Melco

SHAPING OUR VISION

MELCO INTERNATIONAL DEVELOPMENT LIMITED

ANNUAL REPORT 2008

A HONG KONG LISTED COMPANY WITH STOCK CODE: 200

VISION

To contribute to the growth and future of the communities we serve, inspiring hope and happiness in people all over the world.

MISSION

To be a dynamic conglomerate that leads the field in leisure and entertainment; we continually explore new opportunities for growth and development that create value for all stakeholders.

BRAND ESSENCE

Entertaining Possibilities • Achieving Growth

CORPORATE VALUES

Motivation
Enrichment
Loyalty
Credibility
Optimism

CONTENTS

FINANCIAL HIGHLIGHTS

- Net loss attributable to shareholders was HK$2,357 million for the year ended 31 December 2008, as compared with a profit of HK$2,691 million for the year ended 31 December 2007.

- Basic loss per share was HK192.08 cents for the year ended 31 December 2008, against basic earnings per share of HK219.06 cents for the year ended 31 December 2007.

- Net asset value per share attributable to shareholders decreased by 23.3% to HK$6.44 as of 31 December 2008, as compared with HK$8.40 as of 31 December 2007.

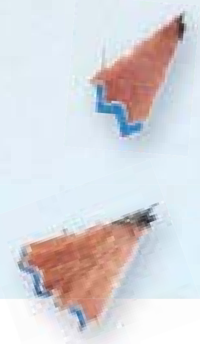
- Performance of the Group's gaming business in Macau, operated through 37.8%-owned Melco Crown Entertainment Ltd (NASDAQ: MPEL) ("Melco Crown Entertainment"), improved substantially. Melco Crown Entertainment delivered an attributable profit to the Group of approximately HK$33.1 million in FY2008 versus an attributable loss of approximately HK$525.6 million in FY2007.

- Adjusted EBITDA of Melco Crown Entertainment amounted to approximately US$156.7 million in FY2008, versus a negative adjusted EBITDA of approximately US$24.6 million in FY2007.

- Crown Macau consistently ranked among the top 2 casinos in Macau in terms of VIP gaming revenue in 2008.

- City of Dreams, the flagship property of Melco Crown Entertainment, is scheduled to open in early June 2009.

CORPORATE PROFILE



Founded in 1910 and listed in Hong Kong in 1927, Melco International Development Limited ("Melco" or the "Company" or the "Group") is a company with a long history and a bright future. Today, under the leadership of Chairman and CEO Lawrence Ho, Melco has found new energy and direction as a dynamic conglomerate that leads the field in the leisure and entertainment sector.

Melco is in fact a leisure and entertainment conglomerate for a new generation in Asia – a generation of consumers who are eager for new experiences and ways to live their lives to the fullest. The Group now has significant interests in six listed entities, of which three in Hong Kong, two in the US and one in Canada. Our group companies respond to the changing dynamics with vibrant, imaginative products and services that fulfill the demands and dreams of this increasingly affluent and ambitious generation.

CONFIDENCE LEADS TO GROWTH, GROWTH LEADS TO CONFIDENCE

Just as growth is central to the Asian economic story, it is a dominant theme in Melco's unfolding story.

Characterizing all of our Group companies is confidence that stems from recent successes in acquisitions, investment in joint ventures, repositioning businesses for long-term growth, and development of unique, proprietary products and services to attain market leadership.

The accolades and rewards that Melco has received over the past several years have further fuelled our confidence, and assured us that we are moving in the right direction. 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 since 2005. Melco won the Corporate Governance Asia Annual Recognition Award 2008 by Corporate Governance Asia magazine for the third consecutive year. It was also recognized by FinanceAsia magazine as one of Hong Kong's Best Managed Companies for the second year in 2008.

Melco was 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.

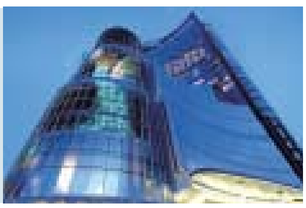
CORPORATE STRUCTURE

MELCO GROUP

Leisure and Entertainment

Melco Crown Entertainment Limited –
a NASDAQ Global Select Market-listed company
ticker symbol "MPEL"

Crown Macau, Taipa –
VIP market



City of Dreams, Cotai –
Emerging Mass market

Third Hotel & Casino
Complex, Macau Peninsula
– Day Trippers

Mocha Clubs,
all over Macau –
Leisure Grind market

Focus on Macau gaming market

Melco China Resorts
(Holding) Limited –
a TSXV-listed company
trading symbol "MCG"

Focus on China
ski resort market

MelcoLot Limited –
a HK-listed company
stock code: 8198

Focus on Asia's
lottery business

Leisure and Entertainment

Elixir Gaming Technologies, Inc. – an AMEX listed company ticker symbol "EGT"

Focus on slot machine participation business

Jumbo Kingdom

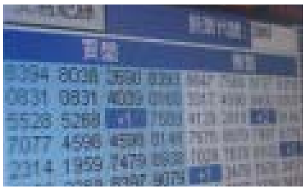
Other Asian gaming ventures

Other Businesses

Value Convergence Holdings Limited – a HK-listed company stock code: 821

Focus on Hong Kong, Macau and China's capital financing needs

iAsia Online Systems



Focus on financial trading solutions

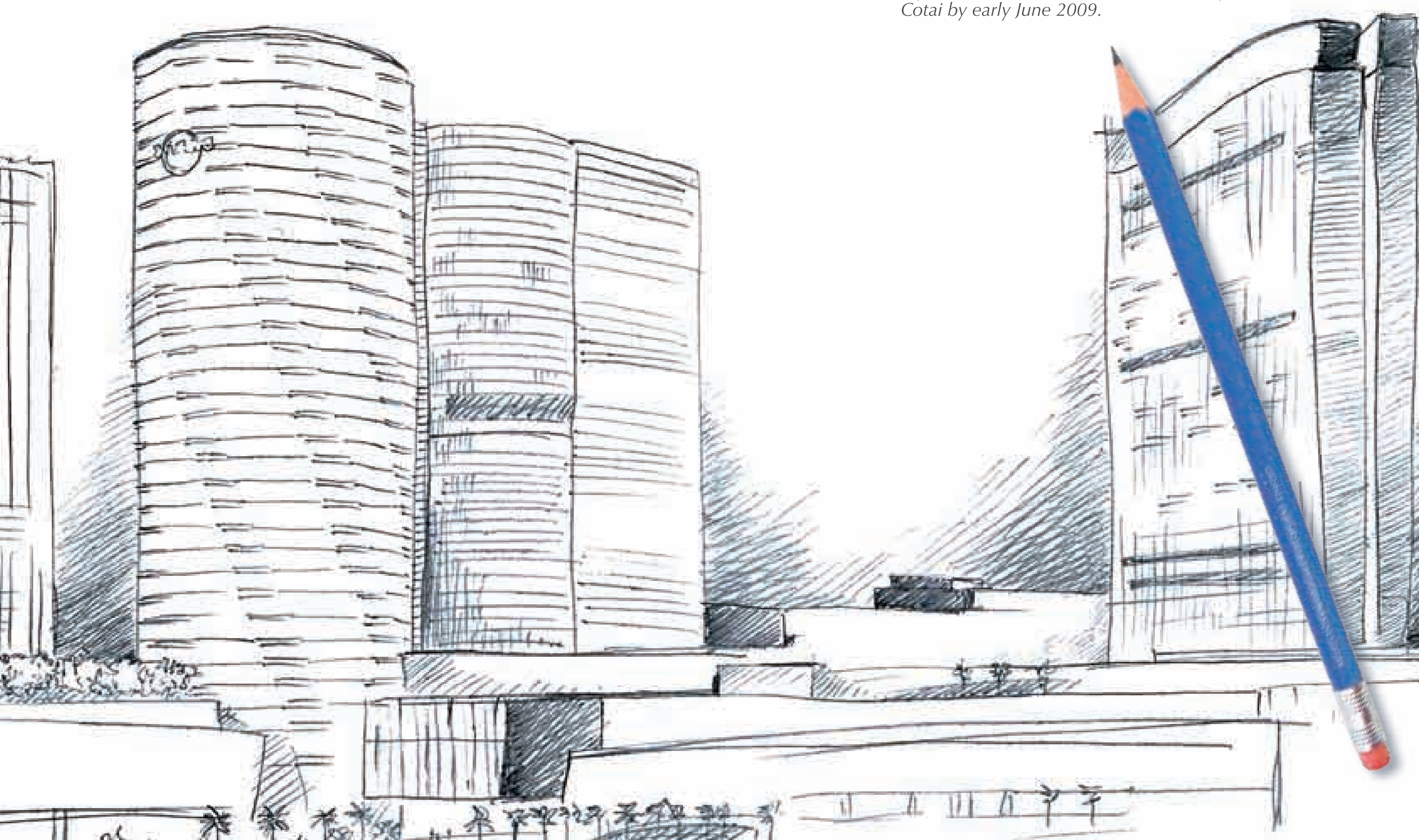
Property and Other Investments


CROWN


HYATT

CREATING EVERLASTING EXCITEMENT

'In all our endeavours, we work with the world's eminent experts in the industry to deliver the best in leisure and entertainment.'

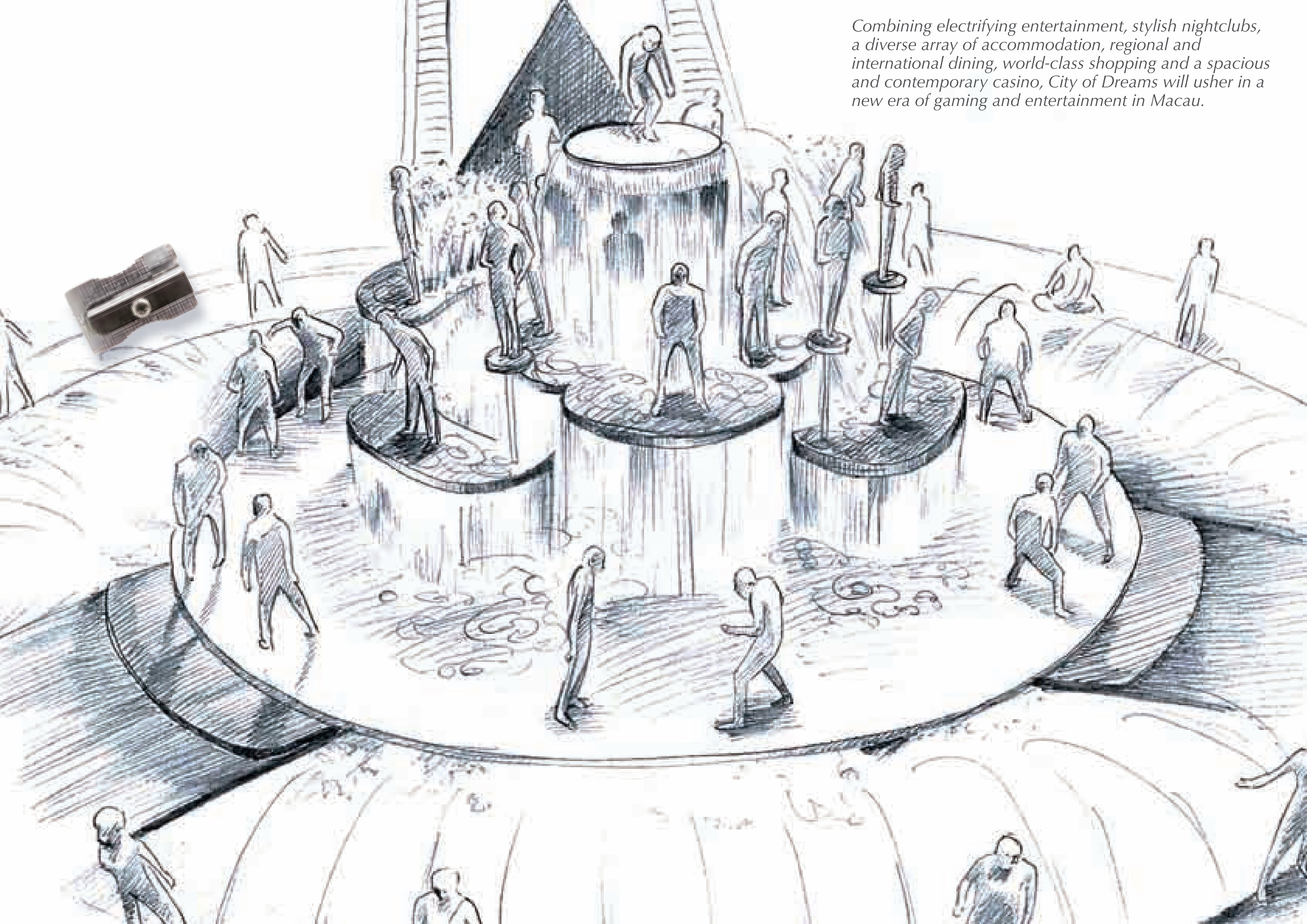


The City of Dreams, an integrated entertainment resort that is set to become the "must experience" destination in Macau, will open in Cotai by early June 2009.

New Dimensions in Entertainment

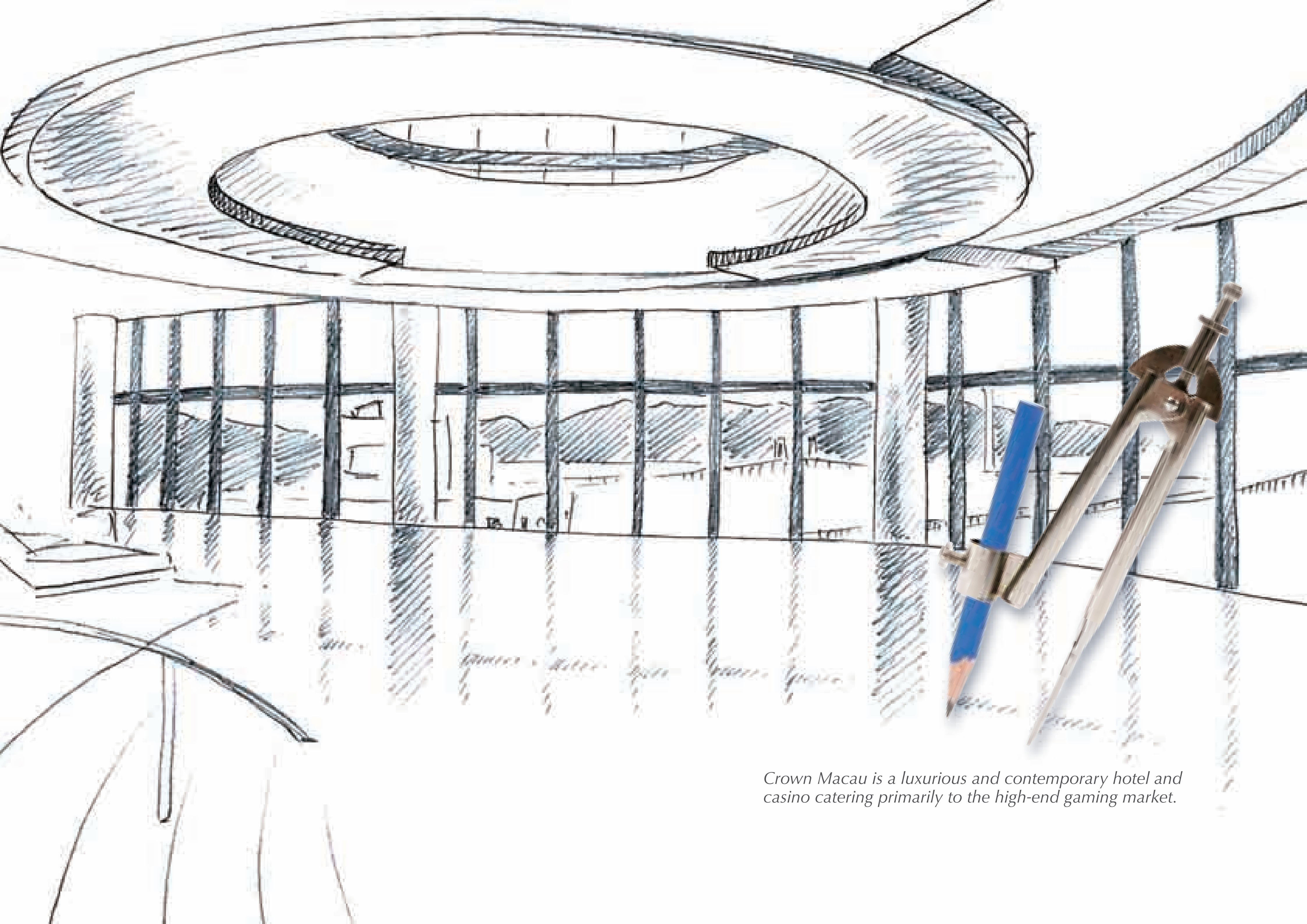
'We define entertainment as offering experiences that always exceed your expectation, therefore we always seek to innovate.'

Combining electrifying entertainment, stylish nightclubs, a diverse array of accommodation, regional and international dining, world-class shopping and a spacious and contemporary casino, City of Dreams will usher in a new era of gaming and entertainment in Macau.



Growing A Great Talent Pool

'We consider our far-sighted management and highly competent team of employees as one of Melco's most valuable assets, making our goals and vision attainable.'



Crown Macau is a luxurious and contemporary hotel and casino catering primarily to the high-end gaming market.

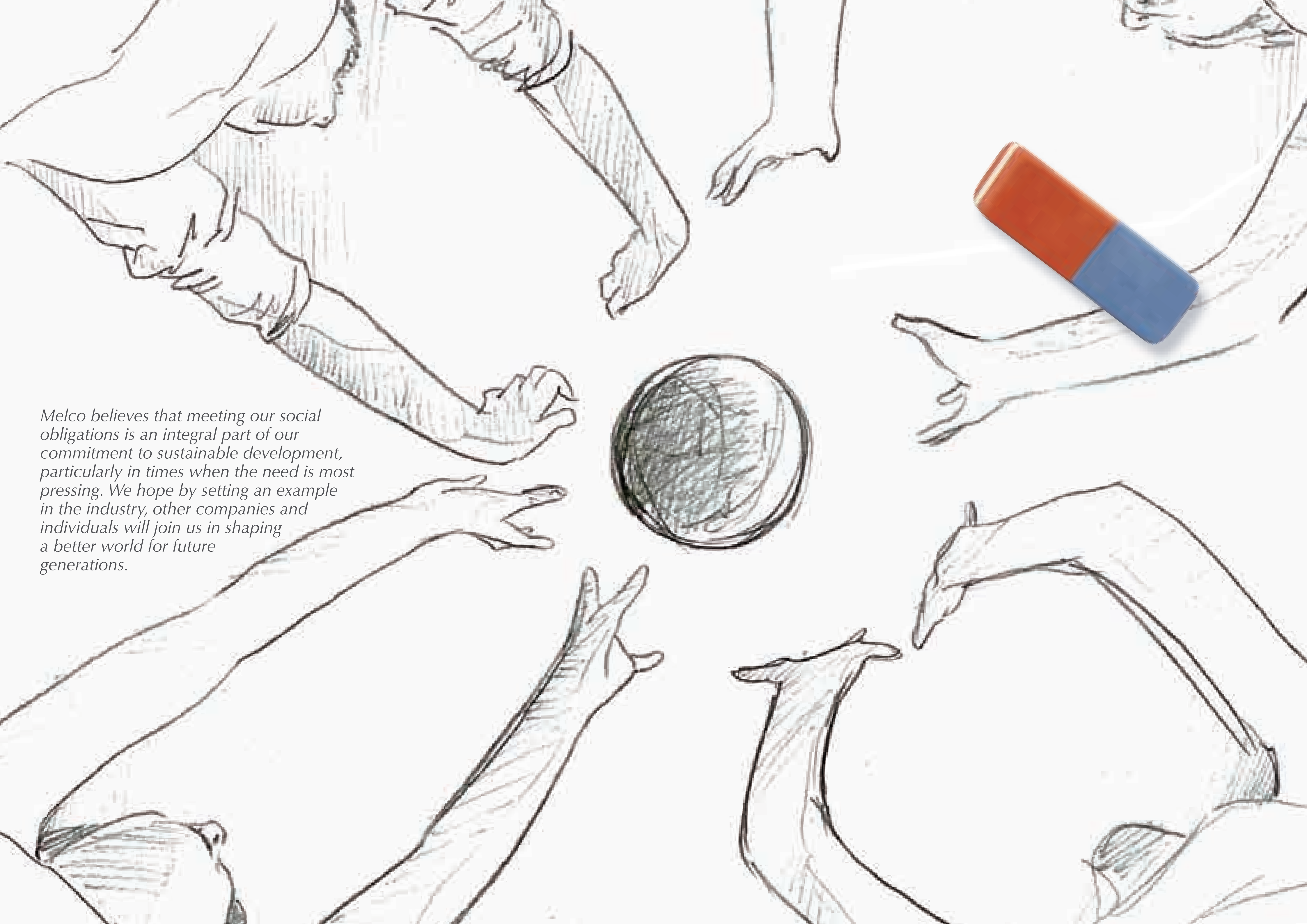
Concerted Effort to Reach Our Goals

'The numerous awards Melco received over the years attest our determination to uphold a high level of corporate governance for highest possible returns for all.'

Distinctive in design, superior in quality and exceptional in service, Crown Macau has also won a long list of awards, including the "Best Casino Interior Design" award at the International Gaming Awards 2008 in London; "Best of Operator Australasia" award at the International Gaming Awards 2009; and Hong Kong's "Prime Awards for Eco-Business".

Making a Positive Impact

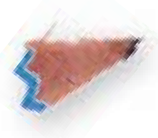
'As a new generation Asian leader in leisure and entertainment, Melco seeks to work with and make a difference in the communities we serve for their long term sustainability.'



Melco believes that meeting our social obligations is an integral part of our commitment to sustainable development, particularly in times when the need is most pressing. We hope by setting an example in the industry, other companies and individuals will join us in shaping a better world for future generations.

“We believe the market will bottom out in the end and improvement will follow. We remain confident of the prospects of Macau and mainland China, and that mainland China will be among the forces leading the recovery of the global economy.”

CHAIRMAN & CEO’S STATEMENT



The year 2008 was tough for all businesses. Economies slipped into recession and the credit crunch put many businesses on the verge of bankruptcy. The extremely testing market environment has affected the leisure and entertainment sector in the region and inevitably Melco, a major player in Macau. However, we believe the market will bottom out in the end and improvement will follow. We remain confident of the prospects of Macau and mainland China, and that mainland China will be among the forces leading the recovery of the global economy.

Among all business units, our core leisure and entertainment business attained the most achievements over the past year. Development of City of Dreams, our flagship property in Macau, reached the final stage and the opening is scheduled for early June 2009. The opening of City of Dreams will expand our reach to the emerging multi-night stay market and our focus will be on the premium end of the mass market and VIP customers from the region. With careful planning, we were able to secure sufficient funding for the project before the financial market meltdown. City of Dreams is fully funded and on budget and will be the only new hotel and casino project to open in Macau in 2009. A committed employer of local talents, we will be offering over 5,000 jobs to local Macau residents at City of Dreams. We have also developed a new brand for Crown Macau to differentiate it from City of Dreams to make sure the two projects each has its own distinct image.

During the year, we celebrated the upgrade of trading of Melco Crown Entertainment Limited (NASDAQ: MPEL) ("Melco Crown Entertainment", formerly known as Melco PBL Entertainment (Macau) Limited) onto the NASDAQ Global Select Market, which has the highest initial listing standards among exchanges in the world. This stands as evidence of our financial and liquidity strength and achievement of world-class corporate governance.

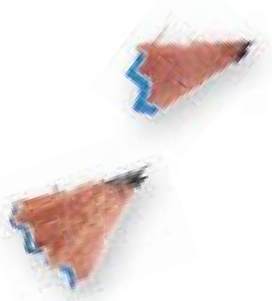
The Group's major associates, namely, Value Convergence Holdings Limited (Stock Code: 821)("VC"), Melco China Resorts (Holding) Limited (TSXV: MCG, MCG.WT) ("MCR"), MelcoLot Limited (Stock Code: 8198) ("MelcoLot", formerly known as Melco LottVentures Limited) and Elixir Gaming Technologies Inc. (AMEX Ticker: EGT)("EGT") consolidated their respective businesses and business focuses in the light of changing macro-economic and market conditions. Prudence will be the guiding principle when it comes to running business operations.

Looking ahead, we remain confident of the economic prospects of Macau and its vicinity areas. Although the market is feeling pressure from various external conditions, it still boasts strong attributes and potential as the most dynamic gaming market in the world. Recently, with agreement reached among Hong Kong, Macau and Guangdong province, a scheme was launched allowing residents of Shenzhen to make multiple visits to Hong Kong starting from April 2009. We believe this or similar scheme would be extended to Macau in the end and, when extended, would increase Macau's visitor volume. City of Dreams, due to open in a few months' time, is well positioned to benefit from such scheme. In addition, the six gaming concession holders in Macau recently met to discuss industry issues including a limit on junket commissions. Crown Macau, with its focus on rolling chip play, should benefit from the proposed commission cap.

Finally, I would like to express my heartfelt thanks to all employees for their continuous support, hard work and loyalty during this time of difficulty. I would also like to thank all shareholders for their trust in the Group. We continue to count on your commitment and dedication to help ensure the success of Melco in the future.

Ho, Lawrence Yau Lung
Chairman and Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS



SIGNIFICANT EVENTS AND DEVELOPMENTS

Despite the global economic turmoil, 2008 continued to see solid developments in the Group's businesses all round.

GAMING BUSINESS IN MACAU

The Group operates its gaming business in Macau through its 37.8%-owned associate, Melco Crown Entertainment, which is listed on NASDAQ in the US. In January 2009, Melco Crown Entertainment was upgraded to trade on the NASDAQ Global Select Market, reflecting its commitment to and success in upholding world-class corporate governance standards.

Thanks to a drastic turnaround of performance at Crown Macau, Melco Crown Entertainment nearly quadrupled its net revenue as compared to last year. Despite the fact that its flagship property, City of Dreams, is still under construction and therefore not yet open in 2008, Melco Crown Entertainment managed to just about break-even at net profit level (after depreciation and interest expenses) in FY2008. According to data and information available to us, Crown Macau consistently ranked among the top 2 casinos in Macau in terms of VIP gaming revenue. In order to align the company's range of product offerings in preparation for the impending opening of City of Dreams, a re-branding effort of Crown Macau is underway and the launch of a new brand name is scheduled within the next two months.

Development and construction of the City of Dreams are at their final stages. This world-class hotel cum casino complex, tentatively set to commence operations in early June, will be the only new project to open in Cotai in 2009. City of Dreams will solidify the business portfolio of Melco Crown Entertainment and is expected to increase its market share in Macau. It is expected to have a workforce of over 5,000 which will predominantly be filled by local Macau residents.

Operating approximately 1,100 gaming machines across various seven venues in Macau, Mocha Clubs continued to generate a stable source of income for Melco Crown Entertainment.

GAMING MACHINE REVENUE PARTICIPATION BUSINESS IN SOUTH EAST ASIA

EGT, in which the Group holds an effective equity interest of 39.8%, continued to make progress in tapping gaming machine revenue participation opportunities in South East Asia.

In December 2008, it formed a strategic alliance with The Global Draw Ltd. ("Global Draw"), a wholly-owned subsidiary of Scientific Games Worldwide Limited (NASDAQ: SGMS), to place Global Draw's popular server-based gaming machines at EGT sourced venues. EGT will share in the net win of the machines in operation.

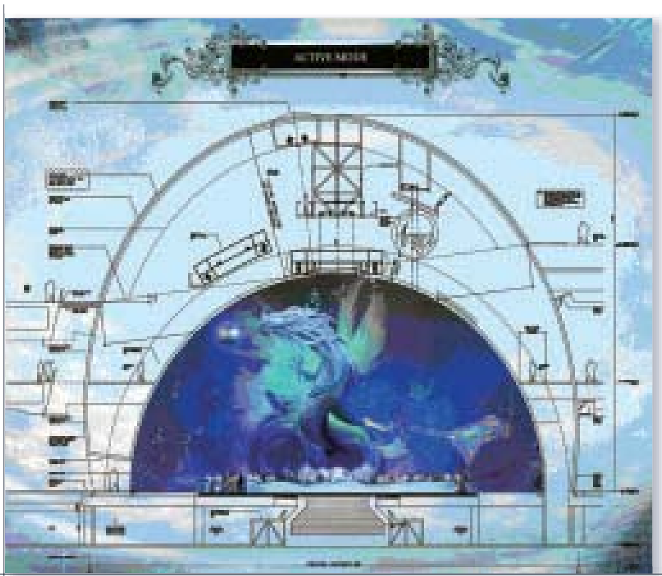
In January 2009, EGT signed a contract with NagaWorld Limited, a wholly owned subsidiary of the Hong Kong listed NagaCorp Ltd. (Stock code: 3918), to place approximately around 140 electronic gaming machines on a participation basis at NagaWorld, a five-star hotel casino resort in Phnom Penh, Cambodia. It will share control over the operation and the gross revenue generated by each machine. EGT plans to increase the number of electronic gaming machines placed at NagaWorld to over 200 by the second quarter of 2009.

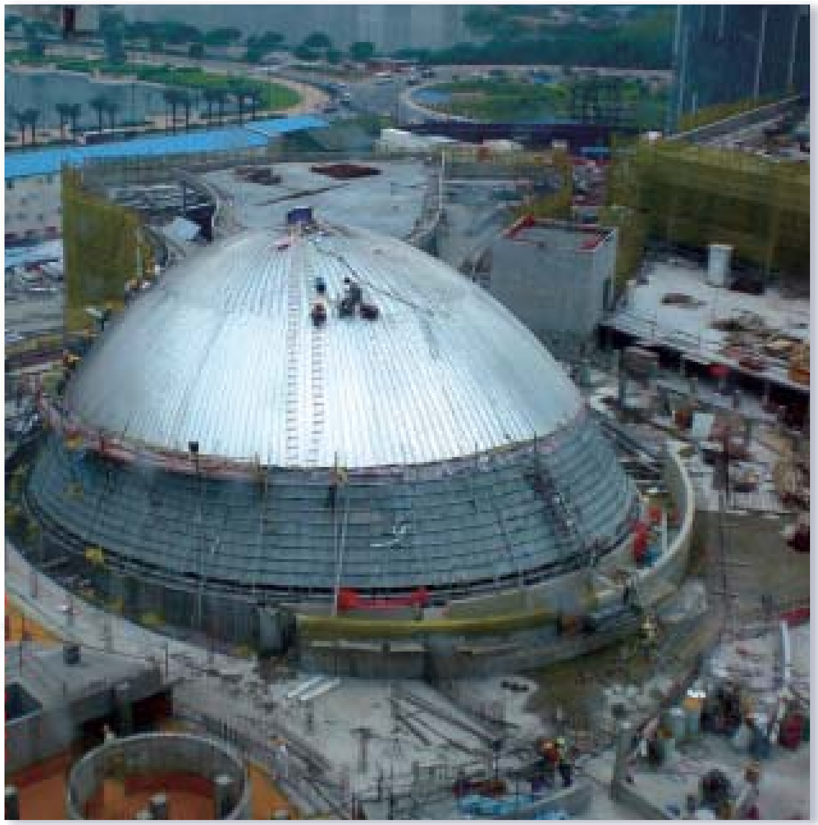
LOTTERY MANAGEMENT BUSINESS IN ASIA

MelcoLot, in which the Group has an effective interest of 31.5% on a fully diluted basis (assuming full conversion of all outstanding convertibles), made its first step of expansion move beyond China during the year. In September 2008, MelcoLot acquired the entire issued share capital of KTeMS Co Ltd, a South Korean company which owns a 14% equity interest in Nanum Lotto Co. Ltd., a consortium holding exclusive rights to operate off-line lotto games in South Korea. In December 2008, MelcoLot secured INTRALOT, an Athens-listed global leader in gaming technology and services, as its second largest shareholder. This move greatly enhances the company's technological know-how and significantly improves the company's chances of success when bidding for future projects in China and other Asian countries.

SKI RESORT BUSINESS IN CHINA

In May 2008, the Group obtained listing status for Melco China Resorts (Holding) Limited ("MCR") on the TSX in Toronto, Canada. Through a reverse take-over the Group now owns 49.3% of the issued common shares of MCR. MCR owns and operates the two premier destination ski resorts in China: the Sun Mountain Yabuli resort near Harbin and the Sky Mountain Beidahu resort near Jilin. During 2008, MCR undertook a major upgrade to its Yabuli resort with new 5 star hotels and resort center amenities (spa, restaurants, bar, conference facilities) together with state of the art on-mountain skier facilities that were completed and operational in January 2009. In February 2009, Yabuli hosted the 24th World Winter University Games as well as the 9th China Entrepreneur's Forum. MCR initiated several operational enhancements to its Sky Mountain Beidahu resort in 2008 in preparation for hosting various major sporting and leisure events in the Winter of 2008/09. MCR holds over 200 hectares of property for resort real estate development in these two resorts.





FINANCIAL SERVICES BUSINESS IN HONG KONG AND MACAU

During the year, VC Financial Group Limited, a wholly-owned subsidiary of VC, which is owned as to 43.4% by the Group, entered into a shareholders' agreement with Macquarie Macau to establish a 50:50 joint venture company ("JV Company"). In September 2008, the JV Company acquired a plot of land in Macau and intends to form a private equity property development fund or a syndicated property development project in the first half of 2009, which will focus on developing mid- to high-end residential properties in Macau. This initiative will diversify VC's product portfolio and enhance its fee-based revenue stream, and in turn contribute to its overall financial performance in future.

On 15 August 2008, VC transferred its listing from GEM to the Main Board of the Hong Kong Stock Exchange. The new listing status has lifted its profile and increased the liquidity of its shares, making them more appealing to both institutional and retail investors. More importantly, this enhances VC's ability to raise funds to support its future business development.

OUTLOOK FOR 2009

The year 2009 remains challenging with the turmoil in the global banking sector expected to be spreading to the real economy, resulting in an inevitable global economic slowdown. Nevertheless, thanks to the huge fiscal stimulus soon to be implemented by the Mainland Chinese Government, we remain optimistic on China's consumption prowess and the prospects of our investments in Macau and the Greater China Region remain solid.

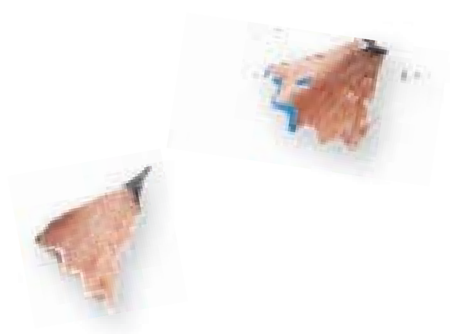
To prepare ourselves for the forthcoming challenges though, the Group has embarked upon a series of cost rationalization exercises across all its business units. Notably, effective from 1 November 2008, our Chairman and CEO, Mr. Lawrence Ho, has waived 100% of his salary entitlements. In addition, all executive directors and the Chief Financial Officer have volunteered for a 20% salary cut.

Notwithstanding the current economic downturn, our top priority remains the achievement of the highest possible returns for our shareholders whilst upholding the best corporate governance standards and the fulfilment of our corporate citizenship responsibilities.

FINANCIAL REVIEW

To facilitate the review, the segmental information shown in Note 8 to the consolidated financial statements is reproduced below with some minor re-arrangements:

	Year ended 31 Dec 2008 HK$'000	Year ended 31 Dec 2007 HK$'000
Segmental Result: Leisure, Gaming and Entertainment	**2,879**	(74,229)
Segmental Result: Technology	**(251,869)**	23,282
Segmental Result: Investment and Financial Services	**–**	69,023
Segmental Result: Property and Other Investments	**88,065**	118,884
Intra-group elimination	**(7)**	(779)
Group operating result	**(160,932)**	136,181
Share of losses of associates	**(387,175)**	(519,538)
Share of profit (losses) of jointly controlled entities	**109,108**	(157,713)
Gain on changes in interests in associates	**48,466**	1,549,361
Agency fee income	**–**	1,232,057
Loss on deemed disposal of partial interests in subsidiaries	**–**	(39,754)
Loss on deemed disposal of subsidiaries	**–**	(65,288)
Gain on disposal of interests in jointly controlled entities	**–**	532,604
Impairment loss recognised in respect of interests in associates	**(1,160,838)**	–
Impairment loss recognised in respect of available-for-sale investments	**(147,861)**	–
Fair value changes on derivative financial instruments	**(227,691)**	190,126
Fair value change on investment in convertible loan note	**(206,428)**	–
Gain on extension of long term payable	**2,517**	9,656
Gain on early redemption of convertible loan notes	**–**	8,827
Cost of agency service	**–**	(14,551)
Unallocated corporate income	**45,217**	13,562
Unallocated corporate expenses	**(159,311)**	(101,962)
Finance costs	**(107,401)**	(96,097)
(Loss) profit before tax	**(2,352,329)**	2,677,471
Income tax expense	**(885)**	(8,808)
(Loss) profit for the year	**(2,353,214)**	2,668,663
Minority interests	**(3,605)**	21,976
(Loss) profit for the year attributable to shareholders	**(2,356,819)**	2,690,639



LEISURE, GAMING AND ENTERTAINMENT

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Jumbo Kingdom	**2,704**	(3,243)
Elixir Gaming Technologies, Inc. ("EGT")	**–**	(70,398)
Others	**175**	(588)
	2,879	(74,229)

JUMBO KINGDOM

Jumbo Kingdom includes the Jumbo and Tai-Pak floating restaurants located in Aberdeen. Jumbo underwent a major refurbishment during the year and has successfully transformed itself into a popular tourist spot in Hong Kong. As a result, Jumbo Kingdom made a positive contribution of approximately HK$2.7 million to the Group for the year ended 31 December 2008 (2007: loss of HK$3.2 million).

EGT

The Group's gaming machine revenue participation business is conducted through EGT. In the previous year, EGT was a subsidiary of the Group and hence the losses amounting to HK$70.4 million was shown under this segment. As a result of a restructuring exercise, EGT ceased to be a subsidiary of the Group in December 2007 and became an associate henceforth. Therefore, the results of EGT for the year under review are shown under the category of "SHARE OF LOSSES OF ASSOCIATES".

MACAU GAMING BUSINESS

The Group's gaming business in Macau is conducted through its 37.8%-owned NASDAQ-listed associate, Melco Crown Entertainment, a financial review of which is shown under the category of "SHARE OF LOSSES OF ASSOCIATES".

TECHNOLOGY

The Group's technology business is conducted through its two wholly owned subsidiaries, Elixir Group Limited ("Elixir Technology") and iAsia Online Systems Limited ("iAsia Technology"). Losses from this segment amounted to HK$251.9 million for the year ended 31 December 2008 (2007: profit of HK$23.3 million) and are made up as follows:

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Elixir Technology	**(258,165)**	15,774
iAsia Technology	**6,319**	7,548
Others	**(23)**	(40)
	(251,869)	23,282

ELIXIR TECHNOLOGY

Elixir Technology is a gaming product supplier specializing in the design, development and supply of gaming technologies, including surveillance equipment and other gaming products used in casinos. Up until 6 November 2008, it had also been an exclusive supplier of electronic gaming machines and related equipment to EGT, an associate of the Group.

Elixir Technology made a negative contribution of approximately HK$258.2 million for the year ended 31 December 2008 (2007: profit of HK$15.8 million). The loss was primarily due to a one-time inventory write-off amounting to approximately HK$220 million as well as the closure costs of its R&D department amounting to approximately HK$20 million. The inventory write-off arose as over 1,500 gaming machines were originally bought for planned shipments to the Cambodian venues operated by EGT. Unfortunately, towards the end of 2008, the Cambodian Government unexpectedly outlawed all gaming activities outside of hotels certified by the Ministry of Tourism. This led to the closure of all but two of approximately 70 slot clubs in Cambodia's Phnom Penh area. As a result, the gaming machines so purchased by Elixir Technology are no longer needed and have to be disposed of at a loss.

iASIA TECHNOLOGY

For the year ended 31 December 2008, iAsia Technology made a positive contribution to the Group amounting to HK$6.3 million (2007: HK$7.5 million).

As part of our ongoing effort to focus resources on our core business of leisure, gaming and entertainment, subsequent to the balance sheet date, the Group entered into an agreement to sell 80% of its interests in iAsia Technology at a consideration of HK$12 million. Prior to the signing of the said sale and purchase agreement, HK$10 million has been distributed in the form of cash dividend from iAsia Technology to Melco. The Group also has the option to sell the remaining 20% to the buyer within six months after the expiry of two years after the completion date. This transaction is not expected to result in any material gains or losses to the Group.

INVESTMENT AND FINANCIAL SERVICES

The Group's investment and financial services business is conducted through VC. In 2007, after a restructuring, the Group's interests in Value Convergence fell below 50%. As a result, VC ceased to be a subsidiary and became an associate of the Group as from September 2007. For the year under review, the attributable results of VC are shown under the category of "SHARE OF LOSSES OF ASSOCIATES".

PROPERTY AND OTHER INVESTMENTS

This division handles property and other treasury investments for the Group. For the year ended 31 December 2008, it recorded turnover of HK$76.6 million (2007: HK$116.8 million) and segmental profit of HK$88.1 million (2007: HK$118.9 million). The decrease is primarily due to the drop in short term deposit interest rates as compared to the previous year.

SHARE OF LOSSES OF ASSOCIATES

The Group's share of losses of associates is made up of the following:

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Share of profit (loss) of Melco Crown Entertainment (1)	**33,076**	(525,591)
Share of profit of VC (2)	**3,290**	7,930
Share of (loss) profit of Power Way (3)	**(260,285)**	13,402
Share of loss of EGT (4)	**(95,785)**	–
Share of loss of MCR (5)	**(47,773)**	(15,279)
Share of loss of MelcoLot (6)	**(19,698)**	–
	(387,175)	(519,538)

(1) Share of profit (loss) of Melco Crown Entertainment

For the year under review, the Group's attributable profit arising from its 37.8% ownership of Melco Crown Entertainment amounted to approximately HK$33.1 million (2007: attributable loss of HK$525.6 million) after taking into account the adjustments under the generally accepted accounting principles ("GAAP") in Hong Kong.

According to the financial statements (prepared under US GAAP) of Melco Crown Entertainment, Melco Crown Entertainment reported net revenues of US$1,416.1 million for the year ended 31 December 2008, against approximately US$358.5 million for the previous year. Net loss (under US GAAP) fell markedly to approximately US$2.5 million for the year as compared to a net loss of approximately US$178.2 million for the previous year. The significant improvement was primarily driven by drastically improved operating performance of Crown Macau, which began its operations in May 2007. Adjusted EBITDA amounted to approximately US$156.7 million for the year as compared to a negative adjusted EBITDA of approximately US$24.6 million in the previous year.

For the year ended 31 December 2008, net revenues at Crown Macau surged by 374% to approximately US$1,313.0 million. VIP rolling chip volume also increased dramatically by 333% to approximately US$62.3 billion. Drop in the mass market table games amounted to approximately US$353.2 million, and net revenues from gaming machines amounted to approximately US$13.4 million for the year ended 31 December 2008. According to data and information available to us, Crown Macau consistently ranked among the top 2 casinos in Macau in terms of VIP gaming revenue.

Mocha Clubs generated adjusted EBITDA of approximately US$25.8 million for the year ended 31 December 2008, representing an increase of 17% as compared to the previous year. As of 31 December 2008, the number of gaming machines in operation at Mocha Clubs totaled 1,161 across seven venues. Average net win per gaming machine per day increased to US$236 for 2008, as compared with US$220 for 2007.

(2) Share of profit of VC

Listed on the Hong Kong Stock Exchange, VC offers corporate finance advisory services as well as brokering and dealing for clients in securities, futures and options contracts. Following a restructuring in September 2007, VC has since become an associate of the Group. For the year under review, the Group's attributable profit arising from its 43.4%-owned VC amounted to approximately HK$3.3 million (2007: HK$7.9 million).

According to its financial statements, Value Convergence recorded revenue of approximately HK$129.7 million for the year ended 31 December 2008 (2007: HK$323.7 million). Consolidated profit attributable to shareholders for the year ended 31 December 2008 was approximately HK$7.6 million (2007: HK$50.4 million). The decrease primarily reflected the softened Hong Kong and Mainland equity markets as a result of the economic turmoil which started to take its toll in the latter half of 2008.

(3) Share of (loss) profit of Power Way

In the previous financial year, the Group underwent a restructuring of its lottery management business by the disposal of its interest in a then subsidiary, PAL Development Limited ("PAL"), to a special purpose company called Power Way Group Limited ("Power Way"), which is formed by the Group and certain independent third parties (collectively referred as "Power Way Shareholders"). On the same date, after the transfer of the interest in PAL and certain subsidiaries (collectively the "Assets") from the Power Way Shareholders to Power Way, Power Way then disposed of the Assets to MelcoLot Limited, a company listed on the GEM Market of the Hong Kong Stock Exchange (formerly known as Melco LottVentures Limited and Wafer Systems Limited), in exchange for certain shares and convertible loan note issued by MelcoLot Limited. Power Way had since become an associate of the Company.

During the year ended 31 December 2008, Power Way distributed all shares and convertible loan note issued by MelcoLot Limited to its shareholders in proportion to the shareholding of each shareholder. MelcoLot Limited then became a direct associate of the Group.

For the year ended 31 December 2008, the attributable loss of Power Way to the Group amounted to approximately HK$260.3 million (2007: attributable profit of HK$13.4 million). The loss was mainly due to a write-down of the fair value amounting to approximately HK$248 million in respect of MelcoLot Limited's convertible loan note.

(4) Share of loss of EGT

Listed on the American Stock Exchange, EGT is engaged in the placement of gaming machines on a revenue share model in Asia. After a restructuring exercise in December 2007, EGT became an associate of the Group. For the year ended 31 December 2008, the Group's attributable loss arising from 39.8%-owned EGT amounted to approximately HK$95.8 million. There is no comparative number in respect of FY2007 as EGT was then a subsidiary, rather than an associate. Attributable loss to the Group of approximately HK$70.4 million in respect of the year ended 31 December 2007 is instead shown above under the Group's leisure, gaming and entertainment segment.

According to the financial statements of EGT (prepared under US GAAP), revenue for the year ended 31 December 2008 was about the same as in FY2007 at US$12.3 million (2007: US$12.2 million). Net loss, however, decreased significantly by 89% to approximately US$27.0 million as compared to approximately US$234.6 million for the previous year. This is primarily due to certain non-cash and non-operating charges totaling US$218.7 million which hit the company's bottom-line in FY2007.

Towards the end of 2008, the Cambodian Government unexpectedly outlawed all gaming activities outside of hotels certified by the Ministry of Tourism. This led to the closure of all but two of approximately 70 slot clubs in Cambodia's Phnom Penh area. As a result, all the slot venues run by EGT in Cambodia were closed. Management took immediate remedial action by entering into a revenue participation contract in January 2009 with NagaWorld Limited, a wholly owned subsidiary of the Hong Kong listed NagaCorp Ltd. (Stock code: 3918), to place approximately around 140 electronic gaming machines on a participation basis at NagaWorld, a five-star hotel casino resort in Phnom Penh, Cambodia. It will share control over the operation and gross revenue generated by each machine. EGT plans to increase the number of electronic gaming machines placed at NagaWorld to over 200 by the second quarter of 2009.

As of 15 March 2009, a total of 1,033 of electronic gaming machines were operated by EGT under revenue participation contracts, of which 831 were located in the Philippines and 202 were located in Cambodia.

(5) Share of loss of MCR

On 27 May 2008, the shareholders of Melco China Resort Investment Limited ("MCR Cayman"), previously owned as to 45% by the Group, entered into an agreement with MCR and agreed to sell 100% of the equity interests in MCR Cayman. Upon completion of the transaction, MCR Cayman became a wholly-owned subsidiary of MCR.

On 28 May 2008, MCR completed the reverse take-over of Virtual China Travel Services, Co., Ltd. ("VCTS") by way of an amalgamation and its common shares and warrants commenced trading on the TSX Venture Exchange on the same date. As a result, the Group's effective ownership interest in the associate has been changed to 49.3%.

For the year ended 31 December 2008, the loss attributable to the Group amounted to approximately HK$47.8 million (2007: HK$15.3 million).

According to the financial statements (prepared under Canadian GAAP) of MCR, for the period from 6 February 2008 (date of incorporation) to 31 December 2008, MCR recorded a net loss of C$136 million. The loss was primarily due to discontinued operations relating to the disposition of the Beijing and Jilin Mountain Resorts, and goodwill impairment of C$20.7 million and C$96.1 million respectively. Excluding these items, MCR reported a net loss of C$19.2 million for this period.

(6) Share of loss of MelcoLot

MelcoLot (a company listed on the GEM Market of the Hong Kong Stock Exchange) is principally engaged in various lottery-related businesses and ventures in China and Korea. Through its 80%-owned PAL, MelcoLot manages one of the largest lottery retail sales networks in China. It has a manufacturing arm in Shanghai which is a local base for designing and producing lottery vending terminals.

Taking the first step to expand beyond China, in September 2008, the company completed the acquisition of 14% equity interest in Nanum Lotto Company Limited, which is a consortium that operates South Korea's exclusively licensed off-line lotto games.

In December 2008, Athens-listed INTRALOT S.A. ("INTRALOT"; Ticker: INLOT AT, INLr.AT), a leading global gaming technology and services provider, acquired a 20.6% stake (on a fully diluted basis) in MelcoLot, thus becoming the second largest shareholder of MelcoLot with Melco remaining as the largest shareholder.

The Group's attributable loss from the date on which MelcoLot became an associate to 31 December 2008 amounted to approximately HK$19.7 million.

According to the financial statements of MelcoLot, revenue for the year ended 31 December 2008 increased by 67.7% to HK$607 million as compared to HK$362 million in the previous year. Stripping out non-cash items, EBITDA increased by 22.8% to HK$29.1 million as compared to HK$23.7 million in 2007.

SHARE OF PROFIT (LOSSES) OF JOINTLY CONTROLLED ENTITIES

Share of profits/(losses) of jointly controlled entities is made up of the following:

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Share of profit (loss) of Melco Crown SPV (a)	**109,108**	(144,587)
Share of loss of PAL (b)	**–**	(13,126)
	109,108	(157,713)

(a) Share of profit (loss) of Melco Crown SPV

On 30 July 2007, the Group and Crown Limited formed a 50:50 joint venture, Melco Crown SPV Limited ("Melco Crown 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 American Depository Shares ("ADSs") of Melco Crown Entertainment.

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 (together US$250 million) 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 2008, the attributable profit amounting to approximately HK$109.1 million (2007: attributable loss of HK$144.6 million) was recognised mainly due to the reduction in fair value of the Exchangeable Bonds (the liability component) as a result of the fall in the share price of Melco Crown Entertainment.

(b) Share of loss of PAL

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 Group Limited ("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, its operational loss attributable to the Group amounted to HK$13.1 million.

GAIN ON CHANGES IN INTERESTS IN ASSOCIATES

Gain on changes in interests in associates is made up of the following items:

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Gain on changes in interests in MCR (a)	**54,370**	–
Loss on changes in interests in VC (b)	**(514)**	–
Loss on changes in interests in MelcoLot (c)	**(2,254)**	–
(Loss) Gain on changes in interests in Melco Crown Entertainment (d)	**(3,136)**	1,549,361
	48,466	1,549,361

(a) Gain on changes in interests in MCR

On 27 May 2008, the shareholders of MCR Cayman, previously owned as to 45% by the Group, entered into a sale and purchase agreement with MCR and agreed to sell 100% of the equity interests in MCR Cayman. Upon completion of the transaction, MCR Cayman became a wholly-owned subsidiary of MCR.

On 28 May 2008, MCR completed the reverse take-over of VCTS by way of an amalgamation and its common shares and warrants commenced trading on the TSX Venture Exchange on the same date.

As a result of the above, the Group's effective ownership in the associate has been changed to 49.3% but the net assets of MCR attributable to the Group have increased. Therefore, a gain of approximately HK$54.4 million was recognised for the year ended 31 December 2008.

(b) Loss on changes in interests in VC

During the year ended 31 December 2008, the Group's equity interest in VC decreased from 43.5% to 43.4% resulting from the exercise of certain share options of Value Convergence by the option holders. Therefore, the Group recognised a loss of approximately HK$514,000 representing the decrease in net assets of VC attributable to the Group.

(c) Loss on changes in interests in MelcoLot

During the year ended 31 December 2008, the Group's ownership in MelcoLot decreased from 11.03% to 10.41% resulting from the issuance of shares by MelcoLot. As a result, the Group recognised a loss of approximately HK$2.3 million representing the decrease in net assets attributable to the Group.

(d) (Loss) Gain on changes in interests in Melco Crown Entertainment

During the year ended 31 December 2008, the Group's equity interest in Melco Crown Entertainment decreased from 37.85% to 37.83% resulting from vesting of certain restricted shares issued by Melco Crown Entertainment. As a result, the Group therefore recognised a loss of approximately HK$3.1 million representing the decrease in net assets attributable to the Group.

In January 2007, the underwriters of the global offering of ADSs of Melco Crown Entertainment fully exercised the over allotment option granted to them. The exercise in full of the over allotment option resulted in the issuance by Melco Crown Entertainment of an additional 9,037,500 ADSs, representing 27,112,500 ordinary shares. In addition, Melco Crown Entertainment completed a second offering of 37,500,000 ADSs, representing 112,500,000 ordinary shares in November 2007. The Group's interest in Melco Crown Entertainment therefore decreased from 42.34% to 37.85% and a gain on deemed disposal of interests in associates of approximately HK$1.5 billion was therefore recognised during the year ended 31 December 2007.

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, for a term of six years from the date of completion, a wholly owned subsidiary of the Company, Elixir Group Limited ("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 approximately HK$1,232 million is recognised and EGT then became a subsidiary of the Group.

As this is a one-off non-recurring item, there is no corresponding income in the year ended 31 December 2008.

LOSS ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

Loss on deemed disposal of partial interests in subsidiaries for the year ended 31 December 2007 are made up as follows:

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Loss arising from deemed disposal of partial interest in EGT	–	(76,948)
Gain arising from deemed disposal of partial interest in VC	–	37,194
	–	(39,754)

Both of these are one-off non-recurring items and therefore there are no corresponding entries for the year under review.

LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES

Loss on deemed disposal of subsidiaries for the year ended 31 December 2007 are made up of the following:

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Loss on deemed disposal of EGT	–	(143,368)
Gain on deemed disposal of Value Convergence	–	78,080
	–	(65,288)

Both of these are one-off non-recurring items and therefore there are no corresponding entries for the year under review.

GAIN ON DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES

During the year ended 31 December 2007, the Group disposed of its interest in a jointly controlled entity, PAL, to Power Way, which was formed by the Group and certain independent third parties (collectively referred as "Power Way Shareholders"). On the same date, after the transfer of PAL and certain businesses and subsidiaries (collectively the "Assets") from the Power Way Shareholders to Power Way, it then disposed of the Assets to MelcoLot (formerly known as Melco LottVentures Limited and Wafer Systems Limited) in exchange for certain shares and convertible loan notes of MelcoLot Limited. Power Way then 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 was recognised as a gain on disposal of interests in jointly controlled entities during the year ended 31 December 2007.

As this is a one-off non-recurring item, there is no corresponding entry for the year under review.

IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INTERESTS IN ASSOCIATES

During the year ended 31 December 2008, the Group performed an impairment assessment on its interests in associates with reference to the recoverable amount and recognised an impairment loss of approximately HK$1,160.8 million in relation to its interests in two associates, namely, EGT and MCR. The recoverable amounts of EGT and MCR have been determined based on the respective closing share prices of EGT and MCR as at 31 December 2008. The total recoverable amount of EGT and MCR together was estimated to be approximately HK$57.3 million.

IMPAIRMENT LOSS RECOGNISED IN RESPECT OF AVAILABLE–FOR-SALE INVESTMENTS

During the year ended 31 December 2008, the Group recognised an impairment loss of approximately HK$147.9 million, representing an impairment loss on listed equity securities and unlisted equity securities of approximately HK$139.5 million and HK$8.4 million respectively.

FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2008, the Group recognized a total decrease in fair value of derivative financial instruments of approximately HK$227.7 million. This is made up of a decrease in fair value of the EGT warrants amounting to approximately HK$223.6 million (2007: an increase of HK$190.1 million) and a decrease in fair value of MCR warrants amounting to approximately HK$4.1 million (2007: Nil).

FAIR VALUE CHANGE ON INVESTMENT IN CONVERTIBLE LOAN NOTE

The Group's associate, Power Way, owned certain shares and convertible loan notes issued by MelcoLot ("MelcoLot Shares" and "MelcoLot Convertibles") as at 31 December 2007. During the year under review, Power Way distributed all such shares and convertible loan notes to its shareholders in proportion to the shareholding of each shareholder. From then on, MelcoLot became a direct associate of the Group and the fair value of the MelcoLot Convertibles at the date of distribution, amounting to approximately HK$375.0 million, is recognised as the deemed cost of the Group's investment in MelcoLot Convertibles.

Between the date of distribution and 31 December 2008, the share price of MelcoLot has declined. As a result, a decrease in fair value of approximately HK$206.4 million was recognized by the Group on its ownership of the MelcoLot Convertibles. As at 31 December 2008, the fair value of the MelcoLot Convertibles was estimated to be approximately HK$168.6 million.

GAIN ON EXTENSION OF LONG TERM PAYABLE

In 2006, following a restructuring of the Group's Macau gaming business and its listing on NASDAQ, there was a net amount of HK$180 million due to Crown Limited, a co-shareholder of Melco Crown Entertainment. This payable amount is stated on the balance sheet at amortised cost and is unsecured, non-interest bearing and not repayable within twelve months from the balance sheet date. As at 31 December 2008, such consideration payable is not repayable within twelve months from the balance sheet date and is therefore shown as a non-current liability. The repayment date of this long term payable was extended to May 2010 during the year under review. As a result, a deemed gain of approximately HK$2.5 million was recognised for the year ended 31 December 2008 (2007: HK$9.7 million).

GAIN ON EARLY REDEMPTION OF CONVERTIBLE LOAN NOTES

During the year ended 31 December 2007, the Group exercised the early redemption option in respect of two convertible loan notes due on 8 November 2009 and 7 February 2010. A gain on early redemption of convertible loan notes of approximately HK$8.8 million was thus recognised in the year ended 31 December 2007. As this is a one-off non-recurring item, there is no corresponding entry in the year under review.

COST OF AGENCY SERVICE

For the year ended 31 December 2007, cost of agency service amounted to approximately HK$14.6 million which was primarily related to legal and professional fees incurred in respect of the EGT restructuring. As this is a one-off non-recurring item, there is no corresponding entry in the year under review.

UNALLOCATED CORPORATE INCOME AND COPRPORATE 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 Crown SPV in September 2007.

Unallocated corporate expenses increased by 56% from approximately HK$102.0 million in 2007 to HK$159.3 million in 2008. The increase was primarily due to increased professional fees for business development purposes, increased equity-settled share-based payments for new grants of share options and share awards, increased depreciation charges and operating expenses as a result of the Group's rapid expansion.

FINANCE COSTS

Finance costs increased by 12% from approximately HK$96.1 million in 2007 to HK$107.4 million in 2008. The increase was primarily due to the shareholder's loan raised in December 2007.

INCOME TAX EXPENSE

Income tax expense amounted to approximately HK$0.9 million in 2008 (2007: HK$8.8 million). This was primarily due to a deferred tax expense of HK$0.9 million in 2008 (2007: HK$0.1 million) and a nil current tax expense in 2008 (2007: HK$8.7 million).

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, bank borrowings and shareholder's loan.

As of 31 December 2008, total assets of the Group were HK$10,406.1 million (31 December 2007: HK$12,314.2 million) which were financed by shareholders' funds of HK$7,899.5 million (31 December 2007: HK$10,319.1 million), minority interests of HK$26.0 million (31 December 2007: HK$22.4 million), current liabilities of HK$826.2 million (31 December 2007: HK$638.1 million), and non-current liabilities of HK$1,654.4 million (31 December 2007: HK$1,334.6 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 1.1 (31 December 2007: 2.5).

During the year ended 31 December 2008, the Group recorded a net cash outflow of HK$69 million (year ended 31 December 2007: outflow of HK$901 million). As of 31 December 2008, cash and cash equivalents of the Group totaled HK$239.9 million (31 December 2007: HK$308.9 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowings, convertible loan note, trade payables due after one year, long term payable and shareholder's loan) over shareholders' fund, was at a satisfactory level of 0.24 time as of 31 December 2008 (31 December 2007: 0.15 time). The Group adopts a prudent treasury policy. 77% of bank balances and cash (including bank deposits with original maturity over three months) are put in short-term fixed deposits. All borrowings, and cash and bank balances are mainly denominated in Hong Kong dollars and U.S. dollars to minimize exposure to foreign exchange risks. Also, as at 31 December 2008, the Company placed a bank deposit of HK$972.5 million (equivalent to US$125 million) (31 December 2007: HK$972.5 million) for an undertaking in connection with the loan facilities obtained by Melco Crown Entertainment. The Group's bank deposits of approximately HK$5.8 million (31 December 2007: Nil) were pledged to a bank for the completion of a sale agreement with a customer.

As at 31 December 2008, the Group's total convertible loan note amounted to HK$1,061.9 million, which was non-interest bearing and due in 2010. The Group's trade payables due after one year amounted to HK$81.7 million, which is payable by installments at interest rates ranging between 2.5% to 12% per annum. This amount is not repayable within twelve months from the balance sheet date. The amount due to Crown Limited by the Group amounted to HK$172.5 million, which was unsecured, non-interest bearing and due in 2010. The Group's shareholder's loan amounted to HK$250 million, which was unsecured, interest bearing at prime rate plus 3% and repayable within twelve months from the balance sheet date. As at 31 December 2008, the Group's total available banking facilities from various banks amounted to HK$313.9 million (31 December 2007: HK$130.7 million), of which HK$83 million (31 December 2007: HK$49.8 million) was secured by pledging HK$166 million of the Group's investment properties, and HK$0.9 million (31 December 2007: HK$0.9 million) was secured by pledging the same amount of the Group's time deposit. As at 31 December 2008, the Group utilized HK$230 million and HK$83.9 million of unsecured and secured banking facilities respectively (31 December 2007: unsecured HK$80 million; secured HK$0.9 million).

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

During the year under review, the Group had entered into/completed the following acquisitions and disposals.

On 27 May 2008, the shareholders of MCR Cayman, previously owned as to 45% by the Group, entered into a sale and purchase agreement with MCR and agreed to sell 100% of the equity interests in MCR Cayman. Upon completion of the transaction, MCR Cayman became a wholly-owned subsidiary of MCR. On 28 May 2008, MCR completed the reverse take-over of VCTS by way of an amalgamation and its common shares and warrants commenced trading on the TSX Venture Exchange on the same date. As a result, the Group's effective ownership interest in the associate has been changed to 49.3% but the net assets of MCR attributable to the Group have increased.

In September 2008, the Group made further capital contribution of approximately HK$53.6 million to Power Way, an associate of the Group, in return for additional 3,146 ordinary shares in Power Way. The Group's shareholding has therefore increased from 54.79% to 58.70%. In October 2008, the Group acquired an additional 9,712,000 ordinary shares of MelcoLot, an associate of the Group, amounting to approximately HK$2.9 million.

Subsequent to the balance sheet date, on 23 February 2009, Melco Technology Group Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with Glory Stand Investments Limited ("the Purchaser") to sell the shares owned by Melco Technology Group Limited ("Sale Shares"), representing 80% of the issued share capital of iAsia Technology.

The sale and purchase of the Sale Shares is subject to the satisfaction of certain conditions precedent including carrying out of and satisfaction of results of due diligence by the Purchaser. The consideration for the sale of the Sale Shares in the amount of HK$12 million is payable by three installments within two years from completion of the transaction. An Independent Third Party, who holds 100%

of the issued share capital of the Purchaser, has given a guarantee in respect of the Purchaser's performance as prescribed in the Agreement.

Upon completion of the transaction, Melco Technology Group Limited will hold 20% of the issued share capital of iAsia Technology. A put option is available to Melco Technology Group Limited to sell the remaining 20% of the issued share capital of iAsia Technology within six months after the expiry of two years after the completion date.

HEADCOUNT/EMPLOYEES' INFORMATION

The total number of employees (excluding the employees of Melco Crown Entertainment, MelcoLot, MCR, EGT and VC) was 388 as of 31 December 2008, as compared to the number of employees of 523 as of 31 December 2007. This is primarily because the number of employees as of 31 December 2008 excludes the employees of VC which is now an associate, rather than a subsidiary, of the Group. Among the 388 employees, 311 are located in Hong Kong and the rest are based in Macau and the PRC. The related staff costs for the year ended 31 December 2008, including directors' emoluments, share options expenses and share award expenses, amounted to HK$169.5 million (2007: HK$288.0 million). The total number of the Group's employees (including the employees of Melco Crown Entertainment, MelcoLot, MCR, EGT and VC) was 7,333 as of 31 December 2008.

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 do their best at work and grow with the Group. 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 opportunities employer and we recruit talents with professional competence, desirable personal qualities and commitments. We hire the right people to shape our future. We identify and validate talents through different recruitment exercises and 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 for staff members to develop the skills needed to satisfy business needs, which would improve performance, deliver value and enhance personal growth. We adopt a systematic approach to designing our training programs with a special focus on individual and corporate needs. Training objectives and the desired outcomes are first established 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 Patacas. 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.

CONTINGENT LIABILITIES

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 Crown Gaming (Macau) Limited ("Melco Crown Gaming", formerly known as Melco PBL Gaming (Macau) Limited), a subsidiary of Melco Crown Entertainment. 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 by 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 Crown Gaming in the absence of other available funding for the 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 Crown SPV which are jointly and severally guaranteed by the Group and Crown Limited. Details of the guarantee are disclosed in Note 43 to the consolidated financial statements.

At 31 December 2007, the Company provides a total guarantee of approximately HK$8,453,000 to an insurance company and a bank in respect of the goods purchased and service provided by its subsidiaries and the amount utilised is Nil. Such guarantee was released during the year ended 31 December 2008.

CORPORATE RECOGNITION

During the year, the Group received a number of accolades in recognition of its exceptional business performance and high corporate governance standard. For the third consecutive year, Melco received the Corporate Governance Asia Annual Recognition Award from the Corporate Governance Asia Magazine. The Group was also recognized for the second year by FinanceAsia Magazine as one of Hong Kong's Best Managed Companies. The Group's Chairman and CEO, Mr. Lawrence Ho, was named among the "100 Most Influential People across Asia Pacific" by Asiamoney Magazine for his excellent management skills. Mr. Ho was also a Stevie Finalist in the "Best Chairman" category of the "2007 International Business Awards".

Melco has been a pioneer in promoting corporate social responsibility in Hong Kong. Led by Mr. Ho, who is also the Chairman of The Chamber of Hong Kong Listed Companies ("CHKLC"), Melco is committed to the education and promotion of corporate governance practices. The Group is a founding signatory of the Hong Kong Corporate Governance Charter launched by CHKLC in 2007 and published its first Corporate Social Responsibility report in the same year.

Melco observes and excels in not only local corporate governance requirements. Its Macau-based joint venture Melco Crown Entertainment Limited (NASDAQ: MPEL), which made NASDAQ listing in December 2006, was able to meet all requirements under Section 404 of The Sarbanes-Oxley Act for US-listed companies within one year of listing. This was an exceptional achievement by market standard. Also, it was upgraded in January 2009 to trade on the NASDAQ Global Select Market that has the highest initial listing standards among exchanges worldwide in terms of financial and liquidity requirements. Melco also won an Honors Award in the Social and Public Responsibility Report (Entertainment) category of the ARC Awards 2008 and Silver Award in Annual Report (Entertainment) category of the 2008 Galaxy Awards. The two international awards honor excellence in production and information disclosure in annual reports.

Upholding a caring culture, Melco has been recognized as a "Caring Company" by the Hong Kong Council of Social Service since 2005 and a Double Diamond corporate member of World Wide Fund Hong Kong since 2007. The Group also received the President Award from The Community Chest for its continuous effort to help the underprivileged. Last year, the Group also received a "Certificate with Merit" in the Brand-with-a-Conscience Award, organized by the Hong Kong Institute of Marketing, and a "Certificate of Commendation" in the Hong Kong Red Cross Relief Donor Award, organized by Hong Kong Red Cross.

A keen supporter of environmental protection, Melco initiated a "Greening in Melco" environmental protection program and received an Indoor Air Quality (IAQ)

Certificate (Good Class) from the IAQ Solutions Centre of the Business Environment Council in recognition of its efforts in providing employees with a greener and healthier workplace.

2008 AWARD HIGHLIGHTS

- Honored by FinanceAsia Magazine in 2008 as one of "Hong Kong's Best Managed Companies"
- "Corporate Governance Asia Annual Recognition Award 2008" from Corporate Governance Asia Magazine
- Honors Award in the Social and Public Responsibility Report (Entertainment) category of the ARC Awards 2008 and Silver Award in Annual Report (Entertainment) category of 2008 Galaxy Awards

INVESTOR RELATIONS

Melco believes in good communication and operational transparency as a means to build good investor 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. The Group also conducted various site visits to its developments projects in Macau for the investors.

The Group will continue to enhance its communication with investors to foster investor relations. The Group would like to thank all investors for their continuous support and trust over the years.

CORPORATE CITIZENSHIP

As a good corporate citizen, Melco is committed to honoring its responsibility as a responsible corporation and considers Corporate Social Responsibility ("CSR") as an integral part of its corporate mission.

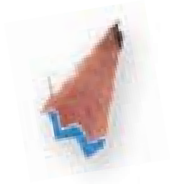
In 2007, Melco set up a Corporate Social Responsibility board committee to oversee its CSR efforts and integrate individual programs into a strategic plan with clear targets and objectives. The Group has three charity focuses, namely, youth development, education and environmental protection, which pertain to Melco's concern for the sustainable growth and well-being of future generations in Asia.

GREEN ENVIRONMENT

Dedicated to handing down a clean and healthy environment to future generations, Melco is a keen supporter of environmental protection. Melco will work on the incorporation of environmental responsibility into its core values and business operations in the future.

In 2008, Melco sponsored or participated in the following events:

- Green Day by The Community Chest
- Big Bird Race 2008 by World Wide Fund ("WWF")
- Walk for Nature 2008 by WWF
- Hoi Ha Wan Education Tour 2008 by WWF



Melco is also committed to sustainable development. In undertaking all its future development projects, a strict environmental regime will be enforced. Through VC's partnership with Macquarie Macau in the property development fund, Macau will see its first residential project gaining full certification under the 'Leadership in Energy and Environmental Design (LEED) Green Building Rating System', developed by the US Green Building Council.

EDUCATION

Melco is committed to enhancing education for young people to realize its vision of building a better world and a better tomorrow. The Group has consistently devoted considerable resources to educational projects.

In 2008, Melco sponsored or participated in the following events:

- Attention Deficit and Hyperactivity Disorder Project by Heep Hong Society
- Princess Alexandra Red Cross Residential School Music Training Programme by the Hong Kong Red Cross
- "Passion. In Action" Charity Dinner, organized by Chi Heng Foundation, of which Melco was a title sponsor
- Setting up of the Macau Polytechnic R&D Centre at Macao Polytechnic Institute
- Full sponsorship for 20 students from Macau, Hong Kong and China to participate in the Student Leadership Conference organized by Hong Kong-America Center
- A design project for Melco China Resorts undertaken by a group of multi-disciplinary students from School of Design, Hong Kong Polytechnic University

YOUTH DEVELOPMENT

Melco supports activities that are conducive to the personal development of young people to help Asia groom its new generation of leaders. The Group supports specific programs to help rebuild self-awareness and confidence in underprivileged children.

In 2008, Melco sponsored or participated in the following events:

- Jumbo Fun Day (Around the Community in 180 Days – Social Adaptation of Autistic Children) by Heep Hong Society
- "Full Sponsorship of Students in Play Day Participation" in the 17th International Play Association World Conference 2008 organized by Playright Children's Play Association (Playright)
- Jumbo Play Day 2008 by Playright
- "Brighten up the Life of Children in Caritas Medical Centre" Project by Playright
- "Play Breakthrough Boundary for Children in Isolation" Project by Playright
- Playright Playmobile Service by Playright

- Melco-HKPHAB Partnership Charity Programme jointly organized with Hong Kong PHAB Association
- "Pass-it-on" Volunteer Service at Hong Kong Red Cross Hospital School and Charity Programme by Hong Kong Red Cross
- UNICEF Charity Run 2008 by the Hong Kong Committee for UNICEF
- Super Team Donation in The Community Chest Sports Corporate Challenge organized by The Community Chest
- The 17th ISPCAN International Congress on Child Abuse and Neglect Gala Dinner, organized by Against Child Abuse Ltd., of which Melco was a title sponsor
- Cyber Ice Hockey Club (Macau) members' participation in The 2008 Mega Ice 5's Tournament – Hong Kong
- 2008 Women Ice Hockey Training and Development by the Women Ice Hockey (Macau)

The Group actively encourages staff members to participate in voluntary programs. It has a Volunteer Incentive Scheme in place to support employees for this purpose. Melco also responds promptly to emergency appeals. Immediately after the devastating earthquake that struck Sichuan Province in May 2008, Mr. Lawrence Ho donated, personally and with Melco and Melco Crown Entertainment, HK$10 million to support relief efforts. Directors and staff members of the Group together raised another HK$1.5 million within a week and made the donation to Hong Kong Red Cross and the Hong Kong Committee for UNICEF in support of earthquake victims.

In addition to the activities above, Melco also participated in or sponsored the following events to serve the community:

- Hong Kong Marathon 2008 by the Hong Kong Amateur Athletic Association
- 2008 Citi-HKAHC International Amateur Ice Hockey Tournament by the Hong Kong Amateur Hockey Club
- 3-on-3 Basketball Fundraising Tournament for "Sichuan Earthquake" by the Hong Kong Committee for UNICEF
- Sichuan Earthquake Relief Donation Programme by Hong Kong Red Cross
- Central Rat Race 2008 for Mindset
- 2007/08 Hong Kong and Kowloon Walk by The Community Chest
- New Territories Walk – Route 8 by The Community Chest
- The 10th Community Chest DHL Charity Golf Day by The Community Chest
- Dress Special Day by The Community Chest
- Love Teeth Day by The Community Chest

DIRECTORS

Mr. HO, Lawrence Yau Lung (aged 32)

Executive Director (Chairman and Chief Executive Officer)

Mr. Ho was appointed Group Managing Director of the Company in November 2001 after he completed a General Offer for shares of the Company. He was subsequently appointed as Chairman and Chief Executive Officer on 15 March 2006. He is the Chairman of the executive committee, finance committee, regulatory compliance committee, business development sub-committee and property sub-committee and a member of the nomination committee and corporate social responsibility committee of the Company. Mr. Ho is currently the Non-executive Chairman of Value Convergence Holdings Limited, a company listed on the Hong Kong Stock Exchange, Co-Chairman and Chief Executive Officer of Melco Crown Entertainment Limited, a company listed on the Nasdaq Global Select Market owning one of only six gaming concessions and subconcessions to own and operate gaming business in Macau, and the Chairman of Melco China Resorts (Holding) Limited, a company listed on the TSX Venture Exchange of Canada owning two largest premier destination mountain resort properties in the People's Republic of China. Mr. Ho is a director of both Lasting Legend Ltd. and Better Joy Overseas Ltd., substantial shareholders of the Company.

Mr. Ho is a graduate of the University of Toronto, Canada and holds a Bachelor of Arts degree, majoring in commerce. He is active in community services and serves on numerous boards and committees in Hong Kong, Macau and mainland China. He sits on the Board of Directors of The Community Chest and is the Chairman of The Chamber of Hong Kong Listed Companies. He is also a Member of The Chinese People's Political Consultative Conference, Shanghai Committee; Member of Science and Technology Council of the Macau SAR Government; Member of All China Youth Federation; Member of Macau Basic Law Promotional Association; Chairman of Macau International Volunteers Association; Member of Campaign Committee of The Community Chest; Board of Governors of The Canadian Chamber of Commerce in Hong Kong; Honorary Lifetime Director of the Chinese General Chamber of Commerce, Hong Kong; President of Macau Canadian Chamber of Commerce; Member of Association of Property Agents and Real Estate Developers of Macau and Lifetime Member of Macao Chinese General Chamber of Commerce.

Over the years, Mr. Ho has been awarded a number of accolades for his excellent directorship and entrepreneurial spirit. Institutional Investor, a leading research and publishing organization, honoured Mr. Ho as the "Best CEO" in the 'Conglomerates' category by the end of 2005. Mr. Ho also won the "Directors of the Year Award 2005" presented annually by the Hong Kong Institute of Directors. He 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. As a socially responsible young entrepreneur, Mr. Ho was elected as one of the "Ten Outstanding Young Persons" in 2006. The Stevie Awards recognized Mr. Ho as a Stevie Finalist in the "Best Chairman" category of the "2007 International Business Awards". He was also elected as one of the 100 most influential people across Asia Pacific by Asiamoney Magazine.

Mr. TSUI Che Yin, Frank (aged 51)

Executive Director

Mr. Tsui has been an Executive Director of the Company since November 2001. He is also a member of the executive committee, finance committee, regulatory compliance committee, corporate social responsibility committee, business development sub-committee and property sub-committee of the Company.

Mr. Tsui has more than 28 years of experience in investment and banking, having held senior management positions at various international financial institutions. He is currently an Executive Director of Value Convergence Holdings Limited, a company listed on the Hong Kong Stock Exchange, a Director of Melco China Resorts (Holding) Limited, a company listed on the TSX Venture Exchange of Canada, an Independent Non-executive Director of Jinhui Holdings Company Limited, a company listed on the Hong Kong Stock Exchange, and a Non-executive Director of Jinhui Shipping and Transportation Limited, a company listed on the Oslo Stock Exchange. Prior to joining the Group, Mr. Tsui was the President of China Assets Investment Management Limited which is the investment manager of China Assets (Holdings) Limited, a listed investment holding company in Hong Kong.

Mr. Tsui graduated with a bachelor's and a master's degree in business administration from the Chinese University of Hong Kong and with a law degree from the University of London. He is a member of the Certified General Accountants Association of Canada and the Hong Kong Securities Institute.

Mr. CHUNG Yuk Man, Clarence (aged 46)

Executive Director (Chief Operating Officer)

Mr. Chung has been an Executive Director of the Company since May 2006. He is a member of the executive committee, finance committee, corporate social responsibility committee, business development sub-committee and property sub-committee of the Company. He is currently a director of Melco Crown Entertainment Limited, a company listed on the Nasdaq Global Select Market, and Elixir Gaming Technologies, Inc., a company listed on the American Stock Exchange.

Mr. Chung has more than 20 years of experience in investment banking, accounting and finance areas. Before joining the Group in December 2003, he was the chief financial officer at Megavillage Group, an investment banker at Lazard managing an Asian buy-out fund, a vice-president at Pacific Century Group and a qualified accountant with Arthur Andersen.

Mr. Chung holds a bachelor degree in business administration from the Chinese University of Hong Kong and a master degree in business administration from the Kellogg School of Management at Northwestern University. He is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

Mr. NG Ching Wo (aged 59)

Non-executive Director

Mr. Ng has been a Non-executive Director of the Company since September 2004. He is also the Chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company.

Mr. Ng is a senior partner of Arculli Fong & Ng, Lawyers. Mr. Ng received his L.L.B. from the University of Alberta in Canada and was admitted to practise as a barrister and solicitor in Alberta in 1981. He is qualified as a solicitor in both the United Kingdom and Hong Kong. Mr. Ng's practice focused primarily in the area of cross-border corporate and commercial work and he has experience in mergers and acquisitions, take-overs of private and listed companies, cross-border initial public offerings, tax planning, large-scale international joint ventures and technology transfer. He was previously a non-executive director of United Pacific Industries Limited and an independent non-executive director of Finet Group Limited, all being listed companies in Hong Kong.

Sir Roger LOBO, C.B.E., LL.D., J.P. (aged 85)

Independent Non-executive Director

Sir Roger has been an Independent Non-executive Director of the Company since February 1998. He is also the Chairman of the audit committee and corproate social responsibility committee and a member of the remuneration committee and nomination committee. Sir Roger is currently an independent non-executive director of Shun Tak Holdings Limited and PCCW Limited, companies listed on the Hong Kong Stock Exchange, and Johnson & Johnson (HK) Limited.

Sir Roger is a prominent figure in Hong Kong and Macau and has served on numerous public offices in the past. He was an Executive Council Member between 1967 and 1985, a Legislative Council Member between 1972 and 1985 (Senior Legislative Council Member between 1980 and 1985) and a Member of Urban Council (1965-1978). In addition, he was Chairman of the Advisory Committee on Post-Retirement Employment (1987-1998), Chairman of Hong Kong Broadcasting Authority (1989-1997) and Chairman and Member of various committees of Independent Commission Against Corruption (1975-1985).

Sir Roger is currently serving on many civic and social services offices. These offices include Vice-Patron of the Community Chest of Hong Kong and The Society of Rehabilitation and Crime Prevention, Hong Kong; Member of the Board of Trustees of Business and Professionals Federation of Hong Kong; Council Member of Caritas Hong Kong; and Honorary Commissioner of Civil Aid Services.

Dr. LO Ka Shui, G.B.S., J.P. (aged 62)
Independent Non-executive Director

Dr. Lo has been an Independent Non-executive Director of the Company since September 2004. He is also the Chairman of the remuneration committee and a member of regulatory compliance committee of the Company.

Dr. Lo is the Chairman and Managing Director of Great Eagle Holdings Limited and the Non-executive Chairman of Eagle Asset Management (CP) Limited (Manager of the publicly listed Champion Real Estate Investment Trust). He is also a Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited and an Independent Non-executive Director of Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, China Mobile Limited and some other publicly listed companies in Hong Kong. Dr. Lo is a Vice President of The Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research and a Board Member of the Hong Kong Airport Authority.

Dr. Lo graduated from McGill University with a Bachelor of Science Degree and from Cornell University with a Doctor of Medicine (M.D.) Degree. He was certified in Internal Medicine and Cardiology. He has more than 29 years' experience in property and hotel development and investment both in Hong Kong and overseas.

Mr. SHAM Sui Leung, Daniel (aged 53)
Independent Non-executive Director

Mr. Sham has been an Independent Non-executive Director of the Company since June 2006. He is also a member of the audit committee of the Company. Mr. Sham is currently an Independent Non-executive Director of Value Convergence Holdings Limited and AEON Stores (Hong Kong) Co., Limited, both of which are listed on the Hong Kong Stock Exchange and an Independent director of Elixir Gaming Technologies, Inc., a company listed on the American Stock Exchange.

Mr. Sham qualified as a chartered accountant in England and Wales, and worked as a certified public accountant in Hong Kong for over 20 years. He has all-round experience in accounting, auditing and other related works, especially in the fields of corporate finance and securities regulations. He was a partner of Moores Rowland Mazars for 14 years until he retired on 31 December 2003. After his retirement, he rejoined Moores Rowland Mazars as a consultant in late 2004 and worked in that capacity until March 2006.

Mr. Sham graduated with a Bachelor of Arts in Economics at University of Leeds. He was a member of the Auditing Standard Committee, the Expert Panel on Listing and the Expert Panel on Securities and the Accountants' Report Task Force of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He was also a member of the Disciplinary Panel of HKICPA.

SENIOR MANAGEMENT

Mr. WANG, John Peter Ben (aged 48)
Group Chief Financial Officer

Mr. Wang joined the Group in 2004. He has over 20 years of experience in the financial and investment banking industry. Prior to joining the Group, Mr. Wang has worked for Deutsche (HK), CLSA (HK), Bear Stearns (HK), Barclays (Singapore), SG Warburgs (London) and Salomon Brothers (London), the London Stock Exchange and Deloitte Haskins & Sells (London). He qualified as a chartered accountant with the Institute of Chartered Accountants in England and Wales in 1985. Mr. Wang currently is a director of Melco Crown Entertainment Limited, a company listed on the NASDAQ Global Select Market.

Mr. TSANG Yuen Wai, Samuel (aged 54)
Group Legal Counsel & Company Secretary

Mr. Tsang joined the Group in November 2001. Mr. Tsang is a solicitor admitted in Hong Kong, England and Australia. As Group Legal Counsel and Company Secretary, Mr. Tsang oversees the legal, corporate and compliance matters of Melco Group. Mr. Tsang has worked as a lawyer with major law firms and listed conglomerates in Hong Kong for over 20 years. He holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management. He is currently a director of Melco China Resorts (Holding) Limited, a company listed on the TSX Venture Exchange of Canada, and Elixir Gaming Technologies, Inc., a company listed on the American Stock Exchange.

Mr. YEUNG, Alfred Kwong Fai, MSc, DMS, BA, DipArch, RIBA, MCMI, MAPM (aged 49)

Group Property Development Director

Mr. Yeung joined the Group in 2007. Having worked globally on projects in United Kingdom, Europe and SE Asia, he has more than 20 years of experience in architecture, planning, project management and property development. Before joining the Group, Mr. Yeung has held senior positions with Brock Carmichael Associates (Manchester and Liverpool) and was the Head of Property Development at Kowloon Canton Railway Corporation (Hong Kong). He was also appointed as Adjunct Associate Professor in architecture by the Chinese University of Hong Kong. Mr. Yeung is a chartered architect by profession, qualified at Liverpool J.M. University and received his Master degree in Construction Management from Bath University. He is a member of Royal Institute of British Architects, Chartered Management Institute and Association for Project Management in UK.

Mr. SUN, Patrick (aged 50)

Chief Executive Officer and Executive Director of Value Convergence Holdings Limited

Mr. Sun joined Value Convergence Holdings Limited ("VC"), a Hong Kong listed company held by Melco as to 43.36%, as Chief Executive Officer and Executive Director in 2006. He has more than 20 years of experience in the investment banking business and participated in numerous capital markets and advisory transactions. Before joining VC, he was an executive director of SW Kingsway Capital Holdings Limited (a company listed on the Hong Kong Stock Exchange), Senior Country Officer of JP Morgan Chase and head of its investment banking business in Hong Kong and group executive director and co-head of investment banking of Jardine Fleming Holdings Limited. He was also an independent non-executive director of The Link Management Limited (as manager of The Link Real Estate Investment Trust which is listed on the Hong Kong Stock Exchange) until July 2007. Mr. Sun is currently an independent non-executive director of Solomon Systech (International) Limited and China Railway Group Limited, all being listed on the Hong Kong Stock Exchange.

Mr. Sun holds a Bachelor of Science degree from the Wharton School, University of Pennsylvania in the United States and completed the Stanford Executive Program of the Stanford Business School. He is a qualified accountant in the United Kingdom and Hong Kong.

Mr. Sun was deputy convenor of the Listing Committee of the Hong Kong Stock Exchange from 1996 to 2002 and was a member of the Council of the Hong Kong Stock Exchange from 1995 to 2000. From 2002 to 2004, he was honorary chief executive officer of the Chamber of Hong Kong Listed Companies. He was appointed by the Securities and Futures Commission as a member of the Takeovers and Mergers Panel from 1995 to 1997 and again from 1999 to 2001.

Mr. Sun also participated actively in public services. He is a former member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council, the Investment Advisory Committee of the Hong Kong Exchanges and Clearing Limited, the Corporate Advisory Council of the Hong Kong Securities Institute and the Hong Kong Policy Research Institute. He is currently a member of the General Committee of the Chamber of Hong Kong Listed Companies.

Mr. KO Chun Fung, Henry (aged 49)

Executive Director and Chief Executive Officer of MelcoLot Limited

Mr. Ko is an executive director and Chief Executive Officer of MelcoLot Limited ("MelcoLot"), a company held by Melco as to 10.41% and whose shares are listed on the Hong Kong Stock Exchange. Mr. Ko is a seasoned professional with a strong track record of successful senior positions in Asia. He has led various high profile ventures in the telecom industry. Prior to entering the lottery industry, he was a founder of iAsia Online Systems Limited, and in his capacity as CEO and executive director, nurtured its growth into a leading financial trading solutions vendor in Hong Kong and mainland China. Mr. Ko then went on the setting up of the lottery business which was subsequently acquired by MelcoLot in late 2007, in his capacity as CEO and executive director of PAL Development Limited. Upon the acquisition of the lottery business, Mr. Ko was appointed to the Board and CEO of MelcoLot and continues to lead the lottery business of MelcoLot Group.

Mr. Ko obtained a Bachelor of Engineering degree (first class honours) in 1982. In 1990 he received an Australian Postgraduate Course Award to study at the Australian Graduate School of Management, where he obtained his Master of Business Administration degree.

Mr. Graham Richard KWAN (aged 45)
Chief Executive Officer and Director of Melco China Resorts (Holding) Limited
Mr. Kwan joined Melco China Resorts (Holding) Limited ("MCR"), a company held by Melco as to 49.3% and whose shares are listed on the TSX Venture Exchange of Canada, as Chief Executive Officer and Director in 2006. He has more than 20 years of international experience in resort planning, development, management and operations. Prior to joining MCR, he held various senior executive positions from 1997 to 2006 in the corporate, real estate and operations groups of Intrawest ULC, a resorts destination operator. He has international experience in resort planning, development, management and operations, having been responsible for all of Intrawest ULC's activities in China. Prior to joining Intrawest ULC, he was a partner with Belt Collins, one of Asia's largest resort planning firms, and founder of Belt Collins' specialty division, Attractions International, based in Sydney, Australia. Mr. Kwan holds a bachelor degree (Honors) in Landscape Architecture from the University of New South Wales.

Mr. Tam Chi Wai, Dennis, PhD, CPA (Aust), CMA (aged 39)
Group Finance Director and Qualified Accountant
Mr. Tam joined the Group in 2006. He has 15 years of experience in accounting, financial control, corporate finance and mergers & acquisitions. Before joining the Group, Mr. Tam was the Head of Finance at Quality Healthcare Medical Services and has held key management positions in various multinational companies including Marsh & McLennan and BF Goodrich. He obtained his Master Degree in Accounting from Monash University and completed his PhD program at Washington Intercontinental University. He was also trained at Harvard Business School in Boston. Mr. Tam is a fellow member of the Financial Services Institute of Australasia, a member of CPA Australia, a member of the Institute of Certified Management Accountants and a member of the Institute of Administrative Management in United Kingdom.

Mr. LAW Kwok Fai, Alan (aged 47)
Group Internal Audit Director
Mr. Law joined the Group in 2007. Mr. Law has more than 20 years of experience in public accountancy, financial management, internal control and operational risk management. He held management positions in multinational companies of various industries including KPMG, Peninsula Hotels Group, Standard Chartered Bank and Citigroup. Prior to joining the Group, he was the Quality Assurance Head of Citigroup Hong Kong for 10 years. Mr. Law obtained his Master Degree of Business Administration from the University of Warwick. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and also an associate member of the Institute of Chartered Accountants in England and Wales.

Mr. TSEUNG Chung Wah, Parkson (aged 37)
Group Human Resources Director
Mr. Tseung joined the Group in 2008. He has been in the human resources field since his graduation at the Chinese University of Hong Kong. Prior to joining the Group, Mr. Tseung worked in different industries including hotel, petroleum, property development and container terminal. Mr. Tseung has extensive experience in providing human resources services such as recruitment, compensation & benefits, performance management, career development and organizational development. In 1999, he obtained a Master Degree in Human Resources Management from University of Leicester. Mr. Tseung has also been certified to deliver a number of leadership training programs and use psychometric assessments such as personality assessments developed by Development Dimensions International and Personnel Decisions International respectively, both of which are international renowned human resources consultancies. In 2008, he has been credentialed as a Certified Coach by International Coaching Federation to provide professional coaching.

CORPORATE GOVERNANCE REPORT

The maintenance of a high standard of corporate governance has been and remains a top priority of the Group (Melco International Development Limited "Melco" or the "Company") and its subsidiaries). The Group is committed to promoting and maintaining the highest standard of 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. We consider good corporate governance to be the cornerstone of a well managed organisation.

The Group's continuous effort to promote excellence and high standards of corporate governance practices continued to earn market recognition from different stakeholders. Melco received numerous corporate governance awards during past years. In 2008, it was awarded the "Corporate Governance Asia Annual Recognition Award" by *Corporate Governance Asia* magazine for the third consecutive year and recognized by the renowned *FinanceAsia* magazine as one of "Hong Kong's Best Managed Companies", "Best in Corporate Governance" and "Best in Investor Relations". All of these accolade the positive assessments of the Group by the investment community. Melco will continue to uphold its high level of corporate governance and bring the highest possible returns to its 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 Stock Exchange of Hong Kong Limited (the "Listing Rules") with the aforementioned 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 2008 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 directing and supervising the Company's business and affairs. The ultimate responsibility for the day to day management of the Company 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 Chief Executive Officer/Managing Director and matters reserved for decision of the Board and (2) division of responsibilities between the Company's Chairman and Chief Executive Officer/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; 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 matters are fully debated and that no individual or group of individuals dominates the Board's decision making processes. In addition, they facilitate the Board to maintain a high standard of financial and other mandatory reporting and provide 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.

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. Tsui Che Yin, Frank and Mr. Ng Ching Wo 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 decision on their elections.

BOARD MEETINGS

The Board meets regularly over the Company's affairs and operations. The Board held a total of five meetings during the year ended 31 December 2008 and the average attendance rate was 100%. 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 2008 which illustrates the attention given by the Board in overseeing the Company's affairs:

	No. of meetings attended/held in the year 2008	Attendance rate
Executive Directors		
Mr. Ho, Lawrence Yau Lung *(Chairman and Chief Executive Officer)*	5/5	100%
Mr. Tsui Che Yin, Frank	5/5	100%
Mr. Chung Yuk Man, Clarence	5/5	100%
Non-executive Director		
Mr. Ng Ching Wo	5/5	100%
Independent Non-executive Directors		
Sir Roger Lobo	5/5	100%
Dr. Lo Ka Shui	5/5	100%
Mr. Sham Sui Leung, Daniel	5/5	100%

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 2008.

SECURITIES DEALINGS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding Directors' securities dealings on terms as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. 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 dealings by directors as set out in the Model Code for the year 2008.

The Board has established a "Code of Securities Dealings by Relevant Employees" for relevant employees of the Company to regulate their dealings in the securities of the Company so as to comply with code provision A.5.4 of the HKSE Code.

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 the section "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 holds 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.

(2) *AUDIT COMMITTEE*

The Audit Committee was formed on 24 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 financial statements and published 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 2008, the Audit Committee held a total of two meetings and the average attendance rate was 100%. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/held in the year 2008	**Attendance rate**
Sir Roger Lobo *(Chairman)*	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 as 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 2008.

(3) *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 2008, the Nomination Committee held one meeting for reviewing the structure, size and composition of the Board. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/held in the year 2008	**Attendance rate**
Mr. Ng Ching Wo *(Chairman)*	1/1	100%
Sir Roger Lobo	1/1	100%
Mr. Ho, Lawrence Yau Lung	1/1	100%

(4) *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 2008, the Remuneration 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 2008	**Attendance rate**
Dr. Lo Ka Shui *(Chairman)*	2/2	100%
Sir Roger Lobo	2/2	100%
Mr. Ng Ching Wo	2/2	100%

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 and to recognize their contributions to the Group, the Company has adopted (1) a share option scheme under which the Company may grant share options to the Directors/employees to subscribe for the shares of the Company and (2) 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.

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 bonus payments to employees of the Group, salary increase for general employees, salary cut arrangement for some of the senior staff of the Group, share options and restricted shares granted to the Directors and management of the Group.

(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 and the Group Chief Financial Officer (non-voting capacity). 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.

(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 Group Property Development Director (non-voting capacity) 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.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for preparing the financial statements and the reporting responsibilities of the external auditors are set out on page 73 of this annual report.

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 Group 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 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 the 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.

(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 Group 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 31 December 2008 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 31 December 2008, the Company paid to its auditors, Deloitte Touche Tohmatsu, approximately HK$2.5 million for audit and non-audit services provided to the Company. Out of this amount, HK$1.7 million was for audit services and the balance of HK$0.8 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 at least 20 clear business 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 of the Company 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 at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. To facilitate enforcement of shareholders' rights, substantially separate issues at general meetings are dealt with under separate resolutions.

The directors present their report and the audited financial statements for the year ended 31 December 2008.

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 2008 are set out in the consolidated income statement on page 74 to 75.

No interim dividend was paid to the shareholders during the year (2007: Nil). The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: HK$0.01 per share).

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 consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 163. This summary does not form part of the audited financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2008, the Company's reserves available for distribution consisted of capital reserve of approximately HK$271,463,000 (2007: HK$283,734,000). In addition, the Company's share premium account, in the amount of approximately HK$3,131,442,000 (2007: HK$3,125,485,000), may be distributed in the form of fully paid bonus shares. Save 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 61% of the Group's total turnover for the year (2007: 38%) and the largest customer accounted for approximately 39% of the Group's revenue for the year (2007: 17%). The five largest suppliers accounted for approximately 36% of the Group's total purchases for the year (2007: 46%) and the largest supplier accounted for approximately 13% of the total purchases (2007: 19%).

At 31 December 2007, Mr. Ho, Lawrence Yau Lung, Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence had interest(s) in the form of shares/share options/restricted shares in Melco Crown Entertainment Limited ("Melco Crown Entertainment") (formerly known as Melco PBL Entertainment (Macau) Limited) and/or Elixir Gaming Technologies, Inc. ("EGT"), (EGT and Melco Crown Entertainment are two of the five largest customers and EGT is one of the five largest suppliers).

MAJOR CUSTOMERS AND SUPPLIERS – continued

At 31 December 2008, Mr. Ho, Lawrence Yau Lung, Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence had interest(s) in the form of shares/share options/restricted shares in Melco Crown Entertainment and/or EGT, (EGT and Melco Crown Entertainment 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". 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. Tsui Che Yin, Frank and Mr. Ng Ching Wo 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 40 to 44 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 2008, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares, debentures and convertible loan notes of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

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

(a) Ordinary Shares of HK$0.50 each of the Company

Name of Director	Capacity	Nature of interest	Number of ordinary shares held	Approximate % of issued share capital
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	Corporate	411,335,630 (Note 2)	33.46%
	Beneficial owner	Personal	7,319,962	0.60%
Mr. Tsui Che Yin, Frank	Beneficial owner	Personal	22,220	0.00%
Dr. Lo Ka Shui	Beneficial owner	Personal	2,015,000	0.16%
Sir Roger Lobo	Beneficial owner	Personal	15,000	0.00%
Mr. Sham Sui Leung, Daniel	Beneficial owner	Personal	15,000	0.00%
Mr. Ng Ching Wo	Beneficial owner	Personal	15,000	0.00%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(b) Share Options granted to the Directors pursuant to the Share Option Scheme adopted by the Company on 8 March 2002

	Number of share options							
Name of Director	Outstanding at 1 January 2008	Granted during the year	Exercised during the year	Outstanding at 31 December 2008	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
Mr. Ho, Lawrence Yau Lung	–	230,840	–	230,840	0.02%	01.04.2008	01.04.2009 – 31.03.2018	10.804
	–	230,840	–	230,840	0.02%	01.04.2008	01.04.2010 – 31.03.2018	10.804
	–	230,840	–	230,840	0.02%	01.04.2008	01.04.2011 – 31.03.2018	10.804
	–	89,333	–	89,333	0.01%	17.12.2008	01.02.2009 – 16.12.2018	2.02
	–	89,333	–	89,333	0.01%	17.12.2008	01.05.2009 – 16.12.2018	2.02
	–	89,333	–	89,333	0.01%	17.12.2008	01.08.2009 – 16.12.2018	2.02
	–	89,333	–	89,333	0.01%	17.12.2008	01.11.2009 – 16.12.2018	2.02
	–	89,333	–	89,333	0.01%	17.12.2008	01.02.2010 – 16.12.2018	2.02
	–	89,335	–	89,335	0.01%	17.12.2008	01.05.2010 – 16.12.2018	2.02
	–	1,228,520	–	1,228,520	0.12%			
Mr. Tsui Che Yin, Frank	–	104,000	–	104,000	0.01%	01.04.2008	01.04.2009 – 31.03.2018	10.804
	–	104,000	–	104,000	0.01%	01.04.2008	01.04.2010 – 31.03.2018	10.804
	–	104,000	–	104,000	0.01%	01.04.2008	01.04.2011 – 31.03.2018	10.804
	–	91,000	–	91,000	0.01%	17.12.2008	01.02.2009 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.05.2009 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.08.2009 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.11.2009 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.02.2010 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.05.2010 – 16.12.2018	2.02
	–	858,000	–	858,000	0.09%			
Mr. Chung Yuk Man, Clarence	140,000	–	(140,000)	–	–	17.09.2004	17.03.2008 – 07.03.2012	1.6875
	200,000	–	–	200,000	0.01%	01.02.2005	17.09.2009 – 07.03.2012	7.4
	130,000	–	–	130,000	0.01%	13.02.2006	01.04.2008 – 31.01.2016	11.8
	130,000	–	–	130,000	0.01%	13.02.2006	01.04.2010 – 31.01.2016	11.8
	140,000	–	–	140,000	0.01%	13.02.2006	01.04.2012 – 31.01.2016	11.8
	–	104,000	–	104,000	0.01%	01.04.2008	01.04.2009 – 31.03.2018	10.804
	–	104,000	–	104,000	0.01%	01.04.2008	01.04.2010 – 31.03.2018	10.804
	–	104,000	–	104,000	0.01%	01.04.2008	01.04.2011 – 31.03.2018	10.804
	–	91,000	–	91,000	0.01%	17.12.2008	01.02.2009 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.05.2009 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.08.2009 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.11.2009 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.02.2010 – 16.12.2018	2.02
	–	91,000	–	91,000	0.01%	17.12.2008	01.05.2010 – 16.12.2018	2.02
	740,000	858,000	(140,000)	1,458,000	0.13%			

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(b) Share Options granted to the Directors pursuant to the Share Option Scheme adopted by the Company on 8 March 2002 – continued

Name of Director	Number of share options: Outstanding at 1 January 2008	Granted during the year	Exercised during the year	Outstanding at 31 December 2008	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
Dr. Lo Ka Shui	100,000	–	–	100,000	0.01%	03.04.2006	03.04.2008 – 02.04.2016	15.87
	100,000	–	–	100,000	0.01%	03.04.2006	03.04.2010 – 02.04.2016	15.87
	100,000	–	–	100,000	0.01%	03.04.2006	03.04.2012 – 02.04.2016	15.87
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2009 – 27.02.2018	11.5
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2010 – 27.02.2018	11.5
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2011 – 27.02.2018	11.5
	300,000	51,000	–	351,000	0.03%			
Sir Roger Lobo	100,000	–	–	100,000	0.01%	03.04.2006	03.04.2008 – 02.04.2016	15.87
	100,000	–	–	100,000	0.01%	03.04.2006	03.04.2010 – 02.04.2016	15.87
	100,000	–	–	100,000	0.01%	03.04.2006	03.04.2012 – 02.04.2016	15.87
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2009 – 27.02.2018	11.5
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2010 – 27.02.2018	11.5
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2011 – 27.02.2018	11.5
	300,000	51,000	–	351,000	0.03%			
Mr. Sham Sui Leung, Daniel	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2009 – 27.02.2018	11.5
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2010 – 27.02.2018	11.5
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2011 – 27.02.2018	11.5
	–	51,000	–	51,000	0.00%			
Mr. Ng Ching Wo	100,000	–	–	100,000	0.01%	03.04.2006	03.04.2008 – 02.04.2016	15.87
	100,000	–	–	100,000	0.01%	03.04.2006	03.04.2010 – 02.04.2016	15.87
	100,000	–	–	100,000	0.01%	03.04.2006	03.04.2012 – 02.04.2016	15.87
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2009 – 27.02.2018	11.5
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2010 – 27.02.2018	11.5
	–	17,000	–	17,000	0.00%	28.02.2008	01.04.2011 – 27.02.2018	11.5
	300,000	51,000	–	351,000	0.03%			
Total	1,640,000	3,148,520	(140,000)	4,648,520	0.43%			

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(c) Shares awarded to the Directors pursuant to The Melco Share Purchase Scheme Trust adopted by the Company on 18 October 2007

Name of Director	Number of awarded shares: Outstanding at 1 January 2008	Awarded during the year	Vested during the year	Outstanding at 31 December 2008	Approximate % of issued share capital	Date of award	Vesting date
Mr. Ho, Lawrence Yau Lung	–	87,350	(87,350)	–	–	01.04.2008	01.04.2008
	–	87,325	–	87,325	0.007%	01.04.2008	01.04.2009
	–	87,325	–	87,325	0.007%	01.04.2008	01.04.2010
	–	96,666	–	96,666	0.008%	17.12.2008	01.02.2009
	–	96,666	–	96,666	0.008%	17.12.2008	01.05.2009
	–	96,666	–	96,666	0.008%	17.12.2008	01.08.2009
	–	96,666	–	96,666	0.008%	17.12.2008	01.11.2009
	–	96,666	–	96,666	0.008%	17.12.2008	01.02.2010
	–	96,670	–	96,670	0.008%	17.12.2008	01.05.2010
	–	842,000	(87,350)	754,650	0.062%		
Mr. Tsui Che Yin, Frank	–	22,220	(22,220)	–	–	01.04.2008	01.04.2008
	–	22,220	–	22,220	0.002%	01.04.2008	01.04.2009
	–	22,220	–	22,220	0.002%	01.04.2008	01.04.2010
	–	14,666	–	14,666	0.001%	17.12.2008	01.02.2009
	–	14,666	–	14,666	0.001%	17.12.2008	01.05.2009
	–	14,666	–	14,666	0.001%	17.12.2008	01.08.2009
	–	14,666	–	14,666	0.001%	17.12.2008	01.11.2009
	–	14,666	–	14,666	0.001%	17.12.2008	01.02.2010
	–	14,670	–	14,670	0.001%	17.12.2008	01.05.2010
	–	154,660	(22,220)	132,440	0.010%		
Mr. Chung Yuk Man, Clarence	–	22,220	(22,220)	–	–	01.04.2008	01.04.2008
	–	22,220	–	22,220	0.002%	01.04.2008	01.04.2009
	–	22,220	–	22,220	0.002%	01.04.2008	01.04.2010
	–	14,666	–	14,666	0.001%	17.12.2008	01.02.2009
	–	14,666	–	14,666	0.001%	17.12.2008	01.05.2009
	–	14,666	–	14,666	0.001%	17.12.2008	01.08.2009
	–	14,666	–	14,666	0.001%	17.12.2008	01.11.2009
	–	14,666	–	14,666	0.001%	17.12.2008	01.02.2010
	–	14,670	–	14,670	0.001%	17.12.2008	01.05.2010
	–	154,660	(22,220)	132,440	0.010%		

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(c) Shares awarded to the Directors pursuant to The Melco Share Purchase Scheme Trust adopted by the Company on 18 October 2007 – continued

	Number of awarded shares						
Name of Director	Outstanding at 1 January 2008	Awarded during the year	Vested during the year	Outstanding at 31 December 2008	Approximate % of issued share capital	Date of award	Vesting date
Dr. Lo Ka Shui	–	15,000	(15,000)	–	–	28.02.2008	31.03.2008
	–	15,000	–	15,000	0.001%	28.02.2008	31.03.2009
	–	15,000	–	15,000	0.001%	28.02.2008	31.03.2010
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2009
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2010
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2011
	–	57,000	(15,000)	42,000	0.002%		
Sir Roger Lobo	–	15,000	(15,000)	–	–	28.02.2008	31.03.2008
	–	15,000	–	15,000	0.001%	28.02.2008	31.03.2009
	–	15,000	–	15,000	0.001%	28.02.2008	31.03.2010
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2009
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2010
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2011
	–	57,000	(15,000)	42,000	0.002%		
Mr. Sham Sui Leung, Daniel	–	15,000	(15,000)	–	–	28.02.2008	31.03.2008
	–	15,000	–	15,000	0.001%	28.02.2008	31.03.2009
	–	15,000	–	15,000	0.001%	28.02.2008	31.03.2010
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2009
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2010
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2011
	–	57,000	(15,000)	42,000	0.002%		
Mr. Ng Ching Wo	–	15,000	(15,000)	–	–	28.02.2008	31.03.2008
	–	15,000	–	15,000	0.001%	28.02.2008	31.03.2009
	–	15,000	–	15,000	0.001%	28.02.2008	31.03.2010
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2009
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2010
	–	4,000	–	4,000	0.000%	28.02.2008	01.04.2011
	–	57,000	(15,000)	42,000	0.002%		
Total	–	1,379,320	(191,790)	1,187,530	0.090%		

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(d) Convertible Loan Notes issued by the Company

Name of Director	Capacity	Number of underlying shares held	Approximate % of issued share capital	Note
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694	9.59%	3

Notes:

1. As at 31 December 2008, the total number of issued shares of the Company was 1,229,331,116.
2. 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, 288,532,606 shares of the Company are held by Better Joy Overseas Ltd., representing approximately 23.47% of the issued share capital of the Company and 7,294,000 shares of the Company are held by The L3G Capital Trust, representing approximately 0.59% of the issued share capital of the Company. Lasting Legend Ltd., Better Joy Overseas Ltd. and The L3G Capital Trust are owned by persons, companies and/or trusts associated with Mr. Ho, Lawrence Yau Lung.
3. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, MPEL (Greater China) Limited (formerly known as 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 8.75% 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 of the Company 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.
4. The share options and awarded shares mentioned above represent personal interests held by the relevant directors as beneficial owners.
5. During the year, no share options and awarded shares mentioned above were lapsed or cancelled.
6. Details of the Share Option Scheme and The Melco Share Purchase Scheme Trust are set out in note 50 to the consolidated financial statements.

(II) LONG POSITIONS IN THE 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 % of the issued share capital of Value Convergence	Note
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	165,163,008	44.50%	2

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(A) VALUE CONVERGENCE HOLDINGS LIMITED ("VALUE CONVERGENCE") – continued

(b) Share options granted by Value Convergence

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

Notes:

1. As at 31 December 2008, the total number of issued shares of Value Convergence was 371,169,772.

2. Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 160,930,381 shares of Value Convergence as a result of him being beneficially interested in approximately 34.06% of the issued share capital of the Company which in turn holds approximately 43.36% 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.

3. 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.

(B) MELCO CROWN ENTERTAINMENT LIMITED (FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED) ("MELCO CROWN ENTERTAINMENT")

(a) Ordinary shares of US$0.01 each of Melco Crown Entertainment

Name of Director	Capacity	Number of ordinary shares of Melco Crown Entertainment held	Approximate % of issued share capital of Melco Crown Entertainment	Note
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	510,746,156	38.65%	2
Mr. Tsui Che Yin, Frank	Beneficial owner	11,850	0.00%	–
Mr. Chung Yuk Man, Clarence	Beneficial owner	26,338	0.00%	–

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(B) MELCO CROWN ENTERTAINMENT LIMITED (FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED) ("MELCO CROWN ENTERTAINMENT") – continued

(b) Restricted shares awarded by Melco Crown Entertainment

Name of Director	Capacity	Number of restricted shares of Melco Crown Entertainment held	Approximate % of issued share capital of Melco Crown Entertainment	Note
Mr. Ho, Lawrence Yau Lung	Beneficial owner	947,450	0.07%	3
	Beneficial owner	124,584	0.00%	4
	Beneficial owner	362,665	0.03%	5
Mr. Chung Yuk Man, Clarence	Beneficial owner	5,262	0.00%	3
	Beneficial owner	6,228	0.00%	4

(c) Stock Options granted by Melco Crown Entertainment

Name of Director	Capacity	Number of stock options of Melco Crown Entertainment held	Approximate % of issued share capital of Melco Crown Entertainment	Note
Mr. Ho, Lawrence Yau Lung	Beneficial owner	1,132,587	0.09%	6
Mr. Chung Yuk Man, Clarence	Beneficial owner	56,628	0.00%	6

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(B) MELCO CROWN ENTERTAINMENT LIMITED (FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED) ("MELCO CROWN ENTERTAINMENT") – continued

(c) Stock Options granted by Melco Crown Entertainment – continued

Notes:

1. As at 31 December 2008, the total number of issued shares of Melco Crown Entertainment was 1,321,550,400.6.

2. Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 500,000,000 shares of Melco Crown Entertainment 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 Melco Crown Entertainment which are being held by Melco Crown SPV Limited, a company which is owned by Melco Leisure as to 50%, as a result of him being beneficially interested in approximately 34.06% of the issued share capital of the Company which in turn holds approximately 38.65% of the issued share capital of Melco Crown Entertainment.

3. The personal interests of these directors represent their interests in Melco Crown Entertainment comprising the restricted shares which were granted to them by Melco Crown Entertainment on 19 December 2006 pursuant to the restricted shares award agreement under the Share Incentive Plan adopted by Melco Crown Entertainment in 2006.

   The 947,450 restricted shares held by Mr. Ho, Lawrence Yau Lung and the 5,262 restricted shares held by Mr. Chung Yuk Man, Clarence shall vest on 19 December 2009.

4. The personal interests of these directors represent their interests in Melco Crown Entertainment comprising the restricted shares which were granted to them by Melco Crown Entertainment on 18 March 2008 pursuant to the restricted shares award agreement under the Share Incentive Plan adopted by Melco Crown Entertainment in 2006.

   Among the 124,584 restricted shares held by Mr. Ho, Lawrence Yau Lung, 62,292 shall vest on 18 March 2010 and 62,292 shall vest on 18 March 2012. Among the 6,228 restricted shares held by Mr. Chung Yuk Man, Clarence, 3,114 shall vest on 18 March 2010 and 3,114 shall vest on 18 March 2012.

5. The personal interest of Mr. Ho, Lawrence Yau Lung represents his interest in Melco Crown Entertainment comprising the restricted shares which were granted to him by Melco Crown Entertainment on 25 November 2008 pursuant to the restricted shares award agreement under the Share Incentive Plan adopted by Melco Crown Entertainment in 2006.

   Among the 362,665 restricted shares held by Mr. Ho, Lawrence Yau Lung, 90,666.25 shall vest on 28 February 2009, 90,666.25 shall vest on 31 May 2009, 90,666.25 shall vest on 31 August 2009 and 90,666.25 shall vest on 30 November 2009.

6. The personal interests of these directors represent their derivative interests in Melco Crown Entertainment comprising the stock options granted to them by Melco Crown Entertainment on 18 March 2008 at an exercise price of US$4.01333 per share (US$12.04 per American Depositary Share "ADS") of Melco Crown Entertainment (Note: 3 shares equal to 1 ADS) pursuant to the share option award agreement under the Share Incentive Plan adopted by Melco Crown Entertainment in 2006.

   Among the 1,132,587 stock options held by Mr. Ho, Lawrence Yau Lung, 283,146.75 may be exercised during the period from 18 March 2009 to 17 March 2018, 283,146.75 may be exercised during the period from 18 March 2010 to 17 March 2018, 283,146.75 may be exercised during the period from 18 March 2011 to 17 March 2018 and 283,146.75 may be exercised during the period from 18 March 2012 to 17 March 2018.

   Among the 56,628 stock options held by Mr. Chung Yuk Man, Clarence, 14,157 may be exercised during the period from 18 March 2009 to 17 March 2018, 14,157 may be exercised during the period from 18 March 2010 to 17 March 2018, 14,157 may be exercised during the period from 18 March 2011 to 17 March 2018 and 14,157 may be exercised during the period from 18 March 2012 to 17 March 2018.

(C) MELCO CHINA RESORTS (HOLDING) LIMITED ("MCR")

(a) Common shares (without par value) of MCR

Name of Director	Capacity	Number of common shares of MCR held	Approximate % of issued common shares of MCR	Note
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	43,109,134	49.30%	2

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(C) MELCO CHINA RESORTS (HOLDING) LIMITED ("MCR") – continued

(b) Class B non-voting shares (without par value) of MCR

Name of Director	Capacity	Number of Class B non-voting shares of MCR held	Approximate % of issued Class B non-voting shares of MCR	Note
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	8,437,565	100%	2

(c) Warrants issued by MCR

Name of Director	Capacity	Number of underlying shares of MCR held	Approximate % of issued common shares of MCR	Note
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	1,000,000	1.14%	3

(d) Stock Options granted by MCR

Name of Director	Capacity	Number of stock options of MCR held	Approximate % of issued common shares of MCR	Note
Mr. Chung Yuk Man, Clarence	Beneficial owner	300,000	0.34%	4

Notes:

1. As at 31 December 2008, the total number of issued common shares of MCR was 87,439,344 and the total number of issued Class B non-voting shares was 8,437,565.

2. Mr. Ho, Lawrence Yau Lung is taken to be interested in 43,109,134 common shares and 8,437,565 Class B non-voting shares of MCR, which are being held by Melco (Luxembourg) S.à.r.l., a wholly-owned subsidiary of Melco Leisure, as a result of him being beneficially interested in approximately 34.06% of the issued share capital of the Company which in turn holds approximately 49.30% of the issued common shares of MCR and 100% of the issued Class B non-voting shares of MCR.

3. The 1,000,000 underlying shares relate to the 1,000,000 warrants issued by MCR to Melco (Luxembourg) S.à.r.l. on 28 May 2008. Each warrant entitling warrant holder to subscribe for one common share of MCR at an exercise price of CAD$4.00 per common share at any time on or before 27 May 2010.

4. The personal interest of Mr. Chung Yuk Man, Clarence represents his derivative interests in MCR comprising the stock options to acquire common shares of MCR granted by MCR on 28 May 2008 at an exercise price of CAD$3.00 per common share pursuant to the Stock Option Plan adopted by MCR in 2008.

   Among the 300,000 stock options held by Mr. Chung, 100,000 may be exercised during the period from 28 May 2009 to 27 May 2018, 100,000 may be exercised during the period from 28 May 2010 to 27 May 2018 and 100,000 may be exercised during the period from 28 May 2011 to 27 May 2018.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(D) 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 % of issued share capital of EGT	Note
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	45,800,000	39.84%	2

(b) Warrants issued by EGT

Name of Director	Capacity	Number of underlying shares of EGT held	Approximate % of issued share capital of EGT	Note
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	10,000,000	8.70%	2 & 3

(c) Stock options granted by EGT

Name of Director	Capacity	Number of stock options of EGT held	Approximate % of issued share capital of EGT	Note
Mr. Tsui Che Yin, Frank	Beneficial owner	1,000,000	0.87%	4
Mr. Chung Yuk Man, Clarence	Beneficial owner	200,000	0.17%	4
	Beneficial owner	30,000	0.03%	5
	Beneficial owner	100,000	0.09%	6
	Beneficial owner	2,000,000	1.74%	7
Mr. Sham Sui Leung, Daniel	Beneficial owner	100,000	0.09%	8

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

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

(D) ELIXIR GAMING TECHNOLOGIES, INC. ("EGT") – continued

(c) Stock options granted by EGT – continued

Notes:

1. As at 31 December 2008, the total number of issued shares of common stock of EGT was 114,956,667.

2. Mr. Ho, Lawrence Yau Lung is taken to be interested in 45,800,000 shares of common stock of EGT and 10,000,000 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 34.06% of the issued share capital of the Company which in turn holds approximately 39.84% of the issued share capital of EGT.

3. The 10,000,000 underlying shares relate to 10,000,000 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. Each warrant entitles warrant holder to subscribe for one share of common stock of EGT at exercise prices ranging from US$1.00 to US$3.50 per share during the period from 31 December 2007 to 31 December 2010.

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 10 September 2007 at an exercise price of US$2.90 per EGT's share.

   Among the 1,000,000 stock options granted to Mr. Tsui, 333,334 may be exercised during the period from 17 May 2008 to 17 May 2012, 333,333 may be exercised during the period from 17 May 2009 to 17 May 2012 and 333,333 may be exercised during the period from 17 May 2010 to 17 May 2012.

   Among the 200,000 stock options granted to Mr. Chung, 66,666 may be exercised during the period from 17 May 2008 to 17 May 2012, 66,666 may be exercised during the period from 17 May 2009 to 17 May 2012 and 66,668 may be exercised during the period from 17 May 2010 to 17 May 2012.

5. The personal interest of Mr. Chung Yuk Man, Clarence represents his derivative interests in EGT comprising the stock options granted to him by EGT on 22 January 2008 at an exercise price of US$3.62 per EGT's share. These stock options may be exercised during the period from 23 July 2008 to 22 January 2018.

6. The personal interest of Mr. Chung Yuk Man, Clarence represents his derivative interests in EGT comprising the stock options granted to him by EGT on 12 February 2008 at an exercise price of US$4.59 per EGT's share. These stock options may be exercised during the period from 15 May 2008 to 14 November 2017.

7. The personal interest of Mr. Chung Yuk Man, Clarence represents his derivative interests in EGT comprising the stock options granted to him by EGT on 29 December 2008 at an exercise price of US$0.17 per EGT's share. These stock options may be exercised during the period from 29 December 2009 to 29 December 2013.

8. The personal interest of Mr. Sham Sui Leung, Daniel represents his derivative interests in EGT comprising the stock options granted to him by EGT on 11 December 2008 at an exercise price of US$0.08 per EGT's share. These stock options may be exercised during the period from 12 June 2009 to 11 December 2018.

Save as disclosed above, as at 31 December 2008, none of the directors or chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and 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 BUSINESS

As at 31 December 2008, 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.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2008, 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:

(I) LONG POSITIONS IN THE SHARES OF THE COMPANY

Ordinary Shares of HK$0.50 each of the Company

Name	Capacity	Number of issued ordinary shares held	Approximate % of issued share capital	Note
Better Joy Overseas Ltd.	Beneficial owner	288,532,606	23.47%	2
Lasting Legend Ltd.	Beneficial owner	115,509,024	9.40%	2
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	411,335,630	33.46%	3
	Beneficial owner	7,319,962	0.60%	–
Ms. Lo Sau Yan, Sharen	Family interest	418,655,592	34.06%	4
Janus Capital Management LLC	Investment manager	123,792,000	10.07%	–
State Street Corporation	Custodian	73,284,261	5.96%	5
GMT Capital Corp.	Beneficial owner	74,454,000	6.06%	–

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY – continued

(II) LONG POSITIONS IN THE UNDERLYING SHARES OF THE COMPANY

Convertible Loan notes issued by the Company

Name	Capacity	Number of underlying shares held	Approximate % of the issued share capital	Note
Great Respect Limited	Beneficial owner	117,912,694	9.59%	6
Mr. Ho, Lawrence Yau Lung	Held by trust	117,912,694	9.59%	6
Ms. Lo Sau Yan, Sharen	Held by trust	117,912,694	9.59%	6
Dr. Ho Hung Sun, Stanley	Held by trust	117,912,694	9.59%	6 & 7
SG Trust (Asia) Ltd.	Held by controlled corporations	117,912,694	9.59%	6 & 7

Notes:

1. As at 31 December 2008, the total number of issued shares of the Company was 1,229,331,116.

2. 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.

3. The 411,335,630 shares relate to 115,509,024 shares, 288,532,606 shares and 7,294,000 shares held by Lasting Legend Ltd., Better Joy Overseas Ltd. and The L3G Capital Trust respectively in the capital of the Company, representing approximately 9.40%, 23.47% and 0.59% of the issued share capital of the Company. Lasting Legend Ltd., Better Joy Overseas Ltd. and The L3G Capital Trust are owned by persons, companies and/or trusts associated with Mr. Ho, Lawrence Yau Lung.

4. 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.

5. The 73,284,261 shares of the Company are held in lending pool.

6. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, MPEL (Greater China) Limited (formerly known as 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 8.75% 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.

7. 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.

8. Regarding the interests of Mr. Ho, Lawrence Yau Lung in other underlying shares of the Company (in respect of the share options and awarded shares granted by the Company), please refer to the section "Directors' interests in shares, underlying shares and debentures" in this report.

Save as disclosed herein, as at 31 December 2008, 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as for the share option scheme and the share award schemes disclosed in note 50 to the consolidated financial statements and the convertible loan note disclosed in note 45 to the consolidated financial statements, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

(A) TRANSACTIONS BETWEEN ELIXIR AND FIRICH

On 5 March 2008, Elixir International Limited ("Elixir"), an indirect wholly-owned subsidiary of the Company, has entered into a design and development agreement (the "Design and Development Agreement") with Firich Enterprise Co., Ltd. ("Firich"), pursuant to which (a) Elixir and Firich have agreed to complete and perfect the conceptual design and development of a next generation slot machine initialed by Elixir on a joint effort basis; (b) subject to completion of the said design and development, the engagement of Firich by Elixir for the manufacturing of a trial lot of 120 units of the slot machine; and (c) the granting of a non-exclusive license for a term of 3 years from the date of the Design and Development Agreement by Elixir to Firich (and its subsidiaries and associates) enabling the latter to modify, manufacture and/or sell the slot machine to its customers in the lottery business sector. It is set out in the Design and Development Agreement that the total amount payable by Elixir for the design and development effort and expenses incurred by Firich will not exceed HK$4,000,000 and the amount for the manufacturing of the trial lot will not exceed US$720,000 (equivalent to approximately HK$5,616,000). It was also contemplated by the parties that the aggregate royalties payable by Firich to Elixir for the non-exclusive license on an annual basis will not exceed HK$10,000,000.

Firich, being a substantial shareholder of Power Way Group Limited, a company which is owned as to approximately 58.70% by the Group, 28.87% by Firich, and 12.43% by another company, is a connected person of the Company for the purpose of the Listing Rules. As a result, the design and development part and the manufacturing of the trial lot of the slot machine under the Design and Development Agreement constituted a connected transaction of the Company and the non-exclusive license granted by Elixir to Firich constitutes continuing connected transactions under Rule 14A.16 of the Listing Rules. The Company published an announcement dated 5 March 2008 disclosing the said connected transaction and continuing connected transactions in accordance with the Listing Rules.

Pursuant to the Design and Development Agreement, it was agreed that an annual cap for the total royalties to be payable by Firich to Elixir in relation to the non-exclusive license will not exceed HK$10,000,000 for each of the years ended/ending 31 December 2008, 31 December 2009 and 31 December 2010. For the year ended 31 December 2008, no transaction has taken place between Firich and Elixir under the Design and Development Agreement.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS – continued

(B) TRANSACTIONS BETWEEN ELIXIR AND SJM

On 14 November 2008, Elixir has entered into service arrangement on a conditional basis with Sociedade de Jogos de Macau, S.A. ("SJM"), pursuant to which Elixir and SJM has confirmed the agreed terms for the provision of services comprising system integration services and maintenance services to SJM and/or its subsidiaries for an aggregate value of approximately HK$42.68 million and approximately HK$16.45 million respectively (the "Service Arrangement").

In order to enhance the efficiency of both Elixir and the Group by saving extra administrative and compliance works, on 24 November 2008, Elixir has also entered into a master agreement (the "Master Agreement") with SJM for the possible provision of the system integration services and maintenance services to SJM and/or its subsidiaries for a period of three years from 1 January 2009 to 31 December 2011. As disclosed in the announcement of the Company dated 24 November 2008, the expected annual cap amounts for the possible provision of the system integration services and the maintenance services pursuant to the Master Agreement for each of the years ending 31 December 2009, 31 December 2010 and 31 December 2011 are HK$75 million and HK$25 million respectively.

Dr. Stanley Ho is currently a director of certain 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. SJM is a connected person of the Company for the purposes of the Listing Rules by virtue of the fact that Dr. Stanley Ho has an equity interest in Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") of approximately 32.204% and STDM, through an intermediary subsidiary, holds an approximate 60% equity interest in SJM. As a result, the Service Arrangement constituted connected transactions of the Company and the transactions as contemplated under the Master Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Service Arrangement and the Master Agreement 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 22 December 2008. Details of the Service Arrangement and Master Agreement were disclosed in the Company's announcements dated 14 November and 24 November 2008 respectively and the Company's circular dated 4 December 2008.

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

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities, except that the trustee of The Melco Share Purchase Scheme Trust (the "Share Purchase Scheme") has, pursuant to the terms of the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 2,449,000 shares of the Company. The total amount paid to acquire these shares was approximately HK$24,000,000.

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, the Company has maintained the prescribed public float under the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high corporate governance standard 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 2008 except code provisions A.2.1. in respect of the separation of the roles of the Chairman and Chief Executive Officer and 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 45 to 53 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 adopted a share option scheme and two share incentive award schemes, as an incentive to directors and employees, details of the schemes are set out in note 50 to the consolidated financial statements.

AUDIT COMMITTEE

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

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 amounting to approximately HK$5,718,000.

AUDITOR

The financial statements of the Company for the year ended 31 December 2008 have been audited by Messrs. Deloitte Touche Tohmatsu, who retire and, being eligible, offer themselves 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, 30 March 2009

Deloitte.
德勤

TO THE MEMBERS OF MELCO INTERNATIONAL DEVELOPMENT LIMITED
新濠國際發展有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Melco International Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 74 to 162, which comprise the consolidated and Company's balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Continuing operations			
Revenue	7	**690,862**	804,895
Agency fee	12	**–**	1,232,057
Other income	9	**68,696**	34,139
Investment (loss) income	10	**(244)**	2,840
Purchases and changes in inventories of finished goods		**(677,532)**	(531,867)
Employee benefits expense	11	**(169,465)**	(180,983)
Depreciation of property, plant and equipment		**(21,738)**	(19,252)
Loss on deemed disposal of subsidiaries	12	**–**	(143,368)
Loss on deemed disposal of partial interests in subsidiaries	13	**–**	(76,948)
Impairment loss recognised in respect of interests in associates	14	**(1,160,838)**	–
Impairment loss recognised in respect of available-for-sale investments		**(147,861)**	–
Gain on disposal of interests in jointly controlled entities	26	**–**	532,604
Gain on changes in interests in associates	27	**48,466**	1,549,361
Increase in fair value of investment properties	23	**14,000**	10,060
Fair value changes on derivative financial instruments	36	**(227,691)**	190,126
Fair value change on investment in convertible loan note	30	**(206,428)**	–
Other expenses		**(179,605)**	(155,142)
Finance costs	15	**(107,401)**	(76,235)
Share of profits (losses) of jointly controlled entities	26	**109,108**	(157,713)
Share of losses of associates	27	**(387,175)**	(519,538)
Gain on extension of long term payable	46	**2,517**	9,656
Gain on early redemption of convertible loan notes		**–**	8,827
(Loss) profit before tax	16	**(2,352,329)**	2,513,519
Income tax (expense) credit	17	**(885)**	69
(Loss) profit for the year from continuing operations		**(2,353,214)**	2,513,588
Discontinued operation			
Profit for the year from discontinued operation	18	**–**	155,075
(Loss) profit for the year		**(2,353,214)**	2,668,663

	Notes	2008 HK$'000	2007 HK$'000
Attributable to:			
Equity holders of the Company		**(2,356,819)**	2,690,639
Minority interests		**3,605**	(21,976)
		(2,353,214)	2,668,663
Dividends	21	**12,271**	12,282
(Loss) earnings per share	22		
For continuing and discontinued operations			
Basic		**(HK192.08 cents)**	HK219.06 cents
Diluted		**(HK192.09 cents)**	HK198.38 cents
For continuing operations			
Basic		**(HK192.08 cents)**	HK207.56 cents
Diluted		**(HK192.09 cents)**	HK188.23 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Investment properties	23	**166,000**	152,000
Property, plant and equipment	24	**42,977**	59,636
Other intangible assets	25	**2,000**	2,000
Interests in jointly controlled entities	26	**190,227**	81,119
Interests in associates	27	**7,126,710**	8,689,271
Amounts due from associates	37	**800,673**	578,578
Available-for-sale investments	29	**39,093**	156,337
Investment in convertible loan note	30	**168,573**	–
Goodwill	31	**8,555**	8,555
Pledged bank deposits	39	**972,500**	972,500
Deferred tax assets	47	**719**	1,592
		9,518,027	10,701,588
Current assets			
Inventories	33	**57,652**	25,764
Trade receivables	34	**55,690**	259,705
Prepayments, deposits and other receivables		**232,534**	110,497
Held-for-trading investments	35	**150**	430
Derivative financial instruments	36	**64**	223,626
Amounts due from associates	37	**130,555**	682,757
Pledged bank deposits	39	**6,738**	947
Bank deposits with original maturity over three months	40	**164,896**	–
Bank balances and cash	40	**239,875**	308,865
		888,154	1,612,591
Current liabilities			
Trade payables	41	**309,664**	162,529
Other payables		**124,095**	96,480
Shareholder's loan	42	**250,000**	250,000
Dividend payable		**133**	118
Taxation payable		**689**	3,726
Financial guarantee liability	43	**45,217**	45,217
Bank borrowings – due within one year	44	**96,400**	80,000
		826,198	638,070
Net current assets		**61,956**	974,521
Total assets less liabilities		**9,579,983**	11,676,109

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Trade payables – due after one year	41	**81,678**	–
Financial guarantee liability	43	**121,808**	167,025
Bank borrowings – due after one year	44	**216,600**	–
Long term payable	46	**172,496**	168,142
Convertible loan note – due after one year	45	**1,061,861**	999,399
		1,654,443	1,334,566
		7,925,540	10,341,543
Capital and reserves			
Share capital	48	**614,666**	614,238
Reserves		**7,284,839**	9,704,875
Equity attributable to equity holders of the Company		**7,899,505**	10,319,113
Minority interests		**26,035**	22,430
		7,925,540	10,341,543

The consolidated financial statements on pages 74 to 162 were approved and authorised for issue by the Board of Directors on 30 March 2009 and are signed on its behalf by:

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Investment in subsidiaries	28	**1,040,712**	966,495
Other intangible asset	25	**2,000**	2,000
Amounts due from subsidiaries	38	**3,382,194**	3,435,586
Pledged bank deposits	39	**972,500**	972,500
		5,397,406	5,376,581
Current assets			
Prepayments, deposits and other receivables		**14,631**	6,190
Amounts due from associates	37	**41,996**	255,856
Amounts due from subsidiaries	38	**55,327**	–
Bank deposits with original maturity of over three months	40	**164,896**	–
Bank balances and cash	40	**116,136**	149,018
		392,986	411,064
Current liabilities			
Other payables		**7,026**	5,656
Amounts due to associates	37	**421**	2,163
Amounts due to subsidiaries	38	**6,926**	129
Shareholder's loan	42	**250,000**	250,000
Dividend payable		**133**	118
Financial guarantee liability	43	**45,217**	45,217
Bank borrowings – due within one year	44	**80,000**	80,000
		389,723	383,283
Net current assets		**3,263**	27,781
Total assets less current liabilities		**5,400,669**	5,404,362
Non-current liabilities			
Financial guarantee liability	43	**121,808**	167,025
Amount due to a subsidiary	38	**46,600**	–
Bank borrowings – due after one year	44	**150,000**	–
Convertible loan note – due after one year	45	**1,061,861**	999,399
		1,380,269	1,166,424
		4,020,400	4,237,938
Capital and reserves			
Share capital	48	**614,666**	614,238
Reserves	49	**3,405,734**	3,623,700
		4,020,400	4,237,938

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to the equity holders of the Company																	
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note 1)	Special reserve HK$'000 (Note 2)	Convertible loan note equity reserve HK$'000	Property revaluation reserve HK$'000	Other revaluation reserve HK$'000	Exchange reserve HK$'000	Legal reserve HK$'000 (Note 3)	Share options reserve HK$'000	Shares held under share award schemes HK$'000	Share awards reserve HK$'000	Other reserve HK$'000 (Note 4)	Accumulated profits HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	614,075	3,124,940	296,016	(78,243)	327,677	5,796	32,380	(2)	254	12,726	–	–	–	3,231,488	7,567,107	265	94,106	7,661,478
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	392	–	–	–	–	–	–	392	–	(51)	341
Share of reserves of associates	–	–	–	–	–	–	–	2,347	–	–	–	–	(31,674)	–	(29,327)	–	–	(29,327)
Loss on fair value change of available-for-sale investments	–	–	–	–	–	–	(30,617)	–	–	–	–	–	–	–	(30,617)	–	–	(30,617)
Net income (expense) directly recognised in equity	–	–	–	–	–	–	(30,617)	2,739	–	–	–	–	(31,674)	–	(59,552)	–	(51)	(59,603)
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	2,690,639	2,690,639	–	(21,976)	2,668,663
Total recognised income for the year	–	–	–	–	–	–	(30,617)	2,739	–	–	–	–	(31,674)	2,690,639	2,631,087	–	(22,027)	2,609,060
Exercise of share options	163	432	–	–	–	–	–	–	–	–	–	–	–	–	595	–	–	595
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	500,212	500,212
Realisation of special reserve and other revaluation reserve upon deemed disposal of partial interest in an associate	–	–	–	8,293	–	–	(3,432)	–	–	–	–	–	–	(4,861)	–	–	–	–
Decease in minority interests on acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,028)	(1,028)
Decrease in minority interests on deemed disposal of partial interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(208,765)	(208,765)
Recognition of equity – settled share based payments	–	–	–	–	–	–	–	–	–	9,393	–	–	–	–	9,393	194	70	9,657
Transfer to share premium upon exercise of share options	–	113	–	–	–	–	–	–	–	(113)	–	–	–	–	–	–	–	–
Transfer of share option reserve upon expiry of share options	–	–	–	–	–	–	–	–	–	(48)	–	–	–	48	–	–	–	–
Early redemption of convertible loan notes	–	–	–	–	(20,424)	–	–	–	–	–	–	–	–	8,946	(11,478)	–	–	(11,478)
Increase in reserves and decrease in minority interests upon deemed disposal of subsidiaries	–	–	–	–	–	–	–	(138)	–	–	–	–	–	134,829	134,691	(459)	(339,942)	(205,710)
Dividend paid	–	–	(12,282)	–	–	–	–	–	–	–	–	–	–	–	(12,282)	–	(196)	(12,478)
At 31 December 2007	614,238	3,125,485	283,734	(69,950)	307,253	5,796	(1,669)	2,599	254	21,958	–	–	(31,674)	6,061,089	10,319,113	–	22,430	10,341,543

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to the equity holders of the Company																	
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note 1)	Special reserve HK$'000 (Note 2)	Convertible loan note equity reserve HK$'000	Property revaluation reserve HK$'000	Other revaluation reserve HK$'000	Exchange reserve HK$'000	Legal reserve HK$'000 (Note 3)	Share options reserve HK$'000	Shares held under share award schemes HK$'000	Share awards reserve HK$'000	Other reserve HK$'000 (Note 4)	Accumulated profits HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	(313)	–	–	–	–	–	–	(313)	–	–	(313)
Share of reserves of associates	–	–	–	–	–	–	–	(10,469)	–	–	–	–	(72,120)	–	(82,589)	–	–	(82,589)
Loss on fair value change of available-for-sale investments	–	–	–	–	–	–	(117,244)	–	–	–	–	–	–	–	(117,244)	–	–	(117,244)
Expense directly recognised in equity	–	–	–	–	–	–	(117,244)	(10,782)	–	–	–	–	(72,120)	–	(200,146)	–	–	(200,146)
Loss for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,356,819)	(2,356,819)	–	3,605	(2,353,214)
Impairment loss recognised in respect of available-for-sale investments	–	–	–	–	–	–	147,861	–	–	–	–	–	–	–	147,861	–	–	147,861
Total recognised income (expense) for the year	–	–	–	–	–	–	30,617	(10,782)	–	–	–	–	(72,120)	(2,356,819)	(2,409,104)	–	3,605	(2,405,499)
Exercise of share options	428	4,703	–	–	–	–	–	–	–	–	–	–	–	–	5,131	–	–	5,131
Recognition of equity – settled share based payments	–	–	–	–	–	–	–	–	–	13,271	–	7,365	–	–	20,636	–	–	20,636
Transfer to share premium upon exercise of share options	–	1,254	–	–	–	–	–	–	–	(1,254)	–	–	–	–	–	–	–	–
Transfer of share option reserve upon expiry of share options	–	–	–	–	–	–	–	–	–	(1,337)	–	–	–	1,337	–	–	–	–
Shares vested under the share award schemes	–	–	–	–	–	–	–	–	–	–	2,912	(3,227)	–	315	–	–	–	–
Purchase of shares for unvested shares under the share award schemes	–	–	–	–	–	–	–	–	–	–	(24,000)	–	–	–	(24,000)	–	–	(24,000)
Dividend paid	–	–	(12,271)	–	–	–	–	–	–	–	–	–	–	–	(12,271)	–	–	(12,271)
At 31 December 2008	614,666	3,131,442	271,463	(69,950)	307,253	5,796	28,948	(8,183)	254	32,638	(21,088)	4,138	(103,794)	3,705,922	7,899,505	–	26,035	7,925,540

Note 1: Pursuant to a scheme of capital reduction, which became effective on 29 June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK$357,784,733 were transferred to a capital reserve account. The capital reserve account is distributable to the shareholders of the Company if there is no outstanding debt or claim against the Company which was in existence on the effective date of the capital reduction. In view of the fact that the Company receives no claim, demand, action or proceedings in respect of any such debt or claim since June 1993 and in view of the fact that any such debt or claim has been statute-barred under Hong Kong law and irrecoverable against the Company, the Company is of the view that the reserve is distributable to the Company's shareholders.

Note 2: The special reserve represents the difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interest in a subsidiary acquired in previous years.

Note 3: All entities incorporated in Macau are required to set aside a minimum of 10% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. Such legal reserve represents an amount set aside from the income statement and is not available for distribution to the shareholders of the entity. The appropriation of legal reserve is recorded in financial statements in the period in which it is approved by the board.

Note 4: The other reserve represents the share of an associate's hedging reserve.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(2,352,329)**	2,677,471
Adjustments for:		
Agency fee	**–**	(1,232,057)
Gain on extension of long term payable	**(2,517)**	(9,656)
Gain on early redemption of convertible loan notes	**–**	(8,827)
Loss (gain) from fair value change of held-for-trading investments	**280**	(1,194)
Financial guarantee income	**(45,217)**	(13,464)
Dividend income	**(36)**	(2,739)
Depreciation of property, plant and equipment	**21,738**	20,381
Amortisation of trading rights	**–**	364
Loss on deemed disposal of partial interests in subsidiaries	**–**	39,754
Loss on deemed disposal of subsidiaries	**–**	65,288
Gain on disposal of interests in jointly controlled entity	**–**	(532,604)
Impairment loss recognised in respect of interests in associates	**1,160,838**	–
Impairment loss recognised in respect of available-for-sale investments	**147,861**	–
Gain on changes in interests in associates	**(48,466)**	(1,549,361)
Increase in fair value of investment properties	**(14,000)**	(10,060)
Fair value changes on derivative financial instruments	**227,691**	(190,126)
Fair value change on investment in convertible loan note	**206,428**	–
Allowance for doubtful debts	**6,222**	2,395
Allowance on other receivables	**19,540**	–
Allowance for inventories	**220,030**	–
Share-based payment expense	**20,636**	9,657
(Gain) loss on disposal of property, plant and equipment	**(81)**	322
Share of (profits) losses of jointly controlled entities	**(109,108)**	157,713
Share of losses of associates	**387,175**	519,538
Finance costs	**107,401**	96,097
Operating cash flows before movements in working capital	**(45,914)**	38,892
(Increase) decrease in inventories	**(240,826)**	33,395
Decrease (increase) in trade receivables	**197,671**	(1,461,663)
Increase in prepayments, deposits and other receivables	**(143,512)**	(29,497)
Decrease in held-for-trading investments	**–**	1,703
Decrease in amounts due from joint controlled entities	**–**	855
Decrease in amounts due from associates	**161,010**	203,440
Increase in trade payables	**228,813**	93,625
Increase in other payables	**27,615**	39,683
Net cash from (used in) operations	**184,857**	(1,079,567)
Income tax paid	**(1,114)**	(2,742)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**183,743**	(1,082,309)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Advances to associates		**(128,197)**	–
Increase in bank deposits with original maturity over three months		**(164,896)**	–
Investments in associates		**(98,854)**	–
Purchase of property, plant and equipment		**(19,771)**	(179,176)
Increase in pledged bank deposits		**(5,791)**	(972,500)
Subscription of warrants of an associate		**(4,527)**	–
Proceeds from disposal of property, plant and equipment		**5,460**	–
Dividend received		**36**	2,739
Cash inflow from acquisition of subsidiaries	51	**–**	8,439
Decrease in long term deposits		**–**	179
Net cash outflow on deemed disposal of subsidiaries	52	**–**	(170,441)
Purchase of available-for-sale investments		**–**	(191,492)
Investment in jointly controlled entities		**–**	(30,000)
NET CASH USED IN INVESTING ACTIVITIES		**(416,540)**	(1,532,252)
FINANCING ACTIVITIES			
Bank borrowings raised		**313,000**	1,162,146
Proceeds from exercise of share options		**5,131**	595
Repayments of bank borrowings		**(80,000)**	–
Interest paid		**(38,068)**	(29,549)
Purchase of shares for unvested shares under the share award schemes		**(24,000)**	–
Dividend paid		**(12,256)**	(13,804)
Capital contribution from minority shareholders		**–**	500,212
Advance from a shareholder		**–**	250,000
Redemption of convertible loan notes		**–**	(156,000)
NET CASH FROM FINANCING ACTIVITIES		**163,807**	1,713,600
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(68,990)**	(900,961)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**308,865**	1,209,826
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**239,875**	308,865

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are divided into three divisions, namely (i) Leisure, Gaming and Entertainment division; (ii) Technology division; and (iii) Property and Other Investments division. In prior years, the Group was also engaged in the Investment and Financial Services. That operation was discontinued in year 2007 (see note 18).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company and the Group have applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Company and the Group have not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS – continued

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods ending on or after 30 June 2009
[5] Effective for annual periods beginning on or after 1 July 2008
[6] Effective for annual periods beginning on or after 1 October 2008
[7] Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Company and the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost convention as modified for investment properties and certain financial instruments, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has a power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition of additional interest in a subsidiary, the difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interest in the subsidiary is debited to special reserve. On subsequent disposal of the subsidiary, the attributable special reserve is realised in the consolidated income statement.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

BUSINESS COMBINATIONS

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

GOODWILL

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

JOINTLY CONTROLLED ENTITIES

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements of the Group using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements of the Group using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services provided in the normal course of business, net of discounts and sales related tax.

Agency fee is recognised when the required services is rendered in accordance with the milestones included in respective agreement.

Revenue from the provision of catering services, management services, investment banking and financial services are recognised when the services are provided.

Revenue from implementation of technology solution systems are recognised when the systems have been implemented and the customers have agreed and accepted the systems.

Revenue from sales of other products is recognised when goods are delivered and titles have passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income is recognised on a straight-line basis over the relevant lease terms.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the asset is derecognised.

INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

THE GROUP AS LESSOR

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

THE GROUP AS LESSEE

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currencies are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains or losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

RETIREMENT BENEFITS COSTS

Payments to defined contribution schemes and Mandatory Provident Fund Schemes are charged when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

SHARE-BASED PAYMENT TRANSACTIONS

EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve. At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

The fair value of services received, determined by reference to the fair value of awarded shares granted at the grant date, in exchange for the grant of the awarded shares is expensed on a straight-line basis over the vesting period, with a corresponding increase in share awards reserve. At the time when the awarded shares are vested, the amount previously recognised in share awards reserve and the amount of the relevant treasury shares will be transferred to accumulated profits. When the awarded shares are not vested or are forfeited during the vesting period, the amount previously recognised in share awards reserve will be recognised as income immediately in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

SHARE-BASED PAYMENT TRANSACTIONS – continued

EQUITY SETTLED SHARE-BASED PAYMENT TRANSACTIONS – continued

At each balance sheet date, the Company and the Group revises its estimates of the number of options and awarded shares that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in the consolidated income statement, with a corresponding adjustment to share options reserve or share awards reserve, respectively.

Prior to the application of HKFRS 2 Share-based Payment, the Company and the Group did not recognise the financial effect of share options until they were exercised. In relation to share options granted before 1 January 2005, the Company and the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005.

INTANGIBLE ASSETS

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

FINANCIAL INSTRUMENTS – continued

FINANCIAL ASSETS

Financial assets of the Company and the Group are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries, and associates, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

FINANCIAL INSTRUMENTS – continued

FINANCIAL ASSETS – continued

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and amounts due from associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable and amounts due from associates is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

FINANCIAL INSTRUMENTS – continued

IMPAIRMENT OF FINANCIAL ASSETS – continued

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Company's and the Group's financial liabilities are generally classified as other financial liabilities.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible loan note equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan note equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan note equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan note equity reserve will be released to the accumulated profits. No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

FINANCIAL INSTRUMENTS – continued

FINANCIAL LIABILITIES AND EQUITY – continued

Other financial liabilities

Other financial liabilities except for financial guarantee liability, including trade and other payables, amounts due to subsidiaries and associates, dividend payable, bank borrowings, shareholder's loan and long term payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

FINANCIAL GUARANTEE CONTRACTS

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and the Group and not designated as fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company or the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL (SEE THE ACCOUNTING POLICIES IN RESPECT OF GOODWILL ABOVE)

At each balance sheet date, the Company and Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually and whenever there is indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

BORROWING COSTS

All borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES AND AMOUNTS DUE FROM ASSOCIATES

When there is an objective evidence of impairment loss, the Company and the Group would determine the amount of the impairment loss which is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

FAIR VALUE OF INVESTMENT IN CONVERTIBLE LOAN NOTE AND DERIVATIVES

As described in notes 30 and 36, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

ESTIMATED IMPAIRMENT OF INTERESTS IN ASSOCIATES

Determining the impairment loss in respect of interests in associates requires an estimation of the recoverable amount of the interests in associates. The recoverable amount requires the Group to estimate the future cash flows expected to arise from the associates and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the interests in associates amounting to approximately HK$7,126,710,000 (net of accumulated impairment loss of HK$1,160,838,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Company's and the Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the shareholder's loan, bank borrowings, convertible loan note and long term payable disclosed in notes 42, 44, 45 and 46, respectively, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The capital structure of the Company consists of net debt, which includes the shareholder's loan, bank borrowings and convertible loan note disclosed in notes 42, 44 and 45, respectively, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. The Company and the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6A. CATEGORIES OF FINANCIAL INSTRUMENTS

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Financial assets		
Fair value through profit or loss		
– Held for trading	**214**	224,056
– Designated as fair value through profit or loss	**168,573**	–
Loans and receivables (including cash and cash equivalents)	**2,399,317**	2,897,991
Available-for-sale financial assets	**39,093**	156,337
Financial liabilities		
Amortised cost	**2,290,897**	1,730,470
Financial guarantee liability	**167,025**	212,242

6. FINANCIAL INSTRUMENTS – continued

6A. CATEGORIES OF FINANCIAL INSTRUMENTS – continued

	THE COMPANY	
	2008 **HK$'000**	2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**4,733,049**	4,812,952
Financial liabilities		
Amortised cost	**1,598,874**	1,331,809
Financial guarantee liability	**167,025**	212,242

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's and the Group's major financial instruments include available-for-sale investments, investment in convertible loan note, derivative financial instruments, trade and other receivables, trade and other payables, amounts due from (to) subsidiaries and associates, pledged bank deposits, financial guarantee liability, bank borrowings, shareholder's loan, long term payable and convertible loan note. Details of the financial instruments are disclosed in respective note. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Group's exposure to the financial risk or the manner in which it manages and measure the risk.

MARKET RISK

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Company and the Group have certain bank deposits, amounts due from associates, trade and other receivables and trade and other payables denominated in currency other than the functional currency of the relevant group entities.

The Group currently does not implement hedging activity to hedge against foreign currency exposure but the directors of the Company closely monitor the foreign currency exposure of the Company and the Group.

The carrying amounts of the Company's and the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	THE GROUP			
	Liabilities		Assets	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
United States dollar ("USD")	**(242,220)**	(190,934)	**1,295,186**	1,615,596
Macau Patacas ("MOP")	**(21,933)**	(11,313)	**9,278**	189,013

6. FINANCIAL INSTRUMENTS – continued

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

MARKET RISK – continued

(i) Currency risk – continued

	THE COMPANY			
	Liabilities		Assets	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
USD	**(1,072)**	(45,438)	**1,322,559**	1,203,399
MOP	**(161)**	–	**–**	106,509

Sensitivity analysis

The Company and the Group are mainly exposed to the USD and MOP against Hong Kong dollar, the functional currency of relevant group entities.

The following table details the Company's and the Group's sensitivity to a 1% increase or decrease in Hong Kong dollars against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 1% change in foreign currency rates. A negative number below indicates an increase in loss/decrease in profit where Hong Kong dollars strengthen 1% against the relevant currency. For a 1% weakening of Hong Kong dollars against the relevant foreign currency, there would be an equal and opposite impact on the loss/profit.

	THE GROUP			
	USD Impact		MOP Impact	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Profit or loss	**(10,530)**	(14,247) (i)	**126**	(1,778) (ii)

	THE COMPANY			
	USD Impact		MOP Impact	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Profit or loss	**(13,215)**	(11,598) (i)	**2**	(1,065) (ii)

(i) This is mainly attributable to the exposure on outstanding USD receivables, bank deposits and payables at year end in the Company and the Group.

(ii) This is mainly attributable to the exposure on outstanding MOP receivables and payables at the year end in the Company and the Group.

6. FINANCIAL INSTRUMENTS – continued

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

MARKET RISK – continued

(ii) Interest rate risk

The Company and the Group are exposed to fair value interest rate risk in relation to amount due from an associate, pledged bank deposits, bank deposits with original maturity over three months, bank balances, trade payable by installments, convertible loan note and long term payable which carried at fixed rate (see Notes 37, 39, 40, 41, 45 and 46 for details of these borrowings). The Company and the Group currently do not enter into any hedging instrument for fair value interest rate risk.

The Company and the Group are exposed to cash flow interest rate risk in relation to variable-rate amounts due from associates and subsidiaries, shareholder's loan and bank borrowings (see Notes 37, 38, 42 and 44 for details of these borrowings). It is the Company's and Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Company's and the Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Company's and the Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate and Hong Kong Interbank Offer Rate ("HIBOR") arising from the Company's and the Group's Hong Kong dollars borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate amounts due from associates and subsidiaries, bank borrowings and shareholder's loan, the analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2008 would decrease/increase by approximately HK$756,000 and (2007: profit for the year increase/decrease by HK$3,021,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate amounts due from associates, bank borrowings and shareholder's loan (2007: Amounts due from associates, bank balances, bank borrowings and shareholder's loan);

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's loss for the year ended 31 December 2008 would decrease/increase by approximately HK$14,720,000 and (2007: profit for the year decrease/increase by HK$441,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate amounts due from an associate and subsidiaries, bank borrowings and shareholder's loan (2007: Amounts due from associate and subsidiaries, bank balances, bank borrowings and shareholder's loan).

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable rate net financial assets.

The Company's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate net financial assets.

6. FINANCIAL INSTRUMENTS – continued

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

MARKET RISK – continued

(iii) Other price risk

The Group is exposed to equity price risk through its investment in convertible loan note, investments in listed and unlisted equity securities and derivative financial instruments if there is an adverse change in prices. the Group will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to fluctuation on equity price underlying the investment in convertible loan note, available-for-sale investments, held-for-trading investments and derivative instruments measured at fair value at the balance sheet date.

If the respective equity price underlying the investment in convertible loan note, equity securities and derivative financial instruments relate had been 5% higher/lower:

- loss for the year ended 31 December 2008 would decrease/increase by HK$10,394,000 (2007: profit for the year increase/decrease by HK$11,175,000) as a result of the changes in fair value of investment in convertible loan note, available-for-sale investments, held-for-trading investments and warrants (2007: held-for-trading investments and warrants); and

- other revaluation reserve would increase/decrease by nil (2007: increase/decrease by HK$6,825,000) for the Group as a result of the changes in fair value of available-for-sale investments (excluding available-for-sale investment carried at cost less impairment).

The Group's sensitivity to equity price risk has decreased as a result of the decrease in carrying amounts available-for-sale investments and warrants.

CREDIT RISK

As at 31 December 2008, the Company's and the Group's maximum exposure to credit risk which will cause a financial loss to the Company and the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Company and the Group is arising from

- the carrying amount of the respective recognised financial assets as stated in the respective balance sheets; and

- the amount of contingent liabilities and financial guarantee liability in relation to guarantee issued by the Company and the Group as disclosed in notes 55 and 43, respectively.

In order to minimise the credit risk, the management of the Company and the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company and the Group reviews the recoverable amount of each individual trade debt and advances to associates at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's and the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS – continued

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

CREDIT RISK – continued

The Group's concentration of credit risk by geographical location is mainly in Hong Kong and Macau. The Group's significant concentration of credit risk is mainly on the investment in convertible loan note, amounts due from associates of Melco Crown Entertainment Limited ("Melco Crown Entertainment"), Melco China Resorts (Holding) Limited ("MCR BC"), Elixir Gaming Technologies, Inc. ("EGT") and the Group consider the credit risk is minimal after considering the financial position of these associates. In addition, the credit risk on liquid funds is minimised as they are deposited with several banks with high credit ratings. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The Group and the Company also expose to concentration of credit risk in respect of guarantee given to a jointly controlled entity (note 43). This jointly controlled entity issued exchangeable bonds of HK$1,950 million (US$250 million) which are jointly and severally guaranteed by the Company and another shareholder of the jointly controlled entity.

LIQUIDITY RISK

In the management of the liquidity risk, the Company and the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's and the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and shareholder's loan and ensures compliance with loan covenants.

The Company and the Group relies on shareholder's loan and bank borrowings as a significant source of liquidity. Details of which are set out in notes 42 and 44, respectively. As at 31 December 2008, the Company and the Group has available bank loan facilities of HK$313,000,000 (2007: HK$129,800,000).

6. FINANCIAL INSTRUMENTS – continued

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

LIQUIDITY RISK – continued

The following table details the Company's and the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company and the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

THE GROUP

	Weighted average interest rate	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008								
Non-derivative financial liabilities								
Trade and other payables	0.8%	306,490	11,190	95,705	–	–	413,385	411,729
Dividend payable	–	133	–	–	–	–	133	133
Shareholder's loan	8.3%	–	253,724	–	–	–	253,724	250,000
Bank borrowings	2.5%	80,060	4,460	16,753	168,933	51,156	321,362	313,000
Trade payables								
– due after one year	5.0%	–	–	–	87,584	–	87,584	81,678
Long term payable	3.1%	–	–	–	180,000	–	180,000	172,496
Convertible loan note	6.3%	–	–	–	1,175,000	–	1,175,000	1,061,861
		386,683	269,374	112,458	1,611,517	51,156	2,431,188	2,290,897

6. FINANCIAL INSTRUMENTS – continued

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

LIQUIDITY RISK – continued

Liquidity and interest risk tables – continued

	Weighted average interest rate	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007								
Non-derivative financial liabilities								
Trade and other payables	–	232,811	–	–	–	–	232,811	232,811
Dividend payable	–	118	–	–	–	–	118	118
Shareholder's loan	9.3%	–	7,491	266,059	–	–	273,550	250,000
Bank borrowings	4.4%	136	384	82,671	–	–	83,191	80,000
Long term payable	5.0%	–	–	–	180,000	–	180,000	168,142
Convertible loan note	6.3%	–	–	–	–	1,175,000	1,175,000	999,399
		233,065	7,875	348,730	180,000	1,175,000	1,944,670	1,730,470

THE COMPANY

	Weighted average interest rate	**Less than 1 month HK$'000**	**1-3 months HK$'000**	**3 months to 1 year HK$'000**	**1-2 years HK$'000**	**2-5 years HK$'000**	**Total undiscounted cash flows HK$'000**	**Carrying amount at 31.12.2008 HK$'000**
2008								
Non-derivative financial liabilities								
Other payables	**–**	**2,933**	**–**	**–**	**–**	**–**	**2,933**	**2,933**
Amounts due to associates	**–**	**421**	**–**	**–**	**–**	**–**	**421**	**421**
Amounts due to subsidiaries	**2.3%**	**526**	**3,511**	**4,073**	**48,291**	**–**	**56,401**	**53,526**
Dividend payable	**–**	**133**	**–**	**–**	**–**	**–**	**133**	**133**
Shareholder's loan	**8.3%**	**–**	**253,724**	**–**	**–**	**–**	**253,724**	**250,000**
Bank borrowings	**2.1%**	**80,060**	**562**	**1,717**	**150,481**	**–**	**232,820**	**230,000**
Convertible loan note	**6.3%**	**–**	**–**	**–**	**1,175,000**	**–**	**1,175,000**	**1,061,861**
		84,073	**257,797**	**5,790**	**1,373,772**	**–**	**1,721,432**	**1,598,874**

6. FINANCIAL INSTRUMENTS – continued

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

LIQUIDITY RISK – continued

Liquidity and interest risk tables – continued

	Weighted average interest rate	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007								
Non-derivative financial liabilities								
Amounts due to associates	–	2,163	–	–	–	–	2,163	2,163
Amounts due to subsidiaries	–	129	–	–	–	–	129	129
Dividend payable	–	118	–	–	–	–	118	118
Shareholder's loan	9.3%	–	7,451	266,059	–	–	273,510	250,000
Bank borrowings	4.4%	136	384	82,671	–	–	83,191	80,000
Convertible loan note	6.3%	–	–	–	–	1,175,000	1,175,000	999,399
		2,546	7,835	348,730	–	1,175,000	1,534,111	1,331,809

At 31 December 2008 and 2007, it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the amounts which the Group and the Company may be required to pay under outstanding financial guarantee contracts with carrying amounts of approximately HK$167,025,000 (2007: HK$212,242,000) have not been presented above. The holders of the convertible loan note issued by a jointly controlled entity of the Group (note 43) can require settlement of financial guarantee issued by the Company in year 2012.

6. FINANCIAL INSTRUMENTS – continued

6C. FAIR VALUE

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices respectively;

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input; and

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, fair value is determined by discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. The fair value of investment in convertible loan note is determined using Binomial Model.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	THE GROUP AND THE COMPANY			
	2008		2007	
	Carrying amount HK$'000	**Fair value HK$'000 (Note)**	Carrying amount HK$'000	Fair value HK$'000 (Note)
Financial liabilities				
Convertible loan note	**1,061,861**	**1,027,959**	999,399	885,461

Note: The fair value of the liability component of the convertible loan note issued by the Company is determined with reference to the present value of the convertible loan notes using borrowing rate of 8.3% (2007: 6.25%) determined by reference to the rate of interest on the shareholder's loan of the Group of similar terms at respective balance sheet dates.

7. REVENUE

An analysis of the Group's revenue is as follows:

	Continuing operation		Discontinued operation		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Implementation of technology solution systems	**247,173**	261,940	**–**	–	**247,173**	261,940
Sales of electronic gaming machines	**265,659**	311,556	**–**	–	**265,659**	311,556
Sales of leisure and gaming products	**–**	28,828	**–**	–	**–**	28,828
Catering service income	**103,260**	90,725	**–**	–	**103,260**	90,725
Brokerage commission from dealing in securities and futures and options contracts	**–**	–	**–**	140,953	**–**	140,953
Interest income from clients	**–**	–	**–**	55,427	**–**	55,427
Interest income from authorised institutions and associates	**68,129**	100,227	**–**	–	**68,129**	100,227
Underwriting, sub-underwriting, placing and sub-placing commission	**–**	–	**–**	7,423	**–**	7,423
Arrangement, management, advisory and other fee income	**–**	–	**–**	6,823	**–**	6,823
Property rental income	**5,441**	10,419	**–**	–	**5,441**	10,419
Management fee income	**1,200**	1,200	**–**	–	**1,200**	1,200
	690,862	804,895	**–**	210,626	**690,862**	1,015,521

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three operating divisions including Leisure, Gaming and Entertainment, Technology, and Property and Other Investments.

The Leisure, Gaming and Entertainment segment mainly comprises provision of catering, entertainment, gaming and related services.

The Technology segment mainly comprises (a) designs, development and supply of gaming technologies, including surveillance equipment and other gaming products used in casinos and (b) development and sale of financial trading and settlement systems in other Asian regions.

The Property and Other Investments segment mainly comprises property investments and other investments.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

(A) BUSINESS SEGMENTS – continued

The investment and financial services segment was operated through a non-wholly owned subsidiary of the Company, Value Convergence Holdings Limited ("VC"),which mainly comprised (a) provision of corporate finance advisory service, initial public offerings and mergers and acquisition advisory services and (b) broking and dealing for clients in securities, futures and options contracts. As disclosed in note 18, VC was deemed disposed of during 2007. The Investment and Financial Services segment was thus discontinued during the year ended 31 December 2007.

2008

	Leisure, Gaming and Entertainment HK$'000	Technology HK$'000	Property and Other Investments HK$'000	Elimination HK$'000	Consolidated HK$'000
External sales	103,260	512,832	74,770	–	690,862
Inter-segment sales	1,342	189	1,811	(3,342)	–
Total revenue	104,602	513,021	76,581	(3,342)	690,862
Segment result	2,879	(251,869)	88,065	(7)	(160,932)
Gain on changes in interests in associates					48,466
Fair value changes on derivative financial instruments					(227,691)
Fair value change on investment in convertible loan note					(206,428)
Finance costs					(107,401)
Share of profits of jointly controlled entities	109,108	–	–	–	109,108
Share of losses of associates					
– Allocated	(390,465)	–	–	–	(390,465)
– Unallocated					3,290
Impairment loss recognised in respect of interests in associates	(1,160,838)	–	–	–	(1,160,838)
Impairment loss recognised in respect of available-for-sale investments					(147,861)
Gain on extension of long term payable					2,517
Unallocated corporate income					45,217
Unallocated corporate expenses					(159,311)
Loss before tax					(2,352,329)
Income tax expense					(885)
Loss for the year					(2,353,214)

Inter-segment sales are charged at terms agreed by both parties.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

(A) BUSINESS SEGMENTS – continued

2008

	Leisure, Gaming and Entertainment HK$'000	Technology HK$'000	Property and Other Investments HK$'000	Unallocated HK$'000	Consolidated HK$'000
BALANCE SHEET					
Assets					
Segment assets	44,559	417,886	617,184	–	1,079,629
Interests in jointly controlled entities	190,227	–	–	–	190,227
Interests in associates	6,860,831	–	–	265,879	7,126,710
Unallocated corporate assets					2,009,615
Consolidated total assets					10,406,181
Liabilities					
Segment liabilities	14,424	484,948	690	–	500,062
Unallocated corporate liabilities					1,980,579
Consolidated total liabilities					2,480,641
OTHER INFORMATION					
Capital additions	2,232	14,307	–	3,232	19,771
Depreciation	5,395	3,654	–	12,689	21,738
Loss (gain) on disposal of property, plant and equipment	14	(137)	42	–	(81)
Allowance for doubtful debts	–	6,222	–	–	6,222
Allowance for inventories	–	220,030	–	–	220,030

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

(A) BUSINESS SEGMENTS – continued

2007

	Continuing operations					Discontinued operation			
	Leisure, Gaming and Entertainment HK$'000	Technology HK$'000	Property and Other Investments HK$'000	Elimination HK$'000	Total HK$'000	Investment and Financial Services HK$'000	Elimination HK$'000	Total HK$'000	Consolidated HK$'000
External sales	125,573	573,496	105,826	–	804,895	210,626	–	210,626	1,015,521
Inter-segment sales	1,150	2,178	10,946	(14,274)	–	483	(483)	–	–
Total revenue	126,723	575,674	116,772	(14,274)	804,895	211,109	(483)	210,626	1,015,521
Segment result	(74,229)	23,282	118,884	(296)	67,641	69,023	(483)	68,540	136,181
Agency fee income					1,232,057			–	1,232,057
(Loss) gain on deemed disposal of partial interests in subsidiaries					(76,948)			37,194	(39,754)
(Loss) gain on deemed disposals of subsidiaries					(143,368)			78,080	(65,288)
Gain on disposal of interests in jointly controlled entities					532,604			–	532,604
Gain on changes in interests in associates					1,549,361			–	1,549,361
Fair value changes on derivative financial instruments					190,126			–	190,126
Finance costs					(76,235)			(19,862)	(96,097)
Share of losses of jointly controlled entities	(157,713)	–	–	–	(157,713)			–	(157,713)
Share of losses of associates									
– Allocated	(527,468)	–	–	–	(527,468)			–	(527,468)
– Unallocated					7,930			–	7,930
Gain on extension of long term payable					9,656			–	9,656
Gain on early redemption of convertible loan notes					8,827			–	8,827
Cost of agency service					(14,551)			–	(14,551)
Unallocated corporate income					13,562			–	13,562
Unallocated corporate expenses					(101,962)			–	(101,962)
Profit before tax					2,513,519			163,952	2,677,471
Income tax credit (expense)					69			(8,877)	(8,808)
Profit for the year					2,513,588			155,075	2,668,663

Inter-segment sales are charged at terms agreed by both parties.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

(A) BUSINESS SEGMENTS – continued

2007

	Leisure, Gaming and Entertainment HK$'000	Technology HK$'000	Property and Other Investments HK$'000	Unallocated HK$'000	Consolidated HK$'000
BALANCE SHEET					
Assets					
Segment assets	47,340	396,698	842,322	–	1,286,360
Interests in jointly controlled entities	81,119	–	–	–	81,119
Interests in associates	8,426,030	–	–	263,241	8,689,271
Unallocated corporate assets					2,257,429
Consolidated total assets					12,314,179
Liabilities					
Segment liabilities	15,974	227,203	404	–	243,581
Unallocated corporate liabilities					1,729,055
Consolidated total liabilities					1,972,636

2007

	Continuing operations				Discontinued operation	
	Leisure, Gaming and Entertainment HK$'000	Technology HK$'000	Property and Other Investments HK$'000	Total HK$'000	Investment and Financial Services HK$'000	Consolidated HK$'000
OTHER INFORMATION						
Capital additions (Note)	151,359	5,816	20,284	177,459	1,715	179,174
Depreciation	11,039	2,364	5,849	19,252	1,129	20,381
Amortisation of trading rights	–	–	–	–	364	364
Loss on disposal of property, plant and equipment	140	9	172	321	1	322
Allowance for doubtful debts	1,095	1,212	–	2,307	88	2,395

Note: Apart from the capital additions disclosed above, the Group acquired a subsidiary, EGT, with goodwill of approximately HK$1,464,150,000, intangible assets of approximately HK$43,787,000 and property, plant and equipment of approximately HK$199,584,000 during 2007 (see note 51).

8. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

(B) GEOGRAPHICAL SEGMENTS

The Leisure, Gaming and Entertainment, Technology and Property and Other Investments divisions are operated in Hong Kong and Macau.

The following is an analysis of the Group's revenue by geographical market based on geographical location of customers, irrespective of the origin of the goods or services.

	2008 HK$'000	2007 HK$'000
Hong Kong	**224,059**	460,432
Macau	**466,780**	483,814
Other Asian countries	**23**	71,275
	690,862	1,015,521

Revenue from the Group's discontinued operation for 2007 was derived from Hong Kong.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment,**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Hong Kong	**629,468**	961,695	**7,464**	33,319
Macau	**429,497**	300,628	**11,768**	1,349
Other Asian countries	**20,664**	24,037	**539**	144,506
	1,079,629	1,286,360	**19,771**	179,174

9. OTHER INCOME

	Continuing operations		**Discontinued operation**		**Consolidated**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Service fees from associates	**19,768**	12,581	**–**	–	**19,768**	12,581
Exchange gain, net	**–**	1,861	**–**	247	**–**	2,108
Imputed financial guarantee income	**45,217**	13,464	**–**	–	**45,217**	13,464
Others	**3,711**	6,233	**–**	131	**3,711**	6,364
	68,696	34,139	**–**	378	**68,696**	34,517

10. INVESTMENT (LOSS) INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Loss on disposal of held-for-trading investments	**–**	–	**–**	(137)	**–**	(137)
(Loss) gain from fair value change of held-for-trading investments	**(280)**	101	**–**	1,093	**(280)**	1,194
Dividend income from unlisted investments	**36**	2,219	**–**	–	**36**	2,219
Dividend income from listed investments	**–**	520	**–**	–	**–**	520
	(244)	2,840	**–**	956	**(244)**	3,796

11. EMPLOYEE BENEFITS EXPENSE

	Continuing operations		Discontinued operation		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Wages, salaries and staff welfare	**139,989**	165,753	**–**	27,840	**139,989**	193,593
Sales commission	**564**	394	**–**	77,501	**564**	77,895
Unutilised annual leave	**621**	143	**–**	–	**621**	143
Termination benefits	**1,460**	146	**–**	–	**1,460**	146
Social security costs	**26**	473	**–**	–	**26**	473
Provision for long service payment	**1,882**	(177)	**–**	–	**1,882**	(177)
Retirement benefit scheme contributions	**2,988**	3,015	**–**	815	**2,988**	3,830
Forfeiture of retirement benefit scheme contributions	**–**	–	**–**	(25)	**–**	(25)
Share-based payment employee expense	**20,636**	9,393	**–**	264	**20,636**	9,657
Others	**1,299**	1,843	**–**	592	**1,299**	2,435
Total employee benefits expense including directors' emoluments	**169,465**	180,983	**–**	106,987	**169,465**	287,970

12. LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2007, the Group subscribed 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-sales 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 ranged 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 entering the PPA, a subsidiary of the Company, Elixir Group Limited ("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 had 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 remained at US$2.65. As a result of the issuance of Second Shares and Second Warrants, an agency fee income of HK$1,232,057,000 was thus recognised, which represent the fair values of the Second Shares based on the market price of EGT and the Second Warrants determined using binomial model, and EGT then became a subsidiary of the Company (see note 51 for details).

In October 2007, EGT completed a placement of shares to parties other than the Company. EGT remained as a subsidiary of the Company after the completion of EGT placement of shares and the loss on deemed disposal of partial interests in subsidiaries was included in the amount disclosed in note 13.

In December 2007, the Group entered into an agreement ("Disposal Agreement") to dispose of 6,000,000 First Warrants with an exercise price of US$1.00 to US$3.50 plus 10,000,000 Second Warrants to an independent third party ("Purchaser") at a consideration of approximately HK$102,960,000. According to the Disposal Agreement, the First Warrants and Second Warrants are disposed of by the Group subject to the exercise of the First Warrants and Second Warrants by the Purchaser. After the completion of the disposal and exercise of warrants, EGT became an associate of the Company. Thereafter, upon exercise of the warrants by the Purchaser, the Group therefore recognised a loss on deemed disposal of subsidiaries of approximately HK$143,368,000 during the year ended 31 December 2007 being the excess of the goodwill attributable to the decrease in interest over the increase in the net assets of EGT attributable to the Group's interest arising from the deemed disposal. After the completion of the Disposal Agreement, the Group had 1,000,000 First Shares, 40,000,000 Second Shares and 10,000,000 First Warrants and 12,000,000 Second Warrants.

Subsequent to the deemed disposal, the Group entered into another agreement with EGT to convert 12,000,000 Second Warrants to 4,800,000 shares of EGT as additional interest in this associate during the year ended 31 December 2007.

As EGT has already established its market presence and connection in the gaming industry, the Group therefore entered into a termination agreement ("Termination Agreement") with EGT to terminate the PPA in November 2008. According to the Termination Agreement, Elixir will cease to provide agency service to source and refer gaming operators to EGT and therefore terminate the rights for additional shares and warrants to be issued by EGT upon achieving the remaining milestones.

12. LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES – continued

After the Termination Agreement, the Group agreed with EGT to settle the receivable from EGT relating to the EGM transactions of approximately HK$93,898,000 by twenty-four installments which are interest bearing at 5% per annum (note 37). The whole amount of approximately HK$93,898,000 would have been past due should there be no renegotiation of the term.

13. LOSS ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

During the year ended 31 December 2007, the Group's interest in EGT, a subsidiary acquired during the year 2007, decreased resulting from a placement of shares by EGT in October 2007 (see note 12 for details of the transactions with EGT).

As a result of the above decrease in interest in EGT, the Group then recognised a loss on deemed disposal of partial interests in subsidiaries of approximately HK$76,948,000 during the year ended 31 December 2007, being the excess of the goodwill attributable to the decrease in interests over the increase in the net assets of EGT attributable to the Group's interest arising from the deemed disposal.

14. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INTERESTS IN ASSOCIATES

During the year ended 31 December 2008, the Group performed an impairment assessment on its interests in associates with reference to the recoverable amount and recognised an impairment loss of approximately HK$1,160,838,000 in relation to its interests in associates – EGT and MCR BC. MCR BC is a company having its shares listed on TSX Venture Exchange in Toronto, Canada ("TSX") and the recoverable amounts of EGT and MCR BC have been determined based on the quoted bid prices of the shares of EGT and MCR BC as at 31 December 2008. The recoverable amount of interests in EGT and MCR BC was approximately HK$57,268,000 in aggregate.

15. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Interest on:						
Bank borrowings wholly repayable within five years	**8,104**	937	**–**	19,862	**8,104**	20,799
Shareholder's loan	**22,682**	1,780	**–**	–	**22,682**	1,780
Effective interest expense on convertible loan notes	**62,462**	62,382	**–**	–	**62,462**	62,382
Imputed interest expense on long term payable	**6,871**	7,261	**–**	–	**6,871**	7,261
Interest expenses to suppliers and others	**7,282**	3,875	**–**	–	**7,282**	3,875
	107,401	76,235	**–**	19,862	**107,401**	96,097

16. (LOSS) PROFIT BEFORE TAX

	Continuing operations		Discontinued operation		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
(Loss) profit before tax has been arrived at after charging:						
Auditor's remuneration	**1,845**	2,400	**–**	589	**1,845**	2,989
Allowance for doubtful debts	**6,222**	2,307	**–**	88	**6,222**	2,395
Allowance on other receivables (note a)	**19,540**	–	**–**	–	**19,540**	–
Allowance for inventories (note b)	**220,030**	–	**–**	–	**220,030**	–
Loss on disposal of property, plant and equipment	**–**	321	**–**	1	**–**	322
Cost of agency service	**–**	14,551	**–**	–	**–**	14,551
and after crediting:						
Gross rental income	**5,441**	10,419	**–**	–	**5,441**	10,419
Less: direct operating expenses from investment properties that generated rental income during the year	**(3,980)**	(5,772)	**–**	–	**(3,980)**	(5,772)
Net rental income	**1,461**	4,647	**–**	–	**1,461**	4,647
Gain on disposal of property, plant and equipment	**81**	–	**–**	–	**81**	–

Notes:

(a) Amount represents advance to a shareholder of an associate and impairment is recognised during the year ended 31 December 2008 due to the financial difficulty of this shareholder of an associate.

(b) Allowance for inventories is recognised in view of the decrease in demand on the related merchandise and the amount is determined based on the merchandise's net realisable value.

17. INCOME TAX (EXPENSE) CREDIT

	Continuing operations		Discontinued operation		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Current tax:						
– Hong Kong	**–**	–	**–**	(7,196)	**–**	(7,196)
– Other jurisdictions	**–**	(1,473)	**–**	–	**–**	(1,473)
	–	(1,473)	**–**	(7,196)	**–**	(8,669)
Underprovision in prior years:						
– Hong Kong	**–**	(50)	**–**	–	**–**	(50)
– Other jurisdictions	**(12)**	–	**–**	–	**(12)**	–
Deferred taxation (note 47):						
– Current year	**(782)**	1,592	**–**	(1,681)	**(782)**	(89)
– Attributable to a change in tax rate	**(91)**	–	**–**	–	**(91)**	–
	(885)	69	**–**	(8,877)	**(885)**	(8,808)

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profit for the year. The opening balance deferred tax assets and liabilities are adjusted to account for the decrease in the tax rate.

No provision for Hong Kong Profits Tax for the year ended 31 December 2008 is made as there is no estimated assessable profit derived from Hong Kong. Taxation arising in other jurisdictions are calculated at the rate prevailing in the respective jurisdictions.

17. INCOME TAX (EXPENSE) CREDIT – continued

The charge for the year can be reconciled to the (loss) profit before tax per consolidated income statement as follows:

	2008 HK$'000	2007 HK$'000
(Loss) profit before tax:		
Continuing operations	**(2,352,329)**	2,513,519
Discontinued operation	**–**	163,952
	(2,352,329)	2,677,471
Tax at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	**(388,134)**	468,557
Tax effect of share of results of associates and jointly controlled entities	**45,881**	118,519
Tax effect of expenses not deductible for tax purposes	**353,294**	63,280
Tax effect of income not taxable for tax purposes	**(29,140)**	(650,285)
Underprovision in respect of prior years, net	**12**	50
Tax effect of different tax rates of the subsidiaries operating in other jurisdictions	**–**	(1,574)
Tax effect of unrecognised deferred tax assets	**22,849**	14,388
Utilisation of tax losses previously not recognised	**(3,968)**	(4,008)
Decrease in opening deferred tax balance resulting from a decrease in applicable tax rate	**91**	–
Others	**–**	(119)
Tax charge for the year	**885**	8,808

18. DISCONTINUED OPERATION

During the year ended 31 December 2007, the Group's interest in VC decreased resulting from i) the exercise of certain VC share options by the share option holders, who are minority shareholders of VC, and ii) the two placements of shares by VC.

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 VC decreased to about 52.22%. VC 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$37,194,000 during the year ended 31 December 2007, which represent the increase in the net assets of VC attributable to the Group's interest arising from the deemed disposal, was recognised during the year ended 31 December 2007.

The second placement was completed in September 2007 where 61,000,000 shares were issued at HK$4.2 per share and the Company's shareholding in VC decreased to about 43.57%. VC therefore becomes an associate of the Company after the second placement.

18. DISCONTINUED OPERATION – continued

VC was therefore deemed disposed of and the Investment and Financial Services segment was therefore discontinued and a gain on deemed disposal of subsidiaries of approximately HK$78,080,000 was recognised during the year ended 31 December 2007.

The results and cash flows of this discontinued operation included in the consolidated income statement and the consolidated cash flow statement are set out below.

	2008 HK$'000	2007 HK$'000
Profit for the year from discontinued operation		
Revenue	–	210,626
Other and investment income	–	1,334
Gain on deemed disposal of partial interests in subsidiaries	–	37,194
Finance costs	–	(19,862)
Expenses	–	(143,420)
Profit before tax	–	85,872
Income tax expense	–	(8,877)
Profit for the year	–	76,995
Gain on deemed disposal of subsidiaries	–	78,080
Profit for the year from discontinued operation	–	155,075
Cash flows from discontinued operation		
Net cash flows used in operating activities	–	(1,452,462)
Net cash flows from investing activities	–	612
Net cash flows from financing activities	–	1,442,633
Net cash outflows	–	(9,217)

19. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2007: seven) directors were as follows:

2008

	Mr. Ho, Lawrence Yau Lung HK$'000	Mr. Frank Tsui HK$'000	Mr. Clarence Chung HK$'000	Mr. Ng Ching Wo HK$'000	Sir Roger Lobo HK$'000	Dr. Lo Ka Shui HK$'000	Mr. Sham Sui Leung HK$'000	Total HK$'000
Fees	–	–	–	380	417	280	300	1,377
Other emoluments								
Salaries and other benefits	3,940	3,206	3,206	–	–	–	–	10,352
Retirement benefit scheme contributions	10	12	12	–	–	–	–	34
Share-based compensation	3,905	1,370	1,680	847	847	847	586	10,082
Total emoluments	7,855	4,588	4,898	1,227	1,264	1,127	886	21,845

2007

	Mr. Ho, Lawrence Yau Lung HK$'000 (Note 1)	Mr. Frank Tsui HK$'000	Mr. Clarence Chung HK$'000	Mr. Ng Ching Wo HK$'000	Sir Roger Lobo HK$'000	Dr. Lo Ka Shui HK$'000	Mr. Sham Sui Leung HK$'000 (Note 1)	Total HK$'000
Fees	–	–	–	380	380	280	440	1,480
Other emoluments								
Salaries and other benefits	6,672	3,307	2,800	–	–	–	–	12,779
Retirement benefit scheme contributions	21	12	12	–	–	–	–	45
Share-based compensation	–	–	627	660	660	660	660	3,267
Total emoluments	6,693	3,319	3,439	1,040	1,040	940	1,100	17,571

Note 1: Mr. Ho, Lawrence Yau Lung and Mr. Sham Sui Leung were also the directors of VC, who received total emoluments of HK$432,000 and HK$140,000 thereof, respectively, and included in above.

A director waived emoluments of approximately HK$202,000 in the year ended 31 December 2008. No director waived or agreed to waive any emoluments in the year ended 31 December 2007. No emoluments have been paid to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year, 3,148,520 share options and 1,379,320 awarded shares (2007: Nil) were granted to directors of the Company in respect of their services provided to the Group, further details are set out in note 50.

20. EMPLOYEES' EMOLUMENTS

Of five individuals with the highest emoluments in the Group, three are directors (2007: one director) of the Company whose emoluments are included in note 19 above. The emoluments of the remaining two (2007: four) individuals were as follows:

	2008 HK$'000	2007 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**6,042**	28,587
Retirement benefit scheme contributions	**24**	36
Share-based compensation	**5,332**	100
	11,398	28,723

Their emoluments were within the following bands:

	Number of employees	
	2008	2007
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,500,001 to HK$5,000,000	**–**	2
HK$7,500,001 to HK$8,000,000	**1**	–
HK$8,000,001 to HK$8,500,000	**–**	1
HK$11,000,001 to HK$11,500,000	**–**	1
	2	4

21. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Dividends recognised as distribution during the year:		
2007 final dividend: HK1 cent (2007: 2006 final dividend of HK1 cent) per share	**12,271**	12,282

The dividends for shares held under the share purchase scheme are eliminated from the final dividend for 2007.

Note: The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2008.

22. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	Continuing and discontinued operations		Continuing operations	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
(Loss) earnings				
(Loss) earnings for the purpose of basic (loss) earnings per share ((loss) profit for the year attributable to equity holders of the Company)	**(2,356,819)**	2,690,639	**(2,356,819)**	2,549,313
Effect of dilutive potential ordinary shares:				
Interest on convertible loan notes	**–**	62,382	**–**	62,382
Adjustment to the share of results of associates (2007: a subsidiary) based on potential dilution of their (loss) earnings per share	**(111)**	(475)	**(111)**	–
(Loss) earnings for the purpose of diluted (loss) earnings per share	**(2,356,930)**	2,752,546	**(2,356,930)**	2,611,695

	2008 **'000**	2007 '000	**2008** **'000**	2007 '000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,226,994**	1,228,241	**1,226,994**	1,228,241
Effect of dilutive potential ordinary shares:				
Share options	**–**	9,978	**–**	9,978
Convertible loan notes	**–**	149,306	**–**	149,306
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**1,226,994**	1,387,525	**1,226,994**	1,387,525

The number of shares adopted in the calculation of the basic (loss) earnings per share has been arrived at after eliminating the shares of the Company held under the Company's share award schemes. The computation of diluted loss per share for the year ended 31 December 2008 does not assume the conversion of the Company's outstanding convertible loan notes, the effect of share option, unvested awarded shares under the Company's long-term incentive schemes (see note 50) since their exercise would result in a decrease in loss per share.

22. (LOSS) EARNINGS PER SHARE – continued

FROM DISCONTINUED OPERATION

Basic earnings per share for the discontinued operation is HK$0.115 per share and diluted earnings per share for the discontinued operation is HK$0.102 per share for the year ended 31 December 2007, based on the profit for the year from the discontinued operation attributable to equity holders of the Company of HK$141,326,000 adjusted by share of result of a subsidiary based on potential dilution of its earnings per share of HK$475,000 and the denominators detailed above for both basic and diluted earnings per share.

23. INVESTMENT PROPERTIES

	THE GROUP HK$'000
FAIR VALUE	
At 1 January 2007	141,940
Net increase in fair value recognised in the consolidated income statement	10,060
At 31 December 2007 and 1 January 2008	152,000
Net increase in fair value recognised in the consolidated income statement	14,000
At 31 December 2008	166,000

The carrying value of investment properties shown above comprises:

	2008 **HK'000**	2007 HK'000
Properties in Hong Kong	**106,000**	85,000
Properties in Macau	**60,000**	67,000
	166,000	152,000

The Group's investment properties comprise leasehold land in Hong Kong and Macau held under long term lease and short term lease respectively.

The fair value of the Group's investment properties at 31 December 2008 and 31 December 2007 have been arrived at on the basis of a valuation carried out on that date by Savills (Macau) Limited, an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in similar location.

All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

24. PROPERTY, PLANT AND EQUIPMENT

	Restaurant vessels, ferries and pontoons HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Gaming machine HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP							
COST							
At 1 January 2007	63,724	140	13,550	83,306	683	1,895	163,298
Exchange adjustments	–	–	8	24	–	26	58
Additions	8,761	–	13,640	18,394	137,338	1,041	179,174
Acquisition of subsidiaries	–	–	3,321	22,869	171,940	1,454	199,584
Disposal of subsidiaries	–	–	(9,196)	(42,182)	(309,080)	(1,666)	(362,124)
Disposals	–	–	(1,797)	(3,040)	–	(60)	(4,897)
At 31 December 2007	72,485	140	19,526	79,371	881	2,690	175,093
Exchange adjustments	–	–	108	53	–	71	232
Additions	1,730	–	983	8,086	8,972	–	19,771
Disposals	(60)	(140)	(4,706)	(3,872)	–	(700)	(9,478)
Transferred to inventories	–	–	–	–	(9,853)	–	(9,853)
At 31 December 2008	74,155	–	15,911	83,638	–	2,061	175,765
ACCUMULATED DEPRECIATION							
At 1 January 2007	43,000	57	9,944	69,670	34	648	123,353
Exchange adjustments	–	–	5	19	–	14	38
Provided for the year	3,688	3	4,174	7,744	4,310	462	20,381
Disposal of subsidiaries	–	–	(4,688)	(14,868)	(4,151)	(33)	(23,740)
Disposals	–	–	(1,733)	(2,807)	–	(35)	(4,575)
At 31 December 2007	46,688	60	7,702	59,758	193	1,056	115,457
Exchange adjustments	–	–	–	6	–	19	25
Provided for the year	3,949	3	8,900	8,334	140	412	21,738
Disposals	–	(63)	(2,759)	(1,153)	–	(124)	(4,099)
Transferred to inventories	–	–	–	–	(333)	–	(333)
At 31 December 2008	50,637	–	13,843	66,945	–	1,363	132,788
CARRYING VALUES							
At 31 December 2008	23,518	–	2,068	16,693	–	698	42,977
At 31 December 2007	25,797	80	11,824	19,613	688	1,634	59,636

24. PROPERTY, PLANT AND EQUIPMENT – continued

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Restaurant vessels, ferries and pontoons	5% to 10%
Buildings	2.5% to 4%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10% to $33^1/_3$%
Gaming machine	20%
Motor vehicles	10% to 20%

At 31 December 2007, the Group's building of approximately HK$80,000 was located in Hong Kong under long term lease.

25. OTHER INTANGIBLE ASSETS

	THE GROUP HK$'000
COST	
At 1 January 2007	3,839
Acquired on acquisition of subsidiaries	43,787
Disposal of subsidiaries	(45,626)
At 31 December 2007, 1 January 2008 and 31 December 2008	2,000
IMPAIRMENT	
At 1 January 2007	1,292
Disposal of subsidiaries	(1,292)
At 31 December 2007, 1 January 2008 and 31 December 2008	–
CARRYING VALUE	
At 31 December 2008	2,000
At 31 December 2007	2,000

	THE COMPANY HK$'000
COST	
At 1 January 2007, 1 January 2008 and 31 December 2008	2,000

Other intangible assets represent club memberships with indefinite useful lives and are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

26. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2008 **HK$'000**	2007 HK$'000
Cost of unlisted investments in jointly controlled entities	**225,706**	225,706
Share of post-acquisition losses	**(35,479)**	(144,587)
	190,227	81,119

As at 31 December 2008 and 2007, the Group had interest in the following principal jointly controlled entity:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
Melco Crown SPV Limited ("Melco Crown SPV" and formerly known as Melco PBL SPV Limited)	Cayman Islands/ Hong Kong	Ordinary shares	50%	Issuer of exchangeable bonds which are convertible into shares of an associate of the Group

The above table list out the jointly controlled entity of the Group which in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of directors of the Company, result in particulars of excessive length.

As at 31 December 2008 and 2007, the Group's interests in jointly controlled entities are principally represented by interest in Melco Crown SPV. As disclosed in note 43, Melco Crown SPV is a joint venture for the issuance of exchangeable bonds ("Exchangeable Bonds") which can be convertible to shares of Melco Crown Entertainment, an associate of the Group. The income of this jointly controlled entity attributable to the Group's interests includes an amount of approximately HK$270,115,000 representing fair value gain on these Exchangeable Bonds, which are designated as financial liability at fair value through profit or loss.

During the year ended 31 December 2007, the Group disposed of its interest in a jointly controlled entity, PAL Development Limited ("PAL"), to Power Way Group Limited ("Power Way"), which is formed by the Group and certain independent third parties (collectively referred as "Shareholders"). On the same date, after the transfer of the interest in PAL and certain subsidiaries (collectively the "Assets") from the Shareholders to Power Way, Power Way then disposed of the Assets to MelcoLot Limited (formerly known as Melco LottVentures Limited and Wafer Systems Limited), a company independent from the Shareholders, in exchange for MelcoLot Limited's certain shares and convertible loan note. Power Way then becomes an associate of the Company. As a result of the disposal, the difference between carrying amount of the Group's interest in PAL of approximately HK$104,775,000 and the Group's relevant interest in the aggregate fair value of the assets held by Power Way of approximately HK$637,379,000 amounting to approximately HK$532,604,000 was recognised as a gain on disposal of interests in jointly controlled entities during the year ended 31 December 2007 (subsequent change in shareholding of MelcoLot Limited's shares during the year ended 31 December 2008 are disclosed in notes 27 and 30). The fair value of the MelcoLot Limited's shares and convertible loan note held by Power Way were determined with reference to the market price of MelcoLot Limited's shares and by using binomial model, respectively.

26. INTERESTS IN JOINTLY CONTROLLED ENTITIES – continued

The summarised unaudited financial information in respect of the Group's jointly controlled entities attributable to the Group's interests therein is set out below:

	2008 HK$'000	2007 HK$'000
Current assets	**856,156**	971,770
Non-current assets	**121,809**	167,025
Current liabilities	**(13)**	(83)
Non-current liabilities	**(787,725)**	(1,057,593)
Income	**295,353**	16,228
Expense	**186,245**	173,941

27. INTERESTS IN ASSOCIATES

	2008 HK$'000	2007 HK$'000
Cost of investment in associates		
Listed in the United States of America ("US")	**6,794,183**	6,795,754
Listed in Canada	**339,601**	–
Listed in Hong Kong	**279,698**	255,641
Unlisted	**294,868**	637,380
Gain on changes in interests in associates	**1,597,827**	1,549,361
Impairment losses recognised	**(1,160,838)**	–
Share of exchange and hedging reserves	**(111,916)**	(29,327)
Share of post-acquisition results	**(906,713)**	(519,538)
	7,126,710	8,689,271
Fair value of listed investments (note a)	**4,249,846**	16,521,660
Carrying amount of interests in associates with shares listed on respective stock exchanges	**7,078,723**	8,051,353

27. INTERESTS IN ASSOCIATES – continued

As at the balance sheet date, the Group had interests in the following principal associates:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership 2008	2007	Principal activities
Melco Crown Entertainment (Note b)	Cayman Islands/ Macau	Ordinary shares	**37.83%**	37.85%	Operating of electronic gaming machine lounges, casino games of chance and other casino games and hotel business
VC (Note b)	Hong Kong/ Hong Kong	Ordinary shares	**43.36%**	43.50%	Provision of financial and investment services
Melco China Resort Investment Limited ("MCR")	Cayman Islands/ People's Republic of China ("PRC")	Ordinary shares	**–**	45%	Operating of ski resorts
MCR BC (Note b)	Canada/PRC	Ordinary shares and convertible preference shares	**49.30%**	–	Operating of ski resorts
MelcoLot Limited (Note b and d)	Cayman Islands/ PRC	Ordinary shares	**10.41%**	–	Lottery business management services and provision of network system integration solutions
Power Way (Note c)	British Virgin Islands/Hong Kong	Ordinary shares	**58.70%**	54.79%	Inactive after distribution as disclosed in note 30
EGT (Note b)	US/Philippines and Cambodia	Ordinary shares	**39.84%**	39.86%	Provision of electronic gaming machines to gaming operators

27. INTERESTS IN ASSOCIATES – continued

Notes:

(a) Fair values of listed investments are determined at the market price of listed shares as of year end on respective stock exchange.

(b) The American Depositary Shares of Melco Crown Entertainment are listed on the National Association of Securities Dealers Automated Quotations ("NASDAQ"). The shares of MCR BC are listed on TSX. The shares of VC are listed on the Stock Exchange. The shares of MelcoLot Limited are listed on the Growth Enterprise Market of the Stock Exchange. The shares of EGT are listed on American Stock Exchange.

(c) The Group holds 58.7% (2007: 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 certain other shareholders of Power Way, as such, it is accounted for as an associate.

(d) In addition to the ordinary shares of MelcoLot Limited held by the Group, the Group also holds investment in the convertible loan note issued by MelcoLot Limited (see note 30). The Group's effective interest in MelcoLot Limited would be increased to 31.5% on a fully-dilute basis if all outstanding convertible loan notes issued by MelcoLot Limited were fully converted. The Group is the single largest shareholder of MelcoLot Limited and one of the key management personnel of a subsidiary of the Company is also a director of MelcoLot Limited. As such, the directors of the Company believe that the Group has significant influence over MelcoLot Limited after taking into account the potential voting right from the Group's investment in MelcoLot Limited's convertible loan note.

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

As at 31 December 2007, included in the cost of investment in associates is goodwill of approximately HK$738,099,000 arising on acquisition of a subsidiary, EGT, which became an associate of the Group. During the year ended 31 December 2008, the goodwill related to EGT of approximately HK$738,099,000 was fully impaired.

During the year ended 31 December 2008, the Group's interests in certain associates have been changed with details disclosed below. A gain on changes in interests in associates amounted to approximately HK$48,466,000 (2007: HK$1,549,361,000) has been recognised in profit or loss.

(a) During the year ended 31 December 2008, the Group and its associate, MCR, entered into a series of transactions for the purpose of the amalgamation of MCR with Virtual China Travel Services, Co., Ltd. ("VCTS"), a company listed on the TSX Venture Exchange, including:

   i) In March 2008, the Group and the other two shareholders of MCR agreed to amend the Memorandum and Articles of Association of MCR such that it has three classes of shares with different economic interest. The original MCR shares held by the Group and the amount of HK$291 million which have been advanced by the Group to MCR, were exchanged for new shares so that the Group's economic interest in MCR increased from 45% to 70.1% while the voting power remained at 45%;

   ii) MCR BC issued shares in May 2008 in exchange for the shares of MCR held by all MCR shareholders, including the Group ("Share Swap"). Under the terms of the Share Swap, MCR BC issued 411,091,347 common shares and 84,375,653 convertible preference shares in exchange for the Group's interest in MCR. MCR became the wholly-owned subsidiary of MCR BC, which then became an associate of the Group. Each of the convertible preference share can be converted into one common share of MCR BC at any time after six months from date of issuance of 27 May 2008 without expiry date and entitle the holder a cumulative dividend of CAD0.001 per share;

27. INTERESTS IN ASSOCIATES – continued

iii) The Group and certain independent investors subscribed for common shares and warrants in MCR BC ("Subscription"). Under the subscription agreement entered into by the Group, the Group subscribed for 20,000,000 common shares and 10,000,000 warrants issued by MCR BC at a consideration of approximately HK$46,834,000 (CAD6,000,000). The cost of common shares of approximately HK$42,307,000 forms part of the Group's initial cost of investment in MCR BC while the remaining HK$4,527,000 represents the initial carrying amount of the warrants held by the Group, which are accounted for as derivative financial instruments. In addition, the independent investors subscribed for 220,436,358 common shares and 110,218,179 warrants issued by MCR BC at a consideration of approximately HK$516,196,000 (CAD66,131,000); and

iv) MCR BC then completed the amalgamation ("Amalgamation") with VCTS and MCR BC's common shares and warrants then commenced trading on the TSX Venture Exchange. Upon the completion of the Amalgamation, the common shares, convertible preference shares and warrants issued by MCR BC were also consolidated on a 10 to 1 basis.

The Share Swap, Subscription and Amalgamation were completed on or about the same date in May 2008. As a result, the Group's interest in the associate has been changed to 49.3% but the net assets of MCR BC attributable to the Group increases and a gain of approximately HK$54,370,000 was thus recognised.

(b) During the year ended 31 December 2008, the Group's ownership interest in Melco Crown Entertainment decreased from 37.85% to 37.83% resulting from the vesting of certain restricted shares issued by Melco Crown Entertainment. As a result, the Group therefore recognised a loss of approximately HK$3,136,000 which represents the decrease in net assets attributable to the Group.

(c) During the year ended 31 December 2008, the Group's ownership interest in VC decreased from 43.50% to 43.36% resulting from the exercise of certain share options of VC by the option holders. As a result, the Group recognised a loss of approximately HK$514,000 which represents the decrease in net assets of VC attributable to the Group during the year ended 31 December 2008.

(d) As disclosed in note 30, MelcoLot Limited became the Group's associate after the distribution by Power Way. During the year ended 31 December 2008, the Group's ownership interest in MelcoLot Limited decreased from 11.03% to 10.41% resulting from the issuance of shares by MelcoLot Limited. As a result, the Group therefore recognised a loss of approximately HK$2,254,000 which represents the decrease in net assets attributable to the Group.

(e) In January 2007, the underwriters of the global offering of American Depositary Shares ("ADSs") of the associate, Melco Crown Entertainment, fully exercised the over allotment option granted to them. The exercise in full of the over allotment option resulted in the issuance by Melco Crown Entertainment of an additional 9,037,500 ADSs, representing 27,112,500 ordinary shares. In addition, Melco Crown Entertainment completed a second offering of 37,500,000 ADSs, representing 112,500,000 ordinary shares in November 2007. The Group's interest in Melco Crown Entertainment is therefore decreased from 42.34% to 37.85% and a gain on deemed disposal of partial interests in associates of approximately HK$1,549,361,000 was therefore recognised during the year ended 31 December 2007 which represents the increase in net assets attributable to the Group.

27. INTERESTS IN ASSOCIATES – continued

The summarised financial information in respect of the Group's associate is set out below:

	2008 HK$'000	2007 HK$'000
Total assets	**38,356,518**	31,090,150
Total liabilities	**(18,599,332)**	(10,736,463)
Net assets	**19,757,186**	20,353,687
Group's share of net assets of associates	**7,549,449**	7,951,172
Less: Impairment loss	**(422,739)**	–
	7,126,710	7,951,172
Revenue	**11,501,320**	3,119,618
Loss for the year	**(1,009,928)**	(1,244,840)
Group's share of losses of associates for the year	**(387,175)**	(519,538)

28. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**1,040,712**	966,495

Details of the Company's principal subsidiaries at 31 December 2008 are set out in note 59.

29. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Unlisted equity security (Note)	**11,403**	19,837
equity securities listed in Hong Kong	**27,690**	136,500
	39,093	156,337

Note: Unlisted equity security which represents unlisted equity investment held by a subsidiary of the Company in an investment holding company is stated at fair value. The investee is engaged in investment in listed and unlisted equity and debt investment. An impairment loss of approximately HK$8,434,000 (2007: Nil) is recognised with reference to the estimated fair value of underlying listed and unlisted equity and debt investment held by this investment holding company.

30. INVESTMENT IN CONVERTIBLE LOAN NOTE

The investment in convertible loan note is designated as fair value through profit or loss as the convertible loan note contains embedded derivative. As discussed in note 26, the Group's associate, Power Way, held certain MelcoLot Limited's shares and convertible loan note as at 31 December 2007. In September 2008, Power Way distributed all MelcoLot Limited's shares and convertible loan note to its shareholders in proportion to the shareholding of each shareholder. MelcoLot Limited then becomes a direct associate of the Group and the fair value of MelcoLot Limited's convertible loan note at the date of distribution of approximately HK$375,001,000, which is determined using binomial model, is recognised as the deemed cost of Group's investment in convertible loan note of MelcoLot Limited.

During the year ended 31 December 2008, a decrease in fair value of approximately HK$206,428,000 regarding the MelcoLot Limited's convertible loan note was recognised in the consolidated income statement, which represents the fair value change of the MelcoLot Limited's convertible loan note from the date that MelcoLot Limited becomes an associate to 31 December 2008. The significant decrease in fair value of the MelcoLot Limited's convertible loan note is as a result of the decrease in share price of MelcoLot Limited. As at 31 December 2008, the fair value of the MelcoLot Limited's convertible loan note of approximately HK$168,573,000 is determined using binomial model and the inputs into the model by an independent valuer not connected to the Group were as follows:

	At date of distribution	2008
Expected volatility	78.99%	87.22%
Risk free interest rate	2.41%	1.05%
Dividend	Nil	Nil
Borrowing rate	18.25%	31.36%

The MelcoLot Limited's convertible loan note with a principal amount of HK$356.2 million can be converted into ordinary shares of MelcoLot Limited at a conversion price of HK$0.85 per ordinary share, subject to anti-dilutive adjustment, any time for a period of five years from date of issuance. The MelcoLot Limited's convertible loan note carries interest of 0.1% per annum and is subject to certain limitations on conversion and is redeemable at par at maturity date.

31. GOODWILL

	THE GROUP HK$'000
At 1 January 2007	16,878
Acquired on acquisition of a subsidiary	1,464,150
Deemed disposal of partial interests in subsidiaries	(248,518)
Deemed disposal of subsidiaries (note 52)	(1,223,955)
At 1 January 2008 and 31 December 2008	8,555

Particulars regarding impairment testing on goodwill are disclosed in note 32.

32. IMPAIRMENT TESTING ON GOODWILL

THE GROUP

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives set out in note 31 have been allocated to the individual cash generating units (CGU). The carrying amount of goodwill as at 31 December 2008 allocated to these units are as follows:

	Goodwill	
	2008 HK$'000	2007 HK$'000
Technology business	**8,555**	8,555

During the year ended 31 December 2008, management of the Group determines that there are no impairment of any of its CGUs containing goodwill.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 3-years period, which represents the management's best estimate of future cash flow from the CGUs, and a discount rate of approximately 16% (2007: 16%). The cash flows beyond the 3-year period are extrapolated using a zero growth rate for an indefinite period. Another key assumption is the budgeted revenue which is determined based on the CGUs' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the above CGUs to exceed the aggregate recoverable amounts of the above CGUs.

33. INVENTORIES

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Food and beverages	**1,085**	1,002
Consumables	**639**	3,262
Merchandise	**55,928**	21,500
	57,652	25,764

Included in the inventories are merchandise of HK$52,875,000 carried at net realisable value.

34. TRADE RECEIVABLES

	THE GROUP	
	2008 **HK$'000**	2007 HK$'000
Trade receivables (Notes a & b)	**63,192**	263,015
Allowance for doubtful receivables	**(7,502)**	(3,310)
	55,690	259,705

The aged analysis of trade receivables net of allowance for doubtful debts is as follows:

	THE GROUP	
	2008 **HK$'000**	2007 HK$'000
Within 30 days	**15,901**	200,792
31 – 90 days	**12,299**	7,665
Over 90 days	**27,490**	51,248
	55,690	259,705

Notes:

(a) The Group's Leisure, Gaming and Entertainment segment and Property and Other Investments segment are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms of 30 to 120 days would be granted.

(b) Trade receivables on the Group's Technology segment are due immediately from date of billing but the Group will generally grant a normal credit period of 30 days to 90 days on average to its customers.

Before accepting any new customer, the Group assesses the potential customer's credit quality by respective sales team and defines credit limit by customer. All trade receivables that are neither past due nor impaired have the best credit quality attributable to the credit assessment system used by the Group. Included in the Group's trade receivables balance are debtors with a carrying amount of HK$43,595,000 (2007: HK$66,491,000) which are past due over their credit terms for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

34. TRADE RECEIVABLES – continued

Ageing of trade receivables which are past due but not impaired:

	2008 HK$'000	2007 HK$'000
Within 30 days	**3,806**	8,786
31-90 days	**12,299**	7,540
Over 90 days	**27,490**	50,165
Total	**43,595**	66,491

The Group performed assessment on individual trade receivable balance and recognised allowance on specific balance.

Movement in the allowance for doubtful debts

	2008 HK$'000	2007 HK$'000
Balance at the beginning of the year	**3,310**	9,700
Impairment recognised	**6,222**	2,395
Amounts written off as uncollectible	**(2,030)**	–
Disposal of a subsidiary	**–**	(8,785)
Balance at the end of the year	**7,502**	3,310

35. HELD-FOR-TRADING INVESTMENTS

THE GROUP

Held-for-trading investments as at 31 December 2008 represents equity securities listed in Hong Kong of approximately HK$150,000 (2007: HK$430,000).

36. DERIVATIVE FINANCIAL INSTRUMENTS

THE GROUP

As a result of a series of transactions with EGT (note 12), the Group subscribed certain warrants issued by EGT which are recognised as derivative financial instruments. As at 31 December 2008, the Group had 10,000,000 (2007: 10,000,000) First Warrants outstanding issued by EGT. These outstanding warrants have exercise price ranged from US$1.00 to US$3.50 which are exercisable until 31 December 2010. As at 31 December 2008, fair value of the EGT warrants amounted to approximately Nil (2007: HK$223,626,000 was recognised as derivative asset in the consolidated balance sheet).

In addition, the Group subscribed 1,000,000 warrants, after consolidation on a 10 to 1 basis, issued by MCR BC (note 27(a)). These warrants have exercise price of CAD4 which are exercisable until May 2010. As at 31 December 2008, the fair value of the MCR BC warrants amounted to approximately HK$64,000 (2007: Nil) and was recognised as derivative financial assets in the consolidated balance sheet. The fair value of the MCR BC warrants was determined with reference to the quoted bid price at 31 December 2008.

The fair value of the EGT warrants at 31 December 2008 and 2007 were calculated using the binominal model carried out on that date by Sallmanns (Far East) Limited, independent qualified professional valuers not connected with the Group. The inputs into the model were as follows:

	2008	2007
Share price	**HK$1.01 (US$0.13)**	HK$33.45 (US$4.30)
Expected volatility	**76.72%**	53%
Risk-free rate	**0.77%**	3.29%
Dividend yield	**Nil**	Nil

During the year ended 31 December 2008, a decrease in fair value of approximately HK$227,691,000 regarding the derivative financial instruments represents the decrease in fair value of the EGT First Warrants of HK$223,626,000 and decrease in fair value of MCR BC warrants of approximately HK$4,065,000.

During the year ended 31 December 2007, an increase in fair value of approximately HK$190,126,000 regarding the EGT First Warrants and Second Warrants was recognised in the consolidated income statement, which represented the fair value change of the First Warrants from date of purchase to the date that EGT became subsidiary plus the fair value change of First Warrants from the date that EGT became an associate to the year ended 31 December 2007.

37. AMOUNTS DUE FROM (TO) ASSOCIATES

THE GROUP

Included in amounts due from associates are:

i) amount due from an associate of approximately HK$578,578,000 (2007: HK$578,578,000) which is unsecured, interest bearing at HIBOR plus 1.5% (2007: HIBOR rate) per annum and not repayable within twelve months from the balance sheet date. This associate continues to expand its gaming business in Macau and the Group considers no impairment on the amount due from this associate;

ii) amount due from an associate of approximately HK$173,976,000 (2007: Nil) which is unsecured and repayable on 31 March 2010. Approximately HK$93,773,000 out of the HK$173,976,000 is interest bearing at 3-month London Interbank Offered Rate ("LIBOR") plus 3% per annum and the remaining HK$80,203,000 is non-interest bearing such that a deemed capital contribution of approximately HK$5,770,000 has been recognised using interest rate at LIBOR plus 3% per annum. The Group has reviewed the financial position and the bank facilities available to this associate and considers no impairment on the amount due from this associate;

iii) amount due from an associate of approximately HK$93,898,000 (2007: Nil) (note 12) which is unsecured and interest bearing at 5% per annum. Approximately HK$45,779,000 out of the HK$93,898,000 is repayable within twelve months from the balance sheet date and the remaining HK$48,119,000 is repayable after twelve months from the balance sheet date. This associate has continued to settle the balance by installments and the Group considers no impairment on the amounts due from this associate; and

iv) amount of approximately HK$41,900,000 (2007: HK$241,900,000) which is unsecured, interest bearing at HIBOR plus 1.25% to 2% per annum and repayable upon written notice given from the Company. Continuous settlement from this associate has been received and the Group considers no impairment on the amount due from this associate.

The remaining amounts due from associates are unsecured, non-interest bearing and repayable on demand.

THE COMPANY

Included in amounts due from associates are amounts of approximately HK$41,900,000 (2007: HK$241,900,000) which are unsecured, interest bearing at HIBOR plus 1.25% to 2% per annum and repayable upon written notice given from the Company. The remaining amounts due from (to) associates are unsecured, non-interest bearing and repayable on demand.

38. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

As at 31 December 2008, amounts due from subsidiaries are unsecured and interest free. Except for amounts due from subsidiaries of approximately HK$55,327,000 (2007: Nil) which is repayable within one year, the remaining amounts due from subsidiaries are repayable after one year. Deemed interest income from amounts due from subsidiaries repayable after one year is derived from interest rate of HIBOR plus 1.5% (2007: HIBOR plus 1.5%) per annum, which is the Group's borrowing rate of similar term.

As at 31 December 2008, amounts due to subsidiaries includes i) approximately HK$526,000 (2007: HK$129,000) which are unsecured, interest free and repayable on demand; ii) HK$6,400,000 (2007: Nil) which are unsecured, interest bearing at HIBOR plus 2% per annum; and repayable within one year; and iii) HK$46,600,000 (2007: Nil) which is unsecured, interest bearing at HIBOR plus 2% and repayable after one year, and the remaining amounts due to subsidiaries are unsecured, interest fee and repayable on demand.

39. PLEDGE OF ASSETS

THE GROUP AND THE COMPANY

At 31 December 2008, the Group and the Company pledged certain of its investment properties and bank deposits for the following purposes:

(a) The Group's bank deposit and investment properties amounting to approximately HK$947,000 and HK$166,000,000 were pledged for obtaining the banking facilities for certain subsidiaries of the Group (2007: HK$947,000 and HK$85,000,000).

(b) The Group's bank deposits of approximately HK$5,791,000 (2007: Nil) were pledged to a bank for the completion of a sale agreement with a customer.

(c) The Group and the Company placed a bank deposit of HK$972,500,000 (equivalent to US$125,000,000) (2007: HK$972,500,000, equivalent to US$125,000,000) for an undertaking in connection with the loan facilities obtained by Melco Crown Entertainment (see note 55).

The deposits carry fixed interest rate of about 3.0% (2007: 3.2%) per annum.

40. BANK DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS/BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

Bank deposits with original maturity over three months carry fixed interest rate at about 2.9% (2007: Nil) per annum.

Bank balances and cash comprises cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less and carries prevailing market interest rate at about 2.8% (2007: 2.0%) per annum.

41. TRADE PAYABLES

An aged analysis of trade payables as at the balance sheet date, based on payment due date, is as follows:

	THE GROUP	
	2008 **HK$'000**	2007 HK$'000
Within 30 days	**132,973**	125,781
31-90 days	**19,857**	3,406
Over 90 days	**40,356**	33,342
	193,186	162,529
Trade payable by instalment (note)	**198,156**	–
	391,342	162,529
Analysed as:		
Current liabilities	**309,664**	162,529
Non-current liabilities (note)	**81,678**	–
	391,342	162,529

Note: The amount represents trade payable to vendors by instalment for one to two years, which bearing interest at 2.5% to 12% per annum and not repayable within twelve months from the balance sheet date.

42. SHAREHOLDER'S LOAN

THE GROUP AND THE COMPANY

The amount is unsecured, interest bearing at prime rate plus 3% per annum and repayable within twelve months from the balance sheet date.

43. FINANCIAL GUARANTEE LIABILITY

THE GROUP AND THE COMPANY

On 30 July 2007, the Company and Crown Limited, a major shareholder of Melco Crown Entertainment, formed a 50:50 joint venture, Melco Crown SPV, for the purpose of issuing Exchangeable Bonds with an aggregate principal amount of HK$1,950 million (US$250 million), to fund a share purchase program for acquiring ADS of Melco Crown Entertainment. In September 2007, the Exchangeable Bonds with an aggregate principal amount of HK$1,950 million (US$250 million) were issued which will mature in September 2012 and have been listed on the Singapore Stock Exchange Limited. The Exchangeable Bonds are jointly and severally guaranteed by the Company and Crown Limited. The financial guarantee liability is recognised initially at its fair value of approximately HK$225,706,000 with a respective increase in interest in Melco Crown SPV.

During the year ended 31 December 2008, approximately HK$45,217,000 (2007: HK$45,217,000) is amortised as financial guarantee income included in other income of the consolidated income statement. As at 31 December 2008, the carrying amount of the financial guarantee liability is approximately HK$167,025,000 (2007: HK$212,242,000) of which approximately HK$45,217,000 (2007: HK$45,217,000) is shown as current liability and the remaining amount of approximately HK$121,808,000 (2007: HK$167,025,000) is shown as non-current liability. As at 31 December 2008, the directors of the Company consider that there is no event that leads to the recognition of additional provision in respect of the guarantee granted.

The fair value of the financial guarantee at initial recognition is calculated using the binominal model and the inputs into the model were as follows:

Expected volatility	37%
Interest rate	3.9% – 4.3%
Dividend yield	Nil

44. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Secured	**83,000**	–	**–**	–
Unsecured	**230,000**	80,000	**230,000**	80,000
	313,000	80,000	**230,000**	80,000
Carrying amount repayable:				
Within one year	**96,400**	80,000	**80,000**	80,000
More than one year, but not exceeding two years	**166,400**	–	**150,000**	–
More than two years, but not exceeding five years	**50,200**	–	**–**	–
	313,000	80,000	**230,000**	80,000
Less: Amounts due within one year shown under current liabilities	**(96,400)**	(80,000)	**(80,000)**	(80,000)
	216,600	–	**150,000**	–

All the bank borrowings are denominated at HK$, the functional currency of relevant group entities, with interest rates of HIBOR plus 1.2% to 3.0% (2007: HIBOR plus 0.75%) per annum.

45. CONVERTIBLE LOAN NOTE

THE GROUP AND THE COMPANY

On 5 September 2005, the Company issued a convertible loan note due on 4 September 2010 with principal amount of HK$1,175,000,000, which is non-interest bearing. This convertible loan note was issued for the acquisition of additional interest of a piece of land at Cotai, Macau. This convertible loan note is convertible into fully paid ordinary shares of HK$0.5 each of the Company at a conversion price of HK$9.965 per share (subject to anti-dilutive adjustment) and is convertible any time for a period of 5 years from the date of issuance until, and including, the maturity date which is 4 September 2010.

The convertible loan note contains two components, liability and equity elements. The equity element is presented in equity heading "convertible loan note equity reserve". At 31 December 2008, the effective interest rate of the liability component is 6.25% (2007: 4.5% – 6.25%) per annum.

The movement of the liability component of the convertible loan notes for the year is set out below:

	2008 **HK$'000**	2007 HK$'000
Carrying amounts at the beginning of the year	**999,399**	1,093,459
Redemption of convertible loan notes	**–**	(153,349)
Interest on convertible loan notes (Note 15)	**62,462**	62,382
Interest paid	**–**	(3,093)
Carrying amount at the end of the year shown as non-current liabilities	**1,061,861**	999,399

46. LONG TERM PAYABLE

The amount represents payable to Crown Limited arising from an arrangement to dispose of certain subsidiaries of the Company to Melco Crown Entertainment during the year ended 31 December 2006. The principal amount of HK$180,000,000 is stated at amortised cost and is unsecured, non-interest bearing and not repayable within twelve months from the balance sheet date.

During the year ended 31 December 2008, the repayment date of the long term payable of HK$180,000,000 has been extended from May 2009 to May 2010 (2007: from May 2008 to May 2009) such that a gain of approximately HK$2,517,000 (2007: HK$9,656,000) was recognised. As at 31 December 2008, the effective interest rate of the long term payable is 3.1% (2007: 5.0%).

47. DEFERRED TAX ASSETS

THE GROUP

The followings are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the year and prior reporting period:

	THE GROUP		
	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2007	(10,262)	13,043	2,781
Disposal of subsidiaries (Note 52)	–	(1,100)	(1,100)
(Charge) credit to consolidated income statement for the year	(1,325)	1,236	(89)
At 1 January 2008	(11,587)	13,179	1,592
(Charge) credit to consolidated income statement for the year	(2,217)	1,435	(782)
Effect of change in tax rate	664	(755)	(91)
At 31 December 2008	(13,140)	13,859	719

As at the balance sheet date, the Group has unused tax losses of approximately HK$402,679,000 (2007: HK$279,550,000). A deferred tax asset has been recognised in respect of HK$84,004,000 (2007: HK$75,306,000) tax losses to the extent that realisation of the related tax benefit through future taxable profit is probable. A deferred tax asset is recognised on the consolidated balance sheet in view that the relevant subsidiary in the Technology segment (2007: Technology segment) has been profit making in recent years. No deferred tax asset has been recognised in respect of the remaining tax loss due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$2,826,000, HK$5,996,000 and HK$1,438,000 that will expire in 2009, 2010 and 2011 respectively. All other losses may be carried forward indefinitely.

THE COMPANY

As at 31 December 2008, the Company has approximately HK$67,098,000 (2007: HK$1,109,000) unused tax loss. No deferred tax asset has been recognised in respect of the tax loss due to the unpredictability of future profit streams. Tax loss may be carried forward indefinitely.

48. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2008	2007	**2008 HK$'000**	2007 HK$'000
Authorised:				
At the beginning of the year of HK$0.5 each	**2,000,000,000**	1,400,000,000	**1,000,000**	700,000
Increase in authorised ordinary share capital (note)	**–**	600,000,000	**–**	300,000
At the end of the year of HK$0.5 each	**2,000,000,000**	2,000,000,000	**1,000,000**	1,000,000
Issued and fully paid:				
At the beginning of the year of HK$0.5 each	**1,228,475,716**	1,228,150,716	**614,238**	614,075
Exercise of shares options	**855,400**	325,000	**428**	163
At the end of the year of HK$0.5 each	**1,229,331,116**	1,228,475,716	**614,666**	614,238

Note: On 10 May 2007, an ordinary resolution was passed by the shareholders of the Company to approve the increase in authorised ordinary share capital of the Company from HK$700,000,000 to HK$1,000,000,000 by the creation of 600,000,000 new shares of HK$0.5 each.

As at 31 December 2008, the Company's 2,151,890 (2007: Nil) issued shares with an aggregate nominal value of approximately HK$1,076,000 (2007: Nil) were held by the Company's share purchase scheme.

49. RESERVES

	Share premium HK$'000	Capital reserve HK$'000 (Note)	Convertible loan notes equity reserve HK$'000	Share options reserve HK$'000	Shares held under share award scheme HK$'000	Share award reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY								
At 1 January 2007	3,124,940	296,016	327,677	12,726	–	–	(223,760)	3,537,599
Profit for the year	–	–	–	–	–	–	100,036	100,036
Exercise of share options	432	–	–	–	–	–	–	432
Recognition of equity – settled share based payment	–	–	–	9,393	–	–	–	9,393
Transfer to share premium upon exercise of share options	113	–	–	(113)	–	–	–	–
Transfer of share option reserve upon expiry of share options	–	–	–	(48)	–	–	48	–
Early redemption of convertible loan notes	–	–	(20,424)	–	–	–	8,946	(11,478)
Dividend paid	–	(12,282)	–	–	–	–	–	(12,282)
At 31 December 2007	3,125,485	283,734	307,253	21,958	–	–	(114,730)	3,623,700
Loss for the year	–	–	–	–	–	–	(207,034)	(207,034)
Exercise of share options	4,703	–	–	–	–	–	–	4,703
Recognition of equity – settled share based payment	–	–	–	13,271	–	7,365	–	20,636
Transfer to share premium upon exercise of share options	1,254	–	–	(1,254)	–	–	–	–
Transfer of share option reserve upon expiry of share options	–	–	–	(1,337)	–	–	1,337	–
Purchase of shares for unvested shares under the share award schemes	–	–	–	–	(24,000)	–	–	(24,000)
Share vested under the share award schemes	–	–	–	–	2,912	(3,227)	315	–
Dividend paid	–	(12,271)	–	–	–	–	–	(12,271)
At 31 December 2008	3,131,442	271,463	307,253	32,638	(21,088)	4,138	(320,112)	3,405,734

Note: Pursuant to a scheme of capital reduction, which became effective on 29 June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK$357,784,733 were transferred to a capital reserve account. The capital reserve account is distributable to the shareholders of the Company if there is no outstanding debt or claim against the Company which was in existence on the effective date of the capital reduction. In view of the fact that the Company receives no claim, demand, action or proceedings in respect of any such debt or claim since June 1993 and in view of the fact that any such debt or claim has been statute-barred under Hong Kong law and irrecoverable against the Company, the Company is of the view that the reserve is distributable to the Company's shareholders.

50. LONG-TERM INCENTIVE SCHEMES

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive or non-executive directors, executives, employees, consultants, professionals and other advisers of the Group. The Scheme became effective on 8 March 2002 following its approval by the Company's shareholders at an extraordinary general meeting on the same date and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company's shares in issue as at 18 May 2005, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 49,101,927 shares of HK$1.00 each (adjusted to 98,203,854 shares of HK$0.5 each after capital reorganization of the Company which became effective from 19 May 2005). The Company may seek approval of the Company's shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as "refreshed" may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

As at 31 December 2008, a total of 86,102,334 shares of the Company (representing approximately 7.00% of the existing issued share capital of the Company) are available for issue under the Scheme.

Share options granted to directors, chief executive or substantial shareholders of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon the exercise of all options granted to such person within any 12-month period being more than 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant.

The exercise price in relation to each option shall be determined by the Board of Directors of the Company (the "Board") in its absolute discretion, but in any event shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date when an option is offered; (ii) a price being the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of a share of the Company on the date of the offer of an option.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

50. LONG-TERM INCENTIVE SCHEMES – continued

SHARE OPTION SCHEME – continued

The following share options were outstanding under the Scheme during the year ended 31 December 2008:

Category of participant	Number of share options: Outstanding at 1.1.2007	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2007	Reclassified during the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008	Date of grant of share options	Share price at date of grant of share options HK$	Exercise price of share options HK$
Directors[4]	140,000	–	–	–	140,000	–	–	(140,000)	–	–	17 September 2004	1.6875	1.6875
Directors[5]	200,000	–	–	–	200,000	–	–	–	–	200,000	1 February 2005	7.4	7.4
Directors[6]	400,000	–	–	–	400,000	–	–	–	–	400,000	13 February 2006	11.75	11.8
Directors[7]	900,000	–	–	–	900,000	–	–	–	–	900,000	3 April 2006	15.7	15.87
Directors[8]	–	–	–	–	–	–	204,000	–	–	204,000	28 February 2008	11.5	11.5
Directors[9]	–	–	–	–	–	–	1,316,520	–	–	1,316,520	1 April 2008	10.7	10.804
Directors[10]	–	–	–	–	–	–	1,628,000	–	–	1,628,000	17 December 2008	2.02	2.02
Sub-total	1,640,000	–	–	–	1,640,000	–	3,148,520	(140,000)	–	4,648,520			
Employees[11]	1,020,000	(400,000)	–	–	620,000	–	–	(70,000)	–	550,000	17 September 2004	1.6875	1.6875
Employees[12]	585,400	380,000	(25,000)	(35,000)	905,400	–	–	(625,400)	(50,000)	230,000	1 February 2005	7.4	7.4
Employees[13]	3,400,000	650,000	–	–	4,050,000	(1,470,000)	–	–	(50,000)	2,530,000	13 February 2006	11.75	11.8
Employees[14]	–	–	–	–	–	(39,000)	1,163,100	–	–	1,124,100	1 April 2008	10.7	10.804
Employees[15]	–	–	–	–	–	–	1,844,000	–	–	1,844,000	17 December 2008	2.02	2.02
Sub-total	5,005,400	630,000	(25,000)	(35,000)	5,575,400	(1,509,000)	3,007,100	(695,400)	(100,000)	6,278,100			
Others[20]	200,000	–	(200,000)	–	–	–	–	–	–	–	19 February 2004	1.2025	1.2025
Others[16, 20]	9,600,000	400,000	(100,000)	–	9,900,000	–	–	–	–	9,900,000	17 September 2004	1.6875	1.6875
Others[20]	400,000	(380,000)	–	–	20,000	–	–	(20,000)	–	–	1 February 2005	7.4	7.4
Others[17, 20]	1,200,000	(650,000)	–	–	550,000	1,470,000	–	–	(300,000)	1,720,000	13 February 2006	11.8	11.8
Others[18, 20]	–	–	–	–	–	39,000	45,900	–	–	84,900	1 April 2008	10.7	10.804
Sub-total	11,400,000	(630,000)	(300,000)	–	10,470,000	1,509,000	45,900	(20,000)	(300,000)	11,704,900			
Total	18,045,400	–	(325,000)	(35,000)	17,685,400	–	6,201,520	(855,400)	(400,000)	22,631,520			
Exercisable at the end of the year	10,700,00				10,375,000					12,519,500			

50. LONG-TERM INCENTIVE SCHEMES – continued

SHARE OPTION SCHEME – continued

Notes:

1. The vesting period of the options is from the date of grant until the commencement of the exercisable period.

2. The number of share granted and the exercise price of the options were adjusted after the completion of the rights issue in 24 September 2003 and share subdivision on 19 May 2005.

3. As at 31 December 2008, the Company had 22,631,520 options outstanding under the Scheme. The exercise in full of the outstanding options would, under the present capital structure of the Company, result in the issue of 22,631,520 additional ordinary shares of the Company and additional share capital of approximately HK$11,316,000 and share premium of approximately HK$115,299,000 before issuance expenses.

4. In respect of the share options exercised during the year, the weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised and the date of exercise was HK$10.74.

5. The 200,000 share options may be exercised during the period from 17 September 2009 to 7 March 2012.

6. Among the 400,000 share options, 130,000 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 130,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016 and 140,000 share options may be exercised during the period from 1 April 2012 to 31 January 2016.

7. Among the 900,000 share options, 300,000 share options may be exercised during the period from 3 April 2008 to 2 April 2016, 300,000 share options may be exercised during the period from 3 April 2010 to 2 April 2016 and 300,000 share options may be exercised during the period from 3 April 2012 to 2 April 2016.

8. Among 204,000 share options, 68,000 share options may be exercised during the period from 1 April 2009 to 27 February 2018, 68,000 share options may be exercised during the period from 1 April 2010 to 27 February 2018 and 68,000 share options may be exercised during the period from 1 April 2011 to 27 February 2018.

9. Among 1,316,520 share options, 438,840 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 438,840 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 438,840 share options may be exercised during the period from 1 April 2011 to 31 March 2018.

10. Among 1,628,000 share options, 271,333 share options may be exercised during the period from 1 February 2009 to 16 December 2018, 271,333 share options may be exercised during the period from 1 May 2009 to 16 December 2018, 271,333 share options may be exercised during the period from 1 August 2009 to 16 December 2018, 271,333 share options may be exercised during the period from 1 November 2009 to 16 December 2018, 271,333 share options may be exercised during the period from 1 February 2010 to 16 December 2018 and 271,335 share options maybe exercised during the period from 1 May 2010 to 16 December 2018.

11. Among the 550,000 options, 170,000 share options may be exercised during the period from 17 March 2005 to 7 March 2012, 250,000 share options may be exercised during the period from 17 September 2005 to 7 March 2012, 110,000 share options may be exercised during the period from 17 September 2006 to 7 March 2012 and 20,000 share options may be exercised during the period from 17 March 2008 to 7 March 2012.

12. As at 31 December 2008, 230,000 share options may be exercised during the period from 17 March 2008 to 7 March 2012.

13. Among the 2,530,000 share options, 882,000 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 842,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016, 596,000 share options may be exercised during the period from 1 April 2012 to 31 January 2016, 68,000 share options may be exercised during the period from 3 April 2008 to 31 January 2016, 68,000 share options may be exercised during the period from 3 April 2010 to 31 January 2016 and 74,000 share options may be exercised during the period from 3 April 2012 to 31 January 2016.

14. Among the 1,124,100 share options, 374,700 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 374,700 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 374,700 share options may be exercised during the period from 1 April 2011 to 31 March 2018.

15. Among 1,844,000 share options, 307,329 share options may be exercised during the period from 1 February 2009 to 16 December 2018, 307,329 share options may be exercised during the period from 1 May 2009 to 16 December 2018, 307,329 share options may be exercised during the period from 1 August 2009 to 16 December 2018, 307,329 share options may be exercised during the period from 1 November 2009 to 16 December 2018, 307,329 share options may be exercised during the period from 1 February 2010 to 16 December 2018 and 307,355 share options may be exercised during the period from 1 May 2010 to 16 December 2018.

50. LONG-TERM INCENTIVE SCHEMES – continued

SHARE OPTION SCHEME – continued

16. Among the 9,900,000 share options, 4,800,000 share options may be exercised during the period from 17 March 2005 to 7 March 2012, 4,900,000 share options may be exercised during the period from 17 September 2005 to 7 March 2012, 100,000 share options may be exercised during the period from 17 September 2006 to 7 March 2012 and 100,000 share options may be exercised during the period from 17 March 2008 to 7 March 2012.

17. Among the 1,720,000 share options, 430,500 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 467,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016, 732,500 share options may be exercised during the period from 1 April 2012 to 31 January 2016, 29,000 share options may be exercised during the period from 3 April 2008 to 31 January 2016, 29,000 share options may be exercised during the period from 3 April 2010 to 31 January 2016 and 32,000 share options may be exercised during the period from 3 April 2012 to 31 January 2016.

18. Among the 84,900 share options, 28,300 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 28,300 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 28,300 share options may be exercised during the period from 1 April 2011 to 31 March 2018.

19. During both years, no share options were cancelled under the Scheme.

20. Others represent share options granted to former directors and former employees of the Group granted as when have employment within the group.

During the year ended 31 December 2008, share options were granted on 28 February 2008, 1 April 2008 and 17 December 2008. The estimated fair values of the options granted on those dates are approximately HK$1,199,000, HK$13,614,000 and HK$3,994,000 respectively. The weighted average fair value of options granted during the year ended 31 December 2008 is HK$3.0.

These fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

		Shares options grant date	
	28 February 2008	1 April 2008	17 December 2008
Exercise price	HK$11.5	HK$10.804	HK$2.02
Expected volatility	51.84%	53.34%	68.94%
Expected life	6.0 years	5.5 -6.0 years	5.4 years
Risk-free rate	2.571%	2.132% – 2.220%	1.290%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Company and the Group recognised the total expenses of approximately HK$13,271,000 and HK$13,271,000, respectively, for the year ended 31 December 2008 (2007: HK$9,393,000 and HK$9,657,000, respectively, in relation to the share options granted by the Company and the Group) in relation to the share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

50. LONG-TERM INCENTIVE SCHEMES – continued

SHARE AWARD SCHEMES

On 18 October 2007, the Company adopted two share incentive award schemes, namely The Melco Share Purchase Scheme Trust (the "Share Purchase Scheme") and The Melco Share Award Scheme Trust (the "Share Subscription Scheme").

The purpose of each of the Share Purchase Scheme and the Share Subscription Scheme is to encourage and facilitate the acquisition and holding of shares in the Company, by and for the benefit of such employees of the Company and any subsidiary of the Company (the "Subsidiary"). The shares of the Company (the "Shares") to be awarded pursuant to the Share Purchase Scheme and/or the Share Subscription Scheme may be awarded in such manner as the Board may determine from time to time in order to recognise the contribution of certain employees, to seek to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group.

A summary of the principal terms of the Share Purchase Scheme and Share Subscription Scheme and movements of the awarded shares under these schemes are set out below:

SHARE PURCHASE SCHEME

The Share Purchase Scheme has a term of 20 years from the date of its adoption until 17 October 2027. The scheme limit of this scheme is 2% of the ordinary issued share capital of the Company from time to time (excluding shares which have already been transferred to employees on vesting).

The Board may, subject to the rules relating to the Share Purchase Scheme, from time to time at its absolute discretion select any employee (including any director of the Company or the Subsidiary) to be a participant in the Share Purchase Scheme. The Board or the trustee of this scheme (as the case may be) shall either (1) set aside a sum of money or (2) determine a number of Shares which it wishes to be the subject of a bonus or award under the Share Purchase Scheme. Where a sum of money has been set aside (or a number of Shares has been determined), it shall pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Shares to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside. Within 15 business days of receiving the amount sufficient to purchase that number of Shares, the trustee shall apply the same towards the purchase of Shares on the Stock Exchange.

Vesting of the Shares will be conditional on the selected employee remaining an employee of the Company or a Subsidiary until the vesting date. The Board also has the discretion to stipulate such other conditions in respect of a particular employee which will apply to the vesting of the Shares. An award will lapse where the company or the business division by which the selected employee is employed ceases to be part of the Group or in the event the selected employee does not deliver the notice of exercise within the prescribed time limit to the trustee for the purpose of exercising his rights to receive the vested Shares.

50. LONG-TERM INCENTIVE SCHEMES – continued

SHARE AWARD SCHEMES – continued

SHARE PURCHASE SCHEME – continued

Where Shares which are referable to a selected employee do not vest or are not acquired by selected employees in accordance with the above procedures, the trustee shall hold such Shares or any income deriving therefrom exclusively for the benefit of all selected employees of the Group as the trustee determines in its absolute discretion, after having taken into consideration recommendations of the Board.

The Board may by resolution terminate the operation of the Share Purchase Scheme at any time provided that such termination shall not affect any subsisting rights of any selected employee. If, at the date of such termination, the trustee holds Shares which have not vested, then the trustee shall within 21 business days of receiving notice of such termination sell such Shares and remit the proceeds of sale (after deductions) to the Company.

During the year ended 31 December 2008, the following Shares were awarded to the directors and selected employees of the Company and/or its subsidiaries pursuant to the terms of the rules and trust deed of the Share Purchase Scheme:

	Number of awarded shares						
Category of participant	**Outstanding at 01.01.2008**	**Awarded during the year**	**Vested during the year**	**Outstanding at 31.12.2008**	**Share price at date of award**	**Date of award**	**Vesting date**
Directors	–	60,000	(60,000)	–	HK$11.50	28.02.2008	31.03.2008
Directors	–	60,000	–	60,000	HK$11.50	28.02.2008	31.03.2009
Directors	–	60,000	–	60,000	HK$11.50	28.02.2008	31.03.2010
Directors	–	16,000	–	16,000	HK$11.50	28.02.2008	01.04.2009
Directors	–	16,000	–	16,000	HK$11.50	28.02.2008	01.04.2010
Directors	–	16,000	–	16,000	HK$11.50	28.02.2008	01.04.2011
Directors	–	131,790	(131,790)	–	HK$10.70	01.04.2008	01.04.2008
Directors	–	131,765	–	131,765	HK$10.70	01.04.2008	01.04.2009
Directors	–	131,765	–	131,765	HK$10.70	01.04.2008	01.04.2010
Directors	–	125,998	–	125,998	HK$2.02	17.12.2008	01.02.2009
Directors	–	125,998	–	125,998	HK$2.02	17.12.2008	01.05.2009
Directors	–	125,998	–	125,998	HK$2.02	17.12.2008	01.08.2009
Directors	–	125,998	–	125,998	HK$2.02	17.12.2008	01.11.2009
Directors	–	125,998	–	125,998	HK$2.02	17.12.2008	01.02.2010
Directors	–	126,010	–	126,010	HK$2.02	17.12.2008	01.05.2010
Sub-total	–	1,379,320	(191,790)	1,187,530			
Employees	–	105,320	(105,320)	–	HK$10.70	01.04.2008	01.04.2008
Employees	–	105,320	–	105,320	HK$10.70	01.04.2008	01.04.2009
Employees	–	105,320	–	105,320	HK$10.70	01.04.2008	01.04.2010
Sub-total	–	315,960	(105,320)	210,640			
Total	–	1,695,280	(297,110)	1,398,170			

50. LONG-TERM INCENTIVE SCHEMES – continued

SHARE AWARD SCHEMES – continued

SHARE SUBSCRIPTION SCHEME

The Share Subscription Scheme has a term of 20 years from the date of its adoption until 17 October 2027. The scheme limit of this scheme is 2% of the ordinary issued share capital of the Company from time to time (excluding Shares which have already been transferred to employees on vesting).

The Board may, from time to time at its absolute discretion select any employee (excluding any director of the Company or any Subsidiary) to be a participant of the Share Subscription Scheme. The Board or the trustee of this scheme (as the case may be) shall at its discretion either (i) determine a notional cash amount or (ii) determine a number of Shares (the “Number of Awarded Shares”) which it wishes to be the subject of an award under the Share Subscription Scheme. Where a notional cash amount has been determined by the Board, the Board shall determine the maximum number of Shares (the “Relevant Number of Shares”), rounded down to the nearest whole number which could be purchased with such notional cash amount on the Stock Exchange at the market price prevailing on the date of the award. The Company shall pay (or cause to be paid) an amount or an amount equal to the par value of either (i) the Relevant Number of Shares (where the Board has determined a notional cash amount) or (ii) the Number of Awarded Shares (where the Board has determined such number) to the trustee (or as it shall direct) from the Group’s resources as soon as practicable in accordance with the rules relating to the Share Subscription Scheme.

Vesting of the Shares will be conditional on the selected employee remaining an employee of the Company or a Subsidiary until the vesting date. The Board also has the discretion to stipulate such other conditions in respect of a particular employee which will apply to the vesting of the Shares. An award will lapse where the company or the business division by which the selected employee is employed ceases to be part of the Group or in the event the selected employee does not deliver the notice of exercise within the prescribed time limit to the trustee for the purpose of exercising his rights to receive the vested Shares.

Where Shares which are referable to a selected employee do not vest or are not acquired by selected employees in accordance with the above procedures, the trustee shall hold such Shares or any income deriving therefrom exclusively for the benefit of all selected employees of the Group as the trustee determines in its absolute discretion after having taken into consideration recommendations of the Board.

The Board may by resolution terminate the operation of the Share Subscription Scheme at any time provided that such termination shall not affect any subsisting rights of any employee selected thereunder and provided further that if, at the date of such termination, the trustee holds any Shares which it has not vested, then the trustee shall within 21 business days of receiving notice of such termination sell such Shares and remit the proceeds of sale (after deductions) to the Company.

50. LONG-TERM INCENTIVE SCHEMES – continued

SHARE AWARD SCHEMES – continued

SHARE SUBSCRIPTION SCHEME – continued

During the year ended 31 December 2008, the following Shares were awarded to selected employees of the Company and/or its subsidiaries pursuant to the terms of the rules and trust deed of the Share Subscription Scheme:

	Number of awarded shares						
Category of participant	**Outstanding at 01.01.2008**	**Awarded during the year**	**Vested during the year**	**Outstanding at 31.12.2008**	**Share price at date of award**	**Date of award**	**Vesting date**
Employees	–	49,665	–	49,665	HK$2.02	17.12.2008	01.02.2009
Employees	–	49,665	–	49,665	HK$2.02	17.12.2008	01.05.2009
Employees	–	49,665	–	49,665	HK$2.02	17.12.2008	01.08.2009
Employees	–	49,665	–	49,665	HK$2.02	17.12.2008	01.11.2009
Employees	–	49,665	–	49,665	HK$2.02	17.12.2008	01.02.2010
Employees	–	49,675	–	49,675	HK$2.02	17.12.2008	01.05.2010
Total	–	298,000	–	298,000			

The fair value of awarded shares are measured at the market price of the Company's share at date of grant. The Company and the Group recognised the total expenses of approximately HK$7,365,000 (2007: Nil) for the year ended 31 December 2008 in relation to the share award schemes.

51. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2007, the Company acquired 53% interests in EGT in accordance to the PPA as disclosed in note 12.

The net assets acquired and the goodwill arising are as follows:

	Acquiree's carrying value HK$'000
Property, plant and equipment	199,584
Intangible assets	43,787
Trade and other receivables	47,716
Inventories	10,805
Bank balances and cash	8,439
Trade and other payables	(313,173)
	(2,842)
Minority interest	1,028
Interest attributable to warrant holders	(417,331)
Net liabilities attributable to interest acquired	(419,145)
Goodwill	1,464,150
	1,045,005
Represented by:	
Settlement of receivable from providing agency services through issuance of shares by EGT	1,020,630
Available-for-sale investments	24,375
	1,045,005
Cash inflow arising on acquisition	
Bank balances and cash acquired	8,439

Goodwill arising on acquisition of EGT was in relation to the anticipated profit generated from the EGM business referred by the Group as disclosed in note 12.

EGT contributed HK$28 million to the Group's revenue and HK$33 million loss to the Group's profit for the period from date of acquisition to the date of becoming an associate.

If the acquisition had been completed on 1 January 2007, total group revenue for the year would have been HK$1,079 million, and profit for the year would have been HK$2,558 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

Note: Subsequently in December 2007, as described in note 12, EGT became an associate of the Group.

52. DEEMED DISPOSAL OF SUBSIDIARIES

As disclosed in notes 12 and 18, EGT and VC were deemed disposed of during the year ended 31 December 2007. The net assets of EGT and VC at the date of disposal were as follows:

	HK$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	338,384
Other intangible assets	44,334
Long term deposits	3,057
Trading rights	1,409
Deferred tax assets	1,100
Trade and other receivables	1,922,117
Inventories	13,122
Held-for-trading investments	13,564
Bank balances and cash	273,401
Trade and other payable	(549,804)
Taxation payable	(9,219)
Bank borrowings	(1,131,146)
Amounts due to group companies	(32,435)
Loan from the Company	(241,900)
	645,984
Minority interests	(339,942)
Interest attributable to warrant holders	(258,079)
Net assets attributable to interests disposed of	47,963
Attributable goodwill	1,223,955
	1,271,918
Loss on deemed disposal	(65,288)
Total consideration	1,206,630

52. DEEMED DISPOSAL OF SUBSIDIARIES – continued

	HK$'000
Satisfied by:	
Interests in associates	1,103,670
Cash received	102,960
	1,206,630
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(273,401)
Less: Cash received	102,960
	(170,441)

The impact of VC disposed of on the Group's results and cash flows in the current and prior year are disclosed in note 18.

During the year ended 31 December 2007, EGT contributed revenue of approximately HK$28,828,000, loss for the year of approximately HK$32,951,000 and net cash inflow of approximately HK$206,263,000 to the Group.

53. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2008, other than the i) capitalisation of amount due from an associate of approximately HK$291 million (note 27); ii) deemed capital contribution of approximately HK$5,770,000 on non-interest bearing amount due from an associate (note 37 (ii)); and iii) investment in convertible loan note and interest in MelcoLot Limited distributed by Power Way (note 30), the Group transferred gaming machine of approximately HK$9,520,000 from property, plant and equipment to inventories.

During the year ended 31 December 2007, the interest in EGT was acquired through the provision of agency services as disclosed in notes 12 and 51, respectively.

54. OPERATING LEASES

(A) THE GROUP AS LESSEE

Minimum lease payments under operating leases during the year in respect of office premises were approximately HK$23,484,000 (2007: HK$20,709,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Within one year	**10,461**	21,002
In the second to fifth year inclusive	**21,969**	18,114
Over five years	**–**	3,396
	32,430	42,512

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for a term ranging from 2 to 6 years.

(B) THE GROUP AS LESSOR

At 31 December 2008, the Group has entered into lease arrangements with certain tenants for its investment properties. Certain of the properties held have committed tenants for the next one to five years. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Within one year	**8,334**	8,616
In the second to fifth year inclusive	**20,192**	8,780
Over five years	**–**	1,751
	28,526	19,147

The Company had no significant operating leases at the balance sheet date.

55. CONTINGENT LIABILITIES

THE GROUP AND THE COMPANY

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 Crown Gaming (Macau) Limited ("Melco Crown Gaming", formerly known as Melco PBL Gaming (Macau) Limited), a subsidiary of Melco Crown Entertainment. 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 Crown 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 Group and the Company recognised financial guarantee liabilities in respect of the Exchangeable Bonds issued by Melco Crown SPV which are jointly and severally guaranteed by the Company and Crown Limited. Details of the guarantee are disclosed in note 43.

THE COMPANY

At 31 December 2007, the Company provides a total guarantee of approximately HK$8,453,000 to an insurance company and a bank in respect of the goods purchased and service provided by its subsidiaries and the amount utilised is Nil. Such guarantee was released during the year ended 31 December 2008.

56. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and Mandatory Provident Fund Schemes (the "MPF Schemes") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Schemes are switched to the MPF Schemes and all new eligible employees joining the Group on or after December 2000 are under the MPF Schemes. No more contribution was made to the ORSO Scheme after the switch.

Both the Group and the employees contribute a fixed percentage of the relevant payroll, subject to a maximum contribution of HK$1,000, to the MPF Scheme.

57. RELATED PARTY TRANSACTIONS

(a) The trade receivables include amounts due from related companies in relation to sales of computer hardware and software of approximately HK$27,616,000 (2007: HK$9,782,000).

The trade receivables include amount due from an associate, in relation to the sale of electronic gaming machines of approximately HK$882,000 (2007: HK$224,011,000).

As at 31 December 2007, the prepayments, deposits and other receivables include approximately HK$194,000 due from related companies.

(b) The accruals and other payables include deposits received from related companies and associates in relation to sales of technology solution system of approximately HK$4,611,000 (2007: HK$9,268,000) and HK$49,139,000 (2007: Nil) respectively.

(c) As at 31 December 2008 and 2007, the Group and the Company has a convertible loan note with principal amount of HK$1,175,000,000 issued to a related company.

(d) The Group has entered into the following related parties transactions:

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Catering income earned from directors of the Company and related companies	**6,058**	4,390
Consultancy fee received from an associate	**724**	927
Insurance premiums charged by a related company	**923**	1,010
Interest income received from associates	**29,494**	27,908
Rental income received from an associate	**3,770**	3,430
Overseas travels, entertainment and gifts expenses charged by an associate	**353**	246
Interest expense on shareholder's loan	**22,682**	1,780
Interest expense on convertible loan notes to related companies	**62,462**	62,382
Sales of technology solution system to related companies	**53,832**	59,105
Sales of technology solution system to associates	**100,791**	79,308
Sales of electronic gaming machines to associates	**265,659**	–
Purchase of electronic gaming machines from associates	**129,992**	–
Service income received from associates	**19,768**	12,581
Souvenirs sold to related companies	**593**	572

Related companies in notes (a) to (d) are companies in which close family members of a director, Mr. Ho, Lawrence Yau Lung, has direct beneficial interests.

57. RELATED PARTY TRANSACTIONS – continued

(e) As at 31 December 2008, the Company placed a bank deposit of HK$972,500,000 (equivalent to US$125,000,000) (2007: HK$972,500,000) which has been pledged under an undertaking in connection with the loan facilities obtained by Melco Crown Entertainment (note 55).

(f) As disclosed in note 12, the Group provided certain agency services to EGT during the year ended 31 December 2007. In return, EGT issued 40,000,000 Second Shares and 22,000,000 Second Warrants such that it became a subsidiary of the Company. The fair value of such agency services provided was recognised with reference to the fair value of the 40,000,000 Second Shares and 22,000,000 Second Warrants received by the Group.

(g) Compensation of key management personnel
The remuneration of directors and other members of key management during the year was as follows:

	THE GROUP	
	2008 **HK$'000**	2007 HK$'000
Short-term benefits	**23,856**	30,425
Post-employment benefits	**101**	118
Share-based payments	**15,558**	7,103
	39,515	37,646

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals, the Company's operating results and market standards.

58. POST BALANCE SHEET EVENTS

(a) On 29 January 2009, Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Company, entered into a loan agreement with MCR BC. The loan, which is unsecured, has a principal amount of approximately HK$11,700,000 (US$1.5 million) and interest bearing at 3-month LIBOR plus 3% per annum. It has a term of 365 days and is expiring on 28 January 2010.

(b) In February 2009, the Group entered into a sale and purchase agreement ("Agreement") with a purchaser ("Purchaser") to dispose of 80% of the issued share capital of a wholly-owned subsidiary, which is included in the Technology segment, at a consideration of HK$12,000,000 ("Consideration") payable to the Group by three installments within two years from date of completion of Agreement ("Completion Date"). The estimated gain on disposal of this subsidiary amounted to approximately HK$95,000. Pursuant to the Agreement, there is a put option and a call option granted therein to the Group and the Purchaser, respectively, and if either of such options is exercised, the Group shall be bound to sell and the Purchaser shall be bound to purchase the remaining 20% interest of the wholly-owned subsidiary at an additional consideration of HK$3,000,000. The completion of the sale and purchase of the Agreement is conditional upon the satisfaction of certain conditions precedent.

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Proportion ownership interest held by the Company			
				Directly		Indirectly	
				2008	2007	**2008**	2007
Melco Leisure and Entertainment Group Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	**100%**	100%	**–**	–
Aberdeen Restaurant Enterprises Limited	Hong Kong	Restaurant operations and property investment in Hong Kong	8,060 A shares of HK$1,000 each and 33,930 B shares of HK$500 each	**–**	–	**86.68%**	86.68%
Tai Pak Sea-Food Restaurant Limited	Hong Kong	Catering, restaurant vessel holding and letting in Hong Kong	5 founders' shares of HK$100 each and 13,495 ordinary shares of HK$100 each	**–**	–	**84.76%**	84.76%
Jumbo Catering Management Limited	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK$5,000	**–**	–	**86.68%**	86.68%
Melco Technology Group Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	**–**	–
iAsia Online Systems Limited	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US$1	**–**	–	**100%**	100%
Elixir Group Limited	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK$1 each	**–**	–	**100%**	100%
Elixir International Limited	Macau	Provision of hardware and software in Macau	2 quota shares of MOP450,000 and MOP50,000 each	**–**	–	**100%**	100%
Elixir Group Philippines, Inc.	Philippines	Provision of hardware and software in Philippines	10,000 common shares of 100 pesos each	**–**	–	**100%**	100%
Melco Financial Group Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%	**–**	–
Melco Services Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%	**–**	–

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Proportion ownership interest held by the Company			
				Directly		Indirectly	
				2008	2007	**2008**	2007
Melco Investment Holdings Limited	British Virgin Islands	Investment holding in Macau	1 ordinary share of US$1	**100%**	100%	**–**	–
Zonic Technology Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	**–**	–	**100%**	100%
Melco LottVentures Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	**–**	–	**100%**	100%

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Revenue	408,076	600,640	800,609	1,015,521	**690,862**
Profit (loss) for the year	64,208	556,460	2,759,981	2,668,663	**(2,353,214)**
Attributable to:					
Equity holders of the Company	59,722	548,718	2,836,755	2,690,639	**(2,356,819)**
Minority interests	4,486	7,742	(76,774)	(21,976)	**3,605**
	64,208	556,460	2,759,981	2,668,663	**(2,353,214)**

ASSETS AND LIABILITIES

	At 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Total assets	1,584,827	5,652,932	9,344,627	12,314,179	**10,406,181**
Total liabilities	(279,360)	(1,408,454)	(1,683,149)	(1,972,636)	**(2,480,641)**
	1,305,467	4,244,478	7,661,478	10,341,543	**7,925,540**
Equity attributable to equity holders of the Company	1,229,851	3,558,185	7,567,107	10,319,113	**7,899,505**
Share options reserve of a subsidiary	–	–	265	–	**–**
Minority interests	75,616	686,293	94,106	22,430	**26,035**
	1,305,467	4,244,478	7,661,478	10,341,543	**7,925,540**

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. HO, Lawrence Yau Lung
(Chairman & 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

EXECUTIVE COMMITTEE
Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
Mr. WANG, John Peter Ben*
Mr. TSANG Yuen Wai, Samuel*
Mr. YEUNG, Alfred Kwong Fai*

AUDIT COMMITTEE
Sir Roger LOBO *(Chairman)*
Mr. SHAM Sui Leung, Daniel
Mr. NG Ching Wo

REMUNERATION COMMITTEE
Dr. LO Ka Shui *(Chairman)*
Sir Roger LOBO
Mr. NG Ching Wo

NOMINATION COMMITTEE
Mr. NG Ching Wo *(Chairman)*
Sir Roger LOBO
Mr. HO, Lawrence Yau Lung

FINANCE COMMITTEE
Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
Mr. WANG, John Peter Ben*

REGULATORY COMPLIANCE COMMITTEE
Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Dr. LO Ka Shui
Mr. TSANG Yuen Wai, Samuel*

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE
Sir Roger LOBO *(Chairman)*
Mr. HO, Lawrence Yau Lung
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
Mr. YEUNG, Alfred Kwong Fai*
Ms. MA Po Ming, Maggie*

COMPANY SECRETARY
Mr. TSANG Yuen Wai, Samuel

QUALIFIED ACCOUNTANT
Mr. TAM Chi Wai, Dennis

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AUDITOR
Deloitte Touche Tohmatsu

SOLICITORS
Richards Butler
Arculli Fong & Ng

PRINCIPAL BANKERS
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UBS AG

SHARE REGISTRAR AND TRANSFER OFFICE
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STOCK CODE
The Stock Exchange of Hong Kong Limited: 200

COMPANY WEBSITE
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* non-voting co-opted members

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FSC Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fibre
www.fsc.org Cert no. SGS-COC-004332