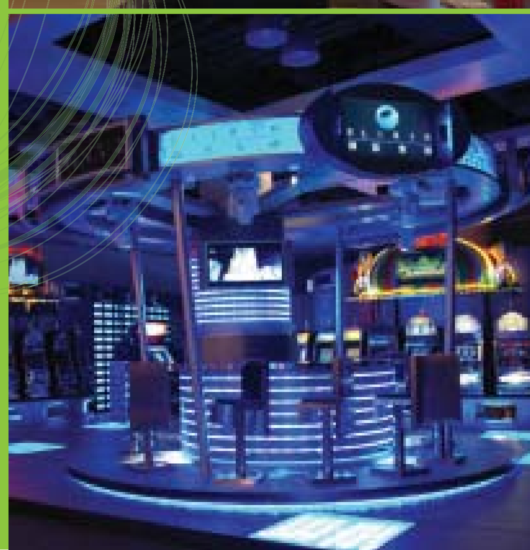

SKY'S THE LIMIT

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** **HK$'000**	2006 HK$'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.