

Chairman & CEO's Statement

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





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

Melco PBL Entertainment (Macau) Limited ("Melco PBL Entertainment"), our leisure and gaming partnership with Publishing and Broadcasting Limited ("PBL"), drove growth over the year and celebrated some major milestones. The acquisition of Macau's last gaming subconcession in October, which has allowed us to become the holder of one of only six gaming concessions and

subconcessions to own and operate gaming business in Macau, enabled us to exercise direct control over our gaming and entertainment operations. It not only increased our potential income but opened up exciting new doors for growth and development.

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

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

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

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

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

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

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Leisure and Entertainment related businesses in Asia.

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

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

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

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

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

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

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

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

Lawrence Ho
Chairman and CEO