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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 2012

FINANCIAL HIGHLIGHTS

1. Profit attributable to owners of the Company was HK\$1,121.9 million for the year ended 31 December 2012, improved from a profit attributable to owners of the Company of HK\$280.1 million in the year of 2011.
2. Basic earnings per share attributable to owners of the Company was HK85.07 cents for the year ended 31 December 2012 compared to basic earnings per share attributable to owners of the Company of HK22.79 cents for the year ended 31 December 2011.
3. Net asset value per share attributable to owners of the Company increased by 5% to HK\$6.12 as of 31 December 2012, as compared with HK\$5.83 as of 31 December 2011.
4. Gearing ratio improved to 5% as of 31 December 2012 from 17% as of 31 December 2011; the Group maintained a healthy financial position during the year under review.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	<i>NOTES</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Revenue		146,851	129,314
Other income		49,710	47,835
Investment income		3,152	5,544
Purchases and changes in inventories of finished goods		(49,525)	(32,244)
Employee benefits expense		(158,097)	(135,327)
Depreciation of property, plant and equipment		(5,672)	(5,734)
Increase in fair value of investment properties		58,000	3,000
Impairment loss on goodwill		(426,710)	–
(Loss) gain on deemed disposal of interests in associates	9	(13,525)	2,903
Gain on disposal of interest in an associate		45,726	–
Fair value change on investment in convertible loan note		260,659	(232,160)
Other expenses		(78,943)	(83,443)
Finance costs		(98,926)	(122,521)
Share of profits of jointly controlled entities		145,080	–
Share of profits of associates	9	1,238,460	689,381
Profit before tax		1,116,240	266,548
Income tax credit	4	7,374	14,844
Profit for the year		1,123,614	281,392
Other comprehensive (expense) income			
Exchange differences arising on translation of foreign operations		(42)	(27)
Fair value loss on available-for-sale investments		–	(1,426)
Share of other comprehensive income of an associate		–	41,142
Other comprehensive (expense) income for the year		(42)	39,689
Total comprehensive income for the year		1,123,572	321,081

	<i>NOTES</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit for the year attributable to:			
Owners of the Company		1,121,903	280,085
Non-controlling interests		1,711	1,307
		<u>1,123,614</u>	<u>281,392</u>
Total comprehensive income attributable to:			
Owners of the Company		1,121,861	319,774
Non-controlling interests		1,711	1,307
		<u>1,123,572</u>	<u>321,081</u>
Earnings per share (HK cents)	6		
Basic		<u>85.07</u>	<u>22.79</u>
Diluted		<u>78.19</u>	<u>22.06</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	<i>NOTES</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Non-current assets			
Investment properties		227,000	169,000
Property, plant and equipment		27,223	18,199
Goodwill	7	–	–
Other intangible assets		5,700	5,700
Interests in jointly controlled entities	8	–	–
Interests in associates	9	8,835,811	7,583,784
Available-for-sale investments		3,958	5,035
Investment in convertible loan note		–	39,993
		<hr/> 9,099,692	<hr/> 7,821,711
Current assets			
Inventories		2,578	3,311
Trade receivables	10	65,804	3,502
Prepayments, deposits and other receivables		26,457	19,653
Held-for-trading investments		198	320
Amounts due from associates	11	175	48,428
Pledged bank deposits		947	947
Bank deposits with original maturity over three months		573,625	583,072
Bank balances and cash		155,856	97,086
		<hr/> 825,640	<hr/> 756,319
Current liabilities			
Trade payables	12	48,679	3,890
Other payables		46,958	25,216
Amounts due to associates	11	10,396	11,706
Dividend payable		158	123
Taxation payable		21,245	697
Financial guarantee liability	13	–	52,320
Bank borrowings – due within one year	14	33,980	227,980
		<hr/> 161,416	<hr/> 321,932
Net current assets		<hr/> 664,224	<hr/> 434,387
Total assets less current liabilities		<hr/> 9,763,916	<hr/> 8,256,098

	<i>NOTES</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Non-current liabilities			
Deferred tax liabilities		10,792	39,678
Bank borrowings – due after one year	14	455,230	49,210
Convertible loan note – due after one year	15	–	955,634
		<u>466,022</u>	<u>1,044,522</u>
		<u>9,297,894</u>	<u>7,211,576</u>
Capital and reserves			
Share capital		766,483	615,682
Reserves	16	8,607,950	6,566,964
Equity attributable to owners of the Company		9,374,433	7,182,646
Non-controlling interests		(76,539)	28,930
		<u>9,297,894</u>	<u>7,211,576</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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) Gaming, Leisure and Entertainment segment; and (ii) Property and Other Investments segment.

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

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

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the amendments to 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:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle ¹
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹

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

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

² Effective for annual periods beginning on or after 1 January 2014.

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

⁴ Effective for annual periods beginning on or after 1 July 2012.

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

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011). The directors anticipate that the application of the five standards will not have material impact to the Group's consolidated financial statements.

HKFRS 13 Fair Value Measurement

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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 future accounting periods.

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 organize the Group's presentation of results according to the category of the business segments and differences in nature of the goods and services that each segment delivers.

Specifically, the Group's operating and reportable segments under *HKFRS 8 Operating Segments* are as follows:

- (1) Gaming, Leisure and Entertainment Segment: It mainly comprises provision of catering and related services for the year ended 31 December 2011. In current year, upon the acquisition of MelcoLot Limited ("MelcoLot") (Note 17), a new business, namely lottery business, which comprises provision of services and solutions for distribution of lottery products and trading of lottery terminals, is added into this operating and reportable segment, and accordingly this segment is renamed from Leisure and Entertainment Segment to Gaming, Leisure and Entertainment Segment.
- (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 receive dividend income, interest income and property rental income.

Information regarding the above segments is reported below.

Segment revenue and results

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

2012

	Gaming, Leisure and Entertainment <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Segments' Total <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External sales	126,464	20,387	146,851	–	146,851
Inter-segment sales	1,050	1,572	2,622	(2,622)	–
Total revenue	<u>127,514</u>	<u>21,959</u>	<u>149,473</u>	<u>(2,622)</u>	<u>146,851</u>
Segment results	<u>(310)</u>	<u>80,678</u>	<u>80,368</u>	<u>–</u>	80,368
Loss on deemed disposal of interests in associates					(13,525)
Gain on disposal of interest in an associate					45,726
Fair value change on investment in convertible loan note					260,659
Impairment loss on goodwill					(426,710)
Finance costs					(98,926)
Share of profits of jointly controlled entities					145,080
Share of profits of associates					1,238,460
Unallocated corporate income					36,261
Central administrative costs and other unallocated corporate expenses					<u>(151,153)</u>
Profit before tax					<u>1,116,240</u>

2011

	Gaming, Leisure and Entertainment <i>HK\$'000</i>	Property and Other Investments <i>HK\$'000</i>	Segments' 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 results	<u>11,928</u>	<u>25,424</u>	<u>37,352</u>	<u>–</u>	37,352
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					<u>(139,060)</u>
Profit before tax					<u>266,548</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent 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.

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

Segment assets and liabilities

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

Segment assets

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Gaming, Leisure and Entertainment	102,055	27,899
Property and Other Investments	961,027	904,150
	<hr/>	<hr/>
Total segment assets	1,063,082	932,049
Interests in associates	8,835,811	7,583,784
Unallocated assets	26,439	62,197
	<hr/>	<hr/>
Consolidated assets	<u>9,925,332</u>	<u>8,578,030</u>

Segment liabilities

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Gaming, Leisure and Entertainment	77,037	16,607
Property and Other Investments	437	392
	<hr/>	<hr/>
Total segment liabilities	77,474	16,999
Unallocated liabilities	549,964	1,349,455
	<hr/>	<hr/>
Consolidated liabilities	<u>627,438</u>	<u>1,366,454</u>

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, convertible loan note, deferred tax liabilities and other liabilities not attributable to respective segment.

Other segment information

2012

	Gaming, 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	7,821	–	893	8,714
Depreciation	4,751	–	921	5,672
Impairment loss on available-for-sale investments recognized in other expenses	–	1,077	–	1,077
Increase in fair value of investment properties	–	58,000	–	58,000
Loss (gain) on disposal of property, plant and equipment	25	–	(74)	(49)
	<u>7,821</u>	<u>–</u>	<u>893</u>	<u>8,714</u>

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

Interests in associates	8,835,811	–	–	8,835,811
Share of profits of associates	1,238,460	–	–	1,238,460
Share of profits of jointly controlled entities	145,080	–	–	145,080
	<u>8,835,811</u>	<u>–</u>	<u>–</u>	<u>8,835,811</u>

2011

	Gaming, 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	819	–	290	1,109
Depreciation	4,164	–	1,570	5,734
Impairment loss on available-for-sale investments recognized in other expenses	–	3,794	–	3,794
Increase in fair value of investment properties	–	3,000	–	3,000
Loss on disposal of property, plant and equipment	54	–	–	54
	<u>819</u>	<u>–</u>	<u>290</u>	<u>1,109</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>7,583,784</u>	<u>–</u>	<u>–</u>	<u>7,583,784</u>

Geographical information

The Group's operations are mainly located in Hong Kong, Macau and the People's Republic of China ("PRC"). Non-current assets of approximately HK\$8,979,164,000, HK\$110,000,000 and HK\$6,570,000 (2011: HK\$7,713,683,000, HK\$63,000,000 and Nil) of the Group are located in Hong Kong, Macau and the PRC, 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 is generated from Hong Kong, Macau and the PRC of approximately HK\$123,268,000, HK\$4,562,000 and HK\$19,021,000 (2011: HK\$125,164,000, HK\$4,150,000 and Nil), respectively.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Customer A ¹	18,095	–

¹ Revenue from trading of lottery terminals

4. INCOME TAX CREDIT

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
PRC Enterprise Income Tax – current year	(9)	–
Deferred taxation – current year	7,383	14,844
	7,374	14,844

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 2012 and 2011 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.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit before tax	<u>1,116,240</u>	<u>266,548</u>
Tax at Hong Kong Profits Tax rate of 16.5%	184,180	43,980
Tax effect of share of results of associates and jointly controlled entities	(228,284)	(113,748)
Tax effect of expenses not deductible for tax purposes	88,896	56,740
Tax effect of income not taxable for tax purposes	(57,493)	(10,088)
Utilisation of deductible temporary difference previously not recognized	(122)	–
Tax effect of tax losses not recognized	7,784	8,041
Others	(2,335)	231
Tax credit for the year	<u>(7,374)</u>	<u>(14,844)</u>

5. DIVIDEND

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Dividend recognized as distribution during the year:		
2011 Final – HK1.5 cents (2011: Nil) per share	<u>18,509</u>	<u>–</u>

Subsequent to the end of the reporting period, a final dividend of HK1.5 cents in respect of the year ended 31 December 2012 (2011: Final dividend of HK1.5 cents in respect of the year ended 31 December 2011) per share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

6. EARNINGS PER SHARE

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	1,121,903	280,085
Effect of dilutive potential ordinary shares:		
Interest on convertible loan note	89,043	–
Adjustment in relation to share options and awarded shares issued by an associate of the Group	(9,440)	(5,878)
Earnings for the purpose of diluted earnings per share	<u>1,201,506</u>	<u>274,207</u>

	2012 '000	2011 '000
Number of shares		
Weighted average number of ordinary shares		
for the purpose of basic earnings per share	1,318,792	1,228,803
Effect of dilutive potential ordinary shares:		
Convertible loan note	208,503	–
Share options and awarded shares issued by the Company	9,314	14,094
	<hr/>	<hr/>
Weighted average number of ordinary shares		
for the purpose of diluted earnings per share	1,536,609	1,242,897
	<hr/> <hr/>	<hr/> <hr/>

The number of shares adopted in the calculation of the basic and diluted earnings per share has been arrived at after eliminating the shares of the Company held under the Company's share award schemes.

The computation of diluted earnings per share for the year ended 31 December 2012 does not assume the effect of certain share options and the vesting of certain unvested awarded shares under the Company's long-term incentive schemes because the adjusted exercise price of those options and unvested awarded shares are higher than the average market price of the Company's shares.

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 options 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.

7. GOODWILL

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
COST		
At 1 January	–	–
Arising from acquisition of a subsidiary (<i>Note 17</i>)	426,710	–
	<hr/>	<hr/>
At 31 December	426,710	–
	<hr/>	<hr/>
IMPAIRMENT		
At 1 January	–	–
Impairment loss recognized in the year	426,710	–
	<hr/>	<hr/>
At 31 December	426,710	–
	<hr/>	<hr/>
CARRYING VALUES		
At 31 December 2012	–	–
	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2011	–	–
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 31 December 2012, the Group recognized an impairment loss of HK\$426,710,000 (2011: Nil) in relation to goodwill allocated to two individual cash generating units (“CGUs”), (i) provision of services and solutions for distribution of lottery products and (ii) trading of lottery terminals in the PRC. These CGUs are components of MelcoLot, a subsidiary acquired by the Group during the year ended 31 December 2012. The recoverable amounts of the CGUs have been determined on the basis of value in use calculations and are based on certain similar key assumptions. The value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. No discount rate has been considered by the management as negative cash outflows are expected from the operations of the CGUs in the future. Other key assumptions for the value in use calculation relate to the estimation of cash inflows or outflows which include budgeted sales and gross margin, such estimation is based on the CGUs’ past performance and management’s expectations for the market developments. Management believes that any reasonably possible change in any of these assumptions will not have material effect on the cash flow forecasts for the CGUs, and these existing business operations are not expected to contribute positively to the Group in the foreseeable future.

8. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2012 HK\$'000	2011 HK\$'000
Cost of unlisted investments in jointly controlled entities	309,182	307,392
Share of post-acquisition losses and other comprehensive income, net of dividends received	(309,182)	(307,392)
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>

As at 31 December 2012 and 2011, the Group had interests in the following significant jointly controlled entities:

<u>Name</u>	<u>Place of incorporation/ operation</u>	<u>Class shares held</u>	<u>Percentage of interest in ownership</u>		<u>Principal activities</u>
			<u>2012</u>	<u>2011</u>	
Melco Crown SPV Limited ("Melco Crown SPV")	Cayman Islands/ Hong Kong	Ordinary shares	50%	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%	50%	Inactive
PALTECH Company Limited ("PALTECH") (Note a)	Hong Kong	Ordinary shares	60%	-	Inactive
Power Way Group Limited ("Power Way") (Note b)	British Virgin Islands/ Hong Kong	Ordinary shares	67%	-	Investment Holding

Notes :

- (a) PALTECH is held by MelcoLot and became a jointly controlled entity of the Group upon the acquisition of MelcoLot as disclosed in Note 17. Thus, the Group indirectly owns a 60% equity interest in PALTECH. Pursuant to certain terms and conditions given in the shareholders' agreement, the financial and operating policies of PALTECH require approval from 75% of the equity holders of MelcoLot. PALTECH is jointly controlled by the Group and another shareholder; as such, it is accounted for as a jointly controlled entity of the Group.
- (b) On 12 November 2012, one of the three shareholders of Power Way disposed its entire interest in Power Way to the Group and the remaining shareholder of Power Way ("Acquisition"). As a result, the Group's interest in Power Way increased from 58.7% to 67% after the Acquisition, and the remaining shareholder holds 33% 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 the remaining shareholder of Power Way and accordingly, Power Way is a jointly controlled entity of the Group. Power Way was accounted for as an associate before the Acquisition.

As disclosed in Note 13, Melco Crown SPV is a joint venture for the issuance of exchangeable bonds ("Exchangeable Bonds") which can be converted into shares of Melco Crown Entertainment Limited ("Melco Crown Entertainment"). In addition, the Group has provided a guarantee in respect of the Exchangeable Bonds.

As the Exchangeable Bonds would mature in September 2012, a share purchase agreement had been entered into between Melco Crown SPV as seller, Melco Leisure and Entertainment Group Limited, a wholly owned subsidiary of the Group and Crown Asia Investments Pty. Ltd. ("Crown Asia") as buyers, to dispose certain shares of Melco Crown Entertainment held by Melco Crown SPV at a consideration of approximately HK\$266,076,000 (US\$34,200,000) in order to obtain funds for the settlement of Exchangeable Bonds on the maturity date. A consideration of approximately HK\$133,038,000 (US\$17,100,000) was paid by the Group for the purchase of respective shares. As a result of the transaction, a deemed contribution of approximately HK\$2,259,000 arose which represented the difference between the consideration paid of approximately HK\$133,038,000, and the fair value of those shares at the date of the purchase of approximately HK\$91,380,000, and over the settlement of financial guarantee liability of approximately HK\$39,399,000. The proceeds received from the purchase were intended to finance the redemption of Exchangeable Bonds as disclosed in Note 13.

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current assets	<u>400</u>	<u>84,373</u>
Non-current assets	<u>–</u>	<u>–</u>
Current liabilities	<u>(2,276)</u>	<u>(132,366)</u>
Non-current liabilities	<u>–</u>	<u>–</u>
Income recognized in profit or loss	<u>180,165</u>	<u>27,524</u>
Expense recognized in profit or loss	<u>22,164</u>	<u>9,780</u>

A decrease in assets and liabilities was resulted from the disposal of ordinary shares of Melco Crown Entertainment and the settlement of Exchangeable Bonds held by Melco Crown SPV. The amount included in income recognized in profit or loss mainly represented the fair value gain recognized upon the distribution in specie of shares of MelcoLot by Power Way in December 2012.

9. INTERESTS IN ASSOCIATES

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Cost of investment in associates		
Listed in the United States of America (“US”)	7,894,808	7,803,428
Listed in Canada	339,601	339,601
Listed in Hong Kong	–	25,758
Unlisted	417	294,870
Gain on changes in interests in associates	1,407,787	1,419,205
Impairment losses recognized	(1,160,838)	(1,160,838)
Share of exchange and hedging reserves	4,356	3,510
Share of post-acquisition results	349,680	(1,141,750)
	<u>8,835,811</u>	<u>7,583,784</u>
Fair value of listed investments (<i>Note a</i>)	<u>24,611,682</u>	<u>14,005,156</u>
Carrying amount of interests in associates with shares listed on respective stock exchanges	<u>8,835,670</u>	<u>7,578,653</u>

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

<u>Name</u>	<u>Place of incorporation/ operation</u>	<u>Class shares held</u>	<u>Percentage of interest in ownership</u>		<u>Principal activities</u>
			<u>2012</u>	<u>2011</u>	
Melco Crown Entertainment (Note b)	Cayman Islands/ Macau	Ordinary shares	33.7%	33.7%	Operating of electronic gaming machine lounges, casino games of chance and other casino games and hotel business
Mountain China Resorts (Holding) Limited ("MCR") (Note b and g)	Canada/PRC	Ordinary shares	18.9%	28.7%	Operating of ski resorts
MelcoLot Limited (Notes b, d and e)	Cayman Islands/ PRC	Ordinary shares	-	11.7%	Provision of services and solutions for distribution of lottery products and trading of lottery terminals
Power Way Group Limited (Note c)	British Virgin Islands/ Hong Kong	Ordinary shares	-	58.7%	Investment holding
Entertainment Gaming Asia Inc. ("EGT") (Note b)	US/Philippines and Cambodia	Ordinary shares	38.2%	38.5%	Development and operation of casinos and gaming venues and leasing of electronic gaming machines
ChariLot Company Limited (Note f)	Hong Kong	Ordinary shares	40.0%	-	Provision of services for distribution of lottery products
China Excellent Net Technology Investment Limited (Note f)	Hong Kong	Ordinary shares	35.0%	-	Provision of services for distribution of mobile lottery products

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 are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. The shares of EGT are listed on NASDAQ while the shares in 2011 were listed on New York Stock Exchange.

- (c) On 12 November 2012, Power Way became a jointly controlled entity of the Group upon the completion of the Acquisition as disclosed in Note 8. For the year ended 31 December 2011, pursuant to certain terms and conditions in the shareholders' agreement, the Group had significant influence over the financial and operating policies of Power Way, as such it was accounted for as an associate.
- (d) For the year ended 31 December 2011, other than the ordinary shares of MelcoLot held by the Group, the Group also held investment in the convertible loan note issued by MelcoLot. The Group's effective interest in MelcoLot would have increased to 35.3% on a fully-diluted basis if all outstanding convertible loan notes issued by MelcoLot were fully converted. The Group is the single largest shareholder of MelcoLot. As such, the directors of the Company believe that the Group had significant influence over MelcoLot after taking into account the potential voting right from the Group's investment in MelcoLot's convertible loan note.
- (e) On 12 December 2012, Power Way distributed a special dividend to all its shareholders by way of distribution in specie (the "Distribution") of the entire 1,145,361,487 shares of MelcoLot held by Power Way (the "MelcoLot Shares"). As a result of the Distribution, 767,735,805 MelcoLot Shares were transferred to Melco LottVentures Holdings Limited, a wholly-owned subsidiary of the Group and accordingly, the Group held 1,124,615,552 MelcoLot Shares, representing approximately 50.52% of the issued share capital of MelcoLot upon completion of the Distribution, and MelcoLot became a subsidiary of the Group as disclosed in Note 17.
- (f) These associates are held by MelcoLot and became associates of the Group upon the completion of the Distribution.
- (g) In February 2012, MCR completed a private placement of 105,700,000 shares at the price of CAD0.18 per share and the interests in MCR held by the Group decreased from 28.7% to 18.9%. The Group is entitled to appoint one director to the board of MCR. Accordingly, MCR continued to be an associate of the Group as at 31 December 2012.

During the years ended 31 December 2012 and 2011, the Group acquired the ordinary shares of Melco Crown Entertainment, and received additional ordinary shares issued by Melco Crown Entertainment for the settlement of amount due from this associate in prior year.

In November 2011, the Group and Crown Asia Investments Pty. Ltd. ("Crown Asia"), another major shareholder of Melco Crown Entertainment, entered into a securities lending agreement and a sale and repurchase agreement (collectively called the "Lending Agreements") 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 Lending Agreements, 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 a 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 be entitled 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 and were subsequently repurchased by the Group in January 2012.

During the year ended 31 December 2012, the Group recognized a loss on deemed disposal of an associate of approximately HK\$13,525,000 (2011: a gain of HK\$2,903,000) resulting from the exercise of share options and the vesting of certain restricted shares issued by Melco Crown Entertainment. The amount represents the decrease (2011: increase) in net assets attributable to the Group of HK\$13,673,000 (2011: HK\$2,423,000) and the realisation of special reserve to profit or loss of approximately HK\$148,000 (2011: HK\$480,000).

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Total assets	62,947,932	49,949,408
Total liabilities	(37,106,421)	(28,909,823)
Net assets	<u>25,841,511</u>	<u>21,039,585</u>
Group's share of net assets of associates	9,006,315	7,801,252
Less: Impairment loss	(422,739)	(422,739)
	<u>8,583,576</u>	<u>7,378,513</u>
Revenue	<u>32,049,896</u>	<u>30,153,612</u>
Profit for the year	<u>3,470,795</u>	<u>1,919,141</u>
Group's share of other comprehensive income	<u>–</u>	<u>41,142</u>
Group's share of profits and other comprehensive income of associates for the year (<i>Note</i>)	<u>1,238,460</u>	<u>730,523</u>

Note: During the year ended 31 December 2012, included in the share of profits of associates was an amount of approximately HK\$1,179,310,000 (2011: HK\$710,120,000) contributed by Melco Crown Entertainment. The increase in share of profits of Melco Crown Entertainment resulted from the continuing growth in Macau gaming market.

10. TRADE RECEIVABLES

The Group's trade receivables related to the catering service income from the Gaming, Leisure and Entertainment segment and the trade receivables from 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 Group allows credit periods ranging from 30 to 90 days to its trade customers related to the lottery business from the Gaming, Leisure and Entertainment segment.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within 30 days	34,615	2,159
31 – 90 days	19,034	965
91 – 180 days	11,955	378
Over 180 days	200	–
	<u>65,804</u>	<u>3,502</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality through respective sales team and defines credit limit by customer. Credit limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimize any credit risk associated with these trade debtors. Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK\$14,663,000 (2011: HK\$3,502,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss as there is no significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within 30 days	1,909	2,159
31 – 90 days	599	965
91 – 180 days	11,955	378
Over 180 days	200	–
	<u>14,663</u>	<u>3,502</u>

The Group performed assessment on individual trade receivable balance and recognized 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\$2,379,000 (2011: HK\$2,380,000) is unsecured, non-interest bearing and repayable on demand and approximately HK\$185,211,000 (2011: 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 2012 and 2011.
- (b) As at 31 December 2011, amount due from an associate of approximately HK\$48,320,000 is unsecured, interest bearing at 5% per annum, and repayable within twelve months from the end of the reporting period. The balance was fully repaid according to the repayment schedule during the year ended 31 December 2012.
- (c) The remaining amounts due from associates are unsecured, non-interest bearing and repayable on demand.

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% (2011: 100%) of amount due from associates as at 31 December 2012.

12. TRADE PAYABLES

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within 30 days	31,562	3,760
31-90 days	11,111	37
Over 90 days	6,006	93
	<u>48,679</u>	<u>3,890</u>

13. FINANCIAL GUARANTEE LIABILITY

On 30 July 2007, Melco Leisure and Entertainment Group Limited, a wholly owned subsidiary of 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 would mature in September 2012 and was listed on the Singapore 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 could not be exercised after that date.

In September 2010, approximately HK\$1,676.6 million (US\$215.5 million) Exchangeable Bonds were redeemed by the holder of Exchangeable Bonds. The Exchangeable Bonds were jointly and severally guaranteed by the Group and Crown Asia. The financial guarantee liability was recognized 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, 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. The carrying amount of the financial guarantee liability was estimated to be approximately HK\$52,320,000 based on the shortfall amount required by Melco Crown SPV to settle the Exchangeable Bonds guaranteed by the Group.

In September 2012, Melco Crown SPV redeemed the remaining Exchangeable Bonds upon the maturity date of approximately HK\$273.4 million (US\$34.5 million) and accordingly, the Group no longer recognizes any financial guarantee liabilities in respect of the Exchangeable Bonds. An amount of approximately HK\$12,921,000 (2011: HK\$23,998,000) was recognized in other income of the consolidated statement of comprehensive income during the year ended 31 December 2012.

14. BANK BORROWINGS

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured	76,210	54,190
Unsecured	413,000	223,000
	<u>489,210</u>	<u>277,190</u>
Carrying amount repayable:		
Within one year		
– With repayable on demand clause	23,000	23,000
– Without repayable on demand clause	10,980	204,980
More than one year, but not exceeding two years	10,980	4,980
More than two years, but not exceeding five years	419,940	14,940
Exceeding five years	24,310	29,290
	<u>489,210</u>	<u>277,190</u>
Less: Amounts due within one year shown under current liabilities	<u>(33,980)</u>	<u>(227,980)</u>
	<u>455,230</u>	<u>49,210</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 2.5% (2011: HIBOR plus 1.5% to 1.95%) per annum.

For the year ended 31 December 2012, the effective interest rate on the Group's borrowings was 2.69% (2011: 1.92%) per annum.

15. CONVERTIBLE LOAN NOTE

On 5 September 2005, the Company issued a convertible loan note due on 4 September 2010 with a principal amount of HK\$1,175,000,000, which 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, (i) the maturity date of convertible loan note was extended from 4 September 2011 to 4 September 2013, (ii) the conversion price was amended to HK\$3.93 per share, and (iii) 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 (“Great Respect”), a company controlled by close family members of Mr. Lawrence Ho, a director of the Company who is interested (as defined in the Hong Kong Securities and Futures Ordinance) in 48.46% of the issued share capital of the Company as at 31 December 2012. 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.

On 12 September 2012, the Company received a conversion notice from Great Respect in respect of the convertible loan note in the amount of HK\$1,034,000,000, pursuant to which Great Respect exercised the conversion rights attaching to the convertible loan note in respect of HK\$1,034,000,000 at the conversion price of HK\$3.93 per share (the “Conversion”). As a result of the Conversion, 263,104,325 shares of the Company were issued to Great Respect on 14 September 2012. Following the completion of the Conversion, Great Respect exercised further conversion rights attaching to the remaining convertible loan note of HK\$141,000,000 at the conversion price of HK\$3.93 per share, and accordingly, an additional 35,877,862 shares of the Company were issued to Great Respect on 19 September 2012.

Upon conversions of the convertible loan note, the Group derecognized the financial liability, equity component of the convertible loan note and related deferred tax liability of approximately HK\$1,044,677,000, HK\$345,321,000 and HK\$21,503,000, respectively against the equity under “share capital” and “share premium” upon the issue of shares of the Company.

At 31 December 2011, the effective interest rate of the liability component was 13.15% per annum.

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

	2012 HK\$'000	2011 HK\$'000
Carrying amounts at the beginning of the year	955,634	844,562
Interest on convertible loan note	89,043	111,072
Derecognition upon conversions	(1,044,677)	–
Carrying amount at the end of the year included in non-current liabilities	–	955,634

16. RESERVES

	Attributable to the owners of the Company												
	Share premium HK\$'000	Capital reserve HK\$'000	Special reserve HK\$'000	Convertible loan note equity reserve HK\$'000	Property revaluation reserve HK\$'000	Other revaluation reserve HK\$'000	Exchange reserve HK\$'000	Share options reserve HK\$'000	Shares held under share award schemes HK\$'000	Share awards reserve HK\$'000	Other reserve HK\$'000	Retained profits HK\$'000	Total 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 (expense) 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

Attributable to the owners of the Company

	Convertible							Shares held					Retained profits	Total
	Share premium	Capital reserve	Special reserve	loan note equity reserve	Property revaluation reserve	Other revaluation reserve	Exchange reserve	Share options reserve	under share award schemes	Share awards reserve	Other reserve			
	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 2012	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	
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	(42)	-	-	-	-	-	(42)	
Other comprehensive expense for the year	-	-	-	-	-	-	(42)	-	-	-	-	-	(42)	
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	1,121,903	1,121,903	
Total comprehensive income (expense) for the year	-	-	-	-	-	-	(42)	-	-	-	-	1,121,903	1,121,861	
Derecognition of deferred tax liability upon conversion of convertible loan note	-	-	-	21,503	-	-	-	-	-	-	-	-	21,503	
Conversion of convertible loan note	1,240,507	-	-	(345,321)	-	-	-	-	-	-	-	-	895,186	
Exercise of share options	7,875	-	-	-	-	-	-	(2,376)	-	-	-	-	5,499	
Recognition of equity-settled share based payments	-	-	-	-	-	-	-	38,222	-	30,591	-	-	68,813	
Transfer of share option reserve upon expiry of share options	-	-	-	-	-	-	-	(3,499)	-	-	-	3,499	-	
Shares vested under the share award schemes	-	-	-	-	-	-	-	-	23,903	(21,250)	-	(2,653)	-	
Purchase of shares for unvested shares under the share award schemes	-	-	-	-	-	-	-	-	(34,478)	-	-	-	(34,478)	
Dividend paid	-	(18,509)	-	-	-	-	-	-	-	-	-	-	(18,509)	
Realisation of special reserve and other revaluation reserve upon deemed disposal of interest in an associate	-	-	(148)	-	-	(61)	-	-	-	-	-	61	(148)	
Acquisition of additional interest in a subsidiary	-	-	(18,741)	-	-	-	-	-	-	-	-	-	(18,741)	
	<u>1,248,382</u>	<u>(18,509)</u>	<u>(18,889)</u>	<u>(323,818)</u>	<u>-</u>	<u>(61)</u>	<u>-</u>	<u>32,347</u>	<u>(10,575)</u>	<u>9,341</u>	<u>-</u>	<u>907</u>	<u>919,125</u>	
At 31 December 2012	<u>4,386,213</u>	<u>234,495</u>	<u>(81,074)</u>	<u>-</u>	<u>5,796</u>	<u>200,723</u>	<u>3,400</u>	<u>125,839</u>	<u>(27,481)</u>	<u>19,728</u>	<u>-</u>	<u>3,740,311</u>	<u>8,607,950</u>	

17. ACQUISITION OF A SUBSIDIARY

On 12 December 2012, Power Way distributed a special dividend to all its shareholders by way of distribution in specie of its entire 1,145,361,487 MelcoLot Shares held and out of which, 767,735,805 MelcoLot Shares were transferred to the Group. Accordingly, the Group directly held 1,124,615,552 MelcoLot Shares upon the Distribution, representing approximately 50.52% of the issued share capital of MelcoLot, and MelcoLot became a subsidiary of the Group. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was approximately HK\$426,710,000. MelcoLot is engaged in the provision of services and solutions for distribution of lottery products and trading of lottery terminals.

Assets acquired and liabilities recognized at the date of acquisition are as follows:

	<i>HK\$'000</i>
Property, plant and equipment	6,000
Interests in associates	417
Interests in jointly controlled entities	–
Trade and other receivables	46,655
Bank balances and cash	60,141
Trade and other payables	(73,030)
Taxation payable	(20,848)
Amounts due to associates	(221)
Convertible loan notes	(240,452)
	<hr/>
	(221,338)
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The fair value of trade and other receivables at the date of acquisition amounted to approximately HK\$46,655,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK\$76,300,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to approximately HK\$29,645,000.

Goodwill arising from acquisition:

	<i>HK\$'000</i>
Consideration transferred (<i>Note a</i>)	214,964
Less: non-controlling interests (49.48% in MelcoLot)	(109,518)
Plus: net liabilities acquired	221,338
	<hr/>
Interest in an associate	326,784
– Previously held interest before the Distribution (<i>Note b</i>)	99,926
	<hr/>
Goodwill arising from acquisition	426,710
	<hr/> <hr/>

Notes:

- (a) The amount represents the fair value of MelcoLot Shares received from Power Way during the Distribution which is measured at the quoted market price of such shares at the date of acquisition.
- (b) The amount represents the fair value of the Group's previously held equity interest in MelcoLot. The difference between the fair value and the carrying amount of that equity interest is recognized in profit or loss as gain on disposal of interest in an associate of approximately HK\$45,726,000.

The non-controlling interests in MelcoLot recognized at the acquisition date was measured with reference to the non-controlling interest's proportionate share of the recognized amount of the net liabilities of MelcoLot and amount to approximately HK\$109,518,000.

None of the goodwill arising from this acquisition is expected to be deductible for tax purposes.

Net cash inflow on acquisition of MelcoLot

HK\$'000

Bank balances and cash acquired

60,141

Included in the profit for the year is a profit of approximately HK\$754,000 attributable to the additional business generated by MelcoLot. Revenue for the year included HK\$18,239,000 generated from MelcoLot.

Had the acquisition been completed on 1 January 2012, total group revenue for the year would have been HK\$215,552,000, and profit for the year would have been HK\$1,193,401,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

18. EVENT AFTER THE REPORTING PERIOD

On 26 February 2013, the Company has entered into an agreement (the “Placing Agent Agreement”) with BOCI Asia Limited (the “Placing Agent”) and Melco Finance Limited, a wholly owned subsidiary of the Company (the “Issuer”) whereby the Issuer has agreed to issue Hong Kong Dollar denominated guaranteed bonds in an aggregate amount of HK\$460,000,000 (the “Bonds”). The Company has agreed to guarantee payment of all sums payable in respect of the Bonds, and the Placing Agent has agreed to use commercially reasonable efforts to facilitate process of subscription of the Bonds. The Bonds will bear interest at the rate of 4.15% per annum and will have a tenor of five years.

Under the Placing Agent Agreement, the Issuer has granted to the Placing Agent an option (the “Option”) to place additional 4.15% Hong Kong dollars denominated guaranteed bonds. The Option is exercisable by the Placing Agent on or before 28 February 2013.

On 28 February 2013, the Issuer has received a notice from the Placing Agent that it wishes to exercise the Option and has placed a further aggregate amount of HK\$300,000,000 of Bonds (the “Follow-On Bonds”). The total amount of Bonds to be issued by the Issuer is thus HK\$760,000,000. The proceeds will be used by the Company for general working capital and future investment purposes.

CHAIRMAN & CEO'S STATEMENT

After constant dedication of unstinting effort to expanding our core gaming, leisure and entertainment business in Macau and across Asia, I am pleased to see that Melco International Development Limited (“Melco” or the “Group”) has begun to reap the rewards, realizing impressive year-on-year growth in both revenue and profit despite the turbulent global economic conditions. On top of the record-breaking financial results and the continuous improvement of our Macau operation, the Group has also expanded its footprints to the fast-growing Southeast Asia region by tapping into the gaming market in the Philippines and Cambodia. During the year, we also laid a solid foundation for our future expansion by significantly improving our gearing ratio to 5% as of 31 December 2012, compared to 17% last year.

The remarkable growth in our financial performance was mainly attributable to the significantly higher contribution from our key associate Melco Crown Entertainment Limited (“Melco Crown Entertainment”). Strong year-over-year improvements in operating metrics in our mass market segments at City of Dreams provided us with greater earnings stability, particularly during a period of slow market growth in the rolling chip segment. Our innovative ideas for creating unique integrated resorts and exciting never-seen-before attractions in City of Dreams continued to attract visitors. In just over two years since its debut, The House of Dancing Water has welcomed nearly two million spectators and has truly become one of Macau’s and Asia’s entertainment landmarks.

Our gaming business in Asia has also delivered an impressive performance through the NASDAQ-listed subsidiary Entertainment Gaming Asia Inc. (“EGT”). EGT opened its first casino in Cambodia in May 2012, and has delivered continued improvement in its slot and casino operations in Cambodia and the Philippines. With a wide range of products, strong customer relationships and effective business strategies in the growing gaming markets in Asia, EGT is expected to be a meaningful contributor to the Group’s long-term earnings.

Turning to our development pipeline, the development of our cinematically-themed integrated resort Studio City remains on track to open around mid-2015, and we have successfully secured additional funds on favorable terms. Together with full contribution of committed shareholder equity, these financings, upon full drawdown, are expected to deliver a fully-funded project at the Studio City level. At the same time, we have recently closed the transaction with our Philippines counterparties contemplated under the cooperation agreement for the development of an integrated resort in Manila, and the facility is expected to open next year.

In Macau and the surrounding region, substantial improvements to infrastructure and transport are also well underway, which will enable Macau to cater to a wider spectrum of visitors and act as a meaningful catalyst for future visitation growth. We believe that this dynamic infrastructure blueprint, together with the wide-reaching development of nearby Hengqin New Area will further broaden Macau’s appeal and meaningfully

improve the overall visitor experience, thereby ensuring the long-term success of Macau as a world-class leisure and tourism destination. With an enviable portfolio of entertainment assets established, we are committed to strongly supporting the Macau Government's policy to diversify tourism in order to further enhance a sustainable business environment in the city. Looking to the future, our strengthened presence in Macau and across Asia should enable us to contribute to the continued growth and future of Macau and capture the exciting opportunities in the Philippines as well as within other emerging markets.

Apart from reaching new heights in operational and financial terms, as a responsible corporate citizen, we will continue to maintain our high corporate governance standards and our dedication to fulfilling our corporate social responsibility, especially in the local community. We will also continue to deliver the highest standard of excellence in hospitality and add innovative facilities and entertainment to our properties in order to attract a wider range of customers.

In closing, I would like to express my sincere gratitude to fellow members of the Board for their continuous support and to our shareholders for their unwavering trust in the Group. My thanks also go to the management team and all colleagues for their contribution to the success of the Group.

Ho, Lawrence Yau Lung

Chairman and Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

Significant Events and Developments

In 2012, Melco has achieved impressive progress with its expansion across Asia. Its key associate, Melco Crown Entertainment (SEHK: 6883; NASDAQ: MPEL), has made significant progress on the development of Studio City, a cinematically-themed integrated entertainment, retail and gaming resort on the Cotai Strip that will deliver a unique entertainment proposition to visitors to Macau. Beyond Macau, the Group recently closed the transaction with our Philippines counterparties contemplated under the cooperation agreement for the development of an integrated resort in Manila, the Philippines, a major advance in its strategy to tap this rapidly emerging market with exciting potential. Moreover, EGT is expanding its gaming operations within its own regional casinos under its “Dreamworld” brand in Cambodia. Its first casino project has opened in May 2012, which has already started to generate satisfactory revenue.

On the operational side, the Group recorded solid revenue growth and a significant surge in net profit, driven by the improved operating fundamentals of its key associate in Macau. The Group has also benefited from the growing demand for more diverse leisure and entertainment offerings channeled into the city from the huge population in mainland China, particularly its rapidly expanding affluent middle class. With the rapidly emerging gaming and entertainment market across Asia, the Group is well-positioned to create a wider range of gaming and non-gaming offerings to cater to the untapped market sectors and into new markets elsewhere in Asia.

CORE BUSINESS

Gaming Business in Asia

The Group operates its gaming business 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 2012, Melco Crown Entertainment reported net revenue of US\$4.1 billion versus US\$3.8 billion in the previous year, driven by substantially improved mass table games volumes and blended hold percentages, as well as larger volumes in the gaming machines segment. Adjusted EBITDA was US\$920.2 million, as compared with an Adjusted EBITDA of US\$809.4 million in 2011, primarily attributable to substantially improved mass table games and gaming machine revenues together with a strict cost control focus.

During the year, City of Dreams continued to deliver impressive results, recording significant year-over-year improvement in operating fundamentals, with a particularly strong increase in mass market volumes and mass table games hold percentage. Table yields in the rolling chip segment at both Altira Macau and City of Dreams also grew. With a higher occupancy and average daily rate per available room, total non-gaming revenue recorded a year-over-year increase in every quarter in 2012.

With the ultimate goal of providing unique world-class entertainment experiences for visitors to Macau, City of Dream's unique entertainment offerings and quality services have continued to amaze its visitors. Following the success of its unparalleled show, The House of Dancing Water, City of Dreams has brought Macau's first-ever cabaret show, Taboo, which was an electrifying limited-run production, and provided another exciting entertainment while further differentiating City of Dreams. It also proudly presented the Korean singer PSY's debut performance in the Greater China Region on the stage of Club Cubic, bringing the global horse-riding dance sensation to rock the audience.

Looking ahead to the development of new projects, Studio City remains on track to open around mid-2015. The Company completed the acquisition of a majority interest in Melco Crown (Philippines) Resorts Corporation (formerly known as Manchester International Holdings Unlimited Corporation), a company listed on the Philippines Stock Exchange, following the successful closing of the cooperation agreement with our Philippines counterparties. The integrated casino resort is scheduled to open its doors in mid-2014.

Gaming Machine Revenue Participation Business in Southeast Asia

Entertainment Gaming Asia Inc., a company listed on NASDAQ Capital Market (Stock symbol: EGT), in which the Group has an effective equity interest of approximately 38.2%, achieved continued improvement in both revenue and net income from the prior year. The increase was mainly attributable to its slot operations in Cambodia and the Philippines, new casino development operations, as well as gaming chips and plaques business, all recording significant increases contributable to EGT's revenue.

EGT has an established presence within gaming markets in Cambodia and the Philippines through its slot business. As of 31 December 2012, EGT had approximately 1,400 electronic gaming machine seats in operation, which included 670 seats placed under the joint management of EGT and NagaWorld Limited, a wholly-owned subsidiary of NagaCorp Ltd. (Stock code: 3918), in NagaWorld Resort and Casino located in Phnom Penh, Cambodia. EGT's slot operations achieved an average daily net win of approximately US\$145 per machine seat for 2012, while its operations in NagaWorld achieved approximately US\$242 per machine seat.

With steady recurring cash flow from its slot operations and a well-established presence in its target markets, EGT is expanding its gaming operations through its own regional casinos under its "Dreamworld" brand in Cambodia. EGT opened its first casino project in May 2012, which delivered US\$1.8 million to revenue for the period under review. Another project of EGT is under construction, which is expected to open in the first half of 2013. Strategically located at the important Cambodia-Thailand border crossings, these projects are expected to provide higher long-term growth and incremental returns.

Riding on strategic marketing efforts and investment in product development, EGT's gaming chips and plaques business contributed US\$6.5 million to revenue for the period under review. With ongoing product diversification, strong customer relationships, and continuous effort to improve its profitability, EGT's gaming chips and plaques are expected to be a meaningful contributor to its long-term earnings.

Lottery Management Business in Asia

MelcoLot Limited (“MelcoLot”), in which the Group holds an equity interest of 51.64%, recorded a revenue decline of 10%. The decline was attributed to an operational restructuring and a short term low-pricing strategy on the distribution business of its lottery terminals in order to manage the delay in the commencement of China Sports Lottery’s next procurement cycle. MelcoLot recorded a profit for the year of HK\$70.5 million, mainly arising from its reorganization with gains on disposals of certain subsidiaries which offset the repurchases of convertible bonds.

MelcoLot also arranged an open offer and successfully raised HK\$117.6 million in late 2012, while Melco LottVentures Holdings (“Melco LV”), a wholly-owned subsidiary of the Group and Power Way Group Limited (“Power Way”), acted as underwriters. The proceeds allowed MelcoLot to repay a loan of HK\$89.3 million. After a distribution in specie of special dividend of 767,735,805 MelcoLot Shares from Power Way on 12 December 2012, the Group directly held 1,124,615,552 MelcoLot Shares, representing approximately 50.52% of the issued share capital of MelcoLot. MelcoLot became a subsidiary of the Group, in which it holds a 51.64% interest as of 31 December 2012.

Determined to focus on its strategic development in the China lottery market, MelcoLot is expected to benefit from a richer range of paperless lottery products, penetration of the third-party mobile payment platform, and proliferating lottery buying channels, which will lay the foundation to reposition MelcoLot as it capitalizes on these opportunities.

NON-CORE BUSINESSES

Ski Resort Business in China

The Group owns 18.9% of Mountain China Resorts (Holding) Limited (“MCR”), which owns and operates the largest destination ski resort in China, namely Sun Mountain Yabuli Resort in Heilongjiang (“Yabuli Resort”).

In May 2012, the Group, MCR and its subsidiary (collectively referred to as the “MCR Group”) and Wisecord Holdings Limited, a substantial shareholder of MCR, entered into a conditional agreement in relation to the settlement of loan advanced to MCR Group amounting to US\$23 million, which may be settled in the form of cash, shares of MCR and villas within a specific time period and subject to the fulfillment of certain conditions pursuant to the conditional agreement.

The Club Med Yabuli business was established by a strategic partnership with Club Med Asie S.A. (“Club Med”) to operate and manage two of the new hotels at Yabuli Resort. In 2012, the Club Med Yabuli constituted 78% of the total business of Yabuli Resort and the total revenue increased substantially by 46% from that of the same period last year.

ACHIEVEMENTS AND AWARDS

Aiming to be a strong driving force in contributing to a better community, Melco has been committed to maintaining high standards of corporate governance and corporate social responsibility (CSR), as upholding transparency and accountability is fundamental to the Group's success and long-term sustainability. The Group has received a number of accolades during the past year recognizing its admirable performance and solid support across all quarters of society.

Corporate Governance

In 2012, the Group has garnered the "Corporate Governance Asia Annual Recognition Award" organized by *Corporate Governance Asia* magazine for the seventh consecutive year. In addition, the magazine presented the "Best Investor Relations by a Hong Kong Company" in the Asian Excellence Recognition Awards to Melco for the second year running. Group Chairman and Chief Executive Officer, Mr. Lawrence Ho, not only snatched one of the "Asian Corporate Director Recognition Awards" presented by *Corporate Governance Asia* magazine. He was also named one of the "Best CEOs in Hong Kong" by *FinanceAsia* magazine within the "Asia Best Companies Awards" for the fourth consecutive year. All these accolades demonstrated the recognition by the investment community of Melco's high standards of corporate governance.

Corporate Social Responsibility

As a responsible corporate citizen, Melco spares no effort in fulfilling its social responsibilities, aspiring for a better community within a sustainable green environment. In 2012, the Group has been honored with the Award Label within the "Hong Kong Corporate Citizenship Awards" organized by Hong Kong Productivity Council, and the "Corporate Social Responsibility Award" of *Capital* and *Capital Weekly* magazines. It has garnered the "President's Award" for the sixth consecutive year and "Platinum Award for Corporate & Employee Contribution Programme Donors" for four straight years by The Community Chest. Furthermore, Melco was honored to serve as the Diamond Corporate Member of WWF Hong Kong for the second consecutive year and was awarded the Caring Company Logo by the Hong Kong Council of Social Service for the eighth year running. *FinanceAsia* has granted the Group the "Best CSR" award in recognition of its continuous support and commitment to community service.

Melco takes a proactive approach in addressing community and youth needs by participating in a wide range of activities and encouraging staff volunteerism in creative ways through innovative measures. The total number of beneficiaries of the Group's CSR programs in the past year reached a record high of nearly 50,000 children and youth along with their families and the physically challenged.

Inherent within its CSR focus on the environment, Melco's commitments in supporting environmental conservation have borne fruit in 2012. This year marked the second year for the Group to attain the "Gold Label for Low-carbon Office Operation Programme" of WWF Hong Kong and the fourth year to achieve the "Class of Excellence in Wastewise Label" at the Hong Kong Awards for Environmental Excellence.

Business Operations

As an operator of world-class integrated entertainment resort in Macau, Melco Crown Entertainment has always prided itself on offering excellent hospitality and truly unforgettable entertainment experiences to visitors. This is most clearly evidenced by The House of Dancing Water, the world's largest water-based performance in City of Dreams. This breath-taking extravaganza was a winner of the "Culture, Entertainment & Sporting Events Award" within the Effie China Awards, the "China Marketing Excellence Award" and "China Branding Excellence Award" organized by the Economic Observer and Hong Kong Management Association, the "THEA Award for Outstanding Achievement" of the Themed Entertainment Association, as well as the "2012 United States International Theatre Technology Award" of the United States Institute for Theatre Technology during the past year.

In hospitality and services, City of Dreams garnered the "Best Customer Experience of the Year Award" presented by the International Gaming Awards, while Altira Macau was bestowed the Forbes Five-Star Hotel Awards in both the Hotel and Spa categories for three consecutive years by Forbes Travel Guide.

In the area of environmental protection, Melco Crown Entertainment was the first and only Macau casino-hotel operator to achieve ISO 14001 Environmental Management Certification for its effective Environmental Management System to measure and improve the environmental impact of operations. Also, the 2011 Macao Green Hotel Award, organized by the Environmental Protection Bureau (DSPA) and co-organized by the Macau Government Tourist Office, was granted to all the three hotels at City of Dreams, namely Crown Towers, Hard Rock Hotel and Grand Hyatt Macau, in June 2012 for the second consecutive year, ample testimony to the Company's excellent performance in green practices.

All of these achievements have clearly demonstrated that the Group's pursuit of excellence in corporate governance, CSR and business operations are widely recognized internationally by the industry and local communities. Looking ahead, Melco resolves to continue to fulfill its role as a responsible corporate citizen and to be responsive to its stakeholders while striving for business growth.

OUTLOOK

Macau gaming revenue recorded a 13.5% growth to a record high of MOP304.1 billion despite uncertainties of the global economy in 2012. Going forward, we remain optimistic about the outlook of Macau's gaming and tourism industries, which is backed by the huge population of its hinterland in China and the country's rapidly expanding and increasingly affluent middle class, driving a continuous solid demand for leisure and gaming offerings. We see significant progress in immigration, government policy and transportation infrastructure in Macau and its surrounding region which is meaningfully improving visitors' convenient travel access to the territory. It is expected that the growing visitation from provinces beyond Guangdong thereby broadening the catchment area of Macau will continue to unleash the massive potential of China and Asia market.

It is apparent that one of the benefits of government policies both in Macau and the PRC is the continued acceleration of Macau's long-term development and growth with promising infrastructure projects in the region. The construction of the Macau Light Rapid Transit (LRT) is well underway, and all sections of the LRT system in Taipa have already begun construction with full completion for all sections targeted for 2015. The Guangzhou-Zhuhai Intercity Railway has commenced full operation on the last day of 2012, and the construction of the Macau-Zhuhai-Hong Kong Bridge and Taipa Ferry Terminal is also progressing smoothly. All of these projects should improve connectivity to the important target markets of Macau.

Furthermore, Hengqin Island, the new area neighboring Macau, is undergoing impressive expansion which is expected to draw tourists to the region. Scheduled to open in mid-2015, Studio City in Cotai is perfectly situated adjacent to the Lotus Bridge immigration center connecting Hengqin Island and is located on one of the only three planned casino stations on the Macau Light Rail system in Cotai. This new development, together with our flagship property City of Dreams and our plans in relation to its next phase of expansion that we are evaluating, will enable the Group to strategically bookend the north and south of the Cotai Strip and boost our presence in Cotai and Macau, capturing the vast opportunities ahead.

The growing popularity of Macau as a tourist destination attests to the Group's different strategies of targeting the mass market and VIP customers specifically, facilitated by its best-in-class amenities and services together with state-of-the-art non-gaming entertainment in our properties. To maintain our properties' leading position in Macau, the Group continues to blaze a trail by bringing world-class entertainment experiences to Macau. Viva Fiesta 2013, an extravaganza performed at Dancing Water Theatre by Olympic Games China National Diving team and popular singers held in March received an enthusiastic audience applause. On the other hand, Taboo is to reprise its successful run of last summer at Club Cubic again in April, graced with new acts that are sure to create another sensational event in Macau.

The Group is proactively looking for ways to maximize its overall performance with ongoing initiatives on table optimization which have proven successful in improving table yields during 2012. We are closely monitoring the Group's revenue take and constantly evaluating the table mix with the aim of driving table productivity and maximizing yields across the Group. Under this strategy along with the upgrade of VIP facilities, the rolling chip segment has begun to return to growth. It is expected that the rolling chip volume will maintain its growth trend in 2013.

Melco is not only growing in Macau, but is also eyeing opportunities throughout Asia and extending our reach across the region, in particular, Southeast Asia. Through EGT, the Group has established its presence in Cambodia and the Philippines with slot operations and casinos. The second casino under the brand "Dreamworld" will be opened in the first half of 2013 in the Cambodia-Thailand Border Crossing. In the Philippines, the Group is excited about the new casino and integrated resort in Manila which is looking to open in the middle of 2014. It is expected that it will emerge as

one of the most compelling leisure and entertainment facilities in Asia which will tap the rapidly emerging market with a huge local demand and a buoyant consumption sentiment.

Looking ahead, the Group will continue to capitalize on its growth in both mass market and VIP segments, working carefully on the projects spanning across Asia aimed at developing integrated entertainment resorts that further add to the excitement across the leisure and entertainment landscape in Macau and Asia and generate long-term value for shareholders.

FINANCIAL REVIEW

	Year ended 31 December	
	2012	2011
	HK\$'000	HK\$'000
Segment Results:		
Gaming, Leisure and Entertainment	(310)	11,928
Property and Other Investments	80,678	25,424
	80,368	37,352
Share of profits of jointly controlled entities	145,080	–
Share of profits of associates	1,238,460	689,381
(Loss) gain on deemed disposal of interests in associates	(13,525)	2,903
Gain on disposal of interest in an associate	45,726	–
Fair value change on investment in convertible loan note	260,659	(232,160)
Impairment loss on goodwill	(426,710)	–
Unallocated corporate income	36,261	30,653
Central administrative costs and other unallocated corporate expenses	(151,153)	(139,060)
Finance costs	(98,926)	(122,521)
Profit before tax	1,116,240	266,548
Income tax credit	7,374	14,844
Profit for the year	1,123,614	281,392
Non-controlling interests	(1,711)	(1,307)
Profit for the year attributable to owners of the Company	1,121,903	280,085

For the year ended 31 December 2012, the Group reported profit attributable to owners of the Company of HK\$1,121.9 million compared to HK\$280.1 million for the year 2011.

SEGMENT RESULTS

Gaming, Leisure and Entertainment

The gaming, 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 38.2%-owned EGT), and (iii) lottery business (conducted through 51.6%-owned MelcoLot), together with other non-core businesses.

Under the heading “SHARE OF PROFITS OF ASSOCIATES” below, included are the brief descriptions for the performance of the core Macau gaming business and gaming machine revenue participation business for the year ended 31 December 2012.

Below table shows the breakdown of segment results for Gaming, Leisure and Entertainment:

	Year ended 31 December	
	2012	2011
	HK\$'000	HK\$'000
MelcoLot (1)	864	—
Jumbo Kingdom (2)	287	12,340
Others (3)	(1,461)	(412)
	<u>(310)</u>	<u>11,928</u>

(1) MelcoLot

On 12 December 2012, Power Way Group Limited (“Power Way”) distributed a special dividend to all its shareholders by way of distribution in specie (the “Distribution”) of the entire 1,145,361,487 shares of MelcoLot held by Power Way (“MelcoLot Shares”) and out of which, 767,735,805 MelcoLot Shares were transferred to the Group. Accordingly, the Group directly held 1,124,615,552 MelcoLot Shares upon the Distribution, representing approximately 50.52% of the issued share capital of MelcoLot. MelcoLot became a subsidiary of the Group, and MelcoLot’s results from 12 to 31 December 2012 had been consolidated into the Group’s financial statements. As at 31 December 2012, the Group owns approximately 51.64% of MelcoLot.

MelcoLot’s business comprises the provision of services and solutions for distribution of lottery products and trading of lottery terminals. The segment profit of approximately HK\$864,000 represents the contribution of lottery business to the Group when MelcoLot became a subsidiary of the Group on 12 December 2012.

The full year performance of MelcoLot during the year under review is described below:

During 2012, MelcoLot recorded a revenue decline of 10%. The decline was attributed to an operational restructuring and a short term low-pricing strategy on the distribution business of its lottery terminals in order to manage the delay in the commencement of China Sports Lottery's next procurement cycle. MelcoLot recorded a profit for the year of HK\$70.5 million, compared to a loss of HK\$215.9 million for the year 2011. The profit was mainly due to its reorganization with gains on disposals of certain subsidiaries, amounted to HK\$226.8 million, offset by the expenses comprised mainly of the following non-cash items:

- (i) imputed interest on convertible bonds amounting to HK\$92 million (2011: HK\$88.3 million) due to the liability component of the convertible bonds carried at amortized costs by using the effective interest method; and
- (ii) one-off impairment losses of HK\$22.2 million (2011: HK\$118.5 million).

MelcoLot also incurred a non-cash, net foreign exchange gain of HK\$7.5 million (2011: HK\$36.3 million), mainly arising from the translation of convertible bonds.

MelcoLot has rationalized the retail operations in the PRC and imposed tight cost control measures on expenses during the year. Employee benefits costs were further reduced to HK\$15.2 million, or a decrease of 19.6% compared to HK\$18.9 million in 2011.

MelcoLot also shared losses of associates amounting to HK\$2.6 million (2011: HK\$4 million), which engaged in the development of paperless lottery sale channels.

Pursuant to the relevant tax laws in the PRC, capital gain tax of HK\$20.9 million arising from the disposal of certain subsidiaries established in the PRC has been provided, based on 10% of the difference between disposal consideration and MelcoLot's share of registered capital.

Determined to focus on its strategic development in the China lottery market, MelcoLot is expected to benefit from a richer range of paperless lottery products, penetration of the third-party mobile payment platform, and proliferating lottery buying channels, which will lay the foundation to reposition MelcoLot as it capitalizes on these opportunities.

(2) Jumbo Kingdom

Jumbo Kingdom includes the Jumbo and Tai-Pak floating restaurants located in Aberdeen, Hong Kong and a restaurant in Beijing, named as J-Kitchen. J-Kitchen is newly established and is still operating in a preliminary stage during the year under review.

The segment profit of the catering business recorded approximately HK\$287,000 for the year ended 31 December 2012 (2011: HK\$12.3 million). The drop was mainly due to the incorporation of the operating loss of J-Kitchen in the amount of HK\$6.1 million. Significant increases in staff costs and repair and maintenance expenses were also causes for the deterioration of its segment results.

(3) Others

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

Property and Other Investments

This segment handles property and other treasury investments for the Group. For the year ended 31 December 2012, it recorded a profit of HK\$80.7 million (2011: HK\$25.4 million). The increase was primarily due to an increase in revaluation gain of investment properties. The revaluation gain increased from HK\$3 million in 2011 to a gain of HK\$58 million in 2012.

SHARE OF PROFITS OF JOINTLY CONTROLLED ENTITIES

On 12 November 2012, one of the three shareholders of Power Way has disposed its entire interest in Power Way to the Group and the remaining shareholder of Power Way (the "Acquisition"). As a result, the Group's interest in Power Way increased from 58.7% to 67% after the Acquisition, and the remaining shareholder holds 33% 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 the remaining shareholder of Power Way and accordingly, Power Way is a jointly controlled entity of the Group. Power Way was accounted for as an associate before the Acquisition.

The share of result of jointly controlled entities mainly represents the share of gain arising from Power Way upon the completion of distribution in specie in December 2012. The gain represents the difference between the carrying amount of the assets distributed and the fair value of such assets distributed.

SHARE OF PROFITS OF ASSOCIATES

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

	Year ended 31 December	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of profits of Melco Crown Entertainment (1)	1,179,310	710,120
Share of profit (loss) of Power Way (2)	59,260	(20,739)
Others	(110)	–
	<u>1,238,460</u>	<u>689,381</u>

In previous years, the Group wrote down its investments in EGT and MCR to zero. During the year under review, no reversal of impairment loss was considered necessary to the Group from the aforesaid associates, as MCR continued to be making losses and EGT's businesses were just starting to turn around and make profits. In paragraph (3) below, the performance of EGT during the year 2012 is briefly described.

(1) Share of profits 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\$1,179.3 million (2011: HK\$710.1 million) after taking into account the adjustments made 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\$4.1 billion for the year ended 31 December 2012, versus US\$3.8 billion for the year ended 31 December 2011. The year-over-year increase in net revenue was driven by substantially improved mass table games volumes and blended hold percentages, as well as increased volumes in the gaming machines segment, partially offset by lower group-wide rolling chip volumes.

Also on a U.S. GAAP basis, Melco Crown Entertainment reported a net profit of US\$417.2 million for 2012, compared to US\$294.7 million for 2011. The year-over-year increase in net income was primarily a result of the meaningful improvements in operating fundamentals at City of Dreams and Altira Macau, partially offset by development costs for the Philippines project as well as lower group-wide win rate.

For the year ended 31 December 2012, net revenue at City of Dreams was US\$2,920.9 million versus US\$2,491.4 million in the year ended 31 December 2011. City of Dreams generated a positive adjusted EBITDA of US\$805.7 million in 2012 compared with US\$594.4 million in 2011. Rolling chip volume totalled US\$81.3 billion for 2012, up from US\$78.8 billion in 2011. In the fourth quarter of 2012, the rolling chip hold percentage (calculated before discounts and commissions) was 2.6%, while the expected range for rolling chip hold percentage was 2.7% – 3.0%. In the mass market table games segment, drop (a measure of mass market gaming volume) for the year totalled US\$3,587 million, up from US\$2,939.2 million in 2011. In the fourth quarter of 2012, the mass market win rate was 30.9%, which was within the expected range for mass market table games hold percentage of 27% – 31%.

For the year ended 31 December 2012, net revenue at Altira Macau was US\$966.8 million versus US\$1,173.9 million in the year ended 31 December 2011. Altira Macau generated a positive adjusted EBITDA of US\$154.7 million in 2012 compared with US\$246.3 million in 2011. Rolling chip volume totalled US\$44 billion for 2012, down from US\$51.2 billion in 2011. In the fourth quarter of 2012, the rolling chip hold percentage (calculated before discounts and commissions) was 3.1%, while the expected range for rolling chip hold percentage was 2.7% – 3.0%. In the mass market table games segment, drop (a measure of mass market gaming volume) for the year totalled US\$601.4 million, up from US\$581.8 million generated in the previous year. In the fourth quarter of 2012, the mass market table games hold percentage was 16.5% in 2012, which was within the expected range for mass market table games hold percentage of 15% – 17%.

Net operating revenue from Mocha Clubs totalled US\$143.3 million in the year ended 31 December 2012, up from US\$131.9 million in the year ended 31 December 2011. Mocha Clubs generated US\$36.1 million of adjusted EBITDA in 2012, as compared to US\$40.5 million in the previous year. In 2012, the number of gaming machines in operation at the Mocha Clubs averaged approximately 2,100. The net win per gaming machine per day was US\$183 for the fourth quarter of 2012, as compared with US\$200 for the same period last year.

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

For the year ended 31 December 2012, the attributable profits arising from Power Way before the Acquisition amounted to HK\$59.3 million (2011: loss of HK\$20.7 million). This is related to the reversal of a previously recognized impairment on the amount due from MelcoLot.

(3) Performance of EGT during the year under review

Entertainment Gaming Asia Inc., a company listed on NASDAQ (Stock symbol: EGT), in which the Group has an effective equity interest of approximately 38.2%, posted continued improvement in its financial results in the gaming market in Southeast Asia. In 2012, EGT achieved record highs in annual revenue and net income as it benefited from incremental revenue from the newly opened casino Dreamworld Pailin and improvements for the slot operations in both Cambodia and the Philippines. The gaming chip and plaque revenue increased more than three-fold for the year due to the strategic efforts to improve operations and expand customer base.

According to the financial statements of EGT (prepared under US GAAP), consolidated revenue for the year increased to approximately US\$32.8 million from approximately US\$27.1 million in 2011. The increase was due to significant improvements in both of its gaming and other products business segments. For the fiscal year 2012, EGT reported a net profit of approximately US\$1.8 million compared to approximately US\$0.6 million in 2011. Adjusted EBITDA for the year was approximately US\$10.9 million as compared to US\$11.7 million for the fiscal year 2011. The Group did not share the profits of EGT during the year as it was wholly absorbed by unrecognized losses in prior years.

As of 31 December 2012, EGT had an operating machine base of 1,405 machines, with 581 located in the Philippines and 824 in Cambodia.

(LOSS) GAIN ON DEEMED DISPOSAL OF INTERESTS IN ASSOCIATES

During the year ended 31 December 2012, the Group recognized a loss on deemed disposal of interests in associates of approximately HK\$13.5 million (2011: gain of HK\$2.9 million) which resulted from the exercise of share options and the vesting of certain restricted shares issued by Melco Crown Entertainment. This amount represented the decrease (2011: increase) in net assets attributable to the Group of approximately HK\$13.6 million (2011: HK\$2.4 million) and the realization of special reserve to profit or loss of approximately HK\$0.1 million (2011: HK\$0.5 million).

GAIN ON DISPOSAL OF INTEREST IN AN ASSOCIATE

During the year ended 31 December 2012, a gain on disposal of interest in an associate of approximately HK\$45.7 million (2011: Nil) was recognized in profit or loss. This is represented by the difference between the fair value and the carrying amount of the equity interest in MelcoLot upon the Distribution.

FAIR VALUE CHANGE ON INVESTMENT IN CONVERTIBLE LOAN NOTE

During the year ended 31 December 2012, a fair value gain of approximately HK\$260.7 million (2011: loss of HK\$232.2 million) relating to MelcoLot's convertible loan note was recognized in profit or loss. The fair value of MelcoLot's convertible loan note was assessed by the Group with reference to the market price of MelcoLot's shares. The increase in the fair value of MelcoLot's convertible loan note is resulted from the increase in market price of MelcoLot's shares.

IMPAIRMENT LOSS ON GOODWILL

During the year ended 31 December 2012, the Group recognized an impairment loss of approximately HK\$426.7 million (2011: Nil) in relation to goodwill allocated to two individual cash generating units (“CGUs”), (i) provision of services and solutions for distribution of lottery products and (ii) trading of lottery terminals in the PRC. These CGUs are components of MelcoLot Limited, a subsidiary acquired by the Group during the year ended 31 December 2012. The recoverable amounts of the CGUs have been determined on the basis of value in use calculations and, are based on certain similar key assumptions. The value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. No discount rate has been considered by the management as negative cash outflows are expected from the operations of the CGUs in the future. Other key assumptions for the value in use calculation relate to the estimation of cash inflows or outflows which include budgeted sales and gross margin, such estimation is based on the CGUs’ past performance and management’s expectations for the market developments. Management believes that any reasonably possible change in any of these assumptions will not have material effect on the cash flow forecasts for the CGUs, and these existing business operations are not expected to contribute positively to the Group in the foreseeable future.

UNALLOCATED CORPORATE INCOME

For the year ended 31 December 2012, the unallocated corporate income of approximately HK\$36.3 million (2011: HK\$30.7 million) consisted of the release of financial guarantee liability of approximately HK\$12.9 million (2011: HK\$24 million) in relation to the joint and several financial guarantee provided by the Group and Crown Asia Investments Pty. Ltd. (“Crown Asia”) for the exchangeable bonds issued by Melco Crown SPV Limited and a one-off service income of approximately HK\$23.3 million (2011: Nil) received for the referral of a gaming project.

During the year ended 31 December 2011, it also included a gain of extension of long term payable to Crown Asia of approximately HK\$6.6 million.

CENTRAL ADMINISTRATIVE COSTS AND OTHER UNALLOCATED CORPORATE EXPENSES

Unallocated corporate expenses increased by 8.7% from approximately HK\$139.1 million in 2011 to HK\$151.2 million in 2012. The increase was primarily due to the increase in staff costs, share options and share award expenses during the year.

FINANCE COSTS

Finance costs decreased by 19.3% from approximately HK\$122.5 million in 2011 to approximately HK\$98.9 million in 2012. The drop mainly came from the decrease in imputed interest expense on the convertible loan note, due to an early redemption of the loan note in September 2012.

INCOME TAX CREDIT

A tax credit of HK\$7.4 million (2011: HK\$14.8 million) was recorded to the consolidated statement of comprehensive income for the year ended 31 December 2012. This was mainly related to an amortization of deferred tax liability from the recognition of an equity component of the convertible loan note during the year, partially offset by the deferred tax liabilities arising from the accelerated tax depreciation.

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 2012, total assets of the Group were HK\$9,925.3 million (2011: HK\$8,577.9 million) which were financed by shareholders' funds of HK\$9,374.4 million (2011: HK\$7,182.6 million), deficit balance of non-controlling interests of HK\$76.5 million (2011: surplus balance of HK\$28.9 million), current liabilities of HK\$161.4 million (2011: HK\$321.9 million), and non-current liabilities of HK\$466 million (2011: HK\$1,044.5 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 5.1 (2011: 2.3).

During the year ended 31 December 2012, the Group recorded a net cash inflow of HK\$58.8 million (2011: HK\$48.5 million). The main cash inflow contributed by the cash raised through financing activities during the year amounted to HK\$155.6 million, and net off with the consideration of HK\$135.1 million paid for the purchase of certain shares of Melco Crown Entertainment held from Melco Crown SPV during the year. As of 31 December 2012, cash and cash equivalents of the Group totalled HK\$155.9 million (2011: HK\$97.1 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 5% as of 31 December 2012 (2011: 17%). The Group adopts a prudent treasury policy. 79% of bank balances and cash (including bank deposits with original maturity over three months) are put in fixed deposits. All borrowings, bank balances and cash are mainly denominated in Hong Kong dollars, U.S. dollars and Renminbi to maintain stable exposure to foreign exchange risks. Also, as at 31 December 2012, the Group's bank deposit of approximately HK\$0.9 million (2011: HK\$0.9 million) was pledged for obtaining utilities for certain subsidiaries of the Group.

As at 31 December 2012, the Group's total available bank loan facilities from various banks amounted to HK\$491.2 million (2011: HK\$309.2 million), of which HK\$76.2 million (2011: HK\$84.2 million) was secured by pledging HK\$227 million of the Group's investment properties. As at 31 December 2012, the Group utilized HK\$413 million and HK\$76.2 million of unsecured and secured bank loan facilities respectively (2011: unsecured HK\$223 million; secured HK\$54.2 million). Details of bank borrowings are given in Note 14 to the consolidated financial statements.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

On 12 December 2012, Power Way distributed a special dividend to all its shareholders by way of distribution in specie of its entire 1,145,361,487 MelcoLot Shares held. As a result of the Distribution, 767,735,805 MelcoLot Shares were transferred to the Group and accordingly, the Group directly held 1,124,615,552 MelcoLot Shares, representing approximately 50.52% of the issued share capital of MelcoLot upon completion of the Distribution. This acquisition has been accounted for using the acquisition method. MelcoLot changed from being an associate of the Group to a subsidiary. Hence its results from 12 December 2012 onwards had been consolidated into the Group. MelcoLot is engaged in the provision of services and solutions for distribution of lottery products and trading of lottery terminals.

HEADCOUNT/EMPLOYEES' INFORMATION

The total number of the Group's and associates' employees was 12,801 as of 31 December 2012. Excluding the employees from associates such as Melco Crown Entertainment, MCR, and EGT, the total number of the Group's employees became 314 as of 31 December 2012 (2011: 233 employees). Among the 314 employees, 238 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 2012, including directors' emoluments, share options expenses and share award expenses, amounted to HK\$158.1 million (2011: HK\$135.3 million).

HUMAN RESOURCES

Melco believes that the key to success lies in its people. The Group strives to create an environment that makes employees proud to be part of it. All employees are given equal opportunities for advancement and personal growth. The Group believes through growing its business, it will be able to create opportunities and deliver value to its people. Thus, the Group encourages its employees 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. It is based on three key areas:

1. Recruitment

Melco is an equal opportunities employer, and it recruits talented people with the necessary professional competencies, desirable personal qualities and commitment to the Group. The Group hire the right people to shape its future. It identifies and validates talent through different recruitment exercises and regularly reviews its recruitment policy and assessment criteria.

2. Performance and Rewards

Melco demands and appreciates high performance. Its reward principle is primarily performance based, and it rewards its people competitively and 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 the subsequent results from any training are continually reviewed.

CONTINGENT LIABILITIES

No contingent liability was noted for the Group as at 31 December 2012.

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy that its operating entities operate in their corresponding local currencies to minimize currency risks. The Group's principal businesses are conducted and recorded in Hong Kong dollars, Macau Pataca and Renminbi. 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 by using different available financing options. The Company will also provide the required equity capital to new projects coming ahead should it be deemed appropriate.

CORPORATE RECOGNITION

Corporate Governance

In striving for innovation and excellence, Melco has continued to implement best practices aimed at realizing a high standard of corporate governance and transparency to its stakeholders which have been widely recognized through prestigious accolades. The Group has garnered the "Corporate Governance Asia Annual Recognition Award" for the seventh consecutive year presented by *Corporate Governance Asia* magazine. In addition, the magazine awarded "Asian Corporate Director Recognition Awards" to the Group's Chairman and Chief Executive Officer, Mr. Lawrence Ho. He was also once again selected by *FinanceAsia* magazine among the "Best CEOs in Hong Kong" within the "Asia Best Companies Awards" for the fourth year running.

World-class Gaming Enterprise

During the year, the Group's gaming operations have earned distinguished awards for its world-class entertainment offerings, luxurious accommodation and fabulous dining experience. City of Dreams has garnered the "Best Customer Experience of the Year Award" in the renowned International Gaming Awards 2012. The House of Dancing Water, the iconic entertainment centerpiece in City of Dreams, has captured the "Culture, Entertainment & Sporting Events Award" within the Effie China Awards, the "China Marketing Excellence Award" and the "China Branding Excellence Award" organized by the Economic Observer and Hong Kong Management Association; the "THEA Award for Outstanding Achievement" by the Themed Entertainment Association; as well as the "2012 United States International Theatre Technology Award" of the United States Institute for Theatre Technology.

Moreover, Altira Macau was once again awarded Forbes Five-Star ratings in both Lodging and Spa categories for the third year running by Forbes Travel Guide. These coveted awards acknowledged the Group's high quality services and underscored the Group's position as a leading integrated resort developer in Asia.

INVESTOR RELATIONS

Melco is strongly committed to maintaining good relationships with shareholders through enhancing transparency and ongoing and proactive communications. To provide a comprehensive and thorough understanding to investors, the Group has actively participated in investor conferences held by renowned securities houses and has maintained regular dialogue with institutional investors and analysts, keeping them abreast of the Group's latest developments. During the year, more than 300 meetings with analysts and fund managers have been arranged. Additionally, the Group conducted numerous site visits for investors to areas of its development projects in Macau.

The Group's efforts have earned solid continuous support from investors as indicated by a number of awards in investor relations, including the "Best Investor Relations by a Hong Kong Company" in the Asian Excellence Recognition Awards by *Corporate Governance Asia* magazine for the second consecutive year. The Group is continuing ongoing efforts to enhance its communications and foster stronger relations with investors.

CORPORATE CITIZENSHIP

With the vision to contribute to the growth and brighter future of the communities it serves and to inspire hope and happiness in people all over the world, Melco has constantly been at the forefront of fulfilling its corporate social responsibility (CSR) with the focus on Youth Development, Environment and Education. The Group has been annually publishing a CSR report since 2007 to present its relevant strategies and activities. This year, the Group has stepped up efforts to prepare the first CSR report in accordance with the Global Reporting Initiative ("GRI") 3.1 Guidelines which provide

a sustainability reporting framework to measure and report Melco's sustainability performance. The Group has also conducted the first stakeholder engagement exercise, enabling it to gain stakeholder feedback on its CSR initiatives. This exercise will ultimately help the Group refine and better formulate its long-term CSR strategies.

Melco strongly believes that a better life for the community and the next generation can be enhanced by wide-ranging initiatives and continuous dedicated effort. Therefore, the Group has been highly involved in community services through participating in and supporting more than 50 non-profit-making community and charitable programs, benefiting nearly 50,000 children, youth, the physically challenged and their families in 2012, more than double from the previous year. As an enthusiastic supporter of corporate citizenship, the Group has been honored to receive awards for its CSR performance, including the Hong Kong Corporate Citizenship Label presented by the Hong Kong Productivity Council and the Corporate Social Responsibility Award 2012 by *Capital* and *Capital Weekly* magazines for the first time.

Youth Development

With Youth Development as the main focus of its CSR programs, Melco highly values the young generation's all-round development and believes that all teenagers deserve the opportunity to live their lives to the fullest. The Group is helping today's youth from all socioeconomic backgrounds, including those with physical disabilities, through support for diversified activities aimed at developing them into mature adults able to contribute to society.

During the year, the Group has collaborated with non-profit organizations to sponsor and organize 36 youth development programs aimed at instilling in young people self-confidence and an appreciation of nature, as well as turning away from drugs. For example, the two-year Youth Empowerment Life Skill Training Project helped rehabilitate youths with drug problems by learning a new life skill — coffee making, and preparing them for re-entry into the community. Furthermore, the Group has supported a three-year project for eye care in Shandong, China which has changed the lives of 7,000 children. Melco's continuous support for the enlightening of youth was enthusiastically welcomed by these communities.

2012 Event Highlights (Youth Development)

- “Establish a Network of Pediatric Eye Care in Linyi, Shandong” Project by ORBIS International
- Coffee Life – Youth Empowerment Life Skills Training Project by The Society for The Aid and Drug Abusers
- Leadership for Life by Youth Outreach
- “Good at Facing Adversity” Children Story Project by Hong Kong Family Welfare Society
- Creating Harmony for Families of Ethnic Minorities Project by Against Child Abuse
- Goodwill Action – Hospital Play Service by Playright Children's Play Association

Environment

To preserve the global environment for future generations, environmental protection has been one of the core management areas of Melco's CSR. The Group has actively implemented various go-green campaigns to promote the awareness of environmental protection within the community. Besides, it has strictly followed energy and water saving guidelines to minimize the adverse impact that its operations may have on the environment. The Group has adopted the Carbon Reduction Charter and become a Green Partner of the Environmental Protection Department's "Carbon Audit Green Partner" campaign. It is also a signatory member of the Copenhagen Communiqué on Climate Change.

The Group's dedication to safeguarding environment sustainability has been recognized. Its Green Office Practices were awarded with inclusion in the "Gold Label for Low-carbon Office Operation Programme" by WWF Hong Kong for the second year. The efforts on lowering its carbon footprint were recognized with the "Class of Excellence in Wastewise Label" by Hong Kong Awards for Environmental Excellence, four years in a row. The Group has been working closely with WWF Hong Kong in the past few years on other environment protection initiatives and thus became a Diamond Corporate Member in 2011 and 2012. Also, the Group's affiliate Melco Crown Entertainment was the first and only casino-hotel operator in Macau to achieve an ISO 14001 Environmental Management Certificate.

2012 Event Highlights (Environment)

- Environmental Play Project by Playright Children's Play Association
- Earth Hour 2012 by WWF Hong Kong
- Big Bird Race 2012 by WWF Hong Kong
- Corporate Membership Programme by WWF Hong Kong
- International Coastal Cleanup 2012 by Green Council
- Green Power Hike for a Greener Future by Green Power

Education

Education is crucial for society to enhance upward mobility of individuals and everyone should therefore have a fair chance to study. The education programs that Melco supports offer educational experiences to the less privileged youth in Hong Kong, Macau and mainland China and facilitate them grow into well-rounded adults. For example, the Group provided financial assistance to support the Christian Action initiated by Huangnan Children's Home, the first of its kind for ethnic Tibetan orphans in Qinghai Province, China, to enable the children to receive tertiary education and vocational training, and develop into future leaders.

2012 Event Highlights (Education)

- “Comprehensive Education Grant & Mentorship Program” at Huangnan Children’s Home in Qinghai by Christian Action
- Boccia Fun Day 2012 by Hong Kong Red Cross Princess Alexandra School
- Student Cultural Exchange and Volunteer Tour by WUSHKUB

General Community Engagement

Melco is strongly committed to being a responsible corporate citizen. It supports a range of social programs and charity initiatives to spread love and caring across society. Riding on the Melco Volunteer Incentive Scheme and Melco CSR Wish Fund, the Group has also addressed community needs by joining non-governmental organizations as well as striving for attaining greater donation efficiency.

2012 Event Highlights (Community)

- Corporate and Employee Contribution Programme by the Community Chest of Hong Kong
- Dress Casual Day and Design Competition by the Community Chest of Hong Kong
- Hong Kong Policy Night by the Community Chest of Hong Kong
- Race to ICC100 by the Community Chest of Hong Kong
- Walk for Millions by the Community Chest of Hong Kong

The Group’s initiatives and outstanding performance on CSR have received plaudits and recognition from the community. Melco has been accredited with the “Caring Company” status by the Hong Kong Council of Social Service for the eighth year running. The Community Chest has awarded the Group the “President’s Award” for seven consecutive years and the “Platinum Award for Corporate & Employee Contribution Programme Donors” for four consecutive years to Melco confirming its continuous generosity.

For more information on Melco’s CSR activities, please refer to the Melco CSR Report 2012 or visit the 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 2012 (2011: HK1.5 cents per ordinary share) to the shareholders whose names appear on the register of members of the Company on 24 June 2013. The proposed dividend will be payable on or before 4 July 2013.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Friday, 14 June 2013. To ascertain shareholders’ eligibility to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 11 June 2013 to Friday, 14 June 2013 (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 Monday, 10 June 2013.

CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND

The proposed final dividend for the year ended 31 December 2012 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 Thursday, 20 June 2013 to Monday, 24 June 2013 (both days inclusive), 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 Monday, 17 June 2013. In order to qualify for the proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with of 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 Wednesday, 19 June 2013.

CORPORATE GOVERNANCE

In 2005, the Group adopted its Code on Corporate Governance (the "Company Code"), which sets out the corporate standards and practices used by the Group in directing and managing its business affairs. The Company Code was prepared with reference to the principles, Code Provisions and Recommended Best Practices stipulated in the Code on Corporate Governance Practices (the "Former HKSE Code") contained in Appendix 14 of the Listing Rules which came into effect on 1 January 2005. The Company Code not only formalizes the Group's existing corporate governance principles and practices, but also serves to assimilate practices with benchmarks prescribed by The Stock Exchange of Hong Kong Limited, ultimately ensuring that the Group runs a highly transparent operation and is accountable to its shareholders. With the introduction of the revised Corporate Governance Code (the "HKSE Code") set out in Appendix 14 of the Listing Rules with effect from 1 April 2012, the Company Code was also revised to be in line with the principles and code provisions of the HKSE Code.

The Company has complied with the code provisions set out in the Former HKSE Code (Code on Corporate Governance Practices) during the period from 1 January to 31 March 2012 and the code provisions set out in the HKSE Code (Corporate Governance Code) during the period from 1 April to 31 December 2012, except for the following deviations:

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.

Code Provision A.6.7 of the HKSE Code requires the independent and other non-executive directors to attend general meetings and develop a balanced understanding of the views of shareholders. All directors of the Company except Mr. Ng Ching Wo, a non-executive director, have attended the annual general meeting held on 30 May 2012 (the "2012 AGM"). Mr. Ng was absent from the 2012 AGM as he had another business engagement.

The Company sets up the following board committees to ensure maintenance of a high corporate governance standard:—

- a. Executive Committee;
- b. Audit Committee;
- c. Remuneration Committee;
- d. Nomination Committee;
- e. Corporate Governance Committee;
- f. Finance Committee;
- g. Regulatory Compliance Committee; and
- h. Corporate Social Responsibility Committee.

Terms of reference of the aforesaid committees have been posted on the Company's website at <http://www.melco-group.com> under the "Corporate Governance" section.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. Having made specific enquiry of the directors of the Company, all the directors confirmed that they have complied with the required standard of dealings and code of conduct regarding securities transactions by directors set out in the Model Code for the year ended 31 December 2012.

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.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities, except that the trustee of The Melco Share Purchase Scheme Trust (the "Share Purchase Scheme") has, pursuant to the terms of the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 5,000,000 shares of the Company. The total amount paid to acquire these shares during the year was approximately HK\$34,478,000.

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 2013