Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The 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 four divisions, namely (i) Leisure, Gaming and Entertainment Division; (ii) Investment Banking and Financial Services Division; (iii) Technology Division; and (iv) Property and Other Investments Division.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company and the Group has applied, for the first time, a number of new standard ("HKASs"), amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments have been required.

The Company and the Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on how the financial position or results of the Company and the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) – INT 11	Group and treasury share transactions[7]
HK(IFRIC) – INT 12	Service concession arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

3. RECLASSIFICATION

During the year ended 31 December 2006, certain intangible assets included in goodwill on acquisition of interest in Mocha Slot Group Limited and its subsidiaries ("Mocha Slots") has been reclassified. The amounts reclassified include intangible asset relating to Mocha Slots' slot lounges services agreements of approximately HK$100,373,000 and trademark of approximately HK$23,637,000 and respective deferred tax liabilities of approximately HK$14,881,000 and minority interest of approximately HK$21,826,000.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 transferred to accumulated profit.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a subsidiary 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 subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary 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.

If the potential benefit of the acquired subsidiaries' income tax loss carry-forwards or other deferred tax assets did not satisfy the criteria for recognition when a business combination is initially accounted for but is subsequently realised, the amount is recognised as income in accordance with HKAS 12 "Income Taxes". In addition, the carrying amount of goodwill is reduced to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date. The amount for the reduction in the carrying amount of the goodwill is recognised as an expense immediately.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities (continued)

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 profit or loss and of changes in equity 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.

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

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.

4. 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 or services provided in the normal course of business, net of discounts and sales related tax.

Revenue from management of electronic gaming machine lounge is recognised on an accrual basis in accordance with the contractual terms of the respective service agreements.

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

Revenue from sales of technology solution systems are recognised over the period of the contract based on the percentage of completion method, which is measured by reference to the costs incurred to date as a percentage of total estimated costs for each contract.

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.

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

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, 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 other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rate per annum:

Restaurants, 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%

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

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.

Hotels and entertainment complex under development

Hotels and entertainment complex in the course of development are classified as non-current assets and are stated at cost less accumulated amortisation and accumulated impairment loss. Cost comprises acquisition cost relating to the leasehold interests in lands and direct development costs attributable to such properties. Interests in lands are amortised over the expected useful life and are included as part of cost of hotels and entertainment complex under development.

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. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement.

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.

Consideration paid for land use rights are recorded as prepaid lease payments and are charged to the consolidated income statement on a straight-line basis over the term of relevant land use rights acquired.

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 Company (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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Goodwill and fair value adjustments on identifiable assets 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 as an expense as they fall due.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity settled share-based payment transactions

Share options granted to directors, employees and other eligible persons

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 equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the consolidated income statement, with a corresponding adjustment to 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 still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profit.

Prior to the application of HKFRS 2, the Company and the Group did not recognise the financial effect of these 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 acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, 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 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.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, 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 below).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets acquired in a business combination (continued)

Impairment losses (other than goodwill)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any 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.

When 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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

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.

Financial assets

Financial assets 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

The Group's financial assets at fair value through profit or loss comprised financial assets held for trading. 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 the consolidated income statement in the period in which they arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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, jointly controlled entities, associates and related companies, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated income statement when there is an objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is an objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

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 accounting policies adopted in respect of convertible loan notes, financial liabilities and equity instruments are set out below.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity (continued)

Convertible loan notes (continued)

On initial recognition, the fair value of the liability component is determined using the prevailing market interest 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 notes 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 notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the retained earnings. 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.

Financial liabilities

Financial liabilities including trade payables, other payables, amounts due to subsidiaries, a minority shareholder, a jointly controlled entity and related companies, obligation under finance leases, dividend payable, long term payable and bank borrowing are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

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 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 the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition (continued)

For financial liabilities, they are removed from the Company's or Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in the consolidated income statement.

Impairment losses (other than goodwill and intangible assets with indefinite useful lives – see the accounting policies in respect of goodwill and intangible assets above)

At each balance sheet date, the Company and Group review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. 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.

5. 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.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items, especially technology solution system identified that are of minimal resale value due to technological changes. The management estimates the net realisable value for such inventory based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of trade receivables and amounts due from associates

In determining whether there is an objective evidence of impairment loss, the Group takes into consideration the estimation of its future cash flows. The amount of the impairment loss 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.

6. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, bank balances, bank borrowing, amounts due from associates, trade receivables, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

Market risk

Currency risk

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimise currency risk. The Group's principal businesses are conducted and recorded in Hong Kong dollars and Macau Pataca. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to convertible loan notes. The Group currently does not have any hedging policy to minimise the exposure to the change in fair value of the convertible loan notes.

Cash flow interest rate risk

Short-term floating rate bank borrowing, which are Hong Kong Interbank Offered Rate ("HIBOR") based, are used to fund margin financings of the securities brokerage business which are typically prime-based and is therefore exposed to cash flow interest rate risk. The principal risk lies with the interest rate differential between HIBOR and the prime rate. The Group's policy is to focus in mitigating the cash flow interest rate risk through the monitoring of interest rate gap between the short-term bank borrowing and margin financing facilities and revises the margin financing rate if necessary.

Bank balances are placed with various authorised institutions with various bank interest rates. Since the impact of cash flow interest rate exposure is minimal, no hedging against cash flow interest rate exposure has been carried out by the management.

Price risk

The Group had held-for-trading investments and available-for-sale investments at the balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6. FINANCIAL INSTRUMENTS (continued)

(a) Financial risk management objectives and policies (continued)

Credit risk

The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties or debtor which the Group and the Company has provided financial guarantees is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet and the amount as disclosed in note 58. In order to minimise the credit risk, the management of 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 Group reviews the recoverable amount of each individual trade debt 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 Group's and the Company's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations are mainly in Hong Kong and Macau. The Group's significant concentration of credit risk is mainly the amounts due from associates where the Group consider the credit risk is minimal as the financial position of the associates has been strengthened after the issuance of the American Depositary Shares ("ADSs") by the associates in 2006 (see note 32). Also, the amounts due from associates recorded as current assets has been fully settled subsequent to the year ended 31 December 2006.

Bank balances are placed in various authorised institutions and the directors of the Company consider that the credit risk for such is minimal.

(b) 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 and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values except for the items where specific disclosure has been made in the consolidated financial statements.

7. REVENUE

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

	2006	2005
	HK$'000	*HK$'000*
Sales of technology solution systems	**264,178**	197,459
Catering service income	**99,262**	91,191
Income from electronic gaming machines lounges	**132,989**	129,242
Brokerage commission from dealing in securities and futures and options contracts	**105,186**	57,433
Interest income from clients	**61,254**	30,305
Interest income from authorised institutions	**106,984**	57,707
Underwriting, sub-underwriting, placing and sub-placing commission	**10,077**	9,232
Arrangement, management, advisory and other fee income	**5,520**	18,117
Property rental income	**13,218**	8,003
Management fee income	**1,200**	1,200
Others	**741**	751
	800,609	600,640

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions including Leisure, Gaming and Entertainment, Technology, Investment Banking and Financial Services, and Property and Other Investments. These divisions are the basis on which the Group reports its primary segment information.

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

The Technology Segment, which mainly comprises (a) provision of gaming technology consultation services in Macau and (b) development and sale of financial trading and settlement systems in Asia.

The Investment Banking and Financial Services Segment (operated through Value Convergence Holdings Limited), which mainly comprises (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.

The Property and Other Investments Segment, which mainly comprises property investments, other investments and related activities.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

2006

	Leisure, Gaming and Entertainment	Technology	Investment Banking and Financial Services	Property and Other Investments	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External sales	248,960	264,178	182,037	105,434	–	800,609
Inter-segment sales	1,737	57,393	550	32,564	(92,244)	–
Total revenue	250,697	321,571	182,587	137,998	(92,244)	800,609
Segment result	(182,072)	26,336	49,343	105,588	(7,945)	(8,750)
Loss on deemed disposal of partial interests in subsidiaries						(33)
Loss on disposal of subsidiaries						(12,140)
Gain on formation of a jointly controlled entity						20,000
Gain on deemed disposal of interests in jointly controlled entities						3,102,253
Share of loss of jointly controlled entities						(191,835)
Unallocated corporate expenses						(68,257)
Finance costs						(85,879)
Profit before tax						2,755,359
Income tax credit						4,622
Profit for the year						2,759,981

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2006

	Leisure, Gaming and Entertainment	Technology	Investment Banking and Financial Services	Property and Other Investments	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
BALANCE SHEET					
Assets					
Segment assets	**68,994**	**312,362**	**692,385**	**1,204,388**	**2,278,129**
Interests in jointly controlled entities					**87,901**
Interests in associates					**5,802,612**
Unallocated corporate assets					**1,175,985**
Consolidated total assets					**9,344,627**
Liabilities					
Segment liabilities	**16,065**	**155,295**	**175,453**	**508**	**347,321**
Unallocated corporate liabilities					**1,335,828**
Consolidated total liabilities					**1,683,149**
OTHER INFORMATION					
Capital additions	**878,781**	**2,783**	**2,060**	**6,613**	**890,237**
Depreciation	**51,967**	**1,701**	**1,440**	**1,421**	**56,529**
Amortisation of service agreements intangible asset and trading rights	**9,983**	**–**	**506**	**–**	**10,489**
Write-down of service agreements intangible asset	**90,390**	**–**	**–**	**–**	**90,390**
Loss on disposal of property, plant and equipment	**8,861**	**–**	**–**	**93**	**8,954**
Allowance for doubtful debts, net	**1,743**	**249**	**2,980**	**–**	**4,972**

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2005

	Leisure, Gaming and Entertainment	Technology	Investment Banking and Financial Services	Property and Other Investments	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
External sales	241,875	197,459	115,086	46,220	–	600,640
Inter-segment sales	1,057	122,477	900	30,853	(155,287)	–
Total revenue	242,932	319,936	115,986	77,073	(155,287)	600,640
Segment result	25,224	33,766	21,849	47,494	(11,871)	116,462
Gain on deemed disposal of partial interests in subsidiaries						514,407
Share of profit of jointly controlled entities						2,234
Unallocated corporate expenses						(38,886)
Finance costs						(31,747)
Profit before tax						562,470
Income tax expense						(6,010)
Profit for the year						556,460

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

2005

	Leisure, Gaming and Entertainment	Technology	Investment Banking and Financial Services	Property and Other Investments	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
BALANCE SHEET					
Assets					
Segment assets	2,533,527	132,879	416,527	2,301,630	5,384,563
Interests in jointly controlled entities					2,234
Unallocated corporate assets					266,135
Consolidated total assets					5,652,932
Liabilities					
Segment liabilities	86,383	88,378	64,076	238	239,075
Unallocated corporate liabilities					1,169,379
Consolidated total liabilities					1,408,454
OTHER INFORMATION					
Capital additions	464,932	2,769	806	5,728	474,235
Depreciation	29,846	903	2,627	1,946	35,322
Amortisation of trading rights	–	–	507	–	507
Loss on disposal of property, plant and equipment	214	–	267	19	500
Allowance for doubtful debts, net	63	(231)	2,711	(1,490)	1,053
Impairment loss on available-for-sale investments	–	–	120	–	120

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

The Leisure, Gaming and Entertainment, Technology, Investment Banking and Financial Services and Property and Other Investments divisions are located in Hong Kong and Macau.

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

	2006	2005
	HK$'000	*HK$'000*
Hong Kong	**404,299**	279,906
Macau	**396,310**	320,734
	800,609	600,640

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

	Carrying amount of segment assets		**Additions to property, plant and equipment, hotels and entertainment complex under development and intangible assets**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,867,788**	2,563,919	**8,124**	11,235
Macau	**366,637**	2,819,751	**882,081**	462,963
Others	**43,704**	893	**32**	37
	2,278,129	5,384,563	**890,237**	474,235

9. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Service fees from jointly controlled entities	**5,107**	–
Exchange gain	**10,200**	–
Others	**3,255**	1,422
	18,562	1,422

10. INVESTMENT INCOME

	2006 HK$'000	2005 HK$'000
Gain from fair value adjustment of held-for-trading investments	**11,299**	651
Dividend income from unlisted investments	**3,244**	2,090
Dividend income from listed investments	**415**	666
	14,958	3,407

11. EMPLOYEE BENEFITS EXPENSE

	2006 HK$'000	2005 HK$'000
Wages, salaries and staff welfare	**187,099**	126,499
Sales commission	**57,166**	31,972
Unutilised annual leave	**1,828**	858
Termination benefits	**137**	266
Social security costs	**172**	113
Provision for long service payment	**208**	102
Retirement benefit scheme contributions	**3,568**	3,225
Forfeiture of retirement benefit scheme contributions	**(182)**	(13)
Share-based employee expense	**9,509**	5,350
Recruitment cost	**9,778**	1,362
Total employee benefits expense including directors' emoluments *(note 18)*	**269,283**	169,734

12. (LOSS) GAIN ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

Certain share options of a subsidiary of the Company are exercised by the share option holders, who are minority shareholders of the subsidiary. As a result of exercise of share options, the Group then recognised a loss on deemed disposal of partial interest in the subsidiary of approximately HK$33,000 (year ended 31 December 2005: HK$24,000) during the year ended 31 December 2006.

On 11 November 2004, the Company entered into a Heads of Agreement ("Heads of Agreement") with PBL to establish a joint venture group for pursuance of gaming and hospitality business ("JV Group") led by Melco PBL Entertainment (Macau) Limited (formerly known as Melco PBL Holdings Limited) ("Melco PBL Entertainment"), a 50/50 joint venture of the Company and PBL. The Heads of Agreement was superseded by a Subscription Agreement ("Subscription Agreement") entered into between the Company, PBL and PBL Asia Investments Limited, a wholly-owned subsidiary of PBL, on 23 December 2004.

Pursuant to the Subscription Agreement, the Company contributed its 80% interests of Mocha Slot Group Limited and its subsidiaries ("Mocha Slot") and 70% interests of Great Wonders, Investments, Limited ("Great Wonders") to Melco PBL Entertainment (Greater China) Limited ("MPBL (Greater China)"), which was then a company owned as to 80% indirectly by Melco PBL Entertainment and 20% indirectly by the Company, while PBL contributed HK$1.27 billion (equivalent to US$163 million) cash to MPBL (Greater China). In addition, a shareholders agreement was entered into between the Company and PBL upon the completion of the Subscription Agreement whereby 50.8% interests of Melco Hotels and Resorts (Macau) Limited ("Melco Hotels") was also contributed by the Company to MPBL (Greater China).

As a result of the above arrangements, the Company effectively held 60% interests of MPBL (Greater China) and controlled the majority of the board of directors of MPBL (Greater China). PBL holds 40% interests in MPBL (Greater China). Since its inception, MPBL (Greater China) had been designated as the principal investment vehicle for all expansion and acquisition activities, if any, in the gaming and hospitality businesses in the Greater China region including Macau. The Subscription Agreement was completed on 8 March 2005.

As a result of the above arrangements, the Group's effective equity interests in Mocha Slot, Great Wonders and Melco Hotels were decreased from 80%, 70% and 50.8%, respectively, to 48%, 42% and 30.5%, respectively. The Group then recognised a gain on deemed disposal of partial interests in subsidiaries of approximately HK$514,431,000 during the year ended 31 December 2005 accordingly.

13. LOSS ON DISPOSAL OF SUBSIDIARIES

On 4 March 2006, PBL entered into an agreement with Wynn Resorts (Macau) S.A. ("Wynn Macau") to acquire a Macau gaming subconcession for the operation of casino games of chance and other casino games in Macau. PBL Asia Limited ("PBL Asia"), a subsidiary of PBL, incorporated a subsidiary, Melco PBL Gaming (Macau) Limited (formerly known as PBL Entertainment (Macau) Limited) ("MPBL Gaming") to acquire the Macau gaming subconcession. PBL invested HK$622,400,000 (US$80,000,000) as share capital of MPBL Gaming in order to finance the acquisition of the Macau gaming subconcession.

Pursuant to a Memorandum of Agreement dated 5 March 2006 and a Supplemental Agreement dated 26 May 2006 entered into between the Company and PBL, PBL agreed to transfer its entire interest in MPBL Gaming to Melco PBL Investment Limited, a wholly-owned subsidiary of Melco PBL Entertainment. In addition, the Company and PBL contributed an amount of approximately HK$1,244,800,000 (US$160,000,000) each with a total of approximately HK$2,489,600,000 (US$320,000,000) to MPBL Gaming through Melco PBL Entertainment.

The HK$2,489,600,000 (US$320,000,000) contributed to Melco PBL Entertainment was then used to subscribe for the 7,200,000 Class B shares of MPBL Gaming. The Class B shares enjoy a right to vote and full participation in any dividends and capital distribution and to participate in a liquidation and enjoy all other economic benefits or rights derived from MPBL Gaming. These transactions were completed in October 2006 and MPBL Gaming became a subsidiary of Melco PBL Entertainment.

In addition, the Company transferred its 20% equity interest in MPBL (Greater China), which was originally owned by the Company's wholly-owned subsidiary, Melco Leisure and Entertainment Group Limited, to Melco PBL International Limited ("MPBL International"), a wholly-owned subsidiary of Melco PBL Entertainment. Hence, MPBL (Greater China) becomes a subsidiary of Melco PBL Entertainment.

Furthermore, the Company had agreed to pay an amount of HK$180,000,000 to PBL in consideration of the above arrangements. The consideration payable to PBL is unsecured, non-interest bearing and not repayable within twelve months from the balance sheet date. The amount due to PBL is stated as long term payable on the consolidated balance sheet at amortised cost of approximately HK$170,537,000 as at 31 December 2006.

As result of the above arrangements, the Company in effect disposed of its 20% equity interest in MPBL (Greater China) to Melco PBL Entertainment, which is a 50/50 joint venture of the Company and PBL, resulting in a loss of 10% equity interest in MPBL (Greater China). The difference between the attributable interests in MPBL (Greater China) and MPBL Gaming and the consideration payable to PBL, amounting to approximately HK$12,140,000, is therefore recognised as loss on disposal of subsidiaries during the year ended 31 December 2006.

14. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**21,826**	5,646
Obligations under finance leases	**58**	44
Shareholder's loan	**623**	1,079
Effective interest expense on convertible loan notes	**62,536**	24,978
Imputed interest expense on long term payable	**836**	–
	85,879	31,747

15. WRITE-DOWN OF SERVICE AGREEMENTS INTANGIBLE ASSET

Subsequent to the entering of an agreement to acquire a gaming subconcession in Macau (see note 13), Mocha Slots and SJM had mutually agreed to terminate all the slot lounge service agreements and given the imminent termination of all of these service agreements in contemplation of obtaining the gaming subconcession, the intangible asset relating to these service agreements of Mocha Slots with SJM was written down by approximately HK$90,390,000, with reference to a valuation report provided by an independent qualified professional valuer not connected to the Group. The remaining service agreements intangible asset of approximately HK$9,983,000 was fully amortised during the year ended 31 December 2006.

16. PROFIT BEFORE TAX

	2006	2005
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging:		
Auditors' remuneration	**2,979**	2,483
Allowance for doubtful debts, net	**4,972**	1,053
Loss on disposal of property, plant and equipment	**8,954**	500
Impairment loss on available-for-sale investments	**–**	120
and after crediting:		
Gross rental income	**13,218**	8,003
Less: outgoings	**(5,828)**	(83)
Net rental income	**7,390**	7,920

17. INCOME TAX (CREDIT) EXPENSE

	2006	2005
	HK$'000	*HK$'000*
Current tax:		
– Hong Kong	**3,285**	224
– Other jurisdictions	**4,427**	8,151
	7,712	8,375
Under(over)provision in prior years:		
– Hong Kong	**1,127**	91
– Other jurisdictions	**–**	(552)
	1,127	(461)
Deferred taxation *(note 48)*		
– Current	**(13,461)**	(1,364)
– Attributable to a change in tax rate	**–**	(540)
	(13,461)	(1,904)
	(4,622)	6,010

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year. Taxation arising in other jurisdictions are calculated at the rate prevailing in the respective jurisdictions.

17. INCOME TAX (CREDIT) EXPENSE (continued)

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

	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**2,755,359**	562,470
Tax at Hong Kong Profits Tax rate of 17.5%	**482,188**	98,432
Tax effect of share of loss of jointly controlled entities	**33,571**	–
Tax effect of expenses not deductible for tax purposes	**64,017**	8,628
Tax effect of income not taxable for tax purposes	**(594,449)**	(100,286)
Under(over)provision in respect of prior years, net	**1,127**	(461)
Tax effect of different tax rates of the subsidiaries operating in other jurisdictions	**(2,029)**	(3,679)
Tax effect of unrecognised deferred tax assets	**17,592**	10,122
Decrease in opening deferred tax liabilities as a result from decrease in applicable tax rate	**–**	(540)
Utilisation of tax losses previously not recognised	**(7,679)**	(6,234)
Others	**1,040**	28
Tax (credit) charge for the year	**(4,622)**	6,010

18. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2005: eight) directors were as follows:

2006

	Dr. Stanley Ho	Mr. Lawrence Ho	Mr. Frank Tsui	Mr. Clarence Chung	Mr. Ng Ching Wo	Sir Roger Lobo	Mr. Robert Kwan	Dr. Lo Ka Shui	Mr. Daniel Sham	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 3)*		*(Note 2)*			*(Note 1)*	*(Note 2 & 3)*		
Fees	2	–	–	–	380	380	68	280	360	1,470
Other emoluments										
Salaries and other benefits	–	4,813	2,278	1,182	–	–	–	–	–	8,273
Retirement benefit scheme contributions	–	24	12	8	–	–	–	–	–	44
Share-based compensation	–	118	118	499	495	495	–	495	–	2,220
Total emoluments	2	4,955	2,408	1,689	875	875	68	775	360	12,007

18. DIRECTORS' EMOLUMENTS (continued)

Note 1: Dr. Stanley Ho and Mr. Robert Kwan resigned as directors of the Company on 15 March 2006.

Note 2: Mr. Clarence Chung and Mr. Daniel Sham were appointed as directors of the Company on 18 May 2006 and 14 June 2006, respectively.

Note 3: Mr. Lawrence Ho and Mr. Daniel Sham are also the directors of Value Convergence Holdings Limited, who received total emoluments of HK$612,000 and HK$195,000 thereof, respectively.

2005

	Dr. Stanley Ho	Mr. Lawrence Ho	Mr. Frank Tsui	Mr. Ho Cheuk Yuet	Mr. Ng Ching Wo	Sir Roger Lobo	Mr. Robert Kwan	Dr. Lo Ka Shui	Total
	HK$'000	*HK$'000* *(Note 2)*	*HK$'000*	*HK$'000* *(Note 1)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	10	–	–	34	170	321	310	221	1,066
Other emoluments									
Salaries and other benefits	–	2,329	1,950	–	–	–	–	–	4,279
Retirement benefit scheme contributions	–	24	12	–	–	–	–	–	36
Share-based compensation	–	133	133	–	–	–	–	–	266
Total emoluments	10	2,486	2,095	34	170	321	310	221	5,647

Note 1: Mr. Ho Cheuk Yuet resigned as a director of the Company on 5 September 2005.

Note 2: Mr. Lawrence Ho was also the director of Value Convergence Holdings Limited, who received a total emolument of HK$612,000 thereof.

No director waived or agreed to waive any emoluments in the years ended 31 December 2006 and 2005. 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, 1,300,000 share options (2005: Nil) were granted to directors of the Company in respect of their services provided to the Group, further details are set out in note 51.

19. EMPLOYEES' EMOLUMENTS

Of five individuals with the highest emoluments in the Group, three directors (2005: two directors), of the Company whose emoluments are included in note 18 above. The emoluments of the remaining two (2005: three) individuals were as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**3,943**	4,454
Retirement benefit scheme contributions	**19**	36
Share-based compensation	**100**	356
	4,062	4,846

Their emoluments were within the following bands:

	Number of employees	
	2006	2005
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**2**	2
	2	3

20. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim dividend paid: Nil (2005: HK1 cent) per share	**–**	11,258
Dividend in specie *(note 1)*	**8,925**	–
Special dividend paid: HK3.7 cents (2005: Nil) per share *(note 1)*	**21,295**	–
2005 final dividend paid: HK1 cent (2004: HK0.5 cent) per share	**11,605**	4,910
	41,825	16,168

20. DIVIDENDS (continued)

Notes:

(1) In respect to the listing of ADSs of Melco PBL Entertainment on the NASDAQ Stock market in the United States of America ("NASDAQ") on 19 December 2006, a distribution in specie was offered to the shareholders of the Company. Under the distribution in specie, qualifying shareholders holding not less than 4,000 shares whose names appeared in the Register of Members of the Company on the record date for the distribution in specie, which was on 19 December 2006, would be entitled to receive 1 ADS for every whole multiple of 4,000 shares held on the record date. The final offer price of US$19 per ADS was translated into Hong Kong dollars of HK$147.8. A total of 60,382 ADSs amounting to approximately HK$8,925,000 were issued to the shareholders of the Company.

Qualifying shareholders holding not less than 4,000 shares whose names appeared in the register of members of the Company on the record date for the distribution in specie and who had elected to receive a cash payment in lieu of all the ADSs to which they would otherwise be entitled would be entitled to receive an amount of approximately HK$0.037 for every share held by them on the record date for the distribution in specie. Qualifying shareholders holding less than 4,000 shares whose names appeared in the Register of Members of the Company on the record date for the distribution in specie would be entitled to receive a cash payment of approximately HK$0.037 for every share held by them on the record date for the distribution in specie.

(2) On 30 March 2007, the directors of the Company proposed that final dividend for 2006 of HK1 cent per share would be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting. The proposed dividend for 2006 is payable to all shareholders whose names are on the Register of Members as at 10 May 2007.

21. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	**2,836,755**	548,718
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**62,536**	24,978
Adjustment to the share of result of a subsidiary based on potential dilution of its earnings per share	**(373)**	(8,046)
Earnings for the purpose of diluted earnings per share	**2,898,918**	565,650

21. EARNINGS PER SHARE (continued)

	2006	2005
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,191,262**	1,051,429
Effect of dilutive potential ordinary shares:		
Share options	**15,278**	28,312
Convertible loan notes	**181,571**	114,945
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,388,111**	1,194,686

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share has been adjusted for the share subdivision on 19 May 2005 (Note 49).

22. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2005	77,000
Net increase in fair value recognised in the consolidated income statement	8,000
At 31 December 2005 and 1 January 2006	85,000
Transfer from prepaid lease payments and buildings	56,940
At 31 December 2006	141,940

The carrying value of investment properties shown above comprises:

	2006	2005
	HK$'000	*HK$'000*
Land in Hong Kong	**85,000**	85,000
Land outside Hong Kong	**56,940**	–
	141,940	85,000

22. INVESTMENT PROPERTIES (continued)

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 2006 and 31 December 2005 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, which follows The HKIS Valuation Standards on Properties (First Edition 2005) published by Hong Kong Institute of Surveyors, was arrived at by reference to sales evidence as available on the market.

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

23. PROPERTY, PLANT AND EQUIPMENT

	Restaurants 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	Construction in progress HK$'000	Total HK$'000
THE GROUP								
COST								
At 1 January 2005	62,550	140	17,533	96,566	60,774	263	485	238,311
Exchange adjustments	–	–	7	11	–	7	–	25
Additions	2,680	3,861	23,394	36,138	100,274	1,064	–	167,411
Transfer	–	–	–	485	–	–	(485)	–
Disposals	(1,506)	–	(731)	(3,453)	(1,723)	–	–	(7,413)
At 31 December 2005	63,724	4,001	40,203	129,747	159,325	1,334	–	398,334
Exchange adjustments	–	–	19	24	–	14	–	57
Additions	–	833	38,960	1,432	75,764	1,722	–	118,711
Transfer to investment properties	–	(4,694)	–	–	–	–	–	(4,694)
Disposal of subsidiaries	–	–	(56,569)	(44,247)	(233,241)	(1,175)	–	(335,232)
Disposals	–	–	(9,063)	(3,650)	(1,165)	–	–	(13,878)
At 31 December 2006	63,724	140	13,550	83,306	683	1,895	–	163,298
ACCUMULATED DEPRECIATION								
At 1 January 2005	36,942	52	6,151	64,307	3,659	26	–	111,137
Exchange adjustments	–	–	5	4	–	1	–	10
Provided for the year	3,522	67	6,633	10,169	14,670	261	–	35,322
Disposals	(1,039)	–	(37)	(2,870)	(340)	–	–	(4,286)
At 31 December 2005	39,425	119	12,752	71,610	17,989	288	–	142,183
Exchange adjustments	–	–	17	17	–	6	–	40
Provided for the year	3,575	124	8,770	9,023	34,437	600	–	56,529
Transfer to investment properties	–	(186)	–	–	–	–	–	(186)
Disposal of subsidiaries	–	–	(8,763)	(9,477)	(51,982)	(246)	–	(70,468)
Disposals	–	–	(2,832)	(1,503)	(410)	–	–	(4,745)
At 31 December 2006	43,000	57	9,944	69,670	34	648	–	123,353
NET BOOK VALUE								
At 31 December 2006	20,724	83	3,606	13,636	649	1,247	–	39,945
At 31 December 2005	24,299	3,882	27,451	58,137	141,336	1,046	–	256,151

At 31 December 2006, the net book value of furniture, fixtures and equipment of the Group includes an amount of Nil (2005: HK$89,000) in respect of assets held under finance leases.

At 31 December 2006, the Group's building of approximately HK$83,000 is located in Hong Kong under long term lease. At 31 December 2005, the Group's buildings of approximately HK$85,000 and HK$3,797,000 are located in Hong Kong and Macau, respectively.

24. HOTELS AND ENTERTAINMENT COMPLEX UNDER DEVELOPMENT

	THE GROUP	
	Land	**Building**
	HK$'000	*HK$'000*
Arising on acquisition of a subsidiary *(note 53)*	400,000	33,241
Acquisition of additional interest in another piece of land *(note)*	1,175,000	–
	1,575,000	33,241
Amortisation of interests in lands	(31,650)	–
Capitalisation of amortisation of interests in lands	31,650	–
Other construction costs	–	273,583
At 31 December 2005 and 1 January 2006	1,575,000	306,824
Transfer from deposit for land use right *(note 26)*	48,590	–
Land premium paid on land interests	98,682	–
Amortisation of interests in lands	(48,869)	–
Capitalisation of amortisation of interests in lands	48,869	–
Other construction costs	–	771,526
Disposal of subsidiaries *(note 52)*	(1,722,272)	(1,078,350)
At 31 December 2006	–	–

The hotels and entertainment complex under development represents leasehold interests in two pieces of lands in Macau and the relevant construction cost incurred. Additional payments to the Macau Government are required when the lands are officially granted and the respective lease term are finalised by the Macau Government. During the year ended 31 December 2006, the Group paid the remaining payment of approximately HK$98,682,000 (2005: Nil) in respect of a piece of land upon the grant of the land by Macau Government.

Note: Pursuant to an agreement dated on 11 May 2005, Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Company, acquired from Great Respect Limited, a company controlled by a discretionary family trust in which Mr. Lawrence Ho and his family members are the beneficiaries, the remaining 49.2% interest in a piece of land located at Taipa, Macau, on the Cotai Strip ("Cotai Land") at a consideration of HK$1,175,000,000, subject to certain conditions precedents from Great Respect Limited. Upon receipt of the cash consideration, Great Respect Limited then subscribed for the Company's convertible loan notes having a principal amount of HK$1,175,000,000, which is non-interest bearing and convertible into shares of the Company at a conversion price of HK$9.965 per share, after adjustment for the share subdivision on 19 May 2005. The Macau Government had offered a medium term lease in respect of the Cotai Land for development of an integrated entertainment resort to Melco Hotels on 21 April 2005.

25. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land outside Hong Kong under short-term lease.

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current assets	–	4,646
Non-current assets	–	36,394
	–	41,040

Amortisation of prepaid lease payments before the related land was transferred to investment properties amounted to approximately HK$3,674,000 for the year ended 31 December 2006 (2005: HK$1,936,000).

26. DEPOSIT FOR LAND USE RIGHT

At 31 December 2005, the Group paid approximately HK$48,590,000 for the acquisition of a land use right in Macau. This deposit was transferred to hotels and entertainment complex under development upon the official grant of land during the year ended 31 December 2006 (Note 24).

27. GOODWILL

	THE GROUP
	HK$'000
At 1 January 2005	302,634
Realised upon deemed disposal of partial interests in subsidiaries	(109,650)
Arising on acquisition of additional interest in a subsidiary *(note 53)*	106,104
At 1 January 2006	299,088
Reduction of goodwill due to utilisation of pre-acquisition tax losses	(11,554)
Reduction of goodwill due to disposal of subsidiaries *(note 52)*	(270,656)
At 31 December 2006	16,878

Particulars regarding impairment testing on goodwill are disclosed in note 29.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

28. TRADING RIGHTS

	THE GROUP
	HK$'000
COST	
At 1 January 2005 and 2006 and 31 December 2006	5,066
AMORTISATION	
At 1 January 2005	2,280
Provided for the year	507
At 1 January 2006	2,787
Provided for the year	506
At 31 December 2006	3,293
CARRYING VALUE	
At 31 December 2006	1,773
At 31 December 2005	2,279

Trading rights represent rights to trade on The Stock Exchange of Hong Kong Limited ("SEHK") and Hong Kong Futures Exchange Limited ("HKFE"). They are stated at cost and amortised using the straight-line method over its estimated useful life of 10 years from 6 March 2000, the effective day of the merger of the SEHK, HKFE and Hong Kong Securities Clearing Company Limited.

29. 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 27 have been allocated to two individual cash generating units (CGUs) determined based on the related segments. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2006 allocated to these units are as follows:

	Goodwill
	HK$'000
Investment banking and financial services	8,323
Technology	8,555
	16,878

29. IMPAIRMENT TESTING ON GOODWILL (continued)

During the year ended 31 December 2006, management of the Group determines that there are no impairments 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. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 3-year period, which represents the management's best estimate of future cash flow from respective CGU, and a discount rate of approximately 8% – 10% (2005: 8%). 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 amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

30. OTHER INTANGIBLE ASSETS

	THE GROUP
	HK$'000
COST	
At 1 January 2005, 1 January 2006 and 31 December 2006	3,839
IMPAIRMENT	
At 1 January 2005, 1 January 2006 and 31 December 2006	1,292
CARRYING VALUE	
At 31 December 2005 and 2006	2,547

	THE COMPANY
	HK$'000
COST	
At 1 January 2006 and 31 December 2006	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.

31. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
	(Note 1)	
Cost of unlisted investments in jointly controlled entities	**90,000**	–
Share of post-acquisition (loss) profit	**(2,099)**	2,234
	87,901	2,234

As at 31 December 2006, the Group had interests in the following principal jointly controlled entity:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
PAL Development Limited	Hong Kong/ PRC	Ordinary shares	60% *(Note 2)*	Investment holding

Notes:

(1) During the year ended 31 December 2006, the Group formed a jointly controlled entity with an independent third party where the Group contributed certain cash and intangible assets and the joint venture party contributed certain businesses to the jointly controlled entity. Upon the formation of this jointly controlled entity, the Group then realised a gain of HK$20,000,000 on the intangible assets contributed with reference to the fair value of the intangible assets as arrived on the basis of a valuation carried out by an independent professional valuer not connected to the Group.

(2) The Group owns 60% interest in this jointly controlled entity. Pursuant to certain terms and conditions given in the shareholders agreement, the financial and operating policies of the jointly controlled entity require unanimous approval of the shareholders, as such, it is accounted for as a jointly controlled entity.

31. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

As at 31 December 2005, the Group had interests in the following jointly controlled entities, which became associates of the Group after the listing of the ADSs of Melco PBL Entertainment on NASDAQ completed in December 2006.

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
Melco PBL Entertainment	Cayman Islands/ Macau	Ordinary shares	50%	Investment holding
Melco PBL International Limited	Cayman Islands/ Macau	Ordinary shares	50%	Investment holding

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

	2006	2005
	HK$'000	*HK$'000*
Total assets	**183,467**	4,491
Total liabilities	**(28,897)**	(23)
Minority interest	**(8,069)**	–
Net assets	**146,501**	4,468
Group's share of net assets of jointly controlled entities	**87,901**	2,234
Revenue	**107,740**	4,883
(Loss) profit for the year	**(382,970)**	4,468
Group's share of (loss) profit of jointly controlled entities for the year	**(191,835)**	2,234

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.

32. INTERESTS IN ASSOCIATES

During the year ended 31 December 2006, the Group effectively disposed of its 20% interest in MPBL (Greater China) to Melco PBL Entertainment, which was a jointly controlled entity of the Group (see note 13). Subsequently at the end of year 2006, Melco PBL Entertainment has been listed on the NASDAQ through the issuance of ADS resulting in a deemed disposal of jointly controlled entities of the Group. As a result of this deemed disposal, the Company's interest in Melco PBL Entertainment further reduced to approximately 42.34%, Melco PBL Entertainment then became an associate and the Group recognised a gain of approximately HK$3,102,253,000 with reference to the Group's share of net assets of Melco PBL Entertainment immediately before and after the listing of the ADS.

	2006	2005
	HK$'000	*HK$'000*
Cost of investment in associates		
Listed in the United States of America	**5,802,612**	–
Fair value of listed investments	**27,567,133**	–

As at 31 December 2006, the Group had interests in the following principal associate:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
Melco PBL Entertainment	Cayman Islands/ Macau	Ordinary shares	42.34%	Investment holding

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

	2006	2005
	HK$'000	*HK$'000*
Total assets	**16,042,332**	–
Total liabilities	**(2,337,369)**	–
Net assets	**13,704,963**	–
Group's share of net assets of associates	**5,802,612**	–

Note: No revenue, loss for the year and the Group's share of results of associates for the year are presented as Melco PBL Entertainment became an associate of the Group near the end of 2006.

33. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**629,849**	46,349

Details of the Company's principal subsidiaries at 31 December 2006 are set out in note 62.

34. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	**19,837**	21,837
Impairment losses	**–**	(1,320)
	19,837	20,517

The amount represents unlisted equity investments for which the fair value cannot be reliably measured because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

In the current year, the Group disposed of certain unlisted equity investments with carrying amount of HK$680,000, which had been carried at cost less impairment before disposal. No gain or loss has been recognised in the consolidated income statement for the current year.

35. LONG TERM DEPOSITS

THE GROUP

As at 31 December 2006, amounts represent deposits with various exchanges and clearing houses. As at 31 December 2005, amounts represent deposits with various exchanges and clearing houses and deposits for acquisition of property, plant and equipment. These amounts are non-interest bearing.

36. TRADE RECEIVABLES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Trade receivables (excluding receivables balance arising from margin clients' securities transactions) *(Notes a, b & c)*	**367,143**	228,520
Allowance for doubtful receivables	**(9,700)**	(6,730)
	357,443	221,790
Trade receivables arising from margin clients' securities transactions *(Note b)*	**305,511**	177,937
	662,954	399,727

The aged analysis of trade receivables (excluding receivables balance arising from margin clients' securities transactions) is as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**291,026**	173,935
31 – 90 days	**37,535**	22,930
Over 90 days	**28,882**	24,925
	357,443	221,790

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 90 days would be granted.

(b) Trade receivables arising from the ordinary course of business of broking in securities and equity options transactions and dealing in futures and options in the Investment Banking and Financial Services Segment as at 31 December 2006 amounted to approximately HK$588,236,000 (2005: HK$319,499,000). The settlement terms of the trade receivables arising from the ordinary course of business of broking in securities and equity options transactions are usually two trading days after the trade date of the those transactions; and the trade receivables arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand.

36. TRADE RECEIVABLES (continued)

Notes: (continued)

Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. The decision for rate changes is on management's discretion subject to notification to clients. Securities are assigned with specific margin ratios for calculating their margin values. Loans granted to securities margin clients are further subject to the discounted value of securities deposited with reference to these specific margin ratios. Additional funds or collateral are required if the loan outstanding exceeds the eligible margin value of securities deposited. As at 31 December 2006, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately HK$2,435,797,000 (2005: HK$5,266,133,000). No aging analysis on margin clients' receivables is disclosed as an aging analysis is not meaningful in view of the nature of the business of securities margin financing.

(c) Other 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 on average to its customers.

37. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Food and beverages	**1,164**	1,346
Consumable stores	**2,296**	594
Merchandise	**58,016**	32,716
	61,476	34,656

38. INVESTMENT IN CONVERTIBLE LOAN NOTES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Unlisted convertible loan notes	**–**	4,000

The amount represents debt element of the convertible loan notes while the derivative portion relating to the conversion option was accounted for separately with insignificant fair value. The convertible loan notes have a maturity date of 6 January 2006 and they have been settled in full at the maturity date.

39. HELD-FOR-TRADING INVESTMENTS

THE GROUP

Held-for-trading investments as at 31 December 2006 represents equity securities listed in Hong Kong of approximately HK$14,503,000 (2005: listed in Taiwan of approximately HK$495,000 and listed in Hong Kong of approximately HK$44,507,000).

40. AMOUNTS DUE FROM (TO) JOINTLY CONTROLLED ENTITIES/ASSOCIATES/ MINORITY SHAREHOLDER

THE GROUP AND THE COMPANY

Except for the amount due from an associate of approximately HK$578,578,000 which is unsecured, interest bearing at HIBOR rate and not repayable within twelve months from the balance sheet date, the remaining amounts are unsecured, non-interest bearing and repayable on demand.

41. AMOUNT DUE FROM A RELATED COMPANY

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
STDM *(note)*	**–**	948

Note: The amount due from STDM, a related company of which Dr. Stanley Ho is a director and has direct beneficial interests, is unsecured, non-interest bearing and repayable on demand.

42. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

Included in amounts due from subsidiaries are i) loan to a subsidiary of HK$241.9 million (2005: HK$211.9 million) which is unsecured, interest bearing at prime rate minus 2% per annum or HIBOR plus 1.25% to 2% per annum and repayable upon written notice given from the Company; ii) loan to a subsidiary of Nil (2005: HK$523.7 million which is unsecured, interest bearing at 9% per annum and repayable on demand). Other amounts due from (to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

43. PLEDGED OF ASSETS

THE GROUP

At 31 December 2006, the Group's bank deposit and investment properties amounting to approximately HK$947,000 and HK$85,000,000 were pledged for obtaining the banking facilities for a subsidiary of the Group (2005: bank deposit of approximately HK$270,000 and investment properties of HK$85,000,000 were pledged for tendering of contracts with the Macau government by a subsidiary of the Group and for obtaining the banking facilities for a subsidiary of the Group respectively).

The deposits carry fixed interest rate of about 4%.

44. BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less.

From the Group's ordinary business, it acts as a trustee and in other fiduciary capacities that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its consolidated balance sheet. As at 31 December 2006, the Group maintained segregated accounts with HKFE Clearing Corporation Limited ("HKCC") and the authorised institutions in conjunction with its future and brokerage businesses as a result of its normal business transactions with amounts of approximately HK$2,697,000 (2005: HK$1,670,000) and HK$551,852,000 (2005: HK$192,418,000) respectively, which are not otherwise dealt with in the financial statements.

45. TRADE PAYABLES

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

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**82,285**	38,330
31-90 days	**3,973**	19,551
Over 90 days	**27,215**	12,674
	113,473	70,555
Trade payables arising from the ordinary course of business of dealing in securities transactions *(Note)*	**157,260**	33,381
	270,733	103,936

Note: The settlement terms of trade payables arising from the ordinary course of business of dealing in securities transactions for the Investment Banking and Financial Services Segment are usually two trading days after trade date. These trade payables are repayable on demand and aged within 30 days.

46. BANK BORROWING – DUE WITHIN ONE YEAR

The amount represents short-term bank borrowing of HK$49,000,000 which is repayable on demand and unsecured (2005: HK$28,000,000 repayable on demand and partially secured by a charge over certain marketable securities from margin clients), and they are related to the Investment Banking and Financial Services Segment. One of the subsidiary of the Company also provided a corporate guarantee for these facilities. The interest rates for the loans are HIBOR plus a spread, thus exposing the Group to cash flow interest rate risk. The terms of the facilities are generally renewed annually.

47. CONVERTIBLE LOAN NOTES

THE GROUP AND THE COMPANY

On 9 November 2004, the Company issued a convertible loan note due on 8 November 2009 with a principal amount of HK$100,000,000, which is interest-bearing at 4% per annum. In addition, on 8 February 2005, the Company issued another convertible loan note due on 7 February 2010 with a principal amount of HK$56,000,000, which is interest-bearing at 4% per annum. Both convertible loan notes were issued for the acquisition of equity interests in Great Wonders (Note 53). The fair value of the convertible loan note with a principal amount of HK$56,000,000 is determined to be HK$70,591,000 with reference to the attributable underlying assets and liabilities of Great Wonders acquired at the date of acquisition.

The convertible loan note due on 8 November 2009 is convertible into fully paid ordinary shares of HK$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK$2 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 8 November 2009.

The convertible loan note due on 7 February 2010 is convertible into fully paid ordinary shares of HK$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK$4.1 per share convertible in the period, commencing 3 years from the date of issuance until, and including, the maturity date which is 7 February 2010.

On 11 April 2005, convertible loan note due on 30 June 2005 and 30 June 2006 with an aggregate amount of HK$45,000,000 was converted into the ordinary shares of the Company. Total number of ordinary shares converted is 39,130,432 shares of HK$0.5 each, after adjustment for the share subdivision on 19 May 2005.

On 5 September 2005, the Company issued a convertible loan note due on 4 September 2010 with a 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 the Cotai Land in Macau (Note 24). This convertible loan note is convertible into fully paid ordinary shares of HK$0.5 each, after adjustment for the share subdivision on 19 May 2005, of the Company at a conversion price of HK$9.965 per share convertible in the period, commencing 5 years from the date of issuance until, and including, the maturity date which is 4 September 2010.

The convertible loan notes contain two components, liability and equity elements. Upon the application of HKAS 32 "*Financial Instruments: Disclosure and Presentation*", the convertible loan notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible loan notes equity reserve". The effective interest rate of the liability component is 4.5% – 6.25%.

47. CONVERTIBLE LOAN NOTES (continued)

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

	2006	2005
	HK$'000	*HK$'000*
Liability component at the beginning of the year	**1,037,163**	140,626
Convertible into Company's shares	**–**	(45,000)
Issue of convertible loan notes	**–**	922,288
Interest on convertible loan notes *(Note 14)*	**62,536**	24,978
Interest paid	**(6,240)**	(498)
Interest payable transferred to amounts due to related companies	**–**	(5,231)
Liability component at the end of the year shown as non-current liabilities	**1,093,459**	1,037,163

The fair value of the liability component of the convertible loan notes at 31 December 2006, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, was approximately HK$981,057,000 (2005: HK$991,125,000).

48. DEFERRED TAX LIABILITIES

THE GROUP

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

	THE GROUP		
	Accelerated tax depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	(29,627)	12,490	(17,137)
Effect of change in tax rate	540	–	540
Acquired on acquisition of a subsidiary *(Note 53)*	(48,000)	–	(48,000)
Credit (charge) to consolidated income statement for the year	1,705	(341)	1,364
At 1 January 2006	(75,382)	12,149	(63,233)
Disposal of subsidiaries *(Note 52)*	63,338	(10,785)	52,553
Credit to consolidated income statement for the year	12,044	1,417	13,461
At 31 December 2006	–	2,781	2,781

48. DEFERRED TAX LIABILITIES (continued)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets	**2,781**	1,495
Deferred tax liabilities	**–**	(64,728)
	2,781	(63,233)

As at the balance sheet date, the Group has unused tax losses of approximately HK$326,930,000 (2005: HK$389,021,000). A deferred tax asset has been recognised in respect of HK$15,900,000 (2005: HK$69,426,000) 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 Investment Banking and Financial Services 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$4,651,000 at year ended 31 December 2005 that will expire in 2008. All other losses may be carried forward indefinitely.

THE COMPANY

As at the balance sheet date, the Company has nil (2005: HK$533,000) unused tax loss. No deferred tax asset has been recognised in respect of the tax loss at 31 December 2005 due to the unpredictability of future profit streams.

49. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2006	2005	**2006**	2005
			HK$'000	*HK$'000*
Authorised:				
At the beginning of the year of HK$0.5 each (2005: HK$1 each)	**1,400,000,000**	700,000,000	**700,000**	700,000
Subdivision of one share of HK$1 each into two shares of HK$0.5 each *(note a)*	**–**	700,000,000	**–**	–
At the end of the year of HK$0.5 each	**1,400,000,000**	1,400,000,000	**700,000**	700,000
Issued and fully paid:				
At the beginning of the year of HK$0.5 each (2005: HK$1 each)	**1,125,838,540**	463,244,054	**562,919**	463,244
Exercise of share options before subdivision	**–**	8,210,000	**–**	8,210
Conversion of convertible loan notes	**–**	19,565,216	**–**	19,565
Subdivision of one share of HK$1 each into two shares of HK$0.5 each *(note a)*	**–**	491,019,270	**–**	–
Issue of shares *(notes b, c and d)*	**85,822,222**	140,000,000	**42,911**	70,000
Exercise of shares options after subdivision	**16,489,954**	3,800,000	**8,245**	1,900
At the end of the year of HK$0.5 each	**1,228,150,716**	1,125,838,540	**614,075**	562,919

Notes:

(a) On 18 May 2005, an ordinary resolution was passed by the shareholders of the Company to approve the subdivision (the "Subdivision") of each issued and unissued shares of HK$1 each in the authorised share capital into two ordinary shares of HK$0.5 each. The Subdivision became effective on 19 May 2005.

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

(c) In 2005, in order to finance the Group's expansion and general operations, the Company issued 140,000,000 ordinary shares of HK$0.5 each for a consideration of HK$9.125 per share. The shares was issued on 20 May 2005 to independent investors. The new shares rank pari passu with the existing shares in all respects.

(d) In 2006, in order to finance the Group's expansion and general operations, the Company issued 63,600,000 ordinary shares of HK$0.5 each for a consideration of HK$19.1 per share. The shares was issued on 2 June 2006 to independent investors. The new shares rank pari passu with the existing shares in all respects.

50. RESERVES

	Share premium HK$'000	Issuable shares HK$'000	Capital reserve HK$'000	Convertible loan notes equity reserve HK$'000	Share options reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000
THE COMPANY							
At 1 January 2005	567,980	–	354,009	4,374	5,435	(238,604)	693,194
Net profit for the year	–	–	–	–	–	25,663	25,663
Issue of shares	1,207,500	–	–	–	–	–	1,207,500
Share issuance expenses	(38,397)	–	–	–	–	–	(38,397)
Exercise of share options	10,697	–	–	–	–	–	10,697
Share conversion on convertible loan notes	25,435	–	–	–	–	–	25,435
Recognition of equity – settled share based payment	–	–	–	–	5,350	–	5,350
Transfer to share premium upon exercise of share options	3,033	–	–	–	(3,033)	–	–
Recognition of equity components of convertible loan notes	–	–	–	323,303	–	–	323,303
Shares issuable on acquisition of additional interest in a subsidiary	–	196,667	–	–	–	–	196,667
Dividend paid	–	–	(16,168)	–	–	–	(16,168)
At 31 December 2005	1,776,248	196,667	337,841	327,677	7,752	(212,941)	2,433,244
Net loss for the year	–	–	–	–	–	(10,819)	(10,819)
Issue of shares	1,182,960	–	–	–	–	–	1,182,960
Share issuance expenses	(40,025)	–	–	–	–	–	(40,025)
Exercise of share options	16,084	–	–	–	–	–	16,084
Recognition of equity – settled share based payment	–	–	–	–	9,091	–	9,091
Transfer to share premium upon exercise of share options	4,117	–	–	–	(4,117)	–	–
Shares issued on acquisition of additional interest in a subsidiary	185,556	(196,667)	–	–	–	–	(11,111)
Dividend paid	–	–	(41,825)	–	–	–	(41,825)
At 31 December 2006	3,124,940	–	296,016	327,677	12,726	(223,760)	3,537,599

Note: The issuable shares form part of the consideration for acquisition of additional interest in a subsidiary upon the actual date of grant of the concession of a piece of land by the Macau Government on 1 March 2006 (see Note 53).

51. SHARE OPTION SCHEMES

(a) Share option scheme of the Company

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 included the Company's directors (including independent 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 share 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 19 November 2003, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 44,399,400 shares of HK$0.5 each. 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.

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 the 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 the 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.

51. SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the closing price of the Company's share on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the share options; (ii) the average closing price of the Company's shares on the Stock Exchange for the five days immediately preceding the date of the offer of the share options; and (iii) the nominal value of the Company's shares on the date of the offer of the share options.

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

The following share options were outstanding under the Scheme during the year ended 31 December 2006:

Category of participant	Outstanding at 1.1.2005	Granted in 2005	Exercised during 2005	Outstanding at 1.1.2006	Reclassification during the year	Granted during the year	Exercised during the year[4]	Outstanding at 31.12.2006	Date of grant of share options	Share price at date of grant of share options[2]	Exercise price of share options[2]
Directors	32,612	–	–	32,612	–	–	(32,612)	–	8 March 2002	HK$0.41	HK$0.5
Directors	7,200,000	–	(3,600,000)	3,600,000	500,000	–	(4,100,000)	–	19 February 2004	HK$1.175	HK$1.2025
Directors[5]	–	–	–	–	280,000	–	(140,000)	140,000	17 September 2004	HK$1.6875	HK$1.6875
Directors[6]	–	–	–	–	200,000	–	–	200,000	1 February 2005	HK$7.4	HK$7.4
Directors[7]	–	–	–	–	–	400,000	–	400,000	13 February 2006	HK$11.75	HK$11.8
Directors[8]	–	–	–	–	–	900,000	–	900,000	3 April 2006	HK$15.7	HK$15.87
Sub-total	7,232,612	–	(3,600,000)	3,632,612	980,000	1,300,000	(4,272,612)	1,640,000			
Employees	4,455,340	–	(2,400,000)	2,055,340	–	–	(2,055,340)	–	13 September 2002	HK$0.5534	HK$0.5534
Employees	16,340,000	–	(8,120,000)	8,220,000	(2,000,000)	–	(6,220,000)	–	19 February 2004	HK$1.175	HK$1.2025
Employees[9]	3,868,000	–	(1,200,000)	2,668,000	(1,180,000)	–	(468,000)	1,020,000	17 September 2004	HK$1.6875	HK$1.6875
Employees[10]	–	2,059,400	–	2,059,400	(1,000,000)	–	(474,000)	585,400	1 February 2005	HK$7.4	HK$7.4
Employees[11]	–	–	–	–	(1,200,000)	4,600,000	–	3,400,000	13 February 2006	HK$11.75	HK$11.8
Sub-total	24,663,340	2,059,400	(11,720,000)	15,002,740	(5,380,000)	4,600,000	(9,217,340)	5,005,400			

51. SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

Category of participant	Outstanding at 1.1.2005	Granted in 2005	Exercised during 2005	Outstanding at 1.1.2006	Reclassification during the year	Granted during the year	Exercised during the year[4]	Outstanding at 31.12.2006	Date of grant of share options	Share price at date of grant of share options[2]	Exercise price of share options[2]
Others	3,900,000	–	(3,900,000)	–	–	–	–	–	13 September 2002	HK$0.5534	HK$0.5534
Others[12]	2,000,000	–	(1,000,000)	1,000,000	1,500,000	–	(2,300,000)	200,000	19 February 2004	HK$1.175	HK$1.2025
Others[13]	9,000,000	–	–	9,000,000	900,000	–	(300,000)	9,600,000	17 September 2004	HK$1.6875	HK$1.6875
Others[14]	–	–	–	–	800,000	–	(400,000)	400,000	1 February 2005	HK$7.4	HK$7.4
Others[15]	–	–	–	–	1,200,000	–	–	1,200,000	13 February 2006	HK$11.75	HK$11.8
Sub-total	14,900,000	–	(4,900,000)	10,000,000	4,400,000	–	(3,000,000)	11,400,000			
Total	46,795,952	2,059,400	(20,220,000)	28,635,352	–	5,900,000	(16,489,952)	18,045,400			

Notes:

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

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

3. As at 31 December 2006, the Company had 18,045,400 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,045,400 additional ordinary shares of the Company and additional share capital of approximately HK$9,022,700 and share premium of approximately HK$91,430,000 before issuance expenses.

4. In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$13.15 (2005: HK$9.67).

5. At 31 December 2006, 140,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.

6. At 31 December 2006, 200,000 options may be exercised during the period from 17 September 2009 to 7 March 2012.

7. Among 400,000 options as at 31 December 2006, 130,000 options may be exercised during the period from 1 April 2008 to 31 January 2016, 130,000 options may be exercised during the period from 1 April 2010 to 31 January 2016, and 140,000 options may be exercised during the period from 1 April 2012 to 31 January 2016.

51. SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

8. Among 900,000 options as at 31 December 2006, 300,000 options may be exercised during the period from 3 April 2008 to 2 April 2016, 300,000 options may be exercised during the period from 3 April 2010 to 2 April 2016 and 300,000 options may be exercised during the period from 3 April 2012 to 2 April 2016.

9. Among 1,020,000 options as at 31 December 2006, 370,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 450,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 110,000 options may be exercised during the period from 17 September 2006 to 7 March 2012 and 90,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.

10. Among 585,400 options as at 31 December 2006, 70,000 options may be exercised during the period from 17 September 2006 to 7 March 2012, and 515,400 options may be exercised during the period from 17 March 2008 to 7 March 2012.

11. Among 3,400,000 options as at 31 December 2006, 860,000 options may be exercised during the period from 1 April 2008 to 31 January 2016, 910,000 options may be exercised during the period from 1 April 2010 to 31 January 2016 1,280,000 options may be exercised during the period from 1 April 2012 to 31 January 2016, 113,000 options may be exercised during the period from 3 April 2008 to 31 January 2016, 113,000 options may be exercised during the period from 3 April 2010 to 31 January 2016 and 124,000 options may be exercised during the period from 3 April 2012 to 31 January 2016.

12. At 31 December 2006, 200,000 options may be exercised during the period from 19 February 2006 to 7 March 2012.

13. Among 9,600,000 options as at 31 December 2006, 4,700,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 4,700,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 100,000 options may be exercised during the period from 17 September 2006 to 7 March 2012 and 100,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.

14. At 31 December 2006, 400,000 options may be exercised during the period from 17 September 2008 to 7 March 2012.

15. Among 1,200,000 options as at 31 December 2006, 540,000 options may be exercised during the period from 1 April 2008 to 31 January 2016, 490,000 options may be exercised during the period from 1 April 2010 to 31 January 2016 and 170,000 options may be exercised during the period from 1 April 2012 to 31 January 2016.

During the year ended 31 December 2006, options were granted on 13 February 2006 and 3 April 2006. The estimated fair values of the options granted on those dates is approximately HK$25,803,000 and HK$7,045,000 respectively. During the year ended 31 December 2005, options were granted on 1 February 2005. The estimated fair value of the options granted on that date is HK$3,066,000. The weighted average fair value of option granted during the year ended 31 December 2006 is HK$5.6 (2005: HK$1.5).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

51. SHARE OPTION SCHEMES (continued)

(a) Share option scheme of the Company (continued)

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

	Share options grant date		
	3 April 2006	**13 February 2006**	**1 February 2005**
Exercise price	HK$15.87	HK$11.8	HK$7.4
Expected volatility	58.37%	48.27%	42.86%
Expected life	2.5 – 6.5 years	2.6 – 6.6 years	2 – 5 years
Risk-free rate	4.331 – 4.545%	4.135 – 4.229%	2.734 – 3.39%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 100 days. 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 Group recognised the total expenses of approximately HK$9,509,000 for the year ended 31 December 2006 (2005: HK$5,350,000) 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.

(b) Share option scheme of Value Convergence Holdings Limited ("Value Convergence"), a subsidiary of the Company

The Share Option Scheme ("Share Option Scheme") was adopted by Value Convergence on 29 November 2001 (which superseded the previous share option scheme of Value Convergence adopted on 14 March 2001).

As at 31 December 2006, options to subscribe for an aggregate of 2,137,163, 7,623,065, 654,934 and 2,400,000 underlying shares granted on 9 July 2002, 25 March 2004, 15 March 2006 and 27 December 2006 ("Share Options") pursuant to the Share Option Scheme at an exercise price of HK$1.0 per share, HK$0.64 per share, HK$1.18 per share and HK$1.292 per share, respectively, were outstanding, which in total represents approximately 5.1% (2005: 5.7%) of the shares of Value Convergence in issue as at 31 December 2006. The adjusted closing price of Value Convergence's shares immediately before 9 July 2002 and the closing prices of Value Convergence's shares immediately before 25 March 2004, 15 March 2006 and 27 December 2006 were HK$0.65, HK$0.64, HK$1.06 and HK$1.24 per share, respectively. The Share Options have a duration of 10 years from the date of grant, i.e. between 9 July 2002 to 8 July 2012, between 25 March 2004 to 24 March 2014, between 15 March 2006 to 14 March 2016 and between 27 December 2006 to 26 December 2016 respectively. According to the Share Option Scheme, any Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by Value Convergence Group. The following are details of the outstanding Share Options as at 31 December 2006:

51. SHARE OPTION SCHEMES (continued)

(b) Share option scheme of Value Convergence Holdings Limited ("Value Convergence"), a subsidiary of the Company (continued)

Categories of grantees	Exercise price per share	Number of underlying shares to be issued upon the exercise of the Share Options 2006	2005
Directors of Value Convergence	HK$1.0	**982,114**	982,114
Directors of Value Convergence	HK$1.292	**2,400,000**	–
Employees	HK$1.0	**24,942**	694,842
Employees	HK$0.64	**5,723,065**	8,900,565
Employees	HK$1.18	**654,934**	–
Other eligible persons	HK$1.0	**1,130,107**	1,581,212
Other eligible persons	HK$0.64	**1,900,000**	2,050,000
Total		**12,815,162**	14,208,733

During the year ended 31 December 2006, certain Share Options to subscribe for a total of 349,552 underlying shares granted to 3 employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of Value Convergence. During the year ended 31 December 2006, certain Share Options to subscribe for a total of 1,096,453 and 3,002,500 underlying shares at an exercise price of HK$1.0 and HK$0.64 per share, respectively, granted to a total of 20 employees were exercised (2005: 42 employees). Since the date of the grant of the Share Options up to 31 December 2006 and 31 December 2005, none of the Share Options were cancelled. Movements in the number of Share Options outstanding during the year are as follows:

	Number of Share Options 2006	2005
At beginning of the year	**14,208,733**	27,349,283
Share Options granted during the year	**3,054,934**	–
Exercised during the year	**(4,098,953)**	(11,486,227)
Lapsed during the year	**(349,552)**	(1,654,323)
At end of the year	**12,815,162**	14,208,733

During the year ended 31 December 2006, options were granted on 15 March 2006 and 27 December 2006 where Value Convergence's share price were HK$1.18 and HK$1.19, respectively. The estimated fair values of the options granted on those dates are approximately HK$405,000 and HK$1,746,000 respectively (2005: Nil). No vesting period for options granted on 15 March 2006 and the vesting period of share options granted on 27 December 2006 is from one to three years. The weighted average fair value of option granted during the year ended 31 December 2006 is HK$0.7.

51. SHARE OPTION SCHEMES (continued)

(b) Share option scheme of Value Convergence Holdings Limited ("Value Convergence"), a subsidiary of the Company (continued)

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

	Share options grant date			
	15 March 2006	**27 December 2006**		
Market price at date of grant	HK$1.18	HK$1.19	HK$1.19	HK$1.19
Exercise price	HK$1.18	HK$1.292	HK$1.292	HK$1.292
Expected volatility	139.45%	100.32%	100.32%	100.32%
Expected life	1 year	2 years	3 years	4 years
Risk-free rate	4.15%	3.527%	3.602%	3.656%
Vesting period	N/A	1 year	2 years	3 years

Expected volatility for the options granted on 15 March 2006 and 27 December 2006 was determined by using the historical volatility of Value Convergence's share price over the previous 260 days and 250 days respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non transferability, exercise restrictions and behavioural considerations. Value Convergence recognised the total expense of approximately HK$419,105 for the year ended 31 December 2006 (2005: Nil) in relation to share options granted.

52. DISPOSAL OF SUBSIDIARIES

As disclosed in note 13, the Company disposed of its interests in MPBL (Greater China) during the year ended 31 December 2006. The net assets of MPBL (Greater China) at the date of disposal were as follows:

	HK$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	264,764
Hotels and entertainment complex under development	2,800,622
Trademark	23,637
Trade and other receivables	47,361
Inventories	1,677
Bank balances and cash	53,446
Amount due from a related company	951
Trade and other payables	(243,534)
Taxation payables	(2,538)
Obligation under finance lease	(141)
Shareholder's loan	(45,708)
Deferred tax liabilities	(52,553)
Amounts due to group companies	(1,114,656)
Minority interests	(518,550)
	1,214,778
Attributable goodwill	270,656
	1,485,434
Loss on disposal	(12,140)
Total consideration	1,473,294
Satisfied by:	
Interests in jointly controlled entities *(note 13)*	1,642,995
Amount due to Publishing and Broadcasting Limited *(note 13)*	(169,701)
	1,473,294
Net cash outflow arising on disposal:	
Bank balances and cash disposal of	(53,446)

During the year ended 31 December 2006, MPBL (Greater China) contributed revenue of approximately HK$140,207,000 (2005: HK$149,695,000), loss for the year of approximately HK$152,108,000 (2005: HK$6,507,000) and net cash outflow of approximately HK$96,271,000 (2005: net cash inflow of HK$106,527,000).

53. ACQUISITION OF SUBSIDIARIES

Acquisition for the year ended 31 December 2005

The Group completed the acquisition of additional 20% issued share capital of Great Wonders, a company in which the Group held 50% equity interest as at 31 December 2004. The principal activities of Great Wonders was to apply to the Macau Government for the concession of the land located at Taipa, Macau and to develop the land into a hotel and entertainment complex with one of the largest casino and electronic gaming machine areas. Great Wonders accepted in principle a written offer issued by the Macau Government dated 24 June 2005 to grant to Great Wonders a medium term lease of the property.

The fair value of the assets and liabilities of Great Wonders at the date of acquisition of the 20% issued share capital of Great Wonders are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000* *(note)*	*HK$'000*
Hotels and entertainment complex under development	33,241	400,000	433,241
Amount due from a shareholder	969	–	969
Amount due to the Group	(33,229)	–	(33,229)
Other payables	(27)	–	(27)
Deferred tax liabilities	–	(48,000)	(48,000)
	954	352,000	352,954
Minority interest			(105,886)
			247,068
Represented by:			
Interest in a jointly controlled entity			176,477
Issue of convertible loan note *(note 47)*			70,591
			247,068

Subsequent to the acquisition, the Group has injected its 70% equity interests of Great Wonders to the JV Group pursuant to a Subscription Agreement. Please see note 12 for details.

53. ACQUISITION OF SUBSIDIARIES (continued)

On 28 July 2005, the Group completed the acquisition of the remaining 30% equity interest in Great Wonders from STDM at a consideration of HK$400,000,000, of which HK$200,000,000 is settled in cash and the remaining HK$200,000,000 will be settled by the issue of 22,222,222 ordinary shares of the Company (Note). Goodwill amounting to approximately HK$106,104,000, which represented the surplus of the consideration over the 30% of the fair value of Great Wonders at the date of acquisition of the remaining 30% equity interest in Great Wonders, arised as result. The difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interests in Great Wonders is charged to special reserve.

Note: Pursuant to the agreement with STDM, the 22,222,222 ordinary shares of the Company with par value of HK$0.5 each will be issued on the actual date of grant of the concession of the land by the Macau government. The fair value of the shares to be issued is approximately HK$196,667,000 with reference to the quoted market price of the Company's share at the date of the exchange of HK$8.85. The land has been officially granted by the Macau Government on 1 March 2006 and the Company then allotted and issued the 22,222,222 shares to STDM, accordingly.

54. MAJOR NON-CASH TRANSACTIONS

The consideration for the purchase of subsidiaries and the acquisition of additional interest in the Cotai Land during the year ended 31 December 2005 comprised convertible loan notes and shares as disclosed in note 53 and note 24, respectively.

55. OPERATING LEASES

(a) The Group as lessee

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
The Group made rental payment for properties under operating leases as follows:		
Minimum lease payments	**31,552**	20,279
Contingent rental payments	**–**	442
	31,552	20,721

55. OPERATING LEASES (continued)

(a) The Group as lessee (continued)

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	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**23,284**	29,418
In the second to fifth year inclusive	**24,035**	79,058
Over five years	**–**	39,036
	47,319	147,512

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for a term ranging from 3 to 4 years. In addition, the Group may pay additional rental expenses in respect of certain premises which are dependent upon the level of revenue achieved by particular slot lounges for the year ended 31 December 2005.

(b) The Group as lessor

In 2004, the Group has entered into lease arrangements with Sociedade de Jogos de Macau, S.A. ("SJM"), a subsidiary of STDM, and the other lessee for leasing of its owned gaming machines. In addition to a fixed monthly rent of HK$7,767 (equivalent to MOP8,000) per month for one of the lease arrangements, the Group will be entitled to lease receipts calculated at an agreed percentage of net win from each gaming machine leased on an accrual basis in accordance with the respective lease arrangements. This lease arrangement is superseded with another service agreement where the Group provides management service to certain slot lounges owned by SJM and receives management service income in return during the year ended 31 December 2005.

55. OPERATING LEASES (continued)

(b) The Group as lessor (continued)

At 31 December 2006, the Group has entered into lease arrangements with certain tenants for its leased properties and investment properties. Certain of the properties held have committed tenants for the next three to six years. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**9,099**	14,810
In the second to fifth year inclusive	**13,237**	24,240
Over five years	**3,501**	–
	25,837	39,050

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

56. CAPITAL COMMITMENTS

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Capital commitments contracted for but not provided in respect of the acquisition of property, plant and equipment, hotels and entertainment complex under development	**7,278**	1,405,808

On 30 November 2005, Great Wonders accepted a formal offer from the Macau Government to acquire the land at a consideration of approximately HK$145,085,000 (MOP149,728,000). Great Wonders paid a deposit of HK$48,590,000 (MOP50,000,000) for the land. The remaining balance, interest-bearing at 5% per annum, and was payable in 4 half-yearly instalments in equal amounts, which had been fully settled during the year ended 31 December 2006. Also, Melco Hotels had accepted in principal another offer from the Macau government to acquire the Cotai land in Macau at a consideration of approximately HK$493,339,000 (MOP509,125,000) in 2005. No payment has been made in respect of this offer by Melco Hotels since then. Melco Hotels, which is a subsidiary of MPBL (Greater China), was disposed of during the year ended 31 December 2006.

The Company had no significant capital commitment at the balance sheet date.

57. OTHER COMMITMENTS

(i) On 11 April 2006, the Group entered into an agreement ("Agreement") with a gaming technology alliance ("Shuffle Master") regarding the grant of an exclusive right to distribute certain gaming machines by the Group. In return, the Group would pay a portion of the profit from the sale of the gaming machines to the Shuffle Master in accordance with the Agreement of not less than approximately HK$43,204,000, HK$44,874,000 and HK$44,335,000, respectively, for the three years starting from April 2006. However, on 4 February 2007, the Group mutually entered into a Deed of Termination, Settlement and Release with Shuffle Master to terminate the Agreement without any penalty.

(ii) On 18 August 2006, the Group entered into a shareholders agreement ("PAL Agreement") with the shareholder of a jointly controlled entity, PAL, regarding the formation and operational affairs of PAL. Pursuant to the terms of PAL Agreement, the Group agreed to inject, inter alia, an aggregate amount of HK$100 million cash into PAL on or before 31 January 2007. As at 31 December 2006, the Group had already contributed an amount of HK$70 million cash into PAL. The remaining balance was injected into PAL on 22 January 2007.

(iii) On 11 October 2006, the Group entered into a securities purchase agreement to subscribe certain new shares of a company plus warrants, in which no control in this company will be obtained after such subscription, at a total subscription price of approximately HK$20,617,000 (US$2,650,000) on or before 31 January 2007. Such subscription was made on 23 January 2007.

58. CONTINGENT LIABILITIES

At 31 December 2006, the Company provides a total guarantee of approximately HK$12,603,000 (2005: HK$4,680,000) to a supplier and an insurance company in respect of the goods purchased and service provided by its subsidiaries and the amount utilised is approximately HK$1,247,000 (2005: HK$1,082,000)

59. 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 to the MPF Scheme.

The Group's contribution to both retirement schemes are expensed as incurred. The Group's mandatory contributions to the MPF Schemes are vested immediately. The Group's contributions to the ORSO Scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

60. 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$34,834,000 (2005: HK$51,038,000).

The trade receivables include amounts due from SJM, a subsidiary of STDM, in relation to the provision of management services of HK$Nil (2005: HK$10,125,000).

The prepayments, deposits and other receivables include approximately HK$346,000 (2005: HK$3,829,000) of amount due from customer on contracts in relation to sales of computer hardware and software to related companies.

(b) The accruals and other payables include deposits received from related companies in relation to sales of computer hardware and software of approximately HK$6,896,000 (2005: HK$3,407,000).

60. RELATED PARTY TRANSACTIONS (continued)

(c) Apart from the acquisition of subsidiaries and the acquisition of additional interest in the land as disclosed in note 24 and note 53, respectively, the Group entered into the following related parties transactions:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Catering income earned from directors of the Company and related companies#	**5,573**	6,363
Insurance premiums charged by a related company#	**1,011**	1,122
Brokerage commission/interest income earned from certain directors of the Group or their relatives	**125**	145
Brokerage commission income earned from a related company#	**2,245**	–
Sales of computer hardware and software to related companies#	**122,349**	100,534
Sales of computer hardware and software to jointly controlled entities*	**22,634**	–
Management fees received from a related company#	**2,722**	393
Rental expense charged by a related company#	**173**	407
Travelling expense charged by a related company#	**1,419**	549
Interest expense on shareholder's loan	**623**	1,079
Interest expense on convertible loan notes to a related company#	**62,536**	24,978
Income from provision of management services to certain electronic gaming machines lounges of a related company#	**126,953**	128,180
Service income of providing network support, technical support and other services to related companies#	**7,300**	–
Service income of providing network support, technical support and other services to jointly controlled entities*	**913**	–
Purchase of property, plant and equipment from a related company#	**17,064**	7,982
Service charge paid to a minority shareholder	**–**	11,204
Souvenirs sold to related companies#	**553**	717
Loan interest income received from a jointly controlled entity*	**2,931**	–
Rental income received from a jointly controlled entity*	**840**	–
Consultancy fee received from a jointly controlled entity*	**2,183**	–
Service income received from jointly controlled entities*	**5,107**	–

Related companies are companies which close family members of a director, Mr. Lawrence Ho, have direct beneficial interests.

* Jointly controlled entities represented Melco PBL Entertainment and its subsidiaries which the Group has 50% interest before Melco PBL Entertainment's ADSs are listed on the NASDAQ.

60. RELATED PARTY TRANSACTIONS (continued)

(d) On 28 December 2006, a subsidiary of the Company entered into a service arrangement on conditional basis with each of STDM and SJM for certain system integration and maintenance services for an aggregate value of approximately HK$9.1 million and HK$113.1 million, respectively. The arrangements had been ratified and approved in February 2007 at an extraordinary general meeting.

(e) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**18,685**	13,635
Post-employment benefits	**100**	120
Share-based payments	**4,774**	1,610
	23,559	15,365

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.

61. POST BALANCE SHEET EVENT

In March 2007, the Group entered into a Sale and Purchase Agreement ("Sale and Purchase Agreement") with the other shareholder ("Shareholder") of its jointly controlled entity, namely, PAL Development Limited ("PAL"), for the sale of about 29.5% interest in PAL by the Group to the Shareholder for a total consideration of approximately Singaporean dollars 20 million (equivalent to approximately HK$101,649,000). The Shareholder, which is a company listed on the Singapore Stock Exchange, will satisfy the consideration by way of issuance of its new shares. After the completion of the Sale and Purchase Agreement, the Group will hold about 30.5% interest in PAL and about 28.5% interest in the Shareholder.

62. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
Melco Leisure and Entertainment Group Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Aberdeen Restaurant Enterprises Limited[2]	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%
Tai Pak Sea-Food Restaurant Limited[2]	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%
Jumbo Catering Management Limited[2]	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK$5,000	86.68%
Melco Technology Group Limited[1]	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%
iAsia Online Systems Limited[2]	British Virgin Islands	Provision of online trading software in Hong Kong	1 ordinary share of US$1	100%
Elixir Group Limited[2]	Hong Kong	Provision of hardware and software in Hong Kong	833,333 ordinary shares of HK$1 each	100%
Elixir Group (Macau) Limited[2]	Macau	Provision of hardware and software in Macau	2 quota shares of MOP450,000 and MOP50,000 each	100%
Elixir Gaming Technology Philippines, Inc.[2]	Philippines	Provision of hardware and software in Philippines	10,000 common shares of 100 pesos each	100%
Melco Financial Group Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Value Convergence Holdings Limited[2, 3]	Hong Kong	Investment holding in Hong Kong	253,740,179 ordinary shares of HK$0.1 each	63.42%

62. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
VC Brokerage Limited[2]	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK$1 each	63.42%
VC Futures Limited[2]	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK$1 each	63.42%
VC Capital Limited[2]	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK$1 each	63.42%
VC Capital (Shenzhen) Limited[2]	PRC	Provision of consultancy services in the PRC	HK$1,000,000	63.42%
VC Securities Investments Limited[2]	Hong Kong	Investment holding in Hong Kong	2 ordinary of HK$1 each	63.42%
VC Asset Management Limited[2]	Hong Kong	Provision of asset management services to clients in Hong Kong	15,000,000 ordinary shares of HK$1 each	63.42%
VC Investment Management Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	63.42%
VC Finance Limited[2]	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK$1 each	63.42%
VC Research Limited[2]	Hong Kong	Provision of research services in Hong Kong	500,000 ordinary shares of HK$1 each	63.42%
VC Financial Advisory (Macau) Limited[2]	Macau	Provision of financial consultancy and related services in Macau	2 ordinary shares of MOP24,000 and MOP1,000 each	63.42%
VC Services Limited[2]	Hong Kong	Provision of management services to group companies in Hong Kong	10,000 ordinary shares of HK$1 each	63.42%

62. PARTICULAR OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Attributable equity interest to the Group
Melco Services Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Melco Investment Holdings Limited[1]	British Virgin Islands	Investment holding in Macau	1 ordinary share of US$1	100%
Zonic Technology Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Bright Ally Investments Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%

[1] Share(s) held directly by the Company

[2] Share(s) held indirectly by the Company

[3] The shares of this company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

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 at the end of the year.