Melco

Melco International Development Limited

(Incorporated in Hong Kong with limited liability)

Website: http://www.melco-group.com

(Stock Code: 200)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

1. Net loss attributable to owners of the Company was HK$209.5 million for the year ended 31 December 2010, as compared with loss attributable to owners of the Company of HK$1,449.7 million for the year ended 31 December 2009.

2. Basic loss per share attributable to owners of the Company was HK17.04 cents for the year ended 31 December 2010 compared to HK118.05 cents for the year ended 31 December 2009.

3. Net asset value per share attributable to owners of the Company increased by 2% to HK$5.55 as of 31 December 2010, as compared with HK$5.43 as of 31 December 2009.

4. Gearing ratio improved to 19% as of 31 December 2010 from 23% as of 31 December 2009; the Group maintained a healthy financial position during the review year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
Revenue		**125,166**	128,898
Other income		**86,862**	39,112
Investment income		**715**	3,775
Purchases and changes in inventories of finished goods		**(28,308)**	(24,704)
Employee benefits expense		**(94,962)**	(98,167)
Depreciation of property, plant and equipment		**(8,837)**	(12,488)
Impairment loss recognised in respect of available-for-sale investments		**–**	(2,574)
Impairment loss recognised in respect of amount due from an associate	4	**(6,068)**	(189,506)
Loss on deemed disposal of interests in associates	10	**(33,085)**	(157,214)
(Loss) gain on disposal of interest in an associate	10	**(2,012)**	33,516
Fair value changes on derivative financial instruments		**(34)**	(30)
Fair value change on investment in convertible loan note		**14,414**	75,410
Other expenses		**(68,410)**	(66,059)
Finance costs		**(106,799)**	(95,045)
Share of loss of a jointly controlled entity	9	**(81,686)**	(190,227)
Share of losses of associates	10	**(10,943)**	(896,601)
Loss before tax		**(213,987)**	(1,451,904)
Income tax credit	5	**14,245**	–
Loss for the year from continuing operations		**(199,742)**	(1,451,904)
Discontinued operations			
(Loss) profit for the year from discontinued operations	6	**(8,866)**	3,488
Loss for the year		**(208,608)**	(1,448,416)

	Notes	2010 HK$'000	2009 HK$'000
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**(17)**	313
Reclassification adjustment of exchange reserve upon disposal of a subsidiary		**(70)**	–
Fair value gain on available-for-sale investments		**1,426**	–
Share of other comprehensive income of associates		**46,050**	28,028
Share of other comprehensive income of a jointly controlled entity		**–**	175,050
Other comprehensive income for the year		**47,389**	203,391
Total comprehensive expense for the year		**(161,219)**	(1,245,025)
Loss for the year attributable to:			
Owners of the Company		**(209,464)**	(1,449,685)
Non-controlling interests		**856**	1,269
		(208,608)	(1,448,416)
Total comprehensive expense attributable to:			
Owners of the Company		**(162,075)**	(1,246,294)
Non-controlling interests		**856**	1,269
		(161,219)	(1,245,025)
Loss per share – Basic and diluted	8		
From continuing and discontinued operations (HK cents)		**(17.04)**	(118.05)
From continuing operations (HK cents)		**(16.32)**	(118.34)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-current assets			
Investment properties		**166,000**	166,000
Property, plant and equipment		**22,850**	32,524
Other intangible assets		**5,700**	2,000
Interests in jointly controlled entities	9	**–**	–
Interests in associates	10	**6,396,712**	6,370,847
Amounts due from associates	12	**627,195**	627,321
Available-for-sale investments		**10,255**	8,829
Investment in convertible loan note		**272,153**	257,739
Long term receivables		**–**	4,000
Goodwill		**–**	4,113
		7,500,865	7,473,373
Current assets			
Inventories		**2,489**	6,581
Trade receivables	11	**5,629**	62,530
Prepayments, deposits and other receivables		**32,159**	91,512
Held-for-trading investments		**610**	300
Derivative financial instruments		**–**	34
Amounts due from associates	12	**23,082**	34,827
Pledged bank deposits	13	**947**	7,988
Bank deposits with original maturity over three months		**629,363**	707,024
Bank balances and cash		**145,536**	153,754
		839,815	1,064,550
Current liabilities			
Trade payables	14	**3,230**	110,313
Other payables		**36,885**	56,191
Amounts due to associates		**10,372**	–
Dividend payable		**18,545**	86
Taxation payable		**697**	721
Financial guarantee liability	15	**76,318**	146,188
Bank borrowings – due within one year	16	**14,980**	166,400
Convertible loan note – due within one year	17	**–**	1,128,227
		161,027	1,608,126

	NOTES	2010 HK$'000	2009 HK$'000
Net current assets (liabilities)		**678,788**	(543,576)
Total assets less current liabilities		**8,179,653**	6,929,797
Non-current liabilities			
Deferred tax liabilities		**54,522**	–
Bank borrowings – due after one year	16	**254,190**	50,200
Long term payable		**170,537**	170,537
Convertible loan note – due after one year	17	**844,562**	–
		1,323,811	220,737
		6,855,842	6,709,060
Capital and reserves			
Share capital		**615,296**	615,130
Reserves		**6,212,655**	6,066,626
Equity attributable to owners of the Company		**6,827,951**	6,681,756
Non-controlling interests		**27,891**	27,304
		6,855,842	6,709,060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 38th floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

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

The principal activities of the Company and its subsidiaries (the "Group") are divided into two divisions, namely (i) Leisure and Entertainment division; and (ii) Property and Other Investments division.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied a number of new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for 2010 financial year ends.

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

The amendments to HKAS 1 has had no effect on the amounts reported as the Group has classified the liability component of convertible notes as non-current based on when cash settlement is required to be made in prior years.

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities. The application of HK Int 5 has had no impact on the amounts reported in the current and prior years.

New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 [1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

[2] Effective for annual periods beginning on or after 1 July 2010.

[3] Effective for annual periods beginning on or after 1 July 2011.

[4] Effective for annual periods beginning on or after 1 January 2013.

[5] Effective for annual periods beginning on or after 1 January 2012.

[6] Effective for annual periods beginning on or after 1 January 2011.

[7] Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and the application of the new Standard may affect the classification and measurement of the Group's financial assets.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model. However, it is not practicable to provide a reasonable estimate of that effect until a detail review is completed.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties who did not previously meet the definition of a related party may come within the scope of the Standard.

3. SEGMENT INFORMATION

The Group's operating segments under HKFRS 8 are as follows:

(1) Leisure and Entertainment Segment: It mainly comprises provision of catering and related services.

(2) Property and Other Investments Segment: It mainly comprises property investments, advances to associates, available-for-sale investments and related segment bank balances, which receives interest income and property rental income.

The technology segment was discontinued in the previous and current year. The segment information reported on the following pages does not include any amounts for the discontinued operations, which are described in more details in note 6.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

2010

Continuing operations

	Leisure and Entertainment *HK$'000*	Property and Other Investments *HK$'000*	Segment Total *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
External sales	**99,715**	**25,451**	**125,166**	**–**	**125,166**
Inter-segment sales	**851**	**936**	**1,787**	**(1,787)**	**–**
Total revenue	**100,566**	**26,387**	**126,953**	**(1,787)**	**125,166**
Segment result	**938**	**26,232**	**27,170**	**–**	**27,170**
Impairment loss recognised in respect of amount due from an associate					**(6,068)**
Loss on deemed disposal of interests in associates					**(33,085)**
Loss on disposal of interest in an associate					**(2,012)**
Fair value changes on derivative financial instruments					**(34)**
Fair value change on investment in convertible loan note					**14,414**
Finance costs					**(106,799)**
Share of loss of a jointly controlled entity					**(81,686)**
Share of losses of associates					**(10,943)**
Unallocated corporate income					**76,525**
Central administrative costs and other unallocated corporate expenses					**(91,469)**
Loss before tax					**(213,987)**

2009

Continuing operations

	Leisure and Entertainment *HK$'000*	Property and Other Investments *HK$'000*	Segment Total *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
External sales	87,549	41,349	128,898	–	128,898
Inter-segment sales	1,251	5,544	6,795	(6,795)	–
Total revenue	88,800	46,893	135,693	(6,795)	128,898
Segment result	(762)	43,493	42,731	–	42,731
Impairment loss recognised in respect of available-for-sale investments					(2,574)
Impairment loss recognised in respect of amount due from an associate					(189,506)
Loss on deemed disposal of interests in associates					(157,214)
Gain on disposal of interest in an associate					33,516
Fair value changes on derivative financial instruments					(30)
Fair value change on investment in convertible loan note					75,410
Finance costs					(95,045)
Share of loss of a jointly controlled entity					(190,227)
Share of losses of associates					(896,601)
Unallocated corporate income					28,848
Central administrative costs and other unallocated corporate expenses					(101,212)
Loss before tax					(1,451,904)

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

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment result represents the profit earned or loss incurred by each segment without allocation of central administrative costs and other unallocated corporate expenses, unallocated corporate income and items as disclosed in the above table. In particular, the impairment loss recognised in respect of amount due from an associate not allocated to segment result is asymmetric to the segment assets allocation where amounts due from associates are allocated to Property and Other Investments segment. This is the measure reported to Chief Executive Officer of the Company for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

Segment assets

	2010	2009
	HK$'000	*HK$'000*
Leisure and Entertainment	**41,778**	41,157
Property and Other Investments	**1,603,433**	1,623,791
Total segment assets	**1,645,211**	1,664,948
Assets relating to discontinued operations	**–**	208,522
Interests in associates	**6,396,712**	6,370,847
Unallocated assets	**298,757**	293,606
Consolidated assets	**8,340,680**	8,537,923

Segment liabilities

	2010	2009
	HK$'000	*HK$'000*
Leisure and Entertainment	**28,419**	18,184
Property and Other Investments	**385**	389
Total segment liabilities	**28,804**	18,573
Liabilities relating to discontinued operations	**–**	129,331
Unallocated liabilities	**1,456,034**	1,680,959
Consolidated liabilities	**1,484,838**	1,828,863

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than interests in associates, interests in jointly controlled entities, investment in convertible loan note, pledged bank deposits and other assets not attributable to respective segment.

- all liabilities are allocated to operating segments other than bank borrowings, financial guarantee liability, long term payable, convertible loan note, deferred tax liabilities and other liabilities not attributable to respective segment.

Other segment information

2010

Continuing operations

	Leisure and Entertainment	**Property and Other Investments**	**Unallocated**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Amounts included in the measure of segment profit or loss or segment assets:				
Capital additions	**163**	**–**	**595**	**758**
Depreciation	**5,116**	**–**	**3,721**	**8,837**
(Gain) loss on disposal of property, plant and equipment	**(46)**	**–**	**213**	**167**
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interests in associates	**6,396,712**	**–**	**–**	**6,396,712**
Share of loss of a jointly controlled entity	**81,686**	**–**	**–**	**81,686**
Share of losses of associates	**12,716**	**–**	**(1,773)**	**10,943**

2009

Continuing operations

	Leisure and Entertainment *HK$'000*	Property and Other Investments *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Capital additions	2,037	–	2,785	4,822
Depreciation	5,182	–	7,306	12,488
Loss on disposal of property, plant and equipment	332	112	–	444
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interests in associates	6,367,608	–	3,239	6,370,847
Share of loss of a jointly controlled entity	190,227	–	–	190,227
Share of losses of associates	900,484	–	(3,883)	896,601

Geographical information

The Group's operations are located in Hong Kong and Macau. Non-current assets of approximately HK$6,531,262,000 and HK$60,000,000 (2009: HK$6,514,235,000 and HK$61,249,000) of the Group are located Hong Kong and Macau, respectively.

All of the Group's revenue from external customers based on location of customers is generated from Hong Kong and Macau of approximately HK$121,019,000 and HK$4,147,000 (2009: HK$125,125,000 and HK$3,773,000), respectively.

Information about major customers

During the year ended 31 December 2010, there is no customer contributing 10% of the total sales of the Group from continuing operations.

4. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF AMOUNT DUE FROM AN ASSOCIATE

During the year ended 31 December 2010, the Group's associate, Mountain China Resorts (Holding) Limited (formerly known as Melco China Resorts (Holding) Limited) ("MCR") continued to be loss making. The Group therefore performed an impairment assessment on amount due from MCR amounting with reference to the financial position and liquidity position of MCR and recognised an impairment loss amounting to approximately HK$6,068,000 (2009: HK$189,506,000).

5. INCOME TAX CREDIT

Continuing operations

	2010	2009
	HK\$'000	*HK\$'000*
Deferred taxation – current year	**14,245**	–

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax for the years ended 31 December 2010 and 2009 is made as there is no estimated assessable profit derived from Hong Kong. Taxation arising in other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

The credit for the year is reconciled to the loss before tax per consolidated statement of comprehensive income as follows:

	2010	2009
	HK$'000	*HK$'000*
Loss before tax (from continuing operations)	**(213,987)**	(1,451,904)
Tax at Hong Kong Profits Tax rate of 16.5%	**(35,308)**	(239,564)
Tax effect of share of results of associates and a jointly controlled entity	**15,284**	179,327
Tax effect of expenses not deductible for tax purposes	**20,618**	74,477
Tax effect of income not taxable for tax purposes	**(16,906)**	(28,914)
Tax effect of deductible temporary difference not recognised	**466**	1,165
Utilisation of tax losses previously not recognised	**(1,098)**	(3,901)
Tax effect of tax losses not recognised	**2,699**	17,410
Tax credit for the year (relating to continuing operations)	**(14,245)**	–

6. DISCONTINUED OPERATIONS

Disposal of subsidiaries

During the years ended 31 December 2010 and 2009, the Group disposed of its Technology Segment comprising Elixir International Limited ("ELI") and iAsia Online Systems Limited ("iAsia"), which mainly engaged in design, development and supply of gaming technology, including surveillance equipment and other gaming products used in casino and development and sale of financial trading settlement systems in Hong Kong and Macau, respectively.

In April 2010, the Group entered into an agreement to dispose of its 100% equity interest in a subsidiary, ELI, at a consideration of HK$352,000 resulting in a loss of approximately HK$3,473,000. The disposal was completed on 16 July 2010.

In June 2009, the Group disposed of 80% of the issued share capital of a wholly-owed subsidiary, iAsia, at a consideration of HK$12,000,000 resulting in a loss of approximately HK$1,804,000.

The (loss) profit for the year from the discontinued operations is analysed as follows:

	2010	2009
	HK$'000	*HK$'000*
(Loss) profit of technology business for the year	**(5,393)**	5,292
Loss on disposal of technology business *(note 18)*	**(3,473)**	(1,804)
	(8,866)	3,488

The results of ELI, iAsia and its subsidiary ("iAsia Group"), which carried out all of the Group's technology business, are set out below:

	2010	2009
	HK$'000	*HK$'000*
Revenue	**81,525**	580,655
Other income	**635**	23,046
Purchase and changes in inventories of finished goods	**(74,620)**	(548,821)
Employee benefits expense	**(6,812)**	(27,381)
Depreciation of property, plant and equipment	**(1,025)**	(2,169)
Other expenses	**(4,366)**	(15,068)
Finance costs	**(730)**	(4,368)
(Loss) profit before tax	**(5,393)**	5,894
Income tax expense	**–**	(602)
(Loss) profit for the year	**(5,393)**	5,292
(Loss) profit for the year from discontinued operations includes the following:		
Allowance for doubtful debts	**871**	2,020
Allowance for inventories	**3,723**	22,363

The carrying amounts of the assets and liabilities of ELI and iAsia Group at the date of disposal are disclosed in note 18.

7. DIVIDEND

	2010	2009
	HK$'000	*HK$'000*
2010 Interim – HK1.5 cents (2009: Nil) per share	**18,459**	–

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2010.

8. LOSS PER SHARE

Continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2010	2009
	HK$'000	*HK$'000*
Loss for the purpose of basic and diluted loss per share (loss for the year attributable to owners of the Company)	**(209,464)**	(1,449,685)

	2010	2009
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,229,380**	1,227,984

The number of shares adopted in the calculation of the basic loss per share has been arrived at after eliminating the shares of the Company held under the Company's share award schemes. The computation of diluted loss per share for both years does not assume the conversion of the Company's outstanding convertible loan note, the effect of share option and unvested awarded shares under the Company's long-term incentive schemes since their assumed conversion and exercise would result in a decrease in loss per share.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the following data:

	2010	2009
	HK$'000	*HK$'000*
Loss figure is calculated as follows:		
Loss for the year attributable to owners of the Company	**(209,464)**	(1,449,685)
Less: (Loss) profit for the year from discontinued operations	**(8,866)**	3,488
Loss for the purposes of basic and diluted loss per share from continuing operations	**(200,598)**	(1,453,173)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operations

Basic and diluted loss per share from discontinued operations is HK0.72 cent per share (2009: basic and diluted earnings per share of HK0.29 cent) and is based on the loss for the year from discontinued operations of HK$8,866,000 (2009: profit for the year from discontinued operations of HK$3,488,000) and the denominators detailed above for both basic and diluted (loss) earnings per share.

9. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2010	2009
	HK$'000	*HK$'000*
Cost of unlisted investments in jointly controlled entities	**307,392**	225,706
Share of post-acquisition losses and other comprehensive income, net of dividends received	**(307,392)**	(225,706)
	–	–

As at 31 December 2010 and 2009, the Group had interests in the following jointly controlled entities:

Name	**Place of incorporation/ operation**	**Class shares held**	**Percentage of interest in ownership**	**Principal activities**
Melco Crown SPV Limited ("Melco Crown SPV")	Cayman Islands/ Hong Kong	Ordinary shares	50%	Issuer of exchangeable bonds which are convertible into shares of an associate of the Group
Melco Crown Entertainment Asia Holdings Limited ("MCEAH")	Cayman Islands/ Hong Kong	Ordinary shares	50%	Investment holding and became inactive after distribution of available-for-sale investment

Note: As at 31 December 2010, the cost includes a deemed contribution of approximately HK$81,686,000 arising from the acquisition of certain shares of Melco Crown Entertainment Limited ("Melco Crown Entertainment") from Melco Crown SPV by the Group at above market value. The deemed contribution represents the difference between the consideration paid for those certain shares of Melco Crown Entertainment held by Melco Crown SPV and the fair value of those shares at date of acquisition. The contribution was intended to finance the redemption of Exchangeable Bonds as disclosed in note 15.

As at 31 December 2010 and 2009, the Group's interests in jointly controlled entities are represented by interests in Melco Crown SPV and MCEAH. As disclosed in note 15, Melco Crown SPV is a joint venture for the issuance of exchangeable bonds ("Exchangeable Bonds") which can be convertible into shares of Melco Crown Entertainment. The expense of this jointly controlled entity attributable to the Group's interests includes an amount of approximately HK$25,882,000 (2009: HK$165,325,000) representing change of fair value on these Exchangeable Bonds, which are designated as financial liability at fair value through profit or loss. In addition, the Group has provided a guarantee in respect of the Exchangeable Bonds.

In May 2009, Melco Crown Entertainment completed a follow-on public offering, of which 67,500,000 ordinary shares of Melco Crown Entertainment was subscribed by MCEAH at a consideration of HK$700,200,000 (US$90,000,000). Melco Leisure and Entertainment Group Limited ("Melco Leisure"), a wholly owned subsidiary of the Company and another joint venture partner of MCEAH, each injected HK$350,100,000 for MCEAH to subscribe Melco Crown Entertainment's 33,750,000 ordinary shares. In October 2009, MCEAH distributed 33,750,000 ordinary shares of Melco Crown Entertainment to Melco Leisure as dividends in specie for approximately HK$525,150,000. The accumulated gain of approximately HK$175,050,000 (US$22,500,000) on the holding of Melco Crown Entertainment's shares as available-for-sale investments was therefore shared by the Group and included in other revaluation reserve.

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

	2010	2009
	HK$'000	*HK$'000*
Current assets	**64,370**	852,086
Non-current assets	**4,326**	76,592
Current liabilities	**–**	(8)
Non-current liabilities	**(134,433)**	(953,050)
Income recognised in profit or loss	**31,644**	19,616
Expense recognised in profit or loss	**113,330**	209,843
Other comprehensive income	**–**	175,050

10. INTERESTS IN ASSOCIATES

	2010	2009
	HK$'000	*HK$'000*
Cost of investment in associates		
Listed in the United States of America ("US")	**7,349,302**	7,321,298
Listed in Canada	**339,601**	339,601
Listed in Hong Kong	**25,758**	25,022
Unlisted	**294,870**	297,490
Gain on changes in interests in associates	**1,416,782**	1,449,756
Impairment losses recognised	**(1,160,838)**	(1,160,838)
Share of exchange and hedging reserves	**(37,632)**	(83,682)
Share of post-acquisition results	**(1,831,131)**	(1,817,800)
	6,396,712	6,370,847
Fair value of listed investments *(note a)*	**9,034,198**	4,790,964
Carrying amount of interests in associates with shares listed on respective stock exchanges	**6,370,841**	6,343,198

As at the end of the reporting period, the Group had interests in the following associates:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership 2010	2009	Principal activities
Melco Crown Entertainment *(Note b)*	Cayman Islands/ Macau	Ordinary shares	**33.4%**	33.5%	Operating of electronic gaming machine lounges, casino games of chance and other casino games and hotel business
MCR *(Note b)*	Canada/People's Republic of China ("PRC")	Ordinary shares	**28.7%**	49.3%	Operating of ski resorts
MelcoLot Limited *(Notes b and d)*	Cayman Islands/ PRC	Ordinary shares	**11.7%**	11.1%	Lottery business management services and provision of network system integration solutions
Power Way *(Note c)*	British Virgin Islands/ Hong Kong	Ordinary shares	**58.7%**	58.7%	Investment holding
Entertainment Gaming Asia Inc. (formerly known as Elixir Gaming Technologies, Inc.) ("EGT") *(Note b)*	US/Philippines and Cambodia	Ordinary shares	**39.4%**	39.8%	Provision of electronic gaming machines to gaming operators
iAsia	British Virgin Islands/ Hong Kong	Ordinary shares	**–**	20.0%	Provision of online trading software in Hong Kong

Notes:

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

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

(c) The Group holds 58.7% (2009: 58.7%) interest in Power Way. Pursuant to certain terms and conditions in the shareholders agreement, the financial and operating policies of Power Way require approval of the Group together with certain other shareholders of Power Way, as such, it is accounted for as an associate.

(d) In addition to the ordinary shares of MelcoLot Limited held by the Group, the Group also holds investment in the convertible loan note issued by MelcoLot Limited. The Group's effective interest in MelcoLot Limited would be increased to 35.3% on a fully-diluted basis if all outstanding convertible loan notes issued by MelcoLot Limited were fully converted. The Group is the single largest shareholder of MelcoLot Limited. As such, the directors of the Company believe that the Group has significant influence over MelcoLot Limited after taking into account the potential voting right from the Group's investment in MelcoLot Limited's convertible loan note.

As at 31 December 2010, included in the cost of investment in associates is goodwill of approximately HK$120,049,000 (2009: HK$120,049,000) arising on 33,750,000 ordinary shares of Melco Crown Entertainment through distribution of dividend in specie at the fair value of Melco Crown Entertainment's shares of approximately HK$525,150,000 received in October 2009. This amount of goodwill represented the difference between the fair value of Melco Crown Entertainment's shares received and the Group's share of net asset values of relevant interest in Melco Crown Entertainment at date of distribution.

During the year ended 31 December 2010, the Group's interests in certain associates have been changed with details disclosed below. A loss on changes in interests in associates amounting to approximately HK$35,097,000 (2009: HK$123,698,000, net) has been recognised in profit or loss.

(a) In October 2010, the Group disposed of its interest in iAsia at a consideration of HK$3,000,000. The Group recognised a loss on disposal of iAsia amounting to approximately HK$2,012,000, which represents the shortfall between the consideration received and the share of net assets attributable to the Group at the date of disposal.

(b) During the year ended 31 December 2010, the Group's ownership interest in Melco Crown Entertainment decreased resulting from the vesting of certain restricted shares issued by Melco Crown Entertainment. As a result, the Group recognised a loss of approximately HK$33,085,000 which represents the decrease in net assets attributable to the Group of HK$32,974,000 and the realisation of special reserve to profit or loss of approximately HK$111,000.

(c) During the year ended 31 December 2009, the Group's ownership interest in Melco Crown Entertainment decreased resulting from the vesting of certain restricted shares issued by Melco Crown Entertainment, and the follow-on public offerings of Melco Crown Entertainment. As a result, the Group recognised a loss of approximately HK$156,980,000 which represented the decrease in net assets attributable to the Group of approximately HK$148,846,000 and the realisation of special reserve to profit or loss of approximately HK$8,134,000.

(d) During the year ended 31 December 2009, the Group's ownership interest in Value Convergence Holdings Limited ("VC") decreased resulting from the exercise of certain share options of VC by the option holders. As a result, the Group recognised a loss of approximately HK$234,000 which represented the decrease in net assets attributable to the Group.

(e) In September 2009, the Group disposed of its entire interest in VC at a net consideration of approximately HK$302,634,000. The Group recognised a gain on disposal of VC amounting to approximately HK$33,516,000, which represented the excess of the consideration received over the share of net assets attributable to the Group at the date of disposal.

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

	2010	2009
	HK$'000	*HK$'000*
Total assets	**39,346,636**	39,595,488
Total liabilities	**(21,080,419)**	(20,735,829)
Net assets	**18,266,217**	18,859,659
Group's share of net assets of associates	**6,699,402**	6,673,537
Less: Impairment loss	**(422,739)**	(422,739)
	6,276,663	6,250,798
Revenue	**20,834,072**	10,736,586
Loss for the year	**(41,169)**	(3,222,776)
Group's share of other comprehensive income	**46,050**	28,028
Group's share of losses and other comprehensive income of associates for the year	**35,107**	(868,573)

11. TRADE RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables *(Notes a and b)*	**5,629**	70,563
Allowance for doubtful debts	**–**	(8,033)
	5,629	62,530

Notes:

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

(b) Trade receivables on the Group's Technology segments, which discontinued during year ended 31 December 2010, are due immediately from date of billing but the Group will generally grant a normal credit period of 30 to 90 days on average to its customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**3,614**	37,556
31 – 90 days	**715**	9,537
Over 90 days	**1,300**	15,437
	5,629	62,530

Before accepting any new customer, the Group assesses the potential customer's credit quality by respective sales team and defines credit limit by customer. All trade receivables that are neither past due nor impaired have the best credit quality attributable to the credit assessment system used by the Group. Included in the Group's trade receivables balance are debtors with a carrying amount of HK$5,629,000 (2009: HK$27,872,000) which are past due over their credit terms for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**3,614**	2,898
31 – 90 days	**715**	9,537
Over 90 days	**1,300**	15,437
	5,629	27,872

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

Movement in the allowance for doubtful debts

	2010	2009
	HK$'000	*HK$'000*
Balance at the beginning of the year	**8,033**	7,502
Allowance recognised	**871**	2,020
Amounts written off as uncollectible	**–**	(585)
Disposal of a subsidiary	**(8,904)**	(904)
Balance at the end of the year	**–**	8,033

12. AMOUNTS DUE FROM (TO) ASSOCIATES

Included in amounts due from associates are:

i) amount due from an associate of approximately HK$578,578,000 (2009: HK$578,578,000) which is unsecured, interest bearing at Hong Kong InterBank Offer Rate ("HIBOR") (2009: HIBOR) per annum and not repayable within twelve months from the end of the reporting period. This associate continues to expand its gaming business in Macau, the Group has reviewed the financial position and the bank facilities available to this associate and considers no impairment on the amount due from this associate;

ii) amount due from an associate of approximately HK$71,591,000 (2009: HK$73,076,000) which is unsecured and interest bearing at 5% per annum. Approximately HK$22,974,000 (2009: HK$24,333,000) out of the HK$71,591,000 (2009: HK$73,076,000) is repayable within twelve months from the end of the reporting period and the remaining HK$48,617,000 (2009: HK$48,743,000) is repayable after twelve months from the end of the reporting period. The Group has reviewed the financial position and the bank facilities available to this associate and considers no impairment on the amount due from this associate; and

iii) amount due from an associate of approximately HK$187,794,000 (2009: HK$194,103,000) in which the Group has recognised an accumulated impairment recognised amounting to approximately HK$187,794,000 (2009: HK$189,506,000) (see note 4 for details of impairment recognised). During the year ended 31 December 2010, the Group i) converted amount due from this associate amounting to HK$7,780,000, which were fully impaired in prior year, into ordinary shares of this associate and ii) extended the repayment date amount due from the associate amounting to approximately HK$185,211,000 to 31 March 2013. As at 31 December 2010, amount due from this associate of approximately HK$2,583,000 is unsecured, non-interest bearing and repayable on demand and approximately HK$185,211,000 is unsecured interest bearing at 3% per annum and repayable on 31 March 2013, all of the above balances are fully impaired.

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

The Group's concentration of credit risk by geographical location is mainly in Hong Kong, which accounted for 100% (2009: 89%) of amount due from associates as at 31 December 2010.

13. PLEDGE OF ASSETS

At 31 December 2010, the Group pledged certain of its investment properties and bank deposits for the following purposes:

(a) The Group's bank deposit and investment properties amounting to approximately HK$947,000 and HK$166,000,000 were pledged for obtaining the banking facilities for certain subsidiaries of the Group (2009: HK$947,000 and HK$166,000,000).

(b) During the year ended 31 December 2009, the Group's bank deposits of HK$7,041,000 were pledged to a bank for the completion of a sale agreement with a customer, which was expected to be completed within one year. This bank deposit was released upon the disposal of ELI during the year ended 31 December 2010.

The deposits carry fixed interest rate of about 0.13% (2009: 0.04%) per annum.

14. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on payment due date at the end of the reporting period.

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**3,226**	76,246
31 – 90 days	**–**	13,086
Over 90 days	**4**	3,431
	3,230	92,763
Trade payable by instalment *(note)*	**–**	17,550
	3,230	110,313

Note: As at 31 December 2009, the amount represented trade payable to vendors by instalment for one year, which bearing interest at 5% per annum.

15. FINANCIAL GUARANTEE LIABILITY

On 30 July 2007, the Company and Crown Limited, a major shareholder of Melco Crown Entertainment, formed a 50:50 joint venture, Melco Crown SPV, for the purpose of issuing Exchangeable Bonds with an aggregate principal amount of HK$1,950 million (US$250 million), to fund a share purchase program for acquiring ADS of Melco Crown Entertainment. In September 2007, the Exchangeable Bonds with an aggregate principal amount of HK$1,950 million (US$250 million) were issued which will mature in September 2012 and have been listed on the Singapore Stock Exchange Limited. The holders of Exchangeable Bonds have a put option exercisable in September 2010 to require Melco Crown SPV to redeem the full amount of the aggregated principal amount. The put option is only exercisable on a single occasion in September 2010 and cannot be exercised after that date.

In September 2010, approximately HK$1,676.6 million (US$215.5 million) Exchangeable Bonds was redeemed by the holders of Exchangeable Bonds. The Exchangeable Bonds are jointly and severally guaranteed by the Company and Crown Limited. The financial guarantee liability was recognised initially at its fair value of approximately HK$225,706,000 with a respective increase in interest in Melco Crown SPV.

As at 31 December 2010 and 2009, the Group assessed the financial position of Melco Crown SPV and considered that it was probable for the Group to settle the guarantee given to Melco Crown SPV in relation to the Exchangeable Bonds. As at 31 December 2010, the carrying amount of the financial guarantee liability was estimated to be approximately HK$76,318,000 (2009: HK$146,188,000) based on the shortfall amount required by Melco Crown SPV to settle the Exchangeable Bonds guaranteed by the Group.

During the year ended 31 December 2010, an amount of approximately HK$69,870,000 (2009: HK$20,837,000) was recognised in other income of the consolidated statement of comprehensive income.

The fair value of the financial guarantee at initial recognition during year ended 31 December 2007 was calculated using the binomial model and the inputs into the model were as follows:

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

16. BANK BORROWINGS

	2010	2009
	HK$'000	*HK$'000*
Secured	**69,170**	66,600
Unsecured	**200,000**	150,000
	269,170	216,600
Carrying amount repayable:		
Within one year	**14,980**	166,400
More than one year, but not exceeding two years	**204,980**	50,200
More than two years, but not exceeding five years	**14,940**	–
Exceeding five years	**34,270**	–
	269,170	216,600
Less: Amounts due within one year shown under current liabilities	**(14,980)**	(166,400)
	254,190	50,200

All the bank borrowings are denominated at HK$, the functional currency of relevant group entities, with interest rates of HIBOR plus 1.2% to 1.65% (2009: HIBOR plus 1.2% to 1.5%) per annum.

17. CONVERTIBLE LOAN NOTE

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

On 18 February 2010, pursuant to the Deed of Amendment ("Amendment"), which was entered into between the Company and the holder of the convertible loan note, the maturity date of convertible loan note was extended from 4 September 2010 to 4 September 2013, the conversion price was amended to HK$3.93 per share, the redemption price at maturity remains at par and an early redemption option was granted to the Company and the holder of the convertible loan note. The early redemption option of the Company allows the Company to redeem all or part of the outstanding convertible loan note at any time prior to the maturity date at par. The early redemption option of the holder of the convertible loan note only allows the holder to require the Company to redeem the convertible loan note at par if (a) the Company's major shareholder, Mr. Lawrence Ho, ceases to hold at least 30% of issued shares of the Company; (b) a general offer by way of takeover is made to all or substantially all the holders of shares in the Company and such offer becomes or is declared unconditional; or (c) a privatisation proposal by way of scheme of arrangement is made and approved by the necessary numbers of shareholders of the Company at the requisite meetings.

As the principal terms of the convertible loan note have been substantially changed as a result of the Amendment, the Amendment has been accounted for as extinguishment of the original convertible loan note and the recognition of a new convertible loan note. The fair value of the amended convertible loan note is approximately HK$1,150,815,000 at the date of amendment. This amount is accounted for as consideration paid for the extinguishment, of which HK$1,137,868,000 is allocated to the liability component of the convertible loan note before amendment and HK$12,947,000 is allocated to the equity component of the said note, which is recognised in retained profits. The original equity component of the convertible loan note before Amendment of approximately HK$294,306,000 is transferred to retained profits.

The amended convertible loan note contains two components, liability and equity elements. The early redemption options are considered as closely related to the debt component of the amended convertible loan note. The equity element is presented in equity heading "convertible loan note equity reserve". Upon the amendment, the Group recognised new financial liability, equity component of the convertible loan note and related deferred tax liability of approximately HK$758,230,000, HK$392,585,000 and HK$68,767,000, respectively. At 31 December 2010, the effective interest rate of the liability component is 13.15% (2009: 6.25%) per annum.

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

	2010	2009
	HK$'000	*HK$'000*
Carrying amounts at the beginning of the year	**1,128,227**	1,061,861
Interest on convertible loan note before Amendment	**9,641**	66,366
Derecognition of amortised cost upon Amendment	**(1,137,868)**	–
Recognition of new financial liability	**758,230**	–
Interest on convertible loan note after Amendment	**86,332**	–
Carrying amount at the end of the year	**844,562**	1,128,227
Analysed for reporting purpose as:		
Current liabilities	**–**	1,128,227
Non-current liabilities	**844,562**	–
	844,562	1,128,227

18. DISPOSAL OF A SUBSIDIARY

As disclosed in note 6, the Group disposed ELI in July 2010, the net assets of ELI at the date of disposal were as follows:

	HK$'000
Consideration:	
Cash received	**352**
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	**314**
Goodwill	**4,113**
Trade and other receivables	**49,785**
Inventories	**418**
Amounts due from group companies	**209**
Amounts due from associates	**25**
Pledged bank deposits	**5,791**
Bank balances and cash	**19,155**
Trade and other payables	**(75,808)**
Tax payables	**(82)**
Amounts due to group companies	**(25)**
Net assets disposed of	**3,895**

Loss on disposal of a subsidiary:

	HK$'000
Consideration	**352**
Net assets disposed of	**(3,895)**
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss	**70**
Loss on disposal	**(3,473)**

Net cash outflow arising on disposal:

Cash consideration	**352**
Less: bank balances and cash disposed of	**(19,155)**
	(18,803)

As disclosed in note 6, the Group disposed iAsia in June 2009, the net assets of iAsia at the date of disposal were as follows:

	HK$'000
Consideration:	
Consideration receivable	8,000
Cash received	4,000
	12,000
Analysis of assets and liabilities over which control was lost	
Property, plant and equipment	1,312
Goodwill	4,442
Deferred tax assets	117
Trade and other receivables	6,833
Amounts due from group companies	100
Amounts due from associates	3,822
Bank balances and cash	12,819
Trade and other payables	(12,903)
Amounts due to group companies	(116)
Net assets disposed of	16,426

Loss on disposal of a subsidiary:

	HK$'000
Consideration	12,000
Interests in associates	2,622
Net assets disposed of	(16,426)
Loss on disposal	(1,804)

Net cash outflow arising on disposal:

Cash consideration received	4,000
Less: bank balances and cash disposed of	(12,819)
	(8,819)

The remaining HK$8,000,000 consideration receivables were all settled in 2010.

19. CONTINGENT LIABILITIES

During the year ended 31 December 2010, the Company and one of its wholly-owned subsidiaries were defendants in respect of an alleged claim by a shareholder of EGT. However, no provision has been provided for this case because the litigation is still at its preliminary stage and it is premature to predict the outcome or reasonably estimate a range of possible loss.

The Group recognised financial guarantee liabilities in respect of the Exchangeable Bonds issued by Melco Crown SPV which are jointly and severally guaranteed by the Company and Crown Limited. Details of the guarantee are disclosed in notes 9 and 15.

CHAIRMAN & CEO'S STATEMENT

Melco Group celebrated its 100th anniversary with significant progress in its business results in the year 2010, primarily driven by continued improvements in our core business of "Gaming and Macau". Our strategies in driving operating leverage and in improving the profitability of our portfolio of assets in Macau, particularly in ramping up our mass market and VIP business, have been proven effective, resulting in new records in quarterly rolling chip volume, mass table drop and slot handle in the fourth quarter of 2010. The new operating management structure at Melco Crown Entertainment Limited has also shown positive impact on our business within the few months since it has been implemented.

One of our key strategies in enhancing mass gaming infrastructure at our flagship project, City of Dreams, was the opening of The House of Dancing Water in September 2010. The success of the spectacular extravaganza has created a truly phenomenal attraction in the eyes of general public in Hong Kong, Macau and overseas visitors since its opening. It has not only earned plaudits from audiences and critics alike, but also generated significant positive ripple effects throughout the business including higher property visitation, hotel occupancies, restaurant covers and gaming spends. Through the end of 2010, our database grew to more than 560,000 members, and it continues to fuel our growth in the mass market. To sustain this upward trend, we have implemented strategies to further leverage the success of this world-class production and we expect the opening of additional entertainment amenities in 2011, including the largest nightclub across Hong Kong and Macau, Club Cubic; and the world-famous Hard Rock Café, to add significant contributions to the resort's visitation and mass market revenue.

Looking into 2011, we continue to have a positive outlook as Macau's tourism industry shifts its center of gravity southwards to Cotai with new resorts opening in the neighborhood, further enhancing the entertainment proposition of this area. The strong economy in mainland China will continue to be the powerhouse propelling significant growth in the coming year. The expansion of the middle class in China will continue to drive wealth and consumer spending, which provides a strong background for long-term, if not, multi-generational growth. This, combined with the proactive stewardship by the Macau SAR Government, has forged a solid framework for the ongoing development and growth of the Macau's tourism and gaming market.

Going forward, we expect to continue seeing notable improvement in the performance of our core leisure and entertainment business with Melco Crown Entertainment Limited and the full operating results of its comprehensive portfolio comprising City of Dreams, Altira Macau and Mocha Clubs.

As a major player in the leisure and entertainment sector in the Greater China Region, Melco Group will continue to maintain the highest corporate governance standards and to honor its corporate social responsibilities. Although our business continues to be dynamic with innovative business strategies, our ultimate goal remains unchanged – delivering satisfactory and long-term returns to shareholders.

Finally, on behalf of the Board of Directors, I would like to express my heartfelt thanks to the management team and staff for their commitment and contribution to the Group's business in the past year. I would like to take this opportunity to express my appreciation to all our bankers, investors and business partners for their continuous support and trust.

Ho, Lawrence Yau Lung
Chairman and Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

Significant Events and Developments

Melco International Development Limited ("Melco" or the "Group") has recorded continued improvement in the year of 2010, benefiting from solid growth of Macau's gaming sector fueled by the economic recovery worldwide and improved visitation from Chinese tourists. The Group's core leisure and entertainment businesses have all made significant progress, stimulated by the opening of The House of Dancing Water as well as its successful management restructuring and aggressive marketing strategies. The operating leverage and profitability of the Group's assets have also been enhanced during the year.

CORE BUSINESS

Gaming business in Macau

The Group operates gaming businesses in Macau through its 33.4%-owned associate, Melco Crown Entertainment Limited ("Melco Crown Entertainment"), which is listed on the NASDAQ Global Selected Market in the US. The Macau's economy flourished in 2010 and Melco Crown Entertainment fully participated in this growth by delivering a number of operating milestones along with sequential improvement in its businesses. Its fourth quarter results represent a new record for quarterly consolidated net revenue as well as for quarterly rolling chip volume, mass table drop and slot handle.

During the year, Melco Crown Entertainment devoted substantial efforts to ramping up its gaming infrastructure for the mass market, introducing several new amenities in City of Dreams including the largest children's attraction in Macau, Kid's City; and the world's largest water-based show, The House of Dancing Water. The show has received overwhelming response ever since its opening and is generating significant positive ripple effects throughout the business including additional revenue and collateral visitation. Together with other initiatives, City of Dreams is delivering a tangible and sustainable improvement in the Group's mass market share, while reflecting operational improvements in its business. The improvements are solid indicators that City of Dreams is providing a better experience for its customers, and they are staying longer at tables as a result. City of Dreams' success is widely recognized by the hospitality industry, bagging a number of prestigious awards including the "Best Leisure Development in Asia Pacific" and "Best Leisure Development in China" at the International Property Awards; "Best VIP Room" and "Best Casino Interior Design" at the International Gaming Awards, its water-based live entertainment, The House of Dancing Water, won the Top 10 Cultural and Creative Projects at Hong Kong STV Award, and its Dragon's Treasure, the iconic landmark showcased in The Bubble, was honored with the Outstanding Achievement at 2009 THEA Award.

At Altira Macau, the profitability of its VIP business continued to be strong. Margin of the operations in this property continue to benefit from dealing with junkets directly and the commission cap implemented in 2009, Altira Macau's impeccable service standard has earned accolades worldwide – it has been awarded Forbes Five-Star Rating for both Lodging and Spa for two consecutive years, and its restaurant was awarded Michelin Star for the third year.

Gaming Machine Revenue Participation Business in Southeast Asia

Entertainment Gaming Asia Inc. (formerly known as Elixir Gaming Technologies, Inc.) ("EGT"), a company listed on NYSE-Amex (Stock symbol: EGT), in which the Group has an effective equity interest of approximately 39.4%, delivered satisfactory results in the gaming market in Southeast Asia for another year. In fiscal year 2010, EGT successfully completed its transformation into a company with meaningful and recurring earnings and cash flow from its core gaming participation business. EGT posted solid financial results for the year, achieving record revenue and a positive adjusted EBITDA.

EGT has earned good reputation among gaming operators through cooperation with its strategic partners in providing gaming machine management services for them. Currently, the gaming machine operations at NagaWorld Hotel and casino resort in Phnom Penh, Cambodia, a wholly owned subsidiary of NagaCorp Ltd. (Stock code: 3918), have been a strong contributor to EGT's financial performance. A total of 670 electronic gaming machines have been placed in designated areas of the casino floor of the hotel resort and are jointly managed by EGT and NagaWorld. These gaming machines have achieved net wins exceeding US$200 per machine per day during the year 2010.

Leveraging its solid recurring cash flow from its gaming management participation operations, improved operating efficiencies, and its established presence in its target markets, this part of business is expected to provide higher long-term incremental returns to EGT.

Lottery Management Business in Asia

Leveraging the rapidly growing opportunities in China's lottery market, especially the development of paperless lottery channels, MelcoLot Limited ("MelcoLot"), in which the Group has a 35.3% effective interest on a fully diluted basis (assuming full conversion of all outstanding convertibles), has made steady progress in the China lottery sector during the reporting period.

During the year, MelcoLot completed the acquisition of a 35% interest in China Excellent Net Technology Investment Limited which is engaged in mobile lottery solutions, and a 40% interest in ChariLot Company Limited which is engaged in securing specific lottery supply and service opportunities. It also commenced work on a contract for Chongqing Welfare Lottery Authority for the supply of a multimedia content delivery system for its popular "Shi Shi Cai" game. In the coming period, the Company aims to capitalise on the Chinese Government's recent initiatives to better regulate mobile and internet lotteries and take full advantage of the world-class lottery technologies of Intralot S.A. under existing licencing agreements for China.

Beyond China, MelcoLot's investment in Nanum Lotto, Inc., South Korea's sole government authorized welfare lottery operator is showing good progress with steady increase in revenues and profitability.

NON-CORE BUSINESSES

Ski Resort Business in China

The Group owns 28.7% of Mountain China Resorts (Holding) Limited ("MCR", previously known as "Melco China Resorts (Holding) Limited"), which owns and operates the largest destination ski resort in China, namely Sun Mountain Yabuli Resort in Heilongjiang ("Yabuli Resort"). Yabuli Resort was awarded the "Best Resort Makeover in Asia" by *TIME Magazine* in February 2009 and was the host venue of the 2009 World Winter University Games.

In early 2010, MCR formed a strategic partnership with Club Med Asie S.A. ("Club Med") in which Club Med will operate and manage two of the new hotels at Yabuli Resort. "Club Med Yabuli", the first Club Med resort in China, has commenced operation in November 2010, and contributed revenue of RMB15 million from its hotel and ski operations in December 2010, 400% higher than the same period last year. MCR also entered into a long-term cooperation agreement with the China Entrepreneurs Forum ("CEF") under which CEF will hold all of its future Annual Forums at Yabuli Resort on a permanent basis.

ACHIEVEMENTS AND AWARDS

Leveraging on the Group's high standards of corporate governance and its socially responsible business practices, the Group received a number of accolades during the year ended 31 December 2010.

For the Group's commitment to good corporate governance, Melco once again received the "Best Corporate Governance" award for the second consecutive year by the authoritative FinanceAsia magazine in 2010. Melco was acknowledged as one of Hong Kong's "Best Managed Companies" for the fourth year running. It was also honored as the "Best Mid-Cap" and "Best in Corporate Social Responsibility". Group Chairman and Chief Executive Officer, Mr. Lawrence Ho, was also selected as one of the "Best CEOs in Hong Kong". In striving for innovation and excellence, its annual Corporate Social Responsibility report won a Silver Award in PDF Version of Annual Report category at the 2010 International ARC Awards.

On the social responsibility front, Melco was recognized as a Double Diamond Corporate Member of WWF-Hong Kong and awarded the Caring Company Logo by the Hong Kong Council for Social Service for five straight years in recognition of its consistent support in community services. The Group was again granted the President's Award 2010 by The Community Chest for its dedicated efforts in subsidizing green-related educational and research projects. Along these lines, Melco launched a "Greening in Melco" program and received "Class of Excellence" in Wastewise Label from Hong Kong Awards for Environmental Excellence in 2010, providing ample testimony to its efforts in promoting green initiatives in the living and working environment.

Underscoring its position as a world-class gaming enterprise, Melco Crown Entertainment was awarded the "Best Operator Australasia" at the International Gaming Awards 2010. It was ranked as a "CIO Top 100" honouree by the notable CIO Asia Magazine as well as the Top Winner at IDC Enterprise Innovation Awards. Besides, Altira Macau was named the "Best Luxury Hotel in Macau" by TTG China Travel Awards in 2010. City of Dreams, one of the iconic landmarks in Macau, received "Best Leisure Development in China" and "Best Leisure Development in Asia Pacific" awards at the International Property Awards; and Starlight Award at the Third Most Popular Brand for Mainland Visitors – Excellent Hong Kong and Macau Brands. Its Hard Rock Hotel, Asia's newest and brightest entertainment experience, was also named "Best New Opening Hotel in Macau 7th Golden-Pillow Award" by the 21st Century Business Herald and Business Travel Magazine.

All of these awards acknowledged both the community's and industry's recognition of and confidence in the Group's performance and management standards. These accolades encourage the Group to aspire to achieve the best corporate practices and deliver the highest quality services to customers. Melco will strive to sustain its spirit as a socially responsible and a renowned gaming enterprise, ultimately ensuring that the Group runs a highly transparent operation and is accountable to its shareholders.

OUTLOOK

Macau is successfully transforming itself into a leisure and tourism hub in Asia. The Macau SAR Government has stepped up its effort in the expansion of border gates, and the construction of the Hong Kong-Zhuhai-Macau Bridge, the Macau Light Rail Transit, and a new ferry terminal at Taipa – all intended to make transport to and within Macau more convenient in order to accelerate visitation to Macau. More importantly, the tourism industry has begun to shift its center of gravity southwards to the Cotai area, with even more properties and attractions opening up in 2011 and coming years. The additional entertainment offerings in Cotai are expected to attract more visitors to the area and create a linkage effect that will have a positive impact on Melco's core "Gaming and Macau" business.

So far, the Group has made a good start in 2011. Visitation and gaming volumes reached a record high during the Chinese New Year holiday period. Tickets of The House of Dancing Water, the world's largest water-based show staged at the flagship City of Dreams, have been sold out almost every show. This world class extravaganza, together with opening of two major new amenities in 2011, Club Cubic, the largest nightclub across Hong Kong and Macau; and Hard Rock Café, a world-renowned iconic restaurant chain; helps City of Dreams become a "must experience" destination in Macau.

With flagship property City of Dreams in full operation in 2010, Melco has transitioned from a company focused on development to one advanced by operations. With the strong growth of the affluent class in China, we expect a significant increase in both wealth and consumer spending from tourists coming from China. With our superb service culture, as well as our in-depth understanding on the Chinese consumer behavior, Melco Crown Entertainment will maintain its important role in contributing to Macau's transformation into Asia's premier leisure travel hub, and our properties will continue to bring in consistent, positive contributions to the Group's business.

Looking ahead, management is optimistic about its prospects in 2011 and expects it to be another year for the Macau gaming market to soar, with the spotlight shifting to Cotai. With a comprehensive portfolio of prized assets comprising of City of Dreams, Altira Macau and Mocha Clubs, Melco is on the right track to capitalize on opportunities in the largest gaming market in the world and deliver the highest return to its shareholders.

FINANCIAL REVIEW

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Segmental Result: Leisure and Entertainment	**938**	(762)
Segmental Result: Property and Other Investments	**26,232**	43,493
Group operating results	**27,170**	42,731
Share of losses of associates	**(10,943)**	(896,601)
Share of loss of a jointly controlled entity	**(81,686)**	(190,227)
Loss on deemed disposal of interests in associates	**(33,085)**	(157,214)
(Loss) gain on disposal of interest in an associate	**(2,012)**	33,516
Impairment loss recognised in respect of amount due from an associate	**(6,068)**	(189,506)
Impairment loss recognised in respect of available-for-sale investments	**–**	(2,574)
Fair value changes on derivative financial instruments	**(34)**	(30)
Fair value change on investment in convertible loan note	**14,414**	75,410
Unallocated corporate income	**76,525**	28,848
Central administrative costs and other unallocated corporate expenses	**(91,469)**	(101,212)
Finance costs	**(106,799)**	(95,045)
Loss before tax	**(213,987)**	(1,451,904)
Income tax credit	**14,245**	–
Loss for the year from continuing operations	**(199,742)**	(1,451,904)
Discontinued operations		
(Loss) profit for the year from discontinued operations	**(8,866)**	3,488
Loss for the year	**(208,608)**	(1,448,416)
Non-controlling interests	**(856)**	(1,269)
Loss for the year attributable to owners of the Company	**(209,464)**	(1,449,685)

For the year ended 31 December 2010, the Group reported loss attributable to owners of the Company of HK$209.5 million compared to a loss of HK$1,449.7 million for the year 2009.

CONTINUING OPERATIONS

LEISURE AND ENTERTAINMENT

The leisure and entertainment businesses are mainly formed by the core (i) Macau gaming business (conducted via 33.4%-owned Melco Crown Entertainment), (ii) Gaming machine revenue participation business (conducted through 39.4%-owned EGT), and (iii) lottery business (conducted through MelcoLot, in which the Group has an effective interest of 35.3% on a fully diluted basis (assuming full conversion of all outstanding convertibles)), together with other non-core businesses.

(1) Core businesses

The core Macau gaming business, gaming machine revenue participation business and lottery business are reported below under "SHARE OF LOSSES OF ASSOCIATES".

(2) Non-core businesses

For the year ended 31 December 2010, profit from this segment amounted to HK$0.9 million (2009: loss of HK$0.8 million) and the breakdown is as follows:

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Jumbo Kingdom	**1,532**	372
Others	**(594)**	(1,134)
	938	(762)

Jumbo Kingdom

Jumbo Kingdom includes the Jumbo and Tai-Pak floating restaurants located in Aberdeen, Hong Kong.

As the global economy slowly recovers from the financial crisis, the segment profit of the business improved to approximately HK$1.5 million for the year ended 31 December 2010 (2009: HK$0.4 million). The profit, which was partially offset by an increase in the repairs and maintenance expenses, mainly resulted from an increase in both revenue and gross margin from the food and beverage sector.

Others

Other items consist mainly of professional fees incurred in the administration of intermediate holding companies as well as exchange differences arising from consolidation.

PROPERTY AND OTHER INVESTMENTS

This division handles property and other treasury investments for the Group. For the year ended 31 December 2010, it recorded a profit of HK$26.2 million (2009: HK$43.5 million). The decrease is primarily due to the drop in interest rates on loans to associates and short term deposits as compared to the previous year.

SHARE OF LOSSES OF ASSOCIATES

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

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Share of loss of Melco Crown Entertainment (1)	**(13,437)**	(803,359)
Share of loss of EGT (2)	**–**	(53,487)
Share of loss of MelcoLot (3)	**(737)**	(2,224)
Share of loss of MCR (4)	**–**	(17,839)
Share of profit of Value Convergence Holdings Limited ("VC") (5)	**–**	3,266
Share of profit of iAsia Online Systems Limited ("iAsia Online") (6)	**1,773**	617
Share of profit (loss) of Power Way (7)	**1,458**	(23,575)
	(10,943)	(896,601)

(1) Share of loss of Melco Crown Entertainment

For the year under review, the Group's attributable loss arising from its 33.4% ownership of Melco Crown Entertainment amounted to approximately HK$13.4 million (2009: HK$803.4 million) after taking into account the adjustments under the generally accepted accounting principles ("GAAP") in Hong Kong.

According to its financial statements (prepared under US GAAP), Melco Crown Entertainment reported net revenue of US$2.6 billion for the year ended 31 December 2010, versus US$1.33 billion for the year ended 31 December 2009. Melco Crown Entertainment reported a net loss of US$10.5 million for 2010, compared to a net loss of US$308.5 million for 2009. The year-over-year improvement in net revenue and bottom-line results were primarily driven by the improved operating results at both City of Dreams and Altira Macau, as well as from the opening of City of Dreams in June of 2009 and its contribution to results for the entire twelve months of 2010.

For the year ended 31 December 2010, net revenue at City of Dreams was US$1,638.3 million versus US$552.1 million in the year ended 31 December 2009. City of Dreams generated a positive adjusted EBITDA of US$326.4 million in 2010 compared with US$56.7 million in 2009. Rolling chip volume totalled US$51.8 billion for 2010, up from US$20.3 billion in 2009. In the fourth quarter of 2010, the rolling chip hold percentage (calculated before discounts and commissions) was 2.9%, which was within the target rolling chip hold percentage of 2.7% – 3.0%. In the mass market table games segment, drop (a measure of mass market gaming volume) for the year totalled US$2,059.3 million, up from US$912.6 million in 2009. In the fourth quarter of 2010, the mass market win rate was 22%, which was within the expected range for mass market table games hold percentage of 20% – 22%.

For the year ended 31 December 2010, net revenue at Altira Macau was US$859.7 million versus US$658 million in the year ended 31 December 2009. Altira Macau generated a positive adjusted EBITDA of US$133.7 million in 2010 compared with US$13.7 million in 2009. Rolling chip volume totalled US$40.3 billion for 2010, up from US$37.5 billion in 2009. In the fourth quarter of 2010, the rolling chip hold percentage (calculated before discounts and commissions) was 2.9%, which was within the target rolling chip hold percentage of 2.7% – 3.0%. In the mass market table games segment, drop (a measure of mass market gaming volume) for the year totalled US$377.1 million, up from US$273 million generated in the previous year. In the fourth quarter of 2010, the mass market table games hold percentage was 14.7% in 2010, which was within the expected range for mass market table games hold percentage of 15% – 17%.

Net operating revenue from Mocha Clubs totalled US$112 million in the year ended 31 December 2010, up from US$98 million in the year ended 31 December 2009. Mocha Clubs generated US$29.8 million of adjusted EBITDA in 2010, as compared to US$25.4 million in the previous year. In the fourth quarter of 2010, the number of gaming machines in operation at the Mocha Clubs averaged approximately 1,600. The net win per gaming machine per day was US$208 for the forth quarter of 2010, as compared with US$174 for the same period last year.

(2) Share of loss of EGT

Listed on the NYSE – Amex, EGT is a leading provider of electronic gaming machines on a revenue sharing basis to gaming establishments in the Southeast Asia. It retains ownership of the gaming machines and systems, and receives recurring fees based on an agreed upon percentage of the net gaming win per machine, and provides on-site maintenance.

During the year 2009, the Group's interest in EGT was written down to zero. As an investment could not be written down below zero, the loss attributable to the Group was only restricted to the carrying value of the investment. For the year ended 31 December 2010, no further attributable loss was incurred to the Group. During the year ended 31 December 2009, the Group's attributable loss arising from EGT amounted to approximately HK$53.5 million after taking into account the adjustments under GAAP in Hong Kong.

According to the financial statements of EGT (prepared under US GAAP), consolidated revenue for the year increased to approximately US$22.2 million as compared to approximately US$15.6 million in 2009. The increase in revenue was driven by strong performance by gaming machines on participation and the non-gaming business partially offset by a decline in the table game operations due to a large RFID gaming chip order recorded in 2009. For the fiscal year 2010, EGT reported a net loss of approximately US$5.2 million compared to a net loss of approximately US$26.4 million in 2009. Adjusted EBITDA for the year was approximately US$8.2 million as compared to US$33,000 for the fiscal year 2009.

As of 28 February 2011, EGT had an operating machine base of 1,608 machines at a total of eight venues, comprised of six venues in the Philippines with a total of 878 installed units and two venues in Cambodia with a total of 730 installed units.

With an improved operating structure, strong cash flow from its core gaming participation business, and enhanced financial flexibility due to the deferment of principal repayments on its outstanding note until July 2011, EGT is building its cash position which can be deployed for future expansion and is focused on selectively pursuing gaming projects that offer the potential to maximize its long-term returns.

(3) Share of loss of MelcoLot

As at 31 December 2009, the Group's interest in MelcoLot was written down to zero. During the year under review, the Group acquired additional shares from a shareholder of MelcoLot at a consideration of approximately HK$0.7 million. The Group's share of loss of MelcoLot has exceeded the sum of the carrying value of the interest in MelcoLot during the reviewed year. As an investment cannot be written down below zero, the loss attributable to the Group was restricted to the carrying value of the investment, which was HK$0.7 million (2009: HK$2.2 million) for the year ended 31 December 2010.

According to the financial statements of MelcoLot, it recorded revenue of approximately HK$80.6 million for the year ended 31 December 2010, as compared to approximately HK$86.1 million in 2009. MelcoLot reported a loss from continuing operations for the year amounted to approximately HK$171.3 million, compared to approximately HK$355.9 million in 2009. The improvement was mainly driven by reduction in impairment loss on goodwill by HK$178.1 million from HK$216.9 million in 2009 to HK$38.8 million in 2010 in relation to acquisitions of subsidiaries in previous years.

The loss of HK$41.5 million from the discontinued operations disclosed in the year ended 31 December 2009 related to MelcoLot's network system integration operations, which were disposed of in December 2009 in order to enable MelcoLot to enhance its development efforts in relation to new lottery related growth opportunities.

(4) Share of loss of MCR

MCR, in which the Group has an equity interest of 28.7%, owns and operates ski resorts in China, namely Sun Mountain Yabuli Resort in Heilongjiang ("Yabuli Resort").

During the year 2009, the Group's interest in MCR has become zero. As there is no contractual obligation to share additional loss, the loss attributable to the Group was restricted to the carrying value of the investment. For the year ended 31 December 2010, no further attributable loss was shared by the Group (2009: share of loss of HK$17.8 million).

(5) Share of profit of VC

On 24 September 2009, the Group completed the disposal of its entire interests in VC at the price of HK$1.92 per placing share. The profit attributable to the Group from its 43.2% ownership of VC before its disposal on 24 September 2009 amounted to HK$3.3 million.

(6) Share of profit of iAsia Online

On 4 June 2009, the Group completed the disposal of 80% of the issued share capital of iAsia Online, at a consideration of HK$12 million. Effective the same date, iAsia Online became an associate of the Group thenceforth. On 14 July 2010, the Group accepted a call option notice from the purchaser for the exercise of the call option to acquire the remaining 20% of the issued share capital of iAsia Online, at an agreed consideration of HK$3 million. The disposal was completed on 5 October 2010.

The profit attributable to the Group from its 20% ownership of iAsia Online before its disposal on 5 October 2010 amounted to HK$1.8 million (4 June 2009 to 31 December 2009: HK$0.6 million).

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

In 2007, the Group underwent a restructuring of its lottery management business by the disposal of its interest in a then subsidiary, PAL Development Limited ("PAL"), to a special purpose company called Power Way Group Limited ("Power Way"), which was formed by the Group and certain independent third parties (collectively referred as "Power Way Shareholders"). On the same date, after the transfer of the interest in PAL and certain subsidiaries (collectively the "Assets") from the Power Way Shareholders to Power Way, Power Way then disposed of the Assets to MelcoLot Limited ("MelcoLot") in exchange for certain shares and convertible loan note issued by MelcoLot. Power Way had since become an associate of the Company. In 2008, Power Way distributed all shares and the convertible loan note issued by MelcoLot to its shareholders in proportion to the shareholding of each shareholder. MelcoLot then became a direct associate of the Group.

During the year ended 31 December 2010, the attributable profit arising from Power Way amounted to HK$1.5 million (2009: attributable loss of HK$23.6 million, of which approximately HK$44 million was due to impairment for a loan to an associate of the Group).

SHARE OF LOSS OF A JOINTLY CONTROLLED ENTITY

On 30 July 2007, the Group and Crown Limited (formerly known as PBL) formed a 50:50 joint venture, Melco Crown SPV Limited ("Melco Crown SPV"), for the purpose of issuing exchangeable bonds ("Exchangeable Bonds") with an aggregate principal amount of HK$1,560 million (US$200 million) plus up to an additional HK$390 million (US$50 million) issuable pursuant to an over-allotment option, to fund a share purchase program for acquiring American Depository Shares of Melco Crown Entertainment ("MCE ADSs").

On 11 September 2007 and 24 September 2007, the Exchangeable Bonds with an aggregate principal amount of HK$1,560 million (US$200 million) and HK$390 million (US$50 million) respectively (together US$250 million) were issued. Both of which will mature in September 2012 and have been listed on the Singapore Stock Exchange. The Exchangeable Bonds are jointly and severally guaranteed by the Group and Crown Limited. The holders of Exchangeable Bonds have a put option exercisable in September 2010 to require Melco Crown SPV to redeem the full amount of the aggregated principal amount. The put option is only exercisable on a single occasion in September 2010 and cannot be exercised after that date.

In September 2010, approximately HK$1,676.6 million (US$215.5 million) Exchangeable Bonds was redeemed by the holders of Exchangeable Bonds. The redemption of Exchangeable Bonds was jointly and severally funded by the Group and Crown Limited through repurchase of MCE ADSs. Each party contributed approximately HK$106 million to Melco Crown SPV in September 2010.

For the year ended 31 December 2010, the attributable loss amounting to approximately HK$81.7 million (2009: HK$190.2 million) was recognised in profit or loss.

LOSS ON DEEMED DISPOSAL OF INTERESTS IN ASSOCIATES

Loss on deemed disposal of interests in associates is made up of the following items:

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Loss on deemed disposal of interest in Melco Crown Entertainment (1)	**(33,085)**	(156,980)
Loss on deemed disposal of interest in VC (2)	**–**	(234)
	(33,085)	(157,214)

(1) Loss on deemed disposal of interest in Melco Crown Entertainment

During the year ended 31 December 2010, the Group's ownership in Melco Crown Entertainment decreased from 33.5% to 33.4%, as a result of the vesting of certain restricted share issued by Melco Crown Entertainment. The Group recognised a loss of approximately HK$33.1 million representing the decrease in net assets attributable to the Group of approximately HK$33 million and the realisation of special reserve to profit or loss of approximately HK$0.1 million.

(2) Loss on deemed disposal of interest in VC

During the year ended 31 December 2009, the Group's equity interest in VC decreased resulting from the exercise of certain share options of VC by the option holders. The Group recognised a loss of approximately HK$234,000 representing the decrease in net assets of VC attributable to the Group.

(LOSS) GAIN ON DISPOSAL OF INTEREST IN AN ASSOCIATE

On 5 October 2010, the Group disposed of its remaining 20% ownership of iAsia Online at a consideration of approximately HK$3 million. A loss on disposal of approximately HK$2 million representing the excess of net assets attributable to the Group over the consideration received was recognised at the date of disposal.

On 24 September 2009, the Group disposed of its entire interests in VC at a net consideration of approximately HK$302.6 million. The Group recognised a gain on disposal of VC of approximately HK$33.5 million during the year.

FAIR VALUE CHANGE ON INVESTMENT IN CONVERTIBLE LOAN NOTE

During the year ended 31 December 2010, the Group recognized an increase in fair value of convertible loan note issued by MelcoLot amounting to approximately HK$14.4 million (2009: HK$75.4 million).

UNALLOCATED CORPORATE INCOME

For the year ended 31 December 2010, the unallocated corporate income of approximately HK$76.5 million (2009: HK$28.8 million) consisted of net amortised financial guarantee income of approximately HK$69.9 million (2009: HK$20.8 million) in relation to the joint and several financial guarantee provided by the Company and Crown Limited for the Exchangeable Bonds issued by Melco Crown SPV and a gain of extension of long term payable to Crown Limited of approximately HK$6.6 million (2009: HK$8 million).

CENTRAL ADMINISTRATIVE COSTS AND OTHER UNALLOCATED CORPORATE EXPENSES

Unallocated corporate expenses decreased by 10% from approximately HK$101.2 million in 2009 to HK$91.5 million in 2010. The decrease was primarily due to reduction in staff costs during the reviewed year.

FINANCE COSTS

Finance costs increased by 12% from approximately HK$95 million in 2009 to approximately HK$106.8 million in 2010. The increase was primarily a combined result of an increase in imputed interest expense of HK$29.6 million on the convertible loan note and a decrease in interest expense of HK$19.1 million on the shareholder's loan which was fully repaid in October 2009.

INCOME TAX CREDIT

A deferred tax of HK$14.2 million (2009: Nil) was credited to the consolidated statement of comprehensive income for the year ended 31 December 2010. This was related to an amortisation of deferred tax liability on recognition of equity component of convertible loan note during the year.

DISCONTINUED OPERATIONS

Disposal of subsidiaries

The Group's technology business was conducted through its wholly owned subsidiaries, EGT Entertainment Holding Limited (formerly known as Elixir Group Limited) ("Elixir Technology") and iAsia Online. During the year ended 31 December 2010, the Group disposed of its entire equity interest in Elixir International Limited ("ELI") and iAsia Online. The purpose of the disposals was to streamline and focus the Group's business on the leisure and entertainment segment.

Elixir Technology

Elixir Technology, through the operation from its subsidiary – ELI, is a company specializing in the design, engineering, management and implementation of comprehensive information, communications and technologies disciplines for property development with emphasis on hotel and casino building infrastructures.

In April 2010, the Group entered into an agreement to dispose of its 100% equity interest in ELI at a consideration of HK$0.4 million resulting in a loss on disposal of approximately HK$3.5 million. ELI ceased to be a subsidiary of the Group from July 2010 onwards.

iAsia Online

On 4 June 2009, the Group completed the disposal of 80% of the issued share capital of iAsia Online at a consideration of HK$12 million resulting in a loss of approximately HK$1.8 million. On 14 July 2010, the Group accepted a call option notice from the purchaser for the exercise of the call option to acquire the remaining 20% of the issued share capital of iAsia Online, at an agreed consideration of HK$3 million. The disposal was completed on 5 October 2010 resulting in a loss on disposal of an associate of approximately HK$2 million.

The results of iAsia Online for the year ended 31 December 2010 are shown under the category of "SHARE OF LOSSES OF ASSOCIATES".

The (loss) profit for the year from the discontinued operations is analysed as follows:

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
(Loss) profit of technology business for the year	**(5,393)**	5,292
Loss on disposal of technology business	**(3,473)**	(1,804)
	(8,866)	3,488

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE/CHARGE ON GROUP ASSETS

The Group finances its business operations and investments with internal resources, cash revenues generated from operating activities and bank borrowings.

As of 31 December 2010, total assets of the Group were HK$8,340.7 million (2009: HK$8,537.9 million) which were financed by shareholders' funds of HK$6,828 million (2009: HK$6,681.8 million), non-controlling interests of HK$27.9 million (2009: HK$27.3 million), current liabilities of HK$161 million (2009: HK$1,608.1 million), and non-current liabilities of HK$1,323.8 million (2009: HK$220.7 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 5.2 (2009: 0.7).

During the year ended 31 December 2010, the Group recorded a net cash outflow of HK$8.2 million (2009: HK$86.1 million). As of 31 December 2010, cash and cash equivalents of the Group totalled HK$145.5 million (2009: HK$153.8 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowings, convertible loan note and long term payable) over shareholders' funds, was at a satisfactory level of 19% as of 31 December 2010 (2009: 23%). The Group adopts a prudent treasury policy. 89% of bank balances and cash (including bank deposits with original maturity over three months) are put in short-term fixed deposits. All borrowings, and bank balances and cash are mainly denominated in Hong Kong dollars and U.S. dollars to maintain stable exposure to foreign exchange risks. Also, as at 31 December 2010, the Group's bank deposit of approximately HK$0.9 million (2009: HK$0.9 million) were pledged for obtaining banking facilities for certain subsidiaries of the Group.

As at 31 December 2010, the Group's total convertible loan note amounted to HK$844.6 million, which was non-interest bearing and due in September 2013. The long term payable to Crown Limited by the Group amounted to HK$170.5 million, which was unsecured, non-interest bearing and due in May 2012. As at 31 December 2010, the Group's total available bank loan facilities from various banks amounted to HK$292.2 million (2009: HK$216.6 million), of which HK$69.2 million (2009: HK$66.6 million) was secured by pledging HK$166 million of the Group's investment properties. As at 31 December 2010, the Group utilized HK$200 million and HK$69.2 million of unsecured and secured bank loan facilities respectively (2009: unsecured HK$150 million; secured HK$66.6 million). Details of bank borrowings are given in Note 16 to the consolidated financial statements.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

During the year, the Group entered into the following disposals:

Deemed Disposal of MCR

On 8 April 2010, the Group's ownership interest in its associate, MCR decreased from 49.3% to 28.7% as a result of the net effect of i) a share placement by MCR in which MCR issued 100,000,000 new shares to Wisecord Holdings Limited ("WHL"), a third party of the Group, ii) the conversion of approximately US$1,000,000 (equivalent to approximately HK$7,780,000) amount due from MCR into 6,686,666 common shares of MCR and iii) conversion of 8,437,565 class B non-voting shares held by the Group into common shares of MCR.

In connection to the above placement and conversion of shares, the Group signed an agreement with WHL whereas the amount due from MCR amounting to US$23,000,000 (equivalent to approximately HK$178,940,000) ("MCR Loan") will become interest bearing at 3% per annum and repayable at 31 March 2013. Moreover, WHL has the right to require the Group to convert all or part of MCR Loan at 50% discount plus accrued interest into MCR shares ("Converted Shares") at a price equal to (a) 70% of the said weighted average trading price of MCR or (b) C$1.00 whichever is higher ("Conversion Price") if MCR's 30 consecutive day weighted average trading price exceeds C$1.00 at any time before 31 March 2013. Also, WHL has a call option to purchase one-third of the Converted Shares at the Conversion Price within 30 days of the conversion.

Disposal of 100% Equity Interest in ELI

In April 2010, the Group entered into an agreement to dispose of its 100% equity interest in a subsidiary, ELI, which carried out the Group's technology business. The disposal was completed on 16 July 2010 and the resulted loss on disposal of ELI was approximately HK$3.5 million.

HEADCOUNT/EMPLOYEES' INFORMATION

The total number of the Group's employees was 11,281 as of 31 December 2010. Excluding the employees from associates such as Melco Crown Entertainment, MelcoLot, MCR, and EGT, the total number of the Group's employees becomes 241 as of 31 December 2010 (2009: 299 employees). The reduction in headcount is primarily because the number of employees as of 31 December 2010 excluded the employees of ELI (the disposal of ELI was completed on 16 July 2010). Among the 241 employees, 236 are located in Hong Kong and the rest are based in Macau and the PRC. The related staff costs for the year ended 31 December 2010, including directors' emoluments, share options expenses and share award expenses, amounted to HK$101.8 million (2009: HK$125.5 million).

HUMAN RESOURCES

Melco believes that the key to success lies in its people. The Group strives to create an environment that makes people proud to be part of it. All of its employees are given equal opportunities for advancement and personal growth. The Group believes only by growing its business, it creates opportunities and delivers value to its people. Thus, the Group encourages its people to do their best at work and grow with the Group. Melco builds employees' loyalty through recognition, involvement and participation.

Melco's people policy, systems and practices are directly aligned with the Group's mission and values which contribute to business success.

1. Recruitment

Melco is an equal opportunities employer and it recruits talents with professional competence, desirable personal qualities and commitments. The Group hires the right people to shape its future. It identifies and validates talents through different recruitment exercises and regularly reviews its recruitment structure and assessment criteria. Melco also employs suitable tools to assess candidates' potential.

2. Performance and Rewards

Melco demands and appreciates high performance. Its reward principle is primarily performance based and it rewards its people competitively based on their job responsibilities, performance and contribution to business results as well as professional and managerial competencies.

3. Learning and Development

Melco provides training for employees to develop the skills needed to satisfy business needs, which would improve performance, deliver value and enhance personal growth. The Group adopts a systematic approach to designing its training programs with a special focus on individual and corporate needs. Training objectives and the desired outcomes are first established and results are continually reviewed.

CONTINGENT LIABILITIES

During the year ended 31 December 2010, the Company and one of its wholly-owned subsidiaries were defendants in respect of an alleged claim by a shareholder of EGT. However, no provision has been provided for this case because the litigation is still at its preliminary stage and it is premature to predict the outcome or reasonably estimate a range of possible loss.

The Group recognised a financial guarantee liability of approximately HK$76.3 million as at 31 December 2010 in respect of the Exchangeable Bonds issued by Melco Crown SPV, the jointly controlled entity of the Group, which are jointly and severally guaranteed by the Company and Crown Limited.

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy for its operating entities to operate in their corresponding local currencies to minimize currency risks. The Group's principal businesses are conducted and recorded in Hong Kong dollars and Macau Pataca. As the impact from foreign exchange exposure is minimal, no hedging against foreign currency exposure is necessary.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Material capital expenditure will be incurred when the Company begins to pursue different projects in the coming years. The Company expects the respective project companies to secure required funding themselves using different financing options available. The Company will also provide the required equity capital to the new projects coming ahead, should it be deemed appropriate.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

CORPORATE RECOGNITION

Corporate Governance

For the Group's commitment to good corporate governance, Melco was granted the "Corporate Governance Asia Annual Recognition Award" by *Corporate Governance Asia* magazine for the fifth consecutive year (2006-2010), and once again received the "Best Corporate Governance" award for the second time by the authoritative *FinanceAsia* magazine in 2010. *FinanceAsia* has also honored Melco as one of Hong Kong's "Best Managed Companies" for the fourth year running; "Best Mid-Cap"; and "Best in Corporate Social Responsibility"; with Group Chairman and Chief Executive Officer, Mr. Lawrence Ho, selected as one of the "Best CEOs in Hong Kong". In striving for innovation and excellence, its corporate social responsibility report won a Silver Award in PDF version of Annual Report category at the 2010 International ARC Awards.

World-class Guest Service

Underscoring its position as a world-class gaming enterprise, Melco Crown Entertainment was awarded the "Casino Operator Of The Year (Asia)" at the International Gaming Awards 2011 for the third consecutive year. It was ranked as a "CIO Top 100" honouree by the notable CIO Asia Magazine as well as the "Top Winner" at IDC Enterprise Innovation Awards.

Melco Crown Entertainment's flagship property, City of Dreams, was bestowed with the "Best Leisure Development in Asia Pacific" and "Best Leisure Development in China" awards at the International Property Awards 2010, as the first Macau resort property to be honored with this world's largest property competition. It was also the worldwide winner of "Best Casino VIP Room" and "Best Casino Interior Design" at the

International Gaming Awards 2011. The House of Dancing Water, the world's largest water-based extravaganza showcased in City of Dreams, gained the Top 10 Cultural and Creative Projects at Hong Kong STV Award, and its Dragon's Treasure, the iconic landmark showcased in The Bubble, was honored with the Outstanding Achievement at 2009 THEA Award. In addition, Altira Macau was awarded the Forbes Five Star ratings in both Lodging and Spa categories for the second consecutive year. It also named the "Best Luxury Hotel in Macau" by TTG China Travel Awards in 2010. The prestige awards recognized Altira Macau's high quality services, reinforced the Group's role in the transformation of Macau into an international travel and leisure destination for the most discerning guests.

INVESTOR RELATIONS

Melco believes in ongoing communication and operational transparency as a means to build and sustain stakeholder relations. During the year, the Group continued to actively participate in investor conferences organized by well known securities houses and maintain regular dialogue with institutional investors and analysts to keep them abreast of the Group's development. Including the two results announcements, more than 100 meetings with analysts and fund managers were held in 2010. In addition, the Group conducted various site visits to its development projects in Macau for the investors.

Our efforts have earned us the continuous support and trust of the investors and the Group has earned numerous awards for best practices and its efforts in upholding the highest standard of corporate governance. Please refer to the "Corporate Recognition" section for more details of the awards. The Group will continue to enhance its communication with investors to foster investor relations.

CORPORATE CITIZENSHIP

As a socially responsible corporation, Melco has always been in the forefront of corporate social responsibility, as part of the missions to serve the community and to enhance public awareness of social and environmental issues. Melco believes that Corporate Social Responsibility (CSR) is as important as growing its business for a successful enterprise. Melco has extensive experience in the field of community involvement through supporting over 30 community and charitable initiatives, encouraging over 170 volunteer participations in 2010. With the goal of constructing a better living for the communities and the next generation, Melco will continuously serve to be a keen supporter of corporate citizenship.

GREEN ENVIRONMENT

To leave a sustainable global environment for future generations, environmental action has been made one of the pillars of corporate management of Melco, with 56% of the total CSR budget spent in this area, supporting over 12 initiatives, including a 3-year Community Chest-Melco Green Fund since 2008. The Group is committed to minimize the adverse impact that its operations may have on the environment, continually improving environmental management practices so as to reduce waste as well as increase recycling. In recognition of its efforts, Melco was awarded as "Class of Excellence" in Wastewise Label of the Hong Kong Awards for Environmental Excellence and has been the Signatory Member of the Copenhagen Communiqué since 2009. Melco has also been recognized as the Double Diamond Corporate Member by WWF Hong Kong since 2006. Its associate company, Altira Macau, won the Silver Medal in the "Energy Saving Contest" by the Office for Development of the Energy (GDSE) and the Companhia de Electricidade de Macau (CEM).

2010 Event Highlights (Green Environment)

- The Community Chest-Melco Green Fund
- Environmental Play Project by Playright Children's Play Association
- Hoi Ha Marine Life Center Education Tour by WWF
- Earth Hour 2010 by WWF
- Low-carbon Office Operation Programme by WWF
- Dolphin Watch Boat Trip by WWF
- Mai Po Boardwalk by WWF
- Tree Planting Challenge by Friends of Earth Hong Kong
- Energy Conservation Week in Macau
- Melco Group – Mooncake Container Recovery Program

EDUCATION

Education is the tool to eradicate poverty and build a developed nation and hence Melco places great emphasis on education for young generation through a number of educational projects and training programs to nurture their all-round developments. In 2010, Melco dedicated 10% of its CSR budget to support 4 education programs, including The Lawrence Ho Scholarship with Edinburgh Napier University, and two cultural exchange tours for students.

2010 Event Highlights (Education)

- Playright Walk on the Air by Playright Children's Play Association
- Cultural Heritage Tour by Association for the Promotion of Cultural Heritage
- The Indian Odyssey by World University Service of The University of Hong Kong

YOUTH DEVELOPMENT

As a leading socially responsible company, Melco believes that the younger generations are the building blocks necessary for the country's strong foundation. With the purpose of inculcating a sense of good responsible citizenship in the young generation, the Group has allocated 22% of its CSR budget to 10 programs to cultivate team spirit and collective responsibility in youth and children.

2010 Event Highlights (Youth Development)

- Being CEO Programme by Hong Kong PHAB Association
- Camp Macau@City of Dreams by Camp Quality Hong Kong
- Playpacks Project to Children in Hospitals by Playright Children's Play Association
- 2010 HKAHC International Amateur Ice Hockey Tournament by Hong Kong Amateur Hockey Club Limited
- Outward Bound Corporate Challenge by Outward Bound Trust of Hong Kong
- Charity Film Premiere Group Package by KELY Support Group Limited
- Magic Link Up Action- Fun Play Day by Playright Children's Play Association
- Operation Santa Claus benefiting Children's Thalassaemia Foundation and Hong Kong Paediatric Rheumatism Association by South China Morning Post and Radio Television Hong Kong
- Christmas Fun Day at Jumbo Kingdom by Operation Santa Claus
- Red Cross Christmas Fun Day at Jumbo Kingdom by Hong Kong Red Cross

OTHER COMMUNITY ENGAGEMENTS

Melco is committed to being a responsible member of the community and supporting a range of social programs and charity initiatives to bring warmth to the society. The Melco Volunteer Incentive Scheme has been proven effective in promoting staff volunteerism and awareness of CSR within the Group since its launch in 2009. The Group further expanded the Volunteer Incentive Scheme by joining the Volunteer Movement of the Hong Kong Social Welfare Department (SWD) to allow staff members' participation in a wider range of voluntary work. Melco's key associate Melco Crown Entertainment and its Mocha Clubs have been awarded "Corporate Volunteer of the Year" by the Association of Volunteer Social Service of Macau.

Melco has been raising urgent concerns on global issues and taking prompt actions in response to emergency appeals for the relief of natural disasters. Following the devastating earthquake in Qinghai, China in April 2010, Mr. Lawrence Ho together with Melco and Melco Crown Entertainment made a HK$5-million donation to support relief efforts and earthquake victims. Generous donations from Melco and its employees made a difference to thousands of families affected.

2010 Event Highlights (Community)

- Run Up Two-IFC Charity Race by The Community Chest
- Care@Mid-Autumn Festival by Yang Memorial Methodist Social Service
- Warm Giving in Winter for the Elderly by Yang Memorial Methodist Social Service
- Love Teeth Day by The Community Chest
- Hong Kong Red Cross Pass-it-on 2010 by Hong Kong Red Cross
- Qinghai earthquake and Disaster Relief initiatives

In recognition of the outstanding and continuous performance in carrying out CSR, Melco has been awarded "5 Year Plus Caring Company" logo by the Hong Kong Council of Social Service for sixth consecutive year since 2005 and has also received the President's Award from the Community Chest for its strong commitment and care for the underprivileged since 2006. Besides, its corporate social responsibility report won a Sliver Award in PDF version of Annual Report Category at 2010 International ARC Awards and another Silver Award in Websites of Sustainability Report at 2010 International Galaxy Awards.

For Melco's CSR engagements and progress, please refer to the Melco CSR Report 2010 or visit website www.melco-group.com.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices (the "HKSE Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the financial year ended 31 December 2010 with two deviations mentioned below:

Code Provision A.4.1 of the HKSE Code provides that non-executive directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all non-executive directors of the Company are not appointed for specific term. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on directors' service are appropriate given that directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of non-executive directors have given the Company's shareholders the right to approve continuation of non-executive directors' offices.

Pursuant to Code Provision A.2.1 of the HKSE Code, the roles of Chairman and Chief Executive Officer of a listed company should be separate and should not be performed by the same individual. However, in view of the present composition of the Board, the in depth knowledge of Mr. Ho, Lawrence Yau Lung of the operations of the Group and of the gaming and entertainment sector in Macau in general, his extensive business network and connections in that sector and the scope of operations of the Group, the Board believes it is in the best interests of the Company for Mr. Ho, Lawrence Yau Lung to assume the roles of Chairman and Chief Executive Officer at this time and that such arrangement be subject to review by the Board of Directors (the "Board") of the Company from time to time.

AUDIT COMMITTEE

The Company has an Audit Committee which was established for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee, comprising a non-executive director and three independent non-executive directors, has reviewed the Group's annual results for the year ended 31 December 2010.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2010, the Company had not redeemed any of its shares and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

BOARD OF DIRECTORS

As at the date hereof, the Board comprises three Executive Directors, namely Mr. Ho, Lawrence Yau Lung (Chairman and Chief Executive Officer), Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence; one Non-executive Director, namely Mr. Ng Ching Wo; and three Independent Non-executive Directors, namely Sir Roger Lobo, Mr. Sham Sui Leung, Daniel and Dr. Tyen Kan Hee, Anthony.

By Order of the Board of
Melco International Development Limited
Ho, Lawrence Yau Lung
Chairman and Chief Executive Officer

Hong Kong, 31 March 2011