



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.

CORPORATE GOVERNANCE REPORT

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 (<i>Chairman and Chief Executive Officer</i>)	12/12	100%
Tsui Che Yin, Frank	12/12	100%
Chung Yuk Man, Clarence (<i>Chief Operating Officer</i>)	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.

CORPORATE GOVERNANCE REPORT

(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 (<i>Chairman</i>)	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 (<i>Chairman</i>)	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.

CORPORATE GOVERNANCE REPORT

(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.

CORPORATE GOVERNANCE REPORT

(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.