10,746,156 shares of MPEL which are being held by Melco PBL SPV Limited, a company which is owned by Melco Leisure as to 50%, as a result of him being beneficially interested in approximately 33.48% of the issued share capital of the Company which in turn holds an aggregate of 38.67% of the issued share capital of MPEL.

3. The personal interests of the above directors represent their derivative interests in MPEL comprising the restricted shares which were granted by MPEL on 19 December 2006, the date on which the American Depositary Shares representing the ordinary shares of MPEL were listed on the NASDAQ Global Market, at a grant price of US$0.01 per share, which is the par value of the share of MPEL, pursuant to the restricted shares award agreement under the Share Incentive Plan adopted by MPEL in 2006. The restricted shares granted to the above directors have a vesting period of three years.

4. The 947,450 restricted shares will vest on 19 December 2009.

5. Among the 10,523 restricted shares, 5,261 shares will vest on 19 December 2008 and 5,262 shares will vest on 19 December 2009.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

(II) LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF ASSOCIATED CORPORATIONS OF THE COMPANY – CONTINUED

(C) ELIXIR GAMING TECHNOLOGIES, INC. ("EGT")

(a) Shares of Common Stock of US$0.001 each of EGT

Name of Director	Capacity	Number of shares of common stock of EGT held	Approximate percentage of the issued share capital of EGT
Mr. Ho, Lawrence Yau Lung	Held by controlled corporation	45,800,000 (Note 2)	39.86%

(b) Warrants issued by EGT

Name of Director	Capacity	Number of underlying shares of EGT held
Mr. Ho, Lawrence Yau Lung	Held by controlled corporation	76,000,000 (Notes 2 & 3)

(c) Stock options granted by EGT

Name of Director	Capacity	Number of underlying shares of EGT held	Approximate percentage of the issued share capital of EGT
Mr. Tsui Che Yin, Frank	Beneficial owner	1,000,000 (Notes 4 & 5)	0.87%
Mr. Chung Yuk Man, Clarence	Beneficial owner	200,000 (Notes 4 & 6)	0.17%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED

(II) LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF ASSOCIATED CORPORATIONS OF THE COMPANY – CONTINUED

(C) ELIXIR GAMING TECHNOLOGIES, INC. ("EGT") – CONTINUED

(c) Stock options granted by EGT – continued

Notes:

1. As at 31 December 2007, the total number of issued shares of common stock of EGT was 114,914,934.

2. Mr. Ho, Lawrence Yau Lung is taken to be interested in 45,800,000 shares of common stock of EGT and 76,000,000 underlying shares of EGT (which relate to certain EGT warrants as described in Note 3) as a result of him being beneficially interested in approximately 33.48% of the issued share capital of the Company which in turn holds approximately 39.86% of the issued share capital of EGT.

3. The 76,000,000 underlying shares relate to the following warrants issued by EGT to Elixir Group Limited ("Elixir"), a wholly-owned subsidiary of the Company, pursuant to the Securities Purchase Agreement entered into between Elixir and EGT dated 11 October 2006 and the Securities Purchase and Product Participation Agreement (the "Participation Agreement") entered into between Elixir and EGT dated 13 June 2007:

   (i) warrants to purchase 10,000,000 shares of common stock of EGT which will be exercisable at any time during the period from 21 October 2007 to 31 December 2010 at exercise prices ranging from US$1.00 to US$3.50 per share; and

   (ii) warrants to purchase 66,000,000 shares of common stock of EGT at an exercise price of US$2.65 per share which will become exercisable upon Elixir's achievement of relevant performance milestones pursuant to the Participation Agreement and will expire on 31 December 2012.

   For details of the performance milestones, please refer to the announcement and circular issued by the Company dated 14 June 2007 and 6 July 2007 respectively.

4. The personal interests of Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence represent their derivative interests in EGT comprising the stock options granted to them by EGT on 17 May 2007 at an exercise price of US$2.90 per EGT's share. The stock options may be exercised during the period from the vesting date (please refer to Notes 5 & 6) to 17 May 2012.

5. Among the 1,000,000 stock options, 333,334, 333,333 and 333,333 stock options will vest on 17 May 2008, 17 May 2009 and 17 May 2010 respectively.

6. Among the 200,000 stock options, 66,666, 66,666 and 66,668 stock options will vest on 17 May 2008, 17 May 2009 and 17 May 2010 respectively.

Save as disclosed above, as at 31 December 2007, none of the directors or chief executives and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2007, none of the directors of the Company or their respective associates have any competing interests in any business, which competes or may compete, either directly or indirectly with the businesses of the Company pursuant to the Listing Rules.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2007, the following persons/corporations had interests in five per cent or more of the issued share capital of the Company as recorded in the register required to be kept under Section 336 of the SFO. Details of the interests in the shares or underlying shares of the Company as notified to the Company are set out below.

(A) ORDINARY SHARES OF HK$0.50 EACH OF THE COMPANY

Name	Capacity	Number of ordinary shares held	Approximate percentage of the issued share capital of the Company
Better Joy Overseas Ltd.	Beneficial owner	288,532,606 (Note 2)	23.49%
Lasting Legend Ltd.	Beneficial owner	115,509,024 (Note 2)	9.40%
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	404,041,630 (Note 3)	32.89%
	Beneficial owner	7,232,612	0.59%
Ms. Lo Sau Yan, Sharen	Family interest	411,274,242 (Note 4)	33.48%
Janus Capital Management LLC	Beneficial owner	123,792,000	10.08%
Julius Baer Investment Management LLC	Beneficial owner	78,890,545	6.42%
JP Morgan Chase & Co.	Beneficial owner	71,532,200 (Note 5)	5.82%
State Street Corporation	Beneficial owner	62,696,649 (Note 6)	5.10%
Allianz SE	Custodian corporation	126,753,325 (Notes 7 & 9)	10.32%
	Held by controlled corporations	8,719,500 (Note 9)	0.71%
	Held by controlled corporations	1,400,000 (Notes 8 & 9)	0.11%

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY – CONTINUED

(B) CONVERTIBLE LOAN NOTES

Name	Capacity	Number of underlying shares held	Approximate percentage of the issued share capital of the Company
Great Respect Limited	Beneficial owner	117,912,694 (Note 10)	9.60%
Dr. Ho Hung Sun, Stanley	Held by trust	117,912,694 (Notes 10 & 11)	9.60%
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694 (Note 10)	9.60%
Ms. Lo Sau Yan, Sharen	Held by trust	117,912,694 (Note 10)	9.60%
SG Trust (Asia) Ltd.	Held by controlled corporations	117,912,694 (Note 10)	9.60%

Notes:

1. As at 31 December 2007, the total number of issued shares of the Company was 1,228,475,716.

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

3. 115,509,024 shares of the Company are held by Lasting Legend Ltd., representing approximately 9.40% of the issued share capital of the Company and 288,532,606 shares of the Company are held by Better Joy Overseas Ltd., representing approximately 23.49% of the issued share capital of the Company. Lasting Legend Ltd. and Better Joy Overseas Ltd. are owned by persons and trusts associated with Mr. Ho, Lawrence Yau Lung.

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

5. Among the 71,532,200 shares of the Company, 13,732,100 shares of the Company are held in lending pool.

6. The 62,696,649 shares of the Company are held in lending pool.

7. The 126,753,325 shares of the Company are held in lending pool.

8. The 1,400,000 shares of the Company are in short positions.

9. The corporate interest of Allianz SE was attributable on account through a number of its wholly owned subsidiaries and a non-wholly owned subsidiary, Dresdner Bank Aktiengesellschaft (8.81% control).

10. 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. Ho, Lawrence Yau Lung 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 Takeovers Code will be made on full conversion.

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

Save as disclosed above, as at 31 December 2007, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as for the share option scheme disclosed in note 50 to the financial statements and the convertible loan notes, 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.

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:

(A) REORGANISATION OF PAL DEVELOPMENT LIMITED

THE REORGANISATION

Before the reorganization, PAL Development Limited ("PAL"), a company engaged in the lottery related business in the Mainland China and other Asian countries, was owned as to 60% by Melco LottVentures Holdings Limited ("Melco LV") (formerly known as Bright Ally Investments Limited), an indirect wholly owned subsidiary of the Company and 40% by LottVision Limited ("LottVision"), a company listed on the Main Board of the Singapore Stock Exchange. At the same time, Firich Enterprises Co. Ltd. ("Firich"), a company listed on the Taiwan Gre Tai Secruities Market, owned 90% interest in Oasis Rich International Limited ("Oasis Rich") which in turn owns the entire interest in Wu Sheng Computer Technology (Shanghai) Co., Ltd. ("Wu Sheng").

As part of the transaction as stated below, the reorganisation was conducted such that (i) Melco LV and LottVision respectively injected 60% and 20% of the issued share capital of PAL into Precious Success Holdings Limited ("PAL Holdco"), a wholly-owned subsidiary of Power Way Group Limited ("Power Way"); and (ii) Firich injected 60% of the issued share capital of Oasis Rich into Power Way, in exchange for the issuance of shares of Power Way representing approximately 54.79%, 18.26% and 26.95% of its entire issued share capital, to Melco LV, LottVision and Firich respectively (the "Reorganisation").

THE TRANSACTION

On 8 October 2007, Power Way (as Vendor), Rising Move International Limited (as Purchaser), a wholly owned subsidiary of Wafer Systems Limited (now known as Melco LottVentures Limited) ("Melco LottVentures"), Melco LottVentures, the Company, LottVision and Firich entered into an agreement for the sale of certain shares by Power Way, comprising the entire issued share capital of PAL Holdco which in turn represents an aggregate of 80% of the existing issued share capital of PAL after the Reorganization and the sale of 60% of the issued share capital of Oasis Rich which in turn represents 60% interest in Wu Sheng, to the Purchaser at a total consideration of HK$668 million which was satisfied by Melco LottVentures as to HK$61.2 million by the issue of 72,000,000 new shares at HK$0.85 per share to Power Way and as to HK$606.8 million by the issue of the convertible bonds in the principal amount of HK$606.8 million to Power Way (the "Transaction"). The Transaction was completed on 13 December 2007.

Since prior to the Reorganization, PAL was owned as to 60% by the Company (via Melco LV) and 40% by LottVision, it was a non wholly-owned subsidiary of the Company within the meaning of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Hence, LottVision being a controller (as defined in the Listing Rules) of PAL, is a connected person of the Company under the Listing Rules. Accordingly, the disposal of 60% interest held by the Company in PAL to the Purchaser pursuant to the Reorganisation and the Transaction constituted a connected transaction for the Company.

Further details of the Reorganization and the Transaction are set out in the announcement of the Company dated 18 October 2007.

CONNECTED TRANSACTIONS – CONTINUED

(B) PROVISION OF FINANCIAL ASSISTANCE TO KTEMS CO., LTD.

On 26 July 2007, PAL, a non wholly-owned subsidiary of the Company, entered into a loan agreement with KTeMS Co., Ltd. ("KTeMS"), a company incorporated in Korea whereby PAL agreed to provide a loan facility in the amount of HK$31,960,000 (or an equivalent amount in United States dollars) to KTeMS for financing its capital contribution in the formation of a special purpose company to operate and/or invest in lottery businesses in the Asian region with particular focus on Korean market.

As KTeMS is a substantial shareholder of PALTECH Company Limited, a non wholly-owned subsidiary of PAL owned as to 60% by PAL and 40% by KTeMS, therefore, KTeMS is a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules. Accordingly, the financial assistance constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. Details of the transaction was set out in the announcement dated 26 July 2007.

(C) PROVISION OF INFORMATION TECHNOLOGY SERVICES TO SOCIEDADE DE TURISMO E DIVERSÕES DE MACAU, S.A. AND SOCIEDADE DE JOGOS DE MACAU, S.A.

On 17 July 2007, Elixir Group Limited ("Elixir"), an indirect wholly-owned subsidiary of the Company, entered into certain service arrangements on a conditional basis with each of Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") and Sociedade de Jogos de Macau, S.A. ("SJM") respectively, pursuant to which Elixir shall provide services comprising system integration services for an aggregate value of about HK$7.05 million and HK$12.24 million to STDM and SJM respectively and maintenance services for the aggregate value of about HK$3.48 million to SJM (the "Service Arrangements").

Dr. Stanley Ho is a director of various subsidiaries of the Company and hence is regarded as a connected person of the Company for the purposes of connected transactions 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 the purposes of the Listing Rules by virtue of the fact that Dr. Stanley Ho has an equity interest in, as well as being a director of, STDM and SJM respectively. As a result, the Service Arrangements constituted non-exempt connected transactions of the Company under Rule 14A.16(5) of the Listing Rules. The Service Arrangements and all transactions contemplated thereunder have been approved by the independent shareholders of the Company at an extraordinary general meeting of the Company held on 24 August 2007. Details of the Service Arrangements were set out in the announcement and circular of the Company dated 17 July 2007 and 6 August 2007 respectively.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 58 to the financial statements.

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

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of the shares of the Company with not less than 25% of the total issued shares of the Company as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2007 except the code provision A.2.1. in respect of the separation of the roles of the Chairman and Chief Executive Officer and the code provision A.4.1 in respect of the appointment of non-executive directors for specific terms.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 44 to 52 of this annual report.

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 a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 50 to the consolidated financial statements.

AUDIT COMMITTEE

The Company has an audit committee which was established for the purpose 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 of the Group and discussed with management the auditing, internal control and financial reporting matters.

DONATIONS

During the year, the Group made charitable and other donations accounting to approximately HK$1,536,000.

AUDITOR

The financial statements of the Company for the year ended 31 December 2007 have been audited by Deloitte Touche Tohmatsu, who retires and, being eligible, offer for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Ho, Lawrence Yau Lung
Chairman and Chief Executive Officer

Hong Kong, 31 March 2008

INDEPENDENT AUDITOR'S 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 66 to 147, which comprise the consolidated and Company's balance sheets as at 31 December 2007, 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 the 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 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
31 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Continuing operations			
Revenue	7	**804,895**	618,572
Agency fee	13(a)	**1,232,057**	–
Other income	9	**34,139**	18,100
Investment income	10	**2,840**	3,674
Cost of inventories sold		**(531,867)**	(237,116)
Employee benefits expense	11	**(180,983)**	(180,810)
Depreciation of property, plant and equipment		**(19,252)**	(55,089)
Amortisation of service agreements intangible asset and trading rights		**–**	(9,983)
Commission expenses		**(43)**	(36)
Loss on deemed disposal of partial interests in subsidiaries	12	**(76,948)**	–
Loss on deemed disposal of subsidiaries	13	**(143,368)**	(12,140)
Gain on disposal of interests in jointly controlled entities	26	**532,604**	–
Gain on formation of a jointly controlled entity	26	**–**	20,000
Gain on deemed disposal of interests in jointly controlled entities	27	**–**	3,102,253
Gain on deemed disposal of partial interests in associates	27	**1,549,361**	–
Increase in fair value of investment properties		**10,060**	–
Fair value changes on derivative financial instruments	13(a)	**190,126**	–
Other expenses		**(155,099)**	(202,721)
Finance costs	14	**(76,235)**	(64,053)
Share of losses of jointly controlled entities	26	**(157,713)**	(191,835)
Share of losses of associates	27	**(519,538)**	–
Write-down of service agreements intangible asset	15	**–**	(90,390)
Gain on extension of long term payable	13(b)	**9,656**	–
Gain on early redemption of convertible loan notes	46	**8,827**	–
Profit before tax	16	**2,513,519**	2,718,426
Income tax credit	17	**69**	4,736
Profit for the year from continuing operations		**2,513,588**	2,723,162

	Notes	**2007 HK$'000**	2006 HK$'000
Discontinued operation			
Profit for the year from discontinued operation	18	**155,075**	36,819
Profit for the year		**2,668,663**	2,759,981
Attributable to:			
Equity holders of the Company		**2,690,639**	2,836,755
Minority interests		**(21,976)**	(76,774)
		2,668,663	2,759,981
Dividends recognised as distribution during the year	21	**12,282**	41,825
Earnings per share	22		
For continuing and discontinued operations			
Basic		**HK$2.19**	HK$2.38
Diluted		**HK$1.98**	HK$2.09
For continuing operations			
Basic		**HK$2.08**	HK$2.36
Diluted		**HK$1.88**	HK$2.07

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Investment properties	23	**152,000**	141,940
Property, plant and equipment	24	**59,636**	39,945
Other intangible assets	25	**2,000**	2,547
Interests in jointly controlled entities	26	**81,119**	87,901
Interests in associates	27	**8,689,271**	5,802,612
Amount due from an associate	38	**578,578**	578,578
Available-for-sale investments	29	**156,337**	19,837
Trading rights	30	**–**	1,773
Goodwill	31	**8,555**	16,878
Long term deposits	33	**–**	3,236
Pledged bank deposits	40	**972,500**	–
Deferred tax assets	47	**1,592**	2,781
		10,701,588	6,698,028
Current assets			
Trade receivables	34	**259,705**	662,954
Prepayments, deposits and other receivables		**110,497**	82,831
Inventories	35	**25,764**	61,476
Held-for-trading investments	36	**430**	14,503
Derivative financial instruments	37	**223,626**	–
Amounts due from jointly controlled entities	38	**–**	855
Amounts due from associates	38	**682,757**	611,862
Taxation recoverable		**–**	1,345
Pledged bank deposits	40	**947**	947
Bank balances and cash	41	**308,865**	1,209,826
		1,612,591	2,646,599

	Notes	2007 HK$'000	2006 HK$'000
Current liabilities			
Trade payables	42	**162,529**	270,733
Other payables		**96,480**	91,598
Shareholder's loan	45	**250,000**	–
Dividend payable		**118**	1,444
Taxation payable		**3,726**	6,378
Financial guarantee liability	43	**45,217**	–
Bank borrowings – due within one year	44	**80,000**	49,000
		638,070	419,153
Net current assets		**974,521**	2,227,446
Total asses less liabilities		**11,676,109**	8,925,474
Non-current liabilities			
Financial guarantee liability	43	**167,025**	–
Long term payable	13(b)	**168,142**	170,537
Convertible loan notes – due after one year	46	**999,399**	1,093,459
		1,334,566	1,263,996
		10,341,543	7,661,478
Capital and reserves			
Share capital	48	**614,238**	614,075
Reserves		**9,704,875**	6,953,032
Equity attributable to equity holders of the Company		**10,319,113**	7,567,107
Share options reserve of a subsidiary		**–**	265
Minority interests		**22,430**	94,106
		10,341,543	7,661,478

The consolidated financial statements on pages 66 to 147 were approved and authorised for issue by the Board of Directors on 31 March 2008 and are signed on its behalf by:

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

BALANCE SHEET

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Investment in subsidiaries	28	**966,495**	629,849
Other intangible asset	25	**2,000**	2,000
Amounts due from subsidiaries	39	**3,435,586**	3,465,279
Pledged bank deposits	40	**972,500**	–
		5,376,581	4,097,128
Current assets			
Prepayments, deposits and other receivables		**6,190**	4,797
Amounts due from associates	38	**255,856**	191,113
Taxation recoverable		**–**	1,345
Bank balances and cash	41	**149,018**	1,027,793
		411,064	1,225,048
Current liabilities			
Other payables		**5,656**	7,480
Amounts due to associates	38	**2,163**	–
Amounts due to subsidiaries	39	**129**	68,119
Shareholder's loan	45	**250,000**	–
Dividend payable		**118**	1,444
Financial guarantee liability	43	**45,217**	–
Bank borrowings – due within one year	44	**80,000**	–
		383,283	77,043
Net current assets		**27,781**	1,148,005
Total assets less current liabilities		**5,404,362**	5,245,133
Non-current liabilities			
Financial guarantee liability	43	**167,025**	–
Convertible loan notes – due after one year	46	**999,399**	1,093,459
		1,166,424	1,093,459
		4,237,938	4,151,674
Capital and reserves			
Share capital	48	**614,238**	614,075
Reserves	49	**3,623,700**	3,537,599
		4,237,938	4,151,674

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	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$'000	Other reserve HK$'000 (Note 5)	Accumulated profits HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	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)	–	–	–	–	–	–
Transfer 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to the equity holders of the Company														Share options reserve of a subsidiary	Minority interests	Total
	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	Other reserve	Accumulated profits	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 (Note 5)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	–	392	–	–	–	–	392	–	(51)	341
Share of reserves of associates	–	–	–	–	–	–	–	–	2,347	–	–	(31,674)	–	(29,327)	–	–	(29,327)
Net loss on fair value change of available-for-sale investments	–	–	–	–	–	–	–	(30,617)	–	–	–	–	–	(30,617)	–	–	(30,617)
Net income (loss) directly recognised in equity	–	–	–	–	–	–	–	(30,617)	2,739	–	–	(31,674)	–	(59,552)	–	(51)	(59,603)
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	2,690,639	2,690,639	–	(21,976)	2,668,663
Total recognised income for the year	–	–	–	–	–	–	–	(30,617)	2,739	–	–	(31,674)	2,690,639	2,631,087	–	(22,027)	2,609,060
Exercise of share options	163	432	–	–	–	–	–	–	–	–	–	–	–	595	–	–	595
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	500,212	500,212
Realisation of special reserve and other revaluation reserve upon deemed disposal of partial interest in an associate	–	–	–	–	8,293	–	–	(3,432)	–	–	–	–	(4,861)	–	–	–	–
Decease in minority interests on acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,028)	(1,028)
Decrease in minority interests on deemed disposal of partial interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(208,765)	(208,765)
Recognition of equity – settled share based payments	–	–	–	–	–	–	–	–	–	–	9,393	–	–	9,393	194	70	9,657
Transfer to share premium upon exercise of share options	–	113	–	–	–	–	–	–	–	–	(113)	–	–	–	–	–	–
Transfer of share option reserve upon expiry of share options	–	–	–	–	–	–	–	–	–	–	(48)	–	48	–	–	–	–
Early redemption of convertible loan notes	–	–	–	–	–	(20,424)	–	–	–	–	–	–	8,946	(11,478)	–	–	(11,478)
Increase in reserves and decrease in minority interests upon deemed disposal of subsidiaries	–	–	–	–	–	–	–	–	(138)	–	–	–	134,829	134,691	(459)	(339,942)	(205,710)
Dividend paid	–	–	–	(12,282)	–	–	–	–	–	–	–	–	–	(12,282)	–	(196)	(12,478)
At 31 December 2007	614,238	3,125,485	–	283,734	(69,950)	307,253	5,796	(1,669)	2,599	254	21,958	(31,674)	6,061,089	10,319,113	–	22,430	10,341,543

Note 1: The issuable shares as at 1 January 2006 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 previous years.

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.

Note 5: The other reserve represents the share of an associate's hedging reserve.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**2,677,471**	2,755,359
Adjustments for:		
Agency fee	**(1,232,057)**	–
Gain on extension of long term payable	**(9,656)**	–
Gain on early redemption of convertible loan notes	**(8,827)**	–
Gain from fair value change of held-for-trading investments	**(1,194)**	(11,299)
Amortisation of financial guarantee liability	**(13,464)**	–
Dividend income	**(2,739)**	(3,659)
Depreciation of property, plant and equipment	**20,381**	56,529
Amortisation of service agreements intangible asset and trading rights	**364**	10,489
Amortisation of prepaid lease payments	**–**	3,674
Loss on deemed disposal of partial interests in subsidiaries	**39,754**	33
Loss on deemed disposal of subsidiaries	**65,288**	12,140
Gain on disposal of interests in jointly controlled entity	**(532,604)**	–
Gain on formation of a jointly controlled entity	**–**	(20,000)
Gain on deemed disposal of interests in jointly controlled entities	**–**	(3,102,253)
Gain on deemed disposal of partial interests in associates	**(1,549,361)**	–
Increase in fair value of investment properties	**(10,060)**	–
Fair value changes on derivative financial instruments	**(190,126)**	–
Allowance for doubtful debts	**2,395**	4,972
Share-based payment expense	**9,657**	9,509
Loss on disposal of property, plant and equipment	**322**	8,954
Share of losses of jointly controlled entities	**157,713**	191,835
Share of losses of associates	**519,538**	–
Finance costs	**96,097**	85,879
Adjustment to goodwill	**–**	11,554
Write-down of service agreements intangible asset	**–**	90,390

	Notes	2007 HK$'000	2006 HK$'000
Operating cash flows before movements in working capital		**38,892**	104,106
Decrease (increase) in inventories		**33,395**	(28,497)
Increase in trade receivables		**(1,461,663)**	(280,019)
Increase in prepayments, deposits and other receivables		**(29,497)**	(73,302)
Decrease in held-for-trading investments		**1,703**	41,798
Increase in amounts due from related companies		**–**	(3)
Decrease (increase) in amounts due from joint controlled entities		**855**	(836)
Decrease in amounts due from associates		**203,440**	–
Increase in trade payables		**93,625**	175,052
Increase in other payables		**39,683**	221,177
Decrease in amount due to a minority shareholder		**–**	(9,104)
Decrease in amount due to a jointly controlled entity		**–**	(9)
Cash (used in) generated from operations		**(1,079,567)**	150,363
Income tax paid		**(2,742)**	(9,862)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(1,082,309)**	140,501
INVESTING ACTIVITIES			
Increase in pledged bank deposits		**(972,500)**	(677)
Net cash outflow on deemed disposal of subsidiaries	52	**(170,441)**	(53,446)
Purchase of property, plant and equipment		**(179,176)**	(113,798)
Purchase of available-for-sale investments		**(191,492)**	–
Investment in jointly controlled entities		**(30,000)**	(70,000)
Cash inflow from acquisition of subsidiaries	51	**8,439**	–
Dividend received		**2,739**	3,659
Decrease in long term deposits		**179**	–
Investment in MPBL Gaming	13(b)	**–**	(1,244,800)
Acquisition of hotels and entertainment complex under development		**–**	(870,208)
Advances made to associates		**–**	(199,588)
Proceeds from disposal of available-for-sale investments		**–**	680
Proceeds from disposal of property, plant and equipment		**–**	179
Increase in prepaid lease payments		**–**	(9,270)
NET CASH USED IN INVESTING ACTIVITIES		**(1,532,252)**	(2,557,269)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES			
Bank borrowings raised		**1,162,146**	21,000
Capital contribution from minority shareholders		**500,212**	3,016
Advance from a shareholder		**250,000**	–
Proceeds from exercise of share options		**595**	24,329
Redemption of convertible loan notes		**(156,000)**	–
Interest paid		**(29,549)**	(28,124)
Dividend paid		**(13,804)**	(40,381)
Proceeds from issue of shares		**–**	1,214,760
Advance from a minority shareholder		**–**	110,528
Advances from related companies		**–**	7,225
Proceeds from disposal of convertible loan notes		**–**	4,000
Share issuance expenses		**–**	(40,025)
Repayment of obligation under finance lease		**–**	(18)
NET CASH FROM FINANCING ACTIVITIES		**1,713,600**	1,276,310
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(900,961)**	(1,140,458)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,209,826**	2,350,284
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**308,865**	1,209,826

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

The principal activities of the Company and its subsidiaries (the "Group") are divided into three divisions, namely (i) Leisure, Gaming and Entertainment Division; (ii) Technology Division; and (iii) Property and Other Investments Division. In prior years, the Group was also engaged in the Investment and Financial Services. That operation was discontinued in current year (see note 18).

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company and the Group has applied, for the first time, a number of standard, amendment and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for the Company and the Group's financial year beginning 1 January 2007.

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

The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current and prior accounting periods are prepared. Accordingly, no prior period adjustments have been required. The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS – CONTINUED

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – INT 12	Service Concession Arranagements[4]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[5]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

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

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

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

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

5 Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new and revised standards and interpretations will have no material impact on the results and the financial position of the Company and the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIS OF CONSOLIDATION – CONTINUED

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.

BUSINESS COMBINATIONS

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

GOODWILL

Goodwill arising on an acquisition of a business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

GOODWILL – CONTINUED

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.

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 net assets 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold 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 when the management services are rendered and are measured in accordance with the Group's sharing of net win of the electronic gaming machine in accordance with respective service agreements.

Agency fee is recognised when the required services is rendered in accordance with the milestones included in respective agreement.

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

Revenue from implementation of technology solution systems are recognised upon the user's acceptance of the relevant part of the systems.

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

REVENUE RECOGNITION – CONTINUED

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 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 over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

Investment properties are properties held to earn rentals and/or for capital appreciation.

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.

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.

THE GROUP AS LESSEE

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Goodwill and fair value adjustments on identifiable assets and liabilities 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 when employees have rendered service entitling them to the contributions.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

TAXATION – CONTINUED

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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

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 Company and the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, 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 forfeited after the vesting date or 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 Share-based Payment, 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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

INTANGIBLE ASSETS

Intangible assets acquired separately

Intangible assets acquired separately with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets 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 on 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.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

FINANCIAL INSTRUMENTS – CONTINUED

FINANCIAL ASSETS

Financial assets of the Company and the Group 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

Financial assets at fair value through profit or loss comprised financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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 profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

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, long term deposits, amounts due from subsidiaries, jointly controlled entities and associates, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

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, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

FINANCIAL INSTRUMENTS – CONTINUED

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days for Leisure, Gaming and Entertainment Segment and 30 days for Technology Segment, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

FINANCIAL INSTRUMENTS – CONTINUED

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 Company and the Group's financial liabilities are generally classified as other financial liabilities.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

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.

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 accumulated profits. 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.

Other financial liabilities

Other financial liabilities except for financial guarantee liability including trade and other payables, amounts due to subsidiaries and associates, dividend payable, bank borrowings, shareholder's loan and long term payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

FINANCIAL INSTRUMENTS – CONTINUED

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

FINANCIAL GUARANTEE CONTRACTS

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the consolidated income statement.

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL (SEE THE ACCOUNTING POLICIES IN RESPECT OF GOODWILL ABOVE)

At each balance sheet date, the Company and Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually and whenever there is 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.

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.

4. 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.

ESTIMATED IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill is approximately HK$8,555,000. Details of the recoverable amount calculation are disclosed in Note 31. In addition, the carrying amount of goodwill, included in interest in associates, amounted to approximately HK$738,099,000 and no impairment is considered necessary based on the estimated future cash flows expected to arise from the such associate.

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES AND AMOUNTS DUE FROM ASSOCIATES

In determining whether there is an objective evidence of impairment loss, the Company and 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.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's and the Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the long term payable, bank borrowings, shareholder's loan and convertible loan notes disclosed in notes 13(b), 44, 45 and 46, respectively, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. The Company and the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6A. CATEGORIES OF FINANCIAL INSTRUMENTS

	THE GROUP	
	2007 HK$'000	2006 HK$'000
Financial assets		
Fair value through profit or loss	**224,056**	14,503
Loans and receivables (including cash and cash equivalents)	**2,897,991**	3,127,130
Available-for-sale financial assets	**156,337**	19,837
Financial liabilities		
Amortised cost	**1,730,470**	1,631,881
Financial guarantee liability	**212,242**	–

	THE COMPANY	
	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**4,812,952**	4,684,184
Financial liabilities		
Amortised cost	**1,331,807**	1,163,022
Financial guarantee liability	**212,242**	–

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The Company's and the Group's major financial instruments include trade and other receivables, trade and other payables, amounts due from (to) subsidiaries, associates and jointly controlled entities, pledged bank deposits, dividend payable, financial guarantee liability, bank borrowings, shareholder's loan, long term payable and convertible loan notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measure the risk.

6. FINANCIAL INSTRUMENTS – CONTINUED

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES – CONTINUED

MARKET RISK

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases and foreign bank deposits, which expose the Group to foreign currency risk. Approximately 31% of the Group's sales and foreign bank deposits are denominated in currencies other than the functional currency of the group entity making the sale, whilst approximately 77% of purchase are denominated in the foreign currencies other than the group entity's functional currency.

The Group currently does not implement hedging activity to hedge against foreign currency exposure but the directors of the Company closely monitor the foreign currency exposure of the Company and the Group.

The carrying amounts of the Company's and the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	THE GROUP			
	Liabilities		Assets	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
United States dollar ("USD")	**(190,934)**	(117,415)	**1,615,596**	1,097,857
Macau Patacas ("MOP")	**(11,313)**	(50,021)	**189,013**	257,419

	THE COMPANY			
	Liabilities		Assets	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
USD	**(45,438)**	(444)	**1,203,399**	1,093,264
MOP	**–**	–	**106,509**	110,321

6. FINANCIAL INSTRUMENTS – CONTINUED

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES – CONTINUED

MARKET RISK – CONTINUED

(i) Currency risk – continued

Sensitivity analysis

The Company and the Group is mainly exposed to the USD and MOP.

The following table details the Company's and the Group's sensitivity to a 1% increase and decrease in Hong Kong dollars against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 1% change in foreign currency rates. A negative number below indicates a decrease in profit where Hong Kong dollars strengthen 1% against the relevant currency. For a 1% weakening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the amounts below would be positive.

THE GROUP

	USD Impact			MOP Impact		
	2007 HK$'000	2006 HK$'000		**2007 HK$'000**	2006 HK$'000	
Profit or loss	**(14,247)**	(9,804)	(i)	**(1,778)**	(2,074)	(ii)

THE COMPANY

	USD Impact			MOP Impact		
	2007 HK$'000	2006 HK$'000		**2007 HK$'000**	2006 HK$'000	
Profit or loss	**(11,598)**	(10,928)	(i)	**(1,065)**	(1,103)	(ii)

(i) This is mainly attributable to the exposure on outstanding USD receivables, pledged bank deposits and payables at year end in the Company and the Group.

(ii) This is mainly attributable to the exposure on outstanding MOP receivables and payables at the year end in the Company and the Group.

6. FINANCIAL INSTRUMENTS – CONTINUED

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES – CONTINUED

MARKET RISK – CONTINUED

(ii) Interest rate risk

The Company and the Group is exposed to fair value interest rate risk in relation to long-term payable and convertible loan notes (see Notes 13 and 46 for details of these borrowings). The Company and the Group currently do not enter into any hedging instrument for fair value interest rate risk.

The Company and the Group is exposed to cash flow interest rate risk in relation to variable-rate amounts due from associates and subsidiaries, bank balances, bank borrowings and shareholder's loan (see Notes 38, 39, 41, 44 and 45 for details of these borrowings). It is the Company's and Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Company's and the Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Company's and the Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate and HIBOR arising from the Company's and the Group's Hong Kong dollars borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate amounts due from associates, bank balances, bank borrowings and shareholder's loan, the analysis is prepared assuming the amount of assets and liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by approximately HK$3,021,000 and (2006: increase/decrease by HK$3,041,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate amounts due from associates, bank balances, bank borrowings and shareholder's loan (2006: Amounts due from associates, bank balances and bank borrowing);

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2007 would decrease/increase by approximately HK$441,000 and (2006: increase/decrease by HK$1,210,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate amounts due from associates and subsidiaries, bank balances, bank borrowings and shareholder's loan (2006: Amounts due from subsidiaries and bank balances).

The Company's and the Group's sensitivity to interest rates has decreased during the current year mainly due to the decreased in variable rate financial instruments.

6. FINANCIAL INSTRUMENTS – CONTINUED

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES – CONTINUED

MARKET RISK – CONTINUED

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities and derivative financial instruments if there is an adverse change in prices. the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks on available-for-sale investments and held-for-trading investments measured at fair value and warrants at the reporting date.

If the equity prices to which the respective equity securities and derivative financial instruments relate had been 5% higher/lower:

- profit for the year ended 31 December 2007 increase/decrease by HK$11,175,000 (2006: increase/decrease by HK$722,000) as a result of the changes in fair value of held-for-trading investments and warrants (2006: held-for-trading investments); and

- other revaluation reserve would increase/decrease by HK$6,825,000 (2006: increase/decrease by nil) for the Group as a result of the changes in fair value of available-for-sale investments (excluding available-for-sale investment carried at cost less impairment).

The Group's sensitivity to equity price risk has increased as a result of the increase in available-for-sale investments and warrants.

CREDIT RISK

As at 31 December 2007, the Company's and the Group's maximum exposure to credit risk which will cause a financial loss to the Company and the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Company and the Group is arising from

- the carrying amount of the respective recognised financial assets as stated in the respective balance sheet; and

- the amount of contingent liabilities and financial guarantee liability in relation to guarantee issued by the Company and the Group as disclosed in Notes 55 and 43, respectively.

In order to minimise the credit risk, the management of the Company and 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 Company and the Group reviews the recoverable amount of each individual trade debt and advances to associate 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 Company's and the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS – CONTINUED

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES – CONTINUED

CREDIT RISK – CONTINUED

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 on the amount due from an associate of Melco PBL Entertainment (Macau) Limited ("Melco PBL Entertainment"). The Group consider the credit risk is minimal as the financial position of the associates has been strengthened after the issuance of American Depositary Shares ("ADSs") by Melco PBL Entertainment in year 2006 and 2007 (see note 27). In addition, the credit risk on liquid funds is minimised as they are deposited with several banks with high credit ratings. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

LIQUIDITY RISK

In the management of the liquidity risk, the Company and the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's and the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and shareholder's loan and ensures compliance with loan covenants.

The Company and the Group relies on bank borrowings and shareholder's loan as a significant source of liquidity. Details of which are set out in notes 44 and 45, respectively. As at 31 December 2007, the Company and the Group has available short-term bank loan facilities of HK$129,800,000 (2006: HK$219,800,000).

The following table details the Company's and the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company and the Group can be required to pay. The table includes both interest and principal cash flows.

6. FINANCIAL INSTRUMENTS – CONTINUED

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES – CONTINUED

LIQUIDITY RISK – CONTINUED

Liquidity and interest risk tables

THE GROUP

	Weighted average interest rate	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007								
Non-derivative financial liabilities								
Trade and other payables	–	259,009	–	–	–	–	259,009	259,009
Dividend payable	–	118	–	–	–	–	118	118
Shareholder's loan	9.3%	–	7,451	266,059	–	–	273,510	250,000
Bank loans	4.4%	136	384	82,671	–	–	83,191	80,000
Long term payable	–	–	–	–	180,000	–	180,000	168,142
Convertible loan note	–	–	–	–	–	1,175,000	1,175,000	999,399
		259,263	7,835	348,730	180,000	1,175,000	1,970,828	1,756,668

	Weighted average interest rate	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2006 HK$'000
2006								
Non-derivative financial liabilities								
Trade and other payables	–	362,331	–	–	–	–	362,331	362,331
Dividend payable	–	1,444	–	–	–	–	1,444	1,444
Bank loans	5.3%	49,050	–	–	–	–	49,050	49,000
Long term payable	–	–	–	–	180,000	–	180,000	170,537
Convertible loan note	4.0%	–	–	6,240	7,257	1,335,858	1,349,355	1,093,459
		412,825	–	6,240	187,257	1,335,858	1,942,180	1,676,771

6. FINANCIAL INSTRUMENTS – CONTINUED

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES – CONTINUED

LIQUIDITY RISK – CONTINUED

Liquidity and interest risk tables – continued

THE COMPANY

	Weighted average interest rate	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007								
Non-derivative financial liabilities								
Other payables	–	5,656	–	–	–	–	5,656	5,656
Amounts due to associates	–	2,163	–	–	–	–	2,163	2,163
Amounts due to subsidiaries	–	129	–	–	–	–	129	129
Dividend payable	–	118	–	–	–	–	118	118
Shareholder's loan	9.3%	–	7,451	266,059	–	–	273,510	250,000
Bank loans	4.4%	136	384	82,671	–	–	83,191	80,000
Convertible loan note	–	–	–	–	–	1,175,000	1,175,000	999,399
		8,202	7,835	348,730	–	1,175,000	1,539,767	1,337,465

	Weighted average interest rate	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2006 HK$'000
2006								
Non-derivative financial liabilities								
Other payables	–	7,480	–	–	–	–	7,480	7,480
Dividend payable	–	1,444	–	–	–	–	1,444	1,444
Amounts due to subsidiaries	–	68,119	–	–	–	–	68,119	68,119
Convertible loan notes	4.0%	–	–	6,240	7,257	1,335,858	1,349,355	1,093,459
		77,043	–	6,240	7,257	1,335,858	1,426,398	1,170,502

At 31 December 2007 and 2006, it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the carrying amount of financial guarantee contract of approximately HK$212,242,000 (2006: Nil) has not been presented above.

6. FINANCIAL INSTRUMENTS – CONTINUED

6C. FAIR VALUE

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

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

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. The fair value of derivative financial instruments including warrants is measured using binominal model.

Except as detailed in the following table, the directors consider that the carrying amounts of financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	THE GROUP AND THE COMPANY			
	2007		2006	
	Carrying amount HK$'000	**Fair value HK$'000 (Note)**	Carrying amount HK$'000	Fair value HK$'000 (Note)
Financial liabilities				
Convertible loan notes	**999,399**	**885,461**	1,093,459	981,057

Note: The fair value is determined with reference to the present value of the convertible loan note using the bank borrowing rate of the Group of similar terms at respective balance sheet dates.

7. REVENUE

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

	Continuing operation		Discontinued operation		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Implementation of technology solution systems	**573,496**	264,178	**–**	–	**573,496**	264,178
Sales of leisure and gaming products	**28,828**	–	**–**	–	**28,828**	–
Catering service income	**90,725**	99,262	**–**	–	**90,725**	99,262
Income from management of electronic gaming machines lounges	**–**	132,989	**–**	–	**–**	132,989
Brokerage commission from dealing in securities and futures and options contracts	**–**	–	**140,953**	105,186	**140,953**	105,186
Interest income from clients	**–**	–	**55,427**	61,254	**55,427**	61,254
Interest income from authorised institutions	**100,227**	106,984	**–**	–	**100,227**	106,984
Underwriting, sub-underwriting, placing and sub-placing commission	**–**	–	**7,423**	10,077	**7,423**	10,077
Arrangement, management, advisory and other fee income	**–**	–	**6,823**	5,520	**6,823**	5,520
Property rental income	**10,419**	13,218	**–**	–	**10,419**	13,218
Management fee income	**1,200**	1,200	**–**	–	**1,200**	1,200
Others	**–**	741	**–**	–	**–**	741
	804,895	618,572	**210,626**	182,037	**1,015,521**	800,609

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three operating divisions including Leisure, Gaming and Entertainment, Technology, and Property and Other Investments. In 2006, the Group also operated Investment and Financial Services Segment. These divisions are the basis on which the Group reports its primary segment information.

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

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

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

(A) BUSINESS SEGMENTS – CONTINUED

The investment and financial services segment was operated through a non-wholly owned subsidiary of the Company, Value Convergence Holdings Limited ("VC"),which mainly comprised (a) provision of corporate finance advisory service, initial public offerings and mergers and acquisition advisory services and (b) broking and dealing for clients in securities, futures and options contracts. As disclosed in note 18, VC was deemed disposed of during 2007. The Investment and Financial Services segment was thus discontinued during the year ended 31 December 2007.

2007

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

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

(A) BUSINESS SEGMENTS – CONTINUED

2007

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

2007

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

Note: Apart from the capital additions disclosed above, the Group acquired Elixir Gaming Technology, Inc. ("EGT") with goodwill of approximately HK$1,464,150,000, intangible assets of approximately HK$43,787,000 and property, plant and equipment of approximately HK$199,584,000 during the year, where EGT becomes an associate before year ended 31 December 2007 (see note 13(a)).

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

(A) BUSINESS SEGMENTS – CONTINUED

2006

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

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

(A) BUSINESS SEGMENTS – CONTINUED

2006

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

2006

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – CONTINUED

(B) GEOGRAPHICAL SEGMENTS

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

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

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

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

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

	Carrying amount of segment assets		**Additions to property, plant and equipment, hotels and entertainment complex under development**	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Hong Kong	**1,934,195**	1,867,788	**33,319**	8,124
Macau	**300,628**	366,637	**1,349**	882,081
Other Asian countries	**24,037**	43,704	**144,506**	32
	2,258,860	2,278,129	**179,174**	890,237

Note: Apart from the capital additions disclosed above, the Group acquired Elixir Gaming Technology, Inc. ("EGT") with goodwill of approximately HK$1,464,150,000, intangible assets of approximately HK$43,787,000, and property, plant and equipment of approximately HK$199,584,000 during the year, where EGT becomes an associate before year ended 31 December 2007 (see note 13(a)).

9. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Service fees from associates	**12,581**	–	**–**	–	**12,581**	–
Service fee from jointly controlled entities	**–**	5,107	**–**	–	**–**	5,107
Exchange gain, net	**1,861**	9,885	**247**	315	**2,108**	10,200
Financial guarantee income	**13,464**	–	**–**	–	**13,464**	–
Others	**6,233**	3,108	**131**	147	**6,364**	3,255
	34,139	18,100	**378**	462	**34,517**	18,562

10. INVESTMENT INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Loss on disposal of held-for-trading investments	**–**	–	**(137)**	–	**(137)**	–
Gain from fair value change of held-for-trading investments	**101**	15	**1,093**	11,284	**1,194**	11,299
Dividend income from unlisted investments	**2,219**	3,244	**–**	–	**2,219**	3,244
Dividend income from listed investments	**520**	415	**–**	–	**520**	415
	2,840	3,674	**956**	11,284	**3,796**	14,958

11. EMPLOYEE BENEFITS EXPENSE

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Wages, salaries and staff welfare	**165,753**	158,485	**27,840**	28,614	**193,593**	187,099
Sales commission	**394**	400	**77,501**	56,766	**77,895**	57,166
Unutilised annual leave	**143**	545	**–**	1,283	**143**	1,828
Termination benefits	**146**	137	**–**	–	**146**	137
Social security costs	**473**	172	**–**	–	**473**	172
Provision for long service payment	**(177)**	208	**–**	–	**(177)**	208
Retirement benefit scheme contributions	**3,015**	2,512	**815**	1,056	**3,830**	3,568
Forfeiture of retirement benefit scheme contributions	**–**	–	**(25)**	(182)	**(25)**	(182)
Share-based payment employee expense	**9,393**	9,091	**264**	418	**9,657**	9,509
Others	**1,843**	9,260	**592**	518	**2,435**	9,778
Total employee benefits expense including directors' emoluments	**180,983**	180,810	**106,987**	88,473	**287,970**	269,283

12. LOSS ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

During the year ended 31 December 2007, the Group's interest in EGT, a subsidiary acquired during the year, decreased resulting from a placement of shares by EGT in October 2007 (see note 13(a) for details of the transactions with EGT).

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

13. LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES

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

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

13. LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES – CONTINUED

(a) – continued

In consideration of the services to be provided by Elixir and upon achievement of various milestones under the PPA, EGT will allot and issue a maximum of 55,000,000 shares, 88,000,000 warrants and amend the terms of the existing warrants previously issued to Elixir. In September 2007, the Group has achieved certain milestones under the PPA resulting in i) the issuance of 40,000,000 shares ("Second Shares") and 22,000,000 warrants ("Second Warrants") to Elixir; ii) the First Warrants become immediately exercisable and iii) the exercise price of 10,000,000 warrants included in the First Warrants is reduced by US$2.00 where the adjusted exercise price ranged from US$1.00 to US$3.50. The exercise price of the remaining 6,000,000 First Warrants remain US$2.65. As a result of the issuance of Second Shares and Second Warrants, an agency fee income of HK$1,232,057,000 is thus recognised, which represent the fair values of the Second Shares based on the market price of EGT and the Second Warrants determined using binomial model, and EGT then became a subsidiary of the Company. (see note 51 for details)

In October 2007, EGT completed a placement of shares to parties other than the Company. EGT remained a subsidiary of the Company after the completion of EGT placement of shares and the loss on deemed disposal of partial interests in subsidiaries was included in the amount disclosed in note 12.

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

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

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

13. LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES – CONTINUED

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

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

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

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

Furthermore, the Company had agreed to pay an amount of HK$180,000,000 to PBL in consideration of the above arrangements. The consideration payable to PBL is unsecured, non-interest bearing and not repayable within twelve months from 31 December 2006. Subsequently during the year ended 31 December 2007, the repayment for the consideration payable has been extended by PBL so that a gain on extension of long term payable of approximately HK$9,656,000 has been recognised. The amount due to PBL is stated as long term payable on the consolidated balance sheet at amortised cost of approximately HK$168,142,000 as at 31 December 2007 (2006: HK$170,537,000) with effective interest rate of 5.0% (2006: 3.9%).

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

14. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Interest on:						
Bank borrowings wholly repayable within five years	**937**	–	**19,862**	21,826	**20,799**	21,826
Obligations under finance leases	**–**	58	**–**	–	**–**	58
Shareholder's loan	**1,780**	623	**–**	–	**1,780**	623
Effective interest expense on convertible loan notes	**62,382**	62,536	**–**	–	**62,382**	62,536
Imputed interest expense on long term payable	**7,261**	836	**–**	–	**7,261**	836
Interest expense to suppliers and others	**3,875**	–	**–**	–	**3,875**	–
	76,235	64,053	**19,862**	21,826	**96,097**	85,879

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(b)), Mocha Slots Group Limited ("Mocha Slots"), a subsidiary of Melco PBL Entertainment, and Sociedade Jogos de Macau, S.A. ("SJM"), a company in which close family members of a director, Mr. Ho, Lawrence Yau Lung, has direct beneficial interest, 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

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Profit before tax has been arrived at after charging:						
Auditor's remuneration	**2,400**	2,159	**589**	820	**2,989**	2,979
Allowance for doubtful debts, net	**2,307**	1,992	**88**	2,980	**2,395**	4,972
Loss on disposal of property, plant and equipment	**321**	8,954	**1**	–	**322**	8,954
Cost of agency service	**14,551**	–	**–**	–	**14,551**	–
and after crediting:						
Gross rental income	**10,417**	13,218	**–**	–	**10,417**	13,218
Less: outgoings	**(5,772)**	(5,828)	**–**	–	**(5,772)**	(5,828)
Net rental income	**4,645**	7,390	**–**	–	**4,645**	7,390

17. INCOME TAX (CREDIT) EXPENSE

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Current tax:						
– Hong Kong	**–**	1,885	**7,196**	1,400	**7,196**	3,285
– Other jurisdictions	**1,473**	4,427	**–**	–	**1,473**	4,427
	1,473	6,312	**7,196**	1,400	**8,669**	7,712
Underprovision in prior years:						
– Hong Kong	**50**	1,127	**–**	–	**50**	1,127
Deferred taxation (note 47)	**(1,592)**	(12,175)	**1,681**	(1,286)	**89**	(13,461)
	(69)	(4,736)	**8,877**	114	**8,808**	(4,622)

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year. Taxation arising in other jurisdictions are calculated at the rate prevailing in the respective jurisdictions.

17. INCOME TAX (CREDIT) EXPENSE – CONTINUED

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

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

18. DISCONTINUED OPERATION

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

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

The second placement was completed in September 2007 where 61,000,000 shares were issued at HK$4.2 per share and the Company's shareholding in VC decreased to about 43.57%. VC therefore becomes an associate of the Company after the second placement.

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

18. DISCONTINUED OPERATION – CONTINUED

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

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

19. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2006: nine) directors were as follows:

2007

	Mr. Ho, Lawrence Yau Lung HK$'000 (Note 1)	Mr. Frank Tsui HK$'000	Mr. Clarence Chung HK$'000	Mr. Ng Ching Wo HK$'000	Sir Roger Lobo HK$'000	Dr. Lo Ka Shui HK$'000	Mr. Sham Sui Leung HK$'000 (Note 1)	Total HK$'000
Fees	–	–	–	380	380	280	440	1,480
Other emoluments								
Salaries and other benefits	6,672	3,307	2,800	–	–	–	–	12,779
Retirement benefit scheme contributions	21	12	12	–	–	–	–	45
Share-based compensation	–	–	627	660	660	660	660	3,267
Total emoluments	6,693	3,319	3,439	1,040	1,040	940	1,100	17,571

Note 1: Mr. Ho, Lawrence Yau Lung and Mr. Sham Sui Leung were also the directors of VC, who received total emoluments of HK$432,000 and HK$140,000 thereof, respectively.

2006

	Dr. Stanley Ho HK$'000 (Note 1)	Mr. Ho, Lawrence Yau Lung HK$'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. Sham Sui Leung 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

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. Sham Sui Leung were appointed as directors of the Company on 18 May 2006 and 14 June 2006, respectively.

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

No director waived or agreed to waive any emoluments in the years ended 31 December 2007 and 2006. 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, no share options (2006: 1,300,000 share options) were granted to directors of the Company in respect of their services provided to the Group, further details are set out in note 50.

20. EMPLOYEES' EMOLUMENTS

Of five individuals with the highest emoluments in the Group, one is a director (2006: three directors) of the Company whose emoluments are included in note 19 above. The emoluments of the remaining four (2006: two) individuals were as follows:

	2007 HK$'000	2006 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**28,587**	3,943
Retirement benefit scheme contributions	**36**	19
Share-based compensation	**100**	100
	28,723	4,062

Their emoluments were within the following bands:

	Number of employees	
	2007	2006
HK$1,500,001 to HK$2,000,000	**–**	2
HK$4,500,001 to HK$5,000,000	**2**	–
HK$8,000,001 to HK$8,500,000	**1**	–
HK$11,000,001 to HK$11,500,000	**1**	–
	4	2

21. DIVIDENDS

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

Notes:

(1) In respect to the listing of American Depositary Share ("ADS") of Melco PBL Entertainment on the NASDAQ Stock market in the United States of America ("NASDAQ") on 19 December 2006, a distribution in specie was offered to the shareholders of the Company. Under the distribution in specie, qualifying shareholders holding not less than 4,000 shares whose names appeared in the Register of Members of the Company on the record date for the distribution in specie, which was on 19 December 2006, would be entitled to receive 1 ADS for every whole multiple of 4,000 shares held on the record date. The final offer price of US$19 per ADS was translated into Hong Kong dollars of HK$147.8. A total of 60,392 ADSs amounting to approximately HK$8,925,000 were issued to the shareholders of the Company.

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

(2) On 31 March 2008, the directors of the Company proposed that final dividend for 2007 of HK1 cent per share would be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting. The proposed dividend for 2007 is payable to all shareholders whose names are on the Register of Members as at 9 May 2008.

22. EARNINGS PER SHARE

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

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

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

FROM DISCONTINUED OPERATION

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

23. INVESTMENT PROPERTIES

	THE GROUP HK$'000
FAIR VALUE	
At 1 January 2006	85,000
Transfer from prepaid lease payments and buildings	56,940
At 31 December 2006 and 1 January 2007	141,940
Net increase in fair value recognised in the consolidated income statement	10,060
At 31 December 2007	152,000

The carrying value of investment properties shown above comprises:

	2007 **HK'000**	2006 HK'000
Properties in Hong Kong	**85,000**	85,000
Properties in Macau	**67,000**	56,940
	152,000	141,940

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 2007 and 31 December 2006 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 on the basis of capitalisation of the net income receivable.

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.

24. PROPERTY, PLANT AND EQUIPMENT

	Restaurants vessels, ferries and pontoons HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Gaming machine HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP							
COST							
At 1 January 2006	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
Exchange adjustments	–	–	8	24	–	26	58
Additions	8,761	–	13,640	18,394	137,338	1,041	179,174
Acquisition of subsidiaries	–	–	3,321	22,869	171,940	1,454	199,584
Disposal of subsidiaries	–	–	(9,196)	(42,182)	(309,080)	(1,666)	(362,124)
Disposals	–	–	(1,797)	(3,040)	–	(60)	(4,897)
At 31 December 2007	72,485	140	19,526	79,371	881	2,690	175,093
ACCUMULATED DEPRECIATION							
At 1 January 2006	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
Exchange adjustments	–	–	5	19	–	14	38
Provided for the year	3,688	3	4,174	7,744	4,310	462	20,381
Disposal of subsidiaries	–	–	(4,688)	(14,868)	(4,151)	(33)	(23,740)
Disposals	–	–	(1,733)	(2,807)	–	(35)	(4,575)
At 31 December 2007	46,688	60	7,702	59,758	193	1,056	115,457
CARRYING VALUES							
At 31 December 2007	25,797	80	11,824	19,613	688	1,634	59,636
At 31 December 2006	20,724	83	3,606	13,636	649	1,247	39,945

24. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates 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%

At 31 December 2007, the Group's building of approximately HK$80,000 (2006: HK$83,000) is located in Hong Kong under long term lease.

25. OTHER INTANGIBLE ASSETS

	THE GROUP HK$'000
COST	
At 1 January 2006, 1 January 2007	3,839
Acquired on acquisition of subsidiaries	43,787
Disposal of subsidiaries	(45,626)
At 31 December 2007	2,000
IMPAIRMENT	
At 1 January 2006 and 1 January 2007	1,292
Disposal of subsidiaries	(1,292)
At 31 December 2007	–
CARRYING VALUE	
At 31 December 2007	2,000
At 31 December 2006	2,547

	THE COMPANY HK$'000
COST	
At 1 January 2006 and 2007 and 31 December 2007	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.

26. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

As at 31 December, 2007, the Group had interests in the following principal jointly controlled entity:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
Melco PBL SPV Limited ("Melco PBL SPV")	Cayman Islands/ Hong Kong	Ordinary shares	50%	Investment holding

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

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership (Notes 1, 2 & 3)	Principal activities
PAL Development Limited	Hong Kong/PRC	Ordinary shares	60%	Provision of lottery services in the Asia Pacific Region

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

Notes:

(1) During the year ended 31 December 2006, the Group formed a jointly controlled entity with an independent third party where the Group contributed certain cash and intangible assets and the joint venture party contributed certain businesses to the jointly controlled entity. Upon the formation of this jointly controlled entity, the Group then recognised a gain of HK$20,000,000 on the intangible assets contributed with reference to the fair value of the intangible assets as arrived on the basis of a valuation carried out by an independent professional valuer not connected to the Group.

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

(3) During the year ended 31 December 2007, the Group has disposed of its interest in PAL to Power Way Group Limited ("Power Way"), a newly incorporated company, formed by the Group and certain independent third parties (collectively referred as "Shareholders"). On the same date, after the transfer of the interests in PAL and certain subsidiaries (collectively the "Assets") from the Shareholders to Power Way, it then disposed of the Assets to a company independent of the Shareholders ("Wafer") in exchange for certain shares, representing approximately 19% of the total outstanding shares of Wafer and convertible loan note of Wafer. Power Way becomes an associate of the Company (note 27). As a result of the disposal, the difference between carrying amount of the Group's interest in PAL of approximately HK$104,775,000 and the Group's relevant interest in the aggregate fair value of the assets held by Power Way of approximately HK$637,379,000 amounting to approximately HK$532,604,000 is recognised as a gain on disposal of interests in jointly controlled entities during the year ended 31 December 2007. The fair value of the Wafer shares and convertible loan note held by Power Way are determined with reference to the market price of Wafer's shares and by using Black-Scholes pricing model, respectively.

26. INTERESTS IN JOINTLY CONTROLLED ENTITIES – CONTINUED

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

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

27. INTERESTS IN ASSOCIATES

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

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

27. INTERESTS IN ASSOCIATES – CONTINUED

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

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

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

27. INTERESTS IN ASSOCIATES – CONTINUED

Note:

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

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

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

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

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

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

The above table lists the associates of the group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

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

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

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

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

28. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**966,495**	629,849

Details of the Company's principal subsidiaries at 31 December 2007 are set out in note 59.

29. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2007 HK$'000	2006 HK$'000
Unlisted equity securities, at cost (Note)	**19,837**	19,837
Equity securities listed in Hong Kong	**136,500**	–
	156,337	19,837

Note: The amount represents unlisted equity investment 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.

30. TRADING RIGHTS

	THE GROUP HK$'000
COST	
At 1 January 2006 and 2007	5,066
Disposal of a subsidiary	(5,066)
At 31 December 2007	–
AMORTISATION	
At 1 January 2006	2,787
Provided for the year	506
At 1 January 2007	3,293
Provided for the year	364
Disposal of a subsidiary	(3,657)
At 31 December 2007	–
CARRYING VALUE	
At 31 December 2007	–
At 31 December 2006	1,773

Trading rights represent rights to trade on the Stock Exchange 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 Stock Exchange, HKFE and Hong Kong Securities Clearing Company Limited.

31. GOODWILL

	THE GROUP HK$'000
At 1 January 2006	299,088
Realised upon deemed disposal of partial interests in subsidiaries	(11,554)
Disposals of subsidiaries (note 52)	(270,656)
At 1 January 2007	16,878
Acquired on acquisition of a subsidiary	1,464,150
Deemed disposal of partial interests in subsidiaries	(248,518)
Disposals of subsidiaries (note 52)	(1,223,955)
At 31 December 2007	8,555

Particulars regarding impairment testing on goodwill are disclosed in note 32.

32. 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 31 have been allocated to the individual cash generating units (CGU). The carrying amount of goodwill as at 31 December 2007 allocated to these units are as follows:

	Goodwill	
	2007 HK$'000	2006 HK$'000
Investment and Financial Services – brokerage and banking business	–	8,323
Technology – software business	**8,555**	8,555
	8,555	16,878

During the year ended 31 December 2007, management of the Group determines that there are no impairment of any of its CGU containing goodwill.

The recoverable amount of the above CGU has been determined on the basis of value in use calculations. The recoverable amount 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-years period, which represents the management's best estimate of future cash flow from the CGU, and a discount rate of approximately 16% (2006: 8% – 10%). 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 CGU's 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 CGU to exceed the aggregate recoverable amount of the above CGU.

33. LONG TERM DEPOSITS

THE GROUP

As at 31 December 2006, amounts represent deposits with various exchanges and clearing houses.

34. TRADE RECEIVABLES

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

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

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

Notes:

(a) The Group's Leisure, Gaming and Entertainment Segment and Property and Other Investments Segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30 to 120 days would be granted.

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

(c) As a result of the deemed disposal of VC upon completion of its placement in 2007 (Note 18), trade receivables arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment and Financial Services Segment as at 31 December 2007 was nil (2006: HK$588,236,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. The decision for rate changes is on management's discretion subject to notification to clients. Securities are assigned with specific margin ratios for calculating their margin values. Loans granted to securities margin clients are further subject to the discounted value of securities deposited with reference to these specific margin ratios. Additional funds or collateral are required if the loan outstanding exceeds the eligible margin value of securities deposited. As at 31 December 2007, the total market value of securities pledged as collateral in respect of the loans to margin clients was nil (2006: HK$2,435,797,000). No aging analysis on margin clients' receivables was disclosed as an aging analysis was not meaningful in view of the nature of the business of securities margin financing.

34. TRADE RECEIVABLES – CONTINUED

Before accepting any new customer, the Group assesses the potential customer's credit quality by respective sales team and defines credit limit by customer. 73% of the trade receivables that are neither past due nor impaired have the best credit quality attributable under the credit assessment system used by the Group. Included in the Group's trade receivables balance are debtors with a carrying amount of HK$66,491,000 (2006: HK$60,744,000) which are past due over their credit terms for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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

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

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

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

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

35. INVENTORIES

	THE GROUP	
	2007 HK$'000	2006 HK$'000
Food and beverages	**1,002**	1,164
Consumables	**3,262**	2,296
Merchandise	**21,500**	58,016
	25,764	61,476

36. HELD-FOR-TRADING INVESTMENTS

THE GROUP

Held-for-trading investments as at 31 December 2007 represents equity securities listed in Hong Kong of approximately HK$430,000 (2006: HK$14,503,000).

37. DERIVATIVE FINANCIAL INSTRUMENTS

THE GROUP

As a result of a series of transactions with EGT (note 13(a)), the Group subscribed certain warrants issued by EGT which are recognised as derivative financial instruments. As at 31 December 2007, the Group had 10,000,000 warrants outstanding issued by EGT. These outstanding warrants have exercise price ranged from US$1.00 to US$3.50 which are exercisable until 31 December 2010. As at 31 December 2007, fair value of the warrants amounted to approximately HK$223,626,000 (2006: Nil) and was recognised as derivative asset in the consolidated balance sheet.

The fair value of the warrants at 31 December 2007 were calculated using the binominal model carried out on that date by Sallmanns (Far East) Limited, independent qualified professional valuers not connected with the Group. The inputs into the model were as follows:

Expected volatility	53%
Risk-free rate	3.29%
Dividend yield	Nil

38. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES/ASSOCIATES

THE GROUP

Included in amounts due from associates are i) amount due from an associate of approximately HK$578,578,000 (2006: HK$578,578,000) which is unsecured, interest bearing at HIBOR rate and not repayable within twelve months from the balance sheet date and ii) amount of approximately HK$241,900,000 (2006: Nil) which is unsecured, interest bearing at HIBOR plus 1.25% to 2% and repayable upon written notice given from the Company. The remaining amounts due from jointly controlled entities/ associates are unsecured, non-interest bearing and repayable on demand.

THE COMPANY

Included in amounts due from associates are amounts of approximately HK$241,900,000 (2006: Nil) which are unsecured, interest bearing at HIBOR plus 1.25% to 2% and repayable upon written notice given from the Company. The remaining amounts due from (to) associates are unsecured, non-interest bearing and repayable on demand.

39. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

At 31 December 2006, included in amounts due from subsidiaries is loan to a subsidiary, which becomes an associate during the year ended 31 December 2007, of HK$241,900,000 of VC which is unsecured, interest bearing at HIBOR plus 1.25% to 2% per annum and repayable upon written notice given from the Company. Other amounts due from subsidiaries at 31 December 2006 and all these amounts at 31 December 2007 are unsecured, interest free and repayable after one year. Deemed interest income from amounts due from subsidiaries is arrived from with an effective interest rate of 3.5%, which is the Group's borrowing rate of similar term. Amounts due to subsidiaries are unsecured, interest fee and repayable on demand.

40. PLEDGED OF ASSETS

THE GROUP AND THE COMPANY

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

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

Also, as at 31 December 2007, the Company placed a bank deposit of HK$972,500,000 (equivalent to US$125,000,000) (2006: Nil) for an undertaking in connection with the loan facilities obtained by Melco PBL Entertainment (see note 55).

41. BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

Bank balances and cash comprises cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less and carry interest rate at about 2% (2006: 2%).

Before VC become an associate in September 2007, 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 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 and HK$551,852,000 respectively, which are not otherwise dealt with in the financial statements.

42. TRADE PAYABLES

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

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

Note: The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the Investment and Financial Services Segment are usually two trading days after trade date. As a result of the deemed disposal of VC upon completion of its placement in 2007 (Note 18), trade payable arising from the ordinary course of business of dealing in securities transactions become nil (2006: HK$270,733,000). These trade payables were repayable on demand and aged within 30 days.

43. FINANCIAL GUARANTEE LIABILITY

THE GROUP AND THE COMPANY

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

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

The fair value of the financial guarantee at initial recongition is calculated using the binominal model and the inputs into the model were as follows:

Expected volatility	37%
Interest rate	3.9% – 4.3%
Dividend yield	Nil

44. BANK BORROWINGS – DUE WITHIN ONE YEAR

THE GROUP AND THE COMPANY

The amount represents short-term bank borrowings of HK$80,000,000 (2006: HK$49,000,000) which is repayable within one year and unsecured. As at 31 December 2006, one of the subsidiary of the Company provided a corporate guarantee for these facilities. The interest rates for the loans are HIBOR plus 0.75% (2006: HIBOR plus a spread), thus exposing the Company and the Group (2006: the Group) to cash flow interest rate risk. The terms of the facilities are generally renewed annually.

45. SHAREHOLDER'S LOAN

THE GROUP AND THE COMPANY

The amount is unsecured, interest bearing at prime rate plus 3% and repayable within twelve months from the balance sheet date.

46. 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 has also issued another convertible loan note due on 7 February 2010 with a principal amount of HK$56,000,000, which is also interest bearing at 4% per annum. Both convertible loan notes were issued for the purpose of developing a land consisting of hotel and entertainment complex with casino and electronic gaming machine lounge.

The convertible loan note due on 8 November 2009 is convertible into fully paid ordinary shares of HK$0.5 each, 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 Group has exercised the early redemption option and early redeemed the convertible loan note in full on 30 June 2007.

The convertible loan note due on 7 February 2010 is convertible into fully paid ordinary shares of HK$0.5 each, 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. The Group has exercised the early redemption option and early redeemed the convertible loan note in full on 30 June 2007.

A gain on early redemption of convertible loan note of approximately HK$8,827,000 (2006: Nil) is recognised during the year ended 31 December 2007.

On 5 September 2005, the Company issued a convertible loan note due on 4 September 2010 with 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 a piece of land at Cotai, Macau. This convertible loan note is convertible into fully paid ordinary shares of HK$0.5 each, of the Company at a conversion price of HK$9.965 per share (subject to anti-dilutive adjustment) convertible for a period of 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. The equity element is presented in equity heading "convertible loan notes equity reserve". At 31 December 2007, the effective interest rate of the liability component is 6.25% (2006: 4.5% – 6.25%).

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

	2007 **HK$'000**	2006 HK$'000
Carrying amounts at the beginning of the year	**1,093,459**	1,037,163
Redemption of convertible loan notes	**(153,349)**	–
Interest on convertible loan notes (Note 14)	**62,382**	62,536
Interest paid	**(3,093)**	(6,240)
Carrying amounts at the end of the year shown as non-current liabilities	**999,399**	1,093,459

47. DEFERRED TAX ASSETS

THE GROUP

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

	THE GROUP		
	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2006	(75,382)	12,149	(63,233)
Disposal of subsidiaries (Note 52)	52,553	–	52,553
Credit to consolidated income statement for the year	12,567	894	13,461
At 1 January 2007	(10,262)	13,043	2,781
Disposal of subsidiaries (Note 52)	–	(1,100)	(1,100)
(Charge) credit to consolidated income statement for the year	(1,325)	1,236	(89)
At 31 December 2007	(11,587)	13,179	1,592

As at the balance sheet date, the Group has unused tax losses of approximately HK$279,550,000 (2006: HK$326,930,000). A deferred tax asset has been recognised in respect of HK$75,306,000 (2006: HK$74,531,000) 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 Technology Segment (2006: Investment 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$3,184,000, HK$8,268,000 and HK$5,996,000 that will expire in 2008, 2009 and 2010 respectively. All other losses may be carried forward indefinitely.

THE COMPANY

As at 31 December 2007, the Company has approximately HK$1,109,000 (2006: Nil) unused tax loss. No deferred tax asset has been recognised in respect of the tax loss due to the unpredictability of future profit streams. Tax loss may be carried forward indefinitely.

48. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2007	2006	**2007 HK$'000**	2006 HK$'000
Authorised:				
At the beginning of the year of HK$0.5 each (2006: HK$0.5 each)	**1,400,000,000**	1,400,000,000	**700,000**	700,000
Increase in authorised ordinary share capital (note a)	**600,000,000**	–	**300,000**	–
At the end of the year of HK$0.5 each	**2,000,000,000**	1,400,000,000	**1,000,000**	700,000
Issued and fully paid:				
At the beginning of the year of HK$0.5 each (2006: HK$0.5 each)	**1,228,150,716**	1,125,838,540	**614,075**	562,919
Issue of shares (notes b and c)	**–**	85,822,222	**–**	42,911
Exercise of shares options	**325,000**	16,489,954	**163**	8,245
At the end of the year of HK$0.5 each	**1,228,475,716**	1,228,150,716	**614,238**	614,075

Notes:

(a) On 10 May 2007, an ordinary resolution was passed by the shareholders of the Company to approve the increase of authorised ordinary share capital of the Company from HK$700,000,000 to HK$1,000,000,000 by the creation of 600,000,000 new shares of HK$0.5 each.

(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 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.

49. RESERVES

	Share premium HK$'000	Issuable shares HK$'000 (Note 1)	Capital reserve HK$'000 (Note 2)	Convertible loan notes equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY							
At 1 January 2006	1,776,248	196,667	337,841	327,677	7,752	(212,941)	2,433,244
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
Profit for the year	–	–	–	–	–	100,036	100,036
Exercise of share options	432	–	–	–	–	–	432
Recognition of equity – settled share based payment	–	–	–	–	9,393	–	9,393
Transfer to share premium upon exercise of share options	113	–	–	–	(113)	–	–
Transfer of share option reserve upon expiry of share options	–	–	–	–	(48)	48	–
Early redemption of convertible loan notes	–	–	–	(20,424)	–	8,946	(11,478)
Dividend paid	–	–	(12,282)	–	–	–	(12,282)
At 31 December 2007	3,125,485	–	283,734	307,253	21,958	(114,730)	3,623,700

49. RESERVES – CONTINUED

Note 1: The issuable shares as at 1 January 2006 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.

50. SHARE OPTION SCHEME

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 shares 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 18 May 2005, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 49,101,927 shares of HK$1.00 each (adjusted to 98,203,854 shares of HK$0.5 each after the capital reorganization of the Company which became effective from 19 May 2005). 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.

As at 31 December 2007, a total of 92,303,854 shares of the Company (representing approximately 7.51% of the existing issued share capital of the Company) are available for issue under the Scheme.

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 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 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.

50. SHARE OPTION SCHEME – CONTINUED

The exercise price in relation to each option shall be determined by the Board of Directors of the Company in its absolute discretion, but in any event shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date when an option is offered; (ii) a price being the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of a share of the Company on the date of the offer of an option.

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 2007:

Category of participant	Outstanding at 1.1.2006	Reclassification during the year	Granted during the year	Exercised during the year[3]	Outstanding at 31.12.2006	Reclassification during the year	Exercised during the year[3]	Lapsed during the period	Outstanding at 31.12.2007	Date of grant of share options	Share price at date of grant of share options	Exercise price of share options
Directors	32,612	–	–	(32,612)	–	–	–	–	–	8 March 2002	HK$0.41	HK$0.5
Directors	3,600,000	500,000	–	(4,100,000)	–	–	–	–	–	19 February 2004	HK$1.175	HK$1.2025
Directors[4]	–	280,000	–	(140,000)	140,000	–	–	–	140,000	17 September 2004	HK$1.6875	HK$1.6875
Directors[5]	–	200,000	–	–	200,000	–	–	–	200,000	1 February 2005	HK$7.4	HK$7.4
Directors[6]	–	–	400,000	–	400,000	–	–	–	400,000	13 February 2006	HK$11.75	HK$11.8
Directors[7]	–	–	900,000	–	900,000	–	–	–	900,000	3 April 2006	HK$15.7	HK$15.87
Sub-total	3,632,612	980,000	1,300,000	(4,272,612)	1,640,000	–	–	–	1,640,000			
Employees	2,055,340	–	–	(2,055,340)	–	–	–	–	–	13 September 2002	HK$0.5534	HK$0.5534
Employees	8,220,000	(2,000,000)	–	(6,220,000)	–	–	–	–	–	19 February 2004	HK$1.175	HK$1.2025
Employees[8]	2,668,000	(1,180,000)	–	(468,000)	1,020,000	(400,000)	–	–	620,000	17 September 2004	HK$1.6875	HK$1.6875
Employees[9]	2,059,400	(1,000,000)	–	(474,000)	585,400	380,000	(25,000)	(35,000)	905,400	1 February 2005	HK$7.4	HK$7.4
Employees[10]	–	(1,200,000)	4,600,000	–	3,400,000	650,000	–	–	4,050,000	13 February 2006	HK$11.75	HK$11.8
Sub-total	15,002,740	(5,380,000)	4,600,000	(9,217,340)	5,005,400	630,000	(25,000)	(35,000)	5,575,400			
Others[14]	–	–	–	–	–	–	–	–	–	13 September 2002	HK$0.5534	HK$0.5534
Others[14]	1,000,000	1,500,000	–	(2,300,000)	200,000	–	(200,000)	–	–	19 February 2004	HK$1.175	HK$1.2025
Others[11, 14]	9,000,000	900,000	–	(300,000)	9,600,000	400,000	(100,000)	–	9,900,000	17 September 2004	HK$1.6875	HK$1.6875
Others[12, 14]	–	800,000	–	(400,000)	400,000	(380,000)	–	–	20,000	1 February 2005	HK$7.4	HK$7.4
Others[13, 14]	–	1,200,000	–	–	1,200,000	(650,000)	–	–	550,000	13 February 2006	HK$11.75	HK$11.8
Sub-total	10,000,000	4,400,000	–	(3,000,000)	11,400,000	(630,000)	(300,000)	–	10,470,000			
Total	28,635,352	–	5,900,000	(16,489,952)	18,045,400	–	(325,000)	(35,000)	17,685,400			
Exercisable at the end of the year					10,700,000				10,375,000			

50. SHARE OPTION SCHEME – CONTINUED

Notes:

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

2. As at 31 December 2007, the Company had 17,685,400 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 17,685,400 additional ordinary shares of the Company and additional share capital of approximately HK$8,842,700 and share premium of approximately HK$90,757,010 before issue expenses.

3. In respect of the share options exercised during the year, the weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$14.61.

4. At 31 December 2007, 140,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.

5. At 31 December 2007, 200,000 options may be exercised during the period from 17 September 2009 to 7 March 2012.

6. Among 400,000 options as at 31 December 2007, 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.

7. Among 900,000 options as at 31 December 2007, 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.

8. Among 620,000 options as at 31 December 2007, 170,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 250,000 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.

9. Among 905,400 options as at 31 December 2007, 45,000 options may be exercised during the period from 17 September 2006 to 7 March 2012, and 860,400 options may be exercised during the period from 17 March 2008 to 7 March 2012.

10. Among 4,050,000 options as at 31 December 2007, 1,240,000 options may be exercised during the period from 1 April 2008 to 31 January 2016, 1,235,000 options may be exercised during the period from 1 April 2010 to 31 January 2016, 1,225,000 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.

11. Among 9,900,000 options as at 31 December 2007, 4,800,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 4,900,000 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.

12. At 31 December 2007, 20,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.

13. Among 550,000 options as at 31 December 2007, 160,000 options may be exercised during the period from 1 April 2008 to 31 January 2016, 165,000 options may be exercised during the period from 1 April 2010 to 31 January 2016 and 225,000 options may be exercised during the period from 1 April 2012 to 31 January 2016.

14. Others represents share options granted to former directors and employees of the Group.

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. The weighted average fair value of option granted during the year ended 31 December 2006 is HK$5.6.

50. SHARE OPTION SCHEME – 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
Exercise price	HK$15.87	HK$11.8
Expected volatility	58.37%	48.27%
Expected life	2.5 – 6.5 years	2.6 – 6.6 years
Risk-free rate	4.331% – 4.545%	4.135% – 4.229%

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 Company and the Group recognised the total expenses of approximately HK$9,393,000 and HK$9,657,000, respectively for the year ended 31 December 2007 (2006: HK$9,091,000 and HK$9,509,000, respectively) 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.

51. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2007, the Company acquired 53% interests in EGT in accordance to the PPA as disclosed in note 13(a).

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

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

Goodwill arising on acquisition of EGT is in relation to the anticipated profit generated from the EGM business referred by the Group as disclosed in note 13(a).

EGT contributed HK$28 million to the Group's revenue and HK$33 million loss to the Group's profit for the period from date of acquisition and the date of becoming an associate.

If the acquisition had been completed on 1 January 2007, total group revenue for the period would have been HK$1,079 million, and profit for the period would have been HK$2,558 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

Note: Subsequently, in December 2007, as described in note 13(a), EGT became an associate of the Group. As at that date, the fair value of the assets and liabilities were determined on a provisional basis, awaiting the receipt of professional valuations.

52. DEEMED DISPOSAL OF SUBSIDIARIES

As disclosed in note 13(a) and 18, EGT and VC were deemed disposed of during the year ended 31 December 2007. The net assets of EGT and VC at the date of disposal were as follows:

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

52. DEEMED DISPOSAL OF SUBSIDIARIES – CONTINUED

The impact of VC disposed of on the Group's results and cash flows in the current and prior year are disclosed in note 18.

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

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

	HK$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	264,764
Hotels and entertainment complex under development	2,800,622
Trademark	23,637
Trade and other receivables	47,361
Inventories	1,677
Bank balances and cash	53,446
Amount due from a related company	951
Trade and other payables	(243,534)
Amounts due to related companies	(13,276)
Taxation payables	(2,538)
Obligation under finance lease	(141)
Shareholder's loan	(45,708)
Deferred tax liabilities	(52,553)
Amount due to the Company	(990,852)
Amount due to a minority shareholder	(110,528)
Minority interests	(518,550)
	1,214,778
Attributable goodwill	270,656
	1,485,434
Loss on disposal	(12,140)
Total consideration	1,473,294
Satisfied by:	
Interests in jointly controlled entities	1,642,995
Amount due to PBL (note 13(b))	(169,701)
	1,473,294
Net cash outflow arising on disposal:	
Bank balances and cash disposal of	(53,446)

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

53. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2007, the interest in EGT was acquired through the provision of agency services as disclosed in notes 13(a) and note 51, respectively.

54. OPERATING LEASES

(A) THE GROUP AS LESSEE

Minimum lease payments under operating leases during the year in respect of office premises an approximately HK$20,709,000 (2006: HK$31,552,000).

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	
	2007 HK$'000	2006 HK$'000
Within one year	**21,002**	23,284
In the second to fifth year inclusive	**18,114**	24,035
Over five years	**3,396**	–
	42,512	47,319

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for a term ranging from 2 to 6 years.

(B) THE GROUP AS LESSOR

At 31 December 2007, the Group has entered into lease arrangements with certain tenants for its investment properties. Certain of the properties held have committed tenants for the next one to six years. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	THE GROUP	
	2007 HK$'000	2006 HK$'000
Within one year	**8,616**	9,099
In the second to fifth year inclusive	**8,780**	13,237
Over five years	**1,751**	3,501
	19,147	25,837

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

55. CONTINGENT LIABILITIES

THE GROUP AND THE COMPANY

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

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

The Company and the Group recognised financial guarantee liabilities in respect of the Exchangeable Bonds issued by Melco PBL SPV which are jointly and severally guaranteed by the Company and Crown Limited. Details of the guarantee are disclosed in note 43.

56. 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.

57. 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$9,782,000 (2006: HK$34,834,000).

The trade receivables include amount due from an associate, in relation to the sale of electronic gaming machines of approximately HK$224,011,000 (2006: Nil).

The prepayments, deposits and other receivables include approximately HK$194,000 (2006: HK$346,000) 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$9,268,000 (2006: HK$6,896,000).

57. RELATED PARTY TRANSACTIONS – CONTINUED

(c) The Group was entered into the following related parties transactions:

	THE GROUP 2007 HK$'000	THE GROUP 2006 HK$'000
Brokerage commission/interest income earned from certain directors of the Group or their relatives	–	125
Brokerage commission income earned from a related company#	–	2,245
Catering income earned from directors of the Company and related companies#	**4,390**	5,573
Consultancy fee received from a jointly controlled entity*	–	2,183
Consultancy fee received from an associate	**927**	–
Insurance premiums charged by a related company#	**1,010**	1,011
Loan interest income received from a jointly controlled entity*	–	2,931
Loan interest income received from associates	**27,908**	–
Rental income received from a jointly controlled entity*	–	840
Rental income received from an associate	**3,430**	–
Management fees received from a related company#	–	2,722
Overseas travels, entertainment and gifts expenses charged by an associate	**246**	–
Rental expense charged by a related company#	–	173
Travelling expense charged by a related company#	–	1,419
Interest expense on shareholder's loan	**1,780**	623
Interest expense on convertible loan notes to a related company#	**62,383**	62,536
Income from provision of management services to certain electronic gaming machines lounges of a related company#	–	126,953
Sales of computer hardware and software to related companies#	**51,202**	122,349
Sales of computer hardware and software to jointly controlled entities*	–	22,634
Sales of computer hardware and software to associates	**77,039**	–
Service income received from jointly controlled entities*	–	5,107
Service income received from associates	**12,581**	–
Service income of providing network support, technical support and other services to related companies#	**7,903**	7,300
Service income of providing network support, technical support and other services to jointly controlled entities*	–	913
Service income of providing network support, technical support and other services to associates	**2,269**	–
Purchase of property, plant and equipment from a related company#	–	17,064
Souvenirs sold to related companies#	**572**	553

57. RELATED PARTY TRANSACTIONS – CONTINUED

(c) The Group has entered into the following related parties transactions – continued:

Related companies in note (a) to (c) are companies in which close family members of a director, Mr. Ho, Lawrence Yau Lung, has direct beneficial interests.

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

(d) On 28 December 2006, a subsidiary of the Company entered into a service arrangement on a conditional basis with each of Sociedade de Turismoe Diversöes de Macau ("STDM"), in which the dose family member of a director, Mr. Ho, Lawrence Yau Lung, has direct beneficial interest 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 have been ratified for approval in February 2007 at an extraordinary general meeting.

On 17 July 2007, a subsidiary of the Company entered into certain service arrangements on a conditional basis with each of STDM and SJM respectively, pursuant to which Elixir shall provide services comprising system integration services for an aggregate value of about HK$7.05 million and HK$12.24 million to STDM and SJM respectively and maintenance services for the aggregate value of about HK$3.48 million to SJM.

(e) As at 31 December 2007, the Company placed a bank deposit of HK$972,500,000 (equivalent to US$125,000,000) for an undertaking in connection with the loan facilities obtained by Melco PBL Entertainment (note 55).

(f) As disclosed in note 13(a), the Group provided certain agency services to EGT. In return, EGT issued 40,000,000 Second Shares and 22,000,000 Second Warrants such that it became a subsidiary of the Company. The fair value of such agency services provided was recognised with reference to the fair value of the 40,000,000 Second Shares and 22,000,000 Second Warrants received by the Group.

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

	THE GROUP	
	2007 **HK$'000**	2006 HK$'000
Short-term benefits	**16,166**	18,685
Post-employment benefits	**73**	100
Share-based payments	**3,836**	4,774
	20,075	23,559

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.

58. POST BALANCE SHEET EVENTS

On 20 March 2008, Melco (Luxembourg) SARL, a wholly-owned subsidiary of the Company incorporated in Luxemburg, entered into a subscription agreement with Melco China Resorts (Holding) Limited ("MCR BC") and the placing agents, to subscribe for 20,000,000 subscription receipts ("Subscription Receipts") of MCR BC at the price of CAD$0.30 per Subscription Receipt and in an aggregate amount of CAD$6million. The sale of such Subscription Receipt forms part of an offering of Subscription Receipts by MCR BC by way of private placement.

Each Subscription Receipt represents the right of the holder to receive, for no additional consideration, one common share ("Common Share") and one-half Common Share purchase warrant ("Warrant") of MCR BC (immediately prior to giving effect to the amalgamation between MCR BC and Virtual China Travel Services, Co., Ltd. ("VCTS")) at the Escrow Release Date, provided that the Escrow Release Conditions, each term as defined and specified in the agency agreement dated 20 March 2008 between the placing agents and MCR BC, have been satisfied. Each Warrant will be exercisable to purchase one Common Share for CAD$0.40 per share during the two-year period commencing on the Escrow Release Date.

On the Escrow Release Date, immediately following the deemed exercise of the Subscription Receipts to receive Common Shares and Warrants of MCR BC, MCR BC will amalgamate with VCTS, provided that the Escrow Release Conditions have been satisfied, including that VCTS will have obtained all necessary shareholder approvals and approvals of the TSX Venture Exchange and any other applicable Canadian regulatory authority in connection with the amalgamation as a reverse take-over ("RTO"). Immediately following the exercise of the Subscription Receipts and prior to the amalgamation, all of the outstanding shares of Melco China Resort Investment Limited, an associate of the Group owning the five ski resorts in China, will be transferred to MCR BC in consideration of the issuance of Common Shares in the capital of MCR BC. Upon the amalgamation, the resulting entity ("Amalco") will issue (i) one common share of Amalco for each 10 Common Shares (including Common Shares issued upon exercise of the Subscription Receipts) and for each 10 common shares of VCTS outstanding, and (ii) one warrant of Amalco exercisable to purchase common shares of Amalco at CAD$4.00 per share during the balance of the two-year period, for every ten Warrants outstanding.

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Proportion ownership interest held by the Company			
				Directly		Indirectly	
				2007	2006	2007	2006
Melco Leisure and Entertainment Group Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%	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%	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%	84.76%

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – CONTINUED

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Proportion ownership interest held by the Company			
				Directly		Indirectly	
				2007	2006	2007	2006
Jumbo Catering Management Limited[2]	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK$5,000	–	–	86.68%	86.68%
Melco Technology Group Limited[1]	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%	100%	–	–
iAsia Online Systems Limited[2]	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US$1	–	–	100%	100%
Elixir Group Limited[2]	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK$1 each	–	–	100%	100%
Elixir International Limited[2]	Macau	Provision of hardware and software in Macau	2 quota shares of MOP450,000 and MOP50,000 each	–	–	100%	100%
Elixir Group Philippines, Inc.[2]	Philippines	Provision of hardware and software in Philippines	10,000 common shares of 100 pesos each	–	–	100%	100%
Melco Financial Group Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%	100%	–	–
Melco Services Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%	100%	–	–
Melco Investment Holdings Limited[1]	British Virgin Islands	Investment holding in Macau	1 ordinary share of US$1	100%	100%	–	–
Zonic Technology Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	–	–	100%	100%
Melco LottVentures Holdings Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	–	–	100%	100%

1 Shares held directly by the Company
2 Shares held indirectly by the Company

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

RESULTS

	For the year ended 31 December				
	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
Revenue	165,263	408,076	600,640	800,609	**1,015,521**
(Loss) profit for the year	(33,982)	64,208	556,460	2,759,981	**2,668,663**
Attributable to:					
Equity holders of the Company	(26,334)	59,722	548,718	2,836,755	**2,690,639**
Minority interests	(7,648)	4,486	7,742	(76,774)	**(21,976)**
	(33,982)	64,208	556,460	2,759,981	**2,668,663**

ASSETS AND LIABILITIES

	At 31 December				
	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
Total assets	674,518	1,584,827	5,652,932	9,344,627	**12,314,179**
Total liabilities	(150,844)	(279,360)	(1,408,454)	(1,683,149)	**(1,972,636)**
	523,674	1,305,467	4,244,478	7,661,478	**10,341,543**
Equity attributable to equity holders of the Company	460,722	1,229,851	3,558,185	7,567,107	**10,319,113**
Share options reserve of a subsidiary	–	–	–	265	**–**
Minority interests	62,952	75,616	686,293	94,106	**22,430**
	523,674	1,305,467	4,244,478	7,661,478	**10,341,543**

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*
Mr. YEUNG, Alfred Kwong Fai*

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*

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE
Sir Roger LOBO *(Chairman)*
Mr. HO, Lawrence Yau Lung
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
Ms. MA Po Ming, Maggie*

COMPANY SECRETARY
Mr. TSANG Yuen Wai, Samuel

QUALIFIED ACCOUNTANT
Mr. TAM Chi Wai, Dennis

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Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fibre
FSC
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