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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 2011

FINANCIAL HIGHLIGHTS

1. Net profit attributable to owners of the Company was HK\$280.1 million for the year ended 31 December 2011, improved significantly from a loss attributable to owners of the Company of HK\$209.5 million in the year of 2010.
2. Basic earnings per share attributable to owners of the Company was HK22.79 cents for the year ended 31 December 2011 compared to basic loss per share attributable to owners of the Company of HK17.04 cents for the year ended 31 December 2010.
3. Net asset value per share attributable to owners of the Company increased by 5% to HK\$5.83 as of 31 December 2011, as compared with HK\$5.55 as of 31 December 2010.
4. Gearing ratio improved to 17% as of 31 December 2011 from 19% as of 31 December 2010; the Group maintained a healthy financial position during the review year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | <i>NOTES</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Continuing operations | | | |
| Revenue | | 129,314 | 125,166 |
| Other income | | 47,835 | 86,862 |
| Investment income | | 5,544 | 715 |
| Purchases and changes in inventories of finished goods | | (32,244) | (28,308) |
| Employee benefits expense | | (135,327) | (94,962) |
| Depreciation of property, plant and equipment | | (5,734) | (8,837) |
| Gain (loss) on deemed disposal of interest in an associate | 9 | 2,903 | (33,085) |
| Loss on disposal of interest in an associate | 9 | – | (2,012) |
| Fair value changes on derivative financial instruments | | – | (34) |
| Fair value change on investment in convertible loan note | | (232,160) | 14,414 |
| Increase in fair value changes on investment properties | | 3,000 | – |
| Other expenses | | (83,443) | (74,478) |
| Finance costs | | (122,521) | (106,799) |
| Share of loss of a jointly controlled entity | 8 | – | (81,686) |
| Share of profits (losses) of associates | 9 | 689,381 | (10,943) |
| | | 266,548 | (213,987) |
| Profit (loss) before tax | | 266,548 | (213,987) |
| Income tax credit | 4 | 14,844 | 14,245 |
| | | 281,392 | (199,742) |
| Profit (loss) for the year from continuing operations | | 281,392 | (199,742) |
| Discontinued operations | | | |
| Loss for the year from discontinued operations | 5 | – | (8,866) |
| | | 281,392 | (208,608) |
| Profit (loss) for the year | | 281,392 | (208,608) |
| Other comprehensive income | | | |
| Exchange differences arising on translation of foreign operations | | (27) | (17) |
| Reclassification adjustment of exchange reserve upon disposal of a subsidiary | | – | (70) |
| Fair value (loss) gain on available-for-sale investments | | (1,426) | 1,426 |
| Share of other comprehensive income of an associate | | 41,142 | 46,050 |
| | | 39,689 | 47,389 |
| Other comprehensive income for the year | | 39,689 | 47,389 |
| Total comprehensive income (expense) for the year | | 321,081 | (161,219) |

| | <i>NOTES</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | 280,085 | (209,464) |
| Non-controlling interests | | 1,307 | 856 |
| | | <u>281,392</u> | <u>(208,608)</u> |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | 319,774 | (162,075) |
| Non-controlling interests | | 1,307 | 856 |
| | | <u>321,081</u> | <u>(161,219)</u> |
| Earnings (loss) per share – Basic and diluted | 7 | | |
| From continuing and discontinued operations | | | |
| Basic (HK cents) | | 22.79 | (17.04) |
| | | <u>22.06</u> | <u>(17.04)</u> |
| Diluted (HK cents) | | 22.06 | (17.04) |
| | | <u>22.06</u> | <u>(16.32)</u> |
| From continuing operations | | 22.79 | (16.32) |
| Basic (HK cents) | | 22.79 | (16.32) |
| | | <u>22.06</u> | <u>(16.32)</u> |
| Diluted (HK cents) | | 22.06 | (16.32) |
| | | <u>22.06</u> | <u>(16.32)</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 December 2011

| | <i>NOTES</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Investment properties | | 169,000 | 166,000 |
| Property, plant and equipment | | 18,199 | 22,850 |
| Intangible assets | | 5,700 | 5,700 |
| Interests in jointly controlled entities | 8 | – | – |
| Interests in associates | 9 | 7,583,784 | 6,396,712 |
| Amounts due from associates | 11 | – | 627,195 |
| Available-for-sale investments | | 5,035 | 10,255 |
| Investment in convertible loan note | | 39,993 | 272,153 |
| | | <hr/> 7,821,711 <hr/> | <hr/> 7,500,865 <hr/> |
| Current assets | | | |
| Inventories | | 3,311 | 2,489 |
| Trade receivables | 10 | 3,502 | 5,629 |
| Prepayments, deposits and other receivables | | 19,653 | 32,159 |
| Held-for-trading investments | | 320 | 610 |
| Amounts due from associates | 11 | 48,428 | 23,082 |
| Pledged bank deposits | | 947 | 947 |
| Bank deposits with original maturity over three months | | 583,072 | 629,363 |
| Bank balances and cash | | 97,086 | 145,536 |
| | | <hr/> 756,319 <hr/> | <hr/> 839,815 <hr/> |
| Current liabilities | | | |
| Trade payables | 12 | 3,890 | 3,230 |
| Other payables | | 25,216 | 36,885 |
| Amounts due to associates | | 11,706 | 10,372 |
| Dividend payable | | 123 | 18,545 |
| Taxation payable | | 697 | 697 |
| Financial guarantee liability | 13 | 52,320 | 76,318 |
| Bank borrowings – due within one year | 14 | 227,980 | 14,980 |
| | | <hr/> 321,932 <hr/> | <hr/> 161,027 <hr/> |
| Net current assets | | <hr/> 434,387 <hr/> | <hr/> 678,788 <hr/> |
| Total assets less current liabilities | | <hr/> 8,256,098 <hr/> | <hr/> 8,179,653 <hr/> |

| | <i>NOTES</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Non-current liabilities | | | |
| Deferred tax liabilities | | 39,678 | 54,522 |
| Bank borrowings – due after one year | 14 | 49,210 | 254,190 |
| Long term payable | | – | 170,537 |
| Convertible loan note – due after one year | 15 | 955,634 | 844,562 |
| | | <u>1,044,522</u> | <u>1,323,811</u> |
| | | <u>7,211,576</u> | <u>6,855,842</u> |
| Capital and reserves | | | |
| Share capital | | 615,682 | 615,296 |
| Reserves | 16 | 6,566,964 | 6,212,655 |
| Equity attributable to owners of the Company | | 7,182,646 | 6,827,951 |
| Non-controlling interests | | 28,930 | 27,891 |
| | | <u>7,211,576</u> | <u>6,855,842</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 “Hong Kong Stock Exchange”). The address of the registered office and principal place of business of the Company is 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 segments, namely (i) Leisure and Entertainment segment and (ii) Property and Other Investments segment.

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

| | |
|--|--|
| Amendments to HKFRSs HKAS 24 (as revised in 2009) | Improvements to HKFRSs issued in 2010 Related Party Disclosures |
| Amendments to HKAS 32 | Classification of Rights Issues |
| Amendments to HK(IFRIC) – Int 14 | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments |

The application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

| | |
|----------------------|---|
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹ |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets ¹ Disclosures – Offsetting Financial Assets and Financial Liabilities ² |
| HKFRS 9 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³ |
| HKFRS 10 | Financial Instruments ³ |
| HKFRS 11 | Consolidated Financial Statements ² |
| HKFRS 12 | Joint Arrangements ² Disclosure of Interests in Other Entities ² |

| | |
|------------------------------|--|
| HKFRS 13 | Fair Value Measurement ² |
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income ⁵ |
| HKAS 12 (Amendments) | Deferred Tax – Recovery of Underlying Assets ⁴ |
| HKAS 19 (as revised in 2011) | Employee Benefits ² |
| HKAS 27 (as revised in 2011) | Separate Financial Statements ² |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures ² |
| HKAS 32 (Amendments) | Offsetting Financial Assets and Financial Liabilities ⁶ |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine ² |

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

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 January 2012

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 Financial Instruments

The directors anticipate that the adoption of HKFRS 9 in the future may affect the classification and measurement of the Group's financial assets.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The Group is in the process of assessing and quantifying the potential financial impact on the application of these five standards.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

HKFRS 13 Fair Value Measurement

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors anticipate that the application of the other new and revised standards, amendments and interpretation will have no material impact on the results and the financial position of the Group.

3. SEGMENTS INFORMATION

Information reported to the Chief Executive Officer of the Company (“CEO”), being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance, focuses on types of goods or services delivered or provided. The CEO has chosen to organise the Group around differences in goods or services.

The Group’s operating segments under *HKFRS 8 Operating Segments* 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 investment properties, available-for-sale investments, amounts due from associates and related segment bank balances, which receives dividend income, interest income and property rental income.

The technology segment was discontinued in the previous year. The segment information reported on the following pages does not include any amounts from the discontinued operations, which are described in more details in note 5.

Segment revenue and results

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

2011

Continuing operations

| | Leisure and Entertainment <i>HK\$'000</i> | Property and Other Investments <i>HK\$'000</i> | Segment Total <i>HK\$'000</i> | Elimination <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--|---|---|-------------------------------------|--------------------------------|---------------------------------|
| External sales | 108,501 | 20,813 | 129,314 | – | 129,314 |
| Inter-segment sales | 664 | 1,466 | 2,130 | (2,130) | – |
| Total revenue | <u>109,165</u> | <u>22,279</u> | <u>131,444</u> | <u>(2,130)</u> | <u>129,314</u> |
| Segment result | <u>11,928</u> | <u>25,424</u> | <u>37,352</u> | <u>–</u> | <u>37,352</u> |
| Gain on deemed disposal of interest in an associate | | | | | 2,903 |
| Fair value change on investment in convertible loan note | | | | | (232,160) |
| Finance costs | | | | | (122,521) |
| Share of profits of associates | | | | | 689,381 |
| Unallocated corporate income | | | | | 30,653 |
| Central administrative costs and other unallocated corporate expenses | | | | | (139,060) |
| Profit before tax | | | | | <u>266,548</u> |

2010

Continuing operations

| | Leisure and Entertainment <i>HK\$'000</i> | Property and Other Investments <i>HK\$'000</i> | Segment Total <i>HK\$'000</i> | Elimination <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--|---|---|-------------------------------------|--------------------------------|---------------------------------|
| External sales | 99,715 | 25,451 | 125,166 | – | 125,166 |
| Inter-segment sales | 851 | 936 | 1,787 | (1,787) | – |
| Total revenue | <u>100,566</u> | <u>26,387</u> | <u>126,953</u> | <u>(1,787)</u> | <u>125,166</u> |
| Segment result | <u>938</u> | <u>26,232</u> | <u>27,170</u> | <u>–</u> | 27,170 |
| Loss on deemed disposal of interest in an associate | | | | | (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 losses of associates | | | | | (10,943) |
| Share of loss of a jointly controlled entity | | | | | (81,686) |
| Unallocated corporate income | | | | | 76,525 |
| Central administrative costs and other unallocated corporate expenses | | | | | <u>(97,537)</u> |
| Loss before tax | | | | | <u>(213,987)</u> |

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 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. This is the measure reported to the CEO 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 reportable and operating segments:

Segment assets

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--------------------------------|-------------------------|-------------------------|
| Leisure and Entertainment | 27,899 | 41,778 |
| Property and Other Investments | 904,150 | 1,603,433 |
| | <hr/> | <hr/> |
| Total segment assets | 932,049 | 1,645,211 |
| Interests in associates | 7,583,784 | 6,396,712 |
| Unallocated assets | 62,197 | 298,757 |
| | <hr/> | <hr/> |
| Consolidated assets | 8,578,030 | 8,340,680 |

Segment liabilities

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--------------------------------|-------------------------|-------------------------|
| Leisure and Entertainment | 16,607 | 28,419 |
| Property and Other Investments | 392 | 385 |
| | <hr/> | <hr/> |
| Total segment liabilities | 16,999 | 28,804 |
| Unallocated liabilities | 1,349,455 | 1,456,034 |
| | <hr/> | <hr/> |
| Consolidated liabilities | 1,366,454 | 1,484,838 |

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

2011

Continuing operations

| | Leisure and Entertainment HK\$'000 | Property and Other Investments HK\$'000 | Unallocated HK\$'000 | Consolidated HK\$'000 |
|--|--|--|-------------------------|--------------------------|
| <i>Amounts included in the measure of segment profit or loss and segment assets:</i> | | | | |
| Capital additions | 819 | – | 290 | 1,109 |
| Depreciation | 4,164 | – | 1,570 | 5,734 |
| Loss on disposal of property, plant and equipment | 54 | – | – | 54 |
| Impairment loss on available-for-sale investments | – | 3,794 | – | 3,794 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Amounts regularly provided to the CEO but not included in the measure of segment profit or loss and segment assets:

| | | | | |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| Interests in associates | 7,583,784 | – | – | 7,583,784 |
| Share of profits of associates | 689,381 | – | – | 689,381 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

2010

Continuing operations

| | Leisure and Entertainment <i>HK\$'000</i> | Property and Other Investments <i>HK\$'000</i> | Unallocated <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--|---|---|--------------------------------|---------------------------------|
| <i>Amounts included in the measure of segment profit or loss and segment assets:</i> | | | | |
| Capital additions | 163 | – | 595 | 758 |
| Depreciation | 5,116 | – | 3,721 | 8,837 |
| (Gain) loss on disposal of property, plant and equipment | (46) | – | 213 | 167 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Amounts regularly provided to the CEO but not included in the measure of segment profit or loss and 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 (profits) of associates | 12,716 | – | (1,773) | 10,943 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Geographical information

The Group's operations are mainly located in Hong Kong and Macau. Non-current assets of approximately HK\$7,713,683,000 and HK\$63,000,000 (2010: HK\$6,531,262,000 and HK\$60,000,000) of the Group are located in Hong Kong and Macau respectively by reference to location of assets or for interests in associates, by location of head office.

All of the Group's revenue from external customers based on location of customers was generated from Hong Kong and Macau of approximately HK\$125,164,000 and HK\$4,150,000 (2010: HK\$121,019,000 and HK\$4,147,000) respectively.

Information about major customers

During the years ended 31 December 2011 and 2010, there was no customer individually contributing 10% or more of the total sales of the Group from continuing operations.

4. INCOME TAX CREDIT

Continuing operations

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|----------------------------------|-------------------------|-------------------------|
| Deferred taxation – current year | <u>14,844</u> | <u>14,245</u> |

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 2011 and 2010 was made as there was 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 profit (loss) before tax per consolidated statement of comprehensive income as follows:

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit (loss) before tax (from continuing operations) | <u>266,548</u> | <u>(213,987)</u> |
| Tax at Hong Kong Profits Tax rate of 16.5% | 43,980 | (35,308) |
| Tax effect of share of results of associates and a jointly controlled entity | (113,748) | 15,284 |
| Tax effect of expenses not deductible for tax purposes | 56,740 | 20,618 |
| Tax effect of income not taxable for tax purposes | (10,088) | (16,906) |
| Tax effect of deductible temporary difference not recognised | – | 466 |
| Utilisation of tax losses previously not recognised | – | (1,098) |
| Tax effect of tax losses not recognised | 8,041 | 2,699 |
| Others | <u>231</u> | <u>–</u> |
| Tax credit for the year (relating to continuing operations) | <u>(14,844)</u> | <u>(14,245)</u> |

5. DISCONTINUED OPERATIONS

Disposal of subsidiaries

In April 2010, the Group entered into an agreement to dispose of 100% equity interest in a subsidiary, Elixir International Limited (“ELI”), at a consideration of HK\$352,000 resulting in a loss of approximately HK\$3,473,000. ELI mainly engaged in design, development and supply of gaming technology products including surveillance equipment and other gaming products used in casino in Macau. The disposal was completed on 16 July 2010.

The loss for the year ended 31 December 2010 from the discontinued operations was analysed as follows:

| | 2010 <i>HK\$'000</i> |
|--|--------------------------------|
| Loss of technology business for the year | (5,393) |
| Loss on disposal of technology business (<i>note 17</i>) | (3,473) |
| | <hr/> |
| | (8,866) |
| | <hr/> <hr/> |

The result of ELI was set out below:

| | 2010 <i>HK\$'000</i> |
|---|--------------------------------|
| Revenue | 81,525 |
| Other income | 635 |
| Purchase and changes in inventories of finished goods | (74,620) |
| Employee benefits expense | (6,812) |
| Depreciation of property, plant and equipment | (1,025) |
| Other expenses | (4,366) |
| Finance costs | (730) |
| | <hr/> |
| Loss for the year | (5,393) |
| | <hr/> <hr/> |

Loss for the year from discontinued operations included the following:

| | |
|------------------------------|-------------|
| Allowance for doubtful debts | 871 |
| Allowance for inventories | 3,723 |
| | <hr/> <hr/> |

The carrying amounts of the assets and liabilities of ELI at the date of disposal were disclosed in note 17.

6. DIVIDEND

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| 2011 Interim – Nil (2010: HK1.5 cents) per share | – | 18,459 |
| | <hr/> <hr/> | <hr/> <hr/> |

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2011 of HK1.5 cents (2010: Nil) per share, amounting to approximately HK\$18,470,000 based on the total number of ordinary shares issued as at 31 December 2011, has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

7. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

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

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Earnings (loss) | | |
| Earnings (loss) for the purpose of basic earnings (loss) per share (profit (loss) for the year attributable to owners of the Company) | 280,085 | (209,464) |
| Effect of dilutive potential ordinary shares: | | |
| Adjustment in relation to share options and awarded shares issued by an associate of the Company | (5,878) | – |
| Earnings (loss) for the purpose of diluted earnings (loss) per share | 274,207 | (209,464) |
| | 2011 '000 | 2010 '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | 1,228,803 | 1,229,380 |
| Effect of dilutive potential ordinary shares: | | |
| Share options and awarded shares issued by the Company | 14,094 | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | 1,242,897 | 1,229,380 |

The number of shares adopted in the calculation of the basic and diluted earnings (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 earnings per share for the year ended 31 December 2011 does not assume i) the conversion of the Company's outstanding convertible loan note since their assumed conversion would result in an increase in earnings per share and ii) the effect of certain share option under the Company's long-term incentive schemes because the exercise price of those options was higher than the average market price of the Company's shares.

The computation of diluted loss per share for the year ended 31 December 2010 did 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 earnings (loss) per share from continuing operations attributable to owners of the Company is based on the following data:

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Earnings (loss) | | |
| Earnings (loss) for the year attributable to owners of the Company | 280,085 | (209,464) |
| Less: Loss for the year from discontinued operations | — | (8,866) |
| | <hr/> | <hr/> |
| Earnings (loss) for the purpose of basic earnings (loss) per share from continuing operations | 280,085 | (200,598) |
| Effect of dilutive potential ordinary shares: | | |
| Adjustment in relation to share options and awarded shares issued by an associate of the Company | (5,878) | — |
| | <hr/> | <hr/> |
| Earnings (loss) for the purpose of diluted earnings (loss) per share from continuing operations | 274,207 | (200,598) |
| | <hr/> <hr/> | <hr/> <hr/> |

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

From discontinued operations

During the year ended 31 December 2010, basic and diluted loss per share from discontinued operations were HK0.72 cent per share and were based on the loss for the year from discontinued operations of HK\$8,866,000 and the denominators detailed above for both basic and diluted loss per share.

8. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Cost of unlisted investments in jointly controlled entities | 307,392 | 307,392 |
| Share of post-acquisition losses and other comprehensive income, net of dividends received | (307,392) | (307,392) |
| | <hr/> | <hr/> |
| | <hr/> <hr/> | <hr/> <hr/> |

As at 31 December 2011 and 2010, 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% | Inactive |

As disclosed in note 13, 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 Limited ("Melco Crown Entertainment"). In addition, the Group has provided a guarantee in respect of the Exchangeable Bonds. During the year ended 31 December 2011, the income of this jointly controlled entity attributable to the Group's interests included an amount of approximately HK\$2,067,000 (2010: expense of HK\$25,882,000) representing change of fair value on these Exchangeable Bonds, which were designated as financial liability at fair value through profit or loss.

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:

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--------------------------------------|--------------------------------|-------------------------|
| Current assets | <u>84,373</u> | <u>64,370</u> |
| Non-current assets | <u>–</u> | <u>4,326</u> |
| Current liabilities | <u>(132,366)</u> | <u>–</u> |
| Non-current liabilities | <u>–</u> | <u>(134,433)</u> |
| Income recognised in profit or loss | <u>27,524</u> | <u>31,644</u> |
| Expense recognised in profit or loss | <u>9,780</u> | <u>113,330</u> |

9. INTERESTS IN ASSOCIATES

| | 2011 HK\$'000 | 2010 HK\$'000 |
|--|-------------------|------------------|
| Cost of investment in associates | | |
| Listed in the United States of America (“US”) | 7,803,428 | 7,349,302 |
| Listed in Canada | 339,601 | 339,601 |
| Listed in Hong Kong | 25,758 | 25,758 |
| Unlisted | 294,870 | 294,870 |
| Gain on changes in interests in associates | 1,419,205 | 1,416,782 |
| Impairment losses recognised | (1,160,838) | (1,160,838) |
| Share of exchange and hedging reserves | 3,510 | (37,632) |
| Share of post-acquisition results | (1,141,750) | (1,831,131) |
| | <u>7,583,784</u> | <u>6,396,712</u> |
| Fair value of listed investments (<i>note a</i>) | <u>14,005,156</u> | <u>9,034,198</u> |
| Carrying amount of interests in associates with shares listed on respective stock exchanges | <u>7,578,653</u> | <u>6,370,841</u> |

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 | | Principal activities |
|--|---|-------------------|---|-------|--|
| | | | 2011 | 2010 | |
| Melco Crown Entertainment (<i>Note b</i>) | Cayman Islands/ Macau | Ordinary shares | 33.7% | 33.4% | Operating of electronic gaming machine lounges, casino games of chance and other casino games and hotel business |
| Mountain China Resorts (Holding) Limited ("MCR") (<i>Note b</i>) | Canada/People's Republic of China ("PRC") | Ordinary shares | 28.7% | 28.7% | Operating of ski resorts |
| MelcoLot Limited (<i>Notes b and d</i>) | Cayman Islands/ PRC | Ordinary shares | 11.7% | 11.7% | Lottery business management services and provision of network system integration solutions |
| Power Way Group Limited ("Power Way") (<i>Note c</i>) | British Virgin Islands/ Hong Kong | Ordinary shares | 58.7% | 58.7% | Investment holding |
| Entertainment Gaming Asia Inc. ("EGT") (<i>Note b</i>) | US/Philippines and Cambodia | Ordinary shares | 38.5% | 39.4% | Provision of electronic gaming machines to gaming operators |

Notes:

- (a) Fair values of listed investments are determined at the market price of listed shares as of year end on respective stock exchanges.
- (b) The American Depositary Shares (“ADS”) of Melco Crown Entertainment are dual listed on the National Association of Securities Dealers Automated Quotations (“NASDAQ”) and the Main Board of the Hong Kong Stock Exchange. The shares of MCR are listed on TSX Venture Exchange of Canada. The shares of MelcoLot Limited are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. The shares of EGT are listed on New York Stock Exchange.
- (c) The Group holds 58.7% (2010: 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 2011, included in the cost of investment in associates is goodwill of approximately HK\$205,271,000 (2010: HK\$120,049,000) arising on acquisition of ordinary shares of Melco Crown Entertainment during the year and in prior years and the additional ordinary shares issued by Melco Crown Entertainment upon the settlement of amount due from this associate. This amount of goodwill represented the excess of the cost of acquisition over the Group’s share of net asset values of the identifiable assets and liabilities of Melco Crown Entertainment at the date of acquisition.

In November 2011, the Group and Crown Asia Investments Pty. Ltd. (“Crown Asia”), another major shareholder of Melco Crown Entertainment, entered into the Securities Lending Agreement and the Sale and Repurchase Agreement with the joint sponsors (“Joint Sponsors”) to facilitate liquidity activities for the dual listing of Melco Crown Entertainment on the Main Board of the Hong Kong Stock Exchange. Under the Sale and Repurchase Agreement, the Group and Crown Asia would arrange for the delivery and transfer of certain shares of Melco Crown Entertainment (“Shares”) to the Joint Sponsors and such Shares would be resold by the Joint Sponsors to the Company no later than ten business days after thirty-day period from Melco Crown Entertainment’s date of listing on the Hong Kong Stock Exchange.

The Joint Sponsors shall account to the Group for any income or accretions in respect of the Shares that the Group would have been entitled to receive. Similarly, the Joint Sponsors shall exercise voting rights that may be exercisable over the Shares in accordance with the Group’s instruction. The Group will remain responsible for any liabilities and obligations on the Shares, which would have fallen due. As such, the Group continues to entitle to the entire risk and benefits of the Shares.

As at 31 December 2011, a total of 33,062,020 shares were sold to the Joint Sponsors which were subsequently repurchased by the Group in January 2012.

During the year ended 31 December 2011, the Group recognised a profit on deemed disposal of an associate of approximately HK\$2,903,000 (2010: a loss of HK\$33,085,000) resulting from the exercise of share options and vesting of certain restricted shares issued by Melco Crown Entertainment. The amount represented the increase (2010: decrease) in net assets attributable to the Group of HK\$2,423,000 (2010: HK\$32,974,000) and the realisation of special reserve to profit or loss of approximately HK\$480,000 (2010: HK\$111,000).

In October 2010, the Group disposed of its interest in iAsia Online Systems Limited (“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 represented the shortfall between the consideration received and 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:

| | 2011 | 2010 |
|--|--------------------------|-------------------|
| | <i>HK\$’000</i> | <i>HK\$’000</i> |
| Total assets | 49,949,408 | 39,346,636 |
| Total liabilities | (28,909,823) | (21,080,419) |
| Net assets | <u>21,039,585</u> | <u>18,266,217</u> |
| Group’s share of net assets of associates | 7,801,252 | 6,699,402 |
| Less: Impairment loss | (422,739) | (422,739) |
| | <u>7,378,513</u> | <u>6,276,663</u> |
| Revenue | <u>30,153,612</u> | <u>20,834,072</u> |
| Profits (losses) for the year | <u>1,919,141</u> | <u>(41,169)</u> |
| Group’s share of other comprehensive income | <u>41,142</u> | <u>46,050</u> |
| Group’s share of profits and other comprehensive income of associates for the year (<i>Note</i>) | <u>730,523</u> | <u>35,107</u> |

Note: Majority of the increase in share of profits during the year ended 31 December 2011 arose from share of profits of Melco Crown Entertainment because of the continuing growth in Macau gaming market such that revenue of Melco Crown Entertainment increased by about 45%.

10. TRADE RECEIVABLES

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|-------------------|-------------------------|-------------------------|
| Trade receivables | <u>3,502</u> | <u>5,629</u> |

The Group's trade receivables from the 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.

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

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Within 30 days | 2,159 | 3,614 |
| 31 – 90 days | 965 | 715 |
| Over 90 days | <u>378</u> | <u>1,300</u> |
| | <u>3,502</u> | <u>5,629</u> |

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 of the Group's trade receivables are 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.

The Group performed assessment on individual trade receivable balance and recognised allowance on specific balance when necessary. In the opinion of the directors, there was no allowance for doubtful debts as at the end of both reporting periods.

11. AMOUNTS DUE FROM (TO) ASSOCIATES

Included in amounts due from associates are:

- a) Amount due from an associate of approximately HK\$48,320,000 (2010: HK\$71,591,000) is unsecured and interest bearing at 5% per annum. It is repayable within twelve months from the end of the reporting period (2010: HK\$22,974,000 out of HK\$71,591,000 was repayable within twelve months from the end of the reporting period and the remaining HK\$48,617,000 was 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 considered no impairment on the amount due from this associate as it has repaid the balance in accordance with the repayment schedule.

- b) Amount due from an associate of approximately HK\$2,380,000 (2010: HK\$2,583,000) is unsecured, non-interest bearing and repayable on demand and approximately HK\$185,211,000 (2010: HK\$185,211,000) is unsecured interest bearing at 3% per annum and repayable on 31 March 2013. All of the above balances were fully impaired as at 31 December 2011 and 2010.
- c) The remaining amounts due from associates are unsecured, non-interest bearing and repayable on demand.

As at 31 December 2010, amount due from an associate, Melco Crown Entertainment, of approximately HK\$578,578,000 was unsecured, interest bearing at HIBOR per annum and not repayable within twelve months from the end of the reporting period.

In November 2011, the Group entered into an agreement with Crown Asia to settle the long term payable to Crown Asia with carrying amount of approximately HK\$169,980,000 by an amount due from Melco Crown Entertainment of HK\$180,000,000 resulting in a loss of approximately HK\$10,020,000. Upon the completion of the transfer, amount due from Melco Crown Entertainment became approximately HK\$398,578,000 and this amount has been settled in full by the issuance of 17,813,673 ordinary shares by Melco Crown Entertainment.

Amounts due to associates are unsecured, non-interest bearing and repayable on demand.

The Group's concentration of credit risk by geographical location was mainly in Hong Kong, which accounted for 100% (2010: 100%) of amount due from associates as at 31 December 2011.

12. TRADE PAYABLES

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

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 3,760 | 3,226 |
| 31-90 days | 37 | – |
| Over 90 days | 93 | 4 |
| | <u>3,890</u> | <u>3,230</u> |

13. FINANCIAL GUARANTEE LIABILITY

On 30 July 2007, the Group and Crown Asia 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 had 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 was 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 Bond was redeemed by the holders of Exchangeable Bonds. The Exchangeable Bonds are jointly and severally guaranteed by the Group and Crown Asia. 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 2011 and 2010, 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 2011, the carrying amount of the financial guarantee liability was estimated to be approximately HK\$52,320,000 (2010: HK\$76,318,000) 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 2011, an amount of approximately HK\$23,998,000 (2010: HK\$69,870,000) was recognised in other income of the consolidated statement of comprehensive income.

14. BANK BORROWINGS

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Secured | 54,190 | 69,170 |
| Unsecured | 223,000 | 200,000 |
| | <u>277,190</u> | <u>269,170</u> |
| Carrying amount repayable: | | |
| Within one year | | |
| – With repayable on demand clause | 23,000 | – |
| – Without repayable on demand clause | 204,980 | 14,980 |
| More than one year, but not exceeding two years | 4,980 | 204,980 |
| More than two years, but not exceeding five years | 14,940 | 14,940 |
| Exceeding five years | 29,290 | 34,270 |
| | <u>277,190</u> | 269,170 |
| Less: Amounts due within one year shown under current liabilities | <u>(227,980)</u> | <u>(14,980)</u> |
| | <u>49,210</u> | <u>254,190</u> |

All the bank borrowings are denominated in HK\$, the functional currency of relevant group entities, with interest rates of HIBOR plus 1.5% to 1.95% (2010: HIBOR plus 1.2% to 1.65%) per annum. For the year ended 31 December 2011, the effective interest rate on the Group's borrowings was 1.92% (2010: 1.89%) per annum.

15. 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, Great Respect Limited, a related company to the Group. 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 had been substantially changed under the Amendment, the Amendment had 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 was approximately HK\$1,150,815,000 at the date of amendment. This amount was accounted for as consideration paid for the extinguishment, of which HK\$1,137,868,000 was allocated to the liability component of the convertible loan note before amendment and HK\$12,947,000 was allocated to the equity component of the said note, which was recognised in retained profits. The original equity component of the convertible loan note before Amendment of approximately HK\$294,306,000 was 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 2011, the effective interest rate of the liability component was 13.15% (2010: 13.15%) per annum.

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

| | 2011 | 2010 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Carrying amounts at the beginning of the year | 844,562 | 1,128,227 |
| Interest on convertible loan note before Amendment | – | 9,641 |
| Derecognition of amortised cost upon Amendment | – | (1,137,868) |
| Recognition of new financial liability | – | 758,230 |
| Interest on convertible loan note after Amendment | 111,072 | 86,332 |
| | <hr/> | <hr/> |
| Carrying amount at the end of the year | 955,634 | 844,562 |
| | <hr/> <hr/> | <hr/> <hr/> |

16. RESERVE

| | Share premium | Capital reserve | Special reserve | Convertible loan | | | Exchange reserve | Legal reserve | Share options reserve | Shares held under | | Other reserve | Retained profits | Total |
|---|---------------|-----------------|-----------------|------------------|----------------|------------------------------|------------------|---------------|-----------------------|---------------------------|-------------|---------------|------------------|-----------|
| | | | | note | equity reserve | Property revaluation reserve | | | | Other revaluation reserve | share award | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2010 | 3,132,743 | 271,463 | (61,816) | 307,253 | 5,796 | 200,631 | 3,556 | 254 | 46,577 | (13,251) | 4,034 | (87,192) | 2,256,578 | 6,066,626 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | - | (17) | - | - | - | - | - | - | (17) |
| Reclassification adjustment of exchange reserve upon disposal of subsidiaries | - | - | - | - | - | - | (70) | - | - | - | - | - | - | (70) |
| Share of other comprehensive income of an associate | - | - | - | - | - | - | - | - | - | - | - | 46,050 | - | 46,050 |
| Fair value gain on available-for-sale investments | - | - | - | - | - | 1,426 | - | - | - | - | - | - | - | 1,426 |
| Other comprehensive income for the year | - | - | - | - | - | 1,426 | (87) | - | - | - | - | 46,050 | - | 47,389 |
| Loss for the year | - | - | - | - | - | - | - | - | - | - | - | - | (209,464) | (209,464) |
| Total comprehensive income (expense) for the year | - | - | - | - | - | 1,426 | (87) | - | - | - | - | 46,050 | (209,464) | (162,075) |
| Exercise of share options | 1,065 | - | - | - | - | - | - | - | (457) | - | - | - | - | 608 |
| Release of convertible loan note equity reserve upon amendment | - | - | - | (307,253) | - | - | - | - | - | - | - | - | 294,306 | (12,947) |
| Recognition of equity component of convertible loan note | - | - | - | 392,585 | - | - | - | - | - | - | - | - | - | 392,585 |
| Deferred tax liability on recognition of equity component of convertible loan note | - | - | - | (68,767) | - | - | - | - | - | - | - | - | - | (68,767) |
| Transfer of legal reserve upon disposal of a subsidiary | - | - | - | - | - | - | - | (254) | - | - | - | - | 254 | - |
| Recognition of equity-settled share based payments | - | - | - | - | - | - | - | - | 14,033 | - | 940 | - | - | 14,973 |
| Transfer of share option reserve upon expiry of share options and shares awards | - | - | - | - | - | - | - | - | (399) | - | (38) | - | 437 | - |
| Shares vested under share award schemes | - | - | - | - | - | - | - | - | - | 6,291 | (4,276) | - | (2,015) | - |
| Dividend recognised as distribution | - | (18,459) | - | - | - | - | - | - | - | - | - | - | - | (18,459) |
| Realisation of special reserve and other revaluation reserve upon deemed disposal of partial interest in an associate | - | - | 111 | - | - | (46) | - | - | - | - | - | - | 46 | 111 |
| | 1,065 | (18,459) | 111 | 16,565 | - | (46) | - | (254) | 13,177 | 6,291 | (3,374) | - | 293,028 | 308,104 |
| At 31 December 2010 | 3,133,808 | 253,004 | (61,705) | 323,818 | 5,796 | 202,011 | 3,469 | - | 59,754 | (6,960) | 660 | (41,142) | 2,340,142 | 6,212,655 |

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Special reserve HK\$'000 | Convertible | | | Exchange reserve HK\$'000 | Legal reserve HK\$'000 | Share options reserve HK\$'000 | Shares held under | | Other reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|------------------------------|--------------------------------|--------------------------------|--|--|---|---------------------------------|------------------------------|---|---------------------------------------|--|------------------------------|---------------------------------|-------------------|
| | | | | loan note equity reserve HK\$'000 | Property revaluation reserve HK\$'000 | Other revaluation reserve HK\$'000 | | | | share award schemes HK\$'000 | Share awards reserve HK\$'000 | | | |
| At 1 January 2011 | 3,133,808 | 253,004 | (61,705) | 323,818 | 5,796 | 202,011 | 3,469 | - | 59,754 | (6,960) | 660 | (41,142) | 2,340,142 | 6,212,655 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | - | (27) | - | - | - | - | - | - | (27) |
| Share of other comprehensive income of an associate | - | - | - | - | - | - | - | - | - | - | - | 41,142 | - | 41,142 |
| Fair value loss on available-for-sale investments | - | - | - | - | - | (1,426) | - | - | - | - | - | - | - | (1,426) |
| Other comprehensive income for the year | - | - | - | - | - | (1,426) | (27) | - | - | - | - | 41,142 | - | 39,689 |
| Profit for the year | - | - | - | - | - | - | - | - | - | - | - | - | 280,085 | 280,085 |
| Total comprehensive income (expense) for the year | - | - | - | - | - | (1,426) | (27) | - | - | - | - | 41,142 | 280,085 | 319,774 |
| Exercise of share options | 4,023 | - | - | - | - | - | - | (1,689) | - | - | - | - | - | 2,334 |
| Recognition of equity-settled share based payments | - | - | - | - | - | - | - | - | 35,482 | - | 24,040 | - | - | 59,522 |
| Transfer of share option reserve upon expiry of share options and shares awards | - | - | - | - | - | - | - | - | (55) | - | - | - | 55 | - |
| Shares vested under share award schemes | - | - | - | - | - | - | - | - | - | 16,895 | (14,313) | - | (2,582) | - |
| Purchase of shares for unvested shares under the share award schemes | - | - | - | - | - | - | - | - | - | (26,841) | - | - | - | (26,841) |
| Realisation of special reserve and other revaluation reserve upon deemed disposal of partial interest in an associate | - | - | (480) | - | - | 199 | - | - | - | - | - | - | (199) | (480) |
| | 4,023 | - | (480) | - | - | 199 | - | - | 33,738 | (9,946) | 9,727 | - | (2,726) | 34,535 |
| At 31 December 2011 | 3,137,831 | 253,004 | (62,185) | 323,818 | 5,796 | 200,784 | 3,442 | - | 93,492 | (16,906) | 10,387 | - | 2,617,501 | 6,566,964 |

17. DISPOSAL OF A SUBSIDIARY

As disclosed in note 5, the Group disposed ELI in July 2010, the net assets of ELI at the date of disposal were as follows:

| | <i>HK\$'000</i> |
|--|-----------------------|
| Consideration: | |
| Cash received | 352 |
| | <u><u>352</u></u> |
| 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) |
| | <u>3,895</u> |
| Net assets disposed of | <u><u>3,895</u></u> |
| Loss on disposal of a subsidiary: | |
| 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 |
| | <u>70</u> |
| Loss on disposal | <u><u>(3,473)</u></u> |
| Net cash outflow arising on disposal: | |
| Cash consideration | 352 |
| Less: bank balances and cash disposed of | (19,155) |
| | <u>(18,803)</u> |

18. CONTINGENT LIABILITIES

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 Asia. Details of the guarantee are disclosed in notes 8 and 13.

In 2010, certain shareholders of EGT (the “Plaintiffs”) filed claims in connection with losses allegedly suffered as a result of the Company’s and one of its subsidiaries’ alleged conduct. On 4 January 2011, the United States District Court granted a motion to dismiss all the claims against the Company for lack of jurisdiction, and subsequently granted the motion to dismiss all claims against the Company’s subsidiary on 22 June 2011 on other grounds. In November 2011, the Plaintiffs filed a motion seeking leave to amend their complaint, and submitted a proposed second amended complaint with their motion. The Court granted this motion on 15 December 2011, and the plaintiffs’ Second Amended Complaint (“Complaint”) was filed on 20 December 2011. The Complaint does not attempt to replead any claims against the Company, all of which claims were previously dismissed by the Court on 4 January 2011. The Complaint does attempt to replead the claims previously asserted against the Company’s subsidiary. The subsidiary filed a motion to dismiss the Complaint on 23 January 2012, and this motion is currently pending. At this time, 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 loss.

CHAIRMAN & CEO’S STATEMENT

The year 2011 saw Melco International Development Limited achieving exceptional performance with an overall business turnaround, thanks to the record high net revenue and adjusted EBITDA of our core gaming and entertainment business in Macau operated by our associated company, Melco Crown Entertainment Limited (“Melco Crown Entertainment”). Our gaming machine revenue participation business in Southeast Asia, through our stake in Entertainment Gaming Asia Inc., demonstrated impressive improvement and recorded net profit, following its refined business model and efficient operating structure by completion of refocusing its business operations in the past three years. At the same time, MelcoLot Limited, a company engaged in our lottery business in China, recorded improved performance and is on course to capitalize on the rapid development of the China lottery market.

Moreover, we have also embarked on significant strategic initiatives that take the Group further forward. Melco Crown Entertainment was listed on the Hong Kong Stock Exchange by way of introduction in December 2011, not only setting the company on a par with its peers but also boosting our liquidity and hence broadening our investor base in Asia. The acquisition of the 60% stake in the Studio City project was another exciting development this year. Its unique theme and demographic focus position it to become another spotlight attraction in Cotai and help bolster the Group’s foothold in Macau.

Our core gaming and entertainment business in Macau recorded outstanding performance during the year, strong testimony to our successful business strategies, and, in particular, our efforts in enhancing operating leverage, cost control and profitability of our assets. With the full ramp-up of operations at our properties, in particular City of Dreams and Altira Macau, we recorded meaningful growth in the mass market segment, contributed by the higher volume as well as a sustained and growing mass hold rate. The rolling chip segment also performed well under the disciplined VIP junket pricing procedures. The world's largest water-based show, The House of Dancing Water at City of Dreams, was a truly overwhelming success and elicited an abundance of praise for its spectacular dimension of entertainment. Guided by our vision to create an ideal multi-day-stay destination for tourists, amenities such as Club Cubic have been opened to offer visitors a world-class entertainment experience in City of Dreams, which have attracted more patrons and also boosted hotel occupancy, table drop and restaurant spending.

While the Cotai area is flourishing as integrated gaming facilities open their doors, it is clear that the center of gravity of Macau's tourist attractions has moved to Cotai from the traditional Macau peninsula focus. Melco is very confident about the outlook of Macau in 2012 and thus believes we can sustain our excellent performance. We believe the development of transportation and infrastructure by the Macau Government, together with the rising visitation from China's increasingly affluent middle class with higher disposal income levels will continue to fuel Macau's future tourism development.

Looking forward, we are optimistic that our business in Asia will grow in step with the rising market. The Studio City project complements our current property portfolio in Cotai and demonstrates our vision to support and meaningfully contribute to the development and diversification of Macau's leisure and tourism industry. While increasing our footprint in Macau, our businesses in other parts of Asia such as Cambodia and Philippines are expected to sustain healthy growth as well. Dreamworld Casino Pailin in Cambodia, a regional casino project operated by EGT, is scheduled to open on 9 May 2012. We are constantly in pursuit to enrich our portfolio in Asia and eyeing opportunities to extend our geographic reach.

As one of the major gaming operators in Asia, we will continue to maintain our high corporate governance standards and also our dedication on corporate social responsibility, especially in the local community. We remain focused on delivering results adhering to our business plan, ensuring that as we grow, we continue to meet and exceed our customers' expectations, as well as investing in the innovative attractions that set Melco apart.

Last but not least, I would like to express my heartfelt gratitude to all our colleagues for their dedication and hard work for building our record-setting success in 2011. My warmest thanks also go to our Board of Directors, management team, shareholders, business partners and customers for their indispensable contributions and continuous support to Melco.

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 experienced a truly remarkable year during 2011. Significant progress in the Group’s business development has been achieved, culminating in solid revenue growth riding on the robust growth of the gaming sector in Macau. In December 2011, the Group marked an important milestone in the company history by successfully completing the listing of its major associate, Melco Crown Entertainment Limited (“Melco Crown Entertainment”), on the Hong Kong Stock Exchange by way of introduction. To maximize the profitability of its high-quality portfolio of assets and to take advantage of the shift of Macau’s gaming epicentre to Cotai, Melco Crown Entertainment has also taken a strategic step in that direction and acquired 60% stake in the Studio City project in Cotai.

Outside of Macau, the Group’s gaming machine revenue participation business in Southeast Asia – Entertainment Gaming Asia Inc. also demonstrated impressive improvement and recorded net profit in 2011.

CORE BUSINESS

Gaming Business in Macau

The Group operates gaming businesses in Macau through its 33.7%-owned associate, Melco Crown Entertainment, which is listed on the NASDAQ Global Select Market in the US and on the Main Board of the Hong Kong Stock Exchange. In 2011, Melco Crown Entertainment’s impressive assets and operations have successfully leveraged the continuous growth in the Macau gaming and entertainment market to generate a thriving financial performance. Melco Crown Entertainment reported net revenue of US\$3.8 billion and adjusted EBITDA of US\$809.4 million for the full year of 2011, an increase of 45% and 88% respectively when compared with the full year of 2010. The record-setting performance was driven mainly by significantly improved gaming fundamentals, including strong rolling chip and mass market volumes, as well as improving mass market table hold percentages.

Having ramped up City of Dream’s gaming infrastructure to tap the burgeoning mass market segment, Melco Crown Entertainment’s efforts have paid off with increased visitation and strong growth rate in its mass tables business. City of Dreams recorded year-over-year improvement in net revenue and adjusted EBITDA, driven by record rolling chip and mass market table volumes, ongoing improvements in mass market table hold percentages, supplemented by strong contributions from hotel sales and other non-gaming amenities. Equipped with several unique amenities including the largest children’s attraction in Macau, Kid’s City; the world’s largest water-based show, The House of Dancing Water; and the most prestigious nightclub in Macau, Club Cubic, which was opened in April and has already become the most trendy clubbing hotspot in Macau, City of Dreams has successfully invented itself as a destination for visitors

looking for new dimensions in relaxation and entertainment. City of Dreams' success has been widely acknowledged by the hospitality industry as the facility has been honored with a number of prestigious awards including the "Best Casino VIP Room" and "Best Casino Interior Design" at the International Gaming Awards; and the "Best Luxury Hotel Spa" garnered by Crown Towers at the World Luxury Spa Awards. The House of Dancing Water, its renowned water-based live entertainment show, also gained the "Gold Prize" at the HKMA/TVB Awards for Marketing Excellence.

Stimulated by increased rolling chip and mass market volumes, together with a stronger mass market table games hold percentage, Altira Macau recorded improvement in net revenue and adjusted EBITDA in 2011. During the year, Altira Macau's exceptional service standard has earned accolades worldwide – it has been awarded the Forbes Five-Star Rating for both Lodging and Spa for three consecutive years, and was honored with the "Five-Star Best Hotel Macau," "Five-Star Best Spa Macau" and "Best Spa Hotel Asia Pacific" at the International Hotel Awards in association with Bloomberg Television for the first time ever.

Gaming Machine Revenue Participation Business in Southeast Asia

Entertainment Gaming Asia Inc., a company listed on NYSE-Amex (Stock symbol: EGT), in which the Group has an effective equity interest of approximately 38.5%, posted continued improvement in its financial results derived from the gaming sector in Southeast Asia. In 2011, EGT achieved record highs in annual revenue, adjusted EBITDA, and net income as it benefited from a significant increase in revenue from its gaming machine participation business, a more refined business model and efficient operating structure following the successful restructuring of its business operations in the past three years.

EGT has an established presence within gaming markets in Cambodia and the Philippines through its gaming machine participation and management services operations. Its 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. EGT has under contract a total of 670 electronic gaming machines which have been placed in designated areas of the casino floor and are jointly managed by EGT and NagaWorld. These gaming machines have achieved average daily net win of approximately US\$232 per machine in 2011.

Leveraging its solid recurring cash flow from its gaming machine revenue participation business, improved operating efficiencies, and established presence in its target markets, EGT is positioned to expand its gaming operations to include the development and operation of its own regional casinos under its "Dreamworld" brand in Cambodia. EGT is currently developing two casino projects in Cambodia strategically located near the borders with Thailand and Vietnam which are expected to provide higher long-term growth and incremental returns.

Lottery Management Business in Asia

During the year, MelcoLot Limited (“MelcoLot”), in which the Group holds a 35.3% interest on a fully diluted basis (assuming full conversion of all outstanding convertibles), significantly increased its revenues generated from the provision of management services for distribution of lottery products by 8.8%. This increase helped offset a decline in revenues from sales of terminals as a result of a delay in the commencement of the new procurement cycle by the China Sports Lottery Administration Centre.

MelcoLot negotiated to acquire controlling rights over Beijing Telenet Information Technology Limited, thus converting this jointly controlled entity into a subsidiary. MelcoLot also acquired the remaining 20% of PAL Development Limited from minority shareholders. These changes were effected as part of an on-going reorganization to strengthen its operational structure. In addition, MelcoLot entered into negotiations with a number of parties, including holders of its convertible bonds with a view to improving its financial structure. No binding agreements have been entered into to date.

MelcoLot made steady progress in the implementation of its project to provide a multimedia content delivery system to the Chongqing Welfare Lottery Authority. The company is increasing its focus on new media technologies and sales platforms and is pursuing opportunities to take full advantage of the world-class lottery technologies of global lottery industry leader, Intralot S.A. under existing licensing agreements for China and thus capitalizing on the development of the lottery market in China.

NON-CORE BUSINESSES

Ski Resort Business in China

The prosperity created by China’s long-sustained economic boom has delivered increased discretionary spending and a rapidly growing market of consumers who are seeking more enjoyable recreational opportunities, which include skiing, among other leisure activities. During the year, the Group owned 28.7% of Mountain China Resorts (Holding) Limited (“MCR”), which owns and operates the largest destination ski resort in China, Sun Mountain Yabuli Resort in Heilongjiang (“Yabuli Resort”). In early 2010, MCR formed a strategic partnership with Club Med Asia S.A. (“Club Med”) in which Club Med operates and manages two of the new hotels at Yabuli Resort, known as “Club Med Yabuli”, the first Club Med resort in China. Its second year of operation has resulted in close to 90% occupancy on average during the ski season, with repeat guests appreciating its unique recreational offerings.

ACHIEVEMENTS AND AWARDS

The Group has garnered numerous awards and acknowledgments during the past year, demonstrating its continuous efforts to enhance its corporate governance, fulfill its corporate social responsibilities, implement effective and efficient operations and introduce innovative facilities.

Corporate Governance

The Group's corporate governance practice, directed at achieving profitability and long term value for shareholders, has gained wide recognition from the public. Melco has garnered the "Corporate Governance Asia Annual Recognition Award" for the sixth consecutive year presented by *Corporate Governance Asia magazine*, and captured the "Best Investor Relations by a Hong Kong Company" in the Asian Excellence Awards organized by the magazine. It has been honored as "Hong Kong's Best Managed Companies" for the fifth year running, "Best Corporate Governance" and "Best Investor Relations" in the annual poll of the authoritative *FinanceAsia* magazine in 2011. Its Group Chairman and Chief Executive Officer, Mr. Lawrence Ho, was also selected as one of the "Best CEOs in Hong Kong" for three straight years. These selections fully reflected the confidence and trust in Melco's strategic development and its influence in the investment community.

Corporate Social Responsibility

The Group is fully committed to fulfilling its responsibilities to the society, especially by caring for the environment and the community. It has become the first leisure and entertainment company to receive the CarbonCare Champion Gold Label awarded by CarbonCare Asia, in recognition of its effective carbon reduction measures. The Group was once again granted the "President's Award 2011" by The Community Chest and "Class of Excellence" in Wastewise Label from Hong Kong Awards for Environmental Excellence in 2011. It was also honored as the "Best in Corporate Social Responsibility" by *FinanceAsia* magazine in 2011. All of these accolades are clear evidence of its efforts in environmental protection. Furthermore, Melco has also been awarded the Caring Company Logo by the Hong Kong Council of Social Service for the sixth consecutive year in recognition of its continuous support and commitment to community services.

The Group's Corporate Social Responsibility Report has been recognized for its quality every year and was granted the "Bronze Award for Social and Public Responsibility – Green/Environmentally Sound Annual Report" by the International ARC Awards. Melco has also become the first leisure and entertainment company to win the "Gold Award for Corporate Responsibility Annual Report" at the Galaxy Awards 2011.

Business Operations

As for its gaming business operations, Melco Crown Entertainment was awarded the "Best Casino Operator of the Year in Asia" at the International Gaming Awards 2011 for the third consecutive year, in recognition of its vision, originality and vitality. Also, Melco Crown Entertainment has become the world's first hospitality company to achieve the ISO 20000 certification for IT Service Management System, and was further honored at the 2011 CIO 100 Awards by IDG's *CIO Magazine*, demonstrating its excellence and achievement in business technology services all over the world.

In hospitality and services, Altira Macau was the first hotel in Macau to capture the “Best Spa Hotel Asia Pacific”, “Five-Star Best Hotel Macau” and “Five-Star Best Spa Macau” at the International Hotel Awards 2011 honors. It was also selected for the “Forbes Five-Star Award for Lodging” and “Forbes Five-Star Award for Spa” for the third consecutive year by Forbes Travel Guide. Melco Crown Entertainment’s flagship integrated entertainment resort, City of Dreams, received the “Best Casino VIP Room” and “Best Casino Interior Design” awards at the International Gaming Awards, which underscored its understanding of and commitment to the Macau gaming landscape. Moreover, The House of Dancing Water, the iconic entertainment centerpiece at City of Dreams, garnered the “Gold Prize” and “MassMutual Citations for Innovation” at the HKMA/TVB Awards for Marketing Excellence 2011 organized by the Hong Kong Management Association. These awards fully reflected the show’s popularity and impact on Macau’s entertainment sector.

The above awards serve as testimony to the Group’s high standard of corporate governance, socially responsible activities and achievements in casino operations. These accolades inspire Melco to continue to optimize its unique client experience, improve its management measures, comply with environmental standards, and actively participate in corporate social responsibility activities, so as to fulfill its commitment to shareholders and society alike.

OUTLOOK

Prompted by the continued fast-track economic growth in China, both the number of visitations and spending of tourists in Macau are also significantly increasing. As for the gaming sector, the growth is even more noteworthy, while the 2011 total gross gaming revenue in Macau surged by 42% to a record high of HK\$260.1 billion. Looking ahead, with the favorable policy and regulatory scheme of the Macau SAR Government and support of the Chinese Government, the rising number of visitor arrivals and improved infrastructure in Macau and the Pearl River Delta region, we believe the outlook for Macau in 2012 remains solid. These factors, together with the shift of Macau’s gaming epicenter to Cotai where our flagship property City of Dreams and pipeline development project, the Studio City project, are located, strategically position Melco to achieve another year of remarkable growth.

Situated in the heart of the fast-growing Cotai area, City of Dreams represents one of our key competitive advantages in the increasingly important mass market in Macau. Its steady strengthening in underlying profitability clearly demonstrates the success of our strategic focus on driving our mass market operations, which we believe will continue to underpin our future profitability and cash flow. Besides the steady growth of our existing business, the completion of the acquisition of the Studio City project is also expected to provide an exciting element and make a major contribution to the leisure and tourism industry in Macau in the long term.

Riding on Melco Crown Entertainment's successful strategies of improving gaming fundamentals complemented by the growing contributions from our hotel, food & beverage and entertainment segments in Macau, we have further enhanced our competitiveness in this dynamic market by streamlining our management structure to unlock synergies between our gaming and non-gaming operations. We expect the streamlined management to bolster as well as facilitate the delivery of our comprehensive, world-class customer service as efficiently as possible, ultimately boosting our profitability.

Outside of Macau, we are currently involved in two casino development projects in Cambodia via EGT in 2012. EGT's gaming operations under its "Dreamworld" brand is poised to further expand Melco Group's footprint in Cambodia. We are making continuous efforts to improve the overall efficiency of our operations, and aiming to deliver high quality amenities and unique entertainment offerings along with more diversified gaming facilities in Asia, as well as to generate higher profitability for the Company.

Leveraging our insight into the preferences of the Asia market and unrivalled expertise in gaming and entertainment development, supported by our best-of-breed premium assets, including City of Dreams, Altira Macau and Mocha Clubs in Macau, as well as the casino development projects and gaming machine and lottery businesses in Asia, Melco is prepared to build upon these remarkable results and take full advantage of the exciting opportunities ahead.

FINANCIAL REVIEW

| | Year ended 31 December | |
|---|-------------------------------|-------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| <i>Continuing operations</i> | | |
| Segmental Result: Leisure and Entertainment | 11,928 | 938 |
| Segmental Result: Property and Other Investments | 25,424 | 26,232 |
| | <hr/> | <hr/> |
| Group operating results | 37,352 | 27,170 |
| Share of profits (losses) of associates | 689,381 | (10,943) |
| Share of loss of a jointly controlled entity | – | (81,686) |
| Gain (loss) on deemed disposal of interest in an associate | 2,903 | (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 | (232,160) | 14,414 |
| Unallocated corporate income | 30,653 | 76,525 |
| Central administrative costs and other unallocated corporate expenses | (139,060) | (97,537) |
| Finance costs | (122,521) | (106,799) |
| | <hr/> | <hr/> |
| Profit (loss) before tax | 266,548 | (213,987) |
| Income tax credit | 14,844 | 14,245 |
| | <hr/> | <hr/> |
| Profit (loss) for the year from continuing operations | 281,392 | (199,742) |
| <i>Discontinued operations</i> | | |
| Loss for the year from discontinued operations | – | (8,866) |
| | <hr/> | <hr/> |
| Profit (loss) for the year | 281,392 | (208,608) |
| Non-controlling interests | (1,307) | (856) |
| | <hr/> | <hr/> |
| Profit (loss) for the year attributable to owners of the Company | 280,085 | (209,464) |
| | <hr/> <hr/> | <hr/> <hr/> |

For the year ended 31 December 2011, the Group reported profit attributable to owners of the Company of HK\$280.1 million compared to a loss of HK\$209.5 million for the year 2010.

CONTINUING OPERATIONS

LEISURE AND ENTERTAINMENT

The leisure and entertainment businesses are mainly formed by the core (i) Macau gaming business (conducted via 33.7%-owned Melco Crown Entertainment), (ii) Gaming machine revenue participation business (conducted through 38.5%-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 PROFITS (LOSSES) OF ASSOCIATES”.

(2) Non-core businesses

For the year ended 31 December 2011, profit from this segment amounted to HK\$11.9 million (2010: HK\$0.9 million) and the breakdown is as follows:

| | Year ended 31 December | |
|---------------|------------------------|------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Jumbo Kingdom | 12,340 | 1,532 |
| Others | (412) | (594) |
| | <u>11,928</u> | <u>938</u> |

Jumbo Kingdom

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

The segment profit of the catering business recorded at approximately HK\$12.3 million for the year ended 31 December 2011 (2010: HK\$1.5 million). In 2011, both the number of customers and the spending per customer increased by 2% and 9% respectively. Significant reduction in repair and maintenance expenses also contributed to the segment result.

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 segment handles property and other treasury investments for the Group. For the year ended 31 December 2011, it recorded a profit of HK\$25.4 million (2010: HK\$26.2 million). The decrease was primarily due to an impairment loss on available-for-sale investments and a drop in the interest income generated from loans to associates and short term deposits, partially offset by the revaluation gain of the Macau properties.

SHARE OF PROFITS (LOSSES) OF ASSOCIATES

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

| | Year ended 31 December | |
|---|------------------------|-----------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Share of profit (loss) of Melco Crown Entertainment (1) | 710,120 | (13,437) |
| Share of profit of EGT (2) | – | – |
| Share of loss of MelcoLot (3) | – | (737) |
| Share of loss of MCR (4) | – | – |
| Share of (loss) profit of Power Way (5) | (20,739) | 1,458 |
| Share of profit of iAsia | – | 1,773 |
| | <u>689,381</u> | <u>(10,943)</u> |

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

For the year under review, the Group's attributable profit arising from its 33.7% ownership of Melco Crown Entertainment amounted to approximately HK\$710.1 million (2010: attributable loss of HK\$13.4 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\$3.8 billion for the year ended 31 December 2011, versus US\$2.6 billion for the year ended 31 December 2010. Melco Crown Entertainment reported a net profit of US\$294.7 million for 2011, compared to a net loss of US\$10.5 million for 2010. The year-over-year improvement in net revenue was primarily driven by significantly improved gaming fundamentals, including strong rolling chip and mass market volumes, as well as improving mass market table hold percentages.

For the year ended 31 December 2011, net revenue at City of Dreams was US\$2,491.3 million versus US\$1,638.3 million in the year ended 31 December 2010. City of Dreams generated a positive adjusted EBITDA of US\$594.4 million in 2011 compared with US\$326.4 million in 2010. Rolling chip volume totalled US\$78.8 billion for 2011, up from US\$51.7 billion in 2010. In the fourth quarter of 2011, the rolling chip hold percentage (calculated before discounts and commissions) was 3%, which was in line with 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\$2,939.20 million, up from US\$2,059.3 million in 2010. In the fourth quarter of 2011, the mass market win rate was 25.7%, which was within the expected range for mass market table games hold percentage of 23% – 26%.

For the year ended 31 December 2011, net revenue at Altira Macau was US\$1,174 million versus US\$859.7 million in the year ended 31 December 2010. Altira Macau generated a positive adjusted EBITDA of US\$246.3 million in 2011 compared with US\$133.7 million in 2010. Rolling chip volume totalled US\$51.2 billion for 2011, up from US\$40.3 billion in 2010. In the fourth quarter of 2011, 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\$581.8 million, up from US\$377.1 million generated in the previous year. In the fourth quarter of 2011, the mass market table games hold percentage was 17.5% in 2011, while the expected range for mass market table games hold percentage was 15% – 17%.

Net operating revenue from Mocha Clubs totalled US\$132 million in the year ended 31 December 2011, up from US\$112 million in the year ended 31 December 2010. Mocha Clubs generated US\$40.5 million of adjusted EBITDA in 2011, as compared to US\$29.8 million in the previous year. In the fourth quarter of 2011, the number of gaming machines in operation at the Mocha Clubs averaged approximately 1,800. The net win per gaming machine per day was US\$200 for the fourth quarter of 2011, as compared with US\$208 for the same period last year.

(2) Share of profit of EGT

Entertainment Gaming Asia Inc., a company listed on NYSE-Amex (Stock symbol: EGT), in which the Group has an effective equity interest of approximately 38.5% posted continued improvement in its financial results in the gaming market in Southeast Asia. In 2011, EGT achieved record highs in annual revenue, adjusted EBITDA, and net income as it benefited from a more refined business model and efficient operating structure following the successful completion of the refocusing of its business operations in 2010.

According to the financial statements of EGT (prepared under US GAAP), consolidated revenue for the year increased to approximately US\$27.1 million as compared to approximately US\$22.2 million in 2010. The increases were due to significant improvements in both of its gaming and other products business segments. For the fiscal year 2011, EGT reported a net profit of approximately US\$0.6 million compared to a net loss of approximately US\$5.2 million in 2010. Adjusted EBITDA for the year was approximately US\$11.7 million as compared to US\$8.4 million for the fiscal year 2010.

As of 31 December 2011, EGT had an operating machine base of 1,477 machines at a total of seven venues, comprised of five venues in the Philippines with a total of 758 installed units and two venues in Cambodia with a total of 719 installed units.

The Group's interest in EGT was written down to zero in previous years, and the losses that EGT had made since then were not taken up by the Group. Only when these unrecognized losses in previous years are fully offset by the future profits, the Group will recognize the profit of EGT again. In 2011, the Group still had an unrecognized loss of EGT, and therefore did not recognize any profit from EGT.

(3) Share of loss of MelcoLot

During the year ended 31 December 2010, the loss attributable to the Group was HK\$0.7 million. In the same year, the Group's interest in MelcoLot was written down to zero. During the year under review, MelcoLot continues to be loss making. As an investment could not be written down below zero, no further attributable loss from MelcoLot was incurred to the Group during the year under review.

According to the financial statements of MelcoLot, it recorded revenue of approximately HK\$96.6 million for the year ended 31 December 2011, as compared to approximately HK\$80.6 million in 2010. MelcoLot reported a loss from operations for the year amounted to approximately HK\$215.9 million, compared to approximately a loss of HK\$171.3 million in 2010.

(4) Share of loss of MCR

MCR, in which the Group had an equity interest of 28.7% during the year ended 31 December 2011, owns and operates ski resorts in China, namely Sun Mountain Yabuli Resort in Heilongjiang ("Yabuli Resort").

The Group's interest in MCR became zero in previous years. 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 years ended 31 December 2011 and 2010, no further attributable loss was shared by the Group.

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

During the year ended 31 December 2011, the attributable loss arising from Power Way amounted to HK\$20.7 million (2010: profit of HK\$1.5 million). The decrease was mainly due to the impairment of a loan to an associate of the Group and a drop in interest rate of a loan to associate from 5% p.a. to 1% p.a. since July 2010.

SHARE OF LOSS OF A JOINTLY CONTROLLED ENTITY

For the year ended 31 December 2010, the attributable loss amounting to approximately HK\$81.7 million was recognised in profit or loss. In 2011, no attributable loss or profit has been recognized by the Group, as the Group's interest in the joint ventures has been written off to zero in the previous year.

GAIN (LOSS) ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

During the year ended 31 December 2011, the Group recognised a gain of approximately HK\$2.9 million (2010: a loss of HK\$33.1 million) resulting from the exercise of share options and vesting of certain restricted shares issued by Melco Crown Entertainment. This amount represented the increase (2010: decrease) in net assets attributable to the Group of approximately HK\$2.4 million (2010: HK\$33 million) and the realisation of special reserve to profit or loss of approximately HK\$0.5 million (2010: HK\$0.1 million).

LOSS ON DISPOSAL OF INTEREST IN AN ASSOCIATE

On 5 October 2010, the Group disposed of its remaining 20% ownership of iAsia 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.

FAIR VALUE CHANGE ON INVESTMENT IN CONVERTIBLE LOAN NOTE

During the review period, the fair value of MelcoLot's convertible loan note decreased significantly as MelcoLot continues to be loss making and has net current liabilities. Therefore, the Group recognized a decrease in fair value of convertible loan note issued by MelcoLot amounting to approximately HK\$232.2 million (2010: gain of HK\$14.4 million) during the year ended 31 December 2011. The fair value of MelcoLot's convertible loan was assessed by the Group with reference to the amount that can be recovered from the underlying net assets of MelcoLot.

UNALLOCATED CORPORATE INCOME

For the year ended 31 December 2011, the unallocated corporate income of approximately HK\$30.6 million (2010: HK\$76.5 million) consisted of release of financial guarantee liability of approximately HK\$24 million (2010: HK\$69.9 million) in relation to the joint and several financial guarantee provided by the Group and Crown Asia for the Exchangeable Bonds issued by Melco Crown SPV and a gain of extension of long term payable to Crown Asia of approximately HK\$6.6 million (2010: HK\$6.6 million).

CENTRAL ADMINISTRATIVE COSTS AND OTHER UNALLOCATED CORPORATE EXPENSES

Unallocated corporate expenses increased by 43% from approximately HK\$97.5 million in 2010 to HK\$139.1 million in 2011. The increase was primarily due to increase in share options and awards expenses during the year.

FINANCE COSTS

Finance costs increased by 15% from approximately HK\$106.8 million in 2010 to approximately HK\$122.5 million in 2011. The increase mainly came from an increase in imputed interest expense of HK\$15 million on the convertible loan note.

INCOME TAX CREDIT

A deferred tax of HK\$14.8 million (2010: HK\$14.2 million) was credited to the consolidated statement of comprehensive income for the year ended 31 December 2011. This was related to an amortisation of deferred tax liability on recognition of equity component of convertible loan note during the year, partially offset by the deferred tax liabilities arising from the revaluation of the Group's investment properties.

DISCONTINUED OPERATIONS

Disposal of subsidiaries

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.

The loss for the year from the discontinued operations was analysed as follows:

| | Year ended 31 December 2010 HK\$'000 |
|--|---|
| Loss of technology business for the year | (5,393) |
| Loss on disposal of technology business | (3,473) |
| | <hr/> |
| | (8,866) |
| | <hr/> <hr/> |

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 2011, total assets of the Group were HK\$8,577.9 million (2010: HK\$8,340.7 million) which were financed by shareholders' funds of HK\$7,182.6 million (2010: HK\$6,828 million), non-controlling interests of HK\$28.9 million (2010: HK\$27.9 million), current liabilities of HK\$321.9 million (2010: HK\$161 million), and non-current liabilities of HK\$1,044.5 million (2010: HK\$1,323.8 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 2.3 (2010: 5.2).

During the year ended 31 December 2011, the Group recorded a net cash outflow of HK\$48.5 million (2010: HK\$8.2 million). The main cash outflow was caused by the acquisition of ordinary shares of Melco Crown Entertainment during the year at a consideration of HK\$51.3 million. As of 31 December 2011, cash and cash equivalents of the Group totalled HK\$97.1 million (2010: HK\$145.5 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowings and convertible loan note) over shareholders' funds, was at a satisfactory level of 17% as of 31 December 2011 (2010: 19%). The Group adopts a prudent treasury policy. 86% 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 2011, the Group's bank deposit of approximately HK\$0.9 million (2010: HK\$0.9 million) was pledged for obtaining utilities for certain subsidiaries of the Group.

As at 31 December 2011, the Group's total convertible loan note amounted to HK\$955.6 million, which was non-interest bearing and due in September 2013. As at 31 December 2011, the Group's total available bank loan facilities from various banks amounted to HK\$309.2 million (2010: HK\$292.2 million), of which HK\$84.2 million (2010: HK\$69.2 million) was secured by pledging HK\$169 million of the Group's investment properties. As at 31 December 2011, the Group utilized HK\$223 million and HK\$54.2 million of unsecured and secured bank loan facilities respectively (2010: unsecured HK\$200 million; secured HK\$69.2 million). Details of bank borrowings are given in Note 14 to the consolidated financial statements.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

There were no material acquisitions, disposals and significant investments for the year ended 31 December 2011.

HEADCOUNT/EMPLOYEES' INFORMATION

The total number of the Group's employees was 11,217 as of 31 December 2011. Excluding the employees from associates such as Melco Crown Entertainment, MelcoLot, MCR, and EGT, the total number of the Group's employees became 233 as of 31 December 2011 (2010: 241 employees). Among the 233 employees, 228 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 2011, including directors' emoluments, share options expenses and share award expenses, amounted to HK\$135.3 million (2010: HK\$101.8 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 & 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

The Group recognised a financial guarantee liability of approximately HK\$52.3 million as at 31 December 2011 in respect of the Exchangeable Bonds issued by Melco Crown SPV Limited, the jointly controlled entity of the Group, which are jointly and severally guaranteed by the Company and Crown Asia.

In 2010, certain shareholders of EGT (the “Plaintiffs”) filed claims in connection with losses allegedly suffered as a result of the Company’s and one of its subsidiaries’ alleged conduct. On 4 January 2011, the United States District Court granted a motion to dismiss all the claims against the Company for lack of jurisdiction, and subsequently granted the motion to dismiss all claims against the Company’s subsidiary on 22 June 2011 on other grounds. In November 2011, the Plaintiffs filed a motion seeking leave to amend their complaint, and submitted a proposed second amended complaint with their motion. The Court granted this motion on 15 December 2011, and the plaintiffs’ Second Amended Complaint (“Complaint”) was filed on 20 December 2011. The Complaint does not attempt to replead any claims against the Company, all of which claims were previously dismissed by the Court on 4 January 2011. The Complaint does attempt to replead the claims previously asserted against the Company’s subsidiary. The subsidiary filed a motion to dismiss the Complaint on 23 January 2012, and this motion is currently pending. At this time, 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 loss.

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.

CORPORATE RECOGNITION

Corporate Governance

The Group is committed to maintaining a high standard of corporate governance practices and procedures. For the year under review, Melco continued to maintain a holistic approach to corporate governance and business ethics which has been honored with numerous recognitions. Melco was granted the “Corporate Governance Asia Annual Recognition Award” by Corporate Governance Asia magazine for the sixth consecutive year, and received the “Best Corporate Governance” award for the third time by the authoritative FinanceAsia magazine in 2011. FinanceAsia has also honored Melco as one of Hong Kong’s “Best Managed Companies” for the fifth year running. In addition, our Group Chairman and Chief Executive Officer, Mr. Lawrence Ho was also selected as one of the “Best CEOs in Hong Kong” for three straight years.

In striving for innovation and excellence, Melco has become the first leisure and entertainment company to win the “Gold Award for Corporate Responsibility Annual Report” at the Galaxy Awards 2011. Melco’s Corporate Social Responsibility report also won the “Bronze Award for Social and Public Responsibility – Green/Environmentally Sound Annual Report” at the 2011 International ARC Awards.

World-class gaming enterprise

As a premier gaming enterprise, Melco Crown Entertainment has been acknowledged in garnering the “Best Casino Operator of the Year in Asia” at the International Gaming Awards 2011 for the third consecutive year. Besides, Melco Crown Entertainment has become the world’s first hospitality company to achieve the ISO 20000 certification for IT Service Management System, and was also honored at the 2011 CIO 100 Awards by IDG’s CIO Magazine, showcasing its outstanding business technology services.

City of Dreams, Melco Crown Entertainment’s flagship integrated entertainment resort and a leading leisure and entertainment destination in Macau, was honored with the “Best Casino VIP Room” and “Best Casino Interior Design” at the International Gaming Awards 2011. Grand Hyatt Macau, one of the luxury hotels within City of Dreams, has garnered two regional awards, namely “Best Luxury Hotel in Macau” at the TTG China Travel Awards 2011, and the “Best Business Hotel in Macau” in the *Business Traveller Asia Pacific* Awards 2011. In addition, Altira Macau was awarded the Forbes five-star ratings in both Lodging and Spa categories for the third consecutive year. It was also named as the “Five-star Best Hotel Macau”, “Five-star Best Spa Macau” and “Best Spa Hotel Asia Pacific” at The International Hotel Awards in association with Bloomberg Television in 2011.

During the year, the Group has assumed a leading role in the entertainment and leisure sector. City of Dreams' The House of Dancing Water, the only Macau permanent show fully endorsed by Macau Government Tourist Office, has proven popular among tourists and gained numerous prestigious accolades. It was honored with the "Gold Winner" and the "MassMutual Citation for Innovation" at the HKMA/TVB Awards for Marketing Excellence. Dancing Water Theater, one of the world's largest water-based theaters which houses the world's largest commercial pool featuring cutting-edge theater technology, is the only project in Macau that received the DFA (The Design for Asia) Merit Recognition Award for its design excellence has an impact on the Asian lifestyle. In addition, it garnered the "Best Entertainment of Macau – Most Striking Visuals" prize at the Hurun Presidential Awards. Dragon's Treasure, the immersive multi-media show at City of Dreams, was also honored with the "Best Entertainment of Macau – Most Imaginative" at those same awards. These industry accolades acknowledged the Group's high quality services and testified to its leading role in the transformation of Macau into the number one leisure and entertainment hub in Asia.

INVESTOR RELATIONS

Melco is committed to enhancing its transparency and best practices and actively interacts with investors and the public as a means to build and sustain stakeholder relations. To ensure investors have a comprehensive and thorough understanding of the Group, it 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. During the year, more than 100 meetings with analysts and fund managers were held, including the two results announcements. In addition, the Group conducted various site visits to its development projects in Macau for the investors to facilitate timely and effective two-way communication.

The Group's effort have earned the continuous support and trust of investors, as well as numerous awards for best practices and for its efforts in upholding the highest standard of corporate governance and investor relations. The Group once again received the "Best Investor Relations" for the second time by the authoritative magazine *FinanceAsia* in 2011. Melco also garnered the "Best Investor Relations by a Hong Kong Company" at the Asian Excellence Awards organized by *Corporate Governance Asia* magazine. The Group is continuing to enhance its communication with investors to foster closer relations with these stakeholders.

CORPORATE CITIZENSHIP

As a good corporate citizen, Melco has a strong commitment to corporate social responsibility ("CSR"). With deep roots in the local community, Melco is committed to honoring its responsibilities as a caring corporation. The Group's core charity pillars are Youth Development, Green Environment and Education in Hong Kong, Macau and China. Melco has participated in and supported more than 40 charitable projects, and has achieved a 90% increase in staff volunteer participation in 2011. The Group has received numerous awards and commendations recognizing its efforts in community service and the promotion of sustainable development.

Melco firmly believes that the Group can contribute to a more sustainable future for the community. In the future, the Group intends to support services for better cooperation within the community and towards building a harmonious society.

YOUTH DEVELOPMENT

Melco believes that all children deserve the same opportunities to develop their full potential. In 2011, the Group's focus on Youth Development has aimed to contribute to the dynamism of youth and help them to become well-rounded individuals capable of contributing to society. A variety of aspects was covered under Youth Development during the year. The Group wishes to provide better educational opportunities for disadvantaged children in the community and to promote their all-round development so that they can lead full and fulfilling lives. As child poverty and the widening gap between rich and poor have become serious social issues in Hong Kong, the Group believes that it is vital that more resources be allocated to this segment of society.

Melco has expanded programs for minority groups, promoted youth volunteerism and supported non-academic programs for all-round youth development. The Group has also joined with NGO partners to identify youth-related social needs and create long-term development projects for young people. For example, Melco and Hong Kong PHAB Association jointly launched the "Love Your Family: Family Volunteers Scheme" in 2011. 120 disabled persons and their carers from more than 50 families were trained as "Love Ambassadors" to care for about 700 old people or people with disabilities and living alone in various districts. The Project has successfully enhanced the family cohesion and resilience, and recognized the capability of family members with disabilities.

2011 Event Highlights (Youth Development)

- Leadership for Life by Youth Outreach
- Creating Harmony for Families of Ethnic Minorities by Against Child Abuse Limited
- Walk for Millions by The Hong Kong Community Chest
- Corporate Sports Challenge by The Hong Kong Community Chest
- Goodwill Action — Hospital Play Service by Playright Children's Play Association
- Walk on the Air by Playright Children's Play Association
- Jumbo Play Day by Playright Children's Play Association
- Hospital Play Brings Vitality Programme by Playright Children's Play Association
- Love Your Family Programme by Hong Kong PHAB Association
- Fun Day at Ocean Park for Families with Disabled Youth by Hong Kong PHAB Association
- Outward Bound Corporate Challenge by Outward Bound Trust of Hong Kong
- Children Sponsorship Programme by Plan International (Hong Kong)
- Annual Gala Dinner by The Hong Kong Society for the Protection of Children
- Santa's Sports Day by Operation Santa Claus

GREEN ENVIRONMENT

In the past year, the Group has actively participated in environmental protection activities to foster green practices among the Group's employees. Since 2008, Melco has set up The Community Chest – Melco Green Project Fund to support the Community Chest of Hong Kong in that organization's green-related educational and research projects. In recognition of its excellent performance in environmental protection, the Group has achieved the "President's Award" granted by The Community Chest for the fifth consecutive year.

The Group has also incorporated various elements of environmental friendliness and sustainable development into daily operations 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 the "CarbonCare Champion Gold Label" by CarbonCare Asia in the period. In addition, Melco Crown Entertainment's Altira Macau has won the First Runner-up and the "Energy Saving Concept Award" in the "Energy Saving Contest" organized by the Office for Development of Energy (GDSE) and the Companhia de Electricidade de Macau (CEM).

2011 Event Highlights (Green Environment)

- The Community Chest-Melco Green Project Fund
- Environmental Play Project by Playright Children's Play Association
- Green Day and Green Tips Competition by The Hong Kong Community Chest
- Hoi Ha Marine Life Center Education Tour by WWF
- Earth Hour 2011 by WWF
- Low-carbon Office Operation Programme by WWF
- Corporate Membership Programme by WWF
- Green Power Hike by Green Power
- "Reduce and Recycle Wastes, Protect the Environment with Heart" Environmental Protection Education Project by Hong Kong Sheng Sung Hui Welfare Council
- "Defeat Failure! Get Positive!" Programme by KELY Support Group Limited

EDUCATION

The Group is committed to nurturing the young generation and contributing to a better future for the community. During 2011, Melco has placed a high degree of emphasis on a number of educational projects and training programs to nurture all-round youth development, from the identification of talent, to providing study tours up to offering proper opportunities for the young to perform to their fullest potential.

2011 Event Highlights (Education)

- Turkish Delight Student Cultural Exchange and Volunteer Tour by the World University Service of The University of Hong Kong branch
- Cultural Heritage Tour by the Association for the Promotion of Cultural Heritage
- We Love Schooling Programme by the Peninsula Junior Chamber

OTHER COMMUNITY ENGAGEMENTS

Melco is constantly mindful of responsible corporate citizenship and has initiated comprehensive measures to support a range of social programs and charity initiatives to bring love and caring to the less fortunate members of the society. In partnership with community organizations and the Government, the Group sponsors, supports and initiates a diverse range of community-oriented activities every year that it believes contributes to and engages society. The Melco Volunteer Incentive Scheme launched in 2009 is a means of encouraging and rewarding members of its workforce when they participate in voluntary events organized by the Group.

2011 Event Highlights (Community)

- Corporate and Employee Contribution Programme by The Hong Kong Community Chest
- Row for the Chest for the TV Show by The Hong Kong Community Chest
- Walk for Millions by The Community Chest of Hong Kong

For years, Melco's efforts in fulfilling its corporate social responsibility have long been recognized, with accreditation as a "Caring Company" by the Hong Kong Council of Social Service for six consecutive years in recognition for the outstanding performance of the Group and its respective members on putting corporate social responsibilities in practice. Besides, Melco has forged unprecedented partnerships with WWF for recent years and has inspired staff and families members to participate in different activities. In 2011, Melco was recognized as a Diamond Corporate Member by WWF Hong Kong. *FinanceAsia* has also selected Melco for the "Best in Corporate Social Responsibility" for the third year. In addition, Melco's key associate Melco Crown Entertainment has been honored in "The 4th Recognition Program on Hiring Handicapped Employees" by the Macau Labour Affairs Bureau in 2011.

For more information on Melco's CSR activities, please refer to the Melco CSR Report 2011 or visit website www.melco-group.com.

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of HK1.5 cents per ordinary share for the year ended 31 December 2011 (2010: Nil) to shareholders whose names appear on the Company's register of members on 7 June 2012. Subject to the approval of the shareholders at the forthcoming annual general meeting, the dividend cheques are expected to be despatched to shareholders on or before 19 June 2012.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Wednesday, 30 May 2012. To ascertain shareholders' eligibility to attend and vote at the annual general meeting, the register of members of the Company will be closed from Monday, 28 May 2012 to Wednesday, 30 May 2012 (both days inclusive), during which period no share transfers will be registered. In order to qualify to attend and vote at the annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 25 May 2012.

CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND

The proposed final dividend for the year ended 31 December 2011 is subject to the approval of the shareholders at the annual general meeting. To ascertain shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 5 June 2012 to Thursday, 7 June 2012, during which period no share transfers will be registered. The last day for dealing in the Company's shares on a cum-entitlement basis relating to the proposed final dividend will be Thursday, 31 May 2012. In order to qualify for the proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 4 June 2012.

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 Hong Kong Stock Exchange throughout the financial year ended 31 December 2011 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 of Directors (the “Board”) of the Company 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 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, met two times during the financial year. During the meetings, the audit committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports of the Group and discussed with management the auditing, internal control and financial reporting matters.

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

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities, except that the trustee of The Melco Share Purchase Scheme (the “Share Purchase Scheme”) has, pursuant to the terms of the rules and trust deed of the Share Purchase Scheme, purchased on the Hong Kong Stock Exchange a total of 4,300,000 shares of the Company. The total amount paid to acquire these shares during the period was approximately HK\$26,841,000.

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, 28 March 2012