



**Melco Crown Entertainment**  
新濠博亞娛樂

A HK- and NASDAQ-listed Company Focused  
on Casino Gaming and Entertainment Resort  
Facilities in Macau



珍寶王國  
JUMBO KINGDOM™

An Iconic  
Floating Cuisine  
in Hong Kong

**ALTIRA**  
新濠鋒 MACAU

A Forbes 5-Star Luxurious  
Hotel-Casino



**Mocha**  
The Largest  
Non-Casino-Based  
Operator of Electronic  
Gaming Machines



Flagship Integrated Entertainment  
Resort in Cotai, Macau

**STUDIO CITY**

A Large Integrated Entertainment,  
Retail and Gaming Resort in  
Cotai under  
Development Pipeline

**Entertainment Gaming Asia Inc.**

A Leading Gaming Company  
Focused on the Emerging Gaming  
Markets of Asia



A HK-listed Company  
Focused on Asia's  
Lottery Business

**LEADING** The Way

# Entertaining Possibilities • Achieving Growth

## VISION

To contribute to the growth and future of the communities we serve, inspiring hope and happiness in people all over the world

## MISSION

To be a dynamic company that leads the field in leisure and entertainment, we continually explore new opportunities for growth and development that create value for all stakeholders

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# new HORIZON

It has always been in our character to challenge the status quo by creating unique inspirational entertainment experiences. With an enviable portfolio of entertainment assets established, we continuously look for good soil to further grow our imaginations.

The acquisition of Studio City, a unique entertainment-driven experience that captivates the mass market, significantly expands our coverage in Cotai. With our enhanced footprint in the fast-growing Cotai and the exciting possibilities that the Hengqin Island presents, the future potentials are immense.



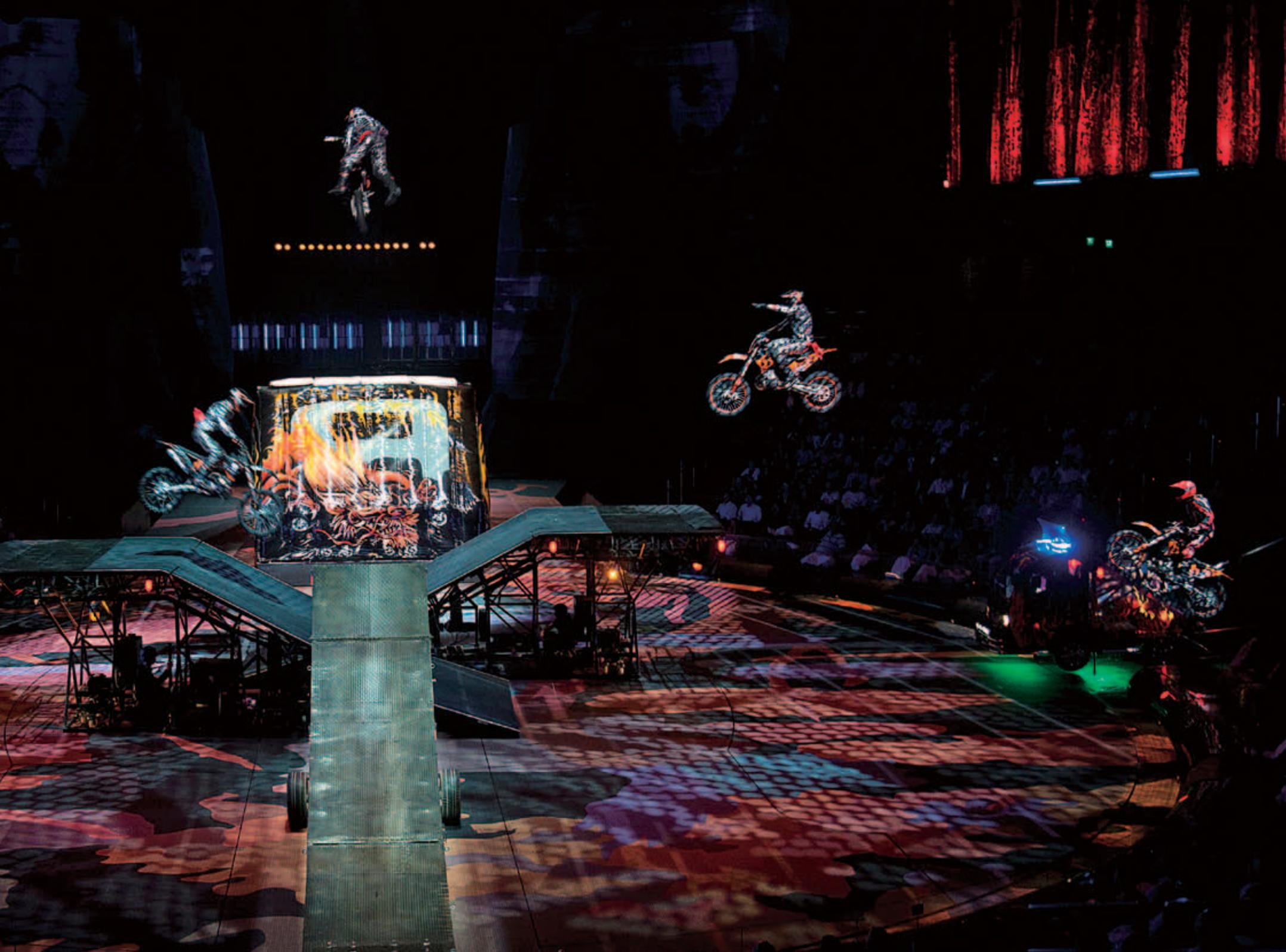


# OUTPERFORMANCE

Our visionary management and talented staff set high achievement targets and the results have, time and again, exceeded all expectations.

Apart from accomplishing new heights in financial terms, with our operations significantly ramped up, we have also been stacking up international recognitions with over a dozen awards for our outstanding facilities and services, including the “Best Casino Operator of the Year in Asia” awarded to Melco Crown Entertainment for the third time at the International Gaming Awards, and the Forbes’ 5-Star Awards for Lodging and Spa garnered by Altira Macau for the third consecutive year. We strive to continue to raise our game.





# WOW entertainment

Breathtaking. Pulsating. Our first-class entertainment offerings aim to excite all senses of our visitors and simply leave them in awe.

The House of Dancing Water welcomed its 1,000,000th spectator on January 23, 2012 and the international piano maestro Yundi graced us with his performance in the first anniversary of the world's largest water-based show in September 2011. Club Cubic opened in April 2011 has quickly become the most prestigious hotspot in Asia; the 11th Chinese Film Media Awards made its appearance in Macau for the first time at the iconic Dancing Water Theater in June 2011; and the first-ever Madonna exhibition in Asia opened at City of Dreams in the same month. We never fail to bring new surprising experience.





CUBIC

# seizing OPPORTUNITIES

We are well-positioned in Macau, and in Cotai in particular, to fully capture the rich array of opportunities in the rapidly growing local gaming market.

Melco Crown Entertainment's successful dual-listing on the Hong Kong Stock Exchange on December 7, 2011 created an additional growth driver for our Company. Adding to the joy of this momentous event, Melco Crown Entertainment was the first-ever company in the financial history of Hong Kong to hit the gong at its listing ceremony in the Hong Kong Stock Exchange.



QTY



HKEX  
香港交易所

Welcomes the Listing of

Melco Crown Entertainment Limited



Hong Kong Exchanges and Clearing Limited  
香港交易所有限公司

26.00 )	ASK ( 26.40 )
-11s	7689 7687 7687
-17s	+1s +6s 7689
-12s	7689



# connecting HEARTS

Our company is a responsible corporate citizen fully committed to act in the interest of our shareholders, employees and the wider community, by fostering the highest level of corporate governance and corporate social responsibility.

We care a great deal about creating a sustainable living environment for our future generations, and we are proud that our three hotels in City of Dreams, namely Crown Towers, Hard Rock Hotel and Grand Hyatt Macau, were recognized with the “2010 Macao Green Hotel Award” in June 2011.

We share our resources with the less fortunate in society and encourage our staff to engage in community services to spread laughter, love and care. Through a variety of community outreach programmes, we truly touch the hearts of many.





 Melco

love Caring education community green

# Financial Highlights

**Net Profit  
Attributable  
to Owners of  
the Company  
HK\$280.1  
million**

Net profit attributable to owners of the Company was HK\$280.1 million for the year ended 31 December 2011, improved significantly from a loss attributable to owners of the Company of HK\$209.5 million in the year of 2010.

**Basic Earnings  
Per Share  
HK22.79 cents**

Basic earnings per share attributable to owners of the Company was HK22.79 cents for the year ended 31 December 2011 compared to basic loss per share attributable to owners of the Company of HK17.04 cents for the year ended 31 December 2010.

**Net Asset  
Value Per Share  
HK\$5.83**

Net asset value per share attributable to owners of the Company increased by 5% to HK\$5.83 as of 31 December 2011, as compared with HK\$5.55 as of 31 December 2010.

**Gearing  
Ratio  
17%**

Gearing ratio improved to 17% as of 31 December 2011 from 19% as of 31 December 2010; the Group maintained a healthy financial position during the review year.



# Corporate Profile



Founded in 1910 and listed on the Hong Kong Stock Exchange (HKEx) in 1927, Melco International Development Limited (“Melco” or the “Company”) is a company with a long history and a bright future. Today, under the leadership of Chairman and CEO Lawrence Ho, Melco has found new energy and direction as a dynamic company that leads the field in the leisure and entertainment sector.

Melco is in fact a company for a new generation in Asia – a generation of consumers who are eager for new experiences and ways to live their lives to the fullest. Our group companies are responding to the changing dynamics with vibrant, imaginative products and services that fulfill the demands and dreams of this increasingly affluent and ambitious generation.

## **Confidence leads to growth, growth leads to confidence**

Just as growth is central to the Asian economic story, it is a dominant theme in Melco's unfolding story.

Characterizing all of our Group companies is confidence that stems from recent successes in repositioning businesses for long-term growth and development of unique, proprietary products and services to attain market leadership.

The accolades that Melco has received over the past several years assured us that we are moving in the right direction. The Group is the first ever entertainment company to receive the “Hong Kong Corporate Governance Excellence Awards 2009” by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University. In 2011, Melco was once again granted the Corporate Governance Asia Annual Recognition Award 2011 for the sixth consecutive year by *Corporate Governance Asia* magazine. We are also recognized by *FinanceAsia* magazine for the fifth year as one of Hong Kong's Best Managed Companies. Its Chairman and Chief Executive Officer, Mr. Lawrence Ho, has been selected as one of the Best CEOs in Hong Kong for three years by *FinanceAsia* magazine.

Melco was a founding signatory of the Hong Kong Corporate Governance Charter launched by The Chamber of Hong Kong Listed Companies. The aim of the Charter is to strengthen and foster a corporate governance culture among listed companies in Hong Kong.

# Corporate Structure

## MELCO GROUP

### Leisure and Entertainment

Melco Crown Entertainment Limited –  
listed on the Main Board of The Stock Exchange of Hong Kong Limited (SEHK: 6883)  
and the NASDAQ Global Select Market (NASDAQ: MPEL)

City of Dreams, Cotai –  
Premium Mass Market



Mocha Clubs, all over Macau –  
Leisure Grind market



Focus on Macau gaming market

Altira Macau, Taipa – VIP market



Studio City, Cotai (under development)  
– Mass Market



Entertainment Gaming Asia, Inc. – listed on the New York  
Stock Exchange Amex Equities (NYSEAmex: EGT)



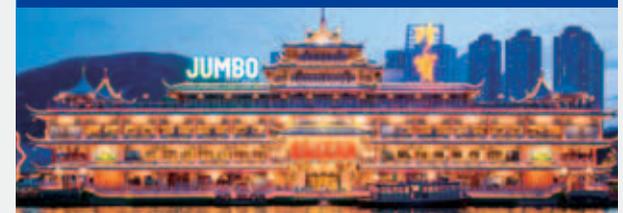
Focus on slot machine participation business

MelcoLot Limited – listed on the the Main Board of The  
Stock Exchange of Hong Kong Limited (SEHK: 8198)



Focus on Asia's lottery business

Jumbo Kingdom



### Other Businesses

Property and Other Investments

# Chairman & CEO's Statement

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



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

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

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

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

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

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

**Ho, Lawrence Yau Lung**  
**Chairman and Chief Executive Officer**

Hong Kong, 28 March 2012

# MANAGEMENT DISCUSSION & ANALYSIS

## SIGNIFICANT EVENTS AND DEVELOPMENTS

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

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

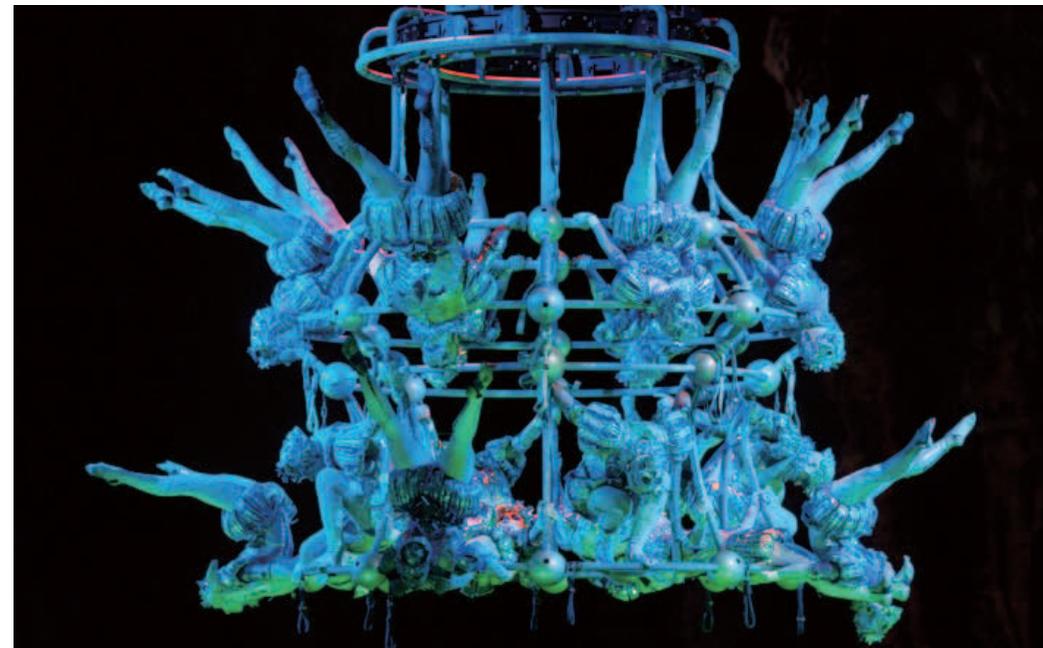




## CORE BUSINESS

### *Gaming Business in Macau*

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





Having ramped up City of Dream's gaming infrastructure to tap the burgeoning mass market segment, Melco Crown Entertainment's efforts have paid off with increased visitation and strong growth rate in its mass tables business. City of Dreams recorded year-over-year improvement in net revenue and adjusted EBITDA, driven by record rolling chip and mass market table volumes, ongoing improvements in mass market table hold percentages, supplemented by strong contributions from hotel sales and other non-gaming amenities. Equipped with several unique amenities including the largest children's attraction in Macau, Kids' City; the world's largest water-based show, The House of Dancing Water; and the most prestigious nightclub in Macau, Club Cubic, which was opened in April and has already become the most trendy clubbing hotspot in Macau, City of Dreams has successfully invented itself as a destination for visitors looking for new dimensions in relaxation and entertainment. City of Dreams' success has been widely acknowledged by the hospitality industry as the facility has been honored with a number of prestigious awards including the "Best Casino VIP Room" and "Best Casino Interior Design" at the International Gaming Awards; and the "Best Luxury Hotel Spa" garnered by Crown Towers at the World Luxury Spa Awards. The House of Dancing Water, its renowned water-based live entertainment show, also gained the "Gold Prize" at the HKMA/TVB Awards for Marketing Excellence.

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

### **Gaming Machine Revenue Participation Business in Southeast Asia**

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

EGT has an established presence within gaming markets in Cambodia and the Philippines through its gaming machine participation and management services operations. Its gaming machine operations at NagaWorld Hotel and Casino Resort in Phnom Penh,



Cambodia, a wholly-owned subsidiary of NagaCorp Ltd. (Stock code: 3918), have been a strong contributor to EGT's financial performance. EGT has under contract a total of 670 electronic gaming machines which have been placed in designated areas of the casino floor and are jointly managed by EGT and NagaWorld. These gaming machines have achieved average daily net win of approximately US\$232 per machine in 2011.

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

## **Lottery Management Business in Asia**

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

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

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

## **NON-CORE BUSINESSES**

### ***Ski Resort Business in China***

The prosperity created by China’s long-sustained economic boom has delivered increased discretionary spending and a rapidly growing market of consumers who are seeking more enjoyable recreational opportunities, which include skiing, among other leisure activities. During the year, the Group owned 28.7% of Mountain China Resorts

(Holding) Limited (“MCR”), which owns and operates the largest destination ski resort in China, Sun Mountain Yabuli Resort in Heilongjiang (“Yabuli Resort”). In early 2010, MCR formed a strategic partnership with Club Med Asia S.A. (“Club Med”) in which Club Med operates and manages two of the new hotels at Yabuli Resort, known as “Club Med Yabuli”, the first Club Med resort in China. Its second year of operation has resulted in close to 90% occupancy on average during the ski season, with repeat guests appreciating its unique recreational offerings.





## ACHIEVEMENTS AND AWARDS

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

### **Corporate Governance**

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

### **Corporate Social Responsibility**

The Group is fully committed to fulfilling its responsibilities to the society, especially by caring for the environment and the community. It has become the first leisure and entertainment company to receive the CarbonCare Champion Gold Label awarded by CarbonCare Asia, in recognition of its effective carbon reduction measures. The Group was once again granted the "President's Award 2011" by The Community Chest of Hong Kong and "Class of Excellence" in Wastewise Label from Hong Kong Awards for Environmental Excellence in 2011. It was also honored as the "Best in Corporate Social Responsibility" by *FinanceAsia magazine* in 2011. All of these accolades are





clear evidence of its efforts in environmental protection. Furthermore, Melco has also been awarded the Caring Company Logo by the Hong Kong Council of Social Service for the sixth consecutive year in recognition of its continuous support and commitment to community services.

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

### **Business Operations**

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

In hospitality and services, Altira Macau was the first hotel in Macau to capture the "Best Spa Hotel Asia Pacific", "Five-Star Best Hotel Macau" and "Five-Star Best Spa Macau" at the International Hotel Awards 2011 honors. It was also selected for the "Forbes Five-Star Award for Lodging" and "Forbes Five-Star Award for Spa" for the

third consecutive year by Forbes Travel Guide. Melco Crown Entertainment's flagship integrated entertainment resort, City of Dreams, received the "Best Casino VIP Room" and "Best Casino Interior Design" awards at the International Gaming Awards, which underscored its understanding of and commitment to the Macau gaming landscape. Moreover, The House of Dancing Water, the iconic entertainment centerpiece at City of Dreams, garnered the "Gold Prize" and "MassMutual Citations for Innovation" at the HKMA/TVB Awards for Marketing Excellence 2011 organized by the Hong Kong Management Association. These awards fully reflected the show's popularity and impact on Macau's entertainment sector.

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

## OUTLOOK

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

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

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

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

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

## FINANCIAL REVIEW

	Year ended 31 December	
	2011 HK\$'000	2010 HK\$'000
<b>Continuing operations</b>		
Segmental Result: Leisure and Entertainment	11,928	938
Segmental Result: Property and Other Investments	25,424	26,232
Group operating results	37,352	27,170
Share of profits (losses) of associates	689,381	(10,943)
Share of loss of a jointly controlled entity	-	(81,686)
Gain (loss) on deemed disposal of interest in an associate	2,903	(33,085)
Loss on disposal of interest in an associate	-	(2,012)
Fair value changes on derivative financial instruments	-	(34)
Fair value change on investment in convertible loan note	(232,160)	14,414
Unallocated corporate income	30,653	76,525
Central administrative costs and other unallocated corporate expenses	(139,060)	(97,537)
Finance costs	(122,521)	(106,799)
Profit (loss) before tax	266,548	(213,987)
Income tax credit	14,844	14,245
Profit (loss) for the year from continuing operations	281,392	(199,742)
<b>Discontinued operations</b>		
Loss for the year from discontinued operations	-	(8,866)
Profit (loss) for the year	281,392	(208,608)
Non-controlling interests	(1,307)	(856)
Profit (loss) for the year attributable to owners of the Company	280,085	(209,464)

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



## CONTINUING OPERATIONS

### LEISURE AND ENTERTAINMENT

The leisure and entertainment businesses are mainly formed by the core (i) Macau gaming business (conducted via 33.7%-owned Melco Crown Entertainment), (ii) Gaming machine revenue participation business (conducted through 38.5%-owned EGT), and (iii) lottery business (conducted through MelcoLot, in which the Group has an effective interest of 35.3% on a fully diluted basis (assuming full conversion of all outstanding convertibles)), together with other non-core businesses.

## (1) Core businesses

The core Macau gaming business, gaming machine revenue participation business and lottery business are reported below under “SHARE OF PROFITS (LOSSES) OF ASSOCIATES”.

## (2) Non-core businesses

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

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

### Jumbo Kingdom

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

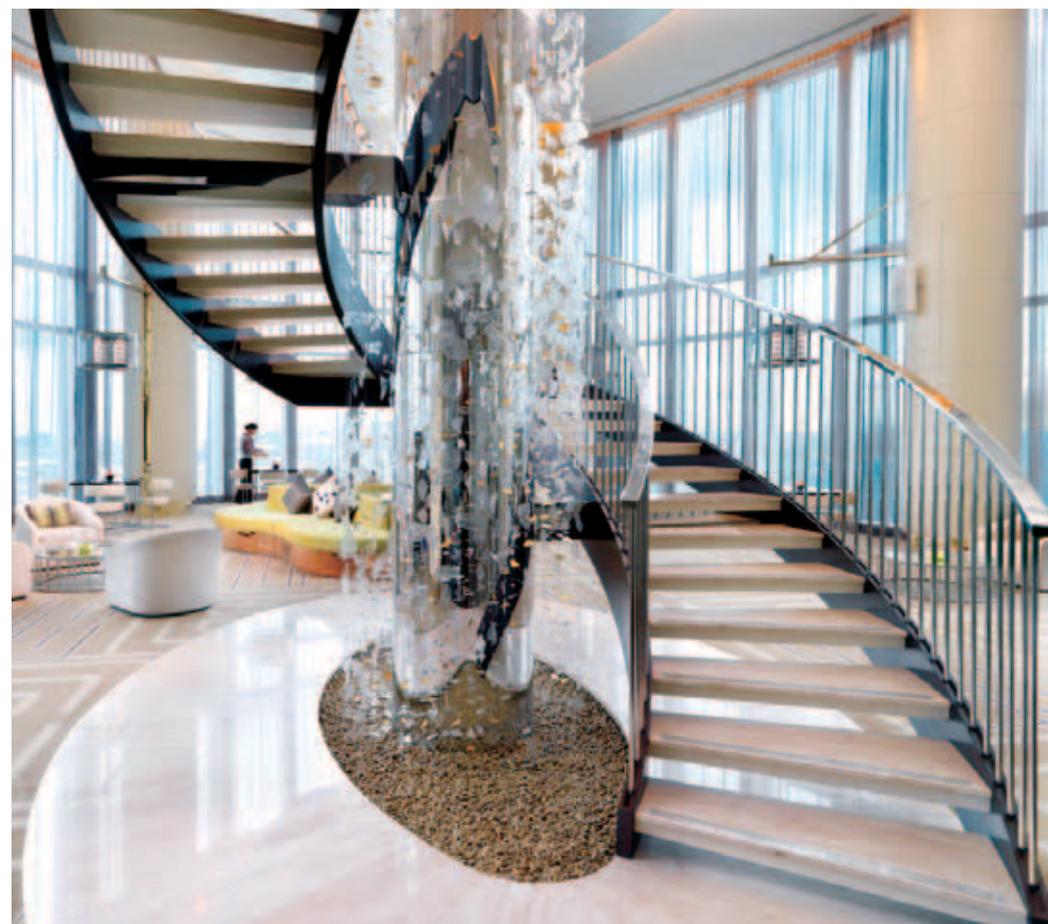
The segment profit of the catering business recorded at approximately HK\$12.3 million for the year ended 31 December 2011 (2010: HK\$1.5 million). In 2011, both the number of customers and the spending per customer increased by 2% and 9% respectively. Significant reduction in repair and maintenance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

### Others

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

## PROPERTY AND OTHER INVESTMENTS

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



## SHARE OF PROFITS (LOSSES) OF ASSOCIATES

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

	Year ended 31 December	
	2011 HK\$'000	2010 HK\$'000
Share of profit (loss) of Melco Crown Entertainment (1)	710,120	(13,437)
Share of profit of EGT (2)	-	-
Share of loss of MelcoLot (3)	-	(737)
Share of loss of Mountain China Resorts (Holding) Limited ("MCR") (4)	-	-
Share of (loss) profit of Power Way Group Limited ("Power Way") (5)	(20,739)	1,458
Share of profit of iAsia Online Systems Limited	-	1,773
	<b>689,381</b>	<b>(10,943)</b>

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

For the year under review, the Group's attributable profit arising from its 33.7% ownership of Melco Crown Entertainment amounted to approximately HK\$710.1 million (2010: attributable loss of HK\$13.4 million) after taking into account the adjustments under the generally accepted accounting principles ("GAAP") in Hong Kong.

According to its financial statements (prepared under US GAAP), Melco Crown Entertainment reported net revenue of US\$3.8 billion for the year ended 31 December 2011, versus US\$2.6 billion for the year ended 31 December 2010. Melco Crown Entertainment reported a net profit of US\$294.7 million for 2011, compared to a net loss of US\$10.5 million for 2010. The year-over-year improvement in net revenue was primarily driven by significantly improved gaming fundamentals, including strong rolling chip and mass market volumes, as well as improving mass market table hold percentages.

For the year ended 31 December 2011, net revenue at City of Dreams was US\$2,491.3 million versus US\$1,638.3 million in the year ended 31 December 2010. City of Dreams generated a positive adjusted EBITDA of US\$594.4 million in 2011 compared with US\$326.4 million in 2010. Rolling chip volume totalled US\$78.8 billion for 2011, up from US\$51.7 billion in 2010. In the fourth quarter of 2011, the rolling chip hold percentage (calculated before discounts and commissions) was 3%, which was in line with the target rolling chip hold percentage of 2.7% – 3.0%. In the mass market table games segment, drop (a measure of mass market gaming volume) for the year totalled US\$2,939.20 million, up from US\$2,059.3 million in 2010. In the fourth quarter of 2011, the mass market win rate was 25.7%, which was within the expected range for mass market table games hold percentage of 23% – 26%.

For the year ended 31 December 2011, net revenue at Altira Macau was US\$1,174 million versus US\$859.7 million in the year ended 31 December 2010. Altira Macau generated a positive adjusted EBITDA of US\$246.3 million in 2011 compared with US\$133.7 million in 2010. Rolling chip volume totalled US\$51.2 billion for 2011, up from US\$40.3 billion in 2010. In the fourth quarter of 2011, the rolling chip hold percentage (calculated before discounts and commissions) was 2.9%, which was within the target rolling chip hold percentage of 2.7% – 3.0%. In the mass market table games segment, drop (a measure of mass market gaming volume) for the year totalled US\$581.8 million, up from US\$377.1 million generated in the previous year. In the fourth quarter of 2011, the mass market table games hold percentage was 17.5% in 2011, while the expected range for mass market table games hold percentage was 15% – 17%.

Net operating revenue from Mocha Clubs totalled US\$132 million in the year ended 31 December 2011, up from US\$112 million in the year ended 31 December 2010. Mocha Clubs generated US\$40.5 million of adjusted EBITDA in 2011, as compared to US\$29.8 million in the previous year. In the fourth

quarter of 2011, the number of gaming machines in operation at the Mocha Clubs averaged approximately 1,800. The net win per gaming machine per day was US\$200 for the fourth quarter of 2011, as compared with US\$208 for the same period last year.

**(2) Share of profit of EGT**

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

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

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

The Group's interest in EGT was written down to zero in previous years, and the losses that EGT had made since then were not taken up by the Group. Only

when these unrecognized losses in previous years are fully offset by the future profits, the Group will recognize the profit of EGT again. In 2011, the Group still had an unrecognized loss of EGT, and therefore did not recognize any profit from EGT.

**(3) Share of loss of MelcoLot**

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

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

**(4) Share of loss of MCR**

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

The Group's interest in MCR became zero in previous years. As there is no contractual obligation to share additional loss, the loss attributable to the Group was restricted to the carrying value of the investment. For the years ended 31 December 2011 and 2010, no further attributable loss was shared by the Group.

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

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

#### **SHARE OF LOSS OF A JOINTLY CONTROLLED ENTITY**

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

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

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

#### **LOSS ON DISPOSAL OF INTEREST IN AN ASSOCIATE**

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

#### **FAIR VALUE CHANGE ON INVESTMENT IN CONVERTIBLE LOAN NOTE**

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

#### **UNALLOCATED CORPORATE INCOME**

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

#### **CENTRAL ADMINISTRATIVE COSTS AND OTHER UNALLOCATED CORPORATE EXPENSES**

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

## FINANCE COSTS

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

## INCOME TAX CREDIT

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

## DISCONTINUED OPERATIONS

### *Disposal of subsidiaries*

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

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

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

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

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

As of 31 December 2011, total assets of the Group were HK\$8,577.9 million (2010: HK\$8,340.7 million) which were financed by shareholders' funds of HK\$7,182.6 million (2010: HK\$6,828 million), non-controlling interests of HK\$28.9 million (2010: HK\$27.9 million), current liabilities of HK\$321.9 million (2010: HK\$161 million), and non-current liabilities of HK\$1,044.5 million (2010: HK\$1,323.8 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 2.3 (2010: 5.2).

During the year ended 31 December 2011, the Group recorded a net cash outflow of HK\$48.5 million (2010: HK\$8.2 million). The main cash outflow was caused by the acquisition of ordinary shares of Melco Crown Entertainment during the year at a consideration of HK\$51.3 million. As of 31 December 2011, cash and cash equivalents of the Group totalled HK\$97.1 million (2010: HK\$145.5 million). The gearing ratio, expressed as a percentage of total borrowings (including bank borrowings and convertible loan note) over shareholders' funds, was at a satisfactory level of 17% as of 31 December 2011 (2010: 19%). The Group adopts a prudent treasury policy. 86% of bank balances and cash (including bank deposits with original maturity over three months) are put in short-term fixed deposits. All borrowings, and bank balances and cash are mainly denominated in Hong Kong dollars and U.S. dollars to maintain stable exposure to foreign exchange risks. Also, as at 31 December 2011, the Group's bank deposit of approximately HK\$0.9 million (2010: HK\$0.9 million) was pledged for obtaining utilities for certain subsidiaries of the Group.

As at 31 December 2011, the Group's total convertible loan note amounted to HK\$955.6 million, which was non-interest bearing and due in September 2013. As at 31 December 2011, the Group's total available bank loan facilities from various banks amounted to HK\$309.2 million (2010: HK\$292.2 million), of which HK\$84.2 million (2010: HK\$69.2 million) was secured by pledging HK\$169 million of the Group's investment properties. As at 31 December 2011, the Group utilized HK\$223 million and HK\$54.2 million of unsecured and secured bank loan facilities respectively (2010: unsecured HK\$200 million; secured HK\$69.2 million). Details of bank borrowings are given in Note 36 to the consolidated financial statements.

## **MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS**

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

## **HEADCOUNT/EMPLOYEES' INFORMATION**

The total number of the Group's employees was 11,217 as of 31 December 2011. Excluding the employees from associates such as Melco Crown Entertainment, MelcoLot, MCR, and EGT, the total number of the Group's employees became 233 as of 31 December 2011 (2010: 241 employees). Among the 233 employees, 228 are located in Hong Kong and the rest are based in Macau and the People's Republic of China. The related staff costs for the year ended 31 December 2011, including directors' emoluments, share options expenses and share award expenses, amounted to HK\$135.3 million (2010: HK\$101.8 million).

## **HUMAN RESOURCES**

Melco believes that the key to success lies in its people. The Group strives to create an environment that makes people proud to be part of it. All of its employees are given

equal opportunities for advancement and personal growth. The Group believes only by growing its business, it creates opportunities and delivers value to its people. Thus, the Group encourages its people to do their best at work and grow with the Group. Melco builds employees' loyalty through recognition, involvement and participation.

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

### **1. Recruitment**

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

### **2. Performance and Rewards**

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

### **3. Learning & Development**

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

## CONTINGENT LIABILITIES

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

In 2010, certain shareholders of EGT (the “Plaintiffs”) filed claims in connection with losses allegedly suffered as a result of the Company’s and one of its subsidiaries’ alleged conduct. On 4 January 2011, the United States District Court granted a motion to dismiss all the claims against the Company for lack of jurisdiction, and subsequently granted the motion to dismiss all claims against the Company’s subsidiary on 22 June 2011 on other grounds. In November 2011, the Plaintiffs filed a motion seeking leave to amend their complaint, and submitted a proposed second amended complaint with their motion. The Court granted this motion on 15 December 2011, and the plaintiffs’ Second Amended Complaint (“Complaint”) was filed on 20 December 2011. The Complaint does not attempt to replead any claims against the Company, all of which claims were previously dismissed by the Court on 4 January 2011. The Complaint does attempt to replead the claims previously asserted against the Company’s subsidiary. The subsidiary filed a motion to dismiss the Complaint on 23 January 2012, and this motion is currently pending. At this time, no provision has been provided for this case because the litigation is still at its preliminary stage and it is premature to predict the outcome or reasonably estimate a range of loss.

## FOREIGN EXCHANGE EXPOSURE

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

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

## CORPORATE RECOGNITION

### *Corporate Governance*

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

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

### *World-class Gaming Enterprise*

As a premier gaming enterprise, Melco Crown Entertainment has been acknowledged in garnering the “Best Casino Operator of the Year in Asia” at the International Gaming

Awards 2011 for the third consecutive year. Besides, Melco Crown Entertainment has become the world's first hospitality company to achieve the ISO 20000 certification for IT Service Management System, and was also honored at the 2011 CIO 100 Awards by IDG's *CIO Magazine*, showcasing its outstanding business technology services.

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

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

Group's high quality services and testified to its leading role in the transformation of Macau into the number one leisure and entertainment hub in Asia.

## INVESTOR RELATIONS

Melco is committed to enhancing its transparency and best practices and actively interacts with investors and the public as a means to build and sustain stakeholder relations. To ensure investors have a comprehensive and thorough understanding of the Group, it continued to actively participate in investor conferences organized by well-known securities houses and maintain regular dialogue with institutional investors and analysts to keep them abreast of the Group's development. During the year, more than 100 meetings with analysts and fund managers were held, including the two results announcements. In addition, the Group conducted various site visits to its development projects in Macau for the investors to facilitate timely and effective two-way communication.

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

## CORPORATE CITIZENSHIP

As a good corporate citizen, Melco has a strong commitment to corporate social responsibility ("CSR"). With deep roots in the local community, Melco is committed to honoring its responsibilities as a caring corporation. The Group's core charity pillars

are Youth Development, Green Environment and Education in Hong Kong, Macau and China. Melco has participated in and supported more than 40 charitable projects, and has achieved a 90% increase in staff volunteer participation in 2011. The Group has received numerous awards and commendations recognizing its efforts in community service and the promotion of sustainable development.

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

## YOUTH DEVELOPMENT

Melco believes that all children deserve the same opportunities to develop their full potential. In 2011, the Group's focus on Youth Development has aimed to contribute to the dynamism of youth and help them to become well-rounded individuals capable



of contributing to society. A variety of aspects was covered under Youth Development during the year. The Group wishes to provide better educational opportunities for disadvantaged children in the community and to promote their all-round development so that they can lead full and fulfilling lives. As child poverty and the widening gap between rich and poor have become serious social issues in Hong Kong, the Group believes that it is vital that more resources be allocated to this segment of society.

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

### 2011 Event Highlights (Youth Development)

- Leadership for Life by Youth Outreach
- Creating Harmony for Families of Ethnic Minorities by Against Child Abuse Limited
- Walk for Millions by The Community Chest of Hong Kong
- Corporate Sports Challenge by The Community Chest of Hong Kong
- Goodwill Action — Hospital Play Service by Playright Children's Play Association
- Walk on the Air by Playright Children's Play Association
- Jumbo Play Day by Playright Children's Play Association
- Hospital Play Brings Vitality Programme by Playright Children's Play Association
- Love Your Family Programme by Hong Kong PHAB Association
- Fun Day at Ocean Park for Families with Disabled Youth by Hong Kong PHAB Association

- Outward Bound Corporate Challenge by Outward Bound Trust of Hong Kong
- Children Sponsorship Programme by Plan International (Hong Kong)
- Annual Gala Dinner by The Hong Kong Society for the Protection of Children
- Santa's Sports Day by Operation Santa Claus

## GREEN ENVIRONMENT

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



The Group has also incorporated various elements of environmental friendliness and sustainable development into daily operations so as to reduce waste as well as increase recycling.

In recognition of its efforts, Melco was awarded as "Class of Excellence" in Wastewise Label of the Hong Kong Awards for Environmental Excellence and the "CarbonCare Champion Gold Label" by CarbonCare Asia in the period. In addition, Melco Crown Entertainment's Altira Macau has won the First Runner-up and the "Energy Saving Concept Award" in the "Energy Saving Contest" organized by the Office for Development of Energy (GDSE) and the Companhia de Electricidade de Macau (CEM).

### 2011 Event Highlights (Green Environment)

- The Community Chest-Melco Green Project Fund
- Environmental Play Project by Playright Children's Play Association



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

## EDUCATION

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

### 2011 Event Highlights (Education)

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

## OTHER COMMUNITY ENGAGEMENTS

Melco is constantly mindful of responsible corporate citizenship and has initiated comprehensive measures to support a range of social programs and charity initiatives to bring love and caring to the less fortunate members of the society. In partnership with community organizations and the Government, the Group sponsors, supports and

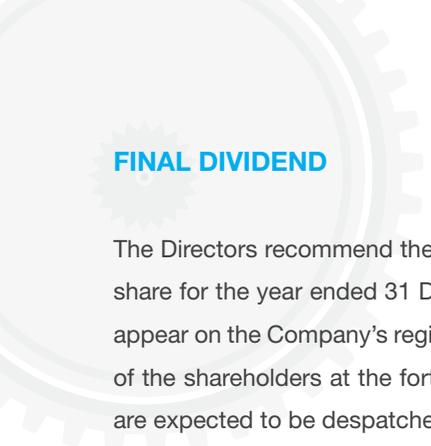
initiates a diverse range of community-oriented activities every year that it believes contributes to and engages society. The Melco Volunteer Incentive Scheme launched in 2009 is a means of encouraging and rewarding members of its workforce when they participate in voluntary events organized by the Group.

### 2011 Event Highlights (Community)

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

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

For more information on Melco’s CSR activities, please refer to the Melco CSR Report 2011 or visit website [www.melco-group.com](http://www.melco-group.com).



## FINAL DIVIDEND

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices (the "HKSE Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange throughout the financial year ended 31 December 2011 with two deviations mentioned below:

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

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

# Management Profile

## DIRECTORS

### **Mr. HO, Lawrence Yau Lung (aged 35)**

*Executive Director (Chairman and Chief Executive Officer)*

Mr. Ho was appointed the Group Managing Director of the Company in November 2001 after he completed a General Offer for shares of the Company. He was subsequently appointed as Chairman and Chief Executive Officer on 15 March 2006. He is the chairman of the executive committee, finance committee and regulatory compliance committee and a member of the corporate social responsibility committee of the Company. Mr. Ho is currently the Co-Chairman and Chief Executive Officer of Melco Crown Entertainment Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and the NASDAQ Global Select Market in the United States, that holds one of six gaming concessions and subconcessions to own and operate gaming business in Macau. Mr. Ho is a director of both Lasting Legend Ltd. and Better Joy Overseas Ltd., substantial shareholders of the Company.

Mr. Ho is a graduate of the University of Toronto, Canada and holds a Bachelor of Arts degree, majoring in commerce. Mr. Ho was awarded the Honorary Doctor of Business Administration degree by Edinburgh Napier University, Scotland for his contribution to business, education and the community in Hong Kong, Macau and China. He is active in community services and serves on numerous boards and committees in Hong Kong, Macau and mainland China. He sits on the Board of Directors of The Community Chest. He is also Member of The Chinese People's Political Consultative Conference, Shanghai Committee; Member of Science and Technology Council of the Macau SAR Government; Member of All China Youth Federation; Member of Macau Basic Law Promotional Association; Chairman of Macau International Volunteers Association; Member of Campaign Committee of The Community Chest; Board of Governors of The Canadian Chamber of Commerce in Hong Kong; Honorary Lifetime Director of the Chinese

General Chamber of Commerce, Hong Kong; President of Macau Canadian Chamber of Commerce; Honorary President of Association of Property Agents and Real Estate Developers of Macau and Director Ejecutivo of Macao Chamber of Commerce.

Over the years, Mr. Ho has received multiple accolades for his excellent directorship and entrepreneurship. In 2005, he was granted the "5th China Enterprise Award for Creative Businessmen" by China Marketing Association and China Enterprise News; "Leader of Tomorrow" by Hong Kong Tatler; "Best CEO" by Institutional Investor; and "Directors of the Year Award" by the Hong Kong Institute of Directors.

Mr. Ho continued to be a socially-responsible young entrepreneur in the years to come. The Junior Chamber International Hong Kong recognized Mr. Ho as one of the "Ten Outstanding Young Persons" in 2006. He was then elected as a finalist in the "Best Chairman" category in the "Stevie International Business Awards" and one of the "100 Most Influential People across Asia Pacific" by Asiamoney magazine in 2007. And in 2008, he was granted "China Charity Award" by the Ministry of Civil Affairs of the People's Republic of China.

In 2009, Mr. Ho was selected by FinanceAsia as one of the "Best CEOs in Hong Kong", "China Top 10 Financial and Intelligent Persons" judged by a panel led by the Beijing Cultural Development Institute and Fortune China; and was named "Young Entrepreneur of the Year" at Hong Kong's first Asia Pacific Entrepreneurship Awards. Mr. Ho was selected again as one of the "Best CEOs in Hong Kong" by FinanceAsia in 2010 and 2011. He was also awarded "Asia's Best CEO (Investor Relations)" at the Asian Excellence Awards by Corporate Governance Asia magazine in 2011.

# Management Profile

## **Mr. TSUI Che Yin, Frank (aged 54)**

*Executive Director*

Mr. Tsui has been an Executive Director of the Company since November 2001. He is also a member of the executive committee, finance committee, regulatory compliance committee and corporate social responsibility committee of the Company.

Mr. Tsui has more than 30 years of experience in investment and banking, having held senior management positions at various international financial institutions. He is currently a director of Mountain China Resorts (Holding) Limited, a company listed on the TSX Venture Exchange of Canada, an independent non-executive director of Jinhui Holdings Company Limited, a company listed on the Hong Kong Stock Exchange, and a non-executive director of Jinhui Shipping and Transportation Limited, a company listed on the Oslo Stock Exchange. Prior to joining the Group, Mr. Tsui was the President of China Assets Investment Management Limited which is the investment manager of China Assets (Holdings) Limited, a listed investment holding company in Hong Kong.

Mr. Tsui graduated with a bachelor's and a master's degree in business administration from the Chinese University of Hong Kong and with a law degree from the University of London. He is a member of the Certified General Accountants Association of Canada and the Hong Kong Securities Institute.

## **Mr. CHUNG Yuk Man, Clarence (aged 49)**

*Executive Director*

Mr. Chung has been an Executive Director of the Company since May 2006. He is a member of the executive committee, finance committee and corporate social responsibility committee of the Company. He is currently a non-executive director of Melco Crown Entertainment Limited, a company listed on the Main Board of the Hong Kong Stock Exchange and NASDAQ Global Select Market in the United States, and the chairman and chief executive officer of Entertainment Gaming Asia Inc., a company listed on the New York Stock Exchange (NYSE-Amex).

Mr. Chung has more than 20 years of experience in the financial industry in various capacities as a chief financial officer, an investment banker and a merger and acquisition specialist. He was named one of the "Asian Gaming 50 – 2009 and 2010" by Inside Asian Gaming magazine.

Mr. Chung holds a master degree in business administration from the Kellogg School of Management at Northwestern University and The Hong Kong University of Science and Technology; and a bachelor degree in business administration from the Chinese University of Hong Kong. He is also member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

# Management Profile

## **Mr. NG Ching Wo (aged 62)**

*Non-executive Director*

Mr. Ng has been a Non-executive Director of the Company since September 2004. He is also the chairman of the corporate governance committee and a member of the audit committee, nomination committee and remuneration committee of the Company.

Mr. Ng is a senior partner of King & Wood Mallesons. Mr. Ng received his L.L.B. from the University of Alberta in Canada and was admitted to practise as a barrister and solicitor in Alberta in 1981. He is qualified as a solicitor in both the United Kingdom and Hong Kong. Mr. Ng's practice focused primarily in the area of cross-border corporate and commercial work and he has experience in mergers and acquisitions, take-overs of private and listed companies, cross-border initial public offerings, tax planning, large-scale international joint ventures and technology transfer.

## **Sir Roger LOBO, C.B.E., LL.D., J.P. (aged 88)**

*Independent Non-executive Director*

Sir Roger has been an Independent Non-executive Director of the Company since February 1998. He is also the chairman of the audit committee and corporate social responsibility committee and a member of the remuneration committee and nomination committee. Sir Roger is currently an independent non-executive director of Shun Tak Holdings Limited and HKT Trust and HKT Limited, companies listed on the Hong Kong Stock Exchange, and a director of Johnson & Johnson (HK) Limited. He was previously an independent non-executive director of PCCW Limited.

Sir Roger is a prominent figure in Hong Kong and Macau and has served on numerous public offices in the past. He was an Executive Council Member between 1967 and 1985, a Legislative Council Member between 1972 and 1985 (Senior Legislative Council Member between 1980 and 1985) and a Member of Urban Council (1965-1978). In addition, he was Chairman of the Advisory Committee on Post-Retirement Employment (1987-1998), Chairman of Hong Kong Broadcasting Authority (1989-1997) and Chairman and Member of various committees of Independent Commission Against Corruption (1975-1985).

Sir Roger is currently serving on many civic and social services offices. These offices include Vice-Patron of the Community Chest of Hong Kong and The Society of Rehabilitation and Crime Prevention, Hong Kong; Member of the Board of Trustees of Business and Professionals Federation of Hong Kong; Council Member of Caritas Hong Kong; and Honorary Commissioner of Civil Aid Services.

# Management Profile

## **Mr. SHAM Sui Leung, Daniel (aged 56)**

*Independent Non-executive Director*

Mr. Sham has been an Independent Non-executive Director of the Company since June 2006. He is also the chairman of the remuneration committee and a member of the audit committee and corporate governance committee of the Company. He is currently an independent non-executive director of AEON Stores (Hong Kong) Co., Limited, a company listed on the Hong Kong Stock Exchange.

Mr. Sham qualified as a chartered accountant in England and Wales, and worked as a certified public accountant in Hong Kong for over 20 years. He has all-round experience in accounting, auditing and other related works, especially in the fields of corporate finance and securities regulations. He was a partner of Moores Rowland Mazars for 14 years until he retired on 31 December 2003. After his retirement, he rejoined Moores Rowland Mazars as a consultant in late 2004 and worked in that capacity until March 2006.

Mr. Sham graduated with a Bachelor of Arts in Economics at University of Leeds. He was a member of the Auditing Standard Committee, the Expert Panel on Listing and the Expert Panel on Securities and the Accountants' Report Task Force of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He was also a member of the Disciplinary Panel of HKICPA.

## **Dr. TYEN Kan Hee, Anthony (aged 56)**

*Independent Non-executive Director*

Dr. Tyen has been an Independent Non-executive Director of the Company since June 2010. He is also the chairman of the nomination committee and a member of the audit committee and corporate governance committee of the Company.

Dr. Tyen is currently an independent director of Entertainment Gaming Asia Inc., a company listed on the New York Stock Exchange (NYSE-Amex) and an independent non-executive director of Summit Ascent Holdings Limited and ASR Holdings Ltd., companies listed on the Hong Kong Stock Exchange. He was previously an independent non-executive director of two Hong Kong listed companies, namely, Value Convergence Holdings Limited and Recruit Holdings Limited.

Dr. Tyen holds a Doctoral degree in Philosophy and a Master degree in Business Administration, both from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of both the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators and a member of the Taxation Institute of Hong Kong. He is currently a practising certified public accountant in Hong Kong and has over 30 years' experience in auditing, accounting, management and company secretarial practice.

# Management Profile

## SENIOR MANAGEMENT

### **Mr. TSANG Yuen Wai, Samuel (aged 57)**

*Group Legal Counsel & Company Secretary*

Mr. Tsang joined the Group in November 2001. Mr. Tsang is a solicitor admitted in Hong Kong, England and Australia. As Group Legal Counsel and Company Secretary, Mr. Tsang oversees the legal, corporate and compliance matters of Melco Group. Mr. Tsang has worked as a lawyer with major law firms and listed conglomerates in Hong Kong for over 20 years. He holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management. He is currently a director of Entertainment Gaming Asia Inc., a company listed on the New York Stock Exchange (NYSE-Amex).

### **Mr. KO Chun Fung, Henry (aged 52)**

*Executive Director and Chief Executive Officer of MelcoLot Limited*

Mr. Ko is an executive director and Chief Executive Officer of MelcoLot Limited (“MelcoLot”), a company held by Melco as to 11.67% and whose shares are listed on the Hong Kong Stock Exchange. Mr. Ko is a seasoned professional with a strong track record of successful senior positions in Asia. He has led various high profile ventures in the telecom industry. Prior to entering the lottery industry, he was a founder of iAsia Online Systems Limited, and in his capacity as CEO and executive director, nurtured its growth into a leading financial trading solutions vendor in Hong Kong and mainland China. Mr. Ko then went on the setting up of the lottery business which was subsequently acquired by MelcoLot in late 2007, in his capacity as CEO and executive director of PAL Development Limited. Upon the acquisition of the lottery business, Mr. Ko was appointed to the Board and CEO of MelcoLot and continues to lead the lottery business of MelcoLot Group.

### **Mr. TAM Chi Wai, Dennis, PhD, CPA (Aust), CMA (aged 42)**

*Group Finance Director, Qualified Accountant, and  
Head of Human Resources & Administration*

Mr. Tam joined the Group in 2006. He has more than 15 years of experience in accounting, financial control, corporate finance and mergers & acquisitions. Prior to joining the Group, Mr. Tam held senior management positions with various local listed and multinational companies, including Quality Healthcare Medical Services, Marsh & McLennan and BF Goodrich. He currently serves as Group Finance Director and Head of Human Resources & Administration and in charge of planning, directing and controlling financial, human resources and administrative functions of the Group.

Mr. Tam obtained his Master Degree in Accounting from Monash University and completed his PhD program at Washington Intercontinental University. He was also trained at Harvard Business School in Boston. He holds the Honorary Vice Chairman for Greater China of the Institute of Certified Management Accountants, a fellow member of the Financial Services Institute of Australasia, a member of CPA Australia and a member of the Institute of Administrative Management in United Kingdom. Mr. Tam is a former member of Chinese People’s Political Consultative Conference, Jiang Xi Province, NanKang city. He is also a member of the Standing Committee of “The Economic Observer Weekly”, run by the Market Economy Institute of the Development Center of China’s State Council.

# Management Profile

## **Mr. LAW Kwok Fai, Alan (aged 50)**

*Group Internal Audit Director*

Mr. Law joined the Group in 2007. Mr. Law has more than 20 years of experience in public accountancy, financial management and operational risk management. He held management positions in multinational companies including KPMG, Peninsula Hotels Group, Standard Chartered Bank and Citigroup. Prior to joining the Group, he was the Quality Assurance Head of Citigroup Hong Kong for 10 years. Mr. Law obtained his Master Degree of Business Administration from the University of Warwick. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and also an associate member of the Institute of Chartered Accountants in England and Wales.

# Corporate Governance Report

The maintenance of a high standard of corporate governance has been and remains a top priority of the Group (Melco International Development Limited (“Melco” or the “Company”) and its subsidiaries). The Group is committed to promoting and maintaining the highest standard of corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders, and (iv) the improvement in management of risks and the enhancement of performance by the Group. We consider good corporate governance to be the cornerstone of a well managed organization.

The Group’s continuous effort to promote excellence and high standards of corporate governance practices continued to earn market recognition from different stakeholders. Melco received numerous corporate governance awards during past years. In 2011, Melco received “Corporate Governance Asia Annual Recognition Award” for the sixth consecutive year from Corporate Governance Asia magazine. Melco also won “Best Investor Relations by a Hong Kong Company” at the Asian Excellence Awards organized by Corporate Governance Asia magazine. With FinanceAsia magazine, Melco was named one of “Hong Kong’s Best Managed Companies” for the fifth time; “Best Corporate Governance” for the third time; “Best in Corporate Social Responsibility” for the third time; and “Best Investor Relations” for the second time. Group Chairman and Chief Executive Officer, Mr. Ho, Lawrence Yau Lung was also selected by FinanceAsia magazine as one of the “Best CEOs in Hong Kong” for the third time. All of these accolades represent the market’s recognition of our dedication towards improving corporate governance. Melco will continue to uphold its high level of corporate governance and bring the highest possible returns to its shareholders.

## CORPORATE GOVERNANCE PRACTICES

### (a) Application of Corporate Governance Principles and Promulgation of Company’s Corporate Governance Code

The Company has applied the principles set out in the Code on Corporate Governance Practices (the “HKSE Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) with the aforementioned objectives in mind. To this end, the Company has promulgated a Code on Corporate Governance (the “Company Code”) which sets out the corporate standards and practices used by the Company to direct and manage its business affairs. It is prepared by referencing to the principles, Code Provisions and Recommended Best Practices set out in the HKSE Code, which came into effect on 1 January 2005. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the HKSE Code and ultimately ensuring high transparency and accountability to the Company’s shareholders. The Company Code has been posted on the Company’s website.

### (b) Compliance of the Code Provisions of the Company Code and HKSE Code

The Company has complied with all provisions in the Company Code and the HKSE Code throughout the financial year ended 31 December 2011 with two deviations mentioned below:

Code Provision A.4.1 of the HKSE Code provides that non-executive directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all non-executive

# Corporate Governance Report

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.

Outlined below are the policies, processes and practices adopted by the Company in compliance with the principles and spirit of the HKSE Code and the Company Code.

## THE BOARD OF DIRECTORS – FUNCTION AND COMPOSITION

The Board is entrusted with the overall responsibility for promoting the success of the Company by directing and supervising the Company's business and affairs. The ultimate responsibility for the day-to-day management of the Company is delegated to the Chief Executive Officer/Managing Director and the management. Lists of (1) duties and powers delegated to the Company's Chairman and Chief Executive Officer/Managing Director and matters reserved for decision of the Board and (2) division of responsibilities between the Company's Chairman and Chief Executive Officer/Managing Director are given at the Company's website under the section "Corporate Governance".

The Board comprises a total of seven Directors, with 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. The Non-executive Director and the Independent Non-executive Directors, all of whom are independent of the management of the Group's businesses, are highly experienced professionals with substantial experience in areas such as legal, accounting and financial management. Their mix of skills and business experience is a major contribution to the future development of the Company. They ensure that matters are fully debated and that no individual or group of individuals dominates the Board's decision making processes. In addition, they facilitate the Board to maintain a high standard of financial and other mandatory reporting and provide adequate checks and balances to safeguard the interests of shareholders and the Company as a whole.

# Corporate Governance Report

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. This year, Mr. Tsui Che Yin, Frank and Mr. Ng Ching Wo will retire and they are eligible to offer themselves for re-election at the forthcoming annual general meeting. The biographical details of Mr. Tsui Che Yin, Frank and Mr. Ng Ching Wo have been set out in a circular to assist shareholders to make an informed decision on their re-elections.

## Board Meetings

The Board meets regularly over the Company's affairs and operations. The Board held a total of four regular meetings during the year ended 31 December 2011 and the average attendance rate was 96%. The Group Finance Director and the Group Legal Counsel and Company Secretary also attend all board meetings to advise on statutory compliance, legal, accounting and financial matters. All businesses transacted at the meetings were documented and the records are maintained in accordance with applicable laws and regulations.

Set out below is the attendance record of each member of the Board at the board meetings during the year ended 31 December 2011 which illustrates the attention given by the Board in overseeing the Company's affairs:

	No. of meetings attended/held in 2011	Attendance rate
<b>Executive Directors</b>		
Mr. Ho, Lawrence Yau Lung ( <i>Chairman and Chief Executive Officer</i> )	4/4	100%
Mr. Tsui Che Yin, Frank	4/4	100%
Mr. Chung Yuk Man, Clarence	4/4	100%
<b>Non-executive Director</b>		
Mr. Ng Ching Wo	3/4	75%
<b>Independent Non-executive Directors</b>		
Sir Roger Lobo	4/4	100%
Mr. Sham Sui Leung, Daniel	4/4	100%
Dr. Tyen Kan Hee, Anthony	4/4	100%

## Procedure to enable Directors to seek independent professional advice

To assist the Directors to discharge their duties to the Company, the Board has established written procedures to enable the Directors, upon reasonable request, to seek independent professional advice, at the Company's expense, in appropriate circumstances. No request was made by any Director for such independent professional advice in 2011.

# Corporate Governance Report

## Securities Dealings by Directors and Relevant Employees

The Company has adopted a code of conduct regarding Directors' securities dealings on terms set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of the Directors, all have confirmed that they have complied with the required standard of dealings and code of conduct regarding securities dealings by directors as set out in the Model Code for the year 2011.

The Board has established a "Code of Securities Dealings by Relevant Employees" for relevant employees of the Company to regulate their dealings in the securities of the Company so as to comply with the Directors' obligations under code provision A.5.4 of the HKSE Code of the Listing Rules.

## DELEGATION BY THE BOARD

### Management functions

The Board delegates day-to-day operations of the Group to the management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The Board has established in writing which issues require decision of the full Board and which can be delegated by the Board to board committees or management.

### Board Committees

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated by the Board to various board committees, which review and make recommendations to the Board on specific areas.

Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee. The terms of reference of the board committees have been posted on the Company's website under the section "Corporate Governance".

### (1) Executive Committee

The Executive Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank, Mr. Chung Yuk Man, Clarence and members of the Company's senior management. The Executive Committee holds meetings from time to time to discuss operational matters of the Company's business and new projects. It oversees the implementation of the Company's strategic objectives and risk management policies and the business and operations of all of the business units of the Group.

### (2) Audit Committee

The Audit Committee was formed on 24 March 1999 and is composed of three Independent Non-executive Directors and a Non-executive Director, namely, Sir Roger Lobo (Chairman), Mr. Ng Ching Wo, Mr. Sham Sui Leung, Daniel and Dr. Tyen Kan Kee, Anthony. The primary duties of the Audit Committee are (a) to review the Group's financial statements and published reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group. Other details of the role and function of the Audit Committee are available on the Company's website under the section "Corporate Governance".

# Corporate Governance Report

During the year 2011, the Audit Committee held a total of two meetings and the attendance rate was 100%. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/held in 2011	Attendance rate
Sir Roger Lobo ( <i>Chairman</i> )	2/2	100%
Mr. Ng Ching Wo	2/2	100%
Mr. Sham Sui Leung, Daniel	2/2	100%
Dr. Tyen Kan Kee, Anthony	2/2	100%

The Audit Committee has reviewed the Company's half-yearly and annual results and its system of internal control. The Committee also carried out and discharged its duties as set out in HKSE Code. In the course of doing so, the Committee has met the Company's management, internal and external auditors several times during 2011.

### (3) Nomination Committee

The Nomination Committee is made up of the Company's Executive Director, Non-executive Director and Independent Non-executive Director, namely Mr. Ng Ching Wo (Chairman), Sir Roger Lobo and Mr. Ho, Lawrence Yau Lung. It reviews the structure, size and composition of the Board (including the skills, knowledge and experience); identifies the individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship and on matters relating to the appointment and re-appointment of directors and succession planning for directors.

During the year 2011, the Nomination Committee held one meeting for reviewing the structure, size and composition of the Board. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/held in 2011	Attendance rate
Mr. Ng Ching Wo ( <i>Chairman</i> )	1/1	100%
Sir Roger Lobo	1/1	100%
Mr. Ho, Lawrence Yau Lung	1/1	100%

### (4) Remuneration Committee

The Remuneration Committee is made up of the Company's Non-executive Director and Independent Non-executive Directors, namely Mr. Sham Sui Leung, Daniel (Chairman), Sir Roger Lobo and Mr. Ng Ching Wo. It determines the remuneration packages of executive directors and senior management and makes recommendations to the Board on policies and structure for remuneration of directors and senior management, on the establishment of a formal and transparent procedure for developing policy on such remuneration and on the remuneration of Non-executive Directors. Other details of the role and function of the Remuneration Committee are set out at the Company's website under the section "Corporate Governance".

# Corporate Governance Report

The Remuneration Committee held one meeting during the year 2011. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/held in 2011	Attendance rate
Mr. Sham Sui Leung, Daniel ( <i>Chairman</i> )	1/1	100%
Sir Roger Lobo	1/1	100%
Mr. Ng Ching Wo	1/1	100%

## *Remuneration policy*

The formulation of the Group's remuneration strategy and policy is based on the principles of equity and market competitiveness so as to drive staff to work towards the mission of the Group and to retain talents. As a long-term incentive plan and with the aim at motivating Directors and employees in the continued pursuit of the Company's goal and objectives and to recognize their contributions to the Group, the Company has adopted (1) a share option scheme under which the Company may grant share options to the Directors/employees to subscribe for the shares of the Company and (2) two share incentive award schemes, namely, The Melco Share Purchase Scheme and The Melco Share Award Scheme, under which the Company may grant awarded shares to the Directors/employees.

## *Emoluments of Directors*

The emoluments of the Directors are determined with regard to the performance of individuals, the Company's operating results and market standards. During the year, the Remuneration Committee has considered and approved bonus payment and salary adjustment to the management and employees of the Group and the grant of share options and awarded shares to the Directors, management and employees of the Group. It also considered the remuneration package for the Chairman and Chief Executive Officer of the Company.

## (5) Finance Committee

The Finance Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence and the Group Finance Director (non-voting capacity). The Finance Committee holds meetings from time to time to discuss financial matters of the Company's new and existing business. It conducts review on matters such as Group wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets; and reviews major acquisitions and investments and their funding requirements.

## (6) Regulatory Compliance Committee

The Regulatory Compliance Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman) and Mr. Tsui Che Yin, Frank and the Group Legal Counsel and Company Secretary (non-voting capacity). The Regulatory Compliance Committee holds meetings from time to time to discuss the ongoing compliance matters of the Group. It reviews and advises on matters relating to regulation of the Company's gaming business and compliance of applicable laws and regulations, including the Listing Rules.

# Corporate Governance Report

## (7) Corporate Social Responsibility Committee

To define best Corporate Social Responsibility (CSR) practices for the Group and to generate growth and well-being of new generation in Hong Kong, Macau and China in which the Group invests, the Board established the CSR Committee in January 2008. The CSR Committee is made up of the Company's Independent Non-executive Director and Executive Directors, namely, Sir Roger Lobo (Chairman), Mr. Ho, Lawrence Yau Lung, Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence and the Head of the Corporate Communications Department (non-voting capacity). It steers the CSR strategies and policies of the Group and oversees the development and implementation of the Group's CSR matters including policies, practices, Melco Volunteer team and other charitable activities along the defined pillars of Youth Development, Green Environment and Education.

## (8) Corporate Governance Committee

The Corporate Governance Committee was newly formed on 28 March 2012 to assist the Board to perform the corporate governance functions. It is composed of one Non-executive Director, namely Mr. Ng Ching Wo (Chairman), two Independent Non-executive Directors, namely Dr. Tyen Kan Hee, Anthony and Mr. Sham Sui Leung, Daniel and the Group Legal Counsel and Company Secretary (non-voting capacity). It will hold meetings from time to time to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; to review and monitor the training and continuous professional development of Directors and Senior Management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors and to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for preparing the financial statements and the reporting responsibilities of the external auditors are set out on pages 71 and 72 of this annual report.

## INTERNAL CONTROL

*The Group upholds the highest standards of integrity and credibility to earn respect and trust from our clients.*

The Board acknowledges its overall responsibility for the establishment and maintenance of a sound system of internal control and risk management to safeguard the shareholders' investment and the Group's assets.

To fulfill its responsibility, the Board's Executive Committee is assigned to oversee the implementation of the Group's internal control and risk management policies and to monitor the business and operations of all of the business units of the Group. The Board also assigned the Audit Committee to review and supervise the financial reporting process and internal control procedures of the Group.

## Management Supervision

The Executive Committee and management have defined the organizational structure of the Group and its business units with clear lines of reporting and authorities and have recruited competent personnel to facilitate the establishment of an internal control system and the flow of necessary information.

The Executive Committee has endorsed the Risk Management Policy for the Group and its business units to provide a risk assessment framework to identify

# Corporate Governance Report

and evaluate the material business risk, operational risk, financial risk and compliance risk. The Committee also endorses other policies, procedures, codes and guidelines to mitigate significant inherent risks embedded in the operational activities. The “Code of Business Conduct and Ethics” is communicated to all employees with the aim of cultivating high integrity and ethical values within the Group.

The Executive Committee conducts regular meetings with the management team of business units to review business plan and strategies, business performance against budgets and key operations statistics.

## Group Internal Audit Function

The Group has an Internal Audit Department which reports directly to the Audit Committee. The annual internal audit plan is approved in the Audit Committee meeting. The department conducts risk assessment and independent review of the group business operations, reports significant internal control and risk management issues and monitors the resolution status.

The Internal Audit Department reviews and assesses the adequacy and effectiveness of the Group’s system of internal control by adopting a risk-based audit approach based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“**COSO**”) as recommended by the Hong Kong Institute of Certified Public Accountants.

The Internal Audit Department adopts the following five components of the integrated framework to conduct the review assessment:



Extracted from Internal Control – Integrated Framework, COSO

- (1) **Control Environment**  
Control environment sets the tone of organization, influencing control consciousness of its people. Control environment is the foundation for other components of the internal control, providing discipline and structure. Factors of control environment include ethical values, competence of personnel and direction provided by the Board.
- (2) **Risk Assessment**  
Risk assessment involves the identification and analysis of relevant risks to the achievement of the objectives, including risks relating to the changing economic, industry, regulatory and operating conditions, as a basis for determining how such risks should be mitigated and managed.

# Corporate Governance Report

## (3) Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out and actions are taken to address risks affecting achievement of objectives.

## (4) Information and Communication

Information and communication comprises effective processes and systems to identify, capture and communicate operational, financial and compliance-related information in a form and timeframe that enable the staff to carry out their responsibilities.

## (5) Monitoring

Monitoring is a process that assesses the adequacy and quality of the internal control system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluation or a combination of two. Deficiencies in internal control should be reported to senior management, the Audit Committee, or the Board.

## Audit Committee Supervision

The Audit Committee conducts regular meetings with the Group Finance Director, the Group Internal Audit Director and the external auditors to review the financial statements and auditors' reports on financial and internal control matters. The Audit Committee reports to the Board on significant internal control matters, suspected frauds or irregularities, and alleged infringement of laws, rules and regulations, which come to their attention.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's system of internal control for the year ended 31 December 2011 covering all material financial, operational and compliance controls and risk management functions, and considers that the system of internal control is adequate and effective. The Audit Committee has also assessed the adequacy of resources, qualifications, experience, training programmes and budget of staff of the Group's Finance Department and considers that they are adequate.

## AUDITOR'S REMUNERATION

For the year ended 31 December 2011, the Company paid to its auditor, Deloitte Touche Tohmatsu, approximately HK\$2.5 million for audit and non-audit services provided to the Company. Out of this amount, HK\$1.6 million was for audit services and the balance of HK\$0.9 million was for non-audit services which included interim review of the Group's financial statements, review of the Group's continuing connected transactions and provision of tax services.

## COMMUNICATION WITH SHAREHOLDERS

The Company regards the annual general meeting of the Company ("AGM") an important event as it provides an opportunity for the Board to communicate with the shareholders. Notice of AGM and related papers are sent to the shareholders at least 20 clear business days before the meeting. The Company supports the Corporate Governance Code's principle to encourage shareholders' participation. Questioning by the shareholders at the AGM is encouraged and welcomed.

# Corporate Governance Report

The Company Secretarial Department and the Corporate Communications Department of the Company respond to letters, emails and telephone enquiries from shareholders/investors. Shareholders and investors are welcome to raise enquiries through our email contact [info@melco-group.com](mailto:info@melco-group.com) or by mail to our Group Legal Counsel and Company Secretary at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. The website of the Company at <http://www.melco-group.com> also provides a medium to make information of the Company and the Group available to the shareholders with a section on “Corporate Governance” included.

## **SHAREHOLDERS' RIGHTS**

Pursuant to Article 66 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on requisition, as provided by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”). In accordance with Section 113 of the Companies Ordinance, members holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company can request the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. To facilitate enforcement of shareholders’ rights, substantially separate issues at general meetings are dealt with under separate resolutions.

# Report of the Directors

The directors have pleasure in submitting to shareholders their report together with the audited financial statements of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 49 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on pages 73 to 74 of this annual report.

A special cash dividend of HK1.5 cents per ordinary share, amounting to approximately HK\$18,421,000, was declared on 26 November 2010. The special dividend was paid on 5 January 2011.

The directors recommend the payment of a final dividend of HK1.5 cents per ordinary share for the year ended 31 December 2011 (2010: Nil) to the shareholders whose names appear on the register of members of the Company on 7 June 2012. The proposed dividend will be payable on or before 19 June 2012.

## CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Wednesday, 30 May 2012. To ascertain shareholders’ eligibility to attend and vote at the annual general meeting, the register of members of the Company will be closed from Monday, 28 May 2012 to Wednesday, 30 May 2012 (both days inclusive), during which period no share transfers will be registered. In order

to qualify to attend and vote at the annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company’s share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Friday, 25 May 2012.

The proposed final dividend for the year ended 31 December 2011 is subject to the approval of the shareholders at the annual general meeting. To ascertain shareholders’ entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 5 June 2012 to Thursday, 7 June 2012 (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 Thursday, 31 May 2012. In order to qualify for the proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with the Company’s share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Monday, 4 June 2012.

## FIXED ASSETS

Details of movements in the investment properties and property, plant and equipment during the year are set out in notes 20 and 21, respectively, to the consolidated financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year are set out in notes 40 and 42, respectively, to the consolidated financial statements.

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 159 of this annual report. This summary does not form part of the audited financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2011, the Company's reserves available for distribution consisted of capital reserve of approximately HK\$253,004,000 (2010: HK\$253,004,000). The Company considered it has fulfilled those conditions required for distribution of capital reserve. In addition, the Company's share premium account, in the amount of approximately HK\$3,137,831,000 (2010: HK\$3,133,808,000), may be distributed in the form of fully paid bonus shares. Save as disclosed above, the Company had no reserve available for distribution in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 6% of the Group's total turnover for the year (2010: 39%) and the largest customer accounted for approximately 2% of the Group's turnover for the year (2010: 16%). The five largest suppliers accounted for approximately 47% of the Group's total purchases for the year (2010: 59%) and the largest supplier accounted for approximately 19% of the Group's purchases for the year (2010: 19%).

None of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers or suppliers.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive Directors:

Mr. Ho, Lawrence Yau Lung (*Chairman and Chief Executive Officer*)

Mr. Tsui Che Yin, Frank

Mr. Chung Yuk Man, Clarence

### Non-executive Director:

Mr. Ng Ching Wo

### Independent Non-executive Directors:

Sir Roger Lobo

Mr. Sham Sui Leung, Daniel

Dr. Tyen Kan Hee, Anthony

Pursuant to Article 103(A) of the Company's Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office. The Directors to retire in every year shall be those who have been longest in office since their last election. In addition, pursuant to code provision A.4.2 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, every Director should be subject to retirement by rotation at least once every three years. In accordance with these provisions, Mr. Tsui Che Yin, Frank and Mr. Ng Ching Wo shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation from each of the Independent Non-executive Directors concerning their independence to the Company and considers that each of the Independent Non-executive Directors is independent to the Company.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management as at the date of this report are set out on pages 39 to 44 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ho, Lawrence Yau Lung, Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence has a service contract with Melco Services Limited, a wholly-owned subsidiary of the Company, which may be terminated by either party by written notice of not less than three months.

Save as disclosed above, none of the directors has a service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 48 to the consolidated financial statements, no contracts of significance in relation to the Group's business to which the Company, or any of its holding companies, subsidiaries, or fellow subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short position of each director and chief executive of the Company in the shares, underlying shares, debentures and convertible loan notes of the Company or any of its associated corporations

(within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which the director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules to be notified to the Company and the Hong Kong Stock Exchange were as follows:

### (I) Long position in the shares and underlying shares of the Company

#### (a) Ordinary shares of HK\$0.50 each of the Company

Name of Director	Capacity	Nature of interest	Number of ordinary shares held	Approximate % of issued share capital	Note
Mr. Ho, Lawrence Yau Lung	Held by controlled corporations	Corporate	429,923,077	34.91%	2
	Beneficial owner	Personal	10,499,612	0.85%	-
Mr. Tsui Che Yin, Frank	Beneficial owner	Personal	172,660	0.01%	-
Mr. Chung Yuk Man, Clarence	Beneficial owner	Personal	150,440	0.01%	-
Sir Roger Lobo	Beneficial owner	Personal	67,000	0.01%	-
Mr. Sham Sui Leung, Daniel	Beneficial owner	Personal	67,000	0.01%	-
Mr. Ng Ching Wo	Beneficial owner	Personal	67,000	0.01%	-

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (I) Long position in the shares and underlying shares of the Company (Continued)

#### (b) Share options granted to the Directors pursuant to the Share Option Scheme adopted by the Company on 8 March 2002

Name of Director	Number of share options			Outstand- ing at 31 December 2011	Appro- ximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK\$
	Outstanding at 1 January 2011	Granted during the year	Exercised during the year					
Mr. Ho, Lawrence Yau Lung	230,840	-	-	230,840	0.02%	01.04.2008	01.04.2009 – 31.03.2018	10.804
	230,840	-	-	230,840	0.02%	01.04.2008	01.04.2010 – 31.03.2018	10.804
	230,840	-	-	230,840	0.02%	01.04.2008	01.04.2011 – 31.03.2018	10.804
	89,333	-	-	89,333	0.01%	17.12.2008	01.02.2009 – 16.12.2018	2.02
	89,333	-	-	89,333	0.01%	17.12.2008	01.05.2009 – 16.12.2018	2.02
	89,333	-	-	89,333	0.01%	17.12.2008	01.08.2009 – 16.12.2018	2.02
	89,333	-	-	89,333	0.01%	17.12.2008	01.11.2009 – 16.12.2018	2.02
	89,333	-	-	89,333	0.01%	17.12.2008	01.02.2010 – 16.12.2018	2.02
	89,335	-	-	89,335	0.01%	17.12.2008	01.05.2010 – 16.12.2018	2.02
	76,500	-	-	76,500	0.01%	03.04.2009	03.04.2010 – 02.04.2019	2.99
	76,500	-	-	76,500	0.01%	03.04.2009	03.04.2011 – 02.04.2019	2.99
	77,000	-	-	77,000	0.01%	03.04.2009	03.04.2012 – 02.04.2019	2.99
	200,000	-	-	200,000	0.02%	07.04.2010	07.04.2010 – 06.04.2020	3.76
	242,000	-	-	242,000	0.02%	07.04.2010	07.04.2011 – 06.04.2020	3.76
	242,000	-	-	242,000	0.02%	07.04.2010	07.04.2012 – 06.04.2020	3.76

Name of Director	Number of share options			Outstand- ing at 31 December 2011	Appro- ximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK\$
	Outstanding at 1 January 2011	Granted during the year	Exercised during the year					
Mr. Tsui Che Yin, Frank	244,000	-	-	244,000	0.02%	07.04.2010	07.04.2013 – 06.04.2020	3.76
	200,000	-	-	200,000	0.02%	07.04.2010	07.04.2014 – 06.04.2020	3.76
	200,000	-	-	200,000	0.02%	07.04.2010	07.04.2015 – 06.04.2020	3.76
	-	600,000	-	600,000	0.05%	08.04.2011	05.05.2011 – 07.04.2021	5.75
	-	600,000	-	600,000	0.05%	08.04.2011	08.04.2012 – 07.04.2021	5.75
	2,786,520	1,200,000	-	3,986,520	0.37%			
	104,000	-	-	104,000	0.01%	01.04.2008	01.04.2009 – 31.03.2018	10.804
	104,000	-	-	104,000	0.01%	01.04.2008	01.04.2010 – 31.03.2018	10.804
	104,000	-	-	104,000	0.01%	01.04.2008	01.04.2011 – 31.03.2018	10.804
	91,000	-	-	91,000	0.01%	17.12.2008	01.02.2009 – 16.12.2018	2.02
	91,000	-	-	91,000	0.01%	17.12.2008	01.05.2009 – 16.12.2018	2.02
	91,000	-	-	91,000	0.01%	17.12.2008	01.08.2009 – 16.12.2018	2.02
	91,000	-	-	91,000	0.01%	17.12.2008	01.11.2009 – 16.12.2018	2.02
	91,000	-	-	91,000	0.01%	17.12.2008	01.02.2010 – 16.12.2018	2.02
	91,000	-	-	91,000	0.01%	17.12.2008	01.05.2010 – 16.12.2018	2.02
	50,000	-	-	50,000	0.00%	03.04.2009	03.04.2010 – 02.04.2019	2.99
50,000	-	-	50,000	0.00%	03.04.2009	03.04.2011 – 02.04.2019	2.99	
60,000	-	-	60,000	0.00%	03.04.2009	03.04.2012 – 02.04.2019	2.99	
166,000	-	-	166,000	0.01%	07.04.2010	07.04.2010 – 06.04.2020	3.76	
232,000	-	-	232,000	0.02%	07.04.2010	07.04.2011 – 06.04.2020	3.76	
232,000	-	-	232,000	0.02%	07.04.2010	07.04.2012 – 06.04.2020	3.76	
232,000	-	-	232,000	0.02%	07.04.2010	07.04.2013 – 06.04.2020	3.76	

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (I) Long position in the shares and underlying shares of the Company (Continued)

#### (b) Share options granted to the Directors pursuant to the Share Option Scheme adopted by the Company on 8 March 2002 (Continued)

Name of Director	Number of share options			Outstanding at 31 December 2011	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK\$
	Outstanding at 1 January 2011	Granted during the year	Exercised during the year					
	166,000	-	-	166,000	0.01%	07.04.2010	07.04.2014 – 06.04.2020	3.76
	170,000	-	-	170,000	0.01%	07.04.2010	07.04.2015 – 06.04.2020	3.76
	-	550,000	-	550,000	0.04%	08.04.2011	05.05.2011 – 07.04.2021	5.75
	-	550,000	-	550,000	0.04%	08.04.2011	08.04.2012 – 07.04.2021	5.75
	-	550,000	-	550,000	0.04%	08.04.2011	08.04.2013 – 07.04.2021	5.75
	-	550,000	-	550,000	0.04%	08.04.2011	08.04.2014 – 07.04.2021	5.75
	<u>2,216,000</u>	<u>2,200,000</u>	<u>-</u>	<u>4,416,000</u>	<u>0.34%</u>			
Mr. Chung Yuk Man, Clarence	200,000	-	-	200,000	0.02%	01.02.2005	17.09.2009 – 07.03.2012	7.4
	130,000	-	-	130,000	0.01%	13.02.2006	01.04.2008 – 31.01.2016	11.8
	130,000	-	-	130,000	0.01%	13.02.2006	01.04.2010 – 31.01.2016	11.8
	140,000	-	-	140,000	0.01%	13.02.2006	01.04.2012 – 31.01.2016	11.8
	104,000	-	-	104,000	0.01%	01.04.2008	01.04.2009 – 31.03.2018	10.804
	104,000	-	-	104,000	0.01%	01.04.2008	01.04.2010 – 31.03.2018	10.804
	104,000	-	-	104,000	0.01%	01.04.2008	01.04.2011 – 31.03.2018	10.804
	91,000	-	-	91,000	0.01%	17.12.2008	01.02.2009 – 16.12.2018	2.02
	91,000	-	-	91,000	0.01%	17.12.2008	01.05.2009 – 16.12.2018	2.02

Name of Director	Number of share options			Outstanding at 31 December 2011	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK\$
	Outstanding at 1 January 2011	Granted during the year	Exercised during the year					
	91,000	-	-	91,000	0.01%	17.12.2008	01.08.2009 – 16.12.2018	2.02
	91,000	-	-	91,000	0.01%	17.12.2008	01.11.2009 – 16.12.2018	2.02
	91,000	-	-	91,000	0.01%	17.12.2008	01.02.2010 – 16.12.2018	2.02
	91,000	-	-	91,000	0.01%	17.12.2008	01.05.2010 – 16.12.2018	2.02
	50,000	-	-	50,000	0.00%	03.04.2009	03.04.2010 – 02.04.2019	2.99
	50,000	-	-	50,000	0.00%	03.04.2009	03.04.2011 – 02.04.2019	2.99
	60,000	-	-	60,000	0.00%	03.04.2009	03.04.2012 – 02.04.2019	2.99
	166,000	-	-	166,000	0.01%	07.04.2010	07.04.2010 – 06.04.2020	3.76
	232,000	-	-	232,000	0.02%	07.04.2010	07.04.2011 – 06.04.2020	3.76
	232,000	-	-	232,000	0.02%	07.04.2010	07.04.2012 – 06.04.2020	3.76
	232,000	-	-	232,000	0.02%	07.04.2010	07.04.2013 – 06.04.2020	3.76
	166,000	-	-	166,000	0.01%	07.04.2010	07.04.2014 – 06.04.2020	3.76
	170,000	-	-	170,000	0.01%	07.04.2010	07.04.2015 – 06.04.2020	3.76
	-	550,000	-	550,000	0.04%	08.04.2011	05.05.2011 – 07.04.2021	5.75
	-	550,000	-	550,000	0.04%	08.04.2011	08.04.2012 – 07.04.2021	5.75
	-	550,000	-	550,000	0.04%	08.04.2011	08.04.2013 – 07.04.2021	5.75
	-	550,000	-	550,000	0.04%	08.04.2011	08.04.2014 – 07.04.2021	5.75
	<u>2,816,000</u>	<u>2,200,000</u>	<u>-</u>	<u>5,016,000</u>	<u>0.39%</u>			

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (I) Long position in the shares and underlying shares of the Company (Continued)

#### (b) Share options granted to the Directors pursuant to the Share Option Scheme adopted by the Company on 8 March 2002 (Continued)

Name of Director	Number of share options			Outstand- ing at 31 December 2011	Appro- ximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK\$
	Outstanding at 1 January 2011	Granted during the year	Exercised during the year					
Sir Roger Lobo	100,000	-	-	100,000	0.01%	03.04.2006	03.04.2008 – 02.04.2016	15.87
	100,000	-	-	100,000	0.01%	03.04.2006	03.04.2010 – 02.04.2016	15.87
	100,000	-	-	100,000	0.01%	03.04.2006	03.04.2012 – 02.04.2016	15.87
	17,000	-	-	17,000	0.00%	28.02.2008	01.04.2009 – 27.02.2018	11.5
	17,000	-	-	17,000	0.00%	28.02.2008	01.04.2010 – 27.02.2018	11.5
	17,000	-	-	17,000	0.00%	28.02.2008	01.04.2011 – 27.02.2018	11.5
	30,000	-	-	30,000	0.00%	03.04.2009	03.04.2010 – 02.04.2019	2.99
	30,000	-	-	30,000	0.00%	03.04.2009	03.04.2011 – 02.04.2019	2.99
	31,000	-	-	31,000	0.00%	03.04.2009	03.04.2012 – 02.04.2019	2.99
	20,000	-	-	20,000	0.00%	07.04.2010	07.04.2011 – 06.04.2020	3.76
	20,000	-	-	20,000	0.00%	07.04.2010	07.04.2012 – 06.04.2020	3.76
	20,000	-	-	20,000	0.00%	07.04.2010	07.04.2013 – 06.04.2020	3.76
	-	88,000	-	88,000	0.01%	08.04.2011	05.05.2011 – 07.04.2021	5.75
	-	88,000	-	88,000	0.01%	08.04.2011	08.04.2012 – 07.04.2021	5.75

Name of Director	Number of share options			Outstand- ing at 31 December 2011	Appro- ximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK\$
	Outstanding at 1 January 2011	Granted during the year	Exercised during the year					
	-	87,000	-	87,000	0.01%	08.04.2011	08.04.2013 – 07.04.2021	5.75
	-	87,000	-	87,000	0.01%	08.04.2011	08.04.2014 – 07.04.2021	5.75
	502,000	350,000	-	852,000	0.07%			
Mr. Sham Sui Leung, Daniel	17,000	-	-	17,000	0.00%	28.02.2008	01.04.2009 – 27.02.2018	11.5
	17,000	-	-	17,000	0.00%	28.02.2008	01.04.2010 – 27.02.2018	11.5
	17,000	-	-	17,000	0.00%	28.02.2008	01.04.2011 – 27.02.2018	11.5
	30,000	-	-	30,000	0.00%	03.04.2009	03.04.2010 – 02.04.2019	2.99
	30,000	-	-	30,000	0.00%	03.04.2009	03.04.2011 – 02.04.2019	2.99
	31,000	-	-	31,000	0.00%	03.04.2009	03.04.2012 – 02.04.2019	2.99
	20,000	-	-	20,000	0.00%	07.04.2010	07.04.2011 – 06.04.2020	3.76
	20,000	-	-	20,000	0.00%	07.04.2010	07.04.2012 – 06.04.2020	3.76
	20,000	-	-	20,000	0.00%	07.04.2010	07.04.2013 – 06.04.2020	3.76
	-	88,000	-	88,000	0.01%	08.04.2011	05.05.2011 – 07.04.2021	5.75
-	88,000	-	88,000	0.01%	08.04.2011	08.04.2012 – 07.04.2021	5.75	
-	87,000	-	87,000	0.01%	08.04.2011	08.04.2013 – 07.04.2021	5.75	
-	87,000	-	87,000	0.01%	08.04.2011	08.04.2014 – 07.04.2021	5.75	
	202,000	350,000	-	552,000	0.04%			

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (I) Long position in the shares and underlying shares of the Company (Continued)

#### (b) Share options granted to the Directors pursuant to the Share Option Scheme adopted by the Company on 8 March 2002 (Continued)

Name of Director	Number of share options			Outstand- ing at 31 December 2011	Appro- ximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK\$
	Outstanding at 1 January 2011	Granted during the year	Exercised during the year					
Mr. Ng Ching Wo	100,000	-	-	100,000	0.01%	03.04.2006	03.04.2008 – 02.04.2016	15.87
	100,000	-	-	100,000	0.01%	03.04.2006	03.04.2010 – 02.04.2016	15.87
	100,000	-	-	100,000	0.01%	03.04.2006	03.04.2012 – 02.04.2016	15.87
	17,000	-	-	17,000	0.00%	28.02.2008	01.04.2009 – 27.02.2018	11.5
	17,000	-	-	17,000	0.00%	28.02.2008	01.04.2010 – 27.02.2018	11.5
	17,000	-	-	17,000	0.00%	28.02.2008	01.04.2011 – 27.02.2018	11.5
	30,000	-	-	30,000	0.00%	03.04.2009	03.04.2010 – 02.04.2019	2.99
	30,000	-	-	30,000	0.00%	03.04.2009	03.04.2011 – 02.04.2019	2.99
	31,000	-	-	31,000	0.00%	03.04.2009	03.04.2012 – 02.04.2019	2.99
	20,000	-	-	20,000	0.00%	07.04.2010	07.04.2011 – 06.04.2020	3.76
	20,000	-	-	20,000	0.00%	07.04.2010	07.04.2012 – 06.04.2020	3.76
	20,000	-	-	20,000	0.00%	07.04.2010	07.04.2013 – 06.04.2020	3.76
	-	88,000	-	88,000	0.01%	08.04.2011	05.05.2011 – 07.04.2021	5.75
	-	88,000	-	88,000	0.01%	08.04.2011	08.04.2012 – 07.04.2021	5.75
	-	87,000	-	87,000	0.01%	08.04.2011	08.04.2013 – 07.04.2021	5.75
	-	87,000	-	87,000	0.01%	08.04.2011	08.04.2014 – 07.04.2021	5.75
	502,000	350,000	-	852,000	0.07%			

Name of Director	Number of share options			Outstand- ing at 31 December 2011	Appro- ximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK\$
	Outstanding at 1 January 2011	Granted during the year	Exercised during the year					
Dr. Tyen Kan Hee, Anthony	-	88,000	-	88,000	0.01%	08.04.2011	05.05.2011 – 07.04.2021	5.75
	-	88,000	-	88,000	0.01%	08.04.2011	08.04.2012 – 07.04.2021	5.75
	-	87,000	-	87,000	0.01%	08.04.2011	08.04.2013 – 07.04.2021	5.75
	-	87,000	-	87,000	0.01%	08.04.2011	08.04.2014 – 07.04.2021	5.75
	-	350,000	-	350,000	0.04%			
<b>Total</b>	<b>9,024,520</b>	<b>7,000,000</b>	<b>-</b>	<b>16,024,520</b>	<b>1.32%</b>			

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (I) Long position in the shares and underlying shares of the Company (Continued)

(c) Shares awarded to the Directors pursuant to The Melco Share Purchase Scheme (share incentive award scheme) adopted by the Company on 18 October 2007

Name of Director	Number of awarded shares			Outstanding at 31 December 2011	Approximate % of issued share capital	Date of award	Vesting date
	Outstanding at 1 January 2011	Awarded during the year	Vested during the year				
Mr. Ho, Lawrence	12,500	-	(12,500)	-	-	03.04.2009	03.04.2011
Yau Lung	13,000	-	-	13,000	0.001%	03.04.2009	03.04.2012
	-	2,400,000	(2,400,000)	-	-	08.04.2011	05.05.2011
	-	2,400,000	-	2,400,000	0.195%	08.04.2011	08.04.2012
	<u>25,500</u>	<u>4,800,000</u>	<u>(2,412,500)</u>	<u>2,413,000</u>	<u>0.196%</u>		
Mr. Tsui Che Yin, Frank	9,000	-	(9,000)	-	-	03.04.2009	03.04.2011
	9,000	-	-	9,000	0.001%	03.04.2009	03.04.2012
	<u>18,000</u>	<u>-</u>	<u>(9,000)</u>	<u>9,000</u>	<u>0.001%</u>		
Mr. Chung Yuk Man, Clarence	9,000	-	(9,000)	-	-	03.04.2009	03.04.2011
	9,000	-	-	9,000	0.001%	03.04.2009	03.04.2012
	<u>18,000</u>	<u>-</u>	<u>(9,000)</u>	<u>9,000</u>	<u>0.001%</u>		
Sir Roger Lobo	4,000	-	(4,000)	-	-	28.02.2008	01.04.2011
	5,000	-	(5,000)	-	-	03.04.2009	03.04.2011
	5,000	-	-	5,000	0.000%	03.04.2009	03.04.2012
	<u>14,000</u>	<u>-</u>	<u>(9,000)</u>	<u>5,000</u>	<u>0.000%</u>		

Name of Director	Number of awarded shares			Outstanding at 31 December 2011	Approximate % of issued share capital	Date of award	Vesting date
	Outstanding at 1 January 2011	Awarded during the year	Vested during the year				
Mr. Sham Sui Leung, Daniel	4,000	-	(4,000)	-	-	28.02.2008	01.04.2011
	5,000	-	(5,000)	-	-	03.04.2009	03.04.2011
	5,000	-	-	5,000	0.000%	03.04.2009	03.04.2012
	<u>14,000</u>	<u>-</u>	<u>(9,000)</u>	<u>5,000</u>	<u>0.000%</u>		
Mr. Ng Ching Wo	4,000	-	(4,000)	-	-	28.02.2008	01.04.2011
	5,000	-	(5,000)	-	-	03.04.2009	03.04.2011
	5,000	-	-	5,000	0.000%	03.04.2009	03.04.2012
	<u>14,000</u>	<u>-</u>	<u>(9,000)</u>	<u>5,000</u>	<u>0.000%</u>		
<b>Total</b>	<b>103,500</b>	<b>4,800,000</b>	<b>(2,457,500)</b>	<b>2,446,000</b>	<b>0.198%</b>		

### (d) Convertible loan notes issued by the Company

Name of Director	Capacity	Number of underlying shares held	Approximate % of issued share capital	Note
Mr. Ho, Lawrence Yau Lung	Held by trust	298,982,188	24.28%	3

#### Notes:

- As at 31 December 2011, the total number of issued shares of the Company was 1,231,363,780.
- 115,509,024 shares of the Company are held by Lasting Legend Ltd., 288,532,606 shares of the Company are held by Better Joy Overseas Ltd., 7,294,000 shares of the Company are held by The L3G Capital Trust and 18,587,447 shares of the Company are held by Mighty Dragon Developments Limited, representing approximately 9.38%, 23.43%, 0.59% and 1.51% of the issued share capital of the Company, all of which companies/trust are owned by persons, companies and/or trusts associated with Mr. Ho, Lawrence Yau Lung. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung was deemed to be interested in the 429,923,077 shares held by the aforesaid companies/trust.

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (I) Long position in the shares and underlying shares of the Company (Continued)

#### (d) Convertible loan notes issued by the Company (Continued)

Notes: (Continued)

3. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, MCE Holdings Three Limited (formerly known as MPEL (Greater China) Limited) and the Company, convertible loan notes in the total principal amount of HK\$1,175,000,000 (the "Convertible Loan Notes") were issued by the Company to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. On 8 February 2010, the shareholders of the Company at the extraordinary general meeting have approved (1) the amendments to the terms of the Convertible Loan Notes (the "Amended Convertible Loan Notes") pursuant to the deed of amendment dated 16 December 2009 entered into between the Company and Great Respect Limited and (2) a new whitewash waiver waiving the obligation of Great Respect Limited and Mr. Ho, Lawrence Yau Lung to make a mandatory general offer for the shares of the Company as a result of any and all future exercises of the conversion rights under the Amended Convertible Loan Notes pursuant to the provisions of Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Hence, no offer under Rule 26 of the Takeovers Code will be made on full conversion of the Amended Convertible Loan Notes.

Assuming the exercise in full of the conversion rights attaching to the Amended Convertible Loan Notes at the conversion price of HK\$3.93 per share by Great Respect Limited, a total number of 298,982,188 new shares will be issued by the Company, representing approximately 24.28% of the existing issued share capital and approximately 19.54% of the enlarged issued share capital of the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Ho, Lawrence Yau Lung and his immediate family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust.

### (II) Long position and short position in the shares and underlying shares of associated corporations of the Company

Melco Crown Entertainment Limited ("Melco Crown Entertainment")

#### (a) Ordinary shares of US\$0.01 each of Melco Crown Entertainment

Name of Director	Capacity	Number of ordinary shares held/Approximate percentage of issued share capital of Melco Crown Entertainment				Note
		Long position	%	Short position	%	
Mr. Ho, Lawrence Yau Lung	Interest of controlled corporation	556,222,503	33.65%	99,186,060	6.00%	2
	Others	556,222,503	33.65%	99,186,060	6.00%	2
	Interest of controlled corporation	6,013,080	0.36%	-	-	2
	Beneficial owner	2,677,334	0.16%	-	-	-
Mr. Tsui Che Yin, Frank	Beneficial owner	11,850	0.00%	-	-	-
Mr. Chung Yuk Man, Clarence	Beneficial owner	46,216	0.00%	-	-	-

#### (b) Restricted shares awarded by Melco Crown Entertainment

Name of Director	Capacity	Date of Grant	Number of restricted shares granted by Melco Crown Entertainment		Note
			held	Approximate % of issued share capital of Melco Crown Entertainment	
Mr. Ho, Lawrence Yau Lung	Beneficial owner	18.03.2008	62,292	0.00%	3
	Beneficial owner	17.03.2009	241,566	0.02%	4
	Beneficial owner	23.03.2011	723,249	0.04%	5
Mr. Chung Yuk Man, Clarence	Beneficial owner	18.03.2008	3,114	0.00%	3
	Beneficial owner	17.03.2009	11,505	0.00%	4
	Beneficial owner	23.03.2011	47,556	0.00%	5

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (II) Long position and short position in the shares and underlying shares of associated corporations of the Company (Continued)

#### (c) Stock options granted by Melco Crown Entertainment

Name of Director	Capacity	Date of Grant	Number of stock options granted by Melco Crown Entertainment held	Approximate % of issued share capital of Melco Crown Entertainment	Note
Mr. Ho, Lawrence Yau Lung	Beneficial owner	17.03.2009	2,898,774	0.18%	7
	Beneficial owner	25.11.2009	755,058	0.05%	8
	Beneficial owner	23.03.2011	1,446,498	0.09%	9
Mr. Chung Yuk Man, Clarence	Beneficial owner	18.03.2008	56,628	0.00%	6
	Beneficial owner	17.03.2009	138,036	0.01%	7

#### Notes:

- As at 31 December 2011, the total number of issued shares of Melco Crown Entertainment was 1,653,101,002.
- By virtue of the SFO, Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 556,222,503 shares (long position) and 99,186,060 shares (short position) of Melco Crown Entertainment which are being held by Melco Leisure and Entertainment Group Limited ("Melco Leisure"), a wholly owned subsidiary of the Company; (ii) 556,222,503 shares (long position) and 99,186,060 shares (short position) of Melco Crown Entertainment which are being held by Crown Asia Investments Pty. Ltd. ("Crown Asia") pursuant to rights of first refusal over such shares granted by Crown Asia in favor of Melco Leisure under the amended and restated shareholders' deed entered into among Melco Crown Entertainment, Melco Leisure, the Company, Crown Asia and Crown Limited dated 12 December 2007; and (iii) 6,013,080 shares (long position) of Melco Crown Entertainment which are being held by Melco Crown SPV Limited, a company which is owned by Melco Leisure as to 50% and Crown Asia as to 50%, as a result of him being beneficially interested in approximately 35.77% of the issued share capital of the Company which in turn holds approximately 67.66% of the issued common shares of Melco Crown Entertainment.

- The personal interests of these directors represent their interests in Melco Crown Entertainment comprising the restricted shares which were granted to them by Melco Crown Entertainment on 18 March 2008 pursuant to the restricted share award agreement under the Share Incentive Plan adopted by Melco Crown Entertainment in 2006.

The 62,292 restricted shares held by Mr. Ho, Lawrence Yau Lung shall vest on 18 March 2012. The 3,114 restricted shares held by Mr. Chung Yuk Man, Clarence shall vest on 18 March 2012.

- The personal interests of these directors represent their interests in Melco Crown Entertainment comprising the restricted shares which were granted to them by Melco Crown Entertainment on 17 March 2009.

The 241,566 restricted shares held by Mr. Ho, Lawrence Yau Lung shall vest on 17 March 2013. The 11,505 restricted shares held by Mr. Chung Yuk Man, Clarence shall vest on 17 March 2013.

- Among the 723,249 restricted shares held by Mr. Ho, Lawrence Yau Lung, 241,056 shares shall vest on 23 March 2012, 241,056 shares shall vest on 23 March 2013 and 241,137 shares shall vest on 23 March 2014.

Among the 47,556 restricted shares held by Mr. Chung Yuk Man, Clarence, 15,849 shares shall vest on 23 March 2012, 15,849 shares shall vest on 23 March 2013 and 15,858 shares shall vest on 23 March 2014.

- The personal interest of this director represents his derivative interests in Melco Crown Entertainment comprising the stock options granted to him by Melco Crown Entertainment on 18 March 2008 at an exercise price of US\$4.01333 per share (US\$12.04 per American Depositary Share "ADS") of Melco Crown Entertainment (Note: each ADS represents 3 shares of Melco Crown Entertainment).

Among the 56,628 stock options held by Mr. Chung Yuk Man, Clarence, 14,157 options may be exercised during the period from 18 March 2009 to 17 March 2018, 14,157 options may be exercised during the period from 18 March 2010 to 17 March 2018, 14,157 options may be exercised during the period from 18 March 2011 to 17 March 2018 and 14,157 options may be exercised during the period from 18 March 2012 to 17 March 2018.

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (II) Long position and short position in the shares and underlying shares of associated corporations of the Company (Continued)

#### (c) Stock options granted by Melco Crown Entertainment (Continued)

Notes: (Continued)

7. The personal interests of these directors represent their derivative interests in Melco Crown Entertainment comprising the stock options granted to them by Melco Crown Entertainment on 17 March 2009 at an exercise price of US\$1.0867 per share (US\$3.26 per ADS) of Melco Crown Entertainment.

Among the 2,898,774 stock options held by Mr. Ho, Lawrence Yau Lung, 724,692 options may be exercised during the period from 17 March 2010 to 16 March 2019, 724,692 options may be exercised during the period from 17 March 2011 to 16 March 2019, 724,692 options may be exercised during the period from 17 March 2012 to 16 March 2019 and 724,698 options may be exercised during the period from 17 March 2013 to 16 March 2019.

Among the 138,036 stock options held by Mr. Chung Yuk Man, Clarence, 34,509 options may be exercised during the period from 17 March 2010 to 16 March 2019, 34,509 options may be exercised during the period from 17 March 2011 to 16 March 2019, 34,509 options may be exercised during the period from 17 March 2012 to 16 March 2019 and 34,509 options may be exercised during the period from 17 March 2013 to 16 March 2019.

8. Pursuant to the Option Cancel and Exchange Program adopted by Melco Crown Entertainment, the 1,132,587 stock options at an exercise price of US\$4.01333 per share (US\$12.04 per ADS) of Melco Crown Entertainment previously granted to Mr. Ho, Lawrence Yau Lung on 18 March 2008 have been cancelled. In return, Melco Crown Entertainment granted 755,058 stock options at an exercise price of US\$1.4267 (US\$4.28 per ADS) to Mr. Ho, Lawrence Yau Lung on 25 November 2009.

Among the 755,058 stock options held by Mr. Ho, Lawrence Yau Lung, 188,763 options may be exercised during the period from 25 November 2010 to 17 March 2018, 188,763 options may be exercised during the period from 25 November 2011 to 17 March 2018, 188,763 options may be exercised during the period from 25 November 2012 to 17 March 2018 and 188,769 options may be exercised during the period from 25 November 2013 to 17 March 2018.

9. The personal interest of this director represents his derivative interest in Melco Crown Entertainment comprising the stock options granted to them by Melco Crown Entertainment on 23 March 2011 at an exercise price of US\$2.52333 per share (US\$7.57 per ADS) of Melco Crown Entertainment.

Among the 1,446,498 stock options held by Mr. Ho, Lawrence Yau Lung, 482,115 options may be exercised during the period from 23 March 2012 to 22 March 2021, 482,115 options may be exercised during the period from 23 March 2013 to 22 March 2021 and 482,268 options may be exercised during the period from 23 March 2014 to 22 March 2021.

### (III) Long position in the shares and underlying shares of associated corporations of the Company

#### (A) Mountain China Resorts (Holding) Limited ("MCR")

##### (a) Common shares (without par value) of MCR

Name of Director	Capacity	Number of common shares of MCR held	Approximate % of issued common shares of MCR	Note
Mr. Ho, Lawrence Yau Lung	Beneficial owner	156,862	0.08%	-
	Interest of controlled corporations	58,233,365	28.66%	2
Mr. Tsui Che Yin, Frank	Beneficial owner	83,523	0.04%	-

##### (b) Stock options granted by MCR

Name of Director	Capacity	Number of stock options granted by MCR held	Approximate % of issued common shares of MCR	Note
Mr. Chung Yuk Man, Clarence	Beneficial owner	300,000	0.15%	3

Notes:

- As at 31 December 2011, the total number of issued common shares of MCR was 203,159,103.
- Mr. Ho, Lawrence Yau Lung is taken to be interested in 58,233,365 common shares of MCR, which are being held by Melco (Luxembourg) S.à.r.l., a wholly-owned subsidiary of Melco Leisure, as a result of him being beneficially interested in approximately 35.77% of the issued share capital of the Company which in turn holds approximately 28.66% of the issued common shares of MCR.
- The personal interest of Mr. Chung Yuk Man, Clarence represents his derivative interest in MCR comprising the stock options to acquire common shares of MCR granted by MCR on 28 May 2008 at an exercise price of C\$3.00 per common share pursuant to the Stock Option Plan adopted by MCR in 2008.

Among the 300,000 stock options held by Mr. Chung, 100,000 options may be exercised during the period from 28 May 2009 to 27 May 2018, 100,000 options may be exercised during the period from 28 May 2010 to 27 May 2018 and 100,000 options may be exercised during the period from 28 May 2011 to 27 May 2018.

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (III) Long position in the shares and underlying shares of associated corporations of the Company (Continued)

#### (B) Entertainment Gaming Asia Inc. ("EGT")

##### (a) Shares of common stock of US\$0.001 each of EGT

Name of Director	Capacity	Number of shares of common stock of EGT held	Approximate % of issued share capital of EGT	Note
Mr. Ho, Lawrence Yau Lung	Interest of controlled corporations	45,800,000	38.54%	2
Mr. Chung Yuk Man, Clarence	Beneficial owner	1,697,727	1.43%	-
Dr. Tyen Kan Hee, Anthony	Beneficial owner	120,000	0.10%	-

##### (b) Stock options granted by EGT

Name of Director	Capacity	Date of Grant	Number of stock options granted by EGT held	Approximate % of issued share capital of EGT	Note
Mr. Tsui Che Yin, Frank	Beneficial owner	10.09.2007	1,000,000	0.84%	3
Mr. Chung Yuk Man, Clarence	Beneficial owner	10.09.2007	200,000	0.17%	3
	Beneficial owner	22.01.2008	30,000	0.03%	4
	Beneficial owner	12.02.2008	100,000	0.08%	5
	Beneficial owner	29.12.2008	2,000,000	1.68%	7
	Beneficial owner	12.02.2009	50,000	0.04%	8
	Beneficial owner	07.01.2010	50,000	0.04%	9
	Beneficial owner	22.01.2010	500,000	0.42%	10
	Beneficial owner	03.02.2011	550,000	0.46%	11
Mr. Sham Sui Leung, Daniel	Beneficial owner	11.12.2008	100,000	0.08%	6
	Beneficial owner	12.02.2009	50,000	0.04%	8

Name of Director	Capacity	Date of Grant	Number of stock options granted by EGT held	Approximate % of issued share capital of EGT	Note
Dr. Tyen Kan Hee, Anthony	Beneficial owner	11.12.2008	100,000	0.08%	6
	Beneficial owner	12.02.2009	50,000	0.04%	8
	Beneficial owner	07.01.2010	50,000	0.04%	9
	Beneficial owner	03.02.2011	50,000	0.04%	11

##### (c) Restricted common stock granted by EGT

Name of Director	Capacity	Date of Grant	Number of shares of restricted common stock granted by EGT held	Approximate % of issued share capital of EGT	Note
Mr. Chung Yuk Man, Clarence	Beneficial owner	03.02.2011	416,666	0.35%	12

#### Notes:

- As at 31 December 2011, the total number of issued shares of common stock of EGT was 118,839,393.
- Mr. Ho, Lawrence Yau Lung is deemed to be interested in 45,800,000 shares of common stock of EGT, which are being held by EGT Entertainment Holding Limited, a wholly-owned subsidiary of the Company, as a result of him being beneficially interested in approximately 35.77% of the issued share capital of the Company which in turn holds approximately 38.54% of the issued share capital of EGT.
- The personal interests of Mr. Tsui Che Yin, Frank and Mr. Chung Yuk Man, Clarence represent their derivative interests in EGT comprising the stock options granted to them by EGT on 10 September 2007 at an exercise price of US\$2.90 per EGT's share.

Among the 1,000,000 stock options granted to Mr. Tsui, 333,334 options may be exercised during the period from 17 May 2008 to 17 May 2012, 333,333 options may be exercised during the period from 17 May 2009 to 17 May 2012 and 333,333 options may be exercised during the period from 17 May 2010 to 17 May 2012.

Among the 200,000 stock options granted to Mr. Chung, 66,666 options may be exercised during the period from 17 May 2008 to 17 May 2012, 66,666 options may be exercised during the period from 17 May 2009 to 17 May 2012 and 66,668 options may be exercised during the period from 17 May 2010 to 17 May 2012.

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (III) Long position in the shares and underlying shares of associated corporations of the Company (Continued)

#### (B) Entertainment Gaming Asia Inc. ("EGT") (Continued)

##### (c) Restricted common stock granted by EGT (Continued)

Notes: (Continued)

4. The personal interest of Mr. Chung Yuk Man, Clarence represents his derivative interests in EGT comprising the stock options granted to him by EGT on 22 January 2008 at an exercise price of US\$3.62 per EGT's share. The 30,000 stock options may be exercised during the period from 23 July 2008 to 22 January 2018.
5. The personal interest of Mr. Chung Yuk Man, Clarence represents his derivative interests in EGT comprising the stock options granted to him by EGT on 12 February 2008 at an exercise price of US\$4.59 per EGT's share. The 100,000 stock options may be exercised during the period from 15 May 2008 to 14 November 2017.
6. The personal interests of Mr. Sham Sui Leung, Daniel and Dr. Tyen Kan Hee, Anthony represent their derivative interests in EGT comprising the stock options granted to them by EGT on 11 December 2008 at an exercise price of US\$0.08 per EGT's share. The 100,000 stock options held by each of Mr. Sham and Dr. Tyen may be exercised during the period from 12 June 2009 to 11 December 2018.
7. The personal interest of Mr. Chung Yuk Man, Clarence represents his derivative interests in EGT comprising the stock options granted to him by EGT on 29 December 2008 at an exercise price of US\$0.17 per EGT's share. The 2,000,000 stock options may be exercised during the period from 29 December 2009 to 29 December 2013.
8. The personal interests of Mr. Chung Yuk Man, Clarence, Mr. Sham Sui Leung, Daniel and Dr. Tyen Kan Hee, Anthony represent their derivative interests in EGT comprising the stock options granted to them by EGT on 12 February 2009 at an exercise price of US\$0.13 per EGT's share. The 50,000 stock options held by each of Mr. Chung, Mr. Sham and Dr. Tyen may be exercised during the period from 13 August 2009 to 12 February 2019.
9. The personal interests of Mr. Chung Yuk Man, Clarence and Dr. Tyen Kan Hee, Anthony represent their derivative interests in EGT comprising the stock options granted to them by EGT on 7 January 2010 at an exercise price of US\$0.29 per EGT's share. The 50,000 stock options held by each of Mr. Chung and Dr. Tyen may be exercised during the period from 8 July 2010 to 7 January 2020.

10. The personal interest of Mr. Chung Yuk Man, Clarence represents his derivative interests in EGT comprising the stock options granted to him by EGT on 22 January 2010 at an exercise price of US\$0.275 per EGT's share. The 500,000 stock options may be exercised during the period from 1 January 2011 to 22 January 2020.

11. The personal interests of Mr. Chung Yuk Man, Clarence and Dr. Tyen Kan Hee, Anthony represent their derivative interests in EGT comprising the stock options granted to them by EGT on 3 February 2011 at an exercise price of US\$0.36 per EGT's share.

Among the 550,000 stock options granted to Mr. Chung, 50,000 options may be exercised during the period from 4 August 2011 to 3 February 2021 and 500,000 options may be exercised during the period from 1 January 2012 to 3 February 2021.

The 50,000 stock options granted to Dr. Tyen may be exercised during the period from 4 August 2011 to 3 February 2021.

12. The personal interest of Mr. Chung Yuk Man, Clarence represents his interest in EGT comprising 416,666 shares of the restricted common stock granted to him on 3 February 2011 pursuant to EGT's 2008 Stock Incentive Plan. The 416,666 shares are subject to vesting and risk of forfeiture based on EGT's ability to meet certain financial and non-financial performance targets as of and for the fiscal year ending 31 December 2011. On 6 March 2012, EGT's Compensation Committee reviewed the financial and non-financial performance targets as of and for the fiscal year ending 31 December 2011 and decided that the entire amount of 416,666 shares should be fully vested to Mr. Chung.

Save as disclosed above, as at 31 December, 2011, none of the directors or chief executive of the Company and their respective associates had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

# Report of the Directors

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ho, Lawrence Yau Lung has effective beneficial interests in Shun Tak Holdings Limited (“STHL”), Sociedade de Turismo e Diversões de Macau, S.A. (“STDM”) and SJM Holdings Limited (“SJM”) of 2.71%, 2.42% and 1.34%. These effective beneficial interests are held through a number of intermediary companies in which Mr. Ho holds a minority interest. STHL, STDM and SJM are involved in hotel and casino business, which competes with the business of the Company’s associate, Melco Crown Entertainment Limited, in Macau. Mr. Ho is not a director of STHL, STDM and SJM and has no involvement with, and does not exercise any control or influence on, management and operation of STHL, STDM and SJM.

Save as disclosed, during the year, no Director has been interested in any business apart from the Company’s business, which competes or is likely to compete, either directly or indirectly, with the Company’s business which is required to be disclosed pursuant to the Listing Rules.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2011, the following persons/corporations had interests in five per cent or more of the issued share capital of the Company as recorded in the register required to be kept under Section 336 of the SFO. Details of the interests in the shares or underlying shares of the Company as notified to the Company are set out below:

## (a) Ordinary shares of HK\$0.50 each of the Company (Actual Shareholding)

Name	Capacity	Number of ordinary shares held/ Approximate % of issued share capital				Note
		Long Position	%	Short Position	%	
Better Joy Overseas Ltd.	Beneficial owner	288,532,606	23.43%	-	-	2
Lasting Legend Ltd.	Beneficial owner	115,509,024	9.38%	-	-	2
Mr. Ho, Lawrence Yau Lung	Interest of controlled corporations	429,923,077	34.91%	-	-	3
	Beneficial owner	10,499,612	0.85%	-	-	-
Ms. Lo Sau Yan, Sharen	Interest of spouse	440,422,689	35.77%	-	-	4
Janus Capital Management LLC	Investment Manager	97,526,000	7.92%	-	-	-
Southeastern Asset Management, Inc.	Investment Manager	61,655,744	5.01%	-	-	-
Deutsche Bank Aktiengesellschaft	Beneficial owner	2,947,877	0.24%	2,594,263	0.21%	-
	Person having a security interest in shares	5,710,000	0.46%	3,452,000	0.28%	-
	Custodian	98,112,000	7.97%	-	-	5

### Notes:

- As at 31 December 2011, the total number of issued shares of the Company was 1,231,363,780.
- The shares held by Better Joy Overseas Ltd. and Lasting Legend Ltd. also represent the corporate interests of Mr. Ho, Lawrence Yau Lung in the Company.

# Report of the Directors

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (CONTINUED)

### (a) Ordinary shares of HK\$0.50 each of the Company (Actual Shareholding) (Continued)

- 3 The 429,923,077 shares relate to the 288,532,606 shares, 115,509,024 shares, 18,587,447 shares and 7,294,000 shares held by Better Joy Overseas Ltd., Lasting Legend Ltd., Mighty Dragon Developments Limited and The L3G Capital Trust respectively, representing approximately 23.43%, 9.38%, 1.51% and 0.59% of the issued share capital of the Company. Lasting Legend Ltd., Better Joy Overseas Ltd., Mighty Dragon Developments Limited and The L3G Capital Trust are owned by persons and/or trusts associated with Mr. Ho, Lawrence Yau Lung. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung was deemed to be interested in the shares held by the aforesaid companies and trust.
- 4 Ms. Lo Sau Yan, Sharen is the spouse of Mr. Ho, Lawrence Yau Lung and was deemed to be interested in the shares of the Company through the interest of her spouse, Mr. Ho, Lawrence Yau Lung, under the SFO.
- 5 The 98,112,000 shares were held in lending pool.

### (b) Convertible loan notes issued by the Company (Potential Shareholding)

Name	Capacity	Number of underlying shares held	Approximate % of issued share capital	Note
Great Respect Limited	Beneficial owner	298,982,188	24.28%	2
Mr. Ho, Lawrence Yau Lung	Held by trust	298,982,188	24.28%	2
Ms. Lo Sau Yan, Sharen	Held by trust	298,982,188	24.28%	2
Dr. Ho Hung Sun, Stanley	Held by trust	298,982,188	24.28%	2
SG Trust (Asia) Ltd.	Interest of controlled corporations	298,982,188	24.28%	2

Notes:

1. As at 31 December 2011, the total number of issued shares of the Company was 1,231,363,780.

2. Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, MCE Holdings Three Limited (formerly known as MPEL (Greater China) Limited) and the Company, convertible loan notes in the total principal amount of HK\$1,175,000,000 (the "Convertible Loan Notes") were issued by the Company to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. On 8 February 2010, the shareholders of the Company at the extraordinary general meeting have approved (1) the amendments to the terms of the Convertible Loan Notes (the "Amended Convertible Loan Notes") pursuant to the deed of amendment dated 16 December 2009 entered into between the Company and Great Respect Limited and (2) a new whitewash waiver waiving the obligation of Great Respect Limited and Mr. Ho, Lawrence Yau Lung to make a mandatory general offer for the shares of the Company as a result of any and all future exercises of the conversion rights under the Amended Convertible Loan Notes pursuant to the provisions of Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Hence, no offer under Rule 26 of the Takeovers Code will be made on full conversion of the Amended Convertible Loan Notes.  
  
Assuming the exercise in full of the conversion rights attaching to the Amended Convertible Loan Notes at the conversion price of HK\$3.93 per share by Great Respect Limited, a total number of 298,982,188 new shares will be issued by the Company, representing approximately 24.28% of the existing issued share capital and approximately 19.54% of the enlarged issued share capital of the Company. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Ho, Lawrence Yau Lung and his immediate family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust.
3. Regarding the interests of Mr. Ho, Lawrence Yau Lung in other underlying shares of the Company (in respect of the share options and awarded shares granted by the Company), please refer to the section "Directors' interests in shares, underlying shares and debentures" in this report.

Save as disclosed above, as at 31 December 2011, the Company has not been notified of any other interests or short position in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as for the share option scheme and the share award schemes disclosed in note 42 to the consolidated financial statements and the convertible loan notes disclosed in note 37 to the consolidated financial statements, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to acquire or which enables the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# Report of the Directors

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

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

## **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining a high corporate governance standard so as to ensure better transparency and protection of shareholders' interests. The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2011 except code provision A.2.1. in respect of the separation of the roles of the Chairman and Chief Executive Officer and A.4.1 in respect of the appointment of non-executive directors for specific terms.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 45 to 54 of this annual report.

## **EMOLUMENT POLICY**

The employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market standards.

The Company has adopted a share option scheme and two share incentive award schemes, as an incentive to directors and employees. Details of the schemes are set out in note 42 to the consolidated financial statements.

## **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.

## **DONATIONS**

During the year, the Group made charitable and other donations amounting to approximately HK\$2,239,000 (2010: HK\$1,882,000).

## **AUDITOR**

The financial statements of the Company for the year ended 31 December 2011 have been audited by Messrs. Deloitte Touche Tohmatsu, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Ho, Lawrence Yau Lung**

*Chairman and Chief Executive Officer*

Hong Kong, 28 March 2012

# Independent Auditor's Report

## Deloitte. 德勤

### TO THE MEMBERS OF MELCO INTERNATIONAL DEVELOPMENT LIMITED

新濠國際發展有限公司

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Melco International Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 73 to 158, which comprise the consolidated and Company's statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

# Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

## Deloitte Touche Tohmatsu

*Certified Public Accountants*

Hong Kong

28 March 2012

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
<b>Continuing Operations</b>			
Revenue	7	129,314	125,166
Other income	9	47,835	86,862
Investment income	10	5,544	715
Purchases and changes in inventories of finished goods		(32,244)	(28,308)
Employee benefits expense	11	(135,327)	(94,962)
Depreciation of property, plant and equipment		(5,734)	(8,837)
Gain (loss) on deemed disposal of interest in an associate	24	2,903	(33,085)
Loss on disposal of interest in an associate	24	-	(2,012)
Fair value changes on derivative financial instruments		-	(34)
Fair value change on investment in convertible loan note	27	(232,160)	14,414
Increase in fair value of investment properties	20	3,000	-
Other expenses		(83,443)	(74,478)
Finance costs	12	(122,521)	(106,799)
Share of loss of a jointly controlled entity	23	-	(81,686)
Share of profits (losses) of associates	24	689,381	(10,943)
Profit (loss) before tax	13	266,548	(213,987)
Income tax credit	14	14,844	14,245
Profit (loss) for the year from continuing operations		281,392	(199,742)
<b>Discontinued Operations</b>			
Loss for the year from discontinued operations	15	-	(8,866)
Profit (loss) for the year		281,392	(208,608)
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		(27)	(17)
Reclassification adjustment of exchange reserve upon disposal of a subsidiary		-	(70)
Fair value (loss) gain on available-for-sale investments		(1,426)	1,426
Share of other comprehensive income of an associate		41,142	46,050
Other comprehensive income for the year		39,689	47,389
Total comprehensive income (expense) for the year		321,081	(161,219)

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Profit (loss) for the year attributable to:			
Owners of the Company		280,085	(209,464)
Non-controlling interests		1,307	856
		<u>281,392</u>	<u>(208,608)</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		319,774	(162,075)
Non-controlling interests		1,307	856
		<u>321,081</u>	<u>(161,219)</u>
Earnings (loss) per share – Basic and diluted	19		
From continuing and discontinued operations			
Basic (HK cents)		<u>22.79</u>	<u>(17.04)</u>
Diluted (HK cents)		<u>22.06</u>	<u>(17.04)</u>
From continuing operations			
Basic (HK cents)		<u>22.79</u>	<u>(16.32)</u>
Diluted (HK cents)		<u>22.06</u>	<u>(16.32)</u>

# Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
<b>Non-current assets</b>			
Investment properties	20	169,000	166,000
Property, plant and equipment	21	18,199	22,850
Other intangible assets	22	5,700	5,700
Interests in jointly controlled entities	23	–	–
Interests in associates	24	7,583,784	6,396,712
Amounts due from associates	31	–	627,195
Available-for-sale investments	26	5,035	10,255
Investment in convertible loan note	27	39,993	272,153
		<b>7,821,711</b>	<b>7,500,865</b>
<b>Current assets</b>			
Inventories	28	3,311	2,489
Trade receivables	29	3,502	5,629
Prepayments, deposits and other receivables		19,653	32,159
Held-for-trading investments	30	320	610
Amounts due from associates	31	48,428	23,082
Pledged bank deposits		947	947
Bank deposits with original maturity over three months	33	583,072	629,363
Bank balances and cash	33	97,086	145,536
		<b>756,319</b>	<b>839,815</b>
<b>Current liabilities</b>			
Trade payables	34	3,890	3,230
Other payables		25,216	36,885
Amounts due to associates	31	11,706	10,372
Dividend payable		123	18,545
Taxation payable		697	697
Financial guarantee liability	35	52,320	76,318
Bank borrowings – due within one year	36	227,980	14,980
		<b>321,932</b>	<b>161,027</b>
<b>Net current assets</b>		<b>434,387</b>	<b>678,788</b>
<b>Total assets less current liabilities</b>		<b>8,256,098</b>	<b>8,179,653</b>

# Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities	39	39,678	54,522
Bank borrowings – due after one year	36	49,210	254,190
Long term payable	38	–	170,537
Convertible loan note – due after one year	37	955,634	844,562
		<b>1,044,522</b>	<b>1,323,811</b>
		<b>7,211,576</b>	<b>6,855,842</b>
<b>Capital and reserves</b>			
Share capital	40	615,682	615,296
Reserves		6,566,964	6,212,655
		<b>7,182,646</b>	<b>6,827,951</b>
Equity attributable to owners of the Company		28,930	27,891
Non-controlling interests			
		<b>7,211,576</b>	<b>6,855,842</b>

The consolidated financial statements on pages 73 to 158 were approved and authorised for issue by the Board of Directors on 28 March 2012 and are signed on its behalf by:

**Ho, Lawrence Yau Lung**  
DIRECTOR

**Tsui Che Yin, Frank**  
DIRECTOR

# Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
<b>Non-current assets</b>			
Investment in subsidiaries	25	1,222,031	1,151,613
Other intangible assets	22	5,700	5,700
Amounts due from subsidiaries	32	3,715,569	3,607,936
		<b>4,943,300</b>	<b>4,765,249</b>
<b>Current assets</b>			
Prepayments, deposits and other receivables		3,536	12,856
Amounts due from subsidiaries	32	84,516	60,761
Bank deposits with original maturity of over three months	33	441,324	603,707
Bank balances and cash	33	20,225	49,566
		<b>549,601</b>	<b>726,890</b>
<b>Current liabilities</b>			
Accrual		2,690	4,221
Amounts due to associates	31	426	419
Amounts due to subsidiaries	32	282,306	273,900
Dividend payable		123	18,545
Financial guarantee liability	35	52,320	76,318
Bank borrowings – due within one year	36	200,000	–
		<b>537,865</b>	<b>373,403</b>
<b>Net current assets</b>		<b>11,736</b>	<b>353,487</b>
<b>Total assets less current liabilities</b>		<b>4,955,036</b>	<b>5,118,736</b>

# Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities	39	36,195	54,522
Amount due to a subsidiary	32	40,200	–
Bank borrowings – due after one year	36	–	200,000
Convertible loan note – due after one year	37	955,634	844,562
		<u>1,032,029</u>	<u>1,099,084</u>
		<u>3,923,007</u>	<u>4,019,652</u>
<b>Capital and reserves</b>			
Share capital	40	615,682	615,296
Reserves	41	3,307,325	3,404,356
		<u>3,923,007</u>	<u>4,019,652</u>

**Ho, Lawrence Yau Lung**  
DIRECTOR

**Tsui Che Yin, Frank**  
DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company															Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 1)	Special reserve HK\$'000 (Note 2)	Convertible loan note equity reserve HK\$'000	Property revaluation reserve HK\$'000	Other revaluation reserve HK\$'000	Exchange reserve HK\$'000	Legal reserve HK\$'000 (Note 3)	Share options reserve HK\$'000	Shares held under share award schemes HK\$'000	Share awards reserve HK\$'000	Other reserve HK\$'000 (Note 4)	Retained profits HK\$'000	Total HK\$'000		
At 1 January 2010	615,130	3,132,743	271,463	(61,816)	307,253	5,796	200,631	3,556	254	46,577	(13,251)	4,034	(87,192)	2,256,578	6,681,756	27,304	6,709,060
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	(17)	-	-	-	-	-	-	(17)	-	(17)
Reclassification adjustment of exchange reserve upon disposal of a subsidiary	-	-	-	-	-	-	-	(70)	-	-	-	-	-	-	(70)	-	(70)
Share of other comprehensive income of an associate	-	-	-	-	-	-	-	-	-	-	-	46,050	-	46,050	-	-	46,050
Fair value gain on available-for-sale investments (note 26)	-	-	-	-	-	-	1,426	-	-	-	-	-	-	-	1,426	-	1,426
Other comprehensive income (expense) for the year	-	-	-	-	-	-	1,426	(87)	-	-	-	46,050	-	47,389	-	-	47,389
Loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	(209,464)	(209,464)	-	856	(208,608)
Total comprehensive income (expense) for the year	-	-	-	-	-	-	1,426	(87)	-	-	-	46,050	-	(209,464)	(162,075)	856	(161,219)
Exercise of share options	166	1,065	-	-	-	-	-	-	-	(457)	-	-	-	-	774	-	774
Release of convertible loan note equity reserve upon amendment	-	-	-	-	(307,253)	-	-	-	-	-	-	-	-	294,306	(12,947)	-	(12,947)
Recognition of equity component of convertible loan note	-	-	-	-	392,585	-	-	-	-	-	-	-	-	-	392,585	-	392,585
Deferred tax liability on recognition of equity component of convertible loan note	-	-	-	-	(68,767)	-	-	-	-	-	-	-	-	(68,767)	-	-	(68,767)
Transfer of legal reserve upon disposal of a subsidiary	-	-	-	-	-	-	-	-	(254)	-	-	-	254	-	-	-	-
Recognition of equity-settled share based payments	-	-	-	-	-	-	-	-	-	14,033	-	940	-	-	14,973	-	14,973
Transfer of share option reserve upon expiry of share options and shares awards	-	-	-	-	-	-	-	-	-	(399)	-	(38)	-	437	-	-	-
Shares vested under the share award schemes	-	-	-	-	-	-	-	-	-	-	6,291	(4,276)	-	(2,015)	-	-	-
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(269)	(269)
Dividend recognized as distribution (note 18)	-	-	(18,459)	-	-	-	-	-	-	-	-	-	-	-	(18,459)	-	(18,459)
Realisation of special reserve and other revaluation reserve upon deemed disposal of interest in an associate	-	-	-	111	-	-	(46)	-	-	-	-	-	46	111	-	-	111
	166	1,065	(18,459)	111	16,565	-	(46)	-	(254)	13,177	6,291	(3,374)	-	293,028	308,270	(269)	308,001
At 31 December 2010	615,296	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	6,827,951	27,891	6,855,842

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company																
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 1)	Special reserve HK\$'000 (Note 2)	Convertible loan note equity reserve HK\$'000	Property revaluation reserve HK\$'000	Other revaluation reserve HK\$'000	Exchange reserve HK\$'000	Legal reserve HK\$'000 (Note 3)	Share options reserve HK\$'000	Shares held under share award schemes HK\$'000	Share awards reserve HK\$'000	Other reserve HK\$'000 (Note 4)	Retained profits HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2011	615,296	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	6,827,951	27,891	6,855,842
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	(27)	-	-	-	-	-	-	(27)	-	(27)
Share of other comprehensive income of an associate	-	-	-	-	-	-	-	-	-	-	-	-	41,142	-	41,142	-	41,142
Fair value loss on available-for-sale investments (note 26)	-	-	-	-	-	-	(1,426)	-	-	-	-	-	-	-	(1,426)	-	(1,426)
Other comprehensive income (expense) for the year	-	-	-	-	-	-	(1,426)	(27)	-	-	-	-	41,142	-	39,689	-	39,689
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	280,085	280,085	1,307	281,392
Total comprehensive income (expense) for the year	-	-	-	-	-	-	(1,426)	(27)	-	-	-	-	41,142	280,085	319,774	1,307	321,081
Exercise of share options	386	4,023	-	-	-	-	-	-	-	(1,689)	-	-	-	-	2,720	-	2,720
Recognition of equity-settled share based payments	-	-	-	-	-	-	-	-	-	35,482	-	24,040	-	-	59,522	-	59,522
Transfer of share option reserve upon expiry of share options and shares awards	-	-	-	-	-	-	-	-	-	(55)	-	-	-	55	-	-	-
Shares vested under the share award schemes	-	-	-	-	-	-	-	-	-	-	16,895	(14,313)	-	(2,582)	-	-	-
Purchase of shares for unvested shares under the share award schemes	-	-	-	-	-	-	-	-	-	-	(26,841)	-	-	(26,841)	-	-	(26,841)
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(268)	(268)
Realisation of special reserve and other revaluation reserve upon deemed disposal of interest in an associate	-	-	-	(480)	-	-	199	-	-	-	-	-	-	(199)	(480)	-	(480)
	386	4,023	-	(480)	-	-	199	-	-	33,738	(9,946)	9,727	-	(2,726)	34,921	(268)	34,653
At 31 December 2011	615,682	3,137,831	253,004	(62,185)	323,818	5,796	200,784	3,442	-	93,492	(16,906)	10,387	-	2,617,501	7,182,646	28,930	7,211,576

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

Note 1: Pursuant to a scheme of capital reduction, which became effective on 29 June 1993, the Supreme Court of Hong Kong approved the cancellation of the Company's share premium account which, on that date, was stated at HK\$127,274,212. By virtue of the same court's sanction, the issued and fully paid share capital of the Company was also reduced by HK\$230,510,521 through a reduction in the nominal value of the share capital of the Company. The credits arising from the cancellation of the share premium account and the reduction of the share capital account, in the aggregate amount of HK\$357,784,733 were transferred to a capital reserve account. The capital reserve account is distributable to the shareholders of the Company if there is no outstanding debt or claim against the Company which was in existence on the effective date of the capital reduction. In view of the fact that the Company receives no claim, demand, action or proceedings in respect of any such debt or claim since June 1993 and in view of the fact that any such debt or claim has been statute-barred under Hong Kong law and irrecoverable against the Company, the Company is of the view that the reserve is distributable to the Company's shareholders.

Note 2: The special reserve represents the difference between the consideration paid and the aggregate of goodwill and the carrying values of the underlying assets and liabilities attributable to the additional interest in a former subsidiary, which subsequently become an associate of the Group, acquired in previous years.

Note 3: All entities incorporated in Macau are required to set aside a minimum of 10% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. Such legal reserve represents an amount set aside from the retained profits and is not available for distribution to the shareholders of the entity. The appropriation of legal reserve is recorded in financial statements in the period in which it is approved by the Board.

Note 4: The other reserve represents the share of an associate's hedging reserve.



# Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK\$'000	2010 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit (loss) before tax	266,548	(222,853)
Adjustments for:		
Gain on extension of long term payable	(6,655)	(6,655)
Loss on settlement of long term payable	10,020	-
Loss (gain) from fair value change of held-for-trading investments	290	(310)
Release of financial guarantee liability	(23,998)	(69,870)
Dividend income	(5,834)	(405)
Depreciation of property, plant and equipment	5,734	9,862
Loss on disposal of a subsidiary	-	3,473
Impairment loss on available-for-sale investments	3,794	-
Impairment loss recognized in respect of amount due from an associate	-	6,068
(Gain) loss on deemed disposal of interest in an associate	(2,903)	33,085
Loss on disposal of interest in an associate	-	2,012
Fair value changes on derivative financial instruments	-	34
Fair value change on investment in convertible loan note	232,160	(14,414)
Increase in fair value of investment properties	(3,000)	-
Allowance for doubtful debts	-	871
Allowance for inventories	-	3,723
Share-based payment expense	59,522	14,973
Loss on disposal of property, plant and equipment	54	167
Share of loss of a jointly controlled entity	-	81,686
Share of (profits) losses of associates	(689,381)	10,943
Finance costs	122,521	107,529
Operating cash flows before movements in working capital	(31,128)	(40,081)
Increase in inventories	(5,070)	(4,120)
Decrease in trade receivables	2,127	27,719
Decrease in prepayments, deposits and other receivables	12,441	33,653
Decrease in amounts due from associates	-	431
Increase in amounts due to associates	1,334	10,372
Increase (decrease) in trade payables	660	(86,924)
(Decrease) increase in other payables	(11,669)	36,368
Net cash used in operations	(31,305)	(22,582)
Income tax refunded	-	58
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(31,305)</b>	<b>(22,524)</b>

# Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Placement of bank deposits with original maturity over three months		(583,072)	(629,363)
Investments in associates		(51,300)	(24,673)
Purchase of property, plant and equipment		(1,109)	(799)
Receipt of bank deposits with original maturity over three months upon maturity		629,363	707,024
Repayment of amounts due from associates		23,271	5,347
Dividend received		5,834	405
Proceeds from disposal of property, plant and equipment		10	130
Investment in a jointly controlled entity		-	(81,686)
Cash outflow from disposal of a subsidiary	43	-	(18,803)
Purchase of intangible assets		-	(3,700)
Receipt of consideration receivable from disposal of a subsidiary		-	8,000
Proceeds from disposal of an associate		-	3,000
Receipt of pledged bank deposits		-	1,250
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<b>22,997</b>	<b>(33,868)</b>
<b>FINANCING ACTIVITIES</b>			
Bank borrowings raised		23,000	110,000
Proceeds from exercise of share options		2,720	774
Purchase of shares for unvested shares under the share award schemes		(26,841)	-
Dividend paid		(18,690)	(269)
Repayments of bank borrowings		(14,980)	(57,430)
Interest paid		(5,351)	(4,901)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>		<b>(40,142)</b>	<b>48,174</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(48,450)</b>	<b>(8,218)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>145,536</b>	<b>153,754</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR,</b> represented by bank balances and cash		<b>97,086</b>	<b>145,536</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The address of the registered office and principal place of business of the Company is disclosed in the “Corporate Information” section of the annual report.

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

The principal activities of the Company and its subsidiaries (the “Group”) are divided into two segments, namely (i) Leisure and Entertainment segment and (ii) Property and Other Investments segment.

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

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

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

The application of the new and revised HKFRSs in the current year has had no material impact on the Group’s and the Company’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 and the Company have not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>1</sup> Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>2</sup> Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>5</sup>
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets <sup>4</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>5</sup>
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

### New and revised HKFRSs issued but not yet effective (Continued)

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2011.
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2015.
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2012.
- <sup>5</sup> Effective for annual periods beginning on or after 1 July 2012.
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2014.

### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognized financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

### New and revised HKFRSs issued but not yet effective (Continued)

#### 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).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

### New and revised HKFRSs issued but not yet effective (Continued)

#### Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

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

#### HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The 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 explained in the accounting policies set out below. Historical cost is generally based on their fair value of the consideration given in exchange for goods.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has a power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

### Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

### Investment in subsidiaries

Investment in subsidiaries is included in the Company's statement of financial position at cost, less any identified impairment loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements of the Group using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of a jointly controlled entity recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Jointly controlled entities (Continued)

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

### Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements of the Group using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associates recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in associates (Continued)

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group consolidated financial statements only to the extent of interest in the associate that are not related to the Group.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services provided in the normal course of business, net of discounts.

Revenue from the sales of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the provision of catering services and other services are recognized when the services are provided.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

Interest income from a financial asset is recognized when it is probable that the economic benefit will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefit will flow to the Group and the amount of revenue can be measured reliably).

### Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment loss, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties included land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the asset is derecognized.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

#### The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currencies are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains or losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of exchange reserve.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognized in equity under the heading of exchange reserve.

### Retirement benefits costs

Payments to defined contribution schemes and the Mandatory Provident Fund Scheme are recognized as an expense when employees have rendered service entitling them to the contributions.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Share-based payment transactions

#### Equity settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). When share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payment transactions (Continued)

#### Equity settled share-based payment transactions (Continued)

The fair value of services received determined by reference to the fair value of awarded shares granted at the grant date, in exchange for the grant of awarded shares is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share awards reserve). When the awarded shares are vested, the amount previously recognized in share awards reserve and the amount of the relevant treasury shares will be transferred to retained profits. When the awarded shares are not vested or are forfeited during the vesting period, the amount previously recognized in share awards reserve will be recognized as income immediately in profit or loss.

At the end of the reporting period, the Group and the Company revise its estimates of the number of options and awarded shares that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve or share awards reserve, respectively.

#### Intangible assets

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

#### Financial instruments

Financial assets and financial liabilities are recognized in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### Financial assets

The Group and the Company's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is excluded from net gains or losses.

##### *Financial assets at FVTPL*

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Financial assets at FVTPL (Continued)*

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 6(c).

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, amounts due from subsidiaries and associates, bank deposits with original maturity over three months, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in other revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the other revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

##### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Impairment of financial assets (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past due observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and amounts due from associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade and other receivable or an amount due from an associate is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Impairment of financial assets (Continued)

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in other revaluation reserve.

#### Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

#### Convertible loan note

Convertible loan note issued by the Company that contain both the liability and conversion option components are classified separately into respective terms on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan note and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan note into equity, is included in equity (convertible loan note equity reserve).

In subsequent periods, the liability component of the convertible loan note is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan note equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan note equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan note equity reserve will be released to the retained profits. No gain or loss is recognized in profit or loss upon conversion or expiration of the option.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity instruments (Continued)

##### *Convertible loan note (Continued)*

Transaction costs that relate to the issue of the convertible loan note are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan note using the effective interest method.

##### *Other financial liabilities*

Other financial liabilities except for financial guarantee liability, including trade and other payables, amounts due to subsidiaries and associates, dividend payable, long term payable and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

##### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and the Company and not designated as fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with the revenue recognition policy.

##### **Derecognition**

The Group recognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the assets to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Derecognition (Continued)

The Group derecognizes a financial liability when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

#### Borrowing costs

Borrowing costs which are not capitalised to qualifying assets are recognized in profit or loss in the period in which they are incurred.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimated impairment of trade receivables and amounts due from associates

When there is an objective evidence of impairment loss, the Group and the Company take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

### Fair value of investment in convertible loan note and convertible loan note

As described in notes 27 and 37, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

## Estimated impairment of interests in associates

Determining the impairment loss in respect of interests in associates requires an estimation of the recoverable amount of the interests in associates. The recoverable amount requires the Group to estimate the future cash flows expected to arise from the associates and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the interests in associates amounted to approximately HK\$7,583,784,000 (2010: HK\$6,396,712,000).

## 5. CAPITAL RISK MANAGEMENT

The Group and the Company manage its capital to ensure that the Group and the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged from prior year.

The capital structure of the Group and the Company consists of net debt, which includes the bank borrowings, and convertible loan note disclosed in notes 36 and 37, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Group and the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group and the Company will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS

### 6a. Categories of financial instruments

	THE GROUP	
	2011 HK\$'000	2010 HK\$'000
<b>Financial assets</b>		
Fair value through profit or loss		
– Held for trading	320	610
– Designated as fair value through profit or loss	39,993	272,153
Loans and receivables (including cash and cash equivalents)	735,524	1,432,787
Available-for-sale financial assets	5,035	10,255
<b>Financial liabilities</b>		
Amortised cost	1,249,669	1,330,037
Financial guarantee liability	52,320	76,318
	THE COMPANY	
	2011 HK\$'000	2010 HK\$'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	4,261,634	4,321,970
<b>Financial liabilities</b>		
Amortised cost	1,478,689	1,337,426
Financial guarantee liability	52,320	76,318

### 6b. Financial risk management objectives and policies

The Group's and the Company's major financial instruments include available-for-sale investments, investment in convertible loan note, trade and other receivables, trade and other payables, amounts due from (to) subsidiaries and associates, pledged bank deposits, bank deposits, balances and cash, financial guarantee liability, long term payable, bank borrowings, convertible loan note. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Group's and the Company's exposure to the financial risk or the manner in which it manages and measures the risk.

#### Market risk

##### (i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group and the Company have certain bank deposits, amounts due from associates, trade and other receivables and trade and other payables denominated in currency other than the functional currency of the relevant group entities.

The Group currently does not implement hedging activity to hedge against foreign currency exposure but the directors of the Company closely monitor the foreign currency exposure of the Group and the Company.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### (i) Currency risk (Continued)

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date are as follows:

	THE GROUP			
	Liabilities		Assets	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
United States dollar ("USD")	(4,755)	(4,965)	385,617	529,103
Macau Patacas ("MOP")	(1,810)	(1,797)	90	970
Renminbi ("RMB")	(13,504)	(13,364)	100,449	26,611
	THE COMPANY			
	Liabilities		Assets	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
USD	(67,750)	(41,893)	1,229,561	1,295,075

#### Sensitivity analysis

The Group and the Company are mainly exposed to the USD, MOP and RMB against Hong Kong dollar, the functional currency of relevant group entities.

The following table details the Group's and the Company's sensitivity to a 1% increase or decrease in Hong Kong dollars against USD and MOP and 5% increase or decrease in Hong Kong dollars against RMB. 1% and 5% are the sensitivity rate used for USD and MOP and RMB, respectively, when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 1%/5% change in foreign currency rates.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

#### (i) Currency risk (Continued)

##### Sensitivity analysis (Continued)

For the year ended 31 December 2011, a negative/positive number below indicates a decrease/increase in post-tax profit (2010: increase/decrease in post-tax loss) for the year of the Group where Hong Kong dollars strengthen 1%/5% against the relevant foreign currency. For a 1%/5% weakening of Hong Kong dollars against the relevant foreign currency, there would be an equal and opposite impact on the post-tax profit (2010: post-tax loss) for the year.

	USD Impact (i) HK\$'000	THE GROUP MOP Impact (ii) HK\$'000	RMB Impact (iii) HK\$'000
2011: Profit for the year	(3,809)	17	(4,347)
2010: Loss for the year	(5,241)	8	(662)

For the year ended 31 December 2011, a negative number below indicates an increase in post-tax loss (2010: decrease in post-tax profit) for the year of the Company where Hong Kong dollars strengthen 1% against USD. For 1% weakening of Hong Kong dollars against USD, there would be an equal and opposite impact on the post-tax loss (2010: post-tax profit) for the year of the Company.

#### THE COMPANY USD Impact (i) HK\$'000

2011: Loss for the year	(11,618)
2010: Profit for the year	(12,532)

- (i) This is mainly attributable to the exposure on outstanding USD bank deposits and payables at the year end in the Group and the Company.
- (ii) This is mainly attributable to the exposure on outstanding MOP receivables, bank deposits and payables at the year end in the Group.
- (iii) This is mainly attributable to the exposure on outstanding RMB bank deposits and payables at the year end in the Group.

#### (ii) Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to amounts due from associates, pledged bank deposits, bank deposits with original maturity over three months which carried interest at fixed rate (see notes 31 and 33 for details). The Group and the Company currently do not enter into any hedging instrument for fair value interest rate risk.

The Group and the Company are exposed to cash flow interest rate risk in relation to variable-rate amounts due from (to) subsidiaries, bank balances and bank borrowings (see notes 32, 33 and 36 for details). It is the Group's and the Company's policy to keep its receivables and borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### (ii) Interest rate risk (Continued)

The Group's and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's and the Company's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offer Rate ("HIBOR") arising from the Group's and the Company's Hong Kong dollars denominated borrowings.

#### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the amount of assets and liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2011 would decrease/increase by approximately HK\$901,000 (2010: post-tax loss decrease/increase by approximately HK\$3,098,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank balances (2010: amounts due from associates, bank borrowings and bank balances).

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's post-tax loss for the year ended 31 December 2011 would decrease/increase by approximately HK\$16,855,000 (2010: post-tax profit for the year would increase/decrease by approximately HK\$17,416,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate amounts due from (to) subsidiaries, bank borrowings and bank balances.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### (iii) Other price risk

The Group is exposed to equity price risk through its investment in convertible loan note, investments in listed and unlisted equity securities if there is an adverse change in prices. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

#### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to fluctuation on equity price underlying the investment in convertible loan note, available-for-sale investments and held-for-trading investments measured at fair value at the end of the reporting period assuming other variables remain constant.

If the respective equity price underlying the investment in convertible loan note, available-for-sale investments and held-for-trading investments had been 5% higher/lower:

- no material impact is expected on the fair value change of investment in convertible loan note for the year 2011 as the value of embedded conversion option was insignificant as at 31 December 2011. Post-tax loss for the year ended 31 December 2010 would decrease/increase by HK\$1,311,000 as a result of the changes in fair value of investment in convertible loan note;
- post-tax profit for the year ended 31 December 2011 would increase/decrease by HK\$16,000 (2010: post-tax loss would decrease/increase by HK\$31,000) as a result of the changes in fair value of held-for-trading investments; and
- other comprehensive income would increase/decrease by HK\$252,000 (2010: HK\$513,000) as a result of the changes in fair value of available-for-sale investments.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

#### Credit risk

As at 31 December 2011, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group and the Company was arising from:

- the carrying amount of the respective recognized financial assets as stated in the statement of financial position; and
- the amount of contingent liabilities and financial guarantee liability in relation to financial guarantee issued by the Group and the Company as disclosed in notes 46 and 35, respectively.

In order to minimise the credit risk, the management of the Group and the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group and the Company review the recoverable amount of each individual trade debt and advances to associates at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

As at 31 December 2011, the Group's concentration of credit risk by geographical location was mainly in Hong Kong. The Group's significant concentration of credit risk is mainly on the amount due from an associate, Entertainment Gaming Asia Inc. ("EGT"), the Group considers the credit risk involved is satisfactorily reduced after taking into consideration the financial position of this associate.

The Company's significant concentration of credit risk is mainly on the amounts due from subsidiaries and the Company considers the credit risk is mitigated after considering the financial position of these subsidiaries.

The Group and the Company expose to concentration of credit risk in respect of the Exchangeable Bonds issued by a jointly controlled entity (note 35), which are jointly and severally guaranteed by the Company and another shareholder of the jointly controlled entity. As at 31 December 2011, the Group and the Company recognized a financial guarantee liability of approximately HK\$52,320,000 (2010: HK\$76,318,000) as disclosed in note 35.

The Group also exposes to concentration of credit risk in respect of investment in convertible loan note issued by an associate, MelcoLot Limited ("MelcoLot"). As at 31 December 2011, the Group's investment in convertible loan note amounted to approximately HK\$39,993,000 (2010: HK\$272,153,000) (note 27).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

#### Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group and the Company rely on bank borrowings as a significant source of liquidity. Details of which are set out in note 36. As at 31 December 2011, the Group and the Company had available bank loan facilities of HK\$309,190,000 (2010: HK\$292,170,000).

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

Liquidity and interest risk tables

#### THE GROUP

	Weighted average interest rate	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2011 HK\$'000
<b>2011</b>									
<b>Non-derivative financial liabilities</b>									
Trade and other payables	-	4,886	130	-	-	-	-	5,016	5,016
Amounts due to associates	-	11,706	-	-	-	-	-	11,706	11,706
Dividend payable	-	123	-	-	-	-	-	123	123
Bank borrowings	1.92%	24,153	1,645	204,633	5,838	16,968	30,887	284,124	277,190
Convertible loan note	13.15%	-	-	-	1,175,000	-	-	1,175,000	955,634
Financial guarantee liability	-	-	-	132,366	-	-	-	132,366	52,320
		<u>40,868</u>	<u>1,775</u>	<u>336,999</u>	<u>1,180,838</u>	<u>16,968</u>	<u>30,887</u>	<u>1,608,335</u>	<u>1,301,989</u>
	Weighted average interest rate	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2010 HK\$'000
<b>2010</b>									
<b>Non-derivative financial liabilities</b>									
Trade and other payables	-	16,851	-	-	-	-	-	16,851	16,851
Amounts due to associates	-	10,372	-	-	-	-	-	10,372	10,372
Dividend payable	-	18,545	-	-	-	-	-	18,545	18,545
Bank borrowings	1.89%	-	2,513	17,426	207,065	17,205	36,418	280,627	269,170
Long term payable	3.1%	-	-	-	180,000	-	-	180,000	170,537
Convertible loan note	13.15%	-	-	-	-	1,175,000	-	1,175,000	844,562
Financial guarantee liability	-	-	-	-	134,205	-	-	134,205	76,318
		<u>45,768</u>	<u>2,513</u>	<u>17,426</u>	<u>521,270</u>	<u>1,192,205</u>	<u>36,418</u>	<u>1,815,600</u>	<u>1,406,355</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

#### THE COMPANY

	Weighted average interest rate	Less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 2 years HK\$'000	2 – 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2011 HK\$'000
<b>2011</b>									
<b>Non-derivative financial liabilities</b>									
Amounts due to associates	-	426	-	-	-	-	-	426	426
Amounts due to subsidiaries	2.36%	259,430	248	23,979	936	13,731	30,989	329,313	322,506
Dividend payable	-	123	-	-	-	-	-	123	123
Bank borrowings	1.95%	325	650	200,195	-	-	-	201,170	200,000
Convertible loan note	13.15%	-	-	-	1,175,000	-	-	1,175,000	955,634
Financial guarantee liability	-	-	-	132,366	-	-	-	132,366	52,320
		<u>260,304</u>	<u>898</u>	<u>356,540</u>	<u>1,175,936</u>	<u>13,731</u>	<u>30,989</u>	<u>1,838,398</u>	<u>1,531,009</u>
	Weighted average interest rate	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2010 HK\$'000
<b>2010</b>									
<b>Non-derivative financial liabilities</b>									
Amounts due to associates	-	419	-	-	-	-	-	419	419
Amounts due to subsidiaries	0.34%	273,977	-	-	-	-	-	273,977	273,900
Dividend payable	-	18,545	-	-	-	-	-	18,545	18,545
Bank borrowings	1.92%	-	959	2,877	201,151	-	-	204,987	200,000
Convertible loan note	13.15%	-	-	-	-	1,175,000	-	1,175,000	844,562
Financial guarantee liability	-	-	-	-	134,205	-	-	134,205	76,318
		<u>292,941</u>	<u>959</u>	<u>2,877</u>	<u>335,356</u>	<u>1,175,000</u>	<u>-</u>	<u>1,807,133</u>	<u>1,413,744</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6b. Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

*Liquidity and interest risk tables (Continued)*

The amounts included above for financial guarantee contracts in relation to a jointly controlled entity are the maximum amounts the Group and the Company could be required to settle under the arrangement for the full guaranteed amount, if that amount is claimed by the counterparty to the guarantee through redemption of the principal amount of the Exchangeable Bonds as disclosed in note 35.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

### 6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices respectively;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair value of unlisted equity security classified as available-for-sale investments is determined with reference to the estimated fair value of underlying investments, which mainly represented listed equity investment held by this investment holding company.

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair value.

#### Fair value measurements recognized in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6c. Fair value (Continued)

Fair value measurements recognized in the consolidated statement of financial position (Continued)

	31 December 2011			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Financial assets at FVTPL</b>				
Non-derivative financial assets held for trading	320	–	–	320
Investment in convertible loan note	–	–	39,993	39,993
<b>Available-for-sale financial asset</b>				
Unlisted equity security	–	–	5,035	5,035
	<u>320</u>	<u>–</u>	<u>45,028</u>	<u>45,348</u>
<b>31 December 2010</b>				
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Financial assets at FVTPL</b>				
Non-derivative financial assets held for trading	610	–	–	610
Investment in convertible loan note	–	–	272,153	272,153
<b>Available-for-sale financial asset</b>				
Unlisted equity security	–	–	10,255	10,255
	<u>610</u>	<u>–</u>	<u>282,408</u>	<u>283,018</u>

There were no transfers between Levels 1 and 2 in the current and prior years.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6. FINANCIAL INSTRUMENTS (Continued)

### 6c. Fair value (Continued)

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity security HK\$'000	Investment in convertible loan note HK\$'000
At 1 January 2010	8,829	257,739
Fair value change on total gains:		
– in profit or loss	–	14,414
– in other comprehensive income	1,426	–
At 31 December 2010 and 1 January 2011	10,255	272,153
Fair value change on total losses:		
– in profit or loss	(3,794)	(232,160)
– in other comprehensive income	(1,426)	–
At 31 December 2011	5,035	39,993

Of the total losses for the year included in profit or loss, HK\$232,160,000 (2010: total gains of HK\$14,414,000) relates to investment in convertible loan note and HK\$3,794,000 (2010: Nil) relates to available-for-sale investment held at the end of the reporting period.

Included in other comprehensive income is an amount of HK\$1,426,000 loss relates to available-for-sale investment held at the end of the reporting period and is reported as changes of “Other Revaluation Reserve” (2010: HK\$1,426,000 gain).

## 7. REVENUE

An analysis of the Group’s revenue from continuing operations is as follows:

	2011 HK\$'000	2010 HK\$'000
<b>Continuing Operations</b>		
Catering service income	108,501	99,715
Interest income from authorised institutions and associates	14,159	19,381
Property rental income	6,654	6,070
	<b>129,314</b>	<b>125,166</b>

## 8. SEGMENT 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 around differences in goods or services.

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

- (1) Leisure and Entertainment Segment: It mainly comprises provision of catering and related services.
- (2) Property and Other Investments Segment: It mainly comprises investment properties, available-for-sale investments, amounts due from associates and related segment bank balances, which receives dividend income, interest income and property rental income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 8. SEGMENT INFORMATION (Continued)

The technology segment was discontinued in the previous year. The segment information reported below does not include any amounts from the discontinued operations, which are described in more details in note 15.

### Segment revenue and results

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

#### 2011

##### Continuing operations

	Leisure and Entertainment HK\$'000	Property and Other Investments HK\$'000	Segment Total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
External sales	108,501	20,813	129,314	-	129,314
Inter-segment sales	664	1,466	2,130	(2,130)	-
Total revenue	109,165	22,279	131,444	(2,130)	129,314
Segment result	11,928	25,424	37,352	-	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					(139,060)
Profit before tax					266,548

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 8. SEGMENT INFORMATION (Continued) Segment revenue and results (Continued)

2010

### Continuing operations

	Leisure and Entertainment HK\$'000	Property and Other Investments HK\$'000	Segment Total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
External sales	99,715	25,451	125,166	–	125,166
Inter-segment sales	851	936	1,787	(1,787)	–
Total revenue	100,566	26,387	126,953	(1,787)	125,166
Segment result	938	26,232	27,170	–	27,170
Loss on deemed disposal of interest in an associate					(33,085)
Loss on disposal of interest in an associate					(2,012)
Fair value changes on derivative financial instruments					(34)
Fair value change on investment in convertible loan note					14,414
Finance costs					(106,799)
Share of loss of a jointly controlled entity					(81,686)
Share of losses of associates					(10,943)
Unallocated corporate income					76,525
Central administrative costs and other unallocated corporate expenses					(97,537)
Loss before tax					(213,987)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by each segment without allocation of central administrative costs and other unallocated corporate expenses, unallocated corporate income and items as disclosed in the above table. This is the measure reported to the CEO for the purposes of resource allocation and performance assessment.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 8. SEGMENT INFORMATION (Continued)

### Segment assets and liabilities

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

#### Segment assets

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

#### Segment liabilities

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

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

- all assets are allocated to operating segments other than interests in associates, interests in jointly controlled entities, investment in convertible loan note, pledged bank deposits and other assets not attributable to respective segment.
- all liabilities are allocated to operating segments other than bank borrowings, financial guarantee liability, long term payable, convertible loan note, deferred tax liabilities and other liabilities not attributable to respective segment.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 8. SEGMENT INFORMATION (Continued)

### Other segment information

2011

#### Continuing operations

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

*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

2010

#### Continuing operations

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

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

Interests in associates	6,396,712	–	–	6,396,712
Share of loss of a jointly controlled entity	81,686	–	–	81,686
Share of losses (profits) of associates	12,716	–	(1,773)	10,943

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 8. SEGMENT INFORMATION (Continued)

### Geographical information

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

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

### Revenue analysed by products and services

The Group's revenue from major products and services are disclosed in note 7.

### Information about major customers

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

## 9. OTHER INCOME

	2011 HK\$'000	2010 HK\$'000
<b>Continuing operations</b>		
Service fees from associates	7,601	8,351
Release of financial guarantee liability	23,998	69,870
Gain on extension of long term payable	6,655	6,655
Exchange gain, net	4,186	-
Others	5,395	1,986
	47,835	86,862

## 10. INVESTMENT INCOME

	2011 HK\$'000	2010 HK\$'000
<b>Continuing operations</b>		
Dividend income from unlisted investments	5,834	405
(Loss) gain from fair value change of held-for-trading investments	(290)	310
	5,544	715

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 11. EMPLOYEE BENEFITS EXPENSE

	2011 HK\$'000	2010 HK\$'000
<b>Continuing operations</b>		
Wages, salaries and staff welfare	67,600	70,577
Discretionary bonus	5,763	6,800
Reversal of annual leave	(98)	(201)
Termination benefits	8	78
Provision for long service payment	272	457
Retirement benefit scheme contributions	2,217	2,207
Share-based payment employee expense	59,522	14,973
Others	43	71
	<hr/>	<hr/>
Total employee benefits expense including directors' emoluments	135,327	94,962

## 12. FINANCE COSTS

	2011 HK\$'000	2010 HK\$'000
<b>Continuing operations</b>		
Interest on:		
Bank borrowings wholly repayable within five years	4,262	3,833
Bank borrowings wholly repayable after five years	969	189
Effective interest expense on convertible loan note	111,072	95,973
Imputed interest expense on long term payable	6,098	6,655
Interest expenses to suppliers and others	120	149
	<hr/>	<hr/>
	122,521	106,799

## 13. PROFIT (LOSS) BEFORE TAX

	2011 HK\$'000	2010 HK\$'000
<b>Continuing operations</b>		
Profit (loss) before tax has been arrived at after charging:		
Auditor's remuneration	1,871	1,689
Impairment loss on amount due from an associate	–	6,068
Loss on settlement of long term payable (note 31)	10,020	–
Impairment loss on available-for-sale investments	3,794	–
Loss on disposal of property, plant and equipment	54	167
	<hr/>	<hr/>
and after crediting:		
Gross rental income	6,654	6,070
Less: direct operating expenses from investment properties that generated rental income during the year	(105)	(89)
	<hr/>	<hr/>
Net rental income	6,549	5,981

## 14. INCOME TAX CREDIT

	2011 HK\$'000	2010 HK\$'000
<b>Continuing operations</b>		
Deferred taxation – current year	14,844	14,245

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

No provision for Hong Kong Profits Tax for the years ended 31 December 2011 and 2010 is made as there is no estimated assessable profit derived from Hong Kong. Taxation arising in other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 14. INCOME TAX CREDIT (Continued)

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

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

## 15. DISCONTINUED OPERATIONS

### Disposal of subsidiaries

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

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

	2010 HK\$'000
Loss of technology business for the year	(5,393)
Loss on disposal of technology business (note 43)	(3,473)
	<b>(8,866)</b>

The result of ELI was set out below:

	2010 HK\$'000
Revenue	81,525
Other income	635
Purchase and changes in inventories of finished goods	(74,620)
Employee benefits expense	(6,812)
Depreciation of property, plant and equipment	(1,025)
Other expenses	(4,366)
Finance costs	(730)
Loss for the year	<b>(5,393)</b>
Loss for the year from discontinued operations includes the following:	
Allowance for doubtful debts	871
Allowance for inventories	3,723
Cash flows from ELI:	
Net cash flows used in operating activities	(27,775)
Net cash flows from investing activities	1,209
Net cash flows	<b>(26,566)</b>

The carrying amounts of the assets and liabilities of ELI at the date of disposal were disclosed in note 43.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 16. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2010: eight) directors were as follows:

2011

	Mr. Ho, Lawrence Yau Lung HK\$'000	Mr. Tsui Che Yin, Frank HK\$'000	Mr. Chung Yuk Man, Clarence HK\$'000	Mr. Ng Ching Wo HK\$'000	Sir Roger Lobo HK\$'000	Mr. Sham Sui Leung, Daniel HK\$'000	Dr. Tyen Kan Hee, Anthony HK\$'000	Total HK\$'000
Fees	-	-	-	380	420	340	300	1,440
Other emoluments								
Salaries and other benefits	-	2,019	2,019	-	-	-	-	4,038
Discretionary bonus (Note 1)	-	336	336	-	-	-	-	672
Retirement benefit scheme contributions	12	13	12	-	-	-	-	37
Share-based compensation	27,732	4,548	4,685	835	835	679	581	39,895
<b>Total emoluments</b>	<b>27,744</b>	<b>6,916</b>	<b>7,052</b>	<b>1,215</b>	<b>1,255</b>	<b>1,019</b>	<b>881</b>	<b>46,082</b>

2010

	Mr. Ho, Lawrence Yau Lung HK\$'000	Mr. Tsui Che Yin, Frank HK\$'000	Mr. Chung Yuk Man, Clarence HK\$'000	Mr. Ng Ching Wo HK\$'000	Sir Roger Lobo HK\$'000	Dr. Lo Ka Shui HK\$'000 (Note 2)	Mr. Sham Sui Leung, Daniel HK\$'000	Dr. Tyen Kan Hee, Anthony HK\$'000	Total HK\$'000
Fees	-	-	-	380	420	133	321	159	1,413
Other emoluments									
Salaries and other benefits	-	2,019	2,018	-	-	-	-	-	4,037
Retirement benefit scheme contributions	12	13	12	-	-	-	-	-	37
Share-based compensation	2,418	1,759	1,938	435	435	249	227	-	7,461
<b>Total emoluments</b>	<b>2,430</b>	<b>3,791</b>	<b>3,968</b>	<b>815</b>	<b>855</b>	<b>382</b>	<b>548</b>	<b>159</b>	<b>12,948</b>

Except for one director who waived emoluments of approximately HK\$1,200,000 (2010: HK\$1,200,000), no other directors waived any emoluments in the year ended 31 December 2011 (2010: Nil). No emoluments have been paid to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 16. DIRECTORS' EMOLUMENTS (Continued)

During the year ended 31 December 2011, 7,000,000 share options and 4,800,000 awarded shares (2010: 3,964,000 share options) were granted to directors of the Company in respect of their services provided to the Group, further details are set out in note 42.

Note 1: The discretionary bonus is determined based on the Group's financial performance for the year ended 31 December 2011.

Note 2: Dr. Lo Ka Shui retired as an independent non-executive director of the Company during the year ended 31 December 2010.

## 17. EMPLOYEES' EMOLUMENTS

Of five individuals with the highest emoluments in the Group, three are directors (2010: three directors) of the Company whose emoluments are included in note 16 above. The emoluments of the remaining two (2010: two) individuals were as follows:

	2011 HK\$'000	2010 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	3,027	3,028
Discretionary bonus	505	-
Retirement benefit scheme contributions	24	24
Share-based compensation	8,523	2,271
	<u>12,079</u>	<u>5,323</u>

Their emoluments were within the following bands:

	Number of employees	
	2011	2010
HK\$2,000,001 to HK\$2,500,000	-	1
HK\$3,000,001 to HK\$3,500,000	-	1
HK\$5,500,001 to HK\$6,000,000	1	-
HK\$6,000,001 to HK\$6,500,000	1	-
	<u>2</u>	<u>2</u>

## 18. DIVIDEND

	2011 HK\$'000	2010 HK\$'000
2011 Interim – Nil (2010: HK1.5 cents) per share	-	18,459

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 19. EARNINGS (LOSS) PER SHARE

### From continuing and discontinued operations

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

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

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

The computation of diluted earnings per share for the year ended 31 December 2011 does not assume i) the conversion of the Company's outstanding convertible loan note since their assumed conversion would result in an increase in earnings per share and ii) the effect of certain share options under the Company's long-term incentive schemes (see note 42) because the exercise price of those options was higher than the average market price of the Company's shares.

The computation of diluted loss per share for the year ended 31 December 2010 did not assume the conversion of the Company's outstanding convertible loan note, the effect of share option and unvested awarded shares under the Company's long-term incentive schemes (see note 42) since their assumed conversion and exercise would result in a decrease in loss per share.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 19. EARNINGS (LOSS) PER SHARE (Continued)

### From continuing operations

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

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

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

### From discontinued operations

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

## 20. INVESTMENT PROPERTIES

**THE GROUP**  
HK\$'000

### FAIR VALUE

At 1 January 2010, 31 December 2010 and 1 January 2011	166,000
Net increase in fair value recognized in profit or loss	3,000
At 31 December 2011	169,000

The carrying value of investment properties shown above comprises:

	2011 HK\$'000	2010 HK\$'000
Properties in Hong Kong	106,000	106,000
Properties in Macau	63,000	60,000
	169,000	166,000

The Group's investment properties are situated on leasehold land in Hong Kong and Macau held under long term lease and short term leases, respectively.

The fair value of the Group's investment properties as at 31 December 2011 and 2010 have been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, being independent qualified professional valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in similar location.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. The investment properties amounting to HK\$169,000,000 (2010: HK\$166,000,000) are pledged to banks for obtaining the banking facilities for certain subsidiaries of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 21. PROPERTY, PLANT AND EQUIPMENT

	Restaurant vessels, ferries and pontoons HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
<b>COST</b>					
At 1 January 2010	74,394	15,009	79,909	2,061	171,373
Additions	–	222	577	–	799
Disposal of a subsidiary	–	–	(5,418)	(256)	(5,674)
Disposals	–	(271)	(1,818)	(336)	(2,425)
At 31 December 2010	74,394	14,960	73,250	1,469	164,073
Exchange adjustments	–	19	41	34	94
Additions	500	–	609	–	1,109
Disposals	–	–	(254)	–	(254)
At 31 December 2011	74,894	14,979	73,646	1,503	165,022
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2010	54,689	13,530	68,899	1,731	138,849
Provided for the year	4,048	1,005	4,713	96	9,862
Disposal of a subsidiary	–	–	(5,227)	(133)	(5,360)
Disposals	–	(99)	(1,693)	(336)	(2,128)
At 31 December 2010	58,737	14,436	66,692	1,358	141,223
Exchange adjustments	–	1	21	34	56
Provided for the year	3,259	288	2,170	17	5,734
Disposals	–	–	(190)	–	(190)
At 31 December 2011	61,996	14,725	68,693	1,409	146,823
<b>CARRYING VALUES</b>					
At 31 December 2011	12,898	254	4,953	94	18,199
At 31 December 2010	15,657	524	6,558	111	22,850

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 21. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Restaurant vessels, ferries and pontoons	5% to 10%
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10% to 33 $\frac{1}{3}$ %
Motor vehicles	10% to 20%

## 22. OTHER INTANGIBLE ASSETS

### THE GROUP AND THE COMPANY HK\$'000

COST

At 1 January 2010, 31 December 2010, 1 January 2011  
and 31 December 2011

5,700

Other intangible assets represent club memberships and debenture with indefinite useful lives and are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

## 23. INTERESTS IN JOINTLY CONTROLLED ENTITIES

### THE GROUP 2011 HK\$'000

2010  
HK\$'000

Cost of unlisted investments in jointly controlled entities	307,392	307,392
Share of post-acquisition losses and other comprehensive income, net of dividends received	(307,392)	(307,392)
	-	-

As at 31 December 2011 and 2010, the Group had interests in the following jointly controlled entities:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership	Principal activities
Melco Crown SPV Limited ("Melco Crown SPV")	Cayman Islands/ Hong Kong	Ordinary shares	50%	Issuer of exchangeable bonds which are convertible into shares of an associate of the Group
Melco Crown Entertainment Asia Holdings Limited ("MCEAH")	Cayman Islands/ Hong Kong	Ordinary shares	50%	Inactive

As disclosed in note 35, Melco Crown SPV is a joint venture for the issuance of exchangeable bonds ("Exchangeable Bonds") which can be convertible into shares of Melco Crown Entertainment Limited ("Melco Crown Entertainment"). In addition, the Group and the Company have provided a guarantee in respect of the Exchangeable Bonds. During the year ended 31 December 2011, the income of this jointly controlled entity attributable to the Group's interests included an amount of approximately HK\$2,067,000 (2010: expense of HK\$25,882,000) representing change of fair value on these Exchangeable Bonds, which were designated as financial liability at fair value through profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 23. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

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

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

## 24. INTERESTS IN ASSOCIATES

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

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

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

Notes:

- (a) Fair values of listed investments are determined at the market price of listed shares as of year end on respective stock exchanges.
- (b) The American Depositary Shares ("ADS") of Melco Crown Entertainment are dual listed on the National Association of Securities Dealers Automated Quotations ("NASDAQ") and the Main Board of the Hong Kong Stock Exchange. The shares of MCR are listed on TSX Venture Exchange of Canada. The shares of MelcoLot are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. The shares of EGT are listed on New York Stock Exchange.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 24. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

- (c) The Group holds 58.7% (2010: 58.7%) interest in Power Way. Pursuant to certain terms and conditions in the shareholders agreement, the financial and operating policies of Power Way require approval of the Group together with certain other shareholders of Power Way, as such, it is accounted for as an associate.
- (d) In addition to the ordinary shares of MelcoLot held by the Group, the Group also holds investment in the convertible loan note issued by MelcoLot (see note 27). The Group's effective interest in MelcoLot would be 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 has significant influence over MelcoLot after taking into account the potential voting right from the Group's investment in MelcoLot's convertible loan note.

As at 31 December 2011, included in the cost of investment in associates is goodwill of approximately HK\$205,271,000 (2010: HK\$120,049,000) arising on acquisition of ordinary shares of Melco Crown Entertainment during the year and in prior years and the additional ordinary shares issued by Melco Crown Entertainment upon the settlement of amount due from this associate (note 31). This amount of goodwill represented the excess of the cost of acquisition over the Group's share of net asset values of the identifiable assets and liabilities of Melco Crown Entertainment at the date of acquisition.

In November 2011, the Group and Crown Asia Investments Pty. Ltd. ("Crown Asia"), another major shareholder of Melco Crown Entertainment, entered into the Securities Lending Agreement and the Sale and Repurchase Agreement with the joint sponsors ("Joint Sponsors") to facilitate liquidity activities for the dual listing of Melco Crown Entertainment on the Main Board of the Hong Kong Stock Exchange. Under the Sale and Repurchase Agreement, the Group and Crown Asia would arrange for the delivery and transfer of certain shares of Melco Crown Entertainment ("Shares") to the Joint Sponsors and such Shares

would be resold by the Joint Sponsors to the Company no later than ten business days after thirty-day period from Melco Crown Entertainment's date of listing on the Hong Kong Stock Exchange.

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 24. INTERESTS IN ASSOCIATES (Continued)

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

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

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

## 25. INVESTMENT IN SUBSIDIARIES

	THE COMPANY 2011 HK\$'000	2010 HK\$'000
Unlisted shares, at cost	1,222,031	1,151,613

Details of the Company's principal subsidiaries at 31 December 2011 are set out in note 49.

## 26. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP 2011 HK\$'000	2010 HK\$'000
Unlisted equity security	5,035	10,255

Unlisted equity security which represents unlisted equity investment held by a subsidiary of the Company in an investment holding company is stated at fair value. The investee is engaged in investment in listed and unlisted equity and debt investment. A fair value loss of approximately HK\$5,220,000 (2010: a fair value gain of approximately HK\$1,426,000) is recognized with reference to the estimated fair value of underlying investments, which mainly represented listed equity investment held by this investment holding company.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 27. INVESTMENT IN CONVERTIBLE LOAN NOTE

The investment in convertible loan note issued by MelcoLot, an associate of the Group, is designated as at fair value through profit or loss as the convertible loan note contains embedded derivative.

During the year ended 31 December 2011, a fair value loss of approximately HK\$232,160,000 (2010: fair value gain of HK\$14,414,000) was recognized in the profit or loss in respect of the investment in MelcoLot's convertible loan note.

As at 31 December 2011, the fair value of the MelcoLot's convertible loan note was approximately HK\$39,993,000. The fair value of MelcoLot's convertible loan note decreased significantly as MelcoLot continues to be loss making and MelcoLot has a net current liabilities position as at 31 December 2011 such that the above convertible loan note is not expected to be settled in full on its maturity date, nor is it expected to be settled within one year. The fair value of MelcoLot's convertible loan note is assessed by the Group with reference to the amount that can be recovered from the underlying net assets of MelcoLot and on the basis that the embedded derivatives have insignificant fair value.

As at 31 December 2010, the fair value of the MelcoLot's convertible loan note of approximately HK\$272,153,000, which included an embedded conversion option amounting to approximately HK\$5,371,000, was determined using binomial model with reference to the closing quoted share price of MelcoLot of HK\$0.15 per share and the inputs into the model by an independent valuer not connected to the Group were as follows:

	2010
Expected volatility	84.06%
Risk free interest rate	0.57%
Dividend	Nil
Borrowing rate	23.15%

The MelcoLot's convertible loan note, which has principal amount of HK\$399.5 million (2010: HK\$399.5 million), can be converted into ordinary shares of MelcoLot at a conversion price of HK\$0.85 per ordinary share, subject to anti-dilutive adjustment, any time for a period of five years from date of issuance. The MelcoLot's convertible loan note carries interest of 0.1% per annum and is subject to certain limitations on conversion and is redeemable at par at maturity date of 12 December 2012.

## 28. INVENTORIES

	THE GROUP	
	2011 HK\$'000	2010 HK\$'000
Food and beverages	3,311	1,605
Consumables	-	551
Merchandise	-	333
	<u>3,311</u>	<u>2,489</u>

As at 31 December 2011 and 2010, there was no inventory carried at net realisable value.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 29. TRADE RECEIVABLES

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

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

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

Before accepting any new customer, the Group assesses the potential customer's credit quality by respective sales team and defines credit limit by customer. All of the Group's trade receivables are due over their credit terms for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The Group performed assessment on individual trade receivable balance and 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.

## 30. HELD-FOR-TRADING INVESTMENTS

### THE GROUP

Held-for-trading investments as at 31 December 2011 represents equity securities listed in Hong Kong of approximately HK\$320,000 (2010: HK\$610,000).

## 31. AMOUNTS DUE FROM (TO) ASSOCIATES

### THE GROUP

Included in amounts due from associates are:

- Amount due from an associate of approximately HK\$48,320,000 (2010: HK\$71,591,000) is unsecured and interest bearing at 5% per annum. It is repayable within twelve months from the end of the reporting period (2010: HK\$22,974,000 out of HK\$71,591,000 was repayable within twelve months from the end of the reporting period and the remaining HK\$48,617,000 was repayable after twelve months from the end of the reporting period). The Group had reviewed the financial position and the bank facilities available to this associate and considered no impairment on the amount due from this associate as it had repaid the balance in accordance with the repayment schedule.
- Amount due from an associate of approximately HK\$2,380,000 (2010: HK\$2,583,000) is unsecured, non-interest bearing and repayable on demand and approximately HK\$185,211,000 (2010: HK\$185,211,000) is unsecured interest bearing at 3% per annum and repayable on 31 March 2013. All of the above balances were fully impaired as at 31 December 2011 and 2010.
- The remaining amounts due from associates are unsecured, non-interest bearing and repayable on demand.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 31. AMOUNTS DUE FROM (TO) ASSOCIATES (Continued)

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

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

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

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

### THE COMPANY

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

## 32. AMOUNTS DUE FROM (TO) SUBSIDIARIES

### THE COMPANY

As at 31 December 2011, amounts due from subsidiaries are unsecured and interest free. Except for amounts due from subsidiaries of approximately HK\$84,516,000 (2010: HK\$60,761,000) which is repayable within one year, the remaining amounts due from subsidiaries are expected to be settled after one year. Deemed interest income of approximately HK\$71,102,000 (2010: HK\$63,268,000) from amounts due from subsidiaries repayable after one year is derived from interest rate of HIBOR plus 1.74% (2010: HIBOR plus 1.65%) per annum. During the year ended 31 December 2011, the Company recognized an impairment loss of approximately HK\$41,819,000 (2010: HK\$47,600,000) on amount due from subsidiaries in view that these subsidiaries continue to be loss making.

### Movement in allowance for amounts due from subsidiaries

	2011 HK\$'000	2010 HK\$'000
1 January	597,635	550,035
Impairment losses recognized	41,819	47,600
31 December	639,454	597,635

As at 31 December 2011, amounts due to subsidiaries includes i) approximately HK\$259,306,000 (2010: HK\$233,700,000) which are unsecured, interest free and repayable on demand; and ii) HK\$40,200,000 (2010: HK\$40,200,000) which is unsecured, interest bearing at HIBOR plus 2% (2010: HIBOR plus 2%) per annum and repayable after one year (2010: within one year); and iii) HK\$23,000,000 (2010: Nil) which is unsecured, interest bearing at HIBOR plus 2.45% per annum and repayable within one year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 33. BANK DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS/ BANK BALANCES AND CASH

### THE GROUP AND THE COMPANY

Bank deposits with original maturity over three months carry fixed interest rate at about 1.8% (2010: 1.1%) per annum. Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less carrying prevailing deposit interest rate at about 0.1% (2010: 0.1%) per annum.

## 34. TRADE PAYABLES

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

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

## 35. FINANCIAL GUARANTEE LIABILITY THE GROUP AND THE COMPANY

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

In September 2010, approximately HK\$1,676.6 million (US\$215.5 million) Exchangeable Bonds was redeemed by the holder of Exchangeable Bonds. The Exchangeable Bonds are jointly and severally guaranteed by the Company 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 and 2010, the Group and the Company assessed the financial position of Melco Crown SPV and considered that it was probable for the Group and the Company to settle the guarantee given to Melco Crown SPV in relation to the Exchangeable Bonds. As at 31 December 2011, the carrying amount of the financial guarantee liability was estimated to be approximately HK\$52,320,000 (2010: HK\$76,318,000) based on the shortfall amount required by Melco Crown SPV to settle the Exchangeable Bonds guaranteed by the Group and the Company.

During the year ended 31 December 2011, an amount of approximately HK\$23,998,000 (2010: HK\$69,870,000) was recognized in other income of the consolidated statement of comprehensive income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 36. BANK BORROWINGS

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

All the bank borrowings are denominated in HK\$, the functional currency of relevant group entities, with interest rates of HIBOR plus 1.5% to 1.95% (2010: HIBOR plus 1.2% to 1.65%) per annum.

For the year ended 31 December 2011, the effective interest rate on the Group's and the Company's borrowings were 1.92% and 1.95% (2010: 1.89% and 1.92%) per annum, respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 37. CONVERTIBLE LOAN NOTE

### THE GROUP AND THE COMPANY

On 5 September 2005, the Company issued a convertible loan note due on 4 September 2011 with principal amount of HK\$1,175,000,000, which was non-interest bearing. This convertible loan note was convertible into fully paid ordinary shares of HK\$0.5 each of the Company at a conversion price of HK\$9.965 per share (subject to anti-dilutive adjustment) and was convertible any time for a period of 5 years from the date of issuance until, and including, the maturity date which was 4 September 2010.

On 18 February 2010, pursuant to the Deed of Amendment (“Amendment”), which was entered into between the Company and the holder of the convertible loan note, the maturity date of convertible loan note was extended from 4 September 2011 to 4 September 2013, the conversion price was amended to HK\$3.93 per share, the redemption price at maturity remains at par and an early redemption option was granted to the Company and the holder of the convertible loan note, Great Respect Limited, a company controlled by close family members of Mr. Lawrence Ho, a director, chairman and CEO of the Company who has interest (as defined in the Hong Kong securities and Futures Ordinance) of 35.76% of the issued share capital of the Company as at 31 December 2011. The early redemption option of the Company allows the Company to redeem all or part of the outstanding convertible loan note at any time prior to the maturity date at par. The early redemption option of the holder of the convertible loan note only allows the holder to require the Company to redeem the convertible loan note at par if (a) the Company’s major shareholder, Mr. Lawrence Ho, ceases to hold at least 30% of issued shares of the Company; (b) a general offer by way of takeover is made to all or substantially all the holders of shares in the Company and such offer becomes or is declared unconditional; or (c) a privatisation

proposal by way of scheme of arrangement is made and approved by the necessary numbers of shareholders of the Company at the requisite meetings.

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

The amended convertible loan note contained two components: liability and equity elements. The early redemption options are considered as closely related to the debt component of the amended convertible loan note. The equity element is presented in equity heading “convertible loan note equity reserve”. Upon the amendment, the Group recognized new financial liability, equity component of the convertible loan note and related deferred tax liability of approximately HK\$758,230,000, HK\$392,585,000 and HK\$68,767,000, respectively.

At 31 December 2011, the effective interest rate of the liability component was 13.15% (2010: 13.15%) per annum.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 37. CONVERTIBLE LOAN NOTE (Continued)

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

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

## 38. LONG TERM PAYABLE

As at 31 December 2010, the amount represented payable to Crown Asia arising from the disposal of certain subsidiaries of the Company to Melco Crown Entertainment during the year ended 31 December 2006. The principal amount of HK\$180,000,000 was stated at amortised cost and was unsecured, non-interest bearing and not repayable within twelve months from the end of the reporting period.

In May 2011, the repayment date of the long term payable of HK\$180,000,000 has been re-negotiated and extended from May 2012 to May 2013 such that a gain of approximately HK\$6,655,000 was recognized. During the year ended 31 December 2011, the effective interest rate of the long term payable is 3.1% (2010: 3.1%) per annum.

As disclosed in note 31, the long term payable has been settled by the amount due from Melco Crown Entertainment during the year ended 31 December 2011.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 39. DEFERRED TAX LIABILITIES

### THE GROUP

The followings are the major deferred tax asset (liabilities) recognized by the Group and movements thereon during the current and prior year:

	Convertible loan note HK\$'000	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2010	–	(12,975)	12,975	–
Recognized directly in equity	(68,767)	–	–	(68,767)
Credit (charge) to profit or loss for the year	14,245	1,014	(1,014)	14,245
At 1 January 2011	(54,522)	(11,961)	11,961	(54,522)
Credit (charge) to profit or loss for the year	18,327	(1,311)	(2,172)	14,844
At 31 December 2011	(36,195)	(13,272)	9,789	(39,678)

At the end of the reporting period, the Group has unused estimated tax losses of approximately HK\$413,354,000 (2010: HK\$377,785,000). A deferred tax asset has been recognized in respect of HK\$59,327,000 (2010: HK\$72,491,000) tax losses to the extent that it is probable that future taxable temporary differences will be available against which the temporary differences can be utilised. No deferred tax asset has been recognized in respect of the remaining tax loss of HK\$354,027,000 (2010: HK\$305,294,000) due to the unpredictability of future profit streams. All tax losses may be carried forward.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$9,891,000 (2010: HK\$9,891,000) in respect of the accelerated accounting depreciation. No deferred tax asset has been recognized in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 39. DEFERRED TAX LIABILITIES (Continued)

### THE COMPANY

	<b>Convertible loan note HK\$'000</b>
Recognized directly in equity	(68,767)
Credit to profit or loss for the year	14,245
At 31 December 2010	(54,522)
Credit to profit or loss for the year	18,327
At 31 December 2011	(36,195)

As at 31 December 2011, the Company has approximately HK\$77,798,000 (2010: HK\$61,218,000) unused tax loss. No deferred tax asset has been recognized in respect of the tax loss due to the unpredictability of future profit streams. Tax loss may be carried forward indefinitely.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 40. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2011	2010	2011 HK\$'000	2010 HK\$'000
<b>THE GROUP AND THE COMPANY</b>				
Authorised:				
At the beginning and end of the year, shares of HK\$0.5 each	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
At the beginning of the year, shares of HK\$0.5 each	<u>1,230,591,444</u>	<u>1,230,258,939</u>	<u>615,296</u>	<u>615,130</u>
Exercise of shares options	<u>772,336</u>	<u>332,505</u>	<u>386</u>	<u>166</u>
At the end of the year, shares of HK\$0.5 each	<u>1,231,363,780</u>	<u>1,230,591,444</u>	<u>615,682</u>	<u>615,296</u>

As at 31 December 2011, the Company's 2,499,385 (2010: 702,885) and 102,000 (2010: 124,500) issued shares with an aggregate nominal value of approximately HK\$1,250,000 (2010: HK\$351,000) and HK\$51,000 (2010: HK\$62,000) were held by the Company's share purchase scheme and share subscription scheme, respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 41. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Convertible loan note equity reserve HK\$'000	Share options reserve HK\$'000	Shares held under share award schemes HK\$'000	Share awards reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>								
At 1 January 2010	3,132,743	271,463	307,253	46,577	(13,251)	4,034	(653,977)	3,094,842
Profit for the year	-	-	-	-	-	-	1,521	1,521
Exercise of share options	1,065	-	-	(457)	-	-	-	608
Release of convertible loan note equity reserve upon Amendment	-	-	(307,253)	-	-	-	294,306	(12,947)
Recognition of equity component of convertible loan note	-	-	392,585	-	-	-	-	392,585
Deferred tax liability on recognition of equity component of convertible loan note	-	-	(68,767)	-	-	-	-	(68,767)
Recognition of equity - settled share based payment	-	-	-	14,033	-	940	-	14,973
Transfer of share option reserve upon expiry of share options	-	-	-	(399)	-	(38)	437	-
Share vested under the share award schemes	-	-	-	-	6,291	(4,276)	(2,015)	-
Dividend recognized as distribution (note 18)	-	(18,459)	-	-	-	-	-	(18,459)
At 31 December 2010	3,133,808	253,004	323,818	59,754	(6,960)	660	(359,728)	3,404,356
Loss for the year	-	-	-	-	-	-	(132,046)	(132,046)
Exercise of share options	4,023	-	-	(1,689)	-	-	-	2,334
Recognition of equity - settled share based payment	-	-	-	35,482	-	24,040	-	59,522
Transfer of share option reserve upon expiry of share options	-	-	-	(55)	-	-	55	-
Share vested under the share award schemes	-	-	-	-	16,895	(14,313)	(2,582)	-
Purchase of shares for unvested shares under the share award schemes	-	-	-	-	(26,841)	-	-	(26,841)
At 31 December 2011	3,137,831	253,004	323,818	93,492	(16,906)	10,387	(494,301)	3,307,325

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES

### Share option scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations and to encourage the participants to work towards enhancing value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The Scheme was adopted by the Company at its extraordinary general meeting held on 8 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the Scheme, the board of directors (the “Board”) of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares of the Company, subject to the terms and conditions stipulated therein.

At the annual general meeting held on 8 June 2009, the shareholders of the Company approved amendments to the Scheme. As a result of the amendments, the categories of participants who are entitled to participate in the Scheme have been expanded to (1) directors of the Company or any of its subsidiaries (within the meaning of the Hong Kong Companies Ordinance) or associated companies (companies in which the Company directly or indirectly holds not less than 20% and not more than 50% of its shareholding); and (2) executives and employees of and consultants, professional and other advisers to the Company or any of its subsidiaries or associated companies.

The maximum number of shares of the Company which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of the Company’s shares in issue as at 18 May 2005, which was the date when scheme mandate limit of the Scheme was last refreshed, i.e. 49,101,927 shares of HK\$1.00 each (adjusted to 98,203,854 shares of HK\$0.5 each after capital reorganization of the Company which became effective from 19 May 2005). The Company may seek approval of the Company’s shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Scheme under the limit as “refreshed” may not exceed 10% of the total number of the shares of the Company in issue as at the date of approval of the limit. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

As at 31 December 2011, a total of 59,897,334 shares of the Company (representing approximately 4.86% of the issued share capital of the Company) may be issued upon exercise of all options which may be granted under the Scheme and a total of 45,857,688 shares of the Company (representing approximately 3.72% of the issued share capital of the Company) may be issued upon exercise of all options which had been granted and yet to be exercised under the Scheme.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued)

### Share option scheme (Continued)

Share options granted to directors, chief executive or substantial shareholders of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon the exercise of all options granted to such person within any 12-month period being more than 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1.00 in total by the grantee. The exercisable period of the share options granted is determinable by the Board and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant.

The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall be at least the highest of: (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant of such option; (ii) a price being the average of the closing prices of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of such option; and (iii) the nominal value of a share of the Company on the date of grant of such option.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued)

### Share option scheme (Continued)

Details of the share options outstanding and movements during the year ended 31 December 2011 are as follows:

Category of participants	Number of share options											Date of grant of share options	Share price at date of grant of share options HK\$	Exercise price of share options HK\$
	Outstanding at 1.1.2010	Granted during the year	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12. 2010 & 1.1.2011	Granted during the year	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2011			
Directors <sup>5</sup>	200,000	-	-	-	-	200,000	-	-	-	-	200,000	01.02.2005	7.4	7.4
Directors <sup>6</sup>	400,000	-	-	-	-	400,000	-	-	-	-	400,000	13.02.2006	11.75	11.8
Directors <sup>7</sup>	900,000	-	(300,000)	-	-	600,000	-	-	-	-	600,000	03.04.2006	15.7	15.87
Directors <sup>8</sup>	204,000	-	(51,000)	-	-	153,000	-	-	-	-	153,000	28.02.2008	11.5	11.5
Directors <sup>9</sup>	1,316,520	-	-	-	-	1,316,520	-	-	-	-	1,316,520	01.04.2008	10.7	10.804
Directors <sup>10</sup>	1,628,000	-	-	-	-	1,628,000	-	-	-	-	1,628,000	17.12.2008	2.02	2.02
Directors <sup>11</sup>	914,000	-	(91,000)	-	-	823,000	-	-	-	-	823,000	03.04.2009	2.99	2.99
Directors <sup>12</sup>	-	3,964,000	(60,000)	-	-	3,904,000	-	-	-	-	3,904,000	07.04.2010	3.76	3.76
Directors <sup>13</sup>	-	-	-	-	-	-	7,000,000	-	-	-	7,000,000	08.04.2011	5.75	5.75
Sub-total	5,562,520	3,964,000	(502,000)	-	-	9,024,520	7,000,000	-	-	-	16,024,520			
Employees <sup>14</sup>	550,000	-	-	-	-	550,000	-	-	-	-	550,000	17.09.2004	1.6875	1.6875
Employees <sup>15</sup>	230,000	-	-	-	-	230,000	-	-	-	-	230,000	01.02.2005	7.4	7.4
Employees <sup>16</sup>	950,000	-	(100,000)	-	-	850,000	-	-	-	-	850,000	13.02.2006	11.75	11.8
Employees <sup>17</sup>	450,600	-	(77,100)	-	(15,300)	358,200	-	-	-	-	358,200	01.04.2008	10.7	10.804
Employees <sup>18</sup>	490,509	-	(41,501)	(185,004)	-	264,004	-	-	(68,336)	-	195,668	17.12.2008	2.02	2.02
Employees <sup>19</sup>	905,000	-	(202,000)	(54,500)	(110,500)	538,000	-	-	(127,000)	-	411,000	03.04.2009	2.99	2.99
Employees <sup>20</sup>	-	3,045,000	(18,000)	-	(408,000)	2,619,000	-	-	(395,000)	(6,000)	2,218,000	07.04.2010	3.76	3.76
Employees <sup>21</sup>	-	-	-	-	-	-	6,880,000	-	(33,000)	(56,000)	6,791,000	08.04.2011	5.75	5.75
Sub-total	3,576,109	3,045,000	(438,601)	(239,504)	(533,800)	5,409,204	6,880,000	-	(623,336)	(62,000)	11,603,868			

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued) Share option scheme (Continued)

Category of participants	Number of share options											Date of grant of share options	Share price at date of grant of share options HK\$	Exercise price of share options HK\$
	Outstanding at 1.1.2010	Granted during the year	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2010 & 1.1.2011	Granted during the year	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2011			
Others <sup>22, 31</sup>	9,900,000	-	-	-	-	9,900,000	-	-	-	-	9,900,000	17.09.2004	1.6875	1.6875
Others <sup>23, 31</sup>	3,280,000	-	100,000	-	(18,000)	3,362,000	-	-	-	3,362,000	13.02.2006	11.75	11.8	
Others <sup>24, 31</sup>	-	-	300,000	-	-	300,000	-	-	-	300,000	03.04.2006	15.7	15.87	
Others <sup>25, 31</sup>	-	-	51,000	-	-	51,000	-	-	-	51,000	28.02.2008	11.5	11.5	
Others <sup>26, 31</sup>	732,100	-	77,100	-	(33,000)	776,200	-	-	(9,900)	766,300	01.04.2008	10.7	10.804	
Others <sup>27, 31</sup>	546,000	-	41,501	(41,501)	-	546,000	-	-	-	546,000	17.12.2008	2.02	2.02	
Others <sup>28, 31</sup>	238,000	-	293,000	(51,500)	(104,500)	375,000	-	(43,000)	-	332,000	03.04.2009	2.99	2.99	
Others <sup>29, 31</sup>	-	600,000	78,000	-	-	678,000	-	(106,000)	-	572,000	07.04.2010	3.76	3.76	
Others <sup>30, 31</sup>	-	-	-	-	-	-	2,400,000	-	-	2,400,000	08.04.2011	5.75	5.75	
Sub-total	14,696,100	600,000	940,601	(93,001)	(155,500)	15,988,200	2,400,000	-	(149,000)	(9,900)	18,229,300			
Total	23,834,729	7,609,000	-	(332,505)	(689,300)	30,421,924	16,280,000	-	(772,336)	(71,900)	45,857,688			
Share options exercisable at year end	15,255,533					20,265,184					26,754,188			

### Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercisable period.
- The number of shares granted and the exercise price of the options were adjusted after the completion of the rights issue on 24 September 2003 and share subdivision on 19 May 2005.
- As at 31 December 2011, the Company had 45,857,688 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 45,857,688 additional ordinary shares of the Company and additional share capital of approximately HK\$22,929,000 and share premium of approximately HK\$223,048,000 before issuance expenses.
- During the year ended 31 December 2011, no share options were cancelled under the Scheme. In respect of the share options exercised during the year, the weighted average closing price of the shares of the Company immediately before and at the dates on which the options were exercised were HK\$7.14 and HK\$7.46 respectively.
- The 200,000 share options may be exercised during the period from 17 September 2009 to 7 March 2012.
- Among the 400,000 share options, 130,000 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 130,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016 and 140,000 share options may be exercised during the period from 1 April 2012 to 31 January 2016.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued)

### Share option scheme (Continued)

Notes: (Continued)

7. Among the 600,000 share options, 200,000 share options may be exercised during the period from 3 April 2008 to 2 April 2016, 200,000 share options may be exercised during the period from 3 April 2010 to 2 April 2016 and 200,000 share options may be exercised during the period from 3 April 2012 to 2 April 2016.
8. Among the 153,000 share options, 51,000 share options may be exercised during the period from 1 April 2009 to 27 February 2018, 51,000 share options may be exercised during the period from 1 April 2010 to 27 February 2018 and 51,000 share options may be exercised during the period from 1 April 2011 to 27 February 2018.
9. Among the 1,316,520 share options, 438,840 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 438,840 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 438,840 share options may be exercised during the period from 1 April 2011 to 31 March 2018.
10. Among the 1,628,000 share options, 271,333 share options may be exercised during the period from 1 February 2009 to 16 December 2018, 271,333 share options may be exercised during the period from 1 May 2009 to 16 December 2018, 271,333 share options may be exercised during the period from 1 August 2009 to 16 December 2018, 271,333 share options may be exercised during the period from 1 November 2009 to 16 December 2018, 271,333 share options may be exercised during the period from 1 February 2010 to 16 December 2018 and 271,335 share options may be exercised during the period from 1 May 2010 to 16 December 2018.
11. Among the 823,000 share options, 266,500 share options may be exercised during the period from 3 April 2010 to 2 April 2019, 266,500 share options may be exercised during the period from 3 April 2011 to 2 April 2019 and 290,000 share options may be exercised during the period from 3 April 2012 to 2 April 2019.
12. Among the 3,904,000 share options, 532,000 share options may be exercised during the period from 7 April 2010 to 6 April 2020, 766,000 share options may be exercised during the period from 7 April 2011 to 6 April 2020, 766,000 share options may be exercised during the period from 7 April 2012 to 6 April 2020, 768,000 share options may be exercised during the period from 7 April 2013 to 6 April 2020, 532,000 share options may be exercised during the period from 7 April 2014 to 6 April 2020 and 540,000 share options may be exercised during the period from 7 April 2015 to 6 April 2020.
13. Among the 7,000,000 share options, 2,052,000 options may be exercised during the period from 5 May 2011 to 7 April 2021, 2,052,000 options may be exercised during the period from 8 April 2012 to 7 April 2021, 1,448,000 options may be exercised during the period from 8 April 2013 to 7 April 2021 and 1,448,000 options may be exercised during the period from 8 April 2014 to 7 April 2021.
14. Among the 550,000 share options, 170,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 250,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 110,000 options may be exercised during the period from 17 September 2006 to 7 March 2012 and 20,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.
15. The 230,000 share options may be exercised during the period from 17 March 2008 to 7 March 2012.
16. Among 850,000 share options, 272,000 options may be exercised during the period from 1 April 2008 to 31 January 2016, 287,000 options may be exercised during the period from 1 April 2010 to 31 January 2016, 261,000 options may be exercised during the period from 1 April 2012 to 31 January 2016, 10,000 options may be exercised during the period from 3 April 2008 to 31 January 2016, 10,000 options may be exercised during the period from 3 April 2010 to 31 January 2016 and 10,000 options may be exercised during the period from 3 April 2012 to 31 January 2016.
17. Among the 358,200 share options, 119,400 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 119,400 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 119,400 share options may be exercised during the period from 1 April 2011 to 31 March 2018.
18. Among the 195,668 share options, 332 share options may be exercised during the period from 1 May 2009 to 16 December 2018, 48,832 share options may be exercised during the period from 1 August 2009 to 16 December 2018, 48,832 share options may be exercised during the period from 1 November 2009 to 16 December 2018, 48,832 share options may be exercised during the period from 1 February 2010 to 16 December 2018 and 48,840 share options may be exercised during the period from 1 May 2010 to 16 December 2018.
19. Among the 411,000 share options, 103,500 share options may be exercised during the period from 3 April 2010 to 2 April 2019, 110,500 share options may be exercised during the period from 3 April 2011 to 2 April 2019 and 197,000 share options may be exercised during the period from 3 April 2012 to 2 April 2019.
20. Among the 2,218,000 share options, 158,000 share options may be exercised during the period from 7 April 2010 to 6 April 2020, 318,000 share options may be exercised during the period from 7 April 2011 to 6 April 2020, 544,000 share options may be exercised during the period from 7 April 2012 to 6 April 2020, 544,000 share options may be exercised during the period from 7 April 2013 to 6 April 2020, 324,000 share options may be exercised during the period from 7 April 2014 to 6 April 2020 and 330,000 share options may be exercised during the period from 7 April 2015 to 6 April 2020.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued)

### Share option scheme (Continued)

Notes: (Continued)

21. Among the 6,791,000 share options, 1,695,000 options may be exercised during the period from 5 May 2011 to 7 April 2021, 1,705,000 options may be exercised during the period from 8 April 2012 to 7 April 2021, 1,698,000 options may be exercised during the period from 8 April 2013 to 7 April 2021 and 1,693,000 options may be exercised during the period from 8 April 2014 to 7 April 2021.
22. Among the 9,900,000 share options, 4,800,000 options may be exercised during the period from 17 March 2005 to 7 March 2012, 4,900,000 options may be exercised during the period from 17 September 2005 to 7 March 2012, 100,000 options may be exercised during the period from 17 September 2006 to 7 March 2012 and 100,000 options may be exercised during the period from 17 March 2008 to 7 March 2012.
23. Among the 3,362,000 share options, 1,040,500 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 1,022,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016, 1,067,500 share options may be exercised during the period from 1 April 2012 to 31 January 2016, 87,000 share options may be exercised during the period from 3 April 2008 to 31 January 2016, 77,000 share options may be exercised during the period from 3 April 2010 to 31 January 2016 and 68,000 share options may be exercised during the period from 3 April 2012 to 31 January 2016.
24. Among the 300,000 share options, 100,000 share options may be exercised during the period from 3 April 2008 to 2 April 2016, 100,000 share options may be exercised during the period from 3 April 2010 to 2 April 2016 and 100,000 share options may be exercised during the period from 3 April 2012 to 2 April 2016.
25. Among the 51,000 share options, 17,000 share options may be exercised during the period from 1 April 2009 to 27 February 2018, 17,000 share options may be exercised during the period from 1 April 2010 to 27 February 2018 and 17,000 share options may be exercised during the period from 1 April 2011 to 27 February 2018.
26. Among the 766,300 share options, 267,900 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 259,700 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 238,700 share options may be exercised during the period from 1 April 2011 to 31 March 2018.
27. Among the 546,000 share options, 91,000 share options may be exercised during the period from 1 February 2009 to 16 December 2018, 91,000 share options may be exercised during the period from 1 May 2009 to 16 December 2018, 91,000 share options may be exercised during the period from 1 August 2009 to 16 December 2018, 91,000 share options may be exercised during the period from 1 November 2009 to 16 December 2018, 91,000 share options may be exercised during the period from 1 February 2010 to 16 December 2018 and 91,000 share options may be exercised during the period from 1 May 2010 to 16 December 2018.
28. Among the 332,000 share options, 102,500 share options may be exercised during the period from 3 April 2010 to 2 April 2019, 102,500 share options may be exercised during the period from 3 April 2011 to 2 April 2019 and 127,000 share options may be exercised during the period from 3 April 2012 to 2 April 2019.
29. Among the 572,000 share options, 50,000 share options may be exercised during the period from 7 April 2010 to 6 April 2020, 70,000 share options may be exercised during the period from 7 April 2011 to 6 April 2020, 126,000 share options may be exercised during the period from 7 April 2012 to 6 April 2020, 126,000 share options may be exercised during the period from 7 April 2013 to 6 April 2020, 100,000 share options may be exercised during the period from 7 April 2014 to 6 April 2020 and 100,000 share options may be exercised during the period from 7 April 2015 to 6 April 2020.
30. Among the 2,400,000 share options, 601,000 options may be exercised during the period from 5 May 2011 to 7 April 2021, 601,000 options may be exercised during the period from 8 April 2012 to 7 April 2021, 600,000 options may be exercised during the period from 8 April 2013 to 7 April 2021 and 598,000 options may be exercised during the period from 8 April 2014 to 7 April 2021.
31. The category "Others" represents the former directors/employees or consultants of the Group.

During the year ended 31 December 2011, share options were granted on 8 April 2011. The estimated fair values of the options granted on that date is approximately HK\$47,941,000. The fair value per option granted during the year ended 31 December 2011 is HK\$2.94.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued)

### Share option scheme (Continued)

The inputs into the model were as follows:

	Share options grant date	
	8 April 2011	7 April 2010
Valuation model	<b>Binomial model</b>	Black-Scholes option pricing model
Exercise price	<b>HK\$5.75</b>	HK\$3.76
Expected volatility	<b>65%</b>	69.53%
Expected life	<b>10 years</b>	6.25 years
Risk-free rate	<b>2.792%</b>	2.27%
Suboptimal exercise factor	<b>1.8-2.75</b>	N/A

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted as appropriate, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group and the Company recognized the total expenses of approximately HK\$35,482,000 and HK\$35,482,000, respectively, for the year ended 31 December 2011 (2010: HK\$14,033,000 and HK\$14,033,000, respectively) in relation to the share options granted by the Company.

The Binomial model (2010: Black-Scholes option pricing model) has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

### Share award schemes

On 18 October 2007, the Company adopted two share incentive award schemes, namely The Melco Share Purchase Scheme Trust (the "Share Purchase Scheme") and The Melco Share Award Scheme Trust (the "Share Subscription Scheme").

The purpose of each of the Share Purchase Scheme and the Share Subscription Scheme is to encourage and facilitate the acquisition and holding of shares in the Company, by and for the benefit of such employees of the Company and any subsidiary of the Company (the "Subsidiary"). The shares of the Company (the "Shares") to be awarded pursuant to the Share Purchase Scheme and/or the Share Subscription Scheme may be awarded in such manner as the Board may determine from time to time in order to recognize the contribution of certain employees, to seek to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group.

A summary of the principal terms of the Share Purchase Scheme and Share Subscription Scheme and movements of the awarded shares under these schemes are set out below:

#### Share Purchase Scheme

The Share Purchase Scheme has a term of 20 years from the date of its adoption until 17 October 2027. The scheme limit of this scheme is 2% of the ordinary issued share capital of the Company from time to time (excluding Shares which have already been transferred to employees on vesting).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued)

### Share award schemes (Continued)

#### Share Purchase Scheme (Continued)

The Board may, subject to the rules relating to the Share Purchase Scheme, from time to time at its absolute discretion select any employee (including any director of the Company or the Subsidiary) to be a participant in the Share Purchase Scheme. The Board of this scheme shall either (1) set aside a sum of money or (2) determine a number of Shares which it wishes to be the subject of a bonus or award under the Share Purchase Scheme. Where a sum of money has been set aside (or a number of Shares has been determined), it shall pay (or cause to be paid) that amount or an amount sufficient to purchase that number of Shares to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside. Within 15 business days of receiving the amount sufficient to purchase that number of Shares, the trustee shall apply the same towards the purchase of Shares on the Hong Kong Stock Exchange.

Vesting of the Shares will be conditional on the selected employee remaining an employee of the Company or a Subsidiary until the vesting date. The Board also has the discretion to stipulate such other conditions in respect of a particular employee which will apply to the vesting of the Shares. An award will lapse where the company or the business division by which the selected employee is employed ceases to part of the Group or in the event the selected employee does not deliver the notice of exercise within the prescribed time limit to the trustee for the purpose of exercising his rights to receive the vested Shares.

Where Shares which are granted to a selected employee do not vest or are not acquired by selected employees in accordance with the above procedures, the trustee shall hold such Shares or any income deriving therefrom exclusively for the benefit of all selected employees of the Group as the trustee determines in its absolute discretion, after having taken into consideration recommendations of the Board.

The Board may by resolution terminate the operation of the Share Purchase Scheme at any time provided that such termination shall not affect any subsisting rights of any selected employee. If, at the date of such termination, the trustee holds Shares which have not vested, then the trustee shall within 21 business days of receiving notice of such termination sell such Shares and remit the proceeds of sale (after deductions) to the Company.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued)

### Share award schemes (Continued)

#### Share Purchase Scheme (Continued)

Movements of the awarded shares, which were granted pursuant to the terms of the rules and trust deed of the Share Purchase Scheme, during the year ended 31 December 2011 are set out below:

Category of participants	Number of awarded shares										Share price at date of award HK\$	Date of award	Vesting date
	Outstanding at 1.1.2010	Reclassified during the year	Vested during the year	Outstanding at 31.12.2010 & 1.1.2011	Awarded during the year	Reclassified during the year	Vested during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.12.2011			
Directors	60,000	-	(60,000)	-	-	-	-	-	-	-	11.50	28.02.2008	31.03.2010
Directors	16,000	-	(16,000)	-	-	-	-	-	-	-	11.50	28.02.2008	01.04.2010
Directors	16,000	(4,000)	-	12,000	-	-	(12,000)	-	-	-	11.50	28.02.2008	01.04.2011
Directors	131,765	-	(131,765)	-	-	-	-	-	-	-	10.70	01.04.2008	01.04.2010
Directors	125,998	-	(125,998)	-	-	-	-	-	-	-	2.02	17.12.2008	01.02.2010
Directors	126,010	-	(126,010)	-	-	-	-	-	-	-	2.02	17.12.2008	01.05.2010
Directors	50,500	-	(50,500)	-	-	-	-	-	-	-	2.99	03.04.2009	03.04.2010
Directors	50,500	(5,000)	-	45,500	-	-	(45,500)	-	-	-	2.99	03.04.2009	03.04.2011
Directors	51,000	(5,000)	-	46,000	-	-	-	-	-	46,000	2.99	03.04.2009	03.04.2012
Directors	-	-	-	-	2,400,000	-	(2,400,000)	-	-	-	5.75	08.04.2011	05.05.2011
Directors	-	-	-	-	2,400,000	-	-	-	-	2,400,000	5.75	08.04.2011	08.04.2012
Sub-total	627,773	(14,000)	(510,273)	103,500	4,800,000	-	(2,457,500)	-	-	2,446,000			
Employees	35,665	-	(35,665)	-	-	-	-	-	-	-	10.70	01.04.2008	01.04.2010
Employees	26,500	-	(26,500)	-	-	-	-	-	-	-	2.99	03.04.2009	03.04.2010
Employees	26,500	-	-	26,500	-	-	(26,500)	-	-	-	2.99	03.04.2009	03.04.2011
Employees	28,000	-	-	28,000	-	-	-	-	-	28,000	2.99	03.04.2009	03.04.2012
Sub-total	116,665	-	(62,165)	54,500	-	-	(26,500)	-	-	28,000			
Others (note)	52,990	-	(52,990)	-	-	-	-	-	-	-	10.70	01.04.2008	01.04.2010
Others (note)	-	4,000	-	4,000	-	-	(4,000)	-	-	-	11.50	28.02.2008	01.04.2011
Others (note)	10,500	-	(10,500)	-	-	-	-	-	-	-	2.99	03.04.2009	03.04.2010
Others (note)	10,500	5,000	-	15,500	-	-	(15,500)	-	-	-	2.99	03.04.2009	03.04.2011
Others (note)	11,000	5,000	-	16,000	-	-	-	-	-	16,000	2.99	03.04.2009	03.04.2012
Sub-total	84,990	14,000	(63,490)	35,500	-	-	(19,500)	-	-	16,000			
Total	829,428	-	(635,928)	193,500	4,800,000	-	(2,503,500)	-	-	2,490,000			

Note: Others represent the former director/employees of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued)

### Share award schemes (Continued)

#### Share Subscription Scheme

The Share Subscription Scheme has a term of 20 years from the date of its adoption until 17 October 2027. The scheme limit of this scheme is 2% of the ordinary issued share capital of the Company from time to time (excluding Shares which have already been transferred to employees on vesting).

The Board may, from time to time at its absolute discretion select any employee (excluding any Director of the Company or any Subsidiary) to be a participant of the Share Subscription Scheme. The Board shall at its discretion either (i) determine a notional cash amount or (ii) determine a number of Shares (the “Number of Awarded Shares”) which it wishes to be the subject of an award under the Share Subscription Scheme. Where a notional cash amount has been determined by the Board, the Board shall determine the maximum number of Shares (the “Relevant Number of Shares”), rounded down to the nearest whole number which could be purchased with such notional cash amount on the Hong Kong Stock Exchange at the market price prevailing on the date of the award. The Company shall pay (or cause to be paid) an amount or an amount equal to the par value of either (i) the Relevant Number of Shares (where the Board has determined a notional cash amount) or (ii) the Number of Awarded Shares (where the Board has determined such number) to the trustee (or as it shall direct) from the Group’s resources as soon as practicable in accordance with the rules relating to the Share Subscription Scheme.

Vesting of the Shares will be conditional on the selected employee remaining an employee of the Company or a Subsidiary until the vesting date. The Board also has the discretion to stipulate such other conditions in respect of a particular employee which will apply to the vesting of the Shares. An award will lapse where the company or the business division by which the selected employee is employed ceases to part of the Group or in the event the selected employee does not deliver the notice of exercise within the prescribed time limit to the trustee for the purpose of exercising his rights to receive the vested Shares.

Where Shares which are granted to a selected employee do not vest or are not acquired by selected employees in accordance with the above procedures, the trustee shall hold such Shares or any income deriving therefrom exclusively for the benefit of all selected employees of the Group as the trustee determines in its absolute discretion after having taken into consideration recommendations of the Board.

The Board may by resolution terminate the operation of the Share Subscription Scheme at any time provided that such termination shall not affect any subsisting rights of any employee selected thereunder and provided further that if, at the date of such termination, the trustee holds any Shares which it has not vested, then the trustee shall within 21 business days of receiving notice of such termination sell such Shares and remit the proceeds of sale (after deductions) to the Company.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 42. LONG TERM INCENTIVE SCHEMES (Continued)

### Share award schemes (Continued)

#### Share Subscription Scheme (Continued)

Movements of the awarded shares, which were granted pursuant to the terms of the rules and trust deed of the Share Subscription Scheme, during the year ended 31 December 2011 are set out below:

Category of participants	Number of awarded shares										Share price at date of award HK\$	Date of award	Vesting date
	Outstanding at 1.1.2010	Reclassified during the year	Vested during the year	Lapsed during the year	Outstanding at 31.12.2010 & 1.1.2011	Award during the year	Reclassified during the year	Vested during the year	Lapsed during the year	Outstanding at 31.12.2011			
Employees	24,999	-	(24,999)	-	-	-	-	-	-	-	2.02	17.12.2008	01.02.2010
Employees	25,005	-	(25,005)	-	-	-	-	-	-	-	2.02	17.12.2008	01.05.2010
Employees	37,000	-	(35,000)	(2,000)	-	-	-	-	-	-	2.99	03.04.2009	03.04.2010
Employees	37,000	(12,000)	-	(7,500)	17,500	-	-	(17,500)	-	-	2.99	03.04.2009	03.04.2011
Employees	45,000	(14,000)	-	(10,000)	21,000	-	-	-	-	21,000	2.99	03.04.2009	03.04.2012
Sub-total	169,004	(26,000)	(85,004)	(19,500)	38,500	-	-	(17,500)	-	21,000			
Others (note)	14,666	-	(14,666)	-	-	-	-	-	-	-	2.02	17.12.2008	01.02.2010
Others (note)	14,670	-	(14,670)	-	-	-	-	-	-	-	2.02	17.12.2008	01.05.2010
Others (note)	2,500	-	(2,500)	-	-	-	-	-	-	-	2.99	03.04.2009	03.04.2010
Others (note)	2,500	12,000	-	(9,500)	5,000	-	-	(5,000)	-	-	2.99	03.04.2009	03.04.2011
Others (note)	3,000	14,000	-	(11,000)	6,000	-	-	-	-	6,000	2.99	03.04.2009	03.04.2012
Sub-total	37,336	26,000	(31,836)	(20,500)	11,000	-	-	(5,000)	-	6,000			
Total	206,340	-	(116,840)	(40,000)	49,500	-	-	(22,500)	-	27,000			

Note: Others represent the former employees of the Group.

The weighted average fair value of awarded shares of HK\$5.75 is measured with reference to the market price of the Company's share at date of grant. The Group and the Company recognized the total expenses of approximately HK\$24,040,000 (2010: HK\$940,000) for the year ended 31 December 2011 in relation to the share award schemes.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 43. DISPOSAL OF A SUBSIDIARY

As disclosed in note 15, the Group disposed ELI in July 2010, the net assets of ELI at the date of disposal were as follows:

	HK\$'000
<b>Consideration:</b>	
Cash received	352
<b>Analysis of assets and liabilities over which control was lost:</b>	
Property, plant and equipment	314
Goodwill	4,113
Trade and other receivables	49,785
Inventories	418
Amounts due from group companies	209
Amounts due from associates	25
Pledged bank deposits	5,791
Bank balances and cash	19,155
Trade and other payables	(75,808)
Tax payables	(82)
Amounts due to group companies	(25)
Net assets disposed of	3,895
<b>Loss on disposal of a subsidiary:</b>	
Consideration	352
Net assets disposed of	(3,895)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss	70
Loss on disposal	(3,473)
<b>Net cash outflow arising on disposal:</b>	
Cash consideration	352
Less: bank balances and cash disposed of	(19,155)
	(18,803)

## 44. MAJOR NON-CASH TRANSACTIONS

As disclosed in note 31, the Group settled the long term payable with amount due from Melco Crown Entertainment of HK\$180,000,000 and the remaining balance of amount due from Melco Crown Entertainment of HK\$398,578,000 was settled by the issuance of ordinary shares by Melco Crown Entertainment.

## 45. OPERATING LEASE ARRANGEMENTS

### (a) The Group as lessee

Minimum lease payments under operating leases during the year in respect of office premises were approximately HK\$8,826,000 (2010: HK\$8,944,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>THE GROUP</b>	
	2011	2010
	HK\$'000	HK\$'000
Within one year	11,402	8,997
In the second to fifth year inclusive	10,622	11,049
	<b>22,024</b>	<b>20,046</b>

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for a term ranging from 1 to 5 years.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 45. OPERATING LEASE ARRANGEMENTS (Continued)

### (b) The Group as lessor

At 31 December 2011, the Group has entered into lease arrangements with certain tenants for its investment properties. Certain of the properties held have committed tenants for the next one to four years. At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments.

	THE GROUP	
	2011	2010
	HK\$'000	HK\$'000
Within one year	9,089	7,126
In the second to fifth year inclusive	7,962	11,823
	<u>17,051</u>	<u>18,949</u>

The Company had no significant operating leases at the end of the reporting period.

## 46. CONTINGENT LIABILITIES

### THE GROUP AND THE COMPANY

The Group and the Company recognized financial guarantee liabilities in respect of the Exchangeable Bonds issued by Melco Crown SPV which are jointly and severally guaranteed by the Company and Crown Limited. Details of the guarantee are disclosed in notes 23 and 35.

In 2010, certain shareholders of EGT (the "Plaintiffs") filed claims in connection with losses allegedly suffered as a result of the Company's and one of its subsidiaries' alleged conduct. On 4 January 2011, the United States District Court granted a motion to dismiss all the claims against the Company for lack of jurisdiction, and subsequently granted the motion to dismiss all claims against the Company's subsidiary on 22 June 2011 on other grounds. In November 2011, the Plaintiffs filed a motion seeking leave to amend their complaint, and submitted a proposed second amended complaint with their motion. The Court granted this motion on 15 December 2011, and the plaintiffs' Second Amended Complaint ("Complaint") was filed on 20 December 2011. The Complaint does not attempt to replead any claims against the Company, all of which claims were previously dismissed by the Court on 4 January 2011. The Complaint does attempt to replead the claims previously asserted against the Company's subsidiary. The subsidiary filed a motion to dismiss the Complaint on 23 January 2012, and this motion is currently pending. At this time, no provision has been provided for this case because the litigation is still at its preliminary stage and it is premature to predict the outcome or reasonably estimate a range of loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 47. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) and Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Schemes were switched to the MPF Schemes, whereas all new eligible employees joining the Group on or after December 2000 are required to join the MPF Schemes. No more contribution was made to the ORSO Scheme after the switch.

For members of the MPF Scheme, both the employee and the Group contribute 5% of relevant payroll costs to the Scheme, subject to a maximum contribution of HK\$1,000, which contribution is matched by the employee.

## 48. RELATED PARTY TRANSACTIONS

(a) As at 31 December 2011 and 2010, the Group and the Company have a convertible loan note with principal amount of HK\$1,175,000,000 issued to a related company.

(b) The Group has entered into the following related parties transactions:

	<b>THE GROUP</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Interest income received from associates	4,998	11,174
Rental income received from an associate	4,150	4,147
Overseas travels, entertainment and gifts expenses charged by an associate	1,896	488
Interest expense on convertible loan note to related companies	111,072	95,973
Revenue from implementation of technology solution system to related companies	–	42,416
Revenue from implementation of technology solution system to associates	–	10,956
Service income received from associates	7,601	8,887
Sundry income received from associates	746	815

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 48. RELATED PARTY TRANSACTIONS (Continued)

### (c) Compensation of key management personnel

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

	THE GROUP	
	2011	2010
	HK\$'000	HK\$'000
Short-term benefits	11,891	11,040
Post-employment benefits	85	88
Share-based compensation	49,117	10,665
	<u>61,093</u>	<u>21,793</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals, the Company's operating results and market standards.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Proportion ownership interest held by the Company			
				2011	Directly 2010	Indirectly 2011	2010
Melco Leisure and Entertainment Group Limited	British Virgin Islands	Investment holding in Hong Kong	1 share of US\$1	100%	100%	-	-
Aberdeen Restaurant Enterprises Limited	Hong Kong	Restaurant operations and property investment in Hong Kong	8,060 A shares of HK\$1,000 each and 33,930 B shares of HK\$500 each	-	-	86.7%	86.7%
Tai Pak Sea-Food Restaurant Limited	Hong Kong	Catering, restaurant vessel holding and letting in Hong Kong	5 founders' shares of HK\$100 each and 13,495 ordinary shares of HK\$100 each	-	-	84.8%	84.8%
Jumbo Catering Management Limited	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK\$5,000	-	-	86.7%	86.7%
Melco Technology Group Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	-	-
EGT Entertainment Holding Limited	Hong Kong	Investment holding in Hong Kong	833,333 ordinary shares of HK\$1 each	-	-	100%	100%
Melco Services Limited	British Virgin Islands	Investment holding in Hong Kong	1 share of US\$1	100%	100%	-	-
Melco Investment Holdings Limited	British Virgin Islands	Investment holding in Macau	1 share of US\$1	100%	100%	-	-
Zonic Technology Limited	British Virgin Islands	Investment holding in Hong Kong	1 share of US\$1	-	-	100%	100%
Melco LottVentures Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	1 share of US\$1	-	-	100%	100%

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

# Five Years Financial Summary

## RESULTS

	For the year ended 31 December				
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Revenue	1,015,521	690,862	709,553	206,691	129,314
Profit (loss) for the year	2,668,663	(2,353,214)	(1,448,416)	(208,608)	281,392
Attributable to:					
Owners of the Company	2,690,639	(2,356,819)	(1,449,685)	(209,464)	280,085
Non-controlling interests	(21,976)	3,605	1,269	856	1,307
	2,668,663	(2,353,214)	(1,448,416)	(208,608)	281,392

## ASSETS AND LIABILITIES

	At 31 December				
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Total assets	12,314,179	10,406,181	8,537,923	8,340,680	8,578,030
Total liabilities	(1,972,636)	(2,480,641)	(1,828,863)	(1,484,838)	(1,366,454)
	10,341,543	7,925,540	6,709,060	6,855,842	7,211,576
Equity attributable to owners of the Company	10,319,113	7,899,505	6,681,756	6,827,951	7,182,646
Non-controlling interests	22,430	26,035	27,304	27,891	28,930
	10,341,543	7,925,540	6,709,060	6,855,842	7,211,576

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. HO, Lawrence Yau Lung  
*(Chairman & Chief Executive Officer)*  
Mr. TSUI Che Yin, Frank  
Mr. CHUNG Yuk Man, Clarence

### Non-executive Director

Mr. NG Ching Wo

### Independent Non-executive Directors

Sir Roger LOBO  
Mr. SHAM Sui Leung, Daniel  
Dr. TYEN Kan Hee, Anthony

### EXECUTIVE COMMITTEE

Mr. HO, Lawrence Yau Lung *(Chairman)*  
Mr. TSUI Che Yin, Frank  
Mr. CHUNG Yuk Man, Clarence  
Mr. TSANG Yuen Wai, Samuel\*  
Mr. TAM Chi Wai, Dennis\*

### AUDIT COMMITTEE

Sir Roger LOBO *(Chairman)*  
Mr. NG Ching Wo  
Mr. SHAM Sui Leung, Daniel  
Dr. TYEN Kan Hee, Anthony

### REMUNERATION COMMITTEE

Mr. SHAM Sui Leung, Daniel *(Chairman)*  
Sir Roger LOBO  
Mr. NG Ching Wo

## NOMINATION COMMITTEE

Dr. TYEN Kan Hee, Anthony *(Chairman)*  
Sir Roger LOBO  
Mr. NG Ching Wo

## CORPORATE GOVERNANCE COMMITTEE

Mr. NG Ching Wo *(Chairman)*  
Mr. SHAM Sui Leung, Daniel  
Dr. TYEN Kan Hee, Anthony  
Mr. TSANG Yuen Wai, Samuel\*

## REGULATORY COMPLIANCE COMMITTEE

Mr. HO, Lawrence Yau Lung *(Chairman)*  
Mr. TSUI Che Yin, Frank  
Mr. TSANG Yuen Wai, Samuel\*

## FINANCE COMMITTEE

Mr. HO, Lawrence Yau Lung *(Chairman)*  
Mr. TSUI Che Yin, Frank  
Mr. CHUNG Yuk Man, Clarence  
Mr. TAM Chi Wai, Dennis\*

## CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Sir Roger LOBO *(Chairman)*  
Mr. HO, Lawrence Yau Lung  
Mr. TSUI Che Yin, Frank  
Mr. CHUNG Yuk Man, Clarence  
Ms. MA Po Ming, Maggie\*

## COMPANY SECRETARY

Mr. TSANG Yuen Wai, Samuel

## QUALIFIED ACCOUNTANT

Mr. TAM Chi Wai, Dennis

## REGISTERED OFFICE

38th Floor  
The Centrium  
60 Wyndham Street  
Central  
Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu

## LEGAL ADVISORS

Reed Smith Richards Butler  
King & Wood Mallesons

## PRINCIPAL BANKERS

Credit Suisse  
Bank of China, Macau Branch  
UBS AG

## SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## STOCK CODE

The Stock Exchange of Hong Kong Limited: 200

## WEBSITE

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

\* non-voting co-opted members

[www.melco-group.com](http://www.melco-group.com)

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