

# DIRECTORS' REPORT

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

## PRINCIPAL ACTIVITIES

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

## RESULTS AND APPROPRIATIONS

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

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

## FIXED ASSETS

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

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year are set out in notes 48 and 50, respectively, to the financial statements.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 148. This summary does not form part of the audited financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2007, the Company's reserves available for distribution consisted of capital reserve of approximately HK\$283,734,000 (2006: HK\$296,016,000) of which HK\$12,291,000 has been proposed as final dividend. The Company considered it has fulfilled those conditions required for distribution of capital reserve. In addition, the Company's share premium account, in the amount of approximately HK\$3,125,485,000 (2006: HK\$3,124,940,000), may be distributed in the form of fully paid bonus shares. Saved as disclosed above, the Company had no reserve available for distribution in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 38% of the Group's total turnover for the year (2006: less than 30%) and the largest customer accounted for approximately 17% of the Group's revenue for the year. The five largest suppliers accounted for approximately 46% of the Group's total purchases for the year (2006: 51%) and the largest supplier accounted for approximately 19% of the total purchases (2006: 16%).

At 31 December 2006, none of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers.

## DIRECTORS' REPORT

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

### DIRECTORS

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

#### EXECUTIVE DIRECTORS:

Mr. Ho, Lawrence Yau Lung (*Chairman and Chief Executive Officer*)

Mr. Tsui Che Yin, Frank

Mr. Chung Yuk Man, Clarence (*Chief Operating Officer*)

#### NON-EXECUTIVE DIRECTOR:

Mr. Ng Ching Wo

#### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Sir Roger Lobo

Dr. Lo Ka Shui

Mr. Sham Sui Leung, Daniel

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

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

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

### DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ho, Lawrence Yau Lung, Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence has a service contract with Melco Services Limited, a wholly-owned subsidiary of the Company, which may be terminated by either party by written notice of not less than three months.

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

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 57 to the consolidated financial statements, no contracts of significance in relation to the Group's business to which the Company, or any of its holding companies, subsidiaries, or fellow subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

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

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

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

#### (B) SHARE OPTIONS GRANTED BY THE COMPANY

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

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

## DIRECTORS' REPORT

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

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

##### (C) CONVERTIBLE LOAN NOTES ISSUED BY THE COMPANY

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

Notes:

- As at 31 December 2007, the total number of issued shares of the Company was 1,228,475,716.
- 115,509,024 shares of the Company are held by Lasting Legend Ltd., representing approximately 9.40% of the issued share capital of the Company and 288,532,606 shares of the Company are held by Better Joy Overseas Ltd., representing approximately 23.49% of the issued share capital of the Company. Lasting Legend Ltd. and Better Joy Overseas Ltd. are owned by persons and trusts associated with Mr. Ho, Lawrence Yau Lung.
- Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Ho, Lawrence Yau Lung and his family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity to make an offer under Rule 26 of The Hong Kong Code on Takeovers and Mergers (the "Takeovers Code") on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code will be made on full conversion.

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

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

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

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

###### (b) Share options granted by Value Convergence

Name of Director	Capacity	Number of underlying shares of Value Convergence held	Approximate percentage of the issued share capital of Value Convergence
Mr. Ho, Lawrence Yau Lung	Beneficial owner	491,057 (Note 3)	0.13%

Notes:

- As at 31 December 2007, the total number of issued shares of Value Convergence was 369,957,451.
- Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 160,930,381 shares of Value Convergence as a result of him being beneficially interested in approximately 33.48% of the issued share capital of the Company which in turn holds approximately 43.50% of the issued share capital of Value Convergence; and (ii) 4,232,627 shares of Value Convergence as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.14% of the issued share capital of Value Convergence.
- The personal interest of Mr. Ho, Lawrence Yau Lung represents his derivative interest in Value Convergence comprising the options which were granted on 9 July 2002 and may be exercised during the period from 9 July 2002 to 8 July 2012 at an exercise price of HK\$1.00 per Value Convergence's share.

**DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – CONTINUED****(II) LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF ASSOCIATED CORPORATIONS OF THE COMPANY – CONTINUED****(B) MELCO PBL ENTERTAINMENT (MACAU) LIMITED (“MPEL”)****(a) Ordinary shares of US\$0.01 each of MPEL**

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

**(b) Restricted shares award granted by MPEL**

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

## Notes:

- As at 31 December 2007, the total number of issued shares of MPEL was 1,320,938,903.60.
- Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 500,000,000 shares of MPEL which are being held by Melco Leisure and Entertainment Group Limited (“Melco Leisure”), a wholly owned subsidiary of the Company; and (ii) 10,746,156 shares of MPEL which are being held by Melco PBL SPV Limited, a company which is owned by Melco Leisure as to 50%, as a result of him being beneficially interested in approximately 33.48% of the issued share capital of the Company which in turn holds an aggregate of 38.67% of the issued share capital of MPEL.
- The personal interests of the above directors represent their derivative interests in MPEL comprising the restricted shares which were granted by MPEL on 19 December 2006, the date on which the American Depositary Shares representing the ordinary shares of MPEL were listed on the NASDAQ Global Market, at a grant price of US\$0.01 per share, which is the par value of the share of MPEL, pursuant to the restricted shares award agreement under the Share Incentive Plan adopted by MPEL in 2006. The restricted shares granted to the above directors have a vesting period of three years.
- The 947,450 restricted shares will vest on 19 December 2009.
- Among the 10,523 restricted shares, 5,261 shares will vest on 19 December 2008 and 5,262 shares will vest on 19 December 2009.

## DIRECTORS' REPORT

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

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

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

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

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

##### (b) Warrants issued by EGT

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

##### (c) Stock options granted by EGT

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

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

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

#### ***(C) ELIXIR GAMING TECHNOLOGIES, INC. (“EGT”) – CONTINUED***

##### ***(c) Stock options granted by EGT – continued***

Notes:

1. As at 31 December 2007, the total number of issued shares of common stock of EGT was 114,914,934.
2. Mr. Ho, Lawrence Yau Lung is taken to be interested in 45,800,000 shares of common stock of EGT and 76,000,000 underlying shares of EGT (which relate to certain EGT warrants as described in Note 3) as a result of him being beneficially interested in approximately 33.48% of the issued share capital of the Company which in turn holds approximately 39.86% of the issued share capital of EGT.
3. The 76,000,000 underlying shares relate to the following warrants issued by EGT to Elixir Group Limited (“Elixir”), a wholly-owned subsidiary of the Company, pursuant to the Securities Purchase Agreement entered into between Elixir and EGT dated 11 October 2006 and the Securities Purchase and Product Participation Agreement (the “Participation Agreement”) entered into between Elixir and EGT dated 13 June 2007:
  - (i) warrants to purchase 10,000,000 shares of common stock of EGT which will be exercisable at any time during the period from 21 October 2007 to 31 December 2010 at exercise prices ranging from US\$1.00 to US\$3.50 per share; and
  - (ii) warrants to purchase 66,000,000 shares of common stock of EGT at an exercise price of US\$2.65 per share which will become exercisable upon Elixir’s achievement of relevant performance milestones pursuant to the Participation Agreement and will expire on 31 December 2012.For details of the performance milestones, please refer to the announcement and circular issued by the Company dated 14 June 2007 and 6 July 2007 respectively.
4. The personal interests of Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence represent their derivative interests in EGT comprising the stock options granted to them by EGT on 17 May 2007 at an exercise price of US\$2.90 per EGT’s share. The stock options may be exercised during the period from the vesting date (please refer to Notes 5 & 6) to 17 May 2012.
5. Among the 1,000,000 stock options, 333,334, 333,333 and 333,333 stock options will vest on 17 May 2008, 17 May 2009 and 17 May 2010 respectively.
6. Among the 200,000 stock options, 66,666, 66,666 and 66,668 stock options will vest on 17 May 2008, 17 May 2009 and 17 May 2010 respectively.

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

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

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

## DIRECTORS' REPORT

### SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

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

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

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



## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY – CONTINUED

### (B) CONVERTIBLE LOAN NOTES

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

Notes:

- As at 31 December 2007, the total number of issued shares of the Company was 1,228,475,716.
- The shares held by Better Joy Overseas Ltd. and Lasting Legend Ltd. also represent the corporate interests of Mr. Ho, Lawrence Yau Lung in the Company.
- 115,509,024 shares of the Company are held by Lasting Legend Ltd., representing approximately 9.40% of the issued share capital of the Company and 288,532,606 shares of the Company are held by Better Joy Overseas Ltd., representing approximately 23.49% of the issued share capital of the Company. Lasting Legend Ltd. and Better Joy Overseas Ltd. are owned by persons and trusts associated with Mr. Ho, Lawrence Yau Lung.
- Ms. Lo Sau Yan, Sharen is the spouse of Mr. Ho, Lawrence Yau Lung and is deemed to be interested in the shares of the Company in which Mr. Ho, Lawrence Yau Lung is interested under the SFO.
- Among the 71,532,200 shares of the Company, 13,732,100 shares of the Company are held in lending pool.
- The 62,696,649 shares of the Company are held in lending pool.
- The 126,753,325 shares of the Company are held in lending pool.
- The 1,400,000 shares of the Company are in short positions.
- The corporate interest of Allianz SE was attributable on account through a number of its wholly owned subsidiaries and a non-wholly owned subsidiary, Dresdner Bank Aktiengesellschaft (8.81% control).
- Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater China) Limited and the Company, convertible loan notes of the Company in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares, representing 8.76% of the enlarged issued share capital of the Company, will be issued by the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Ho, Lawrence Yau Lung and his family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders have approved the issue of the convertible loan notes without the necessity to make an offer under Rule 26 of the Takeovers Code on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code will be made on full conversion.
- Dr. Ho Hung Sun, Stanley also holds 3,127,107 shares and 18,587,789 shares of the Company through a controlled corporation, Lanceford Company Limited and in person respectively.

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

## DIRECTORS' REPORT

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as for the share option scheme disclosed in note 50 to the financial statements and the convertible loan notes, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### CONNECTED TRANSACTIONS

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

#### (A) REORGANISATION OF PAL DEVELOPMENT LIMITED

##### *THE REORGANISATION*

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

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

##### *THE TRANSACTION*

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

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

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

## **CONNECTED TRANSACTIONS – CONTINUED**

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

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

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

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

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

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

## **POST BALANCE SHEET EVENTS**

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

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

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

## **PUBLIC FLOAT**

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

## DIRECTORS' REPORT

### CORPORATE GOVERNANCE

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

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

### EMOLUMENT POLICY

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

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

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

### AUDIT COMMITTEE

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

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

### DONATIONS

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

### AUDITOR

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

On behalf of the Board

**Ho, Lawrence Yau Lung**

*Chairman and Chief Executive Officer*

Hong Kong, 31 March 2008