

# Directors' Report

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

## **PRINCIPAL ACTIVITIES**

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

## **RESULTS AND APPROPRIATIONS**

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

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

## **FIXED ASSETS**

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

## **HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT**

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

## **SHARE CAPITAL AND SHARE OPTIONS**

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

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

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

## **SUMMARY FINANCIAL INFORMATION**

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

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## **DISTRIBUTABLE RESERVES OF THE COMPANY**

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

## **MAJOR CUSTOMERS AND SUPPLIERS**

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

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

## **DIRECTORS**

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

### **Executive directors:**

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

### **Non-executive director:**

Mr. Ng Ching Wo

### **Independent non-executive directors:**

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

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

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

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

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

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

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

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

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

### (b) Share options of the Company

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

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

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

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

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

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

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

Notes:

1. As at 31 December 2006, the total number of issued shares of the Company was 1,228,150,716.
2. Mr. Ho, Lawrence Yau Lung was taken to be interested in 115,509,024 shares of the Company as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.41% of the issued share capital of the Company. He was also taken to be interested in 288,532,606 shares of the Company as a result of him being interested in 65% of issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 23.49% of the issued share capital of the Company.
3. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Lawrence Ho and his family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity to make an offer under Rule 26 of The Hong Kong Code on Takeovers and Mergers (the "Takeovers Code") on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code will be made on full conversion.

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

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

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

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

*Notes:*

1. As at 31 December 2006, the total number of issued shares of Value Convergence was 253,740,179.
2. Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 160,930,381 shares of Value Convergence as a result of him being beneficially interested in approximately 33.49% of the issued share capital of the Company which in turn holds approximately 63.42% of the issued share capital of Value Convergence; and (ii) 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.67% of the issued share capital of Value Convergence.

(b) *Share options of Value Convergence*

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

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

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

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## SUBSTANTIAL SHAREHOLDERS

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

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

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



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## SUBSTANTIAL SHAREHOLDERS (continued)

### (b) Convertible loan notes of the Company

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

#### Notes:

- As at 31 December 2006, the total number of issued shares of the Company was 1,228,150,716.
- The shares held by Better Joy Overseas Ltd. and Lasting Legend Ltd. also represent the corporate interest of Mr. Ho, Lawrence Yau Lung in the Company.
- Mr. Ho, Lawrence Yau Lung was taken to be interested in 115,509,024 shares of the Company as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.41% of the issued share capital of the Company. Mr. Ho, Lawrence Yau Lung was also taken to be interested in 288,532,606 shares of the Company as a result of him being beneficially interested in 65% of the issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 23.49% of the issued share capital of the Company.

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## **SUBSTANTIAL SHAREHOLDERS (continued)**

4. Ms. Sharen Lo is the spouse of Mr. Ho, Lawrence Yau Lung and is deemed to be interested in shares of the Company in which Mr. Ho, Lawrence Yau Lung is interested under the SFO.
5. Among the 76,282,400 shares, 16,304,700 shares are held in lending pool.
6. The interest is held in lending pool.
7.
  - (a) Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarge issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Lawrence Ho and his family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity to make an offer under Rule 26 of the Takeovers Code on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeover Code will be made on full conversion.
  - (b) Dr. Ho Hung Sun, Stanley also holds 3,127,107 shares and 18,587,789 shares of the Company in person and through a controlled corporation respectively.
8.
  - (a) Two convertible loan notes for the principal amounts of HK\$100 million and HK\$56 million carrying the rights to subscribe for shares at an initial conversion price of HK\$4.00 and HK\$8.2 respectively were issued by the Company to STDM on 9 November 2004 and 8 February 2005. As at 31 December 2006, the total outstanding principal amount of the said convertible loan notes is HK\$156 million. Due to the share subdivision completed on 19 May 2005, the said conversion prices of HK\$4.00 and HK\$8.2 have been adjusted to HK\$2.00 and HK\$4.1 respectively. If STDM exercises the conversion rights attached to the said convertible loan notes in full, a total of 63,658,536 shares of the Company will be issued to STDM. STDM's said conversion rights are subject to the Company's early redemption rights and can only be exercised if the Company does not exercise its right to redeem the convertible loan notes before the conversion rights are exercised.
  - (b) STDM also holds 222 shares of the Company.

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

## **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

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

# Directors' Report

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

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

## **CONNECTED TRANSACTIONS**

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

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

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

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

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

## **POST BALANCE SHEET EVENT**

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

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

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

# Directors' Report

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)**

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

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

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

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

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

## **EMOLUMENT POLICY**

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

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

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

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

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

## **AUDIT COMMITTEE**

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

# Directors' Report

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

## **SUFFICIENCY OF PUBLIC FLOAT**

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

## **DONATIONS**

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

## **AUDITORS**

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

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

On behalf of the Board

**Ho, Lawrence Yau Lung**

*Chairman & Chief Executive Officer*

Hong Kong

30 March 2007