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Melco International Development Limited

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 200)

INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

1. Profit attributable to owners of the Company was HK\$907.6 million for the six-month period ended 30 June 2014, improved from a profit attributable to owners of the Company of HK\$576.9 million for the same period in 2013.
2. Basic earnings per share attributable to owners of the Company was HK58.9 cents for the six-month period ended 30 June 2014 compared to HK37.6 cents per share for the six-month period ended 30 June 2013.
3. An interim dividend of HK11.6 cents per share was declared for the six-month period ended 30 June 2014. The dividend, in an aggregate amount of HK\$181.2 million, represented approximately 20% of the profit attributable to owners of the Company during the period under review.
4. Net asset value per share attributable to owners of the Company increased by 8%, to HK\$8.20 as of 30 June 2014, as compared with HK\$7.61 as of 31 December 2013.
5. The Group maintained a healthy financial position during the period under review with gearing ratio recorded at 9% as of 30 June 2014, as compared with 10% as of 31 December 2013.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

		Six-month period ended 30 June	
	<i>NOTES</i>	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	3	89,556	94,414
Other income		6,955	34,391
Investment income		1,338	2,101
Purchase and changes in inventories of finished goods		(32,791)	(40,459)
Employee benefits expense		(148,144)	(103,063)
Depreciation of property, plant and equipment		(2,826)	(3,661)
Increase in fair value of investment properties		–	46,000
Gain (loss) on deemed disposal of interest in an associate	4	4,687	(32,337)
Share of loss of a joint venture		(628)	–
Share of profits of associates	9	1,055,908	659,066
Other expenses		(66,621)	(54,420)
Finance costs		(21,843)	(16,982)
Profit before tax		885,591	585,050
Income tax expense	5	(121)	(5,608)
Profit for the period		885,470	579,442
Other comprehensive income (expense)			
<u>Items that may be subsequently reclassified to profit or loss:</u>			
Exchange differences arising on translation of foreign operations		7,067	(3,469)
Fair value loss on available-for-sale investments		(1,444)	–
Share of exchange difference of an associate		10,474	(22,185)
Share of exchange difference of a joint venture		156	–
Other comprehensive income (expense) for the period, net of income tax		16,253	(25,654)
Total comprehensive income for the period		901,723	553,788
Profit (loss) for the period attributable to:			
Owners of the Company		907,632	576,879
Non-controlling interests		(22,162)	2,563
		885,470	579,442

		Six-month period ended 30 June	
		2014	2013
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Total comprehensive income (expense)			
for the period attributable to:			
Owners of the Company		919,677	552,829
Non-controlling interests		(17,954)	959
		<u>901,723</u>	<u>553,788</u>
Earnings per share			
Basic (HK cents)		58.9	37.6
Diluted (HK cents)		57.3	36.8

NOTE

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

		30 June 2014	31 December 2013
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Investment properties	8	159,000	159,000
Property, plant and equipment		12,022	14,281
Other intangible assets		5,700	5,700
Interests in joint ventures		27,562	28,034
Interests in associates	9	11,624,545	11,088,180
Available-for-sale investments		–	5,825
		11,828,829	11,301,020
Current assets			
Inventories		2,031	2,345
Trade receivables	10	24,432	43,824
Prepayments, deposits and other receivables		37,652	37,023
Available-for-sale investments		4,381	–
Held-for-trading investments		173	175
Amounts due from associates	11	1,969	12,164
Amount due from a related company	11	58	441
Pledged bank deposits	8	947	947
Bank deposits with original maturity over three months		1,669,431	1,339,590
Bank balances and cash		1,175,727	205,542
		2,916,801	1,642,051
Current liabilities			
Trade payables	12	25,387	18,741
Other payables		39,333	53,562
Dividend payable		325,093	184
Taxation payable		32,897	32,778
Borrowings – due within one year	13	417,980	27,980
		840,690	133,245
Net current assets		2,076,111	1,508,806
Total assets less current liabilities		13,904,940	12,809,826

		30 June 2014	31 December 2013
	<i>NOTE</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current liabilities			
Deferred tax liabilities		5,229	5,229
Borrowings – due after one year	13	796,760	1,189,250
		801,989	1,194,479
		13,102,951	11,615,347
Capital and reserves			
Share capital		5,435,065	768,190
Reserves		7,379,110	10,920,758
Equity attributable to owners of the Company		12,814,175	11,688,948
Non-controlling interests		288,776	(73,601)
		13,102,951	11,615,347

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*;
- Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*;
- and
- HK(IFRIC) – Int 21 *Leases*

The application of the above new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENTAL INFORMATION

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, entertainment and related services and lottery business, including the provision of lottery-related technologies, system and solutions and distribution of high quality versatile lottery terminals and hardware.
- (2) Property and Other Investments Segment: It mainly comprises investment properties, available-for-sale investments and related segment bank balances, which generate dividend income, interest income and property rental income.

Information regarding the above segments is reported below.

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

Six-month period ended 30 June 2014 (Unaudited):

	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	72,859	16,697	89,556	–	89,556
Inter-segment sales	279	744	1,023	(1,023)	–
Total revenue	<u>73,138</u>	<u>17,441</u>	<u>90,579</u>	<u>(1,023)</u>	<u>89,556</u>
Segment results	<u>(18,494)</u>	<u>15,843</u>	<u>(2,651)</u>	<u>–</u>	<u>(2,651)</u>
Central administrative costs and other unallocated corporate expenses					(149,882)
Finance costs					(21,843)
Gain on deemed disposal of interest in an associate					4,687
Share of loss of a joint venture					(628)
Share of profits of associates					1,055,908
Profit before tax					<u>885,591</u>

Six-month period ended 30 June 2013 (Unaudited):

	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	82,162	12,252	94,414	–	94,414
Inter-segment sales	310	748	1,058	(1,058)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	82,472	13,000	95,472	(1,058)	94,414
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Segment results	(14,344)	55,605	41,261	–	41,261
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Central administrative costs and other unallocated corporate expenses					(88,642)
Unallocated corporate income					22,684
Finance costs					(16,982)
Loss on deemed disposal of interest in an associate					(32,337)
Share of profits of associates					659,066
					<hr/>
Profit before tax					585,050
					<hr/>

Segment results represent the profit earned or loss incurred by each segment without allocation of central administrative costs and other unallocated corporate expenses, unallocated corporate income and items as disclosed in the above table. This is the measure reported to the Chief Executive Officer (“CEO”) of the Company 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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Gaming, Leisure and Entertainment	45,525	67,529
Property and Other Investments	3,008,539	1,710,193
Total segment assets	3,054,064	1,777,722
Interests in associates	11,624,545	11,088,180
Interests in joint ventures	27,562	28,034
Unallocated assets	39,459	49,135
Consolidated assets	14,745,630	12,943,071

Segment liabilities

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Gaming, Leisure and Entertainment	49,855	49,476
Property and Other Investments	108	108
Total segment liabilities	49,963	49,584
Unallocated liabilities	1,592,716	1,278,140
Consolidated liabilities	1,642,679	1,327,724

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

- all assets are allocated to operating segments other than interests in joint ventures, interests in associates, amounts due from associates, amount due from a related company, pledged bank deposits and other assets not attributable to respective segment.
- all liabilities are allocated to operating segments other than dividend payable, taxation payable, borrowings, deferred tax liabilities and other liabilities not attributable to respective segment.

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

During the six-month period ended 30 June 2014, the Group recognised a gain of approximately HK\$4,687,000 (six-month period ended 30 June 2013: loss of HK\$32,337,000) which represented the increase (six-month period ended 30 June 2013: decrease) in net assets attributable to the Group as a result of a decrease in the Group's ownership interest in one of its associates, Melco Crown Entertainment Limited ("Melco Crown Entertainment"), from the vesting of certain restricted shares and the exercise of share options of Melco Crown Entertainment.

5. INCOME TAX EXPENSE

	Six-month period ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax – current period	121	88
Deferred taxation – current period	–	5,520
	<u>121</u>	<u>5,608</u>

No provision for Hong Kong Profits Tax during the six-month period ended 30 June 2014 and 2013 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 respective jurisdictions.

Under the Law of the People's Republic of China ("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.

During the six-month period ended 30 June 2013, the deferred taxation expense represented the temporary differences arising from the fair value gain of overseas investment properties.

6. DIVIDEND

During the six-month period ended 30 June 2014, a final dividend of HK20.8 cents per share, totalling HK\$324,909,000, in respect of the year ended 31 December 2013 was declared to the shareholders of the Company (six-month period ended 30 June 2013: HK1.5 cents per share, totalling HK\$22,994,000, in respect of the year ended 31 December 2012 was declared to the shareholders of the Company).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK11.6 cents per share, totalling HK\$181,220,000, (six-month period ended 30 June 2013: Nil) will be paid to the shareholders of the Company.

7. EARNINGS PER SHARE

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

	Six-month period ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	907,632	576,879
Effect of dilutive potential ordinary shares:		
Adjustment in relation to share options and awarded shares issued by an associate of the Group	(8,967)	(5,793)
Earnings for the purpose of diluted earnings per share	<u>898,665</u>	<u>571,086</u>
	Six-month period ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,540,783,813	1,532,890,845
Effect of dilutive potential ordinary shares:		
Share options and awarded shares issued by the Company	27,740,346	17,856,510
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,568,524,159</u>	<u>1,550,747,355</u>

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

During the six-month periods ended 30 June 2014 and 2013, the computation of diluted earnings per share does not assume the exercise of the Company's 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 for the relevant period.

8. PLEDGE OF ASSETS

As at 30 June 2014, the Group's bank deposits and investment properties which amounted to approximately HK\$947,000 (31 December 2013: HK\$947,000) and HK\$159,000,000 (31 December 2013: HK\$159,000,000), respectively, were pledged as security for obtaining utilities and banking facilities for the Group.

9. INTERESTS IN ASSOCIATES

As at 30 June 2014, the Group held approximately 33.55% (31 December 2013: 33.55%) interests in Melco Crown Entertainment, 16.69% (31 December 2013: 16.69%) interests in Mountain China Resorts (Holding) Limited ("MCR"), 38.04% (31 December 2013: 38.14%) interests in Entertainment Gaming Asia Inc. ("EGT") and 40.00% (31 December 2013: 40.00%) interests in ChariLot Company Limited. During the six-month period ended 30 June 2014, the Group recognised share of profits of these associates of approximately HK\$1,055,908,000 (six-month period ended 30 June 2013: HK\$659,066,000) and share of net assets changes of approximately HK\$149,736,000 (six-month period ended 30 June 2013: HK\$595,680,000), representing share of the gain recognised by Melco Crown Entertainment in its consolidated financial statements arising from deemed disposal of partial interest in its subsidiary, Melco Crown (Philippines) Resorts Corporation ("MCP"). The deemed disposal of the partial interest in MCP related to the issuance of shares to independent third parties during the current interim period. The investment costs of MCR and EGT were fully impaired in prior years.

10. TRADE RECEIVABLES

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

The Group allows credit periods ranging from 30 to 180 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 net of allowance for doubtful debts presented based on invoice dates at the end of the reporting period, which approximated to the respective revenue recognition dates.

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within 30 days	13,499	15,342
31 – 90 days	345	1,456
91 – 180 days	10,480	11,964
Over 180 days	108	15,062
	24,432	43,824

11. AMOUNTS DUE FROM ASSOCIATES AND A RELATED COMPANY

Included in amounts due from associates are:

- a) amount due from an associate consists of approximately HK\$2,378,000 (31 December 2013: HK\$2,373,000) is unsecured, non-interest bearing and repayable on demand and approximately HK\$165,761,000 (31 December 2013: HK\$165,761,000) is unsecured, interest bearing at 3% per annum and repayable on demand. All of the above balances were fully impaired as at 30 June 2014 and 31 December 2013; and
- b) the remaining amounts due from associates are unsecured, non-interest bearing and repayable on demand.

Amount due from a related company is unsecured, non-interest bearing and repayable on demand. Mr. Ho, Lawrence Yau Lung, a shareholder with significant influence of holding over 20% shareholding and director of the Company, has significant shareholding in that related company. Maximum amount outstanding during the six-month period ended 30 June 2014 was approximately HK\$58,000 (year ended 31 December 2013: HK\$441,000).

12. TRADE PAYABLES

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within 30 days	13,206	2,980
31 – 90 days	–	–
Over 90 days	12,181	15,761
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	25,387	18,741
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13. BORROWINGS

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Bank loans (<i>note (i)</i>)	454,740	457,230
Other borrowings (<i>note (ii)</i>)	760,000	760,000
	<u>1,214,740</u>	<u>1,217,230</u>
Secured	41,740	44,230
Unsecured	1,173,000	1,173,000
	<u>1,214,740</u>	<u>1,217,230</u>
Carrying amount repayable:		
Within one year		
– With repayable on demand clause	23,000	23,000
– Without repayable on demand clause	394,980	4,980
More than one year, but not exceeding two years	4,980	394,980
More than two years, but not exceeding five years	774,940	774,940
Exceeding five years	16,840	19,330
	<u>1,214,740</u>	<u>1,217,230</u>
Less: Amounts due within one year shown under current liabilities	<u>(417,980)</u>	<u>(27,980)</u>
	<u>796,760</u>	<u>1,189,250</u>

Notes:

- (i) All the bank borrowings are denominated in HK\$, the functional currency of relevant group entities, with interest rates of Hong Kong Interbank Offered Rates (“HIBOR”) plus 1.5% to 2.5% (31 December 2013: HIBOR plus 1.5% to 2.5%) per annum.
- (ii) In February 2013, Melco Finance Limited, a wholly owned subsidiary of the Company, issued guaranteed bonds with principal amount of HK\$760,000,000 (“Bonds”) to independent investors. The interest on the Bonds is accrued at a rate of 4.15% per annum, payable quarterly in arrears, with maturity date of 5 March 2018. The Bonds are guaranteed by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Events and Developments

Melco International Development Limited (“Melco” or the “Group”) has continued its steady progress towards its strategic objectives with solid results generated in the period under review. The broader group of partners within the Melco family continues to expand its existing footprint globally from Macau to other parts of Asia including the Philippines and Russia, realizing its vision of becoming one of the leading international gaming companies.

Melco’s group-wide profitability continues to be driven by the core gaming arm Melco Crown Entertainment Limited (“Melco Crown Entertainment”), an associate of the Group. Particularly crucial is the market-leading mass market table games business at City of Dreams, the flagship integrated entertainment resort with unique premium positioning and best-in-class gaming, hotel, entertainment and other food and beverage amenities in Macau. The integrated resort has continued to create compelling new gaming and entertainment experiences such as SOHO, the recently launched innovative dining and entertainment spot in Macau.

The preparation work for the fifth and final hotel tower at City of Dreams designed by the award-winning and internationally renowned architect Dame Zaha Hadid and her team is already underway and is expected to open in early 2017. Additionally, Studio City, Melco Crown Entertainment’s second large-scale resort in Cotai, remains on track to be the next standalone integrated property to open in Macau in mid-2015.

Melco’s unique and exciting development pipeline moves the company closer to its goal of being an international leader in the gaming, leisure and entertainment industry. City of Dreams Manila is due to open later this year. The integrated resort investment partnership with Summit Ascent in Russia’s Primorye region will open in the last quarter of this year. A memorandum of understanding was signed with Veremonte España S.L.U. to take part in the Barcelona World Project as a casino operator as that market develops. The Group is well-positioned to diversify outside of Macau.

CORE BUSINESS

Gaming Business in Asia

The Group operates its gaming business through its major associate, Melco Crown Entertainment. In the first half of 2014, Melco Crown Entertainment delivered a solid financial performance driven primarily by its mass market table games business at City of Dreams. Net revenue and Adjusted property EBITDA amounted to US\$2,556.9 million and US\$701.1 million, respectively, in the first half of 2014, representing growth of 4.8% and 8.6%, respectively.

Melco Crown Entertainment has continued with its market-leading table and room optimization processes which have resulted in a further shift towards the less volatile and more profitable mass market segment. Mass market table games drop at City of Dreams increased by 22.4% to US\$2,629.9 million compared with US\$2,148.3 million in the first half of 2013. In addition to its success in the mass market gaming segment Melco Crown Entertainment has also made substantial improvements in City of Dreams' offerings and amenities to target the increased demand for non-gaming options in Macau. City of Dreams recorded a 9.8% year-over-year increase in total non-gaming revenue to US\$137.8 million in the first half of 2014.

This year marks the fifth anniversary of City of Dreams. During this time, City of Dreams has proudly introduced world-class amenities and attractions that cater to the premium mass market segment of Macau visitors and has earned numerous international accolades in the process. The internationally acclaimed water-based extravaganza, The House of Dancing Water, has already attracted more than 2.5 million patrons to over 1,500 performances since its launch in 2011. In March 2014, the show's purpose-built Dancing Water Theatre played host to Asia's most prestigious film awards, "The 8th Asian Film Awards", marking the first time this mega event has been staged outside Hong Kong. Other noteworthy entertainment events hosted by the flagship property include TABOO, the highly alluring cabaret show at Club Cubic; SPLASH, the truly amazing poolside party series; and the performances of Franz Harary, the internationally-renowned master illusionist. In addition, Melco Crown Entertainment continues to make substantial enhancements to the amenities at City of Dreams including the recently opened lifestyle entertainment and dining precinct, SOHO, and a substantial expansion of the property's luxury retail offering, The Shops at the Boulevard anticipated to be completed in 2016. These accomplishments exemplify Melco Crown Entertainment's vision of transforming Macau into the premier leisure and tourism destination in Asia.

The Group's ambitious development plans, both within and outside Macau, remain on schedule. Studio City, a cinematically-themed integrated resort, remains on track to open in mid-2015 and will be the next major property to open in Macau. The property is designed to supplement City of Dreams in targeting the premium end of the mass market and complement Altira Macau which caters to more exclusive VIP guests. Moreover, the Group is pleased to announce its partnership with the award-winning and internationally renowned "Queen of the Curve" architect, Dame Zaha Hadid on the design of the fifth hotel tower at City of Dreams. Expected to open in early 2017, the new tower will have 40 floors and a gross floor area of 150,000 square meters with approximately 780 guestrooms, suites and villas exceeding 5-star standards.

Beyond Macau, City of Dreams Manila is set to open later this year and marks Melco Crown Entertainment's maturation into an international player in the gaming and entertainment industry. City of Dreams Manila will feature a wide array of accommodations including the luxurious Crown Towers hotel, the trendsetting Nobu Hotel, and the business/leisure traveler-focused Hyatt City of Dreams Manila. Additionally, City of Dreams Manila is delighted to announce its collaboration with DreamWorks Animation in developing the world's first DreamWorks-inspired "Edutainment" center featuring an education-based interactive entertainment concept that will create a truly unique family attraction in the Philippines. With the opening of City of Dreams Manila, the Group will further demonstrate its expertise in developing and delivering world-class resorts and innovative entertainment experiences.

Elsewhere, Melco has partnered with Summit Ascent to capitalize on the potentially lucrative Russian gaming market by investing in the Primorye region's first casino project in Vladivostok, Russia. The Group has also signed a memorandum of understanding with Veremonte España S.L.U. earlier this year to take part in the Barcelona World Project as a casino operator.

Gaming Machine Revenue Participation Business in Southeast Asia

Entertainment Gaming Asia Inc. ("EGT"), a company listed on the NASDAQ Capital Market in which the Group has an effective equity interest of approximately 38.04%, recorded consolidated revenue of approximately US\$9.6 million for the first half of 2014, down 13% year-on-year due to declines in its slot operations and gaming chips and plaques business. EGT posted a consolidated net loss and Adjusted EBITDA from continuing operations of approximately US\$1.1 million and US\$3.1 million, respectively, for the first half of 2014. EGT recorded a cash balance of approximately US\$4.7 million and zero debt as of 30 June 2014.

EGT has an established presence in the gaming markets of Cambodia and the Philippines through its slot operations business. As of 30 June 2014, EGT had approximately 1,700 electronic gaming machine seats in operation. This included 670 seats placed under the joint management of EGT and NagaWorld Limited, a wholly-owned subsidiary of NagaCorp Ltd., in NagaWorld Resort and Casino located in Phnom Penh, Cambodia. EGT's slot operations achieved an average daily net win of approximately US\$107 per machine seat for the first half of 2014, while its operations in NagaWorld achieved an average daily net win of approximately US\$189 per machine seat for the same period.

In June 2014, EGT closed its casino in the Pailin Province of Cambodia and entered into an agreement to sell 100% of the issued capital shares of its wholly-owned subsidiary established for the purposes of owning and operating the casino in Pailin. The operating performance of the casino did not meet EGT's expectations largely due to the limited natural player traffic and high costs associated with acquiring a quality player base in this market.

EGT continues to seek new gaming project opportunities in more established gaming markets in Indo-China and other Asian regions.

During the first half of 2014, EGT continued to expand its new manufacturing facilities in Hong Kong for its gaming chips and plaques business in an effort to raise production efficiencies and capacity in preparation for larger orders. EGT's gaming chips and plaques business generated US\$1.3 million in revenue during the first half of 2014 and has a solid pipeline of confirmed orders for the second half of 2014.

With a focus on expanding its gaming operations combined with its strong customer relationships and on-going product enhancement and diversification efforts for its gaming products, EGT has the potential to become a meaningful contributor to the Group in the future.

MelcoLot – Lottery Management Business in Asia

MelcoLot Limited (“MelcoLot”), which the Group holds 40.65% equity interest, is principally engaged in the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the PRC, China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre (“CSLA”). It has established an extensive presence in the PRC by managing a network of retail outlets in the country, as well as by providing maintenance and upgrade services for the rapid-draw game “Shi Shi Cai” in the Chongqing Municipality. MelcoLot is also a distributor of lottery terminals and hardware for CSLA.

During the review period, MelcoLot's revenue declined by 28% to HK\$22.5 million attributable to a low pricing strategy in the lottery terminal and hardware distribution business to maintain market share in the face of slow demand. The distribution business continues to be the major revenue generator of MelcoLot and contributed to approximately 93% of its revenue for the first half of 2014, compared to 91% from the same period last year. The Company's loss increased, amounting to HK\$20.8 million in the first half of 2014, compared to HK\$6.7 million recorded in the same period last year. The increase in losses is mainly attributable to the overall revenue decline, net foreign exchange losses, and increased employee benefits costs of approximately 29%. These losses were slightly offset by 14% decrease in finance cost.

We believe the PRC Government is committed to making the lottery industry more competitive and appealing to consumers in order to sustain long-term growth. Evidence of this commitment include the implementation of new regulations on the administration of lotteries, the introduction of new rapid-draw lottery games and new games in single-match sports betting, the increases in prize payout ratios, and the opening up of online and phone lottery distribution. MelcoLot aims to leverage its access to the world-class expertise of its strategic shareholders and increase its focus on new media technologies and sales platforms to capture opportunities in this potentially growing market.

MelcoLot also arranged an open offer and successfully raised gross proceeds of HK\$652.7 million in May 2014. The proceeds allowed MelcoLot to repay a loan of HK\$251.6 million to Melco and will help fund any potential acquisition opportunities for furthering its growth. MelcoLot will continue to evaluate business opportunities that support its ongoing development, which in turn helps realize its goal of delivering maximum long-term value to shareholders.

Ski Resort Business in China

The Group owns 16.69% 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”).

The Club Med Yabuli business, which was established by a strategic partnership with Club Med Asia S.A. to operate and manage two of the hotels at Yabuli Resort, has been growing steadily over the winter season. A 37% year-on-year rise in revenue was reported in first quarter of 2014, the result of a shift in sales strategy that has focus on domestic market in China for the 2013-2014 winter season and overall improvements in service quality.

MCR is confident in the near-term prospects for both the ski industry in China and the company itself. The government of Heilongjiang Province has increased its investment in local infrastructure projects and is working on an interest subsidy scheme to spur development. Additionally, MCR will be the official partner and site of the 2016 World Championships of Snowboarding, the world’s premier snowboarding competition.

ACHIEVEMENTS AND AWARDS

Melco has been committed to maintaining high standards of corporate governance and corporate social responsibility (“CSR”) along with achieving excellent financial performance. The Group has received a number of accolades during the period under review acknowledging its accomplishments toward these goals and demonstrating a broad level of support from various segments of society.

Corporate Governance

The Group’s dedication to maintaining the highest standards of corporate governance has been well recognized over the years. For the fourth year running, the Group captured the “Best Investor Relations by a Hong Kong Company” in the Asia Excellence Recognition Award presented by *Corporate Governance Asia* magazine in 2014. Melco was also selected as one of “Best Managed Companies in Hong Kong”, “Best Corporate Governance” and “Best Investor Relations” by *Finance Asia* magazine.

Additionally, the Group’s Annual Report has been awarded the Bronze Prize in the “Traditional Annual Report” category at the 2014 ARC Awards.

Apart from awards presented to the Group, Melco's management has also earned plaudits for its dedication and strong leadership. Group Chairman and Chief Executive Officer, Mr. Lawrence Ho was not only honored with the "Best CEO" by both the *Corporate Governance Asia* and *Finance Asia* magazine in 2014, but was also selected as the "Best CEO" in the gaming and lodging sector in the annual poll organized by *Institutional Investor* magazine. All of these accolades clearly show that the Group's efforts in corporate governance are widely recognized.

Corporate Social Responsibility

Melco is committed to the betterment of society as well as caring for the environment and the community and regards corporate social responsibility as an essential part of its corporate mission.

In 2014, the Group received the "Best Environmental Responsibility" and "Best CSR" titles from *Corporate Governance Asia* magazine for the second year running. *Finance Asia* magazine also chose Melco when selecting the company with the "Best Corporate Social Responsibility" in 2014. To show our dedication to energy conservation, Melco has once again joined as the "Diamond Corporate Member" of WWF Hong Kong in 2014 for the fourth consecutive year.

This year, the Group's Corporate Social Responsibility Report has broadened its disclosure with the objective of fulfilling a B+ application level and giving our stakeholders a better picture of our CSR performance. The report has garnered the Gold Prize at the 2014 ARC Awards under the category of "Interactive Annual Report".

Business Operations

During the period under review, a number of prestigious hospitality industry accolades have been won by the Group. Crown Towers at City of Dreams was granted the Five-Star Award for Lodging and Spa by *Forbes Travel Guide* in 2014. Jade Dragon and The Tasting Room restaurants both received Five-Star Awards for Restaurants by *Forbes Travel Guide* in 2014 as well as a coveted Michelin Star each from the Michelin Guide Hong Kong and Macau. City of Dreams also earned the "VIP Room of the Year" title from the International Gaming Awards in 2014.

The luxurious Altira Macau garnered the 5-Star Award for both Lodging and Spa from *Forbes Travel Guide* for the fifth consecutive year. It has also earned a certification for its Hazard Analysis and Critical Control Points (HACCP) system from the Société Générale de Surveillance Limited (SGS Hong Kong) for the first time. Additionally, Aurora at Altira Macau was selected by *Forbes Travel Guide* as a 5-Star Restaurant while Tenmasa and Ying were both honored with the 4-Star Restaurant Award.

These accolades highlight the Group's commitment to corporate governance and business excellence. They also underscore the recognition that Melco is receiving from around the world not just from associated industries but from the local communities we serve as well. Melco remains committed to its role as a responsible corporate citizen and to serving the interests of its stakeholders.

OUTLOOK

Within Macau, the growth of gross gaming revenues has slowed down in recent months due primarily to the decline in VIP gaming revenues. Absent significant improvements in market conditions, market growth is expected to remain at a slower pace. However, in our view the gaming sector in Macau overall remains positive as the more profitable mass market segment continues to grow rapidly. Melco Crown Entertainment's strength has been in the premium end of the mass market and the exciting new resort Studio City will solidify MCE's leadership position in this segment of the market. As such, we remain confident in our ability to benefit from the growth in mass market visitation to Macau.

While an economic slowdown in China may negatively impact Macau, we believe the Central Government's strategic direction towards more sustainable and diversified growth are prudent and will have lasting benefits to the long-term economic development in Macau. Resorts scheduled to open in the next few years such as Studio City will offer a variety of innovative leisure and entertainment options in Macau and help to grow the market by appealing to completely new demographics. Existing visitors will have more reasons to extend their frequencies of visits and lengths of stay in Macau as well. These trends offer the potential to further expand the gaming industry which benefits all players. The upcoming improvements in infrastructure such as the construction of the Hong Kong-Zhuhai-Macau bridge and the Light Rail Transit elevated railway should further support industry growth by making Macau even more accessible and convenient to tourists. With its superior gaming offerings and non-gaming amenities, we believe Macau's prospects as a world-class leisure and hospitality destination remain as strong as ever.

The opening of the planned integrated resorts in the coming years will undoubtedly intensify competition and exacerbate the shortage of labor in Macau. We believe the expected increase in supply will be manageable and that even with this additional capacity, Macau's addressable market remains under-penetrated with substantial room for the whole sector to grow. The labor shortage has been an on-going challenge faced by all operators and Melco has implemented appropriate programs and policies in place to attract and retain talent. Thus, we feel well-positioned to meet the challenges ahead of us in Macau.

Elsewhere in Asia, Melco continues to explore new opportunities while construction of our projects in the development pipeline is proceeding according to plans. Our new integrated resort project in the Philippines, City of Dreams Manila, will feature world-class hotel brands including Asia's first Nobu Hotel, unique leisure and entertainment concepts such as the "DreamPlay by DreamWorks" family-oriented "Edutainment" center, and a number of different seasonal fiestas and performances. Our casino project in Vladivostok, Russia is expected to generate meaningful synergies with the Group's existing gaming and entertainment assets further enhancing Melco's reputation in the industry as a leading gaming and entertainment company. The Group is also actively eyeing potential opportunities in other countries such as Japan while EGT continues to seek new gaming project opportunities in Indo-China and other Asian regions. All in all, Melco is moving towards a more global and diversified business model. We remain confident about our future business prospects in Macau and the various overseas markets in which we operate.

Looking ahead, we expect our existing operations to continue to prosper and are optimistic about the projects in our development pipeline. We anticipate new opportunities will present themselves as the gaming industry continues to grow worldwide. Melco continues to strive to realize our vision of being a global market leader in the gaming, leisure and entertainment industry.

FINANCIAL REVIEW

	Six-month period ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Segment Results:		
Gaming, Leisure and Entertainment	(18,494)	(14,344)
Property and Other Investments	15,843	55,605
	(2,651)	41,261
Share of profits of associates	1,055,908	659,066
Share of loss of a joint venture	(628)	–
Gain (loss) on deemed disposal of interest in an associate	4,687	(32,337)
Unallocated corporate income	–	22,684
Central administrative costs and other unallocated corporate expenses	(149,882)	(88,642)
Finance costs	(21,843)	(16,982)
Profit before tax	885,591	585,050
Income tax expense	(121)	(5,608)
Profit for the period	885,470	579,442
Non-controlling interests	22,162	(2,563)
Profit for the period attributable to owners of the Company	<u>907,632</u>	<u>576,879</u>

For the six-month period ended 30 June 2014, the Group reported profit attributable to owners of the Company of HK\$907.6 million compared to HK\$576.9 million for the same period in 2013.

SEGMENT RESULTS

Gaming, Leisure and Entertainment

The gaming, leisure and entertainment businesses are mainly formed by the core (i) Macau gaming business (conducted via 33.55%-owned Melco Crown Entertainment), (ii) gaming machine revenue participation business (conducted through 38.04%-owned EGT), in which the brief descriptions for the performance of the core Macau gaming business and gaming machine revenue participation business for the six-month period ended 30 June 2014 are included under the heading “SHARE OF PROFITS OF ASSOCIATES” below, and (iii) lottery business (conducted through 40.65%-owned MelcoLot), together with other non-core businesses.

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

	Six-month period ended	
	30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
MelcoLot (1)	(18,339)	(2,745)
Jumbo Kingdom (2)	150	(11,569)
Others (3)	(305)	(30)
	<u>(18,494)</u>	<u>(14,344)</u>

(1) MelcoLot

MelcoLot continues to be engaged in a single operating segment which is the lottery business. MelcoLot's loss for the six-month period ended 30 June 2014 amounted to HK\$20.8 million (six-month period ended 30 June 2013: HK\$6.7 million). It was mainly attributable to the following items:

- (i) the overall decrease in revenue, especially for sales of lottery terminals and hardware;
- (ii) net foreign exchange loss amounted to HK\$7.0 million for the six-month period ended 30 June 2014 (six-month period ended 30 June 2013: gain of HK\$3.8 million);
- (iii) employee benefits costs were increased to HK\$8.7 million for the six-month period ended 30 June 2014, or an increase of approximately 29% compared to HK\$6.7 million for the corresponding period in 2013. The increase was primarily due to the non-cash expenses from the share option scheme granted in July 2013; and

- (iv) finance costs decreased by approximately 14% from HK\$3.6 million for the six-month period ended 30 June 2013 to HK\$3.1 million for the corresponding period in 2014. The decrease was primarily due to the full settlement of the amount due to immediate holding company in June 2014.

(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.

The catering business segment resulted a profit of HK\$0.2 million for the six-month period ended 30 June 2014 while a loss of HK\$11.6 million for the same period in 2013.

J-Kitchen in Beijing was closed in June 2013 due to underperformance and recorded an operating loss of HK\$3.6 million and HK\$8.0 million expenses in relation to the closure of business during the six-month period ended 30 June 2013.

(3) Others

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

Property and Other Investments

This segment handles property and other treasury investments for the Group. For the six-month period ended 30 June 2014, it recorded a segment profit of HK\$15.8 million (six-month period ended 30 June 2013: HK\$55.6 million). The decrease was mainly due to the HK\$46.0 million fair value gain on investment properties recorded in 2013 partially offset by the HK\$5.9 million increase in interest income to HK\$15.1 million in the first half of 2014 from HK\$9.2 million for the same period in 2013.

SHARE OF PROFITS OF ASSOCIATES

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

	Six-month period ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Share of profit of Melco Crown Entertainment (1)	1,055,908	659,373
Others	—	(307)
	<u>1,055,908</u>	<u>659,066</u>

In previous years, the Group wrote down its investments in EGT and MCR to zero. During the period under review, no reversal of impairment loss was considered necessary to the Group from the aforesaid associates, as EGT and MCR continued to make losses. In paragraph (2) below, the performance of EGT during the first half of 2014 is briefly described.

(1) Share of profit of Melco Crown Entertainment

For the period under review, the Group's attributable profit arising from its 33.55% ownership of Melco Crown Entertainment amounted to approximately HK\$1,055.9 million (six-month period ended 30 June 2013: HK\$659.4 million) after taking into account the adjustments in accordance with Hong Kong Financial Reporting Standards.

According to the unaudited results (prepared in accordance with the United States Generally Accepted Accounting Principles ("U.S. GAAP") of Melco Crown Entertainment announced on 7 August 2014, it reported net revenue of US\$2,556.9 million for the six-month period ended 30 June 2014 versus US\$2,440.0 million in the six-month period ending 30 June 2013. The increase in net revenue was primarily driven by improved group-wide mass market table games revenues, partially offset by a decrease in group-wide rolling chip revenues.

The Adjusted property EBITDA was US\$701.1 million for the first six months of 2014, as compared to Adjusted property EBITDA of US\$645.7 million in the first six months of 2013. The year-over-year improvements in Adjusted property EBITDA was driven by strong mass market with the ongoing commitment to control costs.

Net income attributable to Melco Crown Entertainment for the first half of 2014 was US\$383.2 million, compared with net income attributable to Melco Crown Entertainment of US\$234.8 million in the corresponding period of 2013.

City of Dreams

For the six-month period ended 30 June 2014, net revenue at City of Dreams was US\$2,041.5 million compared to US\$1,803.0 million in the same period of 2013. City of Dreams generated Adjusted EBITDA of US\$631.6 million in the first half of 2014, representing an increase of 15% compared to US\$547.1 million in the comparable period of 2013. Rolling chip volume totaled US\$46.8 billion for the first half of 2014 versus US\$48.6 billion in the same period of 2013. The rolling chip win rate was 3.0% and 2.7% in the first quarter and second quarter of 2014 respectively. The expected rolling chip win rate range is 2.7% – 3.0%. Mass market table games drop increased 22% to US\$2,629.9 million compared with US\$2,148.3 million in the comparable period of 2013. The mass table games hold percentage was 37.5% in the first quarter and 37.4% in the second quarter of 2014. Slot handle for the six-month period ended 30 June 2014 was US\$3,001.1 million, up 35% from US\$2,222.8 million generated for the six-month period ended 30 June 2013. Total non-gaming revenue at City of Dreams in the first half of 2014 was US\$137.8 million, up from US\$125.5 million for the same period in 2013.

Altira Macau

For the six-month period ended 30 June 2014, net revenue at Altira Macau was US\$411.4 million compared to US\$543.8 million in the same period of 2013. Altira Macau generated Adjusted EBITDA of US\$50.3 million in the current review period compared with Adjusted EBITDA of US\$81.5 million in the comparable period in 2013. Rolling chip volume totaled US\$18.4 billion in the first half of 2014 versus US\$23.6 billion in the same period of 2013. The rolling chip win rate was 2.9% in the first quarter and 2.7% in the second quarter, which are in line with the expected rolling chip win rate range of 2.7% – 3.0%. In the mass market table games segment, drop totaled US\$400.6 million, an increase of 19% from US\$336.9 million generated in the comparable period of 2013. In the first quarter of 2014, the mass market hold rate was 13.3% while in the second quarter, it was 15.9%. Total non-gaming revenue at Altira Macau in the first half of 2014 was US\$18.5 million, slightly increased from US\$18.2 million for the same period in 2013.

Mocha Clubs

Net revenue from Mocha Clubs totaled US\$76.1 million in the six-month period ended 30 June 2014, up from US\$71.2 million in the corresponding period of 2013. Mocha Clubs generated US\$19.9 million of Adjusted EBITDA in the review period, an increase of 9% when compared to Adjusted EBITDA of US\$18.3 million in the same period of 2013. The number of gaming machines in operation at Mocha Clubs averaged approximately 1,400 and 1,200 in the first and second quarter of 2014, compared to approximately 2,000 in both comparable period in 2013. The average net win per gaming machine per day was US\$316 in the first quarter and US\$331 in the second quarter of 2014, as compared with US\$214 and US\$207 in the comparable period of 2013.

City of Dreams Manila

Melco Crown Entertainment incurred approximately US\$25.7 million of operating expenses in the six-month period ended 30 June 2014 at City of Dreams Manila, which primarily related to pre-opening costs as well as share based compensation cost, and recorded a net loss of approximately US\$54.0 million, as a result of approximately US\$9.3 million interest expense on the PHP15 billion senior notes and US\$15.7 million of capital lease charges relating to building lease payments, net of capitalized interest, incurred during the first half of 2014.

(2) Performance of EGT during the review period

According to the unaudited result (prepared in accordance with U.S. GAAP) of EGT, consolidated revenue for the six-month period ended 30 June 2014 was US\$9.6 million, a decrease of 13% compared to US\$11.0 million in the same period of 2013 due to a decline in gaming operations revenue partially offset by an increase in gaming products sales. For the six-month period ended 30 June 2014, EGT reported a net loss of US\$1.1 million compared to US\$2.8 million in the same period of 2013. The net loss in the current interim period included a net loss of US\$0.4 million from the discontinued Dreamworld Pailin operation.

As of 30 June 2014, electronic gaming machine seats in operation were 1,694. Out of the total units, 568 were installed in the Philippines and 1,126 were installed in Cambodia.

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

During the period ended 30 June 2014, the Group recognised a gain of approximately HK\$4.7 million (six-month period ended 30 June 2013: loss of HK\$32.3 million) which represented the increase (six-month period ended 30 June 2013: decrease) in net assets attributable to the Group as a result of a decrease in the Group's ownership interest in one of its associates, Melco Crown Entertainment, from the vesting of certain restricted shares and the exercise of share options of Melco Crown Entertainment.

UNALLOCATED CORPORATE INCOME

For the six-month period ended 30 June 2013, an impaired loan to MCR amounted to CAD3.0 million (equivalent to approximately HK\$22.7 million) was recovered.

CENTRAL ADMINISTRATIVE COSTS AND OTHER UNALLOCATED CORPORATE EXPENSES

Unallocated corporate expenses rose by 69% from approximately HK\$88.6 million for the six-month period ended 30 June 2013 to HK\$149.9 million for the same period in 2014. The increase was primarily due to the increase in share options and share award expenses and an one-off expense in connection with MelcoLot's open offer during the period.

FINANCE COSTS

Finance costs increased by 28% from approximately HK\$17.0 million for the six-month period ended 30 June 2013 to approximately HK\$21.8 million for the six-month period ended 30 June 2014. It represented the increase in interest expenses of HK\$6.2 million on the HK\$760.0 million guaranteed bonds newly raised in February 2013.

INCOME TAX EXPENSE

During the period under review, tax expense represents the PRC enterprise income tax expense.

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 and other borrowings.

As of 30 June 2014, total assets of the Group were HK\$14,745.6 million (31 December 2013: HK\$12,943.1 million) which were financed by shareholders' funds of HK\$12,814.1 million (31 December 2013: HK\$11,689.0 million), balance of non-controlling interests of HK\$288.8 million (31 December 2013: deficit balance of HK\$73.6 million), current liabilities of HK\$840.7 million (31 December 2013: HK\$133.2 million), and non-current liabilities of HK\$802.0 million (31 December 2013: HK\$1,194.5 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 3.5 (31 December 2013: 12.3).

During the six-month period ended 30 June 2014, the Group recorded a net cash inflow of HK\$970.2 million (six-month period ended 30 June 2013: HK\$7.9 million). As of 30 June 2014, cash and cash equivalents of the Group totaled HK\$1,175.7 million (31 December 2013: HK\$205.5 million). The gearing ratio, expressed as a percentage of total borrowings over shareholders' funds, was at a satisfactory level of 9% as of 30 June 2014 (31 December 2013: 10%). In illustrating the Group's adoption of a prudent treasury policy, 93% of bank balances and cash are put in short-term fixed deposits. All borrowings, bank deposits and 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 30 June 2014, the Group's bank deposits of approximately HK\$0.9 million (31 December 2013: HK\$0.9 million) were pledged as security for obtaining utilities for certain subsidiaries of the Group.

As at 30 June 2014, the guaranteed bonds issued by the Group amounted to HK\$760.0 million, which are interest bearing of 4.15% per annum and mature on 5 March 2018. The bonds are guaranteed by the Company. As at 30 June 2014, the Group's total available bank loan facilities from various banks amounted to HK\$456.7 million (31 December 2013: HK\$459.2 million), of which HK\$41.7 million (31 December 2013: HK\$44.2 million) was secured by pledging HK\$159.0 million of the Group's investment properties. As at 30 June 2014, the Group utilised HK\$413.0 million and HK\$41.7 million of unsecured and secured bank loan facilities respectively (31 December 2013: unsecured HK\$413.0 million; secured HK\$44.2 million). Details of bank and other borrowings are given in note 13 to the condensed consolidated financial statements.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

During the period under review, the Group disposed of 74,208,000 MelcoLot's shares (the "Disposal"), representing 2.36% of the issued share capital of MelcoLot as at 30 June 2014, for an aggregate consideration, net of expenses, of approximately HK\$110.2 million received in cash in the open market. The consideration was calculated by reference to the market share price of the MelcoLot at the date of the disposal.

The gain in respect of the Disposal was approximately HK\$117.0 million, was calculated by (a) adding the net liabilities of MelcoLot attributable to the non-controlling interests of approximately HK\$6.8 million and (b) deducting the related costs and expenses of the disposal of approximately HK\$0.4 million from the gross proceeds of the Disposal of approximately HK\$110.6 million, has been credited to special reserve.

HEADCOUNT/EMPLOYEES' INFORMATION

The total number of the Group's and associates' employees was 12,995 as of 30 June 2014. Excluding the employees from associates such as Melco Crown Entertainment, MCR, EGT and ChariLot Company Limited, the total number of the Group's employees becomes 250 as of 30 June 2014 (31 December 2013: 254 employees). Among the 250 employees, 222 are located in Hong Kong and the rest are based in Macau and the PRC. The related staff costs for the six-month period ended 30 June 2014, including directors' emoluments, share option expenses and share award expenses, amounted to HK\$148.1 million (six-month period ended 30 June 2013: HK\$103.1 million).

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

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

CONTINGENT LIABILITIES

No contingent liability was noted for the Group as at 30 June 2014.

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 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 using different financing options available. The Company will also provide the required equity capital to the new projects coming ahead, provided the projects are deemed to be appropriate.

INTERIM DIVIDEND

The directors has resolved to declare an interim dividend of HK11.6 cents (six-month period ended 30 June 2013: Nil) per share for the six-month period ended 30 June 2014 to shareholders whose names appear on the Register of Members of the Company on Thursday, 18 September 2014. The dividend will be paid on Tuesday, 30 September 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 16 September 2014 to Thursday, 18 September 2014, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share certificates with completed transfer forms must be lodged with the Company's share registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 September 2014.

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 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 (the "Stock Exchange"), 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 HKSE Code during the period from 1 January to 30 June 2014, except for the deviation of the code provision A.2.1 of the HKSE Code. Pursuant to this code provision, the roles of the Chairman and Chief Executive Officer of a listed company should be separate and should not be performed by the same individual. However, in view of the present composition of the Board, the in depth knowledge of Mr. Ho, Lawrence Yau Lung of the operations of the Group and of the gaming and entertainment sector in Macau in general, his extensive business network and connections in that sector and the scope of operations of the Group, the Board believes it is in the best interests of the Company for Mr. Ho, Lawrence Yau Lung to assume the roles of Chairman and Chief Executive Officer at this time and such arrangement be subject to review by the Board from time to time.

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.

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 its own 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 throughout the six-month period ended 30 June 2014.

AUDIT COMMITTEE

The Company's audit committee is currently composed of a Non-executive Director and three Independent Non-executive Directors. The primary duties of the audit committee are to (i) review the Group's annual reports, financial statements, interim reports and to provide advice and comments thereon to the board of directors of the Company; and (ii) review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has reviewed the unaudited interim results of the Group for the six-month period ended 30 June 2014.

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

During the six-month period ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INDEPENDENT REVIEW

The interim results for the six-month period ended 30 June 2014 are unaudited, but have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants by the Company’s auditor, whose independent review report is included in the interim report.

BOARD OF DIRECTORS

As at the date of this announcement, 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 August 2014