A Shining Year

Melco International Development Limited

Annual Report 2012

A Hong Kong Listed Company (Stock Code: 200)

Contents

CITY OF DREAMS
MACAU

新濠天地

2013 Forbes TRAVEL GUIDE

Crown Towers at City of Dreams – The first Forbes 5-Star hotel in Cotai, Macau

ALTIRA

新濠鋒 MACAU

Altira Macau – 4-time winner of "Forbes Travel Guide" 5-Star Hotel and Spa (2010-2013)

摩卡

Mocha™

The largest non-casino-based operations of electronic gaming machines in Macau

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.

Financial Highlights

Profit Attributable to Owners of the Company
HK$1,121.9 million

Profit attributable to owners of the Company was HK$1,121.9 million for the year ended 31 December 2012, as compared with HK$280.1 million in the year of 2011.

Basic Earnings Per Share
HK85.07 cents

Basic earnings per share attributable to owners of the Company was HK85.07 cents for the year ended 31 December 2012, as compared with HK22.79 cents for the year ended 31 December 2011.

Net Asset Value Per Share
HK$6.12

Net asset value per share attributable to owners of the Company increased by 5% to HK$6.12 as of 31 December 2012, as compared with HK$5.83 as of 31 December 2011.

Gearing Ratio
5%

Gearing ratio improved to 5% as of 31 December 2012 from 17% as of 31 December 2011; the Group maintained a healthy financial position during the year under review.

Corporate Profile

Founded in 1910 and listed on the Hong Kong Stock Exchange (HKEx) in 1927, Melco International Development Limited ("Melco" or the "Group") is a company with a long history and a bright future. Today, under the leadership of Chairman and Chief Executive Officer 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 2012, Melco was once again granted the "Corporate Governance Asia Annual Recognition Award" for the seventh consecutive year by Corporate Governance Asia magazine. Its Chairman and Chief Executive Officer, Mr. Lawrence Ho, has been awarded "Asian Corporate Director Recognition Awards" by Corporate Governance Asia magazine, and was selected as one of the "Best CEOs in Hong Kong" by FinanceAsia Magazine for the fourth year running.

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

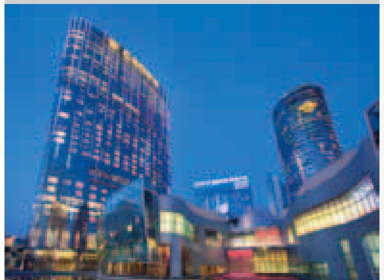
MELCO GROUP

Gaming, Leisure and Entertainment

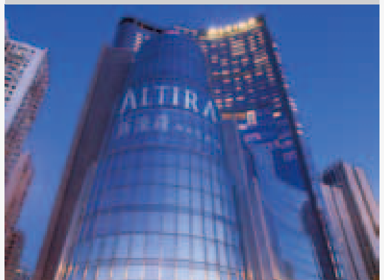
Melco Crown Entertainment Limited -
listed on the Main Board of The Stock Exchange of Hong Kong Limited (SEHK: 6883) and the NASDAQ Global Select Market (NASDAQ: MPEL)

Macau

City of Dreams, Cotai - Premium Mass market

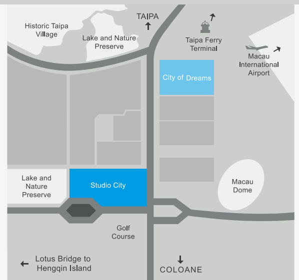


Altira Macau, Taipa – VIP market



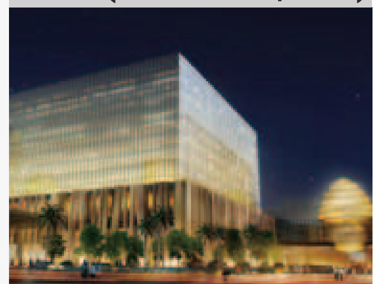
Mocha Clubs, all over Macau – Leisure grind market

Studio City, Cotai (under development) – Mass market



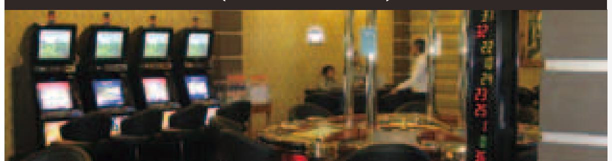
The Philippines

Integrated entertainment resort, Entertainment City, Manila (under development)



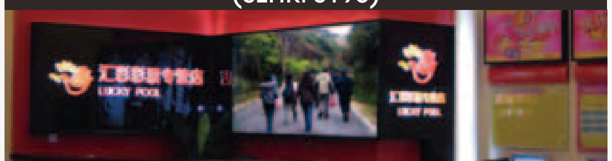
Focus on gaming market in Asia

Entertainment Gaming Asia Inc. –
listed on the NASDAQ Capital Market (NASDAQ: EGT)



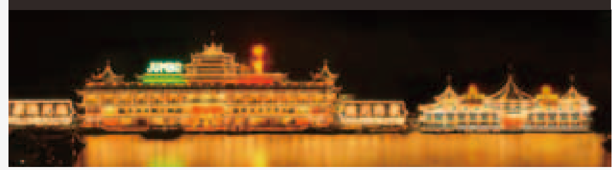
Focus on slot machine participation business

MelcoLot Limited –
listed on the Growth Enterprise Market 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 & Chief Executive Officer's Statement

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

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

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

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

In Macau and the surrounding region, substantial improvements to infrastructure and transport are also well underway, which will enable Macau to cater to a wider spectrum of visitors and act as a meaningful catalyst for future visitation growth. We believe that this dynamic infrastructure blueprint, together with the wide-reaching development of nearby Hengqin New Area will further broaden Macau's appeal and meaningfully improve the overall visitor experience, thereby ensuring the long-term success of Macau as a world-class leisure and tourism destination. With an enviable portfolio of entertainment assets established, we are committed to strongly supporting the Macau Government's policy to diversify tourism in order to further enhance a sustainable business environment in the city. Looking to the future, our strengthened presence in Macau and across Asia should enable us to contribute to the continued growth and future of Macau and capture the exciting opportunities in the Philippines as well as within other emerging markets.

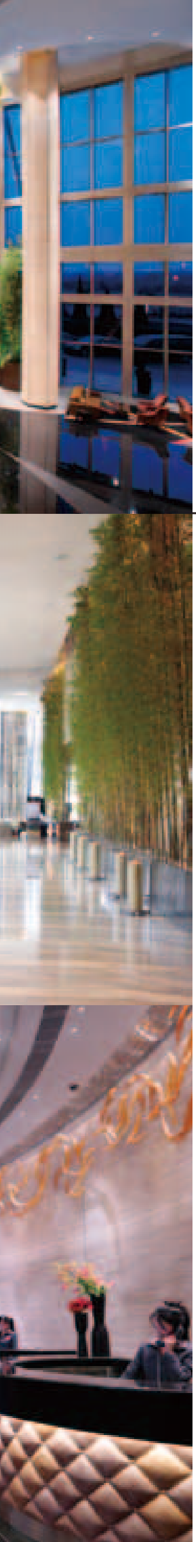
Apart from reaching new heights in operational and financial terms, as a responsible corporate citizen, we will continue to maintain our high corporate governance standards and our dedication to fulfilling our corporate social responsibility, especially in the local community. We will also continue to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

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

Ho, Lawrence Yau Lung
Chairman and Chief Executive Officer

Hong Kong, 28 March 2013


CROWN
CITY OF DREAMS 新濠天地

Management Discussion and Analysis

SIGNIFICANT EVENTS AND DEVELOPMENTS

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

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

CORE BUSINESS

Gaming Business in Asia

The Group operates its gaming business through its 33.7%-owned associate, Melco Crown Entertainment, which is listed on the NASDAQ Global Select Market in the US and on the Main Board of the Hong Kong Stock Exchange. In 2012, Melco Crown Entertainment reported net revenue of US$4.1 billion versus US$3.8 billion in the previous year, driven by substantially improved mass table games volumes and blended hold percentages, as well as larger volumes in the gaming machines segment. Adjusted EBITDA was US$920.2 million, as compared with an Adjusted EBITDA of US$809.4 million in 2011, primarily attributable to substantially improved mass table games and gaming machine revenues together with a strict cost control focus.

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

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

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

Gaming Machine Revenue Participation Business in Southeast Asia

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

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

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

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

Lottery Management Business in Asia

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

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

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

NON-CORE BUSINESSES

Ski Resort Business in China

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

In May 2012, the Group, MCR and its subsidiary (collectively referred to as the "MCR Group") and Wisecord Holdings Limited, a substantial shareholder of MCR, entered into a conditional agreement in relation to the settlement of loan

advanced to MCR Group amounting to US$23 million, which may be settled in the form of cash, shares of MCR and villas within a specific time period and subject to the fulfillment of certain conditions pursuant to the conditional agreement.

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

ACHIEVEMENTS AND AWARDS

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

Corporate Governance

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

Corporate Social Responsibility

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

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

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

Business Operation

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

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

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

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

OUTLOOK

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

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

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

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

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

Melco is not only growing in Macau, but is also eyeing opportunities throughout Asia and extending our reach across the region, in particular, Southeast Asia. Through EGT, the Group has established its presence in Cambodia and the Philippines with slot operations and casinos. The second casino under the brand "Dreamworld" will be opened in the first half of 2013 in the Cambodia-Thailand Border Crossing. In the Philippines, the Group and its associate are excited about the new casino and integrated resort in Manila which is looking to open in the middle of 2014. It is expected that it will emerge as one of the most compelling leisure and entertainment facilities in Asia which will tap the rapidly emerging market with a huge local demand and a buoyant consumption sentiment.

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

FINANCIAL REVIEW

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

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

SEGMENT RESULTS

Gaming, Leisure and Entertainment

The gaming, leisure and entertainment businesses are mainly formed by the core (i) Macau gaming business (conducted via 33.7%-owned Melco Crown Entertainment), (ii) gaming machine revenue participation business (conducted through 38.2%-owned EGT), and (iii) lottery business (conducted through 51.6%-owned MelcoLot), together with other non-core businesses.

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

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

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
MelcoLot (1)	**864**	–
Jumbo Kingdom (2)	**287**	12,340
Others (3)	**(1,461)**	(412)
	(310)	11,928

(1) MelcoLot

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

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

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

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

(i) imputed interest on convertible bonds amounting to HK$92 million (2011: HK$88.3 million) due to the liability component of the convertible bonds carried at amortized costs by using the effective interest method; and

(ii) one-off impairment losses of HK$22.2 million (2011: HK$118.5 million).

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

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

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

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

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

(2) Jumbo Kingdom

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

The segment profit of the catering business recorded approximately HK$287,000 for the year ended 31 December 2012 (2011: HK$12.3 million). The drop was mainly due to the incorporation of the operating loss of

J-Kitchen in the amount of HK$6.1 million. Significant increases in staff costs and repair and maintenance expenses were also causes for the deterioration of its segment results.

(3) Others

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

Property and Other Investments

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

SHARE OF PROFITS OF JOINTLY CONTROLLED ENTITIES

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

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

SHARE OF PROFITS OF ASSOCIATES

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

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

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

(1) Share of profits of Melco Crown Entertainment

For the year under review, the Group's attributable profit arising from its 33.7% ownership of Melco Crown Entertainment amounted to approximately HK$1,179.3 million (2011: HK$710.1 million) after taking into account the adjustments made under the generally accepted accounting principles ("GAAP") in Hong Kong.

According to its financial statements (prepared under US GAAP), Melco Crown Entertainment reported net revenue of US$4.1 billion for the year ended 31 December 2012, versus US$3.8 billion for the year ended 31 December 2011. The year-over-year increase in net revenue was driven by substantially improved mass table games volumes and blended hold percentages, as well as increased volumes in the gaming machines segment, partially offset by lower group-wide rolling chip volumes.

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

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

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

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

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

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

(3) Performance of EGT during the year under review

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

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

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

(LOSS) GAIN ON DEEMED DISPOSAL OF INTERESTS IN ASSOCIATES

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

GAIN ON DISPOSAL OF INTEREST IN AN ASSOCIATE

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

FAIR VALUE CHANGE ON INVESTMENT IN CONVERTIBLE LOAN NOTE

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

IMPAIRMENT LOSS ON GOODWILL

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

UNALLOCATED CORPORATE INCOME

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

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

CENTRAL ADMINISTRATIVE COSTS AND OTHER UNALLOCATED CORPORATE EXPENSES

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

FINANCE COSTS

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

INCOME TAX CREDIT

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

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

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

As of 31 December 2012, total assets of the Group were HK$9,925.3 million (2011: HK$8,577.9 million) which were financed by shareholders' funds of HK$9,374.4 million (2011: HK$7,182.6 million), deficit balance of non-controlling interests of HK$76.5 million (2011: surplus balance of HK$28.9 million), current liabilities of HK$161.4 million (2011: HK$321.9 million), and non-current liabilities of HK$466 million (2011: HK$1,044.5 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 5.1 (2011: 2.3).

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

As at 31 December 2012, the Group's total available bank loan facilities from various banks amounted to HK$491.2 million (2011: HK$309.2 million), of which HK$76.2 million (2011: HK$84.2 million) was secured by pledging HK$227 million of the Group's investment properties. As at 31 December 2012, the Group utilized HK$413 million and HK$76.2 million of unsecured and secured bank loan facilities respectively (2011: unsecured HK$223 million; secured HK$54.2 million). Details of bank borrowings are given in Note 37 to the consolidated financial statements.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

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

HEADCOUNT/EMPLOYEES' INFORMATION

The total number of the Group's and associates' employees was 12,801 as of 31 December 2012. Excluding the employees from associates such as Melco Crown Entertainment, MCR, and EGT, the total number of the Group's employees became 314 as of 31 December 2012 (2011: 233 employees). Among the 314 employees, 238 are located in Hong Kong and the rest are based in Macau and the PRC. The related staff costs for the year ended 31 December 2012, including directors' emoluments, share options expenses and share award expenses, amounted to HK$158.1 million (2011: HK$135.3 million).

HUMAN RESOURCES

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

Melco's people policy, systems and practices are directly aligned with the Group's mission and values which contribute to business success. It is based on three key areas:

1. Recruitment

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

2. Performance and Rewards

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

3. Learning & Development

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

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE EXPOSURE

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

CORPORATE RECOGNITION

Corporate Governance

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

World-class Gaming Enterprise

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

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

INVESTOR RELATIONS

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

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

CORPORATE CITIZENSHIP

With the vision to contribute to the growth and brighter future of the communities it serves and to inspire hope and happiness in people all over the world, Melco has constantly been at the forefront of fulfilling its corporate social responsibility (CSR) with the focus on Youth Development, Environment and Education. The Group has been annually publishing a CSR report since 2007 to present its relevant strategies and activities. This year, the Group has stepped up efforts to prepare the first CSR report in accordance with the Global Reporting Initiative ("GRI") 3.1 Guidelines which provide a sustainability reporting framework to measure and report Melco's sustainability performance. The Group has also conducted the first stakeholder engagement exercise, enabling it to gain stakeholder feedback on its CSR initiatives. This exercise will ultimately help the Group refine and better formulate its long-term CSR strategies.

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

YOUTH DEVELOPMENT

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

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

2012 Event Highlights (Youth Development)

- "Establish a Network of Pediatric Eye Care in Linyi, Shandong" Project by ORBIS International
- Coffee Life – Youth Empowerment Life Skills Training Project by The Society for The Aid and Drug Abusers

- Leadership for Life by Youth Outreach
- "Good at Facing Adversity" Children Story Project by Hong Kong Family Welfare Society
- Creating Harmony for Families of Ethnic Minorities Project by Against Child Abuse
- Goodwill Action – Hospital Play Service by Playright Children's Play Association

ENVIRONMENT

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

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

2012 Event Highlights (Environment)

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

EDUCATION

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

2012 Event Highlights (Education)

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

GENERAL COMMUNITY ENGAGEMENT

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

2012 Event Highlights (Community)

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

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

For more information on Melco's CSR activities, please refer to the Melco CSR Report 2012 or visit the website www.melco-group.com.

Management Profile

Directors

Mr. HO, Lawrence Yau Lung (aged 36)

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 currently a Member of the National Committee of the Chinese People's Political Consultative Conference. He also serves on numerous boards and committees in Hong Kong, Macau and mainland China. He is a Vice Patron of The Community Chest of Hong Kong, 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 of Hong Kong, President of Macau Canadian Chamber of Commerce, Honorary President of Association of Property Agents and Real Estate Developers of Macau and Director Executivo 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. 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 as "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 by FinanceAsia as one of the "Best CEOs in Hong Kong" for four consecutive years, from 2009 to 2012. He was also awarded "Asia's Best CEO (Investor Relations)" at the Asian Excellence Awards by Corporate Governance Asia magazine in 2011, and was honored as one of the recipients of the 3rd Asian Corporate Director Recognition Awards by Corporate Governance Asia magazine in 2012. In 2013, he was once again selected as "Asia's Best CEO (Investor Relations)" at the Asian Excellence Awards by Corporate Governance Asia magazine.

Management Profile

Mr. TSUI Che Yin, Frank (aged 55)

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 50)

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 also 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 NASDAQ Capital Market in the United States.

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, 2010 and 2012" 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 a 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 63)

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 89)

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.

Mr. SHAM Sui Leung, Daniel (aged 57)

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.

Management Profile

Dr. TYEN Kan Hee, Anthony (aged 57)

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 NASDAQ Capital Market in the United States, and Alpha Peak Leisure Inc., a company listed on the TSX Venture Exchange Inc. He is also 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.

Senior Management

Mr. TSANG Yuen Wai, Samuel (aged 58)

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 NASDAQ Capital Market in the United States.

Mr. KO Chun Fung, Henry (aged 53)

Executive Director and Chief Executive Officer of MelcoLot Limited

Mr. Ko is an executive director and chief executive officer of MelcoLot Limited ("MelcoLot"), a subsidiary of the Company, 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 as a director and CEO of MelcoLot and continues to lead the lottery business of MelcoLot Group.

Management Profile

Mr. TAM Chi Wai, Dennis, PhD, CPA (Aust), CMA (aged 43)

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. He currently serves as Group Finance Director and Head of Human Resources & Administration and is in charge of implementing group treasury and financial decisions, consolidating accounting information, planning and organizing the management of mergers and acquisitions, and developing strategies for the company's internal growth, 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 the Institute of Public Accountants, a member of CPA Australia, a member of the Institute of Administrative Management in United Kingdom and Advisory of General Education Development Committee in Peking University Shenzhen Graduate School. Mr. Tam is a former member of Chinese People's Political Consultative Conference, Jiang Xi Province, Nan Kang 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.

Mr. LAW Kwok Fai, Alan (aged 51)

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 organisation.

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 2012, Melco received "Corporate Governance Asia Annual Recognition Award" for the seventh 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 for the second year running. Group Chairman and Chief Executive Officer, Mr. Ho, Lawrence Yau Lung not only received the "Asian Corporate Director Recognition Awards" presented by Corporate Governance Asia magazine, he was also named one of the "Best CEOs in Hong Kong" by FinanceAsia magazine within the "Asia Best Companies Awards" for the fourth consecutive year. All 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

In 2005, the Group adopted its Code on Corporate Governance (the "Company Code"), which set out the corporate standards and practices used by the Group in directing and managing its business affairs. The Company Code was prepared with reference to the principles, Code Provisions and Recommended Best Practices stipulated in the Code on Corporate Governance Practices (the "Former HKSE Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which came into effect on 1 January 2005. With the introduction of the revised Corporate Governance Code (the "HKSE Code") set out in Appendix 14 of the Listing Rules with effect from 1 April 2012, the Company Code was also revised to be in line with the principles and code provisions of the HKSE Code. The Company Code not only formalizes the Group's existing corporate governance principles and practices, but also serves to assimilate practices with benchmarks prescribed by the Stock Exchange, ultimately ensuring that the Group runs a highly transparent operation and is accountable to its 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 the code provisions set out in the Former HKSE Code (Code on Corporate Governance Practices) during the period from 1 January to 31 March 2012 and the code provisions set out in the HKSE Code (Corporate Governance Code) during the period from 1 April to 31 December 2012, except for the following deviations:

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

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

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

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

Role of the Board

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".

Composition of the Board

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 number of Independent Non-executive Directors represents more than one-third of the Board which complies with Rule 3.10A of the Listing Rules.

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

Corporate Governance Report

mandatory reporting and provide adequate checks and balances to safeguard the interests of shareholders and the Company as a whole.

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.

All Directors entered into formal letters of appointment with the Company which set out the key terms and conditions of their appointment. 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. Chung Yuk Man and Mr. Sham Sui Leung, Daniel will retire and they are eligible to offer themselves for re-election at the forthcoming annual general meeting. The biographical details of Mr. Chung and Mr. Sham have been set out in a circular to assist shareholders to make an informed decision on their re-elections.

Directors' Training

The Company has in place a clear corporate governance process to ensure that all directors fully appreciate their roles and responsibilities.

The Company Secretary, who is responsible directly to the Board, is responsible for keeping directors updated on all regulatory changes, including organizing appropriate continuing development programme for directors. Every newly appointed director will receive a comprehensive orientation package on appointment.

To enable the Board as a whole and each Director to discharge duties, Directors are provided with monthly updates on the Company's performance, position and prospects.

During the year, the Company has arranged in-house training for Directors. There are also arrangements in place for providing continuing professional development to Directors at the Company's expense whenever necessary. A summary of training received by Directors from 1 April 2012 to 31 December 2012 is as follows:

	Type of Continuous Professional Development	
	Attending seminars/forms/ workshops/conferences relevant to the business or directors' duties	**Reading regulatory updates**
Executive Directors		
Mr. Ho, Lawrence Yau Lung	✓	✓
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	✓	✓

Board Meetings

The Board meets regularly (at least 4 times a year) over the Company's affairs and operations. The Directors either participated in person or through electronic means of communication. At least 14 days' notice of all board meetings were given to all Directors, who were given an opportunity to include matters in the agenda for discussion. Agenda and accompanying board papers were circulated with sufficient time to allow Directors to prepare before meetings. The Chairman meets at least annually with the Non-executive Directors without the present of the Executive Directors.

The Board held a total of 4 meetings during the year ended 31 December 2012. At the board meetings, the Directors considered and approved the financial results and budget, discussed the overall strategy as well as the operation and financial performance of the Group. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. The Group Legal Counsel and Company Secretary and the Group Finance Director also attend all board meetings to advise on statutory compliance, legal, accounting and financial matters. The Company Secretary records all matters considered by the Board, decisions reached and any concerns raised or dissenting views expressed by Directors. 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 2012 which illustrates the attention given by the Board in overseeing the Company's affairs:

	No. of meetings attended/held in 2012	Attendance rate
Executive Directors		
Mr. Ho, Lawrence Yau Lung *(Chairman and Chief Executive Officer)*	4/4	100%
Mr. Tsui Che Yin, Frank	4/4	100%
Mr. Chung Yuk Man, Clarence	4/4	100%
Non-executive Director		
Mr. Ng Ching Wo	4/4	100%
Independent Non-executive Directors		
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 2012.

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 2012.

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.6.4 of the HKSE Code of the Listing Rules.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

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.

The major roles and functions of the Audit Committee are set out clearly in the terms of reference which are of no less exacting than those set out in the HKSE Code and are available on the Company's website under the section "Corporate Governance". The terms of reference for the Audit Committee are also aligned with the guidelines issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee is provided with sufficient resources, including the advice of external auditor and Internal Audit Department to discharge its duties.

The Audit Committee held two meetings during the year. The major works of the Audit Committee during the year are as follows:

(a) reviewed the financial results for the year ended 31 December 2011 and interim financial results for the six months ended 30 June 2012;
(b) reviewed the remuneration of auditor;
(c) reviewed the report on internal audit results and internal control prepared by Internal Audit Department; and
(d) approved and confirmed the internal audit plan for the year 2012.

The attendance record of each member of the Audit Committee is set out below:

	No. of meetings attended/held in 2012	**Attendance rate**
Sir Roger *(Chairman)*	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%

(3) Nomination Committee

The Nomination Committee is made up of one Non-executive Director and two Independent Non-executive Directors, namely Dr. Tyen Kan Hee, Anthony (Chairman), Sir Roger Lobo and Mr. Ng Ching Wo. It reviews the structure, size and composition (including the skills, knowledge and experience) of the Board, 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.

The Nomination Committee held one meeting during the year to review the structure, size and composition of the Board and assess the independence of independent non-executive directors. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/held in 2012	**Attendance rate**
Dr. Tyen Kan Hee, Anthony *(Chairman)*	1/1	100%
Sir Roger Lobo	1/1	100%
Mr. Ng Ching Wo	1/1	100%

The Nomination Committee is provided with sufficient resources to perform its duties. It may seek independent professional advice at the Company's expense to perform its responsibilities where necessary.

(4) *Remuneration Committee*

The Remuneration Committee is made up of one Non-executive Director and two Independent Non-executive Directors, namely Mr. Sham Sui Leung, Daniel (Chairman), Sir Roger Lobo and Mr. Ng Ching Wo. It determines the remuneration packages (including salaries, bonuses, benefits in kind etc.) 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.

The Remuneration Committee held two meetings during the year to review the remuneration policy for directors and senior management of the Company, to review and approve management's remuneration proposal and to review and recommend to the Board the granting of share options and/or awarded shares to directors, employees and consultants under the Company's share option scheme and share incentive scheme. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/held in 2012	**Attendance rate**
Mr. Sham Sui Leung, Daniel *(Chairman)*	2/2	100%
Sir Roger Lobo	2/2	100%
Mr. Ng Ching Wo	2/2	100%

The Remuneration is provided with sufficient resources to perform its duties. It may seek independent professional advice at the Company's expense to perform its responsibilities where necessary.

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. Individual Director and senior management would not be involved in deciding their own remuneration.

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.

(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.

Corporate Governance Report

(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.

(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, Environment and Education.

(8) *Corporate Governance Committee*

The Corporate Governance Committee was newly formed on 28 March 2012 to assist the Board to perform corporate governance functions. It is composed of one Non-executive Director, namely Mr. Ng Ching Wo (Chairman), two Independent Non-executive Directors, namely Mr. Sham Sui Leung, Daniel and Dr. Tyen Kan Hee, Anthony and the Group Legal Counsel and Company Secretary (non-voting capacity).

The Board has delegated the following corporate governance duties to the Corporate Governance Committee:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The Corporate Governance Committee held one meeting during the year to review the Company's policies and practices on corporate governance, training and continuous professional development of Directors and senior management and the corporate governance report. The attendance record of each member of the Committee is set out below:

	No. of meetings attended/held in 2012	**Attendance rate**
Mr. Ng Ching Wo *(Chairman)*	1/1	100%
Mr. Sham Sui Leung, Daniel	1/1	100%
Dr. Tyen Kan Kee, Anthony	1/1	100%
Mr. Tsang Yuen Wai, Samuel (member with non-voting capacity)	1/1	100%

Corporate Governance Report

COMPANY SECRETARY

The Company Secretary supports the Chairman, the Board and the Board Committees by ensuring good information flow and that Board policy and procedures are followed. Mr. Tsang Yuen Wai, Samuel, Company Secretary of the Company, was appointed as Company Secretary of the Company on 1 February 2002. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He reports directly to the Chairman and Chief Executive Officer of the Company. All Directors have access to the advice and services of the Company Secretary. The Company Secretary, being the primary channel of communications between the Company and the Stock Exchange, also assists the Board in implementing and strengthening corporate governance practices with a view to enhancing long term shareholders' value.

According to Rule 3.29 of the Listing Rules, Mr. Tsang has to comply with the annual professional training requirement commencing from 1 January 2013.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of the financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The responsibilities of external auditor for the accounts are set out in the Independent Auditor's Report on pages 77 and 78 of this annual report.

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, 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$1.7 million was for audit services and the balance of HK$0.8 million was for non-audit services which include interim review of the Group's financial statements and tax services.

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 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.

(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 auditor to review the financial statements and auditor's 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 2012 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.

CONSTITUTIONAL DOCUMENTS

During the year, there was no change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene Extraordinary General Meeting and put forward proposals at shareholders' meetings

Shareholders holding not less than one-twentieth (1/20) of the paid-up capital of the Company can deposit a written request to convene an extraordinary general meeting ("EGM") (stating the objects of the meeting and signed by the shareholders concerned) at the registered office of the Company for the attention of the Company Secretary. If the Directors do not within 21 days from the date of the deposit of a request (after being verified to be valid) proceed to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholders concerned, or any of them representing more than one-half (1/2) of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of three months from the date of the deposit of the request.

To put forward proposals at shareholders' meeting, a request in writing must be made by:

(a) shareholders holding not less than one-fortieth (1/40) of the total voting rights of all shareholders having the right to vote at the meeting; or

(b) not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000,

to the Company to give to shareholders notice of any resolution which may properly be moved and is intended to be moved at an annual general meeting, or to circulate to shareholders any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at any general meeting.

The written request must be signed by all the shareholders concerned in one or more documents in like form and deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, and not less than one week before the meeting in the case of any other requisition. Upon the request verified to be valid, the Company will give notice of the resolution or circulate the statement provided that the shareholders concerned have deposited a sum of money reasonably sufficient to meet the Company's expenses in relation thereto.

Procedures for nomination of Directors for election

Purusant to Article 107 of the Company's Articles of Association, shareholders are entitled to elect any person to be a Director at the annual general meeting or at any general meeting by following the requirement set out in the said article. Details of the procedures for nomination of Directors for election are available on the Company's website at http://www.melco-group.com.

Enquiries to the Board

Shareholders have a right to put enquiries to the Board. All enquiries shall be in writing and sent by post to our Company Secretarial Department and/or Corporate Communications Department at 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong or by email to info@melco-group.com.

COMMUNICATION WITH SHAREHOLDERS

The Company regards the annual general meeting ("AGM") of the Company an important event as it provides an opportunity for the Board to communicate with the shareholders. The Chairman of the Board, members of the Board and external auditor will attend the AGM. Notice of AGM and related papers are sent to the shareholders at least 20 clear business days before the meeting. At the AGM, separate resolutions were proposed for each issue and were voted on by poll. The procedures for conducting a poll were explained at the meeting prior to the polls being taken. 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 Chairman of the Board attended the AGM held on 30 May 2012. The chairman of each Board Committee or their appointed delegate and our external auditor, Deloitte Touche Tohmatsu, were also present and available to answer questions at the AGM. The attendance record of each Director at the AGM is set out below:

	Attendance at the AGM held on 30 May 2012
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	✓

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 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 can refer to the "Shareholders' Communication Policy" posted on the Company's website for more details.

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 2012.

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 2012 are set out in the consolidated income statement on pages 79 to 80 of this annual report.

The directors recommend the payment of a final dividend of HK1.5 cents per ordinary share for the year ended 31 December 2012 (2011: HK1.5 cents per ordinary share) to the shareholders whose names appear on the register of members of the Company on 24 June 2013. The proposed dividend will be payable on or before 4 July 2013.

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Friday, 14 June 2013. To ascertain shareholders' eligibility to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 11 June 2013 to Friday, 14 June 2013 (both days inclusive), during which period no share transfers will be registered. In order to qualify to attend and vote at the annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 10 June 2013.

The proposed final dividend for the year ended 31 December 2012 is subject to the approval of the shareholders at the annual general meeting. To ascertain shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 20 June 2013 to Monday, 24 June 2013 (both days inclusive), during which period no share transfers will be registered. The last day for dealing in the Company's shares cum entitlements to the proposed final dividend will be Monday, 17 June 2013. In order to qualify for the proposed final dividend, all transfer forms accompanied by relevant share certificates must be lodged with of the Company's share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 19 June 2013.

FIXED ASSETS

Details of movements in the investment properties and property, plant and equipment during the year are set out in notes 19 and 20, 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.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority 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 183 of this annual report. This summary does not form part of the audited financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2012, the Company's reserves available for distribution consisted of capital reserve of approximately HK$234,495,000 (2011: HK$253,004,000). The Company considered it has fulfilled those conditions required for distribution of capital reserve under a scheme of capital reduction as set out in Note 1 of consolidated statement of changes in equity. In addition, the Company's share premium account, in the amount of approximately HK$4,386,213,000 (2011: HK$3,137,831,000), 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

Aggregate sales attributable to the Group's five largest customers were less than 30% of total revenue.

The five largest suppliers accounted for approximately 60% of the Group's total purchases for the year (2011: 47%) and the largest supplier accounted for approximately 34% of the Group's purchases for the year (2011: 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 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 Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), every Director should be subject to retirement by rotation at least once every three years. In accordance with these provisions, Mr. Chung Yuk Man, Clarence and Mr. Sham Sui Leung, Daniel shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS (Continued)

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.

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 37 to 41 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 2012, 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 "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 Stock Exchange were as follows:

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

(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	Interest of controlled corporations	Corporate	429,923,077	28.05%	2
	Beneficiary of a trust	Other	298,982,187	19.50%	2
	Beneficial owner	Personal	13,912,612	0.91%	–
Mr. Tsui Che Yin, Frank	Beneficial owner	Personal	181,660	0.01%	–
Mr. Chung Yuk Man, Clarence	Beneficial owner	Personal	359,440	0.02%	–
Sir Roger Lobo	Beneficial owner	Personal	72,000	0.01%	–
Mr. Sham Sui Leung, Daniel	Beneficial owner	Personal	72,000	0.01%	–
Mr. Ng Ching Wo	Beneficial owner	Personal	72,000	0.01%	–

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

	Number of share options							
Name of Director	Outstanding at 1 January 2012	Granted during the year	Exercised during the year	Outstanding at 31 December 2012	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
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	0.00%	03.04.2009	03.04.2010 – 02.04.2019	2.99
	76,500	–	–	76,500	0.00%	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	0.01%	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
	244,000	–	–	244,000	0.02%	07.04.2010	07.04.2013 – 06.04.2020	3.76

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)

	Number of share options							
Name of Director	Outstanding at 1 January 2012	Granted during the year	Exercised during the year	Outstanding at 31 December 2012	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
	200,000	–	–	200,000	0.01%	07.04.2010	07.04.2014 – 06.04.2020	3.76
	200,000	–	–	200,000	0.01%	07.04.2010	07.04.2015 – 06.04.2020	3.76
	600,000	–	–	600,000	0.04%	08.04.2011	05.05.2011 – 07.04.2021	5.75
	600,000	–	–	600,000	0.04%	08.04.2011	08.04.2012 – 07.04.2021	5.75
	3,986,520	–	–	3,986,520	0.30%			
Mr. Tsui Che Yin, Frank	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

	Number of share options							
Name of Director	Outstanding at 1 January 2012	Granted during the year	Exercised during the year	Outstanding at 31 December 2012	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
	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
	–	330,000	–	330,000	0.02%	27.01.2012	27.01.2012 – 26.01.2022	7.1
	–	330,000	–	330,000	0.02%	27.01.2012	27.01.2013 – 26.01.2022	7.1
	–	330,000	–	330,000	0.02%	27.01.2012	27.01.2014 – 26.01.2022	7.1
	–	330,000	–	330,000	0.02%	27.01.2012	27.01.2015 – 26.01.2022	7.1
	4,416,000	1,320,000	–	5,736,000	0.42%			

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)

	Number of share options							
Name of Director	Outstanding at 1 January 2012	Granted during the year	Exercised during the year	Outstanding at 31 December 2012	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
Mr. Chung Yuk Man, Clarence	200,000	–	(200,000)	–	–	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
	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
	–	330,000	–	330,000	0.02%	27.01.2012	27.01.2012 – 26.01.2022	7.1
	–	330,000	–	330,000	0.02%	27.01.2012	27.01.2013 – 26.01.2022	7.1
	–	330,000	–	330,000	0.02%	27.01.2012	27.01.2014 – 26.01.2022	7.1
	–	330,000	–	330,000	0.02%	27.01.2012	27.01.2015 – 26.01.2022	7.1
	5,016,000	1,320,000	(200,000)	6,136,000	0.45%			

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)

	Number of share options							
Name of Director	Outstanding at 1 January 2012	Granted during the year	Exercised during the year	Outstanding at 31 December 2012	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
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
	87,000	–	–	87,000	0.01%	08.04.2011	08.04.2013 – 07.04.2021	5.75

	Number of share options							
Name of Director	Outstanding at 1 January 2012	Granted during the year	Exercised during the year	Outstanding at 31 December 2012	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
	87,000	–	–	87,000	0.01%	08.04.2011	08.04.2014 – 07.04.2021	5.75
	–	53,000	–	53,000	0.00%	27.01.2012	27.01.2012 – 26.01.2022	7.1
	–	53,000	–	53,000	0.00%	27.01.2012	27.01.2013 – 26.01.2022	7.1
	–	52,000	–	52,000	0.00%	27.01.2012	27.01.2014 – 26.01.2022	7.1
	–	52,000	–	52,000	0.00%	27.01.2012	27.01.2015 – 26.01.2022	7.1
	852,000	210,000	–	1,062,000	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

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 1 January 2012	Granted during the year	Exercised during the year	Outstanding at 31 December 2012	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
	–	53,000	–	53,000	0.00%	27.01.2012	27.01.2012 – 26.01.2022	7.1
	–	53,000	–	53,000	0.00%	27.01.2012	27.01.2013 – 26.01.2022	7.1
	–	52,000	–	52,000	0.00%	27.01.2012	27.01.2014 – 26.01.2022	7.1
	–	52,000	–	52,000	0.00%	27.01.2012	27.01.2015 – 26.01.2022	7.1
	552,000	210,000	–	762,000	0.04%			
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

Name of Director	Number of share options: Outstanding at 1 January 2012	Granted during the year	Exercised during the year	Outstanding at 31 December 2012	Approximate % of issued share capital	Date of grant	Exercisable period	Exercise price HK$
	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
	–	53,000	–	53,000	0.00%	27.01.2012	27.01.2012 – 26.01.2022	7.1
	–	53,000	–	53,000	0.00%	27.01.2012	27.01.2013 – 26.01.2022	7.1
	–	52,000	–	52,000	0.00%	27.01.2012	27.01.2014 – 26.01.2022	7.1
	–	52,000	–	52,000	0.00%	27.01.2012	27.01.2015 – 26.01.2022	7.1
	852,000	210,000	–	1,062,000	0.07%			
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
	–	53,000	–	53,000	0.00%	27.01.2012	27.01.2012 – 26.01.2022	7.1
	–	53,000	–	53,000	0.00%	27.01.2012	27.01.2013 – 26.01.2022	7.1
	–	52,000	–	52,000	0.00%	27.01.2012	27.01.2014 – 26.01.2022	7.1
	–	52,000	–	52,000	0.00%	27.01.2012	27.01.2015 – 26.01.2022	7.1
	350,000	210,000	–	560,000	0.04%			
Total	**16,024,520**	**3,480,000**	**(200,000)**	**19,304,520**	**1.39%**			

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

	Number of awarded shares						
Name of Director	Outstanding at 1 January 2012	Awarded during the year	Vested during the year	Outstanding at 31 December 2012	Approximate % of issued share capital	Date of award	Vesting date
Mr. Ho, Lawrence Yau Lung	13,000	–	(13,000)	–	–	03.04.2009	03.04.2012
	2,400,000	–	(2,400,000)	–	–	08.04.2011	08.04.2012
	–	1,000,000	(1,000,000)	–	–	27.01.2012	27.01.2012
	–	3,000,000	–	3,000,000	0.20%	27.01.2012	27.01.2013
	2,413,000	4,000,000	(3,413,000)	3,000,000	0.20%		
Mr. Tsui Che Yin, Frank	9,000	–	(9,000)	–	–	03.04.2009	03.04.2012
Mr. Chung Yuk Man, Clarence	9,000	–	(9,000)	–	–	03.04.2009	03.04.2012
Sir Roger Lobo	5,000	–	(5,000)	–	–	03.04.2009	03.04.2012
Mr. Sham Sui Leung, Daniel	5,000	–	(5,000)	–	–	03.04.2009	03.04.2012
Mr. Ng Ching Wo	5,000	–	(5,000)	–	–	03.04.2009	03.04.2012
Total	**2,446,000**	**4,000,000**	**(3,446,000)**	**3,000,000**	**0.20%**		

Notes:

1. As at 31 December 2012, the total number of issued shares of the Company was 1,532,966,567.

2. 288,532,606 shares of the Company are held by Better Joy Overseas Ltd., 115,509,024 shares of the Company are held by Lasting Legend Ltd., 7,294,000 shares of the Company are held by The L3G Capital Trust, 18,587,447 shares of the Company are held by Mighty Dragon Developments Limited and 298,982,187 shares of the Company are held by Great Respect Limited, representing approximately 18.82%, 7.53%, 0.48%, 1.21% and 19.50% 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. 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. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung was deemed to be interested in the 728,905,264 shares held by the aforesaid companies/trust.

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

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

(A) 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 of Melco Crown Entertainment held	Approximate % of issued share capital of Melco Crown Entertainment	Note
Mr. Ho, Lawrence Yau Lung	Interest of controlled corporation	559,229,043	33.73%	2
	Other	559,229,043	33.73%	2
	Beneficial owner	2,980,682	0.18%	–
Mr. Tsui Che Yin, Frank	Beneficial owner	11,850	0.00%	–
Mr. Chung Yuk Man, Clarence	Beneficial owner	65,179	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 held	Approximate % of issued share capital of Melco Crown Entertainment	Note
Mr. Ho, Lawrence Yau Lung	Beneficial owner	17.03.2009	241,566	0.02%	3
	Beneficial owner	23.03.2011	482,193	0.03%	4
	Beneficial owner	29.03.2012	237,198	0.01%	5
Mr. Chung Yuk Man, Clarence	Beneficial owner	17.03.2009	11,505	0.00%	3
	Beneficial owner	23.03.2011	31,707	0.00%	4
	Beneficial owner	29.03.2012	67,770	0.00%	5

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

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

(A) Melco Crown Entertainment Limited ("Melco Crown Entertainment") (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
	Beneficial owner	29.03.2012	474,399	0.03%	10
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:

1. As at 31 December 2012, the total number of issued shares of Melco Crown Entertainment was 1,658,059,295.

2. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 559,229,043 shares of Melco Crown Entertainment which are being held by Melco Leisure and Entertainment Group Limited ("Melco Leisure"), a wholly-owned subsidiary of the Company; and (ii) 559,229,043 shares 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 as a result of him being interested in approximately 48.46% of the issued share capital of the Company which in turn holds approximately 67.46% of the issued shares of Melco Crown Entertainment.

3. 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.

Report of the Directors

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

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

(A) Melco Crown Entertainment Limited ("Melco Crown Entertainment") (Continued)

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

Notes: (Continued)

4. Among the 482,193 restricted shares held by Mr. Ho, Lawrence Yau Lung, 241,056 shares shall vest on 23 March 2013 and 241,137 shares shall vest on 23 March 2014.

   Among the 31,707 restricted shares held by Mr. Chung Yuk Man, Clarence, 15,849 shares shall vest on 23 March 2013 and 15,858 shares shall vest on 23 March 2014.

5. Among the 237,198 restricted shares held by Mr. Ho, Lawrence Yau Lung, 79,065 shares shall vest on 29 March 2013, 79,065 shares shall vest on 29 March 2014 and 79,068 shares shall vest on 29 March 2015.

   Among the 67,770 restricted shares held by Mr. Chung Yuk Man, Clarence, 22,590 shares shall vest on 29 March 2013, 22,590 shares shall vest on 29 March 2014 and 22,590 shares shall vest on 29 March 2015.

6. 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.

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.

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

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

(A) Melco Crown Entertainment Limited ("Melco Crown Entertainment") (Continued)

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

Notes: (Continued)

8. The personal interest of this director represents his derivative interest in Melco Crown Entertainment comprising the stock options granted to him by Melco Crown Entertainment on 25 November 2009 at an exercise price of US$1.4267 per share (US$4.28 per ADS) of Melco Crown Entertainment.

   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 him 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.

10. The personal interest of this director represents his derivative interest in Melco Crown Entertainment comprising the stock options granted to him by Melco Crown Entertainment on 29 March 2012 at an exercise price of US$4.6967 per share (US$14.09 per ADS) of Melco Crown Entertainment.

    Among the 474,399 stock options held by Mr. Ho, Lawrence Yau Lung, 158,133 options may be exercised during the period from 29 March 2013 to 28 March 2022, 158,133 options may be exercised during the period from 29 March 2014 to 28 March 2022 and 158,133 options may be exercised during the period from 29 March 2015 to 28 March 2022.

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

(II) 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: Before the Reverse Stock Split	After the Reverse Stock Split	Approximate % of issued share capital of EGT	Note(s)
Mr. Ho, Lawrence Yau Lung	Interest of controlled corporation	45,800,000	11,450,000	38.20%	1, 2
Mr. Chung Yuk Man, Clarence	Beneficial owner	2,114,393	528,599	1.76%	1, 13
Dr. Tyen Kan Hee, Anthony	Beneficial owner	120,000	30,000	0.10%	1

(b) Stock options granted by EGT

Name of Director	Capacity	Date of Grant	Number of stock options granted by EGT held: Before the Reverse Stock Split	After the Reverse Stock Split	Approximate % of issued share capital of EGT	Notes
Mr. Chung Yuk Man, Clarence	Beneficial owner	22.01.2008	30,000	7,500	0.03%	1, 3
	Beneficial owner	12.02.2008	100,000	25,000	0.08%	1, 4
	Beneficial owner	29.12.2008	2,000,000	500,000	1.67%	1, 6
	Beneficial owner	12.02.2009	50,000	12,500	0.04%	1, 7
	Beneficial owner	07.01.2010	50,000	12,500	0.04%	1, 8
	Beneficial owner	22.01.2010	500,000	125,000	0.42%	1, 9
	Beneficial owner	03.02.2011	550,000	137,500	0.46%	1, 10
	Beneficial owner	03.01.2012	700,000	175,000	0.58%	1, 11
Mr. Sham Sui Leung, Daniel	Beneficial owner	11.12.2008	100,000	25,000	0.08%	1, 5
	Beneficial owner	12.02.2009	50,000	12,500	0.04%	1, 7

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

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

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

(b) Stock options granted by EGT (Continued)

Name of Director	Capacity	Date of Grant	Number of stock options granted by EGT held: Before the Reverse Stock Split	Number of stock options granted by EGT held: After the Reverse Stock Split	Approximate % of issued share capital of EGT	Notes
Dr. Tyen Kan Hee, Anthony	Beneficial owner	11.12.2008	100,000	25,000	0.08%	1, 5
	Beneficial owner	12.02.2009	50,000	12,500	0.04%	1, 7
	Beneficial owner	07.01.2010	50,000	12,500	0.04%	1, 8
	Beneficial owner	03.02.2011	50,000	12,500	0.04%	1, 10
	Beneficial owner	03.01.2012	100,000	25,000	0.08%	1, 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: Before the Reverse Stock Split	Number of shares of restricted common stock granted by EGT held: After the Reverse Stock Split	Approximate % of issued share capital of EGT	Notes
Mr. Chung Yuk Man, Clarence	Beneficial owner	03.01.2012	779,220	194,805	0.65%	1, 12

Notes:

1. EGT has effected a 1-for-4 reverse stock split (the "Reverse Stock Split") of its shares of common stock with effect from 12 June 2012. As a result of the Reverse Stock Split, every four shares of common stock have been combined into one share of common stock. As at 31 December 2012, the total number of issued shares of common stock of EGT was 29,974,662.

2. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung is deemed to be interested in 11,450,000 shares of common stock (after the Reverse Stock Split) of EGT, which are being held by EGT Entertainment Holding Limited (formerly known as Elixir Group Limited), a wholly-owned subsidiary of the Company, as a result of him being interested in approximately 48.46% of the issued share capital of the Company which in turn holds approximately 38.20% of the issued share capital of EGT.

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

(II) 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)

3. 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. As a result of the Reverse Stock Split, the exercise price was adjusted to US$14.48 per EGT's share. The 7,500 stock options may be exercised during the period from 23 July 2008 to 22 January 2018.

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 12 February 2008 at an exercise price of US$4.59 per EGT's share. As a result of the Reverse Stock Split, the exercise price was adjusted to US$18.36 per EGT's share. The 25,000 stock options may be exercised during the period from 15 May 2008 to 14 November 2017.

5. 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. As a result of the Reverse Stock Split, the exercise price was adjusted to US$0.32 per EGT's share. The 25,000 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.

6. 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. As a result of the Reverse Stock Split, the exercise price was adjusted to US$0.68 per EGT's share. The 500,000 stock options may be exercised during the period from 29 December 2009 to 29 December 2013.

7. 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. As a result of the Reverse Stock Split, the exercise price was adjusted to US$0.52 per EGT's share. The 12,500 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.

8. 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. As a result of the Reverse Stock Split, the exercise price was adjusted to US$1.16 per EGT's share. The 12,500 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.

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

(II) 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)

9. 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. As a result of the Reverse Stock Split, the exercise price was adjusted to US$1.10 per EGT's share. The 125,000 stock options may be exercised during the period from 1 January 2011 to 22 January 2020.

10. 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. As a result of the Reverse Stock Split, the exercise price was adjusted to US$1.44 per EGT's share.

    Among the 137,500 stock options granted to Mr. Chung, 12,500 options may be exercised during the period from 4 August 2011 to 3 February 2021 and 125,000 options may be exercised during the period from 1 January 2012 to 3 February 2021.

    The 12,500 stock options granted to Dr. Tyen may be exercised during the period from 4 August 2011 to 3 February 2021.

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 January 2012 at an exercise price of US$0.231 per EGT's share. As a result of the Reverse Stock Split, the exercise price was adjusted to US$0.924 per EGT's share.

    Among the 175,000 stock options granted to Mr. Chung, 25,000 options may be exercised during the period from 4 July 2012 to 3 January 2022 and 150,000 options may be exercised during the period from 1 January 2013 to 3 January 2022.

    The 25,000 stock options granted to Dr. Tyen may be exercised during the period from 4 July 2012 to 3 January 2022.

12. The personal interest of Mr. Chung Yuk Man, Clarence represents his interest in EGT comprising 779,220 shares of the restricted common stock granted to him on 3 January 2012 pursuant to EGT's 2008 Stock Incentive Plan. As a result of the Reverse Stock Split, the shares of the restricted common stock were adjusted to 194,805. The 194,805 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 2012.

13. On 3 February 2011, 416,666 shares of the restricted common stock were granted to Mr. Chung Yuk Man, Clarence pursuant to EGT's 2008 Stock Incentive Plan. As a result of the Reverse Stock Split, the shares of the restricted common stock were adjusted to 104,167. The shares of the restricted common stock 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 104,167 shares should be fully vested to Mr. Chung.

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

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

(C) MelcoLot Limited ("MelcoLot")

(a) *Ordinary shares of HK$0.01 each of MelcoLot*

Name of Director	Capacity	Number of ordinary shares of MelcoLot held	Approximate % of issued share capital of MelcoLot	Note
Mr. Ho, Lawrence Yau Lung	Interest of controlled corporation	1,181,758,409	51.64%	2

(b) *Share options granted by MelcoLot*

Name of Director	Capacity	Date of Grant	Number of share options granted by MelcoLot held	Approximate % of issued share capital of MelcoLot	Note
Mr. Ho, Lawrence Yau Lung	Beneficial owner	31.03.2008	5,705,046	0.25%	3
	Beneficial owner	10.07.2009	5,241,200	0.23%	4
	Beneficial owner	18.11.2010	6,551,500	0.29%	5
Mr. Tsui Che Yin, Frank	Beneficial owner	31.03.2008	917,210	0.04%	3

Notes:

1. As at 31 December 2012, the total number of issued shares of MelcoLot was 2,288,565,269.

2. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung is taken to be interested in 1,181,758,409 shares of MelcoLot which are being held by Melco LottVenutres Holdings Limited, a wholly-owned subsidiary of the Company, as a result of him being interested in approximately 48.46% of the issued share capital of the Company which in turn holds approximately 51.64% of the issued shares of MelcoLot.

3. The personal interests of Mr. Ho, Lawrence Yau Lung and Mr. Tsui Che Yin, Frank represent their derivative interests in MelcoLot comprising the share options granted to them by MelcoLot on 31 March 2008 at an exercise price of HK$0.679 per MelcoLot's share. Among the 5,705,046 share options held by Mr. Ho, 2,852,523 share options may be exercised during the period from 1 October 2008 to 31 March 2018 and 2,852,523 share options may be exercised during the period from 1 April 2009 to 31 March 2018. Among the 917,210 share options held by Mr. Tsui, 458,605 share options may be exercised during the period from 1 October 2008 to 31 March 2018 and 458,605 share options may be exercised during the period from 1 April 2009 to 31 March 2018.

4. The personal interest of Mr. Ho, Lawrence Yau Lung represents his derivative interests in MelcoLot comprising the share options granted to him by MelcoLot on 10 July 2009 at an exercise price of HK$0.28 per MelcoLot's share. Among the 5,241,200 share options, 1,729,596 share options may be exercised during the period from 10 July 2010 to 9 July 2019, 1,729,596 share options may be exercised during the period from 10 July 2011 to 9 July 2019 and 1,782,008 share options may be exercised during the period from 10 July 2012 to 9 July 2019.

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

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

(C) MelcoLot Limited ("MelcoLot")

(b) Share options granted by MelcoLot (Continued)

Notes: (Continued)

5. The personal interest of Mr. Ho, Lawrence Yau Lung represents his derivative interests in MelcoLot comprising the share options granted to him by MelcoLot on 18 November 2010 at an exercise price of HK$0.116 per MelcoLot's share. Among the 6,551,500 share options, 3,275,750 share options may be exercised during the period from 18 May 2011 to 17 November 2020 and 3,275,750 share options may be exercised during the period from 18 November 2011 to 17 November 2020.

Save as disclosed above, as at 31 December 2012, 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 Stock Exchange pursuant to the Model Code.

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 not more than 3%. 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 2012, 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:

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (Continued)

Ordinary shares of HK$0.50 each of the Company

		Number of ordinary shares held/ Approximate % of issued share capital				
Name	**Capacity**	**Long Position**	**%**	**Short Position**	**%**	**Note**
Better Joy Overseas Ltd.	Beneficial owner	288,532,606	18.82%	–	–	2
Lasting Legend Ltd.	Beneficial owner	115,509,024	7.53%	–	–	2
Great Respect Limited	Beneficial owner	298,982,187	19.50%	–	–	4
SG Trust (Asia) Ltd.	Interest of controlled corporation	298,982,187	19.50%	–	–	4
Mr. Ho, Lawrence Yau Lung	Beneficial owner	13,912,612	0.91%	–	–	–
	Interest of controlled corporations	429,923,077	28.05%	–	–	3
	Beneficiary of a trust	298,982,187	19.50%	–	–	4
Ms. Lo Sau Yan, Sharen	Interest of spouse	742,817,876	48.46%	–	–	5
Janus Capital Management LLC	Investment Manager	97,755,000	6.38%	–	–	–
Southeastern Asset Management, Inc.	Investment Manager	124,261,000	8.11%	–	–	–

Notes:

1. As at 31 December 2012, the total number of issued shares of the Company was 1,532,966,567.

2. 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.

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 18.82%, 7.53%, 1.21% and 0.48% of the issued share capital of the Company. Better Joy Overseas Ltd., Lasting Legend 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. Great Respect Limited ("Great Respect") converted in full the Convertible Loan Notes in the principal amount of HK$1,175,000,000 into 298,982,187 shares of the Company in September 2012. Great Respect is a company controlled by a discretionary family trust, the beneficiaries of which include Mr. Ho, Lawrence Yau Lung and his immediate family members (including his father, Dr. Ho Hung Sun, Stanley). SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust.

5. 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.

6. 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 2012, 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.

Report of the Directors

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 38 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.

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

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

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 during the period from 1 January 2012 to 31 March 2012 and the code provisions of the Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 as set out in Appendix 14 of the Listing Rules, except the code provision A.2.1 in respect of the separation of the roles of the Chairman and Chief Executive Officer, code provision A.4.1 in respect of the appointment of non-executive directors for specific terms and code provision A.6.7 in respect of the directors' attendance in the annual general meeting of the Company.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 42 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.

Report of the Directors

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$2,648,000 (2011: HK$2,239,000).

AUDITOR

The financial statements of the Company for the year ended 31 December 2012 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 2013

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 79 to 182, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012 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 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
Revenue	7	**146,851**	129,314
Other income	9	**49,710**	47,835
Investment income	10	**3,152**	5,544
Purchases and changes in inventories of finished goods		**(49,525)**	(32,244)
Employee benefits expense	11	**(158,097)**	(135,327)
Depreciation of property, plant and equipment		**(5,672)**	(5,734)
Increase in fair value of investment properties	19	**58,000**	3,000
Impairment loss on goodwill	22	**(426,710)**	–
(Loss) gain on deemed disposal of interests in associates	25	**(13,525)**	2,903
Gain on disposal of interest in an associate	43	**45,726**	–
Fair value change on investment in convertible loan note	28	**260,659**	(232,160)
Other expenses		**(78,943)**	(83,443)
Finance costs	12	**(98,926)**	(122,521)
Share of profits of jointly controlled entities		**145,080**	–
Share of profits of associates	25	**1,238,460**	689,381
Profit before tax	13	**1,116,240**	266,548
Income tax credit	14	**7,374**	14,844
Profit for the year		**1,123,614**	281,392

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Other comprehensive (expense) income			
Exchange differences arising on translation of foreign operations		**(42)**	(27)
Fair value loss on available-for-sale investments		**–**	(1,426)
Share of other comprehensive income of an associate		**–**	41,142
Other comprehensive (expense) income for the year		**(42)**	39,689
Total comprehensive income for the year		**1,123,572**	321,081
Profit for the year attributable to:			
Owners of the Company		**1,121,903**	280,085
Non-controlling interests		**1,711**	1,307
		1,123,614	281,392
Total comprehensive income attributable to:			
Owners of the Company		**1,121,861**	319,774
Non-controlling interests		**1,711**	1,307
		1,123,572	321,081
Earnings per share	18		
Basic (HK cents)		**85.07**	22.79
Diluted (HK cents)		**78.19**	22.06

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
Non-current assets			
Investment properties	19	**227,000**	169,000
Property, plant and equipment	20	**27,223**	18,199
Goodwill	21	**–**	–
Other intangible assets	23	**5,700**	5,700
Interests in jointly controlled entities	24	**–**	–
Interests in associates	25	**8,835,811**	7,583,784
Available-for-sale investments	27	**3,958**	5,035
Investment in convertible loan note	28	**–**	39,993
		9,099,692	7,821,711
Current assets			
Inventories	29	**2,578**	3,311
Trade receivables	30	**65,804**	3,502
Prepayments, deposits and other receivables		**26,457**	19,653
Held-for-trading investments	31	**198**	320
Amounts due from associates	32	**175**	48,428
Pledged bank deposits		**947**	947
Bank deposits with original maturity over three months	34	**573,625**	583,072
Bank balances and cash	34	**155,856**	97,086
		825,640	756,319
Current liabilities			
Trade payables	35	**48,679**	3,890
Other payables	35	**46,958**	25,216
Amounts due to associates	32	**10,396**	11,706
Dividend payable		**158**	123
Taxation payable		**21,245**	697
Financial guarantee liability	36	**–**	52,320
Bank borrowings – due within one year	37	**33,980**	227,980
		161,416	321,932
Net current assets		**664,224**	434,387
Total assets less current liabilities		**9,763,916**	8,256,098

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Deferred tax liabilities	39	**10,792**	39,678
Bank borrowings – due after one year	37	**455,230**	49,210
Convertible loan note – due after one year	38	**–**	955,634
		466,022	1,044,522
		9,297,894	7,211,576
Capital and reserves			
Share capital	40	**766,483**	615,682
Reserves		**8,607,950**	6,566,964
Equity attributable to owners of the Company		**9,374,433**	7,182,646
Non-controlling interests		**(76,539)**	28,930
		9,297,894	7,211,576

The consolidated financial statements on pages 79 to 182 were approved and authorized for issue by the Board of Directors on 28 March 2013 and are signed on its behalf by:

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Investments in subsidiaries	26	**1,318,959**	1,222,031
Other intangible assets	23	**5,700**	5,700
Amounts due from subsidiaries	33	**3,835,204**	3,715,569
		5,159,863	4,943,300
Current assets			
Prepayments, deposits and other receivables		**12,134**	3,536
Amounts due from subsidiaries	33	**59,027**	84,516
Bank deposits with original maturity over three months	34	**468,565**	441,324
Bank balances and cash	34	**41,220**	20,225
		580,946	549,601
Current liabilities			
Accrual		**6,333**	2,690
Amounts due to associates	32	**355**	426
Amounts due to subsidiaries	33	**329,506**	282,306
Dividend payable		**158**	123
Financial guarantee liability	36	**–**	52,320
Bank borrowings – due within one year	37	**–**	200,000
		336,352	537,865
Net current assets		**244,594**	11,736
Total assets less current liabilities		**5,404,457**	4,955,036

Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Deferred tax liabilities	39	**–**	36,195
Amount due to a subsidiary	33	**40,200**	40,200
Bank borrowings – due after one year	37	**390,000**	–
Convertible loan note – due after one year	38	**–**	955,634
		430,200	1,032,029
		4,974,257	3,923,007
Capital and reserves			
Share capital	40	**766,483**	615,682
Reserves	41	**4,207,774**	3,307,325
		4,974,257	3,923,007

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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$'000 (Note 3)	Exchange reserve HK$'000	Share options reserve HK$'000	Shares held under share award schemes HK$'000	Share awards reserve HK$'000	Other reserve HK$'000 (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 27)	–	–	–	–	–	–	(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 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 share award schemes	–	–	–	–	–	–	–	–	–	(26,841)	–	–	–	(26,841)	–	(26,841)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(268)	(268)
Realization 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 2012

	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$'000 (Note 3)	Exchange reserve HK$'000	Share options reserve HK$'000	Shares held under share award schemes HK$'000	Share awards reserve HK$'000	Other reserve HK$'000 (Note 4)	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2012	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
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	(42)	–	–	–	–	–	(42)	–	(42)
Other comprehensive expense for the year	–	–	–	–	–	–	–	(42)	–	–	–	–	–	(42)	–	(42)
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	1,121,903	1,121,903	1,711	1,123,614
Total comprehensive income for the year	–	–	–	–	–	–	–	(42)	–	–	–	–	1,121,903	1,121,861	1,711	1,123,572
Derecognition of deferred tax liability upon conversions of the convertible loan note	–	–	–	–	21,503	–	–	–	–	–	–	–	–	21,503	–	21,503
Conversions of the convertible loan note	149,491	1,240,507	–	–	(345,321)	–	–	–	–	–	–	–	–	1,044,677	–	1,044,677
Exercise of share options	1,310	7,875	–	–	–	–	–	–	(2,376)	–	–	–	–	6,809	–	6,809
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	38,222	–	30,591	–	–	68,813	–	68,813
Transfer of share option reserve upon expiry of share options	–	–	–	–	–	–	–	–	(3,499)	–	–	–	3,499	–	–	–
Shares vested under the share award schemes	–	–	–	–	–	–	–	–	–	23,903	(21,250)	–	(2,653)	–	–	–
Purchase of shares for unvested shares under share award schemes	–	–	–	–	–	–	–	–	–	(34,478)	–	–	–	(34,478)	–	(34,478)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(403)	(403)
Dividend paid (Note 17)	–	–	(18,509)	–	–	–	–	–	–	–	–	–	–	(18,509)	–	(18,509)
Realization of special reserve and other revaluation reserve upon deemed disposal of interest in an associate	–	–	–	(148)	–	–	(61)	–	–	–	–	–	61	(148)	–	(148)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(109,518)	(109,518)
Acquisition of additional interest in a subsidiary	–	–	–	(18,741)	–	–	–	–	–	–	–	–	–	(18,741)	2,741	(16,000)
	150,801	1,248,382	(18,509)	(18,889)	(323,818)	–	(61)	–	32,347	(10,575)	9,341	–	907	1,069,926	(107,180)	962,746
At 31 December 2012	766,483	4,386,213	234,495	(81,074)	–	5,796	200,723	3,400	125,839	(27,481)	19,728	–	3,740,311	9,374,433	(76,539)	9,297,894

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

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: Special reserve of amount approximately HK$62,333,000 (2011: HK$62,185,000) 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 interests in a former subsidiary, which subsequently became an associate of the Group. In current year, additional amount of approximately HK$18,741,000 represents the difference between the amounts by which the non-controlling interests are adjusted and the fair value of the consideration paid to acquire additional interest in subsidiary.

Note 3: Other revaluation reserve mainly represents the share of a jointly controlled entity's revaluation reserve. In October 2009, a jointly controlled entity distributed certain equity investments to the Group as dividends in specie. The accumulated gain of approximately HK$175,050,000 on the holding those equity investments as available-for-sale investments by the jointly controlled entity was therefore shared by the Group and included in other revaluation reserve.

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 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**1,116,240**	266,548
Adjustments for:		
Gain on extension of long term payable	**–**	(6,655)
Loss on settlement of long term payable	**–**	10,020
Loss from fair value change of held-for-trading investments	**122**	290
Release of financial guarantee liability	**(12,921)**	(23,998)
Dividend income	**(3,274)**	(5,834)
Depreciation of property, plant and equipment	**5,672**	5,734
Impairment loss on available-for-sale investments	**1,077**	3,794
Loss (gain) on deemed disposal of interests in associates	**13,525**	(2,903)
Gain on disposal of interest in an associate	**(45,726)**	–
Impairment loss on goodwill	**426,710**	–
Fair value change on investment in convertible loan note	**(260,659)**	232,160
Increase in fair value of investment properties	**(58,000)**	(3,000)
Share-based payment expense	**68,813**	59,522
(Gain) loss on disposal of property, plant and equipment	**(49)**	54
Share of profits of a jointly controlled entities	**(145,080)**	–
Share of profits of associates	**(1,238,460)**	(689,381)
Finance costs	**98,926**	122,521
Operating cash flows before movements in working capital	**(33,084)**	(31,128)
Decrease (increase) in inventories	**733**	(5,070)
(Increase) decrease in trade receivables	**(20,705)**	2,127
(Increase) decrease in prepayments, deposits and other receivables	**(1,797)**	12,441
Increase in amounts due from associates	**(67)**	–
(Decrease) increase in amounts due to associates	**(1,531)**	1,334
(Decrease) increase in trade payables	**(13,627)**	660
Increase (decrease) in other payables	**6,820**	(11,669)
NET CASH USED IN OPERATING ACTIVITIES	**(63,258)**	(31,305)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Placement of bank deposits with original maturity over three months		**(564,178)**	(583,072)
Investments in associates		**(103,391)**	(51,300)
Investment in a jointly controlled entity and payments in relation to the settlement of financial guarantee liability		**(41,658)**	–
Purchase of property, plant and equipment		**(8,714)**	(1,109)
Receipt of bank deposits with original maturity over three months upon maturity		**573,625**	629,363
Acquisition of a subsidiary	43	**60,141**	–
Repayment of amounts due from associates		**48,320**	23,271
Dividend received		**2,216**	5,834
Proceeds from disposal of property, plant and equipment		**76**	10
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(33,563)**	22,997
FINANCING ACTIVITIES			
Bank borrowings raised		**420,000**	23,000
Proceeds from exercise of share options		**6,809**	2,720
Repayments of bank borrowings		**(207,980)**	(14,980)
Purchase of shares for unvested shares under the share award schemes		**(34,478)**	(26,841)
Dividend paid		**(18,877)**	(18,690)
Interest paid		**(9,883)**	(5,351)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**155,591**	(40,142)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**58,770**	(48,450)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**97,086**	145,536
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**155,856**	97,086

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

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

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

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

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is not rebutted.

The application of the amendments to HKAS 12 has resulted in the Group not recognizing any deferred taxes on changes in fair value of the investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of investment properties located in Hong Kong. Previously, the Group recognized deferred taxes on changes in fair value of investments properties located in Hong Kong on the basis that entire carrying amounts of the properties were recovered through use. However, it is of directors' opinion that the application of the amendments to HKAS 12 does not have material impact to the Group's consolidated financial statement and accordingly no retrospective adjustment is made.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets – continued

The Group has recognized deferred taxes on changes in fair value of the investment properties located in Macau as the Group is subject to income taxes on disposal of investment properties located in Macau.

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

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

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:

- All recognized financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized 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 amortized 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – 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. HK (SIC)-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. 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 consolidation.

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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of the five standards will not have material impact to the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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 in full 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost, less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits respectively*;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Jointly controlled entities – continued

The financial statements of jointly controlled entities used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

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.

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' 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 Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in associates – continued

The results and assets and liabilities of associates are incorporated in the consolidated financial statements of the Group using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

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

Revenue from the sales of goods is recognized when the goods, including lottery terminals, 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.

Revenue from provision of services and solutions for distribution of lottery products is recognized when the right to receive the income, which is calculated on a commission basis, has been established upon the sale of the lottery products by the lottery retail and other outlets.

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).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 losses, 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 include 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefits costs

Payments to defined contribution retirement benefit plans including scheme registered under the Occupational Retirement Scheme 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 before tax' 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 utilized. 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.

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 utilize 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 realized, 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

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 realizable value. Costs of inventories are calculated using the first-in, first-out method. Net realizable 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.

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 revises 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 and share awards reserve, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets

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

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. 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.

Effective interest method

The effective interest method is a method of calculating the amortized 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

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.

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 amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

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.

Equity investments held by the Group that are classified as available-for-sale are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale financial assets relating to dividends are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of other revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the "other revaluation reserve" is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sale financial assets are recognized in profit or loss when the Group's right to receive the dividends is established.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

For financial assets carried at amortized 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 receivables or amounts due from associates 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 amortized 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 losses 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 amortized cost would have been had the impairment not been recognized.

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 amortized 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 and 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

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 amortized cost, using the effective interest method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items 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 notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan note equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortized 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.

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 amortized over the period of the convertible loan note 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Financial guarantee contracts – continued

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 amortization 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 collateralized 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.

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 other than goodwill (see the accounting policy in respect of goodwill above)

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) – continued

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 capitalized to qualifying assets are recognized in profit or loss in the period in which they are incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the critical accounting judgements and 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 goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. During the year ended 31 December 2012, the Group has recognized an impairment loss on goodwill of amount approximately HK$426,710,000. As at 31 December 2012, the carrying amount of goodwill is nil (net of accumulated impairment loss of approximately HK$426,710,000). Details of the recoverable amount calculation are disclosed in Note 22.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Fair value of investment in convertible loan note

As described in Note 28, 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.

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 37 and 38, 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.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Fair value through profit or loss		
– Held-for-trading	**198**	320
– Designated as fair value through profit or loss	**–**	39,993
Loans and receivables (including cash and cash equivalents)	**805,135**	735,524
Available-for-sale financial assets	**3,958**	5,035
Financial liabilities		
Amortized cost	**571,851**	1,249,669
Financial guarantee liability	**–**	52,320

6. FINANCIAL INSTRUMENTS – continued

6a. Categories of financial instruments – continued

	THE COMPANY	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**4,407,906**	4,261,634
Financial liabilities		
Amortized cost	**760,219**	1,478,689
Financial guarantee liability	**–**	52,320

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, bank balances and cash, financial guarantee liability, bank borrowings and 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.

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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollar ("USD")	**(4,395)**	(4,755)	**455,708**	385,617
Macau Patacas ("MOP")	**(3,178)**	(1,810)	**112**	90
Renminbi ("RMB")	**(75,244)**	(13,504)	**192,647**	100,449

	THE COMPANY			
	Liabilities		Assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**(114,990)**	(67,750)	**1,432,223**	1,229,561

6. FINANCIAL INSTRUMENTS – continued

6b. Financial risk management objectives and policies – continued

Market risk – continued

(i) *Currency risk – continued*

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%, 1% and 5% are the sensitivity rates used for USD, 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.

A negative/positive number below indicates a decrease/increase in post-tax profit where Hong Kong dollars strengthen 1%/5% against the relevant 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.

	THE GROUP		
	USD Impact (i)	**MOP Impact (ii)**	**RMB Impact (iii)**
	HK$'000	HK$'000	HK$'000
2012: Profit for the year	(4,513)	31	(5,870)
2011: Profit for the year	(3,809)	17	(4,347)

For the years ended 31 December 2012 and 2011, a negative number below indicates an increase in post-tax loss 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 for the year of the Company.

	THE COMPANY
	USD Impact (i)
	HK$'000
2012: Loss for the year	(13,172)
2011: Loss for the year	(11,618)

6. FINANCIAL INSTRUMENTS – continued

6b. Financial risk management objectives and policies – continued

Market risk – continued

(i) *Currency risk – continued*

Sensitivity analysis – continued

(i) This is mainly attributable to the exposure on outstanding USD bank deposits and payables at the year end of 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 of the Group.

(iii) This is mainly attributable to the exposure on outstanding RMB bank deposits and payables at the year end of 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 and bank deposits with original maturity over three months which carried interest at fixed rate (see Notes 32 and 34 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 33, 34 and 37 for details). It is the Group's and Company's policy to keep its receivables and borrowings at floating rate of interests so as to minimize the fair value interest rate risk.

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 2012 would decrease/increase by approximately HK$1,667,000 (2011: post-tax profit decrease/increase by approximately HK$901,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank balances.

6. FINANCIAL INSTRUMENTS – continued

6b. Financial risk management objectives and policies – continued

Market risk – continued

(ii) *Interest rate risk – continued*

Sensitivity analysis – continued

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 2012 would decrease/increase by approximately HK$17,116,000 (2011: post-tax loss for the year would decrease/increase by approximately HK$16,855,000). 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.

(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 and 2012 as the value of embedded conversion option was insignificant as at 31 December 2011 and fully converted during the current year.

- post-tax profit for the year ended 31 December 2012 would increase/decrease by HK$10,000 (2011: post tax profit would increase/decrease by HK$16,000) as a result of the changes in fair value of held-for-trading investments; and

- other comprehensive income would increase/decrease by HK$198,000 (2011: HK$252,000) as a result of the changes in fair value of available-for-sale investments.

Credit risk

As at 31 December 2012, 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 is arising from the carrying amount of the respective recognized financial assets as stated in the statements of financial position and financial guarantees provided by the Group and the Company.

6. FINANCIAL INSTRUMENTS – continued

6b. Financial risk management objectives and policies – continued

Credit risk – continued

In order to minimize 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 subsidiaries and 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 amount due from an associate amounting to approximately HK$48,320,000, the Group considers the credit risk involved is satisfactorily reduced after taking into consideration the financial position of this associate. As at 31 December 2012, the Group has concentration of credit risk as 96% of the Group's trade receivables are due from the Group's five largest customers which operate in the People's Republic of China ("PRC"). The principal activities of which include trading of lottery terminals and distribution of lottery products. Given the close business relationship between the Group and these customers and their good repayment history, the Group considers that the credit risk associated with the balances of the customers is low.

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.

As at 31 December 2011, the Group and the Company expose to concentration of credit risk in respect of the Exchangeable Bonds issued by a jointly controlled entity (Note 36), which are jointly and severally guaranteed by the Company and another shareholder of the jointly controlled entity. The Group and the Company recognized a financial guarantee liability of approximately HK$52,320,000 as disclosed in Note 36. No such concentration of credit risk for the Group and the Company as the Exchangeable Bonds issued by a jointly controlled entity has been fully settled during the year.

As at 31 December 2011, the Group also exposes to concentration of credit risk in respect of investment in convertible loan note issued by an associate, MelcoLot Limited ("MelcoLot"). The Group's investment in convertible loan note amounted to approximately HK$39,993,000 (Note 28). No such concentration of credit risk for the Group as the convertible loan note has been matured during the year.

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 utilization 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 37. As at 31 December 2012, the Group and the Company had available bank loan facilities of HK$491,210,000 and HK$390,000,000 respectively (2011: HK$309,190,000 and HK$200,000,000 respectively).

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.

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$'000	Carrying amount at 31.12.2012 HK$'000
2012									
Non-derivative financial liabilities									
Trade and other payables	–	66,102	594	5,391	–	–	–	72,087	72,087
Amounts due to associates	–	10,396	–	–	–	–	–	10,396	10,396
Dividend payable	–	158	–	–	–	–	–	158	158
Bank borrowings	2.69%	24,468	2,933	19,101	23,239	425,208	25,457	520,406	489,210
		101,124	3,527	24,492	23,239	425,208	25,457	603,047	571,851

	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
2011									
Non-derivative financial liabilities									
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
		40,868	1,775	336,999	1,180,838	16,968	30,887	1,608,335	1,301,989

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above analysis. As at 31 December 2012 and 2011, the aggregate carrying amounts of these bank loans amounted to HK$23,000,000 and HK$23,000,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid 9 months after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$23,389,000.

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	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$'000	Carrying amount at 31.12.2012 HK$'000
2012									
Non-derivative financial liabilities									
Amounts due to associates	–	355	–	–	–	–	–	355	355
Amounts due to subsidiaries	2.61%	306,639	266	24,041	2,208	17,222	25,429	375,805	369,706
Dividend payable	–	158	–	–	–	–	–	158	158
Bank borrowings	2.81%	912	1,823	8,205	10,940	393,282	–	415,162	390,000
		308,064	2,089	32,246	13,148	410,504	25,429	791,480	760,219

	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
2011									
Non-derivative financial liabilities									
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
		260,304	898	356,540	1,175,936	13,731	30,989	1,838,398	1,531,009

6. FINANCIAL INSTRUMENTS – continued

6b. Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity and interest risk tables – continued

For the year ended 31 December 2011, 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 36.

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 amortized 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).

6. FINANCIAL INSTRUMENTS – continued

6c. Fair value – continued

Fair value measurements recognized in the consolidated statement of financial position – continued

		31 December 2012		
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at FVTPL				
Non-derivative financial assets held-for-trading	198	–	–	198
Available-for-sale financial asset				
Unlisted equity security	–	–	3,958	3,958
	198	–	3,958	4,156

		31 December 2011		
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Non-derivative financial assets held-for-trading	320	–	–	320
Investment in convertible loan note	–	–	39,993	39,993
Available-for-sale financial asset				
Unlisted equity security	–	–	5,035	5,035
	320	–	45,028	45,348

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

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 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 and 1 January 2012	5,035	39,993
Fair value change on total (losses) gains:		
– in profit or loss	(1,077)	260,659
Settlement	–	(60,200)
Transfer out of level 3 upon consolidation of MelcoLot	–	(240,452)
At 31 December 2012	3,958	–

Of the total gains or losses for the year included in profit or loss, gain of approximately HK$260,659,000 (2011: total loss of approximately HK$232,160,000) relates to investment in convertible loan note which were converted or matured and loss of approximately HK$1,077,000 (2011: HK$3,794,000) relates to available-for-sale investment held at the end of the reporting period.

For the year ended 31 December 2011, 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".

7. REVENUE

An analysis of the Group's revenue is as follows:

	2012 HK$'000	2011 HK$'000
Catering service income	**108,225**	108,501
Lottery business –		
Provision of services and solutions for distribution of lottery products	**144**	–
Trading of lottery terminals	**18,095**	–
Interest income from authorized institutions and associates	**12,746**	14,159
Property rental income	**7,641**	6,654
	146,851	129,314

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's presentation of results according to the category of the business segments and differences in nature of the goods and services that each segment delivers. Specifically, the Group's operating and reportable segments under HKFRS 8 Operating Segments are as follows:

(1) Gaming, Leisure and Entertainment Segment: It mainly comprises provision of catering and related services for the year ended 31 December 2011. In current year, upon the acquisition of MelcoLot (Note 43), a new business, namely lottery business, which comprises provision of services and solutions for distribution of lottery products and trading of lottery terminals, is added into this operating and reportable segment and accordingly this segment is renamed from Leisure and Entertainment Segment to Gaming, Leisure and Entertainment Segment.

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

8. SEGMENT INFORMATION – continued

Segment revenue and results

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

2012

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

8. SEGMENT INFORMATION – continued

Segment revenue and results – continued

2011

	Gaming, Leisure and Entertainment HK$'000	Property and Other Investments HK$'000	Segments' 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 revenues	109,165	22,279	131,444	(2,130)	129,314
Segment results	11,928	25,424	37,352	–	37,352
Gain on deemed disposal of interests in associates					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

8. SEGMENT INFORMATION – continued

Segment revenue and results – continued

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

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

Segment assets and liabilities

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

Segment assets

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

Segment liabilities

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

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

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

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

8. SEGMENT INFORMATION – continued

Other segment information

2012

	Gaming, Leisure and Entertainment HK$'000	Property and Other Investments HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss and segment assets:				
Capital additions	**7,821**	**–**	**893**	**8,714**
Depreciation	**4,751**	**–**	**921**	**5,672**
Impairment loss on available-for-sale investments recognized in other expenses	**–**	**1,077**	**–**	**1,077**
Increase in fair value of investment properties	**–**	**58,000**	**–**	**58,000**
Loss (gain) on disposal of property, plant and equipment	**25**	**–**	**(74)**	**(49)**
Amounts regularly provided to the CEO but not included in the measure of segment profit or loss and segment assets:				
Interests in associates	**8,835,811**	**–**	**–**	**8,835,811**
Share of profits of associates	**1,238,460**	**–**	**–**	**1,238,460**
Share of profits of jointly controlled entities	**145,080**	**–**	**–**	**145,080**

2011

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

8. SEGMENT INFORMATION – continued

Geographical information

The Group's operations are mainly located in Hong Kong, Macau and the PRC. Non-current assets of approximately HK$8,979,164,000, HK$110,000,000 and HK$6,570,000 (2011: HK$7,713,683,000, HK$63,000,000 and Nil) of the Group are located in Hong Kong, Macau and the PRC, respectively by reference to location of assets or, for interests in associates, by location of head office.

All of the Group's revenue from external customers based on location of customers is generated from Hong Kong, Macau and the PRC of approximately HK$123,268,000, HK$4,562,000 and HK$19,021,000 (2011: HK$125,164,000, HK$4,150,000 and Nil), respectively.

Revenue analysed by products and services

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

Information about major customers

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

	2012	2011
	HK$'000	HK$'000
Customer A[1]	**18,095**	–

[1] Revenue from trading of lottery terminals

9. OTHER INCOME

	2012	2011
	HK$'000	HK$'000
Service fees from associates	**31,960**	7,601
Release of financial guarantee liability	**12,921**	23,998
Gain on extension of long term payable	**–**	6,655
Exchange gain, net	**1,024**	4,186
Others	**3,805**	5,395
	49,710	47,835

10. INVESTMENT INCOME

	2012	2011
	HK$'000	HK$'000
Dividend income from unlisted investments	**3,274**	5,834
Loss from fair value change of held-for-trading investments	**(122)**	(290)
	3,152	5,544

11. EMPLOYEE BENEFITS EXPENSE

	2012 HK$'000	2011 HK$'000
Wages, salaries and staff welfare	**76,823**	67,600
Discretionary bonus	**9,262**	5,763
Provision for (reversal of) annual leave	**30**	(98)
Termination benefits	**318**	8
(Reversal of) provision for long service payment	**(189)**	272
Retirement benefit scheme contributions	**2,417**	2,217
Share-based payment employee expense	**68,813**	59,522
Others	**623**	43
Total employee benefits expense including directors' emoluments	**158,097**	135,327

12. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**8,845**	4,262
Bank borrowings not wholly repayable within five years	**938**	969
Effective interest expense on convertible loan note	**89,043**	111,072
Imputed interest expense on long term payable	**–**	6,098
Interest expenses to suppliers and others	**100**	120
	98,926	122,521

13. PROFIT BEFORE TAX

	2012 HK$'000	2011 HK$'000
Profit before tax has been arrived at after charging:		
Auditor's remuneration	**1,767**	1,871
Loss on settlement of long term payable (Note 44)	**–**	10,020
Impairment loss on available-for-sale investments	**1,077**	3,794
Loss on disposal of property, plant and equipment	**–**	54
and after crediting:		
Gain on disposal of property, plant and equipment	**49**	–
Gross rental income	**7,641**	6,654
Less: direct operating expenses from investment properties that generated rental income during the year	**(129)**	(105)
Net rental income	**7,512**	6,549

14. INCOME TAX CREDIT

	2012 HK$'000	2011 HK$'000
PRC Enterprise Income Tax – current year	**(9)**	–
Deferred taxation – current year (Note 39)	**7,383**	14,844
	7,374	14,844

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

No provision for Hong Kong Profits Tax for the years ended 31 December 2012 and 2011 was made as there was no estimated assessable profit derived from Hong Kong. Taxation arising in other jurisdictions is calculated at the rate prevailing in the respective jurisdictions.

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

14. INCOME TAX CREDIT – continued

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

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

15. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' and Chief Executive's emoluments

The emoluments paid or payable to each of the seven directors were as follows:

2012

	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	–	–	–	410	420	370	361	1,561
Other emoluments								
Salaries and other benefits	–	2,249	2,249	–	–	–	–	4,498
Discretionary bonus (Note 1)	–	588	588	–	–	–	–	1,176
Retirement benefit scheme contributions	14	14	14	–	–	–	–	42
Share-based compensation	31,533	5,744	5,778	910	910	871	842	46,588
Total emoluments	31,547	8,595	8,629	1,320	1,330	1,241	1,203	53,865

15. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

Directors' and Chief Executive's emoluments – continued

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
Total emoluments	27,744	6,916	7,052	1,215	1,255	1,019	881	46,082

Mr. Ho, Lawrence Yau Lung is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Except for one director who waived emoluments of approximately HK$1,200,000 (2011: HK$1,200,000), no other directors waived any emoluments in the year ended 31 December 2012 (2011: 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.

During the year ended 31 December 2012, 3,480,000 share options and 4,000,000 awarded shares (2011: 7,000,000 share options and 4,800,000 awarded shares) 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 years ended 31 December 2012 and 2011.

15. DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

Senior management's emoluments

The emoluments paid or payable to senior management during the year fell within the following bands:

	Number of individuals	
	2012	2011
Below HK$1,000,000	**1**	1
HK$1,000,001 to HK$2,000,000	**1**	1
HK$5,000,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$7,000,000	**–**	1
HK$7,000,001 to HK$8,000,000	**1**	–
HK$8,000,001 to HK$9,000,000	**1**	–
	4	4

16. EMPLOYEES' EMOLUMENTS

Of five individuals with the highest emoluments in the Group, three (2011: three) are directors and the chief executive of the Company whose emoluments are included in Note 15 above. The emoluments of the remaining two (2011: two) individuals were as follows:

	2012	2011
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,368**	3,027
Discretionary bonus	**883**	505
Retirement benefit scheme contributions	**28**	24
Share-based compensation	**11,182**	8,523
	15,461	12,079

Their emoluments were within the following bands:

	Number of employees	
	2012	2011
HK$5,500,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$6,500,000	**–**	1
HK$7,000,001 to HK$7,500,000	**1**	–
HK$8,000,001 to HK$8,500,000	**1**	–
	2	2

17. DIVIDEND

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

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

18. EARNINGS PER SHARE

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

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

18. EARNINGS PER SHARE – continued

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

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

The computation of diluted earnings per share for the year ended 31 December 2012 does not assume the effect of certain share options and the vesting of certain unvested awarded shares under the Company's long-term incentive schemes (see Note 42) because the adjusted exercise price of those options and unvested awarded shares are higher than the average market price of the Company's shares.

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

19. INVESTMENT PROPERTIES

	THE GROUP HK$'000
FAIR VALUE	
At 1 January 2011	166,000
Net increase in fair value recognized in profit or loss	3,000
At 31 December 2011 and 1 January 2012	169,000
Net increase in fair value recognized in profit or loss	58,000
At 31 December 2012	227,000

19. INVESTMENT PROPERTIES – continued

The carrying value of investment properties shown above comprises:

	2012	2011
	HK$'000	HK$'000
Properties in Hong Kong	**117,000**	106,000
Properties in Macau	**110,000**	63,000
	227,000	169,000

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

The fair value of the Group's investment properties as at 31 December 2012 and 2011 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$227,000,000 (2011: HK$169,000,000) are pledged to banks for obtaining the banking facilities for certain subsidiaries of the Group.

20. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Restaurant vessels, ferries and pontoons HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2011	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 and 1 January 2012	74,894	14,979	73,646	–	1,503	165,022
Exchange adjustments	–	2	4	–	9	15
Additions	490	5,337	2,373	–	514	8,714
Acquisition of a subsidiary (Note 43)	–	–	220	5,402	378	6,000
Disposals	(100)	–	(133)	–	(457)	(690)
At 31 December 2012	75,284	20,318	76,110	5,402	1,947	179,061
ACCUMULATED DEPRECIATION						
At 1 January 2011	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
Eliminated disposals	–	–	(190)	–	–	(190)
At 31 December 2011 and 1 January 2012	61,996	14,725	68,693	–	1,409	146,823
Exchange adjustments	–	1	4	–	1	6
Provided for the year	3,341	381	1,844	9	97	5,672
Eliminated disposals	(82)	–	(124)	–	(457)	(663)
At 31 December 2012	65,255	15,107	70,417	9	1,050	151,838
CARRYING VALUES						
At 31 December 2012	10,029	5,211	5,693	5,393	897	27,223
At 31 December 2011	12,898	254	4,953	–	94	18,199

20. 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 1/3%
Motor vehicles	10% to 33 1/3%
Machinery and equipment	20% to 33 1/3%

21. GOODWILL

	2012 HK$'000	2011 HK$'000
COST		
At 1 January	**–**	–
Arising from acquisition of a subsidiary (Note 43)	**426,710**	–
At 31 December	**426,710**	–
IMPAIRMENT		
At 1 January	**–**	–
Impairment loss recognized in the year	**426,710**	–
At 31 December	**426,710**	–
CARRYING VALUES		
At 31 December 2012	**–**	–
At 31 December 2011	**–**	–

Particulars regarding impairment testing on goodwill are disclosed in Note 22.

22. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill with indefinite useful lives set out in Note 21 has been allocated to two individual cash generating units (CGUs), (i) provision of services and solutions for distribution of lottery products and (ii) trading of lottery terminals in the PRC. These CGUs are components of MelcoLot, a subsidiary acquired by the Group during the year ended 31 December 2012. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2012 allocated to these two CGUs are as follows:

	2012 HK$'000
Provision of services and solutions for distribution of lottery products (Unit A)	–
Trading of lottery terminals (Unit B)	–
	–

On 12 December 2012, goodwill of approximately HK$426,710,000 arose as a result of the acquisition of MelcoLot (Note 43). Management of the Company allocated amount of approximately HK$12,801,000 and HK$413,909,000 to Unit A and Unit B respectively based on the operation size of each CGUs.

During the year ended 31 December 2012, the Group recognized an impairment loss of HK$426,710,000 (2011: Nil) in relation to goodwill allocated to these two CGUs as the management of the Company does not expect these existing business operations to contribute positively to the Group in the foreseeable future.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarized below:

Unit A and Unit B

For the year ended 31 December 2012, the recoverable amounts of Units A and B have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. Both value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. No discount rate has been considered by the management as negative cash outflows are expected from the operations of Units A and B in the future. Other key assumptions for the value in use calculation relate to the estimation of cash inflows or outflows which include budgeted sales and gross margin, such estimation is based on both Units A and B's past performance and management's expectations for the market developments. Management believes that any reasonably possible change in any of these assumptions will not have material effect to both sets of cash flow forecasts for Unit A and Unit B, and these existing business operations are not expected to contribute positively to the Group in the foreseeable future.

23. OTHER INTANGIBLE ASSETS

	THE GROUP AND THE COMPANY HK$'000
COST	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	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.

24. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP 2012 HK$'000	THE GROUP 2011 HK$'000
Cost of unlisted investments in jointly controlled entities	**309,182**	307,392
Share of post-acquisition losses and other comprehensive income, net of dividends received	**(309,182)**	(307,392)
	–	–

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

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership 2012	Percentage of interest in ownership 2011	Principal activities
Melco Crown SPV Limited ("Melco Crown SPV")	Cayman Islands/ Hong Kong	Ordinary shares	**50%**	50%	Issuer of exchangeable bonds which are convertible into shares of an associate of the Group
Melco Crown Entertainment Asia Holdings Limited ("MCEAH")	Cayman Islands/ Hong Kong	Ordinary shares	**50%**	50%	Inactive
PALTECH Company Limited ("PALTECH") (Note a)	Hong Kong	Ordinary shares	**60%**	–	Inactive
Power Way Group Limited ("Power Way") (Note b)	British Virgin Islands/ Hong Kong	Ordinary shares	**67%**	– (Note 25)	Investment holding

24. INTERESTS IN JOINTLY CONTROLLED ENTITIES – continued

Notes:

(a) PALTECH is held by MelcoLot and became a jointly controlled entity of the Group upon the acquisition of MelcoLot as disclosed in Note 43. Thus, the Group indirectly owns a 60% equity interest in PALTECH. Pursuant to certain terms and conditions given in the shareholders' agreement, the financial and operating policies of PALTECH require approval from 75% of the equity holders of MelcoLot. PALTECH is jointly controlled by the Group and another shareholder; as such, it is accounted for as a jointly controlled entity of the Group.

(b) On 12 November 2012, one of the three shareholders of Power Way disposed its entire interest in Power Way to the Group and the remaining shareholder of Power Way (the "Acquisition"). As a result, the Group's interest in Power Way increased from 58.7% to 67% after the Acquisition, and the remaining shareholder holds 33% interest in Power Way. Pursuant to certain terms and conditions in the shareholders' agreement, the financial and operating policies of Power Way require approval of the Group together with the remaining shareholder of Power Way and accordingly, Power Way is a jointly controlled entity of the Group. Power Way was accounted for as an associate before the Acquisition.

As disclosed in Note 36, Melco Crown SPV is a joint venture for the issuance of exchangeable bonds ("Exchangeable Bonds") which can be converted into shares of Melco Crown Entertainment Limited ("Melco Crown Entertainment"). In addition, the Group has provided a guarantee in respect of the Exchangeable Bonds.

As the Exchangeable Bonds would mature in September 2012, a share purchase agreement had been entered into between Melco Crown SPV as seller, Melco Leisure and Entertainment Group Limited, a wholly-owned subsidiary of the Group and Crown Asia Investments Pty. Ltd. ("Crown Asia") as buyers, to dispose certain shares of Melco Crown Entertainment held by Melco Crown SPV at a consideration of approximately HK$266,076,000 (USD34,200,000) in order to obtain funds for the settlement of Exchangeable Bonds on the maturity date. A consideration of approximately HK$133,038,000 (USD17,100,000) was paid by the Group for the purchase of respective shares. As a result of the transaction, a deemed contribution of approximately HK$2,259,000 arose which represented the difference between the consideration paid of approximately HK$133,038,000, and the fair value of those shares at the date of the purchase of approximately HK$91,380,000, and over the settlement of financial guarantee liability of approximately HK$39,399,000. The proceeds received from the purchase were intended to finance the redemption of Exchangeable Bonds as disclosed in Note 36.

24. INTERESTS IN JOINTLY CONTROLLED ENTITIES – continued

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

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

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

25. INTERESTS IN ASSOCIATES

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

25. INTERESTS IN ASSOCIATES – continued

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 2012	2011	Principal activities
Melco Crown Entertainment (Note b)	Cayman Islands/ Macau	Ordinary shares	**33.7%**	33.7%	Operating of electronic gaming machine lounges, casino games of chance and other casino games and hotel business
Mountain China Resorts (Holding) Limited ("MCR") (Notes b and g)	Canada/ PRC	Ordinary shares	**18.9%**	28.7%	Operating of ski resorts
MelcoLot (Notes b, d and e)	Cayman Islands/ PRC	Ordinary shares	**–**	11.7%	Provision of services and solutions for distribution of lottery products and trading of lottery terminals
Power Way Group Limited ("Power Way") (Note c)	British Virgin Islands/ Hong Kong	Ordinary shares	**–** (Note 24)	58.7%	Investment holding
Entertainment Gaming Asia Inc. ("EGT") (Note b)	US/Philippines and Cambodia	Ordinary shares	**38.2%**	38.5%	Development and operation of casinos and gaming venues and leasing of electronic gaming machines
ChariLot Company Limited (Note f)	Hong Kong	Ordinary shares	**40.0%**	–	Provision of services for distribution of lottery products
China Excellent Net Technology Investment Limited (Note f)	Hong Kong	Ordinary shares	**35.0%**	–	Provision of services for distribution of mobile lottery products

Notes:

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

(b) The American Depositary Shares ("ADS") of Melco Crown Entertainment are dual listed on the National Association of Securities Dealers Automated Quotations ("NASDAQ") and the Main Board of the Hong Kong Stock Exchange. The shares of MCR are listed on TSX Venture Exchange of Canada. The shares of MelcoLot are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. The shares of EGT are listed on NASDAQ while the shares in 2011 were listed on New York Stock Exchange.

(c) On 12 November 2012, Power Way became a jointly controlled entity of the Group upon the completion of the Acquisition as disclosed in Note 24. For the year ended 31 December 2011, pursuant to certain terms and conditions in the shareholders' agreement, the Group had significant influence over the financial and operating policies of Power Way, as such it was accounted for as an associate.

(d) For the year ended 31 December 2011, other than the ordinary shares of MelcoLot held by the Group, the Group also held investment in the convertible loan note issued by MelcoLot (see Note 28). The Group's effective interest in MelcoLot would have increased to 35.3% on a fully-diluted basis if all outstanding convertible loan notes issued by MelcoLot were fully converted. The Group is the single largest shareholder of MelcoLot. As such, the directors of the Company believe that the Group had significant influence over MelcoLot after taking into account the potential voting right from the Group's investment in MelcoLot's convertible loan note.

25. INTERESTS IN ASSOCIATES – continued

(e) On 12 December 2012, Power Way distributed a special dividend to all its shareholders by way of distribution in specie (the "Distribution") of the entire 1,145,361,487 shares of MelcoLot held by Power Way (the "MelcoLot Shares"). As a result of the Distribution, 767,735,805 MelcoLot Shares were transferred to Melco LottVentures Holdings Limited, a wholly-owned subsidiary of the Group and accordingly, the Group held 1,124,615,552 MelcoLot Shares, representing approximately 50.52% of the issued share capital of MelcoLot upon completion of the Distribution, and MelcoLot became a subsidiary of the Group as disclosed in Note 43.

(f) These associates are held by MelcoLot and became associates of the Group upon the completion of the Distribution.

(g) In February 2012, MCR completed a private placement of 105,700,000 shares at the price of CAD0.18 per share and the interests in MCR held by the Group decreased from 28.7% to 18.9%. The Group is entitled to appoint one director to the board of MCR. Accordingly, MCR continued to be an associate of the Group as at 31 December 2012.

During the years ended 31 December 2012 and 2011, the Group acquired the ordinary shares of Melco Crown Entertainment, and received additional ordinary shares issued by Melco Crown Entertainment for the settlement of amount due from this associate (Note 44) in prior year.

In November 2011, the Group and Crown Asia Investments Pty. Ltd. ("Crown Asia"), another major shareholder of Melco Crown Entertainment, entered into a securities lending agreement and a sale and repurchase agreement (collectively called the "Lending Agreements") with the joint sponsors ("Joint Sponsors") to facilitate liquidity activities for the dual listing of Melco Crown Entertainment on the Main Board of the Hong Kong Stock Exchange. Under the Lending Agreements, the Group and Crown Asia would arrange for the delivery and transfer of certain shares of Melco Crown Entertainment ("Shares") to the Joint Sponsors and such Shares would be resold by the Joint Sponsors to the Company no later than ten business days after a thirty-day period from Melco Crown Entertainment's date of listing on the Hong Kong Stock Exchange.

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

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

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

25. INTERESTS IN ASSOCIATES – continued

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

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

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

26. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**1,318,959**	1,222,031

Details of the Company's principal subsidiaries at 31 December 2012 are set out in Note 49.

27. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Unlisted equity security	**3,958**	5,035

Unlisted equity security which represents unlisted equity investment held by a subsidiary of the Group 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$1,077,000 (2011: HK$5,220,000) is recognized with reference to the estimated fair value of underlying investments, which mainly represented listed equity investment held by this investment holding company.

28. INVESTMENT IN CONVERTIBLE LOAN NOTE

The investment in convertible loan note issued by MelcoLot, an associate of the Group as of 31 December 2011, is designated as at fair value through profit or loss as the convertible loan note contained embedded derivative.

During the year ended 31 December 2012, a fair value gain of approximately HK$260,659,000 (2011: fair value loss of approximately HK$232,160,000) is recognized in the profit or loss in respect of the investment in MelcoLot's convertible loan note. The fair value of the investment in MelcoLot's convertible loan note is assessed by the Group with reference to the market price of MelcoLot's shares. The increase in the fair value of MelcoLot's convertible loan note is resulted from the increase in market price of MelcoLot's shares.

On 12 November 2012, the conversion price of the MelcoLot's convertible loan note was adjusted pursuant to the terms of the note from HK$0.85 per ordinary share to HK$0.70 per ordinary share due to the completion of open offer by MelcoLot. On 7 December 2012 and 12 December 2012, the Group exercised its rights to convert the outstanding MelcoLot's convertible loan note in the principal amount of HK$119,000,000 and HK$40,000,000 into 170,000,000 shares and 57,142,857 shares of MelcoLot, respectively, at the conversion price of HK$0.70 per ordinary share. Following completion of the said conversions, the Group was still the holder of MelcoLot's convertible loan note with the outstanding principal amount of approximately HK$240,506,000 that would mature on 13 December 2012.

On 13 December 2012, MelcoLot did not redeem the outstanding principal of its convertible loan note held by the Group of approximately HK$240,506,000 on the maturity date. As at 31 December 2012, the outstanding amount remained unpaid and is unsecured, interest bearing at 3% per annum and repayable on demand. Such amount is eliminated in full upon the consolidation of MelcoLot on 12 December 2012.

As at 31 December 2011, the fair value of the MelcoLot's convertible loan note was approximately HK$39,993,000 and was 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 2011, the MelcoLot's convertible loan note, which had principal amount of HK$399.5 million, could 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. MelcoLot's convertible loan note carried interest of 0.1% per annum and was subject to certain limitations on conversion and was redeemable at par at maturity date of 13 December 2012.

29. INVENTORIES

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Food and beverages	**2,578**	3,311

As at 31 December 2012 and 2011, there was no inventory carried at net realizable value.

30. TRADE RECEIVABLES

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

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

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

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 30 days	**34,615**	2,159
31 – 90 days	**19,034**	965
91 – 180 days	**11,955**	378
Over 180 days	**200**	–
	65,804	3,502

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

Aging of trade receivables which are past due but not impaired

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 30 days	**1,909**	2,159
31 – 90 days	**599**	965
91 – 180 days	**11,955**	378
Over 180 days	**200**	–
	14,663	3,502

30. TRADE RECEIVABLES – continued

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.

31. HELD-FOR-TRADING INVESTMENTS

THE GROUP

Held-for-trading investments as at 31 December 2012 represents equity securities listed in Hong Kong of approximately HK$198,000 (2011: HK$320,000).

32. AMOUNTS DUE FROM (TO) ASSOCIATES

THE GROUP

Included in amounts due from associates are:

a) Amount due from an associate of approximately HK$2,379,000 (2011: HK$2,380,000) is unsecured, non-interest bearing and repayable on demand and approximately HK$185,211,000 (2011: HK$185,211,000) is unsecured, interest bearing at 3% per annum and repayable on 31 March 2013. All of the above balances were fully impaired as at 31 December 2012 and 2011.

b) As at 31 December 2011, amount due from an associate of approximately HK$48,320,000 is unsecured, interest bearing at 5% per annum, and repayable within twelve months from the end of the reporting period. The balance was fully repaid according to the repayment schedule during the year ended 31 December 2012.

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

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

The Group's concentration of credit risk by geographical location was mainly in Hong Kong, which accounted for 100% (2011: 100%) of amounts due from associates as at 31 December 2012.

THE COMPANY

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

33. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

As at 31 December 2012, amounts due from subsidiaries are unsecured and non-interest bearing. Except for amounts due from subsidiaries of approximately HK$59,027,000 (2011: HK$84,516,000) which is repayable on demand and expected to be settled within one year, the remaining amounts due from subsidiaries are expected to be settled after one year. Deemed interest income of approximately HK$98,098,000 (2011: HK$71,102,000) from amounts due from subsidiaries repayable after one year is derived from interest rate of HIBOR plus 2.31% (2011: HIBOR plus 1.74%) per annum. During the year ended 31 December 2012, the Company recognized an impairment loss of approximately HK$34,160,000 (2011: HK$41,819,000) on amounts due from subsidiaries in view that these subsidiaries continue to be loss making.

33. AMOUNTS DUE FROM (TO) SUBSIDIARIES – continued

Movement in allowance for amounts due from subsidiaries

	2012 HK$'000	2011 HK$'000
At 1 January	**639,454**	597,635
Impairment losses recognized in the year	**34,160**	41,819
At 31 December	**673,614**	639,454

As at 31 December 2012, amounts due to subsidiaries include i) approximately HK$306,506,000 (2011: HK$259,306,000) which are unsecured, non-interest bearing and repayable on demand; and ii) HK$40,200,000 (2011: HK$40,200,000) which is unsecured, interest bearing at HIBOR plus 2% per annum and repayable after one year; and iii) HK$23,000,000 (2011: HK$23,000,000) which is unsecured, interest bearing at HIBOR plus 2.45% per annum and repayable within one year.

34. 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 1.9% (2011: 1.8%) 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% (2011: 0.1%) per annum.

35. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2012 HK$'000	2011 HK$'000
Within 30 days	**31,562**	3,760
31 – 90 days	**11,111**	37
Over 90 days	**6,006**	93
	48,679	3,890

Included in the Group's other payables mainly represent (i) the discretionary bonus accrual which is determined based on the Group's financial performance for the year, (ii) accrual for operating expenses and (iii) deposits received from tenants.

36. FINANCIAL GUARANTEE LIABILITY

THE GROUP AND THE COMPANY

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

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

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

37. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Secured	**76,210**	54,190	**–**	–
Unsecured	**413,000**	223,000	**390,000**	200,000
	489,210	277,190	**390,000**	200,000
Carrying amount repayable:				
Within one year				
– With repayable on demand clause	**23,000**	23,000	**–**	–
– Without repayable on demand clause	**10,980**	204,980	**–**	200,000
More than one year, but not exceeding two years	**10,980**	4,980	**–**	–
More than two years, but not exceeding five years	**419,940**	14,940	**390,000**	–
Exceeding five years	**24,310**	29,290	**–**	–
	489,210	277,190	**390,000**	200,000
Less: Amounts due within one year shown under current liabilities	**(33,980)**	(227,980)	**–**	(200,000)
	455,230	49,210	**390,000**	–

All the bank borrowings are denominated in HK$, the functional currency of relevant group entities, with interest rates of HIBOR plus 1.5% to 2.5% (2011: HIBOR plus 1.5% to 1.95%) per annum.

For the year ended 31 December 2012, the effective interest rates on the Group's and the Company's borrowings were 2.69% and 2.81% (2011: 1.92% and 1.95%) per annum, respectively.

38. CONVERTIBLE LOAN NOTE

THE GROUP AND THE COMPANY

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

On 18 February 2010, pursuant to the Deed of Amendment ("Amendment"), which was entered into between the Company and the holder of the convertible loan note, (i) the maturity date of convertible loan note was extended from 4 September 2011 to 4 September 2013; (ii) the conversion price was amended to HK$3.93 per share; and (iii) the redemption price at maturity remains at par and an early redemption option was granted to the Company and the holder of the convertible loan note, Great Respect Limited ("Great Respect"), a company controlled by close family members of Mr. Lawrence Ho, a director of the Company who is interested (as defined in the Hong Kong Securities and Futures Ordinance) in 48.46% of the issued share capital of the Company as at 31 December 2012. The early redemption option of the Company allows the Company to redeem all or part of the outstanding convertible loan note at any time prior to the maturity date at par. The early redemption option of the holder of the convertible loan note only allows the holder to require the Company to redeem the convertible loan note at par if (a) the Company's major shareholder, Mr. Lawrence Ho, ceases to hold at least 30% of issued shares of the Company; (b) a general offer by way of takeover is made to all or substantially all the holders of shares in the Company and such offer becomes or is declared unconditional; or (c) a privatization proposal by way of scheme of arrangement is made and approved by the necessary numbers of shareholders of the Company at the requisite meetings.

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

38. CONVERTIBLE LOAN NOTE – continued

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

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

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

	2012	2011
	HK$'000	HK$'000
Carrying amounts at the beginning of the year	**955,634**	844,562
Interest on convertible loan note (Note 12)	**89,043**	111,072
Derecognition upon conversions	**(1,044,677)**	–
Carrying amount at the end of the year included in non-current liabilities	**–**	955,634

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 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 and 1 January 2012	(36,195)	(13,272)	9,789	(39,678)
Credit (charge) to profit or loss for the year	14,692	(5,411)	(1,898)	7,383
Derecognition upon conversions of the convertible loan note	21,503	–	–	21,503
At 31 December 2012	–	(18,683)	7,891	(10,792)

At the end of the reporting period, the Group has unused estimated tax losses of approximately HK$520,918,000 (2011: HK$413,354,000). A deferred tax asset has been recognized in respect of HK$47,824,000 (2011: HK$59,327,000) tax losses to the extent that it is probable that future taxable temporary differences will be available against which the temporary differences can be utilized. No deferred tax asset has been recognized in respect of the remaining tax loss of HK$473,094,000 (2011: HK$354,027,000) due to the unpredictability of future profit streams.

39. DEFERRED TAX LIABILITIES – continued

Included in unrecognized tax losses are losses of HK$49,114,000 (2011: Nil) that are allowed to be carried forward and utilized against the income of subsequent years. The loss carry forward period shall not exceed 5 years which is up to 2017. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$9,152,000 (2011: 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 utilized.

Under the EIT Law of the PRC, withholding tax imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$13,477,000 (2011: Nil) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

THE COMPANY

	Convertible loan note HK$'000
At 1 January 2011	(54,522)
Credit to profit or loss for the year	18,327
At 31 December 2011 and 1 January 2012	(36,195)
Credit to profit or loss for the year	14,692
Derecognition upon conversions of the convertible loan note	21,503
At 31 December 2012	–

As at 31 December 2012, the Company has approximately HK$80,637,000 (2011: HK$77,798,000) 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.

40. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2012	2011	**2012**	2011
			HK$'000	HK$'000
THE GROUP AND THE COMPANY				
Authorized:				
At the beginning and end of the year, shares of HK$0.5 each	**2,000,000,000**	2,000,000,000	**1,000,000**	1,000,000
Issued and fully paid:				
At the beginning of the year, shares of HK$0.5 each	**1,231,363,780**	1,230,591,444	**615,682**	615,296
Conversions of the convertible loan note (Note 38)	**298,982,187**	–	**149,491**	–
Exercise of share options	**2,620,600**	772,336	**1,310**	386
At the end of the year, shares of HK$0.5 each	**1,532,966,567**	1,231,363,780	**766,483**	615,682

As at 31 December 2012, the Company's 4,009,385 (2011: 2,499,385) and 75,000 (2011: 102,000) issued shares with an aggregate nominal value of approximately HK$2,005,000 (2011: HK$1,250,000) and HK$38,000 (2011: HK$51,000) were held by the Company's share purchase scheme and share subscription scheme, respectively.

41. RESERVES

THE COMPANY

	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$'000	Share award reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	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 payments	–	–	–	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 share award schemes	–	–	–	–	(26,841)	–	–	(26,841)
At 31 December 2011 and 1 January 2012	3,137,831	253,004	323,818	93,492	(16,906)	10,387	(494,301)	3,307,325
Loss for the year	–	–	–	–	–	–	(37,565)	(37,565)
Derecognition of deferred tax liability upon conversions of the convertible loan note	–	–	21,503	–	–	–	–	21,503
Conversions of the convertible note loan	1,240,507	–	(345,321)	–	–	–	–	895,186
Exercise of share options	7,875	–	–	(2,376)	–	–	–	5,499
Recognition of equity-settled share-based payments	–	–	–	38,222	–	30,591	–	68,813
Transfer of share option reserve upon expiry of share options	–	–	–	(3,499)	–	–	3,499	–
Shares vested under the share award schemes	–	–	–	–	23,903	(21,250)	(2,653)	–
Purchase of shares for unvested shares under share award schemes	–	–	–	–	(34,478)	–	–	(34,478)
Dividend paid (Note 17)	–	(18,509)	–	–	–	–	–	(18,509)
At 31 December 2012	4,386,213	234,495	–	125,839	(27,481)	19,728	(531,020)	4,207,774

42. LONG TERM INCENTIVE SCHEMES

Share option scheme

The Company operates a share option 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 share option scheme (the "Old 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 Old 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 Old Scheme. As a result of the amendments, the categories of participants who are entitled to participate in the Old 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 Old 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 Old 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 Old 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 Old 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 Old 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 Old 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.

The Old Scheme had expired on 7 March 2012. Following the expiry of the Old Scheme, the shareholders of the Company adopted a new share option scheme (the "New Scheme") on 30 May 2012. Under the New Scheme, the directors of the Company may, at their discretion, grant to any Participants (as defined below) share options to subscribe for the Company's shares (each a "Share" or collectively the "Shares"), subject to the terms and conditions stipulated therein. Notwithstanding the expiry of the Old Scheme, the share options which had been granted during the life of the Old Scheme shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

42. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

As at 31 December 2012, a total of 42,359,888 Shares (representing approximately 2.76% 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 Old Scheme. A summary of the principal terms of the Old Scheme has been disclosed in the Company's 2011 Annual Report.

During the year ended 31 December 2012, no option was granted under the New Scheme. As at 31 December 2012, the total number of Shares available for issue under the New Scheme is 123,395,038 Shares (representing approximately 8.05% of the issued share capital of the Company).

The following is a summary of the principal terms of the New Scheme:

Purpose

The purpose of the New Scheme is to provide 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.

Participants

The participants of the New Scheme shall be (i) any executive or non-executive 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 (ii) any executives and employees of and consultants and advisers to the Company or any of its subsidiaries or associated companies.

Maximum number of shares available for issue under the New Scheme

The maximum number of Shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the adoption of the New Scheme (the "Scheme Mandate Limit") unless the Company seeks approval of its shareholders in general meeting to refresh the Scheme Mandate Limit, such that the maximum number of Shares which may be issued upon exercise of all options to be granted under the New Scheme or any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit.

The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10% limit provided that the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

Maximum entitlement to any one Participant

The maximum entitlement for any one Participant (including both exercised and outstanding options) in any twelve months' period shall not exceed 1% of the total number of Shares in issue.

42. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

Options granted to directors, chief executive or substantial shareholders

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.

Period and payment on acceptance of options

The period under which an option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that such period shall not be longer than ten years from the date of grant pursuant to the New Scheme. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option. The consideration on acceptance of an offer of the grant of an option is HK$1.00 payable within 28 days from the offer date. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

The basis of determining the exercise price

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 Shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date when an option is offered; (ii) a price being the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of a Share.

Remaining life of the New Scheme

The New Scheme shall be valid and effective for a period of ten years commencing on the adoption date. It will expire on 29 May 2022.

42. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

Movements of the share options, which were granted under the Old Scheme, during the year ended 31 December 2012 are set out below:

	Number of share options											
Category of participant	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2011 & 1.1.2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2012	Date of grant of share options	Share price at date of grant of share options	Exercise price of share options
											HK$	HK$
Directors[2]	200,000	–	–	–	200,000	–	(200,000)	–	–	01.02.2005	7.4	7.4
Directors[5]	400,000	–	–	–	400,000	–	–	–	400,000	13.02.2006	11.75	11.80
Directors[6]	600,000	–	–	–	600,000	–	–	–	600,000	03.04.2006	15.7	15.87
Directors[7]	153,000	–	–	–	153,000	–	–	–	153,000	28.02.2008	11.5	11.5
Directors[8]	1,316,520	–	–	–	1,316,520	–	–	–	1,316,520	01.04.2008	10.7	10.804
Directors[9]	1,628,000	–	–	–	1,628,000	–	–	–	1,628,000	17.12.2008	2.02	2.02
Directors[10]	823,000	–	–	–	823,000	–	–	–	823,000	03.04.2009	2.99	2.99
Directors[11]	3,904,000	–	–	–	3,904,000	–	–	–	3,904,000	07.04.2010	3.76	3.76
Directors[12]	–	7,000,000	–	–	7,000,000	–	–	–	7,000,000	08.04.2011	5.75	5.75
Directors[13]	–	–	–	–	–	3,480,000	–	–	3,480,000	27.01.2012	7.1	7.1
Sub-total	9,024,520	7,000,000	–	–	16,024,520	3,480,000	(200,000)	–	19,304,520			
Employees[2]	550,000	–	–	–	550,000	–	(550,000)	–	–	17.09.2004	1.6875	1.6875
Employees[2]	230,000	–	–	–	230,000	–	–	(230,000)	–	01.02.2005	7.4	7.4
Employees[14]	850,000	–	–	–	850,000	–	–	–	850,000	13.02.2006	11.75	11.8
Employees[15]	358,200	–	–	–	358,200	–	–	–	358,200	01.04.2008	10.7	10.804
Employees[16]	264,004	–	(68,336)	–	195,668	–	–	–	195,668	17.12.2008	2.02	2.02
Employees[17]	538,000	–	(127,000)	–	411,000	–	(52,000)	–	359,000	03.04.2009	2.99	2.99
Employees[18]	2,619,000	–	(395,000)	(6,000)	2,218,000	–	(77,000)	–	2,141,000	07.04.2010	3.76	3.76
Employees[19]	–	6,880,000	(33,000)	(56,000)	6,791,000	–	(134,000)	(37,000)	6,620,000	08.04.2011	5.75	5.75
Employees[20]	–	–	–	–	–	4,113,000	(19,600)	(44,200)	4,049,200	27.01.2012	7.1	7.1
Sub-total	5,409,204	6,880,000	(623,336)	(62,000)	11,603,868	4,113,000	(832,600)	(311,200)	14,573,068			

42. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

Movements of the share options, which were granted under the Old Scheme, during the year ended 31 December 2012 are set out below:

	Number of share options											
Category of participant	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2011 & 1.1.2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2012	Date of grant of share options	Share price at date of grant of share options HK$	Exercise price of share options HK$
Others[2,29]	9,900,000	–	–	–	9,900,000	–	(900,000)	(9,000,000)	–	17.09.2004	1.6875	1.6875
Others[21,29]	3,362,000	–	–	–	3,362,000	–	–	–	3,362,000	13.02.2006	11.75	11.8
Others[22,29]	300,000	–	–	–	300,000	–	–	–	300,000	03.04.2006	15.7	15.87
Others[23,29]	51,000	–	–	–	51,000	–	–	–	51,000	28.02.2008	11. 5	11.5
Others[24,29]	776,200	–	–	(9,900)	766,300	–	–	(9,000)	757,300	01.04.2008	10.7	10.804
Others[29]	546,000	–	–	–	546,000	–	(546,000)	–	–	17.12.2008	2.02	2.02
Others[25,29]	375,000	–	(43,000)	–	332,000	–	(142,000)	–	190,000	03.04.2009	2.99	2.99
Others[26,29]	678,000	–	(106,000)	–	572,000	–	–	–	572,000	07.04.2010	3.76	3.76
Others[27,29]	–	2,400,000	–	–	2,400,000	–	–	–	2,400,000	08.04.2011	5.75	5.75
Others[28,29]	–	–	–	–	–	850,000	–	–	850,000	27.01.2012	7.1	7.1
Sub-total	15,988,200	2,400,000	(149,000)	(9,900)	18,229,300	850,000	(1,588,000)	(9,009,000)	8,482,300			
Total	30,421,924	16,280,000	(772,336)	(71,900)	45,857,688	8,443,000	(2,620,600)	(9,320,200)	42,359,888			
Share options exercisable at year end	20,265,184				26,754,188				25,257,488			

42. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercisable period.

2. 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.

3. As at 31 December 2012, the Company had 42,359,888 share options (2011: 45,857,688) outstanding under the Old Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 42,359,888 additional ordinary shares (2011: 45,857,688) of the Company and additional share capital of approximately HK$21,180,000 (2011: HK$22,929,000) and share premium of approximately HK$260,420,000 (2011: HK$223,048,000) before issuance expenses.

4. During the year ended 31 December 2012, no share options were cancelled under the Old 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$7.22 and HK$7.16 respectively.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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.

42. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

Notes: – continued

11. 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.

12. 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.

13. Among the 3,480,000 share options, 872,000 options granted may be exercised during the period from 27 January 2012 to 26 January 2022, 872,000 options granted may be exercised during the period from 27 January 2013 to 26 January 2022, 868,000 options granted may be exercised during the period from 27 January 2014 to 26 January 2022 and 868,000 options granted may be exercised during the period from 27 January 2015 to 26 January 2022.

14. 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.

15. 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.

16. 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.

17. Among the 359,000 share options, 95,500 share options may be exercised during the period from 3 April 2010 to 2 April 2019, 95,500 share options may be exercised during the period from 3 April 2011 to 2 April 2019 and 168,000 share options may be exercised during the period from 3 April 2012 to 2 April 2019.

42. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

Notes: – continued

18. Among the 2,141,000 share options, 158,000 share options may be exercised during the period from 7 April 2010 to 6 April 2020, 301,000 share options may be exercised during the period from 7 April 2011 to 6 April 2020, 484,000 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.

19. Among the 6,620,000 share options, 1,566,000 options may be exercised during the period from 5 May 2011 to 7 April 2021, 1,687,000 options may be exercised during the period from 8 April 2012 to 7 April 2021, 1,686,000 options may be exercised during the period from 8 April 2013 to 7 April 2021 and 1,681,000 options may be exercised during the period from 8 April 2014 to 7 April 2021.

20. Among the 4,049,200 share options, 1,016,800 options may be exercised during the period from 27 January 2012 to 26 January 2022, 1,015,600 options may be exercised during the period from 27 January 2013 to 26 January 2022, 1,008,400 options may be exercised during the period from 27 January 2014 to 26 January 2022 and 1,008,400 options may be exercised during the period from 27 January 2015 to 26 January 2022.

21. 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.

22. 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.

23. 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.

24. Among the 757,300 share options, 264,900 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 256,700 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 235,700 share options may be exercised during the period from 1 April 2011 to 31 March 2018.

42. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

Notes: – continued

25. Among the 190,000 share options, 39,500 share options may be exercised during the period from 3 April 2010 to 2 April 2019, 39,500 share options may be exercised during the period from 3 April 2011 to 2 April 2019 and 111,000 share options may be exercised during the period from 3 April 2012 to 2 April 2019.

26. 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.

27. 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.

28. Among the 850,000 share options, 213,000 options may be exercised during the period from 27 January 2012 to 26 January 2022, 213,000 options may be exercised during the period from 27 January 2013 to 26 January 2022, 212,000 options may be exercised during the period from 27 January 2014 to 26 January 2022 and 212,000 options may be exercised during the period from 27 January 2015 to 26 January 2022.

29. The category "Others" represents the former directors/employees or consultants of the Group. The fair value of the share options granted to consultants are measured with reference to the fair value of equity instruments granted as the consultants are in a contractual arrangement in providing services similar to those rendered by the Group's employees.

During the year ended 31 December 2012, a total of 8,443,000 share options at an exercise price of HK$7.10 per share of the Company were granted on 27 January 2012 under the Old Scheme. The estimated fair values of the options granted on that date was approximately HK$33,115,000. The fair value per option granted during the year ended 31 December 2012 was HK$3.92. The closing price of the shares of the Company immediately before the date on which the options were granted was HK$6.91.

During the year ended 31 December 2011, share options were granted on 8 April 2011 under the Old Scheme. The estimated fair values of the options granted on that date was approximately HK$47,941,000. The fair value per option granted during the year ended 31 December 2011 is HK$2.94.

42. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

The inputs into the model were as follows:

	Share options grant date	
	27 January 2012	8 April 2011
Valuation model	**Binominal model**	Binominal model
Exercise price	**HK$7.1**	HK$5.75
Expected volatility	**64%**	65%
Expected life	**10 years**	10 years
Risk-free rate	**1.32%**	2.792%
Suboptimal exercise factor	**1.7 – 2.3**	1.8 – 2.75

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 10 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$38,222,000 and HK$38,222,000, respectively, for the year ended 31 December 2012 (2011: HK$35,482,000 and HK$35,482,000, respectively) in relation to the share options granted by the Company. The Binomial 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).

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 or the trustee of this scheme (as the case may be) shall either (i) set aside a sum of money or (ii) 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 be 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.

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 2012 are set out below:

	Number of awarded shares									
Category of participant	Outstanding at 1.1.2011	Awarded during the year	Vested during the year	Outstanding at 31.12.2011 & 1.1.2012	Awarded during the year	Vested during the year	Outstanding at 31.12.2012	Share price at date of award HK$	Date of award	Vesting date
Directors	12,000	–	(12,000)	–	–	–	–	11.50	28.02.2008	01.04.2011
Directors	45,500	–	(45,500)	–	–	–	–	2.99	03.04.2009	03.04.2011
Directors	46,000	–	–	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	–	(2,400,000)	–	5.75	08.04.2011	08.04.2012
Directors	–	–	–	–	1,000,000	(1,000,000)	–	7.1	27.01.2012	27.01.2012
Directors	–	–	–	–	3,000,000	–	3,000,000	7.1	27.01.2012	27.01.2013
Sub-total	103,500	4,800,000	(2,457,500)	2,446,000	4,000,000	(3,446,000)	3,000,000			
Employees	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	54,500	–	(26,500)	28,000	–	(28,000)	–			

42. LONG TERM INCENTIVE SCHEMES – continued

Share award schemes – continued

Share Purchase Scheme – continued

	Number of awarded shares									
Category of participant	Outstanding at 1.1.2011	Awarded during the year	Vested during the year	Outstanding at 31.12.2011 & 1.1.2012	Awarded during the year	Vested during the year	Outstanding at 31.12.2012	Share price at date of award HK$	Date of award	Vesting date
Others (Note)	4,000	–	(4,000)	–	–	–	–	11.50	28.02.2008	01.04.2011
Others (Note)	15,500	–	(15,500)	–	–	–	–	2.99	03.04.2009	03.04.2011
Others (Note)	16,000	–	–	16,000	–	(16,000)	–	2.99	03.04.2009	03.04.2012
Sub-total	35,500	–	(19,500)	16,000	–	(16,000)	–			
Total	193,500	4,800,000	(2,503,500)	2,490,000	4,000,000	(3,490,000)	3,000,000			

Note: Others represent the former director/employees of the Group.

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 or the trustee of this scheme (as the case may be) 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 who remains as 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 be 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.

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 2012 are set out below:

	Number of awarded shares							
Category of participant	Outstanding at 1.1.2011	Vested during the year	Outstanding at 31.12.2011 & 1.1.2012	Vested during the year	Outstanding at 31.12.2012	Share price at date of award	Date of award	Vesting date
						HK$		
Employees	17,500	(17,500)	–	–	–	2.99	03.04.2009	03.04.2011
Employees	21,000	–	21,000	(21,000)	–	2.99	03.04.2009	03.04.2012
Sub-total	38,500	(17,500)	21,000	(21,000)	–			
Others (Note)	5,000	(5,000)	–	–	–	2.99	03.04.2009	03.04.2011
Others (Note)	6,000	–	6,000	(6,000)	–	2.99	03.04.2009	03.04.2012
Sub-total	11,000	(5,000)	6,000	(6,000)	–			
Total	49,500	(22,500)	27,000	(27,000)	–			

Note: Others represent the former employees of the Group.

42. LONG TERM INCENTIVE SCHEMES – continued

Share award schemes – continued

Share Subscription Scheme – continued

The weighted average fair value of awarded shares granted during the current year of HK$7.1 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$30,591,000 (2011: HK$24,040,000) for the year ended 31 December 2012 in relation to the share award schemes.

43. ACQUISITION OF A SUBSIDIARY

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

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

	HK$'000
Property, plant and equipment	6,000
Interests in associates	417
Interests in jointly controlled entities	–
Trade and other receivables	46,655
Bank balances and cash	60,141
Trade and other payables	(73,030)
Tax payable	(20,848)
Amounts due to associates	(221)
Convertible loan notes	(240,452)
	(221,338)

The fair value of trade and other receivables at the date of acquisition amounted to approximately HK$46,655,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK$76,300,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to approximately HK$29,645,000.

43. ACQUISITION OF A SUBSIDIARY – continued

Goodwill arising from acquisition:

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

Notes:

(a) The amount represents the fair value of MelcoLot Shares received from Power Way during the Distribution which is measured at the quoted price of such shares at the date of acquisition.

(b) The amount represents the fair value of the Group's previously held equity interest in MelcoLot. The difference between the fair value and the carrying amount of that equity interest is recognized in profit or loss as gain on disposal of interest in an associate of approximately HK$45,726,000.

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

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

Net cash inflow on acquisition of MelcoLot

	HK$'000
Bank balances and cash acquired	60,141

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

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

44. MAJOR NON-CASH TRANSACTIONS

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.

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$11,311,000 (2011: HK$8,826,000).

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:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within one year	**5,703**	11,402
In the second to fifth year inclusive	**6,113**	10,622
	11,816	22,024

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.

(b) The Group as lessor

At 31 December 2012, 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 under non-cancellable operating leases.

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within one year	**8,667**	9,089
In the second to fifth year inclusive	**500**	7,962
	9,167	17,051

The Company had no significant operating leases at the end of the reporting periods.

46. 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 a 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 Scheme were switching to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. 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 (increase to HK$1,250 since 1 June 2012), which contribution is matched by the employee.

47. EVENT AFTER THE REPORTING PERIOD

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

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

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

48. RELATED PARTY TRANSACTIONS

(a) The Group has entered into the following related parties transactions:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Interest income received from associates	**1,113**	4,998
Rental income received from an associate (Note)	**4,562**	4,150
Overseas travels, entertainment and gifts expenses charged by an associate	**1,383**	1,896
Interest expense on convertible loan note to a related company (Note 38)	**89,043**	111,072
Service income received from associates	**31,960**	7,601
Sundry income received from associates	**563**	746

48. RELATED PARTY TRANSACTIONS – continued

(a) **The Group has entered into the following related parties transactions: – continued**

As at 31 December 2012, included the future minimum lease arrangement as lessor (Note 45(b)) of approximately HK$4,562,000 (2011: HK$4,562,000) will be receivable within one year and Nil (2011: HK$4,562,000) will be receivable within two to five years by the Group from an associate.

(b) **Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Short-term benefits	**13,829**	11,891
Post-employment benefits	**97**	85
Share-based compensation	**58,518**	49,117
	72,444	61,093

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.

(c) As at 31 December 2011, the Group and the Company had a convertible loan note with principal amount of HK$1,175,000,000 issued to a related company (Note 38). The convertible loan note was fully converted into 298,982,187 shares of the Company at the conversion price of HK$3.93 per share in September 2012.

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			
				Directly		Indirectly	
				2012	2011	**2012**	2011
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 each	**–**	–	**86.7%**	86.7%
Melco Technology Group Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	**–**	–

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

Name of subsidiary	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Proportion ownership interest held by the Company			
				Directly		Indirectly	
				2012	2011	**2012**	2011
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%
Giant Growth Limited	British Virgin Islands	Investment holding in Canada	1 share of US$1	**–**	–	**100%**	100%
MelcoLot Limited	Cayman Islands/ PRC	Provision of services and solutions for distribution of lottery products and trading of lottery terminals	2,288,565,269 ordinary shares of HK$0.01 each	**–**	–	**51.6%**	–

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				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	690,862	709,553	206,691	129,314	**146,851**
(Loss) profit for the year	(2,353,214)	(1,448,416)	(208,608)	281,392	**1,123,614**
Attributable to:					
Owners of the Company	(2,356,819)	(1,449,685)	(209,464)	280,085	**1,121,903**
Non-controlling interests	3,605	1,269	856	1,307	**1,711**
	(2,353,214)	(1,448,416)	(208,608)	281,392	**1,123,614**

ASSETS AND LIABILITIES

	At 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	10,406,181	8,537,923	8,340,680	8,578,030	**9,925,332**
Total liabilities	(2,480,641)	(1,828,863)	(1,484,838)	(1,366,454)	**(627,438)**
	7,925,540	6,709,060	6,855,842	7,211,576	**9,297,894**
Equity attributable to owners of the Company	7,899,505	6,681,756	6,827,951	7,182,646	**9,374,433**
Non-controlling interests	26,035	27,304	27,891	28,930	**(76,539)**
	7,925,540	6,709,060	6,855,842	7,211,576	**9,297,894**

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*

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QUALIFIED ACCOUNTANT
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