Melco

Annual Report 2013

Melco International Development Limited

A Hong Kong Listed Company (Stock Code: 200)

Contents

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.

A WORLD OF ENTERTAINMENT


The House of Dancing Water

TABOO

Dragon's Treasure

A COLLECTION OF MICHELIN STARRED RESTAURANTS

MICHELIN STARRED RESTAURANT
米芝蓮星級餐廳

The Tasting Room

Jade Dragon

A PROMISING FUTURE

STUDIO CITY MACAU

新濠影滙

The New Hotel Tower at City of Dreams in Macau

City of Dreams Manila

A CONSTITUENT MEMBER OF HANG SENG CORPORATE SUSTAINABILITY INDEX SERIES

Hang Seng Corporate Sustainability Index Series Member 2013-2014


PARIS

Financial Highlights

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

HK$1,596.7 million

Profit attributable to owners of the Company was HK$1,596.7 million for the year ended 31 December 2013, as compared with HK$1,121.9 million in the year of 2012.

BASIC EARNINGS PER SHARE

HK$1.04

Basic earnings per share attributable to owners of the Company was HK$1.04 for the year ended 31 December 2013, as compared with HK$0.85 for the year ended 31 December 2012.

NET ASSET VALUE ATTRIBUTABLE TO OWNERS OF THE COMPANY

HK$11.7 billion

Net asset value attributable to owners of the Company increased by 25% to HK$11.7 billion as of 31 December 2013, as compared with HK$9.4 billion as of 31 December 2012.

PROPOSED FINAL DIVIDEND

HK20.8 cents per share

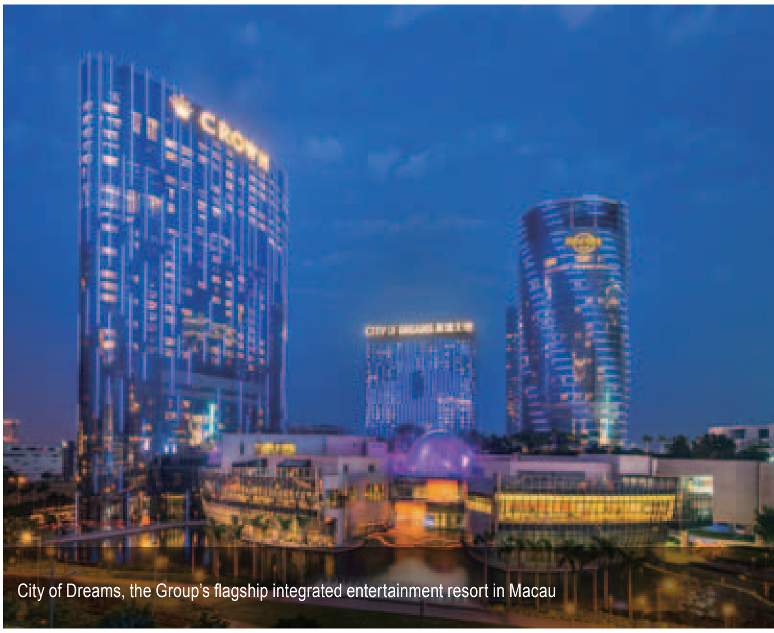
The proposed final dividend for the year ended 31 December 2013 is HK20.8 cents per share, as compared with HK1.5 cents per share in 2012.

Corporate Profile

Founded in 1910 and listed on the Hong Kong Stock Exchange 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 Mr. 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.



City of Dreams, the Group's flagship integrated entertainment resort in Macau

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. Besides, Melco was granted the "Corporate Governance Asia Annual Recognition Award" for the eighth consecutive year by Corporate Governance Asia magazine in 2013, and was once again selected as one of the "Best Managed Companies in Hong Kong" and the "Best Corporate Governance" by FinanceAsia magazine in 2014. Its Chairman and Chief Executive Officer, Mr. Lawrence Ho, has been awarded "Asian Corporate Director Recognition Awards" in 2012 and 2013, and honored with "Asia's Best CEO" in Asian Excellence Recognition Awards for the third time in 2014, both by Corporate Governance Asia magazine. He was also selected as one of the "Best CEOs in Hong Kong" by FinanceAsia Magazine for the fifth year in 2014.

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 governance culture among listed companies in Hong Kong.

Corporate Structure

Melco Group

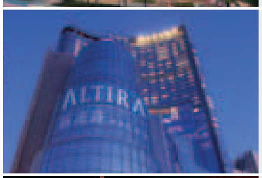
GAMING, LEISURE AND ENTERTAINMENT

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)

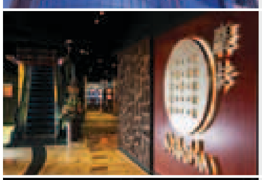
Focus on gaming markets in Asia

Macau

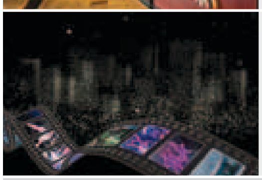
City of Dreams, Cotai
Premium market



Altira Macau, Taipa
VIP market

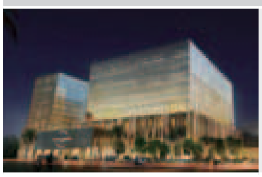


Mocha Clubs, all over Macau
Leisure grind market



Studio City, Cotai
Mass market
(Expected to open in mid-2015)

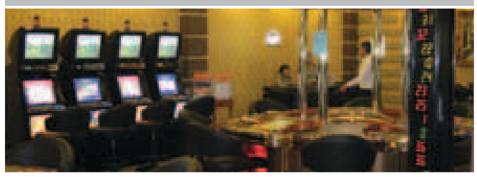
The Philippines



City of Dreams Manila, Entertainment City, Manila
(Expected to open in 2014)

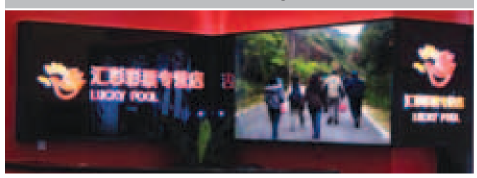
Entertainment Gaming Asia Inc. –
listed on the NASDAQ Capital Market (NASDAQ: EGT)

Focus on slot machine participation business



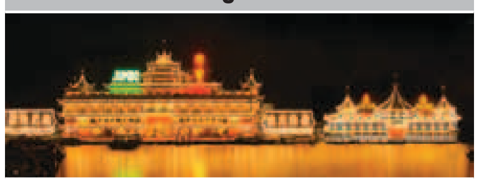
MelcoLot Limited –
listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (SEHK: 8198)

Focus on Asia's lottery business



Jumbo Kingdom

Focus on catering business



OTHER BUSINESSES – PROPERTY AND OTHER INVESTMENTS

Chairman & CEO's Statement

I am pleased that Melco International Development Limited ("Melco" or the "Group") has enjoyed another spectacular year in 2013, highlighted by the smooth progress of our successful overseas expansion strategies in Asia and Eurasia including China, the Philippines, Cambodia and Russia. With our extensive experience in the gaming and entertainment industry and unique insight to appeal to the broadest spectrum of visitors, we firmly believe our overseas expansion plans will further realize our vision to become a global market leader in the gaming and entertainment industry.

The remarkable results achieved in financial year 2013 have been primarily driven by the shining success of the premium-focused business at City of Dreams, the flagship integrated resort of our key associate Melco Crown Entertainment Limited ("Melco Crown Entertainment" or "MCE"). City of Dreams' unparalleled services and innovative entertainment offerings, such as the multiple award-winning water-based stage production The House of Dancing Water, Asia's only and most anticipated cabaret experience TABOO, the ground-breaking water extravaganza Viva Fiesta featuring the China National Diving Team, National Synchronized Swimming Team and acclaimed singers, and the international illusion master Franz Harary's inaugural performance in Macau, have effectively enticed highly discerning and premium customers, thereby maintaining our leading mass market table yields.

Other development projects in Macau have continued to progress smoothly as planned during the year, and we are confident that these projects would further enrich our existing portfolio in Macau upon completion. Our exciting new cinematically-themed integrated resort Studio City remains on track for a mid-2015 debut to inject new excitement to the mass market segment. Additionally, the development of the iconic fifth tower at City of Dreams has commenced in 2013. It is expected to enable us to extend our leadership at the premium end of the market with astonishing gaming and non-gaming attractions to appeal to the highly sophisticated premium visitors when it opens in early 2017.

Outside Macau, Melco continues to expand the existing global footprint to other parts of Asia and Continental Europe. In the Philippines, our new integrated resort in Manila bears with pride of our successful "City of Dreams" brand and has been officially named "City of Dreams Manila". We are excited to have announced two renowned hotel brands at the integrated resort – the ultra-luxurious Crown Towers hotel serving VIP patrons and the world famous and celebrity-inspired Nobu Hotel, with its distinctive food and beverage menu indulging trendy entertainment seekers both locally and around the world. City of Dreams Manila is anticipated to become the finest integrated entertainment casino resort in town when it opens later this year. While in Cambodia, our associate Entertainment Gaming Asia Inc. ("EGT") has maintained its strategic presence in the region with the opening of the standalone slot hall Dreamworld Poipet within the year. Furthermore, Melco has completed a 5% investment in the gaming and resort development project in Russia's Primorye Region. As one of the first movers in the gaming and tourism industry in the Primorye region, we are positive that the gaming and tourism facilities will bring immense benefits to the local economy.

Looking ahead, we are optimistic about the overall outlook of the gaming, leisure and entertainment market in Asia. Macau continues its strong upward trajectory with market-wide gaming revenues sustainably increasing. The underlying infrastructure and regional development blueprint, including the rapid development of Hengqin Island, improved immigration facilities, the Macau Light Rail system and the Hong Kong-Zhuhai-Macau Bridge are also creating immense opportunities. Cotai is inevitably developing into a major gaming, leisure and entertainment center for Macau and Asia for years to come, which we believe would be beneficial to Melco given the vast opportunities brought about by the anticipated emerging visitation and premium quality hospitality demand in the region.

Besides, leveraging our unique insight into what attracts a global audience while maintaining a profound respect for local culture, Melco is well-positioned to expand our business to other parts of the world to realize our vision of becoming one of Asia's leading gaming companies. We remain highly focused on entering lucrative new gaming markets in Asia, most notably, Japan. We believe the Group's experience in developing and operating high-quality integrated resorts, combined with our world-class entertainment productions would strongly resonate within this potentially globally significant market.

While constantly striving for improvement and continuous growth, Melco has also been tirelessly dedicated to maintaining high standards of corporate governance and corporate social responsibility. In the past year, our progress to make Melco a truly sustainable company responsive to the needs of the community has continued. The inclusion of Melco as a constituent member of the Hang Seng Corporate Sustainability Index Series in 2013 is the most notable and strongest testimony to our commitment. We will deliver additional programmes for the development of the youth and the disadvantaged, in hopes to broaden our engagement with the community.

Lastly, I would like to extend my sincere thanks to our Board of Directors, shareholders, employees, business partners and customers for their indispensable contributions and continuous support, which have empowered us to extend our business into new areas and to realize outstanding opportunities to build Melco into a successful pioneer within the industry. We resolve to bring our brand of leisure and entertainment to other markets in Asia and other countries as we strive our utmost to replicate our success in Macau in overseas markets.

Ho, Lawrence Yau Lung
Chairman and Chief Executive Officer

Management Discussion & Analysis

Significant Events and Developments

Melco International Development Limited has experienced another fruitful year in 2013, achieving impressive progress in its expansion across Asian and Eurasian markets. On the operations side, the Group has achieved an outstanding financial performance and sustainable growth momentum with a solid revenue growth and a significant surge in net profit quarter after quarter.

In 2013, the Group's core gaming arm Melco Crown Entertainment, an associate of the Group, continued to deliver above-market growth in the highly profitable mass market segment as well as increasing group-wide rolling chip revenues. City of Dreams has also continued to improve its unique customer experience offerings which expanded the customer base and lifted profitability in the highly competitive market. On the other hand, the development of Studio City, the cinematically-themed integrated resort in Cotai, remains on track. The development of the iconic fifth tower at City of Dreams in Macau has also commenced and is expected to provide an impressive complement to the world-class attractions and amenities offered at the Group's flagship property.

Beyond Macau, our new integrated casino resort in Manila, developed by Melco Crown (Philippines) Resorts Corporation, a subsidiary of Melco Crown Entertainment, has been officially named "City of Dreams Manila". Two of the world-renowned hotel brands featured at the property, namely Crown Towers hotel and Nobu Hotel Manila, have been revealed recently. Elsewhere, Melco has completed a 5% investment in the gaming and resort development project in Russia's Primorye region to build and operate the region's first integrated casino resort together with its international and local partners.

Celebrating its 5th Anniversary this year, City of Dreams will continue to deliver more one-of-its-kind entertainment offerings to visitors of Macau


GRAND
HYATT
CITY OF DREAMS 新濠天地
CITY OF DREAMS 新濠天地

Core Business

GAMING BUSINESS IN ASIA

The Group operates its gaming business through its 33.55%-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 2013, Melco Crown Entertainment delivered strong net revenue and Adjusted EBITDA growth of 24.7% and 39.9% to US$5.1 billion and US$1,287.8 million respectively, primarily attributable to substantially improved mass table games and rolling chip revenues together with a strict cost control focus.

During the year, City of Dreams continued to deliver impressive results, recording strong year-over-year improvement in Adjusted EBITDA in consecutive quarters primarily attributed to the increase in mass market table games gross gaming revenue together with a significant growth in rolling chip volumes. With a higher occupancy and average daily rate per available room, City of Dreams once again recorded a year-over-year increase in total non-gaming revenue in every quarter in 2013.

City of Dreams has leveraged its world-class amenities and attractions to entertain the increasingly discerning premium customer, which in turn enables the Group to maintain its market-leading mass market table yields. During the year, the internationally acclaimed water-based extravaganza, The House of Dancing Water, has attracted its two millionth patron and presented the most exciting artistic and entertainment adventure summer camp to mark the show's third anniversary. Complementing the spectacular The House of Dancing Water, City of Dreams has brought again Asia's only and the most anticipated cabaret experience TABOO to Club Cubic, which further distinguishes City of Dreams as the only place in Macau with two world-class shows under the same roof.

To provide an unprecedented entertainment experience for visitors to Macau, the Group presented the cross-over acrobatic and musical spectacular "Viva Fiesta 2013" featuring the renowned China National Diving Team, the National Synchronized Swimming Team, and acclaimed singers at Dancing Water Theater at City of Dreams. More scintillating entertainment performances and activities hosted by our flagship property included the performance of the international illusion master Franz Harary and his hand-picked team of world-class magicians for the first time in Macau, as well as the truly amazing SPLASH poolside party series. City of Dreams' diversified non-gaming facilities along with the eclectic array of accommodation options, and retail and food and beverage offerings not only further solidified its leading position in the premium and high-end segments in Macau, the offerings have also become a major tourism draw card for Macau as a whole that appeals to a wide swath of patrons.

The development of projects in the pipeline both within Macau and outside the city continues to progress as planned. To further enhance the Group's existing portfolio of properties in Macau, Studio City, the exciting new cinematically-themed integrated entertainment, retail and gaming resort in Cotai, remains on track and is expected to open in mid-2015 while the iconic fifth tower at City of Dreams in Macau is scheduled to open in early 2017.

Meanwhile, the development of City of Dreams Manila in the Philippines is progressing well and is expected to open later this year. Melco is proud to introduce the luxurious Crown Towers hotel and the world renowned and celebrity-inspired Nobu Hospitality at City of Dreams Manila, marking the first Nobu Hotel in Asia. Together with other exciting key entertainment attractions and world-leading retail, catering and entertainment brands to be hosted at City of Dreams Manila, the new integrated casino resort will evidently fulfill its commitment to bringing the best in entertainment and gaming to the Philippines.

Elsewhere, Melco has partnered with Summit Ascent Holdings Limited ("Summit Ascent") to tap the potentially lucrative Russian gaming market by investing in the Primorye region's first casino project at Vladivostok along the Pacific Coast. With the unique competitive advantages stemming from its geographic proximity to Asia's prosperous regions, particularly Northern China, Japan and South Korea, Melco believes the investment in the Russian casino project will bring immense benefits to the local economy which will in turn have a multiplier effect on the development of the Russian Far East as a whole.

Entertainment Gaming Asia opened its standalone slot hall "Dreamworld Poipet" in May 2013

GAMING MACHINE REVENUE PARTICIPATION BUSINESS IN SOUTHEAST ASIA

Entertainment Gaming Asia Inc. ("EGT"), a company listed on NASDAQ Capital Market (NASDAQ: EGT), in which the Group has an effective equity interest of approximately 38.14%, recorded consolidated revenue of US$24.3 million for the 2013 fiscal year, down 9% from the prior year due to declines in its slot operations and gaming chips and plaques business.

EGT has an established presence within gaming markets in Cambodia and the Philippines through its slot operations business. As of 31 December 2013, EGT had approximately 1,700 electronic gaming machine seats in operation. This included 670 seats placed under the joint management of EGT and NagaWorld Limited, a wholly-owned subsidiary of NagaCorp Ltd. (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$121 per machine seat for the 2013 fiscal year, while its operations in NagaWorld achieved an average daily net win of approximately US$214 per machine seat for the same period.

In May 2013, EGT expanded its slot operations in Cambodia with the opening of Dreamworld Poipet, a standalone slot hall with approximately 300 electronic gaming machine seats. EGT solely developed and operates this slot club as an extension of the existing casino owned by a local company. It is prominently located in the established gaming market of Poipet near the Thailand border.

EGT will continue to seek new gaming project opportunities in more established gaming markets in the Indo-China region and other Asian areas.

In addition, during the 2013 fiscal year, EGT completed its plans to re-strategize its legacy businesses with the divestiture of a low-margin non-gaming business and relocation and repositioning of its gaming chips and plaques division from Australia to Hong Kong in an effort to reduce costs and better serve the growing gaming markets in Asia. EGT's gaming chips and plaques business contributed US$3.4 million to revenue for the 2013 fiscal year. With a strong product line and customer relationships, anticipated improvements in production efficiency, and streamlined operating structure, EGT's gaming products business is expected to be a meaningful contributor to future earnings.

LOTTERY MANAGEMENT BUSINESS IN ASIA

MelcoLot Limited ("MelcoLot"), in which the Group holds an equity interest of 43.93%, is principally engaged in the provision of lottery-related technologies, systems and solutions for two state-run lottery operators in PRC, namely the China Welfare Lottery and the China Sports Lottery. It has developed a wide presence by managing a network of retail outlets across the PRC, a telephone betting system in Shandong Province for the distribution of computer-generated lottery tickets and lottery scratch cards, as well as providing the maintenance and upgrade services for the high frequency game, "Shi Shi Cai", in Chongqing Municipality. It is also a distributor of high

Altira Macau earned the highest Five-Star rating in both the Hotel and Spa categories by Forbes Travel Guide since 2010

quality, versatile lottery terminals for the Sports Lottery. During the year ended 31 December 2013, MelcoLot's revenue was HK$54.6 million, representing a decrease of approximately 37.2%. The drop was mainly because after the new terminal type approval by Sport Lottery in early 2013, the terminal replacement cycle has been slower than expected. MelcoLot recorded a loss of HK$13.0 million in 2013, compared with a profit of HK$70.5 million in 2012 which was mainly the result of a one-off gain on restructuring amounted to HK$226.8 million.

According to the data from the Ministry of Finance, lottery sales in China amounted to RMB309.3 billion for the year 2013, representing an increase of 18.3%. Regardless of the fact that the lottery industry continues to show strong year-on-year growth as a whole, there is still enormous potential for future growth in China's lottery market. This situation is backed by the rising disposable income in China, together with the low lottery penetration rate and low sales rates compared to other more developed nations in per capita terms. Just a few years ago, China's lottery market consisted largely of traditional paper lotto tickets. Now, single match games, rapid-draw games, video lottery terminals and scratch games are also very common. In particular, paperless lottery sales channels such as mobile and internet are gaining momentum.

Integrity is the most critical foundation in the gaming industry. While the Ministry of Finance has expressed concern about the need to better monitor these new channels and implemented new regulations to govern them in conjunction with the welfare and sports lottery authorities, the operation of online sports lottery sales services has been approved under a pilot phase. It is believed that the authorities want to consolidate the lottery market, to replace thousands of private lottery operators by a handful of licensed and regulated firms, making it easier to control and regulate. These developments are anticipated to aid the planned development of the industry. MelcoLot believes that China lottery market will continue to grow very quickly and the government regulatory regime will become more open and transparent.

MelcoLot is carefully monitoring the situation to identify opportunities that could be capitalized upon. MelcoLot aims to leverage its access to the world-class expertise of its strategic shareholders and is increasing its focus on new media technologies and sales platforms in order to capture this growing market development. At the same time, MelcoLot continues to evaluate other business opportunities for development that could support the goal of maximizing long-term value for shareholders.

Non-core Businesses

SKI RESORT BUSINESS IN CHINA

The Group owns 16.69% of Mountain China Resorts (Holding) Limited ("MCR"), which owns and operates the largest destination ski resort in China, namely Sun Mountain Yabuli Resort in Heilongjiang ("Yabuli Resort").

In May 2013, the Group received CAD$3.0 million in the form of cash from MCR, as the first phase of the settlement of loan advanced to MCR Group amounting to US$23.0 million, for fulfilling the terms and conditions pursuant to the conditional agreement entered in May 2012.

The Club Med Yabuli business, which was established by a strategic partnership with Club Med Asie S.A. ("Club Med") to operate and manage two of the hotels at Yabuli Resort, has consistently maintained the sales revenue level as the same period last year, which constituted approximately 79% of the sales revenue of Yabuli Resort in the financial year of 2013.

In August 2013, the management of MCR has successfully negotiated with the Harbin Commercial Bank to extend the repayment schedule of its CAD$23.6 million secured loan from 3 years to 10 years with a maturity date in December 2022.

During 2013, Yabuli Resort has undertaken some major makeovers on the ski resort, including building a new snowboarding park which covers land size of 30,000 square meters, upgrading the entire heating system of cable cars and adding a new mogul ski track to the existing ones, which provides the right amount of challenge while still catering to those who just want to get a taste of the snow.

The 2016 World Championships of Snowboarding, which is the world's most respected snowboarding contest, will be hosted in Yabuli and MCR will be the official partner and playing field of this major sporting event. The recent and ongoing major makeovers on the ski resort are in the preparation for hosting the 2016 World Championships of Snowboarding and welcoming the increasing number of visitors for witnessing this great event.

Achievements and Awards

The Group is committed to reaching a high standard of excellence on all fronts, including not only operational and financial performance, but also a great emphasis on corporate governance and corporate social responsibility (CSR) achievement, in order to build a successful and sustainable business. Besides awards for business excellence, the Group has been honored by numerous awards in acknowledgement of its tremendous effort in maintaining transparency and accountability through prudent corporate governance practices and in creating social value via CSR initiatives.

CORPORATE GOVERNANCE

Melco's effort in maintaining the highest standard of corporate governance has long been widely recognized by the community. The Group has received the "Corporate Governance Asia Annual Recognition Award" by Corporate Governance Asia magazine for eight consecutive years in 2013 and was honored as the "Icon on Corporate Governance". In 2014, the magazine also presented the "Best Investor Relations by a Hong Kong Company" in the Asian Excellence Recognition Awards to Melco for the fourth year running, while FinanceAsia magazine selected Melco as one of the "Best Managed Companies in Hong Kong", "Best Corporate Governance" and "Best Investor Relations".

In addition, Melco's management has also gained the appreciation within the business community for its strong leadership. The Group's Chairman and Chief Executive Officer, Mr. Lawrence Ho, has not only been honored with one of the "Asian Corporate Director Recognition Awards" presented by Corporate Governance Asia magazine for the second consecutive year in 2013, he has also been recognized for the third time with the "Asia's Best CEO" honor at the magazine's Asian Excellence Recognition Awards, and was selected as one of the "Best CEOs in Hong Kong" by FinanceAsia magazine in 2014. All of these accolades are clear evidence that the Group's efforts in corporate governance are widely appreciated.

CORPORATE SOCIAL RESPONSIBILITY

The Group's exceptional contributions and initiatives in fulfilling its corporate social responsibility have garnered for it a number of prestigious accolades during the year. In recognition of its well performance with respect to corporate sustainability, Melco was selected as a constituent member of the Hang Seng Corporate Sustainability Index Series in 2013. Hong Kong Productivity Council presented the Award Label of Hong Kong Corporate Citizenship Awards to Melco for the second consecutive year in 2013, while Corporate Governance Asia magazine honored the Group with the "Best CSR" for the second consecutive year within its Asian Excellence Recognition Awards and FinanceAsia magazine awarded Melco with the "Best Corporate Social Responsibility" in 2014.

Preserving the environment has always been a core focus of Melco's corporate social responsibility, as it is not only in the best interest of everyone, but also for the benefit of our children and future generations. We have undertaken plenty of activities to evangelize about the importance of preserving the environment. For a series of commitments to implement environmental sustainability through energy-saving practices, Melco has been awarded a Gold Label for its "Low-carbon Office Operation Programme" by WWF Hong Kong every year since 2011. Furthermore, Hong Kong Awards for Environmental Excellence has granted Melco the "Class of Excellence in Wastewi$e Label" for five straight years to acknowledge its efforts to reduce its carbon footprint.

The Group has also garnered numerous awards for its dedication to the community, namely the "President's Award" by The Community Chest of Hong Kong for the eighth consecutive year and the "Platinum Award for Corporate & Employee Contribution Programme Donors" for the fifth consecutive year, as well as the "5 Years plus Caring Company Logo" awarded by Hong Kong Council of Social Service since 2011. In 2013, Melco continued to be honored to serve as the Diamond Corporate Member by WWF Hong Kong, which the Group has done every year since 2011.

City of Dreams' impressive performance in the premium segment enables Melco Crown Entertainment to maintain its market-leading mass market table yields

BUSINESS OPERATIONS

In 2013, Melco Crown Entertainment was included on the Forbes Asia's "Fabulous 50" list for the first time, ranking the best big companies in the region. This is a prestigious recognition of its success in which record-breaking results were achieved driven by its operational excellence and bold innovation.

In hospitality and services, Melco Crown Entertainment has been striving to provide the most unforgettable and utmost premium hospitality experience to every customer. Approaching its seventh anniversary, the contemporary luxurious Altira Macau was proud to have earned the highest Five-Star rating in both the Hotel and Spa categories by Forbes Travel Guide for five consecutive years since 2010. Its contemporary, luxurious décor and attention to detail mean that it has always been one of the town's most favorite hospitality brands for both tourists and locals. Crown Towers at City of Dreams is the only hotel in Macau to be awarded the Forbes Five-Star Awards by Forbes Travel Guide for its hotel, spa and restaurants namely Jade Dragon and the Tasting Room. In addition, in recognition of its diverse range of world-class leisure and entertainment offerings, City of Dreams was awarded the "Integrated Resort of the Year" award at the International Gaming Awards 2013.

All of these achievements and awards are clear evidence of the community's and industry's confidence in the Group, and the recognition on its continuous efforts in maintaining the highest standard of corporate practices. While striving for business growth to maximize the long-term shareholder value, Melco will continue to fulfill its commitment on creating a sustainable environment for the community we serve.

Outlook

After experiencing years of very robust growth in the gaming market in Macau, looking ahead, it is expected that the growth will moderate somewhat, with increasing competition and uncertainties arising from the expected opening of numerous new leisure and entertainment properties in the city, together with less spending in the VIP segment. Even so, the Macau gaming market is still expected to enjoy a healthy and stable growth, with the gradually recovering global economy providing a sound foundation, accompanied by greater demand from the increasingly affluent Chinese middle class for quality entertainment offerings which serves as a key growth driver of Macau's gaming and tourism industries. While there are

concerns that the industry in Macau may be over-relying on demand from mainland China, especially since the growth in GDP of the Chinese economy has normalized during recent years, as we continue to expand our reach and open new operations overseas, the Group will be able to further diversify its income streams as it replicates its success in Macau in the other foreign markets.

With the expected new supply of integrated resorts in the Cotai region soon opening, the competition in Macau gaming industry shall intensify as gaming operators race to gain a greater market share in Macau. As a pioneer in the industry which has long been striving to offer more outstanding gaming and non-gaming experiences, Melco embraces the competition and challenges by constantly improving the overall performance of its current businesses and enhancing its portfolio. With its existing operations, the Group is continuing its efforts to optimize table productivity and profitability to drive sustainable revenue growth, which involves continuously strengthening the performance of City of Dreams, a profitability driver for the Group's gaming business which appeals to the premium market segment with its unique leisure and entertainment offerings. A key upcoming addition to the Group's flagship property is the introduction of the iconic fifth tower at City of Dreams anticipated to open in early 2017. Simultaneously, the construction of Studio City, a new cinematically-themed integrated resort in Cotai targeting the mass market segment, is also on track and expected to open in mid-2015. It will be the next standalone integrated resort to open in Cotai to complement the Group's existing portfolio in Macau.

In the macro environment, there has been speculation on the possibility that the validity of gaming concessions in Macau could be subject to renewal every five or ten years. Understandably, this may be deemed a source of regulatory uncertainty by the market and may temporarily affect market sentiment, the Group believes the PRC and local governments are still supportive to the development of Macau and gaming operators in the city, and the final decision on the issue will be for the long-term benefit and healthy development of the Macau gaming and entertainment industries as a whole. Melco will work closely with the government in accordance with the regulations towards this end.

Beyond Macau, Melco is actively exploring and seizing opportunities within and outside of Asia. In the Russian market, as one of the first-movers in the region, Melco remains confident that its integrated casino resort will effectively revitalize and contribute to the local economy in the Primorye region and ultimately Russia. In the Philippines, the entry of City of Dreams Manila will introduce world-class multi-dimensional entertainment experiences and renowned top brands to Manila in the near future as the new integrated resort continues to develop. The Group is also carefully evaluating other potential markets in Asia, most notably, Japan, and is prepared to capture any possible opportunities should the Japanese market finally legalize casinos. Meanwhile, EGT will continue to seek new gaming project opportunities in more established gaming markets in the Indo-China region and other Asian areas. By introducing the Melco brand into these new markets, the Group hopes not only to create greater values for shareholders, but also to add value to the local tourism industry by enhancing diversity, attracting tourists' visitations and elevating the standard of hospitality industry service.

Melco's strong cash flow delivered by our core operating assets in Macau and its low gearing provides us with sufficient capital to fuel the development of our existing and future projects. Melco will continue to strive for operational excellence and work on innovative projects spanning across Asia to enrich both gaming and non-gaming offerings, with a prudent approach in expansion efforts riding on the Group's strong financial position. Ultimately, the Group shall strive to maximize return and long-term value to shareholders.

Financial Review

	2013	2012
	HK$'000	HK$'000
Segment Results:		
Gaming, Leisure and Entertainment	**(15,507)**	(310)
Property and Other Investments	**114,561**	80,678
	99,054	80,368
Share of (losses) profits of joint ventures	**(139)**	145,080
Share of profits of associates	**1,760,725**	1,238,460
Loss on deemed disposal of interest in an associate	**(61,900)**	(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)
Unallocated corporate income	**22,684**	36,261
Central administrative costs and other unallocated corporate expenses	**(170,240)**	(151,153)
Finance costs	**(39,203)**	(98,926)
Profit before tax	**1,610,981**	1,116,240
Income tax (expense) credit	**(6,865)**	7,374
Profit for the year	**1,604,116**	1,123,614
Non-controlling interests	**(7,401)**	(1,711)
	1,596,715	1,121,903

Star-studded cast of China national sports elites and celebrities performed in "Viva Fiesta 2013", a cross-over sports and music spectacular staged at the state-of-the-art Dancing Water Theater at City of Dreams

For the year ended 31 December 2013, the Group reported profit attributable to owners of the Company of HK$1,596.7 million compared to HK$1,121.9 million for the year 2012.

Segment Results

GAMING, LEISURE AND ENTERTAINMENT

The gaming, leisure and entertainment businesses are mainly formed by the core (i) Macau gaming business (conducted via 33.55%-owned Melco Crown Entertainment), (ii) gaming machine revenue participation business (conducted through 38.14%-owned EGT), in which the brief descriptions for the performance of the core Macau gaming business and gaming machine revenue participation business for the year ended 31 December 2013 are included under heading "SHARE OF PROFITS OF ASSOCIATE" below, and (iii) lottery business (conducted through 43.93%-owned MelcoLot), together with other non-core businesses.

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

	2013	2012
	HK$'000	HK$'000
MelcoLot (1)	**(4,873)**	864
Jumbo Kingdom (2)	**(9,772)**	287
Others (3)	**(862)**	(1,461)
	(15,507)	(310)

(1) MelcoLot

MelcoLot recorded a loss of HK$13.0 million for the year ended 31 December 2013 against a profit of HK$70.5 million for the year 2012, which was mainly attributable to the combined effect of:

(i) the absence of a non-operational gain on group restructuring of HK$ 226.8 million as recorded in the year ended 31 December 2012 (details of which were disclosed in the announcement of MelcoLot dated 3 May 2013);

(ii) the decrease in revenue for the year ended 31 December 2013 and the decrease in gross margin from 16.8% in 2012 to 15.5% in 2013;

(iii) the significant decrease in other administrative expenses from HK$21.7 million in 2012 to HK$7.9 million in 2013 mainly due to the absence of professional fees for the group restructuring in 2012;

(iv) the significant decrease in finance costs from HK$93.0 million in 2012 to HK$7.2 million in 2013 due to the extinguishment of all outstanding convertible bonds in late 2012; and

(v) the decrease in impairment losses on trade and other receivables and property, plant and equipment in 2012 from HK$22.2 million to HK$0.7 million in 2013.

MelcoLot also shared losses of associates, engaged in development of paperless lottery sale channels, amounting to HK$0.3 million (2012: HK$2.6 million).

In 2012, capital gain tax of HK$20.9 million arising from the disposal of subsidiaries under the group restructuring had been provided pursuant to the relevant tax laws in the PRC.

(2) Jumbo Kingdom

Jumbo Kingdom includes the Jumbo and Tai-Pak floating restaurants located in Aberdeen, Hong Kong and a restaurant in Beijing, named as J-Kitchen.

The catering business segment resulted a loss of HK$9.8 million for the year ended 31 December 2013 while a profit of HK$0.3 million for the same period in 2012. With the decrease in sales and increase in staff costs and other operating expenses, business in Hong Kong resulted at a profit of HK$1.0 million during the current year as compared to a profit of HK$6.4 million in 2012.

J-Kitchen in Beijing recorded an operating loss of HK$4.5 million during the year ended 31 December 2013, decreased by 26% as compared to HK$6.1 million for the year ended 31 December 2012. Due to the underperformance of J-Kitchen, the restaurant was closed in June 2013 and HK$6.3 million impairment loss on property, plant and equipment was recorded in relation to the closure of business.

World famous illusionist Franz Harary presents his extraordinary inaugural performance in Macau at City of Dreams

(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 2013, it recorded a profit of HK$114.6 million (2012: HK$80.7 million). The increase was primarily due to an increase in revaluation gain of investment properties. The revaluation gain increased from HK$58.0 million in 2012 to HK$88.0 million in 2013.

Share of Profits of Associates

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

	2013	2012
	HK$'000	HK$'000
Share of profit of Melco Crown Entertainment (1)	**1,760,865**	1,179,310
Share of profit of Power Way	**–**	59,260
Others	**(140)**	(110)
	1,760,725	1,238,460

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 EGT and MCR continued to be making losses. In paragraph (2) below, the performance of EGT during the year 2013 is briefly described.

(1) SHARE OF PROFIT OF MELCO CROWN ENTERTAINMENT

For the year under review, the Group's attributable profit arising from its 33.55% ownership of Melco Crown Entertainment amounted to approximately HK$1,760.9 million (2012: HK$1,179.3 million) after taking into account the adjustments in accordance with Hong Kong Financial Reporting Standards.

According to the unaudited financial results (prepared in accordance with the United States Generally Accepted Accounting Principles ("U.S. GAAP")) of Melco Crown Entertainment announced on 13 February 2014, it reported net revenue of US$5.1 billion for the year ended 31 December 2013, versus US$4.1 billion for the year ended 31 December 2012. 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 rolling chip and gaming machines segment.

The Adjusted EBITDA was US$1,287.8 million, as compared with an Adjusted EBITDA of US$920.2 million in the 2012. The year-over-year improvements in Adjusted EBITDA were primarily attributable to substantially improved mass table games and rolling chip revenues together with strict cost control focus.

Melco Crown Entertainment reported net income of US$637.5 million for the year ended 31 December 2013, compared to a net income of US$417.2 million in the corresponding period of 2012.

City of Dreams

For the year ended 31 December 2013, net revenue at City of Dreams was US$3,857.0 million versus US$2,920.9 million in the year ended 31 December 2012. City of Dreams generated Adjusted EBITDA of US$1,193.2 million in 2013 compared with US$805.7 million in 2012. Rolling chip volume totaled US$97.0 billion for 2013, up from US$81.3 billion in 2012. In the fourth quarter of 2013, the rolling chip win rate (calculated before discounts and commissions) was 3.0%, while the expected rolling chip win rate range is 2.7% – 3.0%. In the mass market table games segment, drop (a measure of mass market gaming volume) for the year totaled US$4,664.5 million, up from US$3,587.0 million in 2012. In the fourth quarter of 2013, the mass market table games hold percentage was 37.6% compared to 30.9% in the fourth quarter of 2012.

Altira Macau

For the year ended 31 December 2013, net revenue at Altira Macau was US$1,033.8 million versus US$966.8 million in the year ended 31 December 2012. Altira

TABOO, the eye-opening experience of sensuality, is the most seductive hit cabaret show in Asia

The multiple award-winning water-based extravaganza "The House of Dancing Water" represents the live entertainment centerpiece of City of Dreams' overall leisure and entertainment offering

Macau generated Adjusted EBITDA of US$147.3 million in 2013 compared with US$154.7 million in 2012. Rolling chip volume totaled US$44.9 billion for 2013, up from US$44.0 billion in 2012. In the fourth quarter of 2013, the rolling chip win rate (calculated before discounts and commissions) was 3.0%, while the expected rolling chip win rate range is 2.7% – 3.0%. In the mass market table games segment, drop (a measure of mass market gaming volume) for the year totaled US$724.0 million, up from US$601.4 million generated in the previous year. In the fourth quarter of 2013, the mass market table games hold percentage was 16.3% compared with 16.5% in the fourth quarter of 2012.

Mocha Clubs

Net operating revenue from Mocha Clubs totaled US$148.7 million in the year ended 31 December 2013, up from US$143.3 million in the year ended 31 December 2012. Mocha Clubs generated US$40.2 million of Adjusted EBITDA in 2013, as compared to US$36.1 million in the previous year. In the fourth quarter of 2013, the number of gaming machines in operation at the Mocha Clubs averaged approximately 2,000. The net win per gaming machine per day was US$246 for the fourth quarter of 2013, as compared with US$183 in the comparable period in 2012.

City of Dreams Manila

On a fully consolidated basis, Melco Crown Entertainment incurred approximately US$37.2 million of operating loss during the year ended 31 December 2013 at City of Dreams Manila, which primarily related to pre-opening costs, development costs as well as share-based compensation cost. Melco Crown Entertainment also incurred approximately US$34.0 million of capital lease charges relating to building lease payments during the year ended 31 December 2013 at City of Dreams Manila.

(2) PERFORMANCE OF EGT DURING THE YEAR UNDER REVIEW

Entertainment Gaming Asia Inc., a company listed on NASDAQ (NASDAQ: EGT), in which the Group has an effective equity interest of approximately 38.14%, recorded consolidated revenue of US$24.3 million for the 2013 fiscal year, down 9% from the prior year due to declines in its slot operations and gaming chips and plaques business.

According to the financial statements of EGT (prepared in accordance with U.S. GAAP), consolidated revenue was US$24.3 million for the 2013 fiscal year, a decrease of 9% compared to US$26.8 million in the 2012 fiscal year. The decrease was due primarily to a decline in EGT's gaming products division. Revenue from gaming operations, which included slot and casino operations, was US$20.9 million for the 2013 fiscal year, an increase of 2% compared to US$20.4 million in the 2012 fiscal year.

EGT reported adjusted EBITDA of US$6.2 million in the 2013 fiscal year compared to US$10.5 million in the 2012 fiscal year. Net loss for the 2013 fiscal year amounted to US$7.3 million as compared to net income of US$1.8 million for the 2012 fiscal year.

As of 31 December 2013, EGT had an operating machine base of 1,672 machines, with 563 located in the Philippines and 1,109 in Cambodia.

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

Loss on Deemed Disposal of Interests in Associates

During the year ended 31 December 2013, the Group recognized a loss on deemed disposal of interests in associates of approximately HK$61.9 million (2012: HK$13.5 million) resulting from the exercise of share options and the vesting of certain restricted shares issued by Melco Crown Entertainment. The amount represents the decrease (2012: decrease) in net assets attributable to the Group of approximately HK$63.3 million (2012: HK$13.6 million) and the realization of special reserve to profit or loss of approximately HK$1.4 million (2012: HK$0.1 million).

Unallocated Corporate Income

For the year ended 31 December 2013, the unallocated corporate income of approximately HK$22.7 million (2012: HK$36.3 million) represented a recovery of a fully impaired loan to MCR amounted to CAD$3.0 million (equivalent to approximately HK$22.7 million) during the year.

For the year ended 31 December 2012, it represented the net amortized financial guarantee income in relation to the joint and several financial guarantee provided by the Company and Crown Asia Investments Pty. Ltd. for the exchangeable bonds issued by Melco Crown SPV Limited amounted to HK$12.9 million and a one-off service income of approximately HK$23.3 million received for the referral of a gaming project. The exchangeable bonds were fully redeemed in September 2012.

Central Administrative Costs and Other Unallocated Corporate Expenses

Unallocated corporate expenses increased by 13% from approximately HK$151.2 million in 2012 to HK$170.2 million in 2013. 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 60% from approximately HK$98.9 million in 2012 to approximately HK$39.2 million in 2013. It represented the net off effect of the decrease in imputed interest expenses of HK$89.0 million on the convertible loan note which were fully converted to the Company's shares in September 2012, and the increase in interest expenses of HK$26.7 million on the HK$760.0 million guaranteed bonds newly raised in February 2013.

Income Tax (Expense) Credit

During the year ended 31 December 2013, tax expenses represent the tax provision for differences arising from the disposal gain of overseas investment properties, the PRC enterprise income tax expense and the utilization of tax losses recognized in prior years.

For the year ended 31 December 2012, the deferred taxation credit was mainly derived from the reversal of temporary differences arising from initial recognition of convertible loan note equity component. Upon the conversion of convertible loan note in December 2012, the related deferred taxation credit was reversed accordingly.

Liquidity and Financial Resources/ Capital Structure/Charge on Group Assets

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

As of 31 December 2013, total assets of the Group were HK$12,943.1 million (2012: HK$9,925.3 million) which were financed by shareholders' funds of HK$11,689.0 million (2012: HK$9,374.4 million), deficit balance of non-controlling interests of HK$73.6 million (2012: HK$76.5 million), current liabilities of HK$133.2 million (2012: HK$161.4 million), and non-current liabilities of HK$1,194.5 million (2012: HK$466.0 million). The Group's current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 12.3 (2012: 5.1).

During the year ended 31 December 2013, the Group recorded a net cash inflow of HK$49.7 million (2012: HK$58.8 million). The main cash inflow contributed by the cash raised through financing activities during the year amounted to HK$772.0 million, mainly from the issuance of the guaranteed bonds in current year, net off with the cash used in operating activities of HK$109.3 million and investing activities of HK$613.0 million during the year. As of 31 December 2013, cash and cash equivalents of the Group totaled HK$205.5 million (2012: HK$155.9 million). The gearing ratio, expressed as a percentage of total borrowings over shareholders' funds, was at a satisfactory level of 10% as of 31 December 2013 (2012: 5%).

In illustrating the Group's adoption of a prudent treasury policy, 95% of bank balances and cash (including bank deposits with original maturity over three months) are put in fixed deposits. All borrowings, and bank balances and cash are mainly denominated in Hong Kong dollars, U.S. dollars and Renminbi to maintain stable exposure to foreign exchange risks. Also, as at 31 December 2013, the Group's bank deposits of approximately HK$0.9 million (2012: HK$0.9 million) were pledged as security for obtaining utilities for certain subsidiaries of the Group.

As at 31 December 2013, the guaranteed bonds issued by the Group amounted to HK$760.0 million, which are interest bearing of 4.15% per annum and mature on 5 March 2018. The bonds are guaranteed by the Company. As at 31 December 2013, the Group's total available bank loan facilities from various banks amounted to HK$459.2 million (2012: HK$491.2 million), of which HK$44.2 million (2012: HK$76.2 million) was secured by pledging HK$159.0 million of the Group's investment properties. As at 31 December 2013, the Group utilized HK$413.0 million and HK$44.2 million of unsecured and secured bank loan facilities respectively (2012: unsecured HK$413.0 million; secured HK$76.2 million). Details of bank and other borrowings are given in Note 36 to the consolidated financial statements.

Material Acquisitions, Disposals and Significant Investments

(i) On 10 July 2013, a wholly owned subsidiary of the Group, New Crescent Investments Limited ("New Crescent") has entered into an investment agreement with Summit Ascent Russia Limited, Firich Investment Limited, Elegant City Group Limited and Oriental Regent Limited ("Oriental Regent") (the "Investment Agreement"). The Investment Agreement provides that New Crescent will make an investment in a gaming and resort development project in Russia Federation, by subscribing new shares of Oriental Regent, representing 5% of the enlarged issued share capital of Oriental Regent upon completion pursuant to the terms and conditions of the Investment Agreement. The investment has been completed on 31 October 2013. Details are given in Note 24 to the consolidated financial statements.

(ii) During the year, the Group disposed of 123,940,000 MelcoLot's shares (the "Disposal"), representing 5.15% of the issued share capital of MelcoLot as at 31 December 2013 for an aggregate consideration, net of expenses, of approximately HK$149.0 million received in cash in the open market. The consideration was calculated by reference to the market share price of the MelcoLot at the date of the disposal.

The gain in respect of the Disposal was approximately HK$160.9 million, was calculated by (a) adding the net liabilities of MelcoLot attributable to the non-controlling interests of approximately HK$11.9 million and (b) deducting the related costs and expenses of the disposal of approximately HK$0.5 million from the gross proceeds of the Disposal of approximately HK$149.5 million, has been credited to special reserve.

Headcount/Employees' Information

The total number of the Group's and associates' employees was 12,745 as of 31 December 2013. Excluding the employees from associates such as Melco Crown Entertainment, MCR, EGT and ChariLot Company Limited, the total number of the Group's employees became 254 as of 31 December 2013 (2012: 314). Among the 254 employees, 224 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 2013, including directors' emoluments, share options expenses and share award expenses, amounted to HK$195.0 million (2012: HK$158.1 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 in 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 2013.

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.

Investor Relations

Melco believes in the importance of a strong relationship with its investor to maintain a stable shareholder base, and good relationships are built through transparent, regular and proactive communications to create trust in the management. The Group actively reached out to investors to enhance their understanding of Melco's business developments and the gaming industry's outlook by participating in investor conferences held by renowned securities houses and by maintaining regular dialogue with institutional investors and analysts. During the year, more than 400 meetings with analysts and fund managers have been held, in addition to several site visits to its development projects in Macau for investors organized by the Group.

In recognition of the Group's efforts in investor relations, Corporate Governance Asia magazine has awarded Melco with the "Best Investor Relations by a Hong Kong Company" in the Asian Excellence Recognition Awards for the fourth consecutive year, and FinanceAsia magazine has also awarded Melco with the "Best Investor Relations" in 2014. The Group's Chairman and Chief Executive Officer, Mr. Lawrence Ho, has also been recognized for the third time with the "Asia's Best CEO" honor at the Asian Excellence Recognition Awards presented by Corporate Governance Asia magazine, and was honored as one of the "Best CEOs in Hong Kong" by FinanceAsia magazine for the fifth year in 2014. The Group will continue to uphold its efforts in enhancing its communications to foster stronger relations with its investors.

Corporate Citizenship

GENERAL COMMUNITY

Actively committed to corporate citizenship, Melco supports a wide scope of social and charity activities that demonstrate its caring for the welfare and betterment of society. In addition to several internal CSR initiatives, such as the Melco CSR Wish Fund and the Melco Volunteer Incentive Scheme, externally, the Group has also joined forces with non-governmental organizations to address a wide swath of community needs as well as contributing donations and providing sponsorship for charitable events.

In 2013, the Group's staff volunteers continued to organize year-round charity programs thereby sharing their love while spreading happiness within the local communities. Working with 22 non-governmental organizations, a total of 30 projects and events supported by the Group during the year benefitted over 500,000 people along with their families. To acknowledge the Group's outstanding performance in corporate responsibility, Melco was selected for inclusion in the Hang Seng Corporate Sustainability Index Series for 2013–2014. The Group was also recognized with the "Best CSR" within the Asian Excellence Recognition Awards by Corporate Governance Asia magazine as well as the "Best Corporate Social Responsibility" by FinanceAsia magazine.


Melco supports a wide scope of social and charity activities, demonstrating its caring for the welfare and betterment of society

2013 EVENT HIGHLIGHTS – COMMUNITY

- Participated in the New Territories Walks for Millions organized by The Community Chest of Hong Kong
- Sponsorship for the Charity Begins from the Home TV Show organized by The Community Chest of Hong Kong
- Ongoing support for the Corporate and Employee Contribution Program organized by The Community Chest of Hong Kong
- Participated in the Skip Lunch Day organized by The Community Chest of Hong Kong
- Sponsorship for the Gala dinner organized by Mother's Choice
- Supported the Camp Macau Tour 2013 organized by Camp Quality
- Contributed to the Love Chocolate Charity Sale 2013-2014 organized by SKH St. Christopher's Home
- Donated to the Computer Refurbish Project organized by Caritas Hong Kong Computer Workshop

Education

Melco has organized and supported various educational programs for disadvantaged children in Asia which aimed to prepare them for playing a positive role in society in the future. As education is essential for the community to strengthen the economy, the Group believes that everyone should have an equal opportunity to learn. For example, Melco has contributed to the "Wetland Insert Watch" organized by The Community Chest of Hong Kong for 22 children from the Hans Christian Andersen Club to both educate and motivate participants on how to preserve environmental properties. Beyond the Pearl River Delta, the Group continues to financially contribute to Christian Action in supporting the efforts of the Huangnan Children's Home in Qinghai Province, China, to provide children with the opportunity to receive a tertiary education and vocational training and develop into future leaders.

2013 EVENT HIGHLIGHTS – EDUCATION

- Contributed to the "Wetland Insert Watch" Children Educational Tour for the Hans Christian Andersen Club arranged by The Community Chest of Hong Kong

- Donated to the "Comprehensive Education Grant for Students" program at Huangnan Children's Home in Qinghai China organized by Christian Action

Environment

Without a sustainable environment, businesses and its community will not be able to thrive in the long-term. Melco has thus always set environmental protection as a key CSR pillar for the Group to ensure our future generations can live and continue to grow in a greener place.

In recognition for our efforts in carrying out many green activities to demonstrate and advocate the importance of preserving the environment, Melco has again garnered a Gold Label for its "Low-carbon Office Operation Programme" by WWF Hong Kong, an honor it has received every year since 2011 for its commitments in implementing energy-saving practices. Also, for the fifth consecutive year, the Hong Kong Awards for Environmental Excellence has awarded Melco the "Class of Excellence in Wastewise Label" for its dedication to the reduction of its carbon footprint.

2013 EVENT HIGHLIGHTS – ENVIRONMENT

- Extended the sponsorship for the Environmental Play Project organized by the Playright Children's Play Association to a 3-year project with a ground-breaking new initiative, the Forest School

- Participated in Hong Kong Green Day 2013 organized by the Hong Kong Green Council

- Sponsorship for International Coastal Cleanup 2013 organized by the Hong Kong Green Council

- Sponsorship for the Green Carnival 2013 organized by the Hong Kong Green Council

- Participated in Earth Hour 2013 organized by WWF of Hong Kong for the fifth consecutive year

- Sponsorship for the Big Bird Race 2013 organized by WWF Hong Kong

- Supported the "Reduce and Recycle Waste, Protect the Environment with Heart" Environmental Protection Education Project organized by the Hong Kong Sheng Kung Hui Welfare Council.

- Supported the Green Our Homeland Start from Us campaign organized by the Mental Health Association of Hong Kong

Youth Development

Helping young people develop into well-rounded individuals has been one of the main goals of Melco's CSR program. The Group's youth development initiatives shows our ongoing commitment to setting youth on the right path in life, with equal opportunities for a better education regardless of their social or economic circumstances. This is achieved through a range of activities which are designed to inspire the participating young people for all-rounded personal development and be capable of contributing to building a better society.

In the year 2013, the Group's corporate social responsibility efforts through donation, participation, sponsorship and support have helped an enormous number of children and their families to improve communications not only among their peers but others by engaging them in social activities and skills training. These programs aim to cultivate self-confidence and instill an appreciation of nature in young people as well as turning them away from drugs and other anti-social behavior. Already, on the medical side, the Group has supported the 3-year Eye Care Project in Shandong. More than 50,000 children have been screened and over 68,000 treated, with 8,217 surgeries performed as of 2013.

2013 EVENT HIGHLIGHTS – YOUTH DEVELOPMENT

- Supported the Child Patients of Caritas Medical Centre – Hospital Play Service by Playright Children's Play Association
- Contributed to the Playright Walk on the Air organized by Playright Children's Play Association
- Supported the Youth Leader Development Scheme organized by Hong Kong PHAB Association
- Donated to the "Establish a Network of Pediatric Eye Care in Linyi, Shandong" project organized by ORBIS International
- Participated in the Coffee Life – Youth Empowerment Life Skills Training Project organized by The Society for the Aid and Rehabilitation of Drug Abusers
- Sponsorship for Daddy-Daughter Ball 2012 organized by Child Development Centre
- Participated in the Parent-Child Farm Outing organized by Hong Kong Family Welfare Society
- Contributed to the "Caring for our Kids" program for rebuilding child-parent relationships for families with gambling problems and the "Prevention Project" organized by the Hong Kong Lutheran Centre
- Supported the "Nurturing Migrant Children for a Brighter Future" program organized by Pathfinders
- Contributed to the "Writing for a Cause Competition" organized by Kids4kids

Melco's exceptional contributions and initiatives in fulfilling its corporate social responsibility have garnered for it a number of prestigious accolades during the year. The Community Chest of Hong Kong has bestowed the "President's Award" since 2006 for eight consecutive years and the "Platinum Award for Corporate & Employee Contribution Programme Donors" for the fifth year. The Hong Kong Council of Social Service has also awarded the "Caring Company Logo" to Melco since 2005 and the "5 Years plus Caring Company Logo" annually since 2011. Melco was also honored to serve as the Diamond Corporate Member by WWF Hong Kong for the third consecutive year in 2013.

For more information on Melco's CSR activities, please refer to the Melco CSR Report 2013 or visit the website www.melco-group.com.

Melco's youth development initiatives show its ongoing commitment to help young people develop into well-rounded individuals

Management Profile

DIRECTORS

Mr. HO, Lawrence Yau Lung (aged 37)

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 of the Company 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 and a director of certain subsidiaries of the Company. Mr. Ho is currently the co-chairman and chief executive officer of Melco Crown Entertainment Limited, a company listed on the Hong Kong Stock Exchange 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. He is also the chairman and non-executive director of Summit Ascent Holdings Limited, a company listed on the Hong Kong Stock Exchange. Mr. Ho is a director of both Lasting Legend Ltd. and Better Joy Overseas Ltd., substantial shareholders of the Company.

As a Member of the National Committee of the Chinese People's Political Consultative Conference, Mr. Ho also serves on numerous boards and committees of privately held companies in Hong Kong, Macau and mainland China. He is a Member of the Board of Directors, Member of the Executive Committee, and 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; 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; Honorary Patron of The Canadian Chamber of Commerce in Macao; Honorary President of Association of Property Agents and Real Estate Developers of Macau and Director Executivo of Macao Chamber of Commerce.

In recognition of Mr. Ho's excellent directorship and entrepreneurial spirit, Institutional Investor honored him as the "Best CEO" in 2005. He was also granted the "5th China Enterprise Award for Creative Businessmen" by the China Marketing Association and China Enterprise News, "Leader of Tomorrow" by Hong Kong Tatler and the "Directors of the Year Award" by the Hong Kong Institute of Directors in 2005.

As a socially-responsible young entrepreneur in Hong Kong, Mr. Ho was selected as one of the "Ten Outstanding Young Persons Selection 2006", organized by Junior Chamber International Hong Kong. In 2007, he was 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 2008, he was granted the "China Charity Award" by the Ministry of Civil Affairs of the People's Republic of China. And in 2009, Mr. Ho was selected as one of the "China Top Ten Financial and Intelligent Persons" judged by a panel led by the Beijing Cultural Development Institute and Fortune Times, and was named "Young Entrepreneur of the Year" at Hong Kong's first Asia Pacific Entrepreneurship Awards.

Mr. Ho was honored as one of the recipients of the Asian Corporate Director Recognition Awards in 2012 and 2013, and was awarded "Asia's Best CEO" at the Asian Excellence Recognition Awards by Corporate Governance Asia magazine for the third time in 2014. He was also once again selected by FinanceAsia magazine as one of the "Best CEOs in Hong Kong" for the fifth year in 2014.

Mr. Ho graduated with a Bachelor of Arts degree in commerce from the University of Toronto, Canada in June 1999 and was awarded the Honorary Doctor of Business Administration degree by Edinburgh Napier University, Scotland in July 2009 for his contribution to business, education and the community in Hong Kong, Macau and China.

Mr. TSUI Che Yin, Frank (aged 56)
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 and a director of certain subsidiaries of the Company. He is currently the chairman and non-executive director of MelcoLot Limited, a company listed on the Hong Kong Stock Exchange, 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. Mr. Tsui has more than 30 years of experience in investment and banking, having held senior management positions at various international financial institutions. 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 51)
Executive Director

Mr. Chung has been an Executive Director of the Company since May 2006. He is also a member of the executive committee, finance committee and corporate social responsibility committee of the Company and a director of certain subsidiaries of the Company. He is currently a non-executive director of Melco Crown Entertainment Limited, a company listed on the Hong Kong Stock Exchange and NASDAQ Global Select Market in the United States, the chairman and president of Melco Crown (Philippines) Resorts Corporation, a company listed on the Philippine Stock Exchange, 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 25 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" by Inside Asian Gaming magazine for multiple years.

Mr. Chung obtained 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 a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

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.

Management Profile

Sir Roger LOBO, C.B.E., LL.D., J.P. (aged 90)
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 58)
Independent Non-executive Director

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

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

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

Dr. TYEN Kan Hee, Anthony (aged 58)
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 36 years' experience in auditing, accounting, management and company secretarial practice.

SENIOR MANAGEMENT

Mr. TSANG Yuen Wai, Samuel (aged 59)
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 an executive director of MelcoLot Limited, a company listed on the The Stock Exchange of Hong Kong Limited and 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 54)
Executive Director and Chief Executive Officer of MelcoLot Limited

Mr. Ko is an executive director and chief executive officer of MelcoLot Limited ("MelcoLot"), a wholly owned 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 chief executive officer 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 chief executive officer and executive director of PAL Development Limited. Upon the acquisition of the lottery business, Mr. Ko was appointed as a director and chief executive officer of MelcoLot and continues to lead the lottery business of MelcoLot Group.

Mr. TAM Chi Wai, Dennis, PhD, CPA (Aust), CMA (aged 44)

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 is also an executive director of MelcoLot Limited, a company listed on the The Stock Exchange of Hong Kong Limited.

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 Cambridge, USA. 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 Advisor 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. In 2014, Mr. Tam was awarded "Asia's Best CFO (Investor Relations)" at the Asian Excellence Awards by Corporate Governance Asia magazine.

Mr. LAW Kwok Fai, Alan (aged 52)

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 2013, Melco received the "Corporate Governance Asia Annual Recognition Award" for the eighth consecutive year from Corporate Governance Asia magazine and was honoured as the "Icon on Corporate Governance". In 2014, Melco also won "Best Investor Relations by a Hong Kong Company" at the Asian Excellence Recognition Awards organized by Corporate Governance Asia magazine for the fourth consecutive year and was selected by FinanceAsia magazine as one of the "Best Managed Companies in Hong Kong", "Best Corporate Governance" and "Best Investor Relations". The Group's Chairman and Chief Executive Officer, Mr. Ho, Lawrence Yau Lung, received the "Asian Corporate Director Recognition Awards" presented by Corporate Governance Asia magazine for two consecutive years. He was also honored as "Asia's Best CEO for the third time by Corporate Governance Asia magazine and one of the "Best CEOs in Hong Kong" by FinanceAsia magazine for the fifth year in 2014. 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 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 HKSE Code throughout the year ended 31 December 2013, except for the deviation from Code Provision A.2.1 of the HKSE Code with explanation described below.

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.

Corporate Governance Report

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

All Directors entered into formal letters of appointment with the Company which set out the key terms and conditions of their appointment. Each non-executive director and independent non-executive director was appointed for a term of three years. 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. Ho, Lawrence Yau Lung, Sir Roger Lobo and Dr. Tyen Kan Hee, Anthony will retire and they are eligible to offer themselves for re-election at the forthcoming annual general meeting.

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. Pursuant to Code Provision A.4.3 of the HKSE Code, re-election of independent non-executive director who has served the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. Sir Roger Lobo, Independent Non-executive Director, has served the Board for 16 years. The Board has received written confirmation from Sir Roger regarding his independence in accordance with the Listing Rules. In view of this and in view of the fact that Sir Roger is a very seasoned and experienced director and public figure, with eminent public, community and civic services at senior levels, the board considers Sir Roger has the necessary character, integrity and experience to remain independent notwithstanding his long period of service and will continue to bring invaluable independent advice and perspectives to the Company and its business. The Board therefore recommends Sir Roger to be re-elected as Independent Non-executive Director of the Company at the AGM.

The biographical details of the retiring directors have been set out in a circular to assist shareholders to make an informed decision on their re-elections.

Board Diversity Policy

In August 2013, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will monitor the implementation of this policy and report annually, in the corporate governance report of the Company, on the process it has used in relation to board appointments.

Directors' Training

The Company has in place a clear corporate governance process to ensure 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 organising appropriate continuing development programme for directors. Every newly appointed director will receive a comprehensive orientation package on appointment. A Guide on Directors' Duties published by the Companies Registry of Hong Kong and/or a Guide for Independent Non-executive Directors published by The Hong Kong Institute of Directors have been sent (for independent non-executive directors only) to each Director for information and reference.

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.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the year, the Company has arranged in-house training for Directors. This includes a briefing by the chief operating officer of our associate company to our Directors on casino operation and casino business and a site visit for our Directors, which help Directors to more understand the business of the Company. The Company regularly provides to Directors information about external training courses and seminars as well as articles and updates on the latest developments in the laws, rules and regulations which help refresh Directors' knowledge and skills in relation to their performance of the roles, functions and duties of a listed company director. The costs for such trainings are borne by the Company. A summary of training received by Directors during the year ended 31 December 2013 is set out below:

	Type of Continuous Professional Development	
	Attending seminars/ workshops/ conferences relevant to the business or directors' duties	**Reading regulatory updates**
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	✓	✓

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 was 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 seven meetings during the year ended 31 December 2013. Each Director's attendance record at the board meetings during the year is set out under the section "Directors' Attendance at Meetings" of this report. 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 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.

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 2013.

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 2013.

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 auditors and Internal Audit Department to discharge its duties.

The Audit Committee held two meetings during the year. Each member's attendance record at the meetings during the year is set out under the section "Directors' Attendance at Meetings" of this report. The following is a summary of the major work performed by the Audit Committee during the year:

(a) reviewed the financial results for the year ended 31 December 2012 and interim financial results for the six months ended 30 June 2013;

(b) reviewed and approved the draft 2012 annual report and 2013 interim report;

(c) reviewed the significant findings and recommendations from the internal auditor and external auditor, and monitored subsequent implementations;

(d) reviewed the effectiveness of the internal control system;

(e) approved and confirmed the internal audit plan for the year 2013; and

(f) reviewed and considered the re-appointment of Messrs. Deloitte Touche Tohmatsu as external auditor and approved their remuneration.

(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, monitors the implementation of the board diversity policy, identifies the individuals suitably qualified to become Board members and makes 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. Each member's attendance record at the meeting is set out under the section "Directors' Attendance at Meetings" of this report. The following is a summary of the major work performed by the Nomination Committee during the year:

(a) reviewed the structure, size and composition of the Board;

(b) approved the nomination procedures, the process and criteria for nomination and appointment of directors;

(c) formulated the board diversity policy and recommended to the Board for approval;

(d) approved the revised terms of reference of the Nomination Committee; and

(e) assessed the independence of independent non-executive directors.

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. Each member's attendance record at the meetings is set out under the section "Directors' Attendance at Meetings" of this report. The following is a summary of the major work performed by the Remuneration Committee during the year:

(a) approved the proposal on salary revision of and discretionary bonus distribution to the employees of the Group;

(b) reviewed the remuneration policy for directors and senior management of the Company; and

(c) considered and approved 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 and recommended it to the Board for approval.

Details of remuneration payable to members of the senior management are set out in Note 15 to the consolidated financial statements.

The Remuneration 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.

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.

(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.

The CSR Committee held two meetings during the year. Each member's attendance record is set out under the section "Directors' Attendance at Meetings" of this report.

(8) Corporate Governance Committee

The Corporate Governance Committee was formed 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. Each member's attendance record at the meeting is shown below:–

Directors' attendance at meetings

The attendance records of the Directors at board meetings, board committee meetings and general meetings during the year ended 31 December 2013 are as follows:

	No. of meetings attended/held							
Name of Directors	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Corporate Governance Committee Meeting	Corporate Social Responsibility Committee Meeting	Annual General Meeting	Extra-ordinary General Meeting
Executive Directors								
Mr. Ho, Lawrence Yau Lung	7/7	–	–	–	–	1/2	1/1	1/1
Mr. Tsui Che Yin, Frank	7/7	–	–	–	–	2/2	1/1	1/1
Mr. Chung Yuk Man, Clarence	7/7	–	–	–	–	2/2	1/1	1/1
Non-executive Director								
Mr. Ng Ching Wo	7/7	2/2	1/1	2/2	1/1	–	1/1	1/1
Independent Non-executive Directors								
Sir Roger Lobo	5/7	2/2	1/1	2/2	–	2/2	1/1	1/1
Mr. Sham Sui Leung, Daniel	6/7	2/2	–	2/2	1/1	–	1/1	1/1
Dr. Tyen Kan Hee, Anthony	7/7	2/2	1/1	–	1/1	–	1/1	1/1
Average Attendance Rate	**93.88%**	**100%**	**100%**	**100%**	**100%**	**87.50%**	**100%**	**100%**

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.

During the year, Mr. Tsang has complied with the training requirement provided in Rule 3.29 of the Listing Rules.

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 page 77 of this annual report.

Auditor's Remuneration

For the year ended 31 December 2013, the Company paid to its auditor, Deloitte Touche Tohmatsu, approximately HK$3.3 million for audit and non-audit services provided to the Company. Out of this amount, HK$1.9 million was for audit services, and HK$1.4 million was for non-audit services, which include interim review of the Group's financial statements and tax and other consultancy 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 COSO 1992 framework and applies 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 2013 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 putting forward proposal at annual general meeting

Pursuant to section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), shareholders of the Company holding not less than 5% of the total voting rights of all the shareholders having a right to vote at general meetings may request directors to call a general meeting. The request must state the general nature of business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may consist of several documents in like form and may be sent to the Company in hard copy form or in electronic form and must be authenticated by the person(s) making it.

If the Directors do not within 21 days from the date of the deposit of the request (after being verified to be valid) proceed to convene a general meeting for a day not more than 28 days after the date on which the notice convening a general meeting 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 a general meeting, but any general meeting so convened shall not be held after the expiration of three months from the date of the deposit of the request.

Pursuant to section 615 of the Companies Ordinance, shareholders of the Company may request the Company to move a resolution at the annual general meeting. The request should be in writing and made by:

(a) shareholders holding at least 2.5% of the total voting rights of all shareholders having the right to vote on that resolution; or

(b) not less than 50 shareholders having the right to vote on that resolution.

The written request may be sent to the Company in hard copy form or in electronic form and must identify the resolution of which notice is to be given, be authenticated by the person or persons making it and be received by the Company not less than six weeks before the annual general meeting to which the requests relate; or if later, the time at which notice is given of that meeting.

Procedures for nomination of Directors for election

Pursuant 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.

The Chairman of the Board attended the AGM held on 14 June 2013. 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 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 2013.

Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in Note 45 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement on page 78 of this annual report.

The directors recommend the payment of a final dividend of HK20.8 cents per ordinary share for the year ended 31 December 2013 (2012: HK1.5 cents per ordinary share) to the shareholders whose names appear on the register of members of the Company on 23 June 2014. The proposed dividend will be paid on or about 4 July 2014.

Closure of Register of Members

The annual general meeting of the Company is scheduled to be held on Friday, 13 June 2014. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Wednesday, 11 June 2014 to Friday, 13 June 2014 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the above annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 10 June 2014.

The proposed final dividend for the year ended 31 December 2013 is subject to the approval of shareholders at the annual general meeting. For determining the entitlement to the proposed final dividend,, the register of members of the Company will be closed from Thursday, 19 June 2014 to Monday, 23 June 2014 (both days inclusive), during which period no transfer of shares of the Company will be registered. The last day for dealing in the Company's shares cum entitlements to the proposed final dividend will be Monday, 16 June 2014. In order to be eligible for the above 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 18 June 2014.

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 38 and 39, 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 182 of this annual report. This summary does not form part of the audited financial statements.

Distributable Reserves of the Company

At 31 December 2013, the Company's reserves available for distribution consisted of capital reserve and retained profits of approximately HK$211,475,000 and HK$409,661,000 respectively (2012: HK$234,495,000 and nil respectively). The Company considered it has fulfilled those conditions required for distribution of capital reserve and retained profits. In addition, the Company's share premium account, in the amount of approximately HK$4,418,042,000 (2012: HK$4,386,213,000), may be distributed in the form of fully paid bonus shares. Save as disclosed above, the Company had no reserve available for distribution in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance.

Major Customers and Suppliers

The five largest customers accounted for approximately 29% of the Group's total turnover for the year (2012: 18%) and the largest customer accounted for approximately 22% of the Group's turnover for the year (2012: 12%). The five largest suppliers accounted for approximately 75% of the Group's total purchases for the year (2012: 60%) and the largest supplier accounted for approximately 59% of the Group's purchases for the year (2012: 34%).

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 are:

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. Ho, Lawrence Yau Lung, Sir Roger Lobo and Dr. Tyen Kan Hee, Anthony shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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 38 to 42 of this annual report.

Directors' Service Contracts

Mr. Ho, Lawrence Yau Lung has service contracts with Melco Services Limited and Melco Services (Macau) Limited, both are wholly-owned subsidiaries of the Company, which may be terminated by either party by written notice of not less than three months.

Each of 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 44 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 2013, the interests and short position of each director and chief executive of the Company in the shares, underlying shares and debentures 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 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 the Company

	Number of ordinary shares held					
Name of Director	**Personal interests** (Note 2)	**Corporate interests** (Note 3)	**Other interests** (Note 4)	**Total**	**% of issued share capital**	**Notes**
Mr. Ho, Lawrence Yau Lung	18,162,612	429,923,077	298,982,187	747,067,876	48.63%	5, 6
Mr. Tsui Che Yin, Frank	181,660	–	–	181,660	0.01%	–
Mr. Chung Yuk Man, Clarence	9,440	–	–	9,440	0.001%	–
Sir Roger Lobo	72,000	–	–	72,000	0.005%	–
Mr. Sham Sui Leung, Daniel	72,000	–	–	72,000	0.005%	–
Mr. Ng Ching Wo	72,000	–	–	72,000	0.005%	–

(b) Share options and awarded shares granted by the Company

Name of Director	**Number of underlying shares held pursuant to share options** (Note 2)	**Number of awarded shares held** (Note 2)	**Total**	**% of issued share capital**	**Notes**
Mr. Ho, Lawrence Yau Lung	4,986,520	1,250,000	6,236,520	0.41%	7, 8
Mr. Tsui Che Yin, Frank	6,736,000	–	6,736,000	0.44%	7, 8
Mr. Chung Yuk Man, Clarence	7,136,000	–	7,136,000	0.46%	7, 8
Sir Roger Lobo	1,262,000	–	1,262,000	0.08%	7, 8
Mr. Sham Sui Leung, Daniel	962,000	–	962,000	0.06%	7, 8
Mr. Ng Ching Wo	1,262,000	–	1,262,000	0.08%	7, 8
Dr. Tyen Kan Hee, Anthony	760,000	–	760,000	0.05%	7, 8

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 and awarded shares granted by the Company (Continued)

Notes:

1. As at 31 December 2013, the total number of issued shares of the Company was 1,536,380,567.

2. This represents interests held by the relevant director as beneficial owner.

3. This represents interests held by the relevant director through his controlled corporations.

4. This represents interests held by the relevant director through a discretionary trust of which the relevant director is a beneficiary.

5. Of the 429,923,077 shares, 288,532,606 shares were held by Better Joy Overseas Ltd., 115,509,024 shares were held by Lasting Legend Ltd., 7,294,000 shares were held by The L3G Capital Trust and 18,587,447 shares were held by Mighty Dragon Developments Limited, representing approximately 18.78%, 7.52%, 0.47% and 1.21% of the issued share capital of the Company respectively. All of such companies/trust were owned by persons, companies and/or trusts associated with Mr. Ho, Lawrence Yau Lung. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung was deemed to be interested in the 429,923,077 shares held by the aforesaid companies/trust.

6. In addition to the deemed interests as stated in Note 5 above, Mr. Ho, Lawrence Yau Lung was also deemed to be interested in 298,982,187 shares held by Great Respect Limited, representing approximately 19.46% of the issued share capital of the Company, by virtue of him being a beneficiary of a discretionary family trust for the purpose of the SFO. 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.

7. Details of share options granted to the directors pursuant to the share option schemes of the Company are set out in the "Share Option Schemes" section of this report and Note 40 to the consolidated financial statements.

8. Details of awarded shares granted to the directors pursuant to The Melco Share Purchase Scheme (share incentive award scheme) are set out in Note 40 to the consolidated financial statements.

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) MelcoLot Limited ("MelcoLot") (a listed subsidiary of the Company)

(a) Ordinary shares of MelcoLot

	Number of ordinary shares held					
Name of Director	**Personal interests** (Note 2)	**Corporate interests** (Note 3)	**Other interests**	**Total**	**% of issued share capital of MelcoLot**	**Note**
Mr. Ho, Lawrence Yau Lung	–	1,057,834,409	–	1,057,834,409	43.93%	4

(b) Share Options granted by MelcoLot

Name of Director	**Number of underlying shares held pursuant to share options** (Note 2)	**% of issued share capital of MelcoLot**	**Note**
Mr. Ho, Lawrence Yau Lung	6,939,000	0.29%	5
Mr. Tsui Che Yin, Frank	6,000,000	0.25%	5

Notes:

1. As at 31 December 2013, the total number of issued shares of MelcoLot was 2,408,041,487.

2. This represents interests held by the relevant director as beneficial owner.

3. This represents interests held by the relevant director through his controlled corporations.

4. By virtue of the SFO, Mr. Ho, Lawrence Yau Lung is taken to be interested in 1,057,834,409 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 48.63% of the issued shares of the Company which in turn holds approximately 43.93% of the issued shares of MelcoLot.

5. The share options were granted on 2 July 2013 at exercise price of HK$0.544 per share. They are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of four years, starting from the grant date at stepped annual increments of 25% of the total share options granted.

6. Details of share options granted to the directors pursuant to the share option scheme of MelcoLot are set out in Note 40 to the consolidated financial statements.

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) Melco Crown Entertainment Limited ("Melco Crown Entertainment")

(a) Ordinary shares of Melco Crown Entertainment

	Number of ordinary shares held					
Name of Director	**Personal interests** (Note 2)	**Corporate interests** (Note 3)	**Other interests**	**Total**	**% of issued share capital of Melco Crown Entertainment**	**Note**
Mr. Ho, Lawrence Yau Lung	3,542,369	559,229,043	559,229,043	1,122,000,455	67.32%	4
Mr. Tsui Che Yin, Frank	11,850	–	–	11,850	0.001%	–
Mr. Chung Yuk Man, Clarence	115,123	–	–	115,123	0.01%	–

(b) Stock options and restricted shares granted by Melco Crown Entertainment

Name of Director	**Number of underlying shares held pursuant to stock options** (Note 2)	**Number of restricted shares held** (Note 2)	**Total**	**% of issued share capital of Melco Crown Entertainment**	**Notes**
Mr. Ho, Lawrence Yau Lung	5,937,339	580,575	6,517,914	0.39%	5, 6
Mr. Chung Yuk Man, Clarence	194,664	75,543	270,207	0.02%	5, 6

Notes:

1. As at 31 December 2013, the total number of issued shares of Melco Crown Entertainment was 1,666,633,448.

2. This represents interests held by the relevant director as beneficial owner.

3. This represents interests held by the relevant director through his controlled corporations.

4. 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 Resorts Limited (formerly known as Crown Limited) dated 12 December 2007 as a result of him being interested in approximately 48.63% of the issued shares of the Company which in turn holds approximately 67.11% of the issued shares of Melco Crown Entertainment.

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

(b) Stock options and restricted shares granted by Melco Crown Entertainment (Continued)

Notes: (Continued)

5. Details of the 5,937,339 stock options are as follows:

- 2,898,774 stock options granted on 17 March 2009 at exercise price of US$1.0867 are divided into 4 tranches exercisable from 17 March 2010, 17 March 2011, 17 March 2012 and 17 March 2013 respectively to 16 March 2019
- 755,058 stock options granted on 25 November 2009 at exercise price of US$1.4267 are divided into 4 tranches exercisable from 25 November 2010, 25 November 2011, 25 November 2012 and 25 November 2013 respectively to 17 March 2018
- 1,446,498 stock options granted on 23 March 2011 at exercise price of US$2.52333 are divided into 3 tranches exercisable from 23 March 2012, 23 March 2013 and 23 March 2014 respectively to 22 March 2021
- 474,399 stock options granted on 29 March 2012 at exercise price of US$4.6967 are divided into 3 tranches exercisable from 29 March 2013, 29 March 2014 and 29 March 2015 respectively to 28 March 2022
- 362,610 stock options granted on 10 May 2013 at exercise price of US$8.42 are divided into 3 tranches exercisable from 10 May 2014, 10 May 2015 and 10 May 2016 respectively to 9 May 2023

Details of the 194,664 stock options are as follows:

- 56,628 stock options granted on 18 March 2008 at exercise price of US$4.01333 are divided into 4 tranches exercisable from 18 March 2009, 18 March 2010, 18 March 2011 and 18 March 2012 respectively to 17 March 2018
- 138,036 stock options granted on 17 March 2009 at exercise price of US$1.0867 are divided into 4 tranches exercisable from 17 March 2010, 17 March 2011, 17 March 2012 and 17 March 2013 respectively to 16 March 2019

6. Details of the 580,575 restricted shares are as follows:

- 241,137 restricted shares awarded on 23 March 2011 shall vest on 23 March 2014
- One half each of the 158,133 restricted shares awarded on 29 March 2012 shall vest on 29 March 2014 and 29 March 2015 respectively
- One third each of the 181,305 restricted shares awarded on 10 May 2013 shall vest on 10 May 2014, 10 May 2015 and 10 May 2016 respectively

Details of the 75,543 restricted shares are as follows:

- 15,858 restricted shares awarded on 23 March 2011 shall vest on 23 March 2014
- One half each of the 45,180 restricted shares awarded on 29 March 2012 shall vest on 29 March 2014 and 29 March 2015 respectively
- One third each of the 14,505 restricted shares awarded on 10 May 2013 shall vest on 10 May 2014, 10 May 2015 and 10 May 2016 respectively

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) Melco Crown (Philippines) Resorts Corporation ("Melco Crown Philippines")

Share options and restricted shares granted by Melco Crown Philippines

Name of Director	Number of underlying shares held pursuant to share options (Note 2)	Number of restricted shares held (Note 2)	Total	% of issued share capital of Melco Crown Philippines	Notes
Mr. Ho, Lawrence Yau Lung	15,607,276	7,803,638	23,410,914	0.53%	3, 4
Mr. Chung Yuk Man, Clarence	10,404,851	5,202,425	15,607,276	0.35%	3, 4

Notes:

1. Melco Crown Philippines, whose shares are listed on the Philippine Stock Exchange, is a subsidiary of Melco Crown Entertainment. As at 31 December 2013, the total number of issued shares of Melco Crown Philippines was 4,426,303,300.

2. This represents interests held by the relevant director as beneficial owner.

3. The stock options granted on 28 June 2013 at exercise price of PHP8.30 are divided into 3 tranches exercisable from 30 days after the opening of Melco Crown Philippines resort, 29 April 2015 and 29 April 2016 respectively to 27 June 2023.

4. One third each of the restricted shares awarded on 28 June 2013 shall vest 30 days after the opening of Melco Crown Philippines resort, 29 April 2015 and 29 April 2016 respectively.

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)

(D) Entertainment Gaming Asia Inc. ("EGT")

(a) Shares of common stock of EGT

Name of Director	Number of common stock held: Personal interests (Note 2)	Corporate interests (Note 3)	Other interests	Total	% of issued share capital of EGT	Note
Mr. Ho, Lawrence Yau Lung	–	11,450,000	–	11,450,000	38.14%	4
Mr. Chung Yuk Man, Clarence	723,404	–	–	723,404	2.41%	–
Dr. Tyen Kan Hee, Anthony	30,000	–	–	30,000	0.10%	–

(b) Stock options and restricted common stock granted by EGT

Name of Director	Number of underlying common stock held pursuant to stock options (Note 2)	Number of restricted common stock held (Notes 2 & 6)	Total	% of issued share capital of EGT	Note(s)
Mr. Chung Yuk Man, Clarence	1,120,000	50,000	1,170,000	3.90%	5, 6
Mr. Sham Sui Leung, Daniel	37,500	–	37,500	0.12%	5
Dr. Tyen Kan Hee, Anthony	112,500	–	112,500	0.37%	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)

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

(b) Stock options and restricted common stock granted by EGT (Continued)

Notes:

1. As at 31 December 2013, the total number of issued shares of common stock of EGT was 30,024,662.

2. This represents interests held by the relevant director as beneficial owner.

3. This represents interests held by the relevant director through his controlled corporations.

4. 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 combination of four shares of common stock into one share of common stock with effect from 12 June 2012) of EGT, which are being held by EGT Entertainment Holding Limited, a wholly-owned subsidiary of the Company, as a result of him being interested in approximately 48.63% of the issued shares of the Company which in turn holds approximately 38.14% of the issued shares of EGT.

5. Details of the 1,120,000 stock options are as follows:

   – 7,500 stock options granted on 22 January 2008 at exercise price of US$14.48 may be exercised from 23 July 2008 to 22 January 2018

   – 25,000 stock options granted on 12 February 2008 at exercise price of US$18.36 may be exercised from 15 May 2008 to 14 November 2017

   – 500,000 stock options granted on 29 December 2008 at exercise price of US$0.68 may be exercised from 29 December 2009 to 29 December 2018

   – 12,500 stock options granted on 13 February 2009 at exercise price of US$0.52 may be exercised from 13 August 2009 to 12 February 2019

   – 12,500 stock options granted on 7 January 2010 at exercise price of US$1.16 may be exercised from 8 July 2010 to 7 January 2020

   – 125,000 stock options granted on 22 January 2010 at exercise price of US$1.10 may be exercised from 1 January 2011 to 22 January 2020

   – Among the 137,500 stock options granted on 3 February 2011 at exercise price of US$1.44, 12,500 options may be exercised from 4 August 2011 to 3 February 2021 and 125,000 options may be exercised from 1 January 2012 to 3 February 2021

   – Among the 175,000 stock options granted on 3 January 2012 at exercise price of US$0.924, 25,000 options may be exercised from 4 July 2012 to 3 January 2022 and 150,000 options may be exercised from 1 January 2013 to 3 January 2022

   – 25,000 stock options granted on 2 January 2013 at exercise price of US$1.965 may be exercised from 3 July 2013 to 2 January 2023

   – 100,000 stock options granted on 2 January 2013 at exercise price of US$1.965 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 2013. The determination of the vesting or forfeiture of options shall be made by the Compensation Committee of EGT's Board of Directors on or before 30 April 2014. If the 100,000 stock options are vested, they may be exercised from 2 January 2016 to 2 January 2023

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)

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

(b) Stock options and restricted common stock granted by EGT (Continued)

Notes: (Continued)

Details of the 37,500 stock options are as follows:

– 25,000 stock options granted on 11 December 2008 at exercise price of US$0.32 may be exercised from 12 June 2009 to 11 December 2018

– 12,500 stock options granted on 12 February 2009 at exercise price of US$0.52 may be exercised from 13 August 2009 to 12 February 2019

Details of the 112,500 stock options are as follows:

– 25,000 stock options granted on 11 December 2008 at exercise price of US$0.32 may be exercised from 12 June 2009 to 11 December 2018

– 12,500 stock options granted on 13 February 2009 at exercise price of US$0.52 may be exercised from 13 August 2009 to 12 February 2019

– 12,500 stock options granted on 7 January 2010 at exercise price of US$1.16 may be exercised from 8 July 2010 to 7 January 2020

– 12,500 stock options granted on 3 February 2011 at exercise price of US$1.44 may be exercised from 4 August 2011 to 3 February 2021

– 25,000 stock options granted on 3 January 2012 at exercise price of US$0.924 may be exercised from 4 July 2012 to 3 January 2022

– 25,000 stock options granted on 2 January 2013 at exercise price of US$1.965 may be exercised from 3 July 2013 to 2 January 2023

6. 50,000 shares of restricted common stock granted on 2 January 2013 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 year ending 31 December 2013. The determination of the vesting or forfeiture of shares shall be made by the Compensation Committee of EGT's Board of Directors on or before 30 April 2014.

Save as disclosed above, as at 31 December 2013, 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.

Share Option Schemes

(I) The Company

The share option scheme which was adopted by the Company on 8 March 2002 (the "2002 Share Option Scheme") has expired on 7 March 2012. No further options shall thereafter be granted under the 2002 Share Option Scheme but the options which had been granted prior to the expiry date shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect notwithstanding the expiry of the 2002 Share Option Scheme.

At the annual general meeting of the Company held on 30 May 2012, the shareholders of the Company approved the adoption of a new share option scheme (the "2012 Share Option Scheme") under which the directors of the Company may, at their discretion, grant to any participants of the Scheme share options to subscribe for the Company's shares, subject to the terms and conditions as stipulated therein. The 2012 Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption date and will expire on 29 May 2022.

A summary of the principal terms of the 2002 Share Option Scheme and 2012 Share Option Scheme are set out in Note 40 to the consolidated financial statements.

Movements of the share options, which were granted under the 2002 Share Option Scheme and the 2012 Share Option Scheme, during the year ended 31 December 2013, are set out below:

	Number of share options						
Category of participants	**As at 1 January 2013**	**Granted during the year**	**Exercised during the year**	**As at 31 December 2013**	**Date of grant**	**Exercise price (HK$)**	**Exercisable period (Note)**
(i) 2002 Share Option Scheme							
Directors							
Mr. Ho, Lawrence Yau Lung	692,520	–	–	692,520	01.04.2008	10.804	4
	536,000	–	–	536,000	17.12.2008	2.02	5
	230,000	–	–	230,000	03.04.2009	2.99	6
	1,328,000	–	–	1,328,000	07.04.2010	3.76	7
	1,200,000	–	–	1,200,000	08.04.2011	5.75	8
	3,986,520	–	–	3,986,520			
Mr. Tsui Che Yin, Frank	312,000	–	–	312,000	01.04.2008	10.804	4
	546,000	–	–	546,000	17.12.2008	2.02	5
	160,000	–	–	160,000	03.04.2009	2.99	6
	1,198,000	–	–	1,198,000	07.04.2010	3.76	7
	2,200,000	–	–	2,200,000	08.04.2011	5.75	9
	1,320,000	–	–	1,320,000	27.01.2012	7.1	10
	5,736,000	–	–	5,736,000			

Share Option Schemes (Continued)

(I) The Company (Continued)

Category of participants	Number of share options: As at 1 January 2013	Granted during the year	Exercised during the year	As at 31 December 2013	Date of grant	Exercise price (HK$)	Exercisable period (Note)
(i) 2002 Share Option Scheme (Continued)							
Mr. Chung Yuk Man, Clarence	400,000	–	–	400,000	13.02.2006	11.8	11
	312,000	–	–	312,000	01.04.2008	10.804	4
	546,000	–	–	546,000	17.12.2008	2.02	5
	160,000	–	–	160,000	03.04.2009	2.99	6
	1,198,000	–	–	1,198,000	07.04.2010	3.76	7
	2,200,000	–	–	2,200,000	08.04.2011	5.75	9
	1,320,000	–	–	1,320,000	27.01.2012	7.1	10
	6,136,000	–	–	6,136,000			
Sir Roger Lobo	300,000	–	–	300,000	03.04.2006	15.87	12
	51,000	–	–	51,000	28.02.2008	11.5	13
	91,000	–	–	91,000	03.04.2009	2.99	6
	60,000	–	–	60,000	07.04.2010	3.76	14
	350,000	–	–	350,000	08.04.2011	5.75	9
	210,000	–	–	210,000	27.01.2012	7.1	10
	1,062,000	–	–	1,062,000			
Mr. Sham Sui Leung, Daniel	51,000	–	–	51,000	28.02.2008	11.5	13
	91,000	–	–	91,000	03.04.2009	2.99	6
	60,000	–	–	60,000	07.04.2010	3.76	14
	350,000	–	–	350,000	08.04.2011	5.75	9
	210,000	–	–	210,000	27.01.2012	7.1	10
	762,000	–	–	762,000			
Mr. Ng Ching Wo	300,000	–	–	300,000	03.04.2006	15.87	12
	51,000	–	–	51,000	28.02.2008	11.5	13
	91,000	–	–	91,000	03.04.2009	2.99	6
	60,000	–	–	60,000	07.04.2010	3.76	14
	350,000	–	–	350,000	08.04.2011	5.75	9
	210,000	–	–	210,000	27.01.2012	7.1	10
	1,062,000	–	–	1,062,000			

Share Option Schemes (Continued)

(I) The Company (Continued)

Category of participants	Number of share options: As at 1 January 2013	Granted during the year	Exercised during the year	As at 31 December 2013	Date of grant	Exercise price (HK$)	Exercisable period (Note)
(i) 2002 Share Option Scheme (Continued)							
Dr. Tyen Kan Hee, Anthony	350,000	–	–	350,000	08.04.2011	5.75	9
	210,000	–	–	210,000	27.01.2012	7.1	10
	560,000	–	–	560,000			
Sub-total	19,304,520	–	–	19,304,520			
Employees	850,000	–	(440,000)	410,000	13.02.2006	11.8	15
	358,200	–	(239,000)	119,200	01.04.2008	10.804	4
	195,668	–	(69,000)	126,668	17.12.2008	2.02	5
	359,000	–	(64,000)	295,000	03.04.2009	2.99	6
	2,141,000	–	(461,000)	1,680,000	07.04.2010	3.76	14
	6,620,000	–	(870,000)	5,750,000	08.04.2011	5.75	9
	4,049,200	–	(143,000)	3,906,200	27.01.2012	7.1	10
Sub-total	14,573,068	–	(2,286,000)	12,287,068			
Others	3,362,000	–	–	3,362,000	13.02.2006	11.8	15
	300,000	–	–	300,000	03.04.2006	15.87	12
	51,000	–	–	51,000	28.02.2008	11.5	13
	757,300	–	–	757,300	01.04.2008	10.804	4
	190,000	–	(6,000)	184,000	03.04.2009	2.99	6
	572,000	–	(262,000)	310,000	07.04.2010	3.76	14
	2,400,000	–	(690,000)	1,710,000	08.04.2011	5.75	9
	850,000	–	(113,000)	737,000	27.01.2012	7.1	10
Sub-total	8,482,300	–	(1,071,000)	7,411,300			
Total	**42,359,888**	**–**	**(3,357,000)**	**39,002,888**			
(ii) 2012 Share Option Scheme							
Directors							
Mr. Ho, Lawrence Yau Lung	–	1,000,000	–	1,000,000	02.04.2013	13.4	16
Mr. Tsui Che Yin, Frank	–	1,000,000	–	1,000,000	02.04.2013	13.4	17
Mr. Chung Yuk Man, Clarence	–	1,000,000	–	1,000,000	02.04.2013	13.4	17
Sir Roger Lobo	–	200,000	–	200,000	02.04.2013	13.4	17
Mr. Ng Ching Wo	–	200,000	–	200,000	02.04.2013	13.4	17
Mr. Sham Sui Leung, Daniel	–	200,000	–	200,000	02.04.2013	13.4	17
Dr. Tyen Kan Hee, Anthony	–	200,000	–	200,000	02.04.2013	13.4	17
Sub-total	–	3,800,000	–	3,800,000			
Employees	–	3,349,000	(38,000)	3,311,000	02.04.2013	13.4	17
Others	–	575,000	(19,000)	556,000	02.04.2013	13.4	17
Total	**–**	**7,724,000**	**(57,000)**	**7,667,000**			

Share Option Schemes (Continued)

(I) The Company (Continued)

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercisable period.
2. As at 31 December 2013, the Company had 39,002,888 share options outstanding under the 2002 Share Option Scheme and 7,667,000 share options outstanding under the 2012 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 46,669,888 additional ordinary shares of the Company and additional share capital of HK$23,334,944 and share premium of approximately HK$339,373,413 before issuance expenses.
3. During the year ended 31 December 2013, no share options lapsed and/or were cancelled under the 2002 Share Option Scheme and 2012 Share Option 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 on the dates on which the options were exercised was HK$16.31 and HK$16.56 respectively.
4. The options granted on 1 April 2008 were divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 31 March 2018.
5. The options granted on 17 December 2008 were divided into 6 tranches exercisable from 1 February 2009, 1 May 2009, 1 August 2009, 1 November 2009, 1 February 2010 and 1 May 2010 respectively to 16 December 2018.
6. The options granted on 3 April 2009 were divided into 3 tranches exercisable from 3 April 2010, 3 April 2011 and 3 April 2012 respectively to 2 April 2019.
7. The options granted on 7 April 2010 were divided into 6 tranches exercisable from 7 April 2010, 7 April 2011, 7 April 2012, 7 April 2013, 7 April 2014 and 7 April 2015 respectively to 6 April 2020.
8. The options granted on 8 April 2011 were divided into 2 tranches exercisable from 5 May 2011 and 8 April 2012 respectively to 7 April 2021.
9. The options granted on 8 April 2011 were divided into 4 tranches exercisable from 5 May 2011, 8 April 2012, 8 April 2013 and 8 April 2014 respectively to 7 April 2021.
10. The options granted on 27 January 2012 were divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022.
11. The options granted on 13 February 2006 were divided into 3 tranches exercisable from 1 April 2008, 1 April 2010 and 1 April 2012 respectively to 31 January 2016.
12. The options granted on 3 April 2006 were divided into 3 tranches exercisable from 3 April 2008, 3 April 2010 and 3 April 2012 respectively to 2 April 2016.
13. The options granted on 28 February 2008 were divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 27 February 2018.
14. The options granted on 7 April 2010 were divided into 3 tranches exercisable from 7 April 2011, 7 April 2012 and 7 April 2013 respectively to 6 April 2020.
15. The options granted on 13 February 2006 were divided into 6 tranches exercisable from 1 April 2008, 1 April 2010, 1 April 2012, 3 April 2008, 3 April 2010 and 3 April 2012 respectively to 31 January 2016.
16. The options granted on 2 April 2013 were divided into 2 tranches exercisable from 2 April 2013 and 2 April 2014 respectively to 1 April 2023.
17. The options granted on 2 April 2013 were divided into 4 tranches exercisable from 2 April 2013, 2 April 2014, 2 April 2015 and 2 April 2016 respectively to 1 April 2023.
18. The category “Others” represents the former directors, employees or consultants of the Group.
19. Details of share options of the 2002 Share Option Scheme and 2012 Share Option Scheme and the share options granted under the schemes are also set out in Note 40 to the consolidated financial statements.

Share Option Schemes (Continued)

(II) MelcoLot

The share option scheme adopted by MelcoLot at the general meeting on 20 April 2002 (the "MelcoLot's Old Scheme") has expired on 20 April 2012. The share options granted thereunder prior to the expiry date of the MelcoLot's Old Scheme will continue to be valid and exercisable in accordance with the terms of the MelcoLot's Old Scheme. At the annual general meeting of MelcoLot held on 18 May 2012, the shareholders of MelcoLot approved the adoption of a new share option scheme (the "MelcoLot's New Scheme") under which the directors of MelcoLot may grant share options to eligible persons to subscribe for the shares of MelcoLot, subject to the terms and conditions as stipulated therein. Unless otherwise cancelled or amended, the MelcoLot's New Scheme will remain valid for a period of 10 years from the date of its adoption. Movements of the share options, which were granted under the MelcoLot's Old Scheme and MelcoLot's New Scheme, during the year ended 31 December 2013, are set out below:

(a) Share options granted by MelcoLot to the Directors of the Company

		Number of share options							
Name of Director		As at 1 January 2013	Granted during the year	Exercised during the year	As at 31 December 2013	Date of grant	Exercise price (HK$)	Exercisable period	Note
(i)	MelcoLot's Old Scheme								
	Mr. Ho, Lawrence Yau Lung	5,705,046	–	(5,705,046)	–	31.03.2008	0.679	01.10.2008 – 31.03.2018	2
		5,241,200	–	(5,241,200)	–	10.07.2009	0.280	10.07.2010 – 09.07.2019	3
		6,551,500	–	(6,551,500)	–	18.11.2010	0.116	18.05.2011 – 17.11.2020	2
	Mr. Tsui Che Yin, Frank	917,210	–	(917,210)	–	31.03.2008	0.679	01.10.2008 – 31.03.2018	2
	Total	**18,414,956**	**–**	**(18,414,956)**	**–**				
(ii)	MelcoLot's New Scheme								
	Mr. Ho, Lawrence Yau Lung	–	9,252,000	(2,313,000)	6,939,000	02.07.2013	0.544	02.07.2013 – 01.07.2023	5
	Mr. Tsui Che Yin, Frank	–	8,000,000	(2,000,000)	6,000,000	02.07.2013	0.544	02.07.2013 – 01.07.2023	5
	Total	**–**	**17,252,000**	**(4,313,000)**	**12,939,000**				

Share Option Schemes (Continued)

(II) MelcoLot (Continued)

(b) Share options granted by MelcoLot to other eligible participants

	Number of share options								
	As at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2013	Date of grant	Exercise price (HK$)	Exercisable period	Note
(i) MelcoLot's Old Scheme									
	1,572,360	–	(1,572,360)	–	–	20.02.2003	0.105	20.02.2004 – 19.02.2013	4
	1,588,736	–	(1,005,654)	–	583,082	12.01.2007	0.067	12.01.2008 – 11.01.2017	4
	26,692,118	–	(17,841,043)	(3,879,798)	4,971,277	31.03.2008	0.679	01.10.2008 – 31.03.2018	2
	15,068,450	–	(11,687,876)	–	3,380,574	16.02.2009	0.229	16.02.2010 – 15.02.2019	3
	33,720,570	–	(27,031,489)	(216,199)	6,472,882	10.07.2009	0.280	10.07.2010 – 09.07.2019	3
	37,199,417	–	(32,109,840)	(288,266)	4,801,311	18.11.2010	0.116	18.05.2011 – 17.11.2020	2
	115,841,651	**–**	**(91,248,262)**	**(4,384,263)**	**20,209,126**				
(ii) MelcoLot's New Scheme									
	–	22,000,000	(5,500,000)	–	16,500,000	02.07.2013	0.544	02.07.2013 – 01.07.2023	5
	–	**22,000,000**	**(5,500,000)**	**–**	**16,500,000**				

Notes:

1. During the year ended 31 December 2013, no share options were cancelled under MelcoLot's Old Scheme and MelcoLot's New Scheme. In respect of the share options exercised during the year, the weighted average closing price of the shares of MelcoLot immediately before and at the dates on which the share options were exercised were HK$0.90 and HK$0.91 respectively.

2. These grants under MelcoLot's Old Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of one year, starting from six months of the grant date at stepped six months increments of 50% of the total share options granted.

3. These grants under MelcoLot's Old Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of three years, starting from the first anniversary of the grant date at stepped annual increments of 33% of the total share options granted.

4. These grants under MelcoLot's Old Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of four years, starting from the first anniversary of the grant date at stepped annual increments of 25% of the total share options granted.

5. These grants under MelcoLot's New Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of three years, starting from the grant date at stepped annual increments of 25% of the total share options granted.

6. "Other eligible participants" represents the directors, employees or consultants of MelcoLot.

7. Details of the MelcoLot's Old Scheme and MelcoLot's New Scheme and the share options granted under the schemes are set out in Note 40 to the consolidated financial statements.

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.

Connected Transaction

Pursuant to Chapter 14A of the Listing Rules, the following connected transaction of the Company requires disclosure in the annual report of the Company:

On 10 July 2013, New Crescent Investments Limited ("New Crescent"), a wholly owned subsidiary of the Company, entered into an amended and restated preliminary agreement (the "Preliminary Investment Agreement") with Summit Ascent Holdings Limited and Elegant City Group Limited ("Elegant City"). On 23 August 2013, New Crescent entered into an investment and shareholders agreement (the "Investment Agreement") with Summit Ascent Russia Limited ("SARL"), Firich Investment Limited ("Firich"), Elegant City and Oriental Regent Limited ("Oriental Regent"). The Investment Agreement supersedes and replaces the Preliminary Investment Agreement.

Pursuant to the Investment Agreement, New Crescent agrees to make an investment in a gaming and resort development project in Russia, by subscribing new shares of Oriental Regent, representing 5% of the enlarged issued share capital of Oriental Regent. Upon completion of the transaction on 31 October 2013, New Crescent, SARL, Firich and Elegant City were interested in 5%, 46%, 19% and 30% of Oriental Regent (which holds 100% of First Gambling Company of the East LLC ("FGCE"), a limited liability company established in Russia) respectively. FGCE holds a gaming license awarded by the Administration of the Primorye Region to conduct gaming activities in the Integrated Entertainment Zone of the Primorye Region, Russia ("IEZ") and further owns a gaming and resort development project in the IEZ. The gaming license held by FGCE has been granted for an indefinite period commencing on 22 April 2012.

In consideration for the subscription and issue of the new shares of Oriental Regent, New Crescent has invested an amount of US$2.58 million (equivalent to approximately HK$20.0 million) in Oriental Regent on completion. Furthermore, New Crescent has invested an additional amount of approximately US$1.07 million (equivalent to approximately HK$8.3 million), in cash, as equity in Oriental Regent after completion as subsequent funding.

SARL is an associate of Mr. Ho, Lawrence Yau Lung, the Chairman and Chief Executive Officer and a substantial shareholder of the Company. Accordingly, SARL is a connected person of the Company and the entering into by New Crescent of the Investment Agreement with, among other parties, SARL, constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

Substantial Shareholders' Interests in the Shares, Underlying Shares and Debentures

As at 31 December 2013, 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:

Long position in the shares and underlying shares of the Company

Name	Capacity	No. of shares held	No. of underlying shares held	% of issued share capital	Note(s)
Better Joy Overseas Ltd.	Beneficial owner	288,532,606	–	18.78%	2
Lasting Legend Ltd.	Beneficial owner	115,509,024	–	7.52%	2
Great Respect Limited	Beneficial owner	298,982,187	–	19.46%	4
SG Trust Asia Ltd.	Interest of controlled corporation	298,982,187	–	19.46%	4
Mr. Ho, Lawrence Yau Lung	Beneficial owner	18,162,612	6,236,520	1.59%	6
	Interest of controlled corporations	429,923,077	–	27.98%	3
	Beneficiary of a trust	298,982,187	–	19.46%	4
Ms. Lo Sau Yan, Sharen	Interest of spouse	747,067,876	6,236,520	49.03%	5,6
The Capital Group Companies, Inc.	Interest of controlled corporation	107,533,000	–	7.00%	–
Southeastern Asset Management, Inc.	Investment manager	77,309,388	–	5.03%	–

Notes:

1. As at 31 December 2013, the total number of issued shares of the Company was 1,536,380,567.

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 18.78%, 7.52%, 1.21% and 0.47% 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 the 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 2013, the Company has not been notified of any other interests or short position in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

Directors' Rights to Acquire Shares or Debentures

Save as for the share option scheme and the share award schemes disclosed in Note 40 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 2013, 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 3,991,000 shares of the Company. The total amount paid to acquire these shares during the year was approximately HK$103,252,000.

Sufficiency of 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 Corporate Governance Code during the year from 1 January 2013 to 31 December 2013 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.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 43 to 54 of this annual report.

Emolument Policy

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

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

The Company has adopted a share option scheme and two share incentive award schemes, as an incentive to directors and employees. Details of the schemes are set out in Note 40 to the consolidated financial statements.

Report of the Directors

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$2,310,000 (2012: HK$2,648,000).

Auditor

The financial statements of the Company for the year ended 31 December 2013 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 2014

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 78 to 181, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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.

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 2013 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 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Revenue	7	**183,274**	146,851
Other income	9	**53,927**	49,710
Investment income	10	**2,363**	3,152
Purchases and changes in inventories of finished goods		**(76,841)**	(49,525)
Employee benefits expense	11	**(194,981)**	(158,097)
Depreciation of property, plant and equipment		**(6,766)**	(5,672)
Increase in fair value of investment properties	19	**88,000**	58,000
Impairment loss on goodwill	22	**–**	(426,710)
Loss on deemed disposal of interest in an associate	25	**(61,900)**	(13,525)
Gain on disposal of interest in an associate	41	**–**	45,726
Fair value change on investment in convertible loan note	28	**–**	260,659
Other expenses		**(97,478)**	(78,943)
Finance costs	12	**(39,203)**	(98,926)
Share of (losses) profits of joint ventures		**(139)**	145,080
Share of profits of associates	25	**1,760,725**	1,238,460
Profit before tax	13	**1,610,981**	1,116,240
Income tax (expense) credit	14	**(6,865)**	7,374
Profit for the year		**1,604,116**	1,123,614
Other comprehensive expenses			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(6,126)**	(42)
Fair value gain on available-for-sale investments		**1,867**	–
Share of exchange difference of an associate		**(40,698)**	–
Share of exchange difference of a joint venture		**(201)**	–
Other comprehensive expenses for the year, net of income tax		**(45,158)**	(42)
Total comprehensive income for the year		**1,558,958**	1,123,572
Profit for the year attributable to:			
Owners of the Company		**1,596,715**	1,121,903
Non-controlling interests		**7,401**	1,711
		1,604,116	1,123,614
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,554,813**	1,121,861
Non-controlling interests		**4,145**	1,711
		1,558,958	1,123,572
Earnings per share	18		
Basic (HK$)		**1.04**	0.85
Diluted (HK$)		**1.02**	0.78

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Investment properties	19	**159,000**	227,000
Property, plant and equipment	20	**14,281**	27,223
Goodwill	21	**–**	–
Other intangible assets	23	**5,700**	5,700
Interests in joint ventures	24	**28,034**	–
Interests in associates	25	**11,088,180**	8,835,811
Available-for-sale investments	27	**5,825**	3,958
		11,301,020	9,099,692
Current assets			
Inventories	29	**2,345**	2,578
Trade receivables	30	**43,824**	65,804
Prepayments, deposits and other receivables		**37,023**	26,457
Held-for-trading investments	31	**175**	198
Amounts due from associates	32	**12,164**	175
Amount due from a related company	32	**441**	–
Pledged bank deposits		**947**	947
Bank deposits with original maturity over three months	34	**1,339,590**	573,625
Bank balances and cash	34	**205,542**	155,856
		1,642,051	825,640
Current liabilities			
Trade payables	35	**18,741**	48,679
Other payables	35	**53,562**	46,958
Amounts due to associates	32	**–**	10,396
Dividend payable		**184**	158
Taxation payable		**32,778**	21,245
Borrowings – due within one year	36	**27,980**	33,980
		133,245	161,416
Net current assets		**1,508,806**	664,224
Total assets less current liabilities		**12,809,826**	9,763,916

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Deferred tax liabilities	37	**5,229**	10,792
Borrowings – due after one year	36	**1,189,250**	455,230
		1,194,479	466,022
		11,615,347	9,297,894
Capital and reserves			
Share capital	38	**768,190**	766,483
Reserves		**10,920,758**	8,607,950
Equity attributable to owners of the Company		**11,688,948**	9,374,433
Non-controlling interests		**(73,601)**	(76,539)
		11,615,347	9,297,894

The consolidated financial statements on pages 78 to 181 were approved and authorized for issue by the Board of Directors on 28 March 2014 and are signed on its behalf by:

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

Statement of Financial Position

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Investments in subsidiaries	26	**1,419,286**	1,318,959
Other intangible assets	23	**5,700**	5,700
Amounts due from subsidiaries	33	**3,759,223**	3,835,204
		5,184,209	5,159,863
Current assets			
Prepayments, deposits and other receivables		**14,387**	12,134
Amounts due from associates	32	**616**	–
Amounts due from subsidiaries	33	**1,095,634**	59,027
Bank deposits with original maturity over three months	34	**1,192,006**	468,565
Bank balances and cash	34	**112,102**	41,220
		2,414,745	580,946
Current liabilities			
Other payables		**3,321**	6,333
Amounts due to associates	32	**–**	355
Amounts due to subsidiaries	33	**1,281,463**	329,506
Dividend payable		**184**	158
		1,284,968	336,352
Net current assets		**1,129,777**	244,594
Total assets less current liabilities		**6,313,986**	5,404,457
Non-current liabilities			
Amount due to a subsidiary	33	**38,955**	40,200
Borrowings – due after one year	36	**390,000**	390,000
		428,955	430,200
		5,885,031	4,974,257
Capital and reserves			
Share capital	38	**768,190**	766,483
Reserves	39	**5,116,841**	4,207,774
		5,885,031	4,974,257

Ho, Lawrence Yau Lung
DIRECTOR

Tsui Che Yin, Frank
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company														
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note a)	Special reserve HK$'000 (Note b)	Convertible loan note equity reserve HK$'000	Property revaluation reserve HK$'000	Other revaluation reserve HK$'000 (Note c)	Exchange reserve HK$'000	Share options reserve HK$'000	Shares held under share award schemes HK$'000	Share awards reserve HK$'000	Retained profits HK$'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 2013

	Attributable to owners of the Company														
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note a)	Special reserve HK$'000 (Note b)	Convertible loan note equity reserve HK$'000	Property revaluation reserve HK$'000	Other revaluation reserve HK$'000 (Note c)	Exchange reserve HK$'000	Share options reserve HK$'000	Shares held under share award schemes HK$'000	Share awards reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2013	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
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	(2,870)	–	–	–	–	(2,870)	(3,256)	(6,126)
Share of other comprehensive expenses of an associate	–	–	–	–	–	–	–	(40,698)	–	–	–	–	(40,698)	–	(40,698)
Share of other comprehensive expenses of a joint venture	–	–	–	–	–	–	–	(201)	–	–	–	–	(201)	–	(201)
Fair value gain on available-for-sale investments	–	–	–	–	–	–	1,867	–	–	–	–	–	1,867	–	1,867
Other comprehensive expense for the year	–	–	–	–	–	–	1,867	(43,769)	–	–	–	–	(41,902)	(3,256)	(45,158)
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	1,596,715	1,596,715	7,401	1,604,116
Total comprehensive income for the year	–	–	–	–	–	–	1,867	(43,769)	–	–	–	1,596,715	1,554,813	4,145	1,558,958
Exercise of share options	1,707	31,829	–	–	–	–	–	–	(11,143)	–	–	–	22,393	–	22,393
Recognition of equity-settled share based payments	–	–	–	–	–	–	–	–	53,334	–	30,895	–	84,229	3,659	87,888
Shares vested under the share award schemes	–	–	–	–	–	–	–	–	–	30,658	(38,049)	7,391	–	–	–
Purchase of shares for unvested shares under share award schemes	–	–	–	–	–	–	–	–	–	(103,252)	–	–	(103,252)	–	(103,252)
Deemed disposal of partial interest in a subsidiary	–	–	–	24,167	–	–	–	–	–	–	–	–	24,167	(24,167)	–
Disposal of partial interests in subsidiaries	–	–	–	160,943	–	–	–	–	–	–	–	–	160,943	(11,940)	149,003
Disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(96)	(96)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(7,028)	(7,028)
Dividend paid (Note 17)	–	–	(23,020)	–	–	–	–	–	–	–	–	–	(23,020)	–	(23,020)
Realization of special reserve and other revaluation reserve upon deemed disposal of interest in an associate	–	–	–	(1,438)	–	–	(15)	–	–	–	–	15	(1,438)	–	(1,438)
Share of net assets changes of an associate	–	–	–	595,680	–	–	–	–	–	–	–	–	595,680	–	595,680
Capital contribution from non-controlling shareholder in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	38,355	38,355
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	10	10
	1,707	31,829	(23,020)	779,352	–	–	(15)	–	42,191	(72,594)	(7,154)	7,406	759,702	(1,207)	758,495
At 31 December 2013	768,190	4,418,042	211,475	698,278	–	5,796	202,575	(40,369)	168,030	(100,075)	12,574	5,344,432	11,688,948	(73,601)	11,615,347

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

Notes:

(a) 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.

(b) Special reserve brought forward from previous year represented (1) 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 acquired in previous years and (2) 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. In current year, additional amount of approximately HK$160,943,000 represents the difference by which the non-controlling interests are adjusted and the fair value of consideration received in relation to the disposal of partial interest of a subsidiary, MelcoLot Limited ("MelcoLot") and additional amount of approximately HK$24,167,000 arises from the deemed disposal of partial interest in MelcoLot in relation to the exercise of share option by non-controlling interests. Another additional amount of approximately HK$595,680,000 represents share of net assets changes of an associate, Melco Crown Entertainment Limited ("Melco Crown Entertainment"), in relation to the issuance of shares and sales of treasury shares of one of its subsidiaries, Melco Crown (Philippines) Resorts Corporation ("MCP").

(c) Other revaluation reserve mainly represents the share of a joint venture's revaluation reserve. In October 2009, a joint venture 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 joint venture was therefore shared by the Group and included in other revaluation reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**1,610,981**	1,116,240
Adjustments for:		
Share of profits of associates	**(1,760,725)**	(1,238,460)
Increase in fair value of investment properties	**(88,000)**	(58,000)
Share-based payment expense	**87,888**	68,813
Loss on deemed disposal of interest in an associate	**61,900**	13,525
Finance costs	**39,203**	98,926
Recovery of a fully impaired loan to an associate	**(22,684)**	–
Depreciation of property, plant and equipment	**6,766**	5,672
Loss (gain) on disposal of property, plant and equipment	**5,768**	(49)
Dividend income	**(2,386)**	(3,274)
Bad debts written off	**659**	–
Share of losses (profits) of joint ventures	**139**	(145,080)
Loss from fair value change of held-for-trading investments	**23**	122
Release of financial guarantee liability	**–**	(12,921)
Impairment loss on available-for-sale investments	**–**	1,077
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)
Operating cash flows before movements in working capital	**(60,468)**	(33,084)
Decrease in inventories	**233**	733
Decrease (increase) in trade receivables	**21,321**	(20,705)
Increase in prepayments, deposits and other receivables	**(15,902)**	(1,797)
Increase in amounts due from associates	**(11,989)**	(67)
Increase in amount due from a related company	**(441)**	–
Decrease in amounts due to associates	**(10,396)**	(1,531)
Decrease in trade payables	**(29,938)**	(13,627)
(Decrease) increase in other payables	**(800)**	6,820
Cash used in operating activities	**(108,380)**	(63,258)
Income tax paid	**(895)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(109,275)**	(63,258)

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
INVESTING ACTIVITIES		
Placement of bank deposits with original maturity over three months	**(1,339,590)**	(564,178)
Investments in joint ventures and payments in relation to the settlement of financial guarantee liability	**(28,374)**	(41,658)
Purchase of property, plant and equipment	**(1,712)**	(8,714)
Acquisition of a subsidiary	**(185)**	60,141
Receipt of bank deposits with original maturity over three months upon maturity	**573,625**	573,625
Proceeds from disposal of investment properties	**156,000**	–
Repayment of amounts due from associates	**22,684**	48,320
Dividend received	**2,386**	2,216
Proceeds from disposal of property, plant and equipment	**2,181**	76
Investments in associates	**–**	(103,391)
NET CASH USED IN INVESTING ACTIVITIES	**(612,985)**	(33,563)
FINANCING ACTIVITIES		
Proceeds from issuance of guaranteed bonds	**760,000**	–
Proceeds from disposal of partial interests in subsidiaries	**148,907**	–
Capital contribution from non-controlling shareholder	**38,355**	–
Proceeds from exercise of share options	**22,393**	6,809
Purchase of shares for unvested shares under the share award schemes	**(103,252)**	(34,478)
Interest paid	**(39,203)**	(9,883)
Repayments of bank borrowings	**(31,980)**	(207,980)
Dividend paid	**(23,274)**	(18,877)
Bank borrowings raised	**–**	420,000
NET CASH FROM FINANCING ACTIVITIES	**771,946**	155,591
NET INCREASE IN CASH AND CASH EQUIVALENTS	**49,686**	58,770
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**155,856**	97,086
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**205,542**	155,856

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")

Application of new and revised HKFRSs

The Group has applied for the first time in the current year the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA").

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

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

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) Int-12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 January 2013) as to whether or not the Group has control over all the entities that the Group has or has no equity interests in accordance with the new definition of control and the related guidance set out in HKFRS 10. The directors concluded that HKFRS 10 does not have material effect on the Group's consolidated financial statements.

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) – Int13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

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

Impact of the application of HKFRS 11 – continued

Upon application of HKFRS 11, the directors reviewed and assessed the legal form and terms of the contractual arrangements in relation to the Group's investment in a joint arrangement. Under HKFRS 11, the Group previously classified as a jointly controlled entity is treated as the Group's joint venture and continues to be accounted for using the equity method.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see Notes 24, 25 and 45 for details).

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply 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 for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see Note 6 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New and revised HKFRSs in 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 2010 – 2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014. Early application is permitted.

3 Available for application – the mandatory effective date will be determined when the outstanding phase of HKFRS 9 are finalized.

4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

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

Annual Improvements to HKFRSs 2010-2012 Cycle

The *Annual Improvements to HKFRSs 2010-2012 Cycle* include a number of amendments to various HKFRSs, which are summarized below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognized in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

Other than the amendments to HKFRS 8 which may require more disclosures in operating segments, the directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2010-2012 Cycle* will have a material effect on the Group's consolidated financial statements.

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

Annual Improvements to HKFRSs 2011-2013 Cycle

The *Annual Improvements to HKFRSs 2011-2013 Cycle* include a number of amendments to various HKFRSs, which are summarized below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and
(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2011-2013 Cycle* will have a material effect on the Group's consolidated financial statements.

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, and further amended in 2013 to include the new requirements for hedge accounting.

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.

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

HKFRS 9 Financial Instruments – continued

- 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.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

The directors anticipate that the application of the other new and revised standards, amendments and interpretation issued but not yet effective 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 at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

<u>Basis of consolidation</u>

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investees; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

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 HKFRS.

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 as established at the date of acquisition of the business (see the accounting policy above) 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

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.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures 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 or joint ventures 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 associates or joint ventures. When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in associates and joint ventures – continued

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 or a joint venture. 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 of disposal) 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a partial interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture 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 the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

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.

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).

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

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 assets 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 rental and/or for capital appreciation.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investment properties – continued

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.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

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.

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. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

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 joint venture 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

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 joint arrangements 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 other comprehensive income.

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 profit or loss and other 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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.

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.

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 determined on a 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 arrangements

Equity settled share-based payment transactions

Share options/share award granted to employees

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

Share-based payment arrangements – continued

Equity settled share-based payment transactions – continued

Share options/share award granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognized as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

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 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 ("AFS") 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 are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition 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 stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial assets and is included in the investment income line item. 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, associates and a related company, 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 impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

AFS financial assets

AFS 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 AFS financial assets relating to dividends are recognized in profit or loss. Other changes in the carrying amount of AFS 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).

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.

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

For financial assets carried at 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, amounts due from associates and amount due from a related party, 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 the trade and other receivables, amounts due from associates or a related party is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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.

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 under the heading of 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group 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.

Other financial liabilities

Other financial liabilities, including trade and other payables, amounts due to subsidiaries and associates, dividend payable and borrowings are subsequently measured at amortized cost, using the effective interest method.

Derecognition

The Group derecognizes 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

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.

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

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

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

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

Borrowing costs

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Critical judgements in applying accounting policies – continued

Control over MelcoLot Limited

Note 45 describes that MelcoLot Limited ("MelcoLot") is a subsidiary of the Group although the Group has only 43.93% ownership interest and voting rights in MelcoLot as of 31 December 2013. MelcoLot is listed on the Growth Enterprise Market of the Hong Kong Stock Exchange since 17 May 2002. The Group's ownership interest in MelcoLot has decreased from 51.64% as at 1 January 2013 to 43.93% ownership as of 31 December 2013 and the remaining 56.07% of shareholdings are owned by large numbers of shareholders that are unrelated to the Group. Details of MelcoLot are set out in Note 45.

The directors assessed whether or not the Group has control over MelcoLot based on whether the Group has the practical ability to direct the relevant activities of MelcoLot unilaterally. In making their judgement, the directors mainly considered (i) the Group's absolute size of shareholding in MelcoLot and the relative size of and dispersion of the shareholdings owned by the other shareholders; (ii) the composition of the executive members of the board of MelcoLot, majority of whom are executives of the Company; (iii) the Group's exposure in default and credit risk of the loan granted by the Group to MelcoLot of approximately HK$240,506,000; and (iv) the fact that all the key management personnel of MelcoLot such as executive directors and chief executive officer in MelcoLot were appointed by the Company. After assessment, the directors concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of MelcoLot and therefore the Group has control over MelcoLot.

Classification of Oriental Regent Limited ("Oriental Regent") as a joint venture

Note 24 describes that Oriental Regent is a joint venture of the Group. The directors assessed whether or not Oriental Regent is under the joint control of the Group based on their analyses of how the relevant activities of Oriental Regent are directed. Summit Ascent Russia Limited ("SARL"), a wholly owned subsidiary of Summit Ascent Holdings Limited. Mr. Ho, Lawrence Yau Lung is a shareholder with significant influence by holding over 20% shareholding and director of both the Company and Summit Ascent Holdings Limited. SARL has 46% equity interest in Oriental Regent and accordingly the Group and SARL has in aggregate 51% equity interest in Oriental Regent. The Group has the contractual right to appoint one director of Oriental Regent. The directors considered that Oriental Regent is under the joint control of the Group as the relevant activities of Oriental Regent require unanimous written approval of all of the members of the board of Oriental Regent or the unanimous consent of the shareholders of Oriental Regent.

In addition, Oriental Regent is a limited liability company whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances specifying the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Oriental Regent is classified as a joint venture of the Group. See Note 24 for details.

Key sources of estimation uncertainty

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

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.

As at 31 December 2013, the carrying amount of trade receivables and amounts due from associates are approximately HK$43,824,000, (2012: HK$65,804,000) and HK$12,164,000 (2012: HK$175,000), respectively. No allowances for doubtful debts have been provided in both financial periods.

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 maximizing 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 and other borrowings disclosed in Note 36, 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	
	2013	2012
	HK$'000	HK$'000
Financial assets		
Fair value through profit or loss		
– Held-for-trading	**175**	198
Loans and receivables (including cash and cash equivalents)	**1,624,856**	805,135
Available-for-sale financial assets	**5,825**	3,958
Financial liabilities		
Amortized cost	**1,261,934**	571,851

	THE COMPANY	
	2013	2012
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**6,170,851**	4,407,906
Financial liabilities		
Amortized cost	**1,711,410**	760,219

6b. Financial risk management objectives and policies

The Group's and the Company's major financial instruments include available-for-sale investments, trade and other receivables, deposits, trade and other payables, amounts due from (to) subsidiaries, a related party and associates, pledged bank deposits, bank deposits, bank balances and cash and bank and other borrowings. 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.

6. FINANCIAL INSTRUMENTS – continued

6b. Financial risk management objectives and policies – continued

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.

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			
	Assets		Liabilities	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollar ("USD")	**1,089**	455,708	**–**	(4,395)
Macau Patacas ("MOP")	**20**	112	**(412)**	(3,178)
Renminbi ("RMB")	**38,371**	192,647	**(15,635)**	(75,244)

	THE COMPANY			
	Assets		Liabilities	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**1,007,423**	1,432,223	**(114,726)**	(114,990)

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% or 5% change in foreign currency rates.

6. FINANCIAL INSTRUMENTS – continued

6b. Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

Sensitivity analysis – continued

A negative/positive number below indicates a decrease/increase in post-tax profit where Hong Kong dollars strengthen 1% or 5% against the relevant currency. For a 1% or 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
2013: Profit for the year	**(11)**	**4**	**(1,137)**
2012: Profit for the year	(4,513)	31	(5,870)

For the years ended 31 December 2013 and 2012, a negative number below indicates a decrease/an increase in post-tax profit/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 profit/loss for the year of the Company.

	THE COMPANY
	USD Impact (i)
	HK$'000
2013: Profit for the year	**(8,927)**
2012: Loss for the year	(13,172)

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

(ii) This is mainly attributable to the exposure on outstanding MOP receivables, bank deposits and payables of the Group at the year end.

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

For the year ended 31 December 2013

6. **FINANCIAL INSTRUMENTS – continued**

6b. Financial risk management objectives and policies – continued

Market risk – continued

(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 and guaranteed bonds which carried interest at fixed rate (see Notes 32, 34 and 36 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 36 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 and amount due from (to) subsidiaries.

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 2013 would decrease/increase by approximately HK$1,893,000 (2012: HK$1,667,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank balances.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's post-tax profit for the year ended 31 December 2013 would increase/decrease by approximately HK$16,577,000 (2012: post-tax loss would decrease/increase by approximately HK$17,116,000). 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.

6. **FINANCIAL INSTRUMENTS – continued**

6b. Financial risk management objectives and policies – continued

Market risk – continued

(iii) Other price risk

The Group is exposed to equity price risk through it 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 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 available-for-sale investments and held-for-trading investments had been 5% higher/lower:

- post-tax profit for the year ended 31 December 2013 would increase/decrease by HK$9,000 (2012: HK$10,000) as a result of the changes in fair value of held-for-trading investments; and
- other comprehensive expense would decrease/increase by HK$291,000 (2012: HK$198,000) as a result of the changes in fair value of available-for-sale investments.

Credit risk

As at 31 December 2013, 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 provided by the Group and the Company.

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, related company 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.

As at 31 December 2013, the Group has concentration of credit risk of 61% (2012: 57%) of the Group's bank balances are placed in one bank account. Given the counterparty is bank with good reputation, the Group considers that the credit risk associated with the bank balances is low.

6. FINANCIAL INSTRUMENTS – continued

6b. Financial risk management objectives and policies – continued

Credit risk – continued

As at 31 December 2013, the Group has concentration of credit risk as 92% (2012: 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.

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 borrowings and ensures compliance with loan covenants.

The Group and the Company rely on borrowings as a significant source of liquidity. Details of which are set out in Note 36. As at 31 December 2013, the Group and the Company had available unused banking facilities of HK$2,000,000 and nil respectively (2012: HK$2,000,000 and nil 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$'000	Carrying amount at 31.12.2013 HK$'000
2013									
Non-derivative financial liabilities									
Trade and other payables	–	28,759	–	15,761	–	–	–	44,520	44,520
Dividend payable	–	184	–	–	–	–	–	184	184
Borrowings	3.66%	27,418	7,763	36,027	430,285	844,849	19,981	1,366,323	1,217,230
		56,361	7,763	51,788	430,285	844,849	19,981	1,411,027	1,261,934

	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$'000	Carrying amount at 31.12.2013 HK$'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
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

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 2013 and 31 December 2012, 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 31 December 2013 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$23,372,000 (2012: 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$'000	Carrying amount at 31.12.2013 HK$'000
2013									
Non-derivative financial liabilities									
Other payables	**–**	**808**	**–**	**–**	**–**	**–**	**–**	**808**	**808**
Amounts due to subsidiaries	**2.67%**	**1,257,317**	**215**	**25,087**	**5,616**	**16,330**	**19,676**	**1,324,241**	**1,320,418**
Dividend payable	**–**	**184**	**–**	**–**	**–**	**–**	**–**	**184**	**184**
Borrowings	**2.71%**	**899**	**1,711**	**7,977**	**393,133**	**–**	**–**	**403,720**	**390,000**
		1,259,208	**1,926**	**33,064**	**398,749**	**16,330**	**19,676**	**1,728,953**	**1,711,410**

	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$'000	Carrying amount at 31.12.2013 HK$'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
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

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.

6. FINANCIAL INSTRUMENTS – continued

6c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets.

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

THE GROUP

Financial assets	Fair value at 31 December 2013 HK$'000	Fair value at 31 December 2012 HK$'000	Fair value hierarchy
1) Listed equity securities classified as held-for-trading investments on the consolidated statement of financial position	**175**	198	Level 1
2) Private equity investments classified as AFS on the consolidated statement of financial position	**5,825**	3,958	Level 3

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

The fair value of the financial assets included in the level 3 category above has been determined in accordance with generally accepted pricing models, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

6. FINANCIAL INSTRUMENTS – continued

6c. Fair value measurements of financial instruments – continued

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis – continued

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity securities HK$'000	**Investment in convertible loan note** HK$'000
At 1 January 2012	5,035	39,993
Fair value change recognized in profit or loss	(1,077)	260,659
Conversion of shares	–	(60,200)
Transfer out of level 3 upon consolidation of MelcoLot	–	(240,452)
At 31 December 2012 and 1 January 2013	**3,958**	**–**
Fair value change recognized in other comprehensive income	**1,867**	**–**
At 31 December 2013	**5,825**	**–**

For the year ended 31 December 2013, included in other comprehensive income is a gain of approximately HK$1,867,000 relates to available-for-sale investments held at the end of the reporting period and is reported as changes of "Other Revaluation Reserve".

For the year ended 31 December 2012, included in profit or loss was a gain of approximately HK$260,659,000 relating to fair value change on investment in convertible loan note before conversion and a loss of approximately HK$1,077,000 relating to impairment loss on available-for-sale investments held at the end of the reporting period.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements that are not measured at fair value on a recurring basis approximate their fair values.

7. REVENUE

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

	2013 HK$'000	2012 HK$'000
Catering service income	**102,894**	108,225
Lottery business:		
Provision of services and solutions for distribution of lottery products	**5,184**	144
Trading of lottery terminals	**49,395**	18,095
Interest income from authorized institutions and associates	**20,038**	12,746
Property rental income	**5,763**	7,641
	183,274	146,851

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 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:

(a) Gaming, Leisure and Entertainment Segment: It mainly comprises provision of catering, entertainment and related services and lottery business, including the provision of services and solutions for distribution of lottery products and trading of lottery terminals.

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

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:

2013

	Gaming, Leisure and Entertainment HK$'000	Property and Other Investments HK$'000	Segments' Total HK$'000	Elimination HK$'000	Consolidated HK$'000
External sales	157,473	25,801	183,274	–	183,274
Inter-segment sales	769	1,505	2,274	(2,274)	–
Total revenue	158,242	27,306	185,548	(2,274)	183,274
Segment results	(15,507)	114,561	99,054	–	99,054
Loss on deemed disposal of interest in an associate					(61,900)
Finance costs					(39,203)
Share of losses of joint ventures					(139)
Share of profits of associates					1,760,725
Unallocated corporate income					22,684
Central administrative costs and other unallocated corporate expenses					(170,240)
Profit before tax					1,610,981

8. SEGMENT INFORMATION – continued

Segment revenue and results – continued

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 interest in an associate					(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 joint ventures					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

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 other 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.

8. SEGMENT INFORMATION – continued

Segment assets and liabilities

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

Segment assets

	2013 HK$'000	2012 HK$'000
Gaming, Leisure and Entertainment	**67,529**	102,055
Property and Other Investments	**1,710,193**	961,027
Total segment assets	**1,777,722**	1,063,082
Interests in associates	**11,088,180**	8,835,811
Interests in joint ventures	**28,034**	–
Unallocated assets	**49,135**	26,439
Consolidated assets	**12,943,071**	9,925,332

Segment liabilities

	2013 HK$'000	2012 HK$'000
Gaming, Leisure and Entertainment	**49,476**	77,037
Property and Other Investments	**108**	437
Total segment liabilities	**49,584**	77,474
Unallocated liabilities	**1,278,140**	549,964
Consolidated liabilities	**1,327,724**	627,438

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 joint ventures, pledged bank deposits and other assets not attributable to respective segment.
- all liabilities are allocated to operating segments other than borrowings, dividend payable, deferred tax liabilities and other liabilities not attributable to respective segment.

8. SEGMENT INFORMATION – continued

Other segment information

2013

	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	**873**	**–**	**839**	**1,712**
Depreciation	**6,109**	**–**	**657**	**6,766**
Increase in fair value of investment properties	**–**	**88,000**	**–**	**88,000**
Interest income	**–**	**20,038**	**–**	**20,038**
Loss on disposal of property, plant and equipment	**5,768**	**–**	**–**	**5,768**

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

	HK$'000
Interests in associates	**11,088,180**
Interests in joint ventures	**28,034**
Share of profits of associates	**1,760,725**
Share of losses of joint ventures	**(139)**

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
Interest income	–	12,746	–	12,746
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:

	HK$'000
Interests in associates	8,835,811
Share of profits of associates	1,238,460
Share of profits of joint ventures	145,080

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$11,294,723,000, nil and HK$472,000 (2012: HK$8,979,164,000, HK$110,000,000 and HK$6,570,000) of the Group are located in Hong Kong, Macau and the PRC, respectively by reference to location of assets or, for interests in associates and joint ventures, by location of their head office.

All of the Group's revenue from external customers based on location of operations of the relevant group entities is generated from Hong Kong, Macau and the PRC of approximately HK$131,487,000, HK$2,391,000 and HK$49,396,000 (2012: HK$123,268,000, HK$4,562,000 and HK$19,021,000), respectively.

Revenue analysed by products and services

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

Information about major customers

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

	2013 **HK$'000**	2012 HK$'000
Customer A[1]	**39,311**	18,095

[1] Revenue from trading of lottery terminals under Gaming, Leisure and Entertainment segment

9. OTHER INCOME

	2013 **HK$'000**	2012 HK$'000
Service fees from associates	**11,087**	31,960
Service fees from a related company	**240**	–
Release of financial guarantee liability	**–**	12,921
Recovery of a fully impaired loan to an associate	**22,684**	–
Exchange gain, net	**8,610**	1,024
Others	**11,306**	3,805
	53,927	49,710

For the year ended 31 December 2013

10. INVESTMENT INCOME

	2013 HK$'000	2012 HK$'000
Dividend income from unlisted investments	2,386	3,274
Loss from fair value change of held-for-trading investments	(23)	(122)
	2,363	3,152

11. EMPLOYEE BENEFITS EXPENSE

	2013 HK$'000	2012 HK$'000
Wages, salaries and staff welfare	89,356	76,823
Discretionary bonus	14,823	9,262
(Reversal of) provision for annual leave	(263)	30
Termination benefits	101	318
Reversal of provision for long service payment	(41)	(189)
Retirement benefit scheme contributions	2,606	2,417
Share-based payment expense	87,888	68,813
Others	511	623
Total employee benefits expense including directors' emoluments	194,981	158,097

12. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	11,089	8,845
Bank borrowings not wholly repayable within five years	804	938
Guaranteed bonds wholly repayable within five years	26,679	–
Effective interest expense on convertible loan note	–	89,043
Interest expenses to suppliers and others	631	100
	39,203	98,926

For the year ended 31 December 2013

13. PROFIT BEFORE TAX

	2013 HK$'000	2012 HK$'000
Profit before tax has been arrived at after charging:		
Auditor's remuneration	**3,263**	1,767
Bad debts written off	**659**	–
Impairment loss on available-for-sale investments	**–**	1,077
Loss on disposal of property, plant and equipment	**5,768**	–
and after crediting:		
Gain on disposal of property, plant and equipment	**–**	49
Gross rental income from properties	**8,954**	7,641
Less: direct operating expenses from investment properties that generated rental income during the year	**(511)**	(129)
Net rental income	**8,443**	7,512

14. INCOME TAX EXPENSE (CREDIT)

	2013 HK$'000	2012 HK$'000
PRC Enterprise Income Tax – current year	**278**	9
Macau Complementary Tax – current year	**5,784**	–
Deferred taxation – current year (Note 37)	**803**	(7,383)
	6,865	(7,374)

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 2013 and 2012 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.

Provision for Macau Complementary Tax for the year ended 31 December 2013 was calculated at 12% Macau Complementary Tax rate.

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 EXPENSE (CREDIT) – continued

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

	2013 HK$'000	2012 HK$'000
Profit before tax	1,610,981	1,116,240
Tax at Hong Kong Profits Tax rate of 16.5%	265,812	184,180
Tax effect of share of results of associates and joint ventures	(290,497)	(228,284)
Tax effect of expenses not deductible for tax purposes	32,363	88,896
Tax effect of income not taxable for tax purposes	(15,531)	(57,493)
Tax effect of deductible temporary difference not recognized	347	(122)
Tax effect of tax losses not recognized	17,985	7,784
Others	(3,614)	(2,335)
Tax expense (credit) for the year	6,865	(7,374)

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

Directors' and Chief Executive's emolument

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

2013

	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	–	–	–	420	420	380	380	1,600
Other emoluments								
Salaries and other benefits	–	2,760	2,582	–	–	–	–	5,342
Discretionary bonus (Note)	–	773	1,546	–	–	–	–	2,319
Retirement benefit scheme contributions	16	16	16	–	–	–	–	48
Share-based compensation	37,481	7,978	6,656	1,203	1,203	1,203	1,198	56,922
Total emoluments	37,497	11,527	10,800	1,623	1,623	1,583	1,578	66,231

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

Directors' and Chief Executive's emolument – continued

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)	–	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

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 (2012: HK$1,200,000), no other directors waived any emoluments in the year ended 31 December 2013 (2012: 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 2013, 3,800,000 share options under the share option scheme of the Company, 17,252,000 share options under the share option scheme of MelcoLot and 2,500,000 awarded shares (2012: 3,480,000 share options and 4,000,000 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 40.

Note: The discretionary bonus is determined based on the Group's financial performance for the years ended 31 December 2013 and 2012.

Senior Management emolument

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

	Number of individuals **2013**	2012
Nil to HK$1,000,000	**–**	1
HK$1,500,001 to HK$2,000,000	**2**	1
HK$7,000,001 to HK$7,500,000	**–**	1
HK$8,000,001 to HK$8,500,000	**–**	1
HK$10,500,001 to HK$11,000,000	**1**	–
HK$11,000,001 to HK$11,500,000	**1**	–
	4	4

For the year ended 31 December 2013

16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2012: three) are directors and the chief executive of the Company whose emoluments are included in Note 15 above. The emoluments of the remaining two (2012: two) individuals were as follows:

	2013	2012
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**4,347**	3,368
Discretionary bonus	**1,741**	883
Retirement benefit scheme contributions	**32**	28
Share-based compensation	**15,785**	11,182
	21,905	15,461

Their emoluments were within the following bands:

	Number of employees	
	2013	2012
HK$7,000,001 to HK$7,500,000	**–**	1
HK$8,000,001 to HK$8,500,000	**–**	1
HK$10,500,001 to HK$11,000,000	**1**	–
HK$11,000,001 to HK$11,500,000	**1**	–
	2	2

17. DIVIDEND

	2013	2012
	HK$'000	HK$'000
Dividend recognized as distribution during the year:		
2012 Final – HK1.5 cents (2012: HK1.5 cents) per share	**23,020**	18,509

Subsequent to the end of the reporting period, a final dividend of HK20.8 cents in respect of the year ended 31 December 2013 (2012: Final dividend of HK1.5 cents in respect of the year ended 31 December 2012) per share, totalling HK$319,567,000 (2012: HK$23,020,000) 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:

	2013 HK$'000	2012 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	1,596,715	1,121,903
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	(15,486)	(9,440)
Earnings for the purpose of diluted earnings per share	1,581,229	1,201,506

	2013 '000	2012 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,533,865	1,318,792
Effect of dilutive potential ordinary shares:		
Convertible loan note	–	208,503
Share options and awarded shares issued by the Company	23,771	9,314
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,557,636	1,536,609

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.

During the years ended 31 December 2013 and 2012, the computation of diluted earnings per share does not assume the exercise of the Company's certain share options and the vesting of certain unvested awarded shares under the Company's long-term incentive schemes (see Note 40) because the adjusted exercise price of those options and unvested awarded shares are higher than average market price of the Company's shares.

19. INVESTMENT PROPERTIES

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
At 1 January	**227,000**	169,000
Disposals	**(156,000)**	–
Net increase in fair value recognized in profit or loss	**88,000**	58,000
At 31 December	**159,000**	227,000
Unrealized gain on property revaluation included in profit or loss	**42,000**	58,000

The carrying value of investment properties shown above comprises:

	2013	2012
	HK$'000	HK$'000
Properties in Hong Kong	**159,000**	117,000
Properties in Macau	**–**	110,000
	159,000	227,000

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

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$159,000,000 (2012: HK$227,000,000) are pledged to banks for obtaining the banking facilities for certain subsidiaries of the Group.

Fair value measurements and valuation processes

In estimating the fair value of investment properties, it is the Group's policy to engage third party qualified external valuer to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation technique and inputs to the model.

The fair value of the Group's investment properties as at 31 December 2013 and 2012 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 fair value was determined based on direct comparison method. Direct comparison method is by making reference to market transaction of similar properties in similar location to arrive at the fair value as at the date of valuation and discounted by the bulk discount rate which approximate to 30%. The bulk discount rate is derived from analyzing the sales transactions and rental of similar properties in the vicinity and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

19. INVESTMENT PROPERTIES – continued

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Investment property	Level 3	Direct comparison method		
		The key inputs are (1) Unit sale rate	Unit sale rate, taking into account the time, location, and individual factors, such as frontage size, between the comparable and the property, of sales amount ranging from HK$450,000 to HK$480,000 for car parking spaces.	An increase in the unit sale rate used would result in an increase in fair value measurement of the investment properties by the same percentage increase, and vice versa.
		(2) Bulk discount rate	Bulk discount rate, taking into account the restriction on the terms that the car parking spaces have to be disposed as a whole rather than on an individual basis. Bulk discount rate which approximate to 30% has been used for valuation.	A slight increase in discount rate used would result in a significant decrease in fair value measurement to the investment properties, and vice versa.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 3	Fair value as at 31.12.2013
	HK$'000	HK$'000
Properties in Hong Kong	159,000	159,000

There were no transfers into or out of Level 3 during the year.

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 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 41)	–	–	220	5,402	378	6,000
Disposals	(100)	–	(133)	–	(457)	(690)
At 31 December 2012 and 1 January 2013	**75,284**	**20,318**	**76,110**	**5,402**	**1,947**	**179,061**
Exchange adjustments	**–**	**10**	**11**	**29**	**19**	**69**
Additions	**36**	**–**	**1,582**	**26**	**68**	**1,712**
Acquisition of a subsidiary	**–**	**–**	**2**	**20**	**–**	**22**
Disposals and written off	**(163)**	**(5,337)**	**(2,476)**	**(1,693)**	**(8)**	**(9,677)**
At 31 December 2013	**75,157**	**14,991**	**75,229**	**3,784**	**2,026**	**171,187**
ACCUMULATED DEPRECIATION						
At 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 on disposals	(82)	–	(124)	–	(457)	(663)
At 31 December 2012 and 1 January 2013	**65,255**	**15,107**	**70,417**	**9**	**1,050**	**151,838**
Exchange adjustments	**–**	**7**	**8**	**6**	**9**	**30**
Provided for the year	**3,335**	**307**	**1,648**	**1,254**	**222**	**6,766**
Eliminated on disposals and written off	**(155)**	**(586)**	**(861)**	**(121)**	**(5)**	**(1,728)**
At 31 December 2013	**68,435**	**14,835**	**71,212**	**1,148**	**1,276**	**156,906**
CARRYING VALUES						
At 31 December 2013	**6,722**	**156**	**4,017**	**2,636**	**750**	**14,281**
At 31 December 2012	10,029	5,211	5,693	5,393	897	27,223

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 $33^1/_3$%
Machinery and equipment	20% to $33^1/_3$%
Motor vehicles	10% to $33^1/_3$%

21. GOODWILL

	2013	2012
	HK$'000	HK$'000
COST		
At 1 January	**426,710**	–
Arising from acquisition of a subsidiary (Note 41)	**–**	426,710
At 31 December	**426,710**	426,710
IMPAIRMENT		
At 1 January	**426,710**	–
Impairment loss recognized in the year	**–**	426,710
At 31 December	**426,710**	426,710
CARRYING VALUES		
At 31 December	**–**	–

Particulars regarding impairment testing on goodwill at 31 December 2012 are disclosed in Note 22.

22. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing at 31 December 2012, 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 ("Unit A") and (ii) trading of lottery terminals in the PRC ("Unit B"). These CGUs are components of MelcoLot, a subsidiary acquired by the Group during the year ended 31 December 2012.

On 12 December 2012, goodwill of approximately HK$426,710,000 arose as a result of the acquisition of MelcoLot (Note 41). 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 in relation to goodwill allocated to these two CGUs as the management of the Company did 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 had been determined on the basis of value in use calculations. Their recoverable amounts were 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 had been considered by the management as negative cash outflows were expected from the operations of Units A and B in the future. Other key assumptions for the value in use calculation related 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 believed that any reasonably possible change in any of these assumptions would not had material effect to both sets of cash flow forecasts for Unit A and Unit B, and these existing business operating are not expected to contribute positively to the Group in the foreseeable future.

For the year ended 31 December 2013

23. OTHER INTANGIBLE ASSETS

	THE GROUP AND THE COMPANY HK$'000
COST	
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	**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 JOINT VENTURES

Details of the Group's investments in joint ventures are as follows:

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Cost of unlisted investments in joint ventures	**337,556**	309,182
Share of post-acquisition losses and other comprehensive income, net of dividends received	**(309,522)**	(309,182)
	28,034	–

24. INTERESTS IN JOINT VENTURES – continued

As at 31 December 2013 and 2012, the Group had interests in the following joint ventures:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership held by the Group 2013	2012	Principal activities
Melco Crown SPV Limited (“Melco Crown SPV”)	Cayman Islands/ Hong Kong	Ordinary shares	**50.00%**	50.00%	Inactive
Melco Crown Entertainment Asia Holdings Limited (“MCEAH”)	Cayman Islands/ Hong Kong	Ordinary shares	**50.00%**	50.00%	Inactive
PALTECH Company Limited (“PALTECH”) (Note a)	Hong Kong	Ordinary shares	**60.00%**	60.00%	Inactive
Power Way Group Limited (“Power Way”) (Note b)	British Virgin Islands/ Hong Kong	Ordinary shares	**67.03%**	67.03%	Inactive
Oriental Regent (Note c)	Hong Kong	Ordinary shares	**5.00%**	–	Investment holding

Notes:

(a) PALTECH is held by MelcoLot. The Group indirectly owns a 60% equity interest in PALTECH. Pursuant to certain terms and conditions given in the shareholders’ agreement, the relevant activities of PALTECH require approval from 75% of the equity holders. PALTECH is jointly controlled by the Group and another shareholder; as such, it is accounted for as a joint venture of the Group.

(b) Pursuant to certain terms and conditions in the shareholders’ agreement, the relevant activities of Power Way require approval of the Group together with the remaining shareholder of Power Way and accordingly, Power Way is a joint venture of the Group.

(c) On 10 July 2013, a wholly owned subsidiary of the Company, New Crescent Investments Limited (“New Crescent”) has entered into an investment agreement with SARL, Firich Investment Limited, Elegant City Group Limited (“Elegant City”) and Oriental Regent (the “Investment Agreement”). The Investment Agreement provides that New Crescent would make an investment in a gaming and resort development project in Russia Federation, by subscribing new shares of Oriental Regent, representing 5% of the enlarged issued share capital of Oriental Regent upon completion pursuant to the terms and conditions of the Investment Agreement. The investment has been completed on 31 October 2013 and the consideration paid by the Group was approximately HK$20,041,000. Pursuant to certain terms and conditions in the shareholders’ agreement, the relevant activities of Oriental Regent require unanimous approval of all of the members of the board of Oriental Regent or the unanimous consent of the shareholders of Oriental Regent and accordingly, Oriental Regent is classified as a joint venture of the Group as New Crescent has the right to appoint one director of Oriental Regent.

On 25 November 2013, pursuant to the Investment Agreement, each shareholder is required to invest additional amount in accordance with their respective shareholding in Oriental Regent and the consideration paid by the Group was approximately HK$8,333,000.

24. INTERESTS IN JOINT VENTURES – continued

Summarized financial information of material joint ventures

Summarized financial information in respect of the Group's material joint venture, on a consolidated basis, is set out below. The summarized financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Oriental Regent

	2013 HK$'000
Current assets	321,435
Non-current assets	291,029
Current liabilities	(28,020)
Non-current liabilities	(23,774)
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	305,562
Current financial liabilities (excluding trade and other payables and provisions)	(247)
Non-current financial liabilities (excluding trade and other payables and provisions)	(23,774)

24. INTERESTS IN JOINT VENTURES – continued

Summarized financial information of material joint ventures – continued

Oriental Regent – continued

	1.11.2013 (date of acquisition) to 31.12.2013 HK$'000
Revenue	–
Loss for the period	(2,786)
Other comprehensive expense for the period	(4,029)
Total comprehensive expense for the period	(6,815)
The above loss for the period include the following:	
Depreciation and amortization	–
Interest income	–
Interest expenses	411
Income tax credit	(102)

Reconciliation of the above summarized financial information to the carrying amount of the interest in Oriental Regent recognized in the consolidated financial statements using the equity method of accounting is as follows:

	2013 HK$'000
Net assets of Oriental Regent	560,670
Proportion of the Group's ownership interest in Oriental Regent	5%
Carrying amount of the Group's interest in Oriental Regent	28,034

Oriental Regent is engaged in a gaming and resort business in Russia Federation through its wholly-owned subsidiary, First Gambling Company of the East LLC ("FGCE"). The project is currently under development stage and the investment allows the Group to develop new casino business in another new geographical location.

For the year ended 31 December 2013

24. INTERESTS IN JOINT VENTURES – continued

Aggregate information of joint ventures that are not individually material

	2013	2012
	HK$'000	HK$'000
The Group's share of profits for the year	**–**	145,080
The Group's share of other comprehensive income	**–**	–
The Group's share of total comprehensive income	**–**	145,080
The unrecognized share of losses of joint ventures for the year	**(2)**	–
Cumulative unrecognized share of losses of joint ventures	**(2)**	–

25. INTERESTS IN ASSOCIATES

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Cost of investment in associates		
Listed in the United States of America ("US")	**7,894,808**	7,894,808
Listed in Canada	**339,601**	339,601
Unlisted	**417**	417
Net changes in interests in associates	**1,344,449**	1,407,787
Impairment losses recognized	**(1,160,838)**	(1,160,838)
Share of changes in net assets and exchange reserves	**559,338**	4,356
Share of post-acquisition results	**2,110,405**	349,680
	11,088,180	8,835,811
Fair value of listed investments (Note a)	**56,998,427**	24,611,682
Carrying amount of interests in associates with shares listed on respective stock exchanges	**11,088,180**	8,835,671

25. INTERESTS IN ASSOCIATES – continued

As at 31 December 2013 and 2012, the Group had interests in the following associates:

Name	Place of incorporation/ operation	Class shares held	Percentage of interest in ownership held by the Group 2013	2012	Principal activities
Melco Crown Entertainment (Note b)	Cayman Islands/ Macau	Ordinary shares	**33.55%**	33.73%	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 e)	Canada/ PRC	Ordinary shares	**16.69%**	18.85%	Operating of ski resorts
Entertainment Gaming Asia Inc. ("EGT") (Note b)	US/Philippines and Cambodia	Ordinary shares	**38.14%**	38.20%	Development and operation of casinos and gaming venues and leasing of electronic gaming machines
ChariLot Company Limited ("ChariLot") (Note d)	Hong Kong	Ordinary shares	**40.00%**	40.00%	Provision of services for distribution of lottery products
China Excellent Net Technology Investment Limited ("China Excellent") (Note c)	Hong Kong	Ordinary shares	**–**	35.00%	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") and shares of Melco Crown Entertainment are dually listed on the National Association of Securities Dealers Automated Quotations ("NASDAQ") and the Main Board of the Hong Kong Stock Exchange, respectively. The shares of MCR are listed on TSX Venture Exchange of Canada. The shares of EGT are listed on NASDAQ.

(c) This associate is held by MelcoLot. On 31 May 2013, China Excellent became a subsidiary of the Group.

(d) This associate is held by MelcoLot.

(e) In July 2013, MCR completed a private placement of 40,044,444 shares at the price of USD0.18 per share and the interests in MCR held by the Group were diluted from18.85% to 16.69%. The Group is entitled to appoint one director to the board of MCR provided that any part of the loans to the associate (Note 32) remaining outstanding in accordance with the terms of agreement signed with MCR in April 2010. Accordingly, MCR continued to be an associate of the Group as at 31 December 2013.

25. INTERESTS IN ASSOCIATES – continued

During the year ended 31 December 2013, the Group recognized a loss on deemed disposal of interest in an associate of approximately HK$61,900,000 (2012: HK$13,525,000) resulting from the exercise of share options and the vesting of certain restricted shares issued by Melco Crown Entertainment. The amount represents the decrease (2012: decrease) in net assets attributable to the Group of HK$63,338,000 (2012: HK$13,673,000) and the realization of special reserve to profit or loss of approximately HK$1,438,000 (2012: HK$148,000).

During the year ended 31 December 2013, the Group recognized share of changes in net assets of approximately HK$595,680,000 (2012: nil), in relation to the issuance of shares and sales of treasury shares of one of its subsidiaries of Melco Crown Entertainment, Melco Crown (Philippines) Resorts Corporation ("MCP").

25. INTERESTS IN ASSOCIATES – continued

Summarized financial information of material associates

Summarized financial information in respect of the Group's material associate is set out below.

Melco Crown Entertainment

	2013 HK$'000	2012 HK$'000
Current assets		
Cash and cash equivalents	**10,750,069**	13,297,646
Bank deposits with original maturity over three months	**4,877,593**	–
Restricted cash	**5,992,810**	5,235,792
Other current assets	**2,874,442**	2,853,985
Total	**24,494,914**	21,387,423
Non-current assets		
Property and equipment and related land use rights	**33,823,169**	28,789,921
Gaming subconcession	**3,773,541**	4,218,845
Other non-current assets	**7,016,491**	7,494,496
Total	**44,613,201**	40,503,262
Current liabilities		
Accrued expenses and other current liabilities	**(7,269,103)**	(6,619,543)
Current portion of long-term debt	**(2,042,763)**	(6,651,433)
Other current liabilities	**(362,967)**	(123,579)
Total	**(9,674,833)**	(13,394,555)
Non-current liabilities		
Long-term debt	**(17,667,555)**	(18,204,609)
Capital lease obligations, due after one year	**(1,968,566)**	–
Other non-current liabilities	**(518,703)**	(627,244)
Total	**(20,154,824)**	(18,831,853)
Non-controlling interests	**(5,615,612)**	(2,918,940)
Revenue	**40,815,327**	31,726,938
Profit for the year	**5,172,121**	3,471,576
Other comprehensive expenses for the year	**(113,083)**	–
Total comprehensive income for the year	**5,059,038**	3,471,576

25. INTERESTS IN ASSOCIATES – continued

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements using equity method of accounting is as follows:

	2013 HK$'000	2012 HK$'000
Net assets of Melco Crown Entertainment attributable to its owners	33,662,846	26,745,337
Share options reserve not shared by the Group	(488,621)	(372,021)
	33,174,225	26,373,316
Proportion of the Group's ownership interest in Melco Crown Entertainment	33.55%	33.73%
	11,129,952	8,895,719
Goodwill	252,235	252,235
Adjustment in relation to the unrealized gains for the assets contributed by the Group upon the formation of Melco Crown Entertainment	(294,007)	(312,283)
Carrying amount of the Group's interest in Melco Crown Entertainment	11,088,180	8,835,671
Fair value of the shares of Melco Crown Entertainment held by the Group	56,998,427	24,611,682

Melco Crown Entertainment is engaged in a gaming and resort business in Asia which mainly through its operations in Altira Macau and City of Dreams. The projects of integrated resort in Manila and Studio City are currently under development stages and the projects are expected to complete in mid of 2014 and mid of 2015, respectively. In the opinion of the directors, the investments provide the Group the opportunity to be engaged in the development of gaming and resort business in Asia.

Aggregate information of associates that are not individually material

	2013 HK$'000	2012 HK$'000
The Group's share of (losses) profits for the year	(140)	59,150
The Group's share of other comprehensive income	–	–
The Group's share of total comprehensive (expense) income	(140)	59,150
Aggregate carrying amount of the Group's interests in these associates	–	140
Unrecognized share of losses of associates for the year	(39,243)	(19,855)
Cumulative unrecognized share of losses of associates	(470,157)	(430,914)

26. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2013	2012
	HK$'000	HK$'000
Unlisted shares, at cost	**1,419,286**	1,318,959

Details of the Company's principal subsidiaries at 31 December 2013 are set out in Note 45.

27. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Unlisted equity security, at fair value	**5,825**	3,958

Unlisted equity security which represents unlisted equity investment held by a subsidiary of the Company in an investment holding company is stated at fair value. The investee is engaged in investment in listed and unlisted equity and debt investment. A fair value gain of approximately HK$1,867,000 (2012: loss of HK$1,077,000) 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. FAIR VALUE CHANGE ON INVESTMENT IN CONVERTIBLE LOAN NOTE

During the year ended 31 December 2012, a fair value gain of approximately HK$260,659,000 was recognized in the profit or loss in respect of the investment in MelcoLot's convertible loan note, which was designated as at fair value through profit or loss as the convertible loan note contained embedded derivative and had been matured on 13 December 2012. The fair value of the investment in 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 was resulted from the increase in market price of MelcoLot's shares.

29. INVENTORIES

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Food and beverages	**2,345**	2,578

As at 31 December 2013 and 2012, 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.

30. TRADE RECEIVABLES – continued

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 net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Within 30 days	**15,342**	34,615
31 – 90 days	**1,456**	19,034
91 – 180 days	**11,964**	11,955
Over 180 days	**15,062**	200
	43,824	65,804

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$30,258,000 (2012: HK$14,663,000) 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. All of the trade receivables that are neither past due nor impaired have good credit quality assessed by the Group. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Within 30 days	**1,776**	1,909
31 – 90 days	**1,456**	599
91 – 180 days	**11,964**	11,955
Over 180 days	**15,062**	200
	30,258	14,663

The Group performed assessment on individual trade receivable balance and recognized allowance on specific balance when necessary.

31. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 December 2013 represents equity securities listed in Hong Kong of approximately HK$175,000 (2012: HK$198,000).

32. AMOUNTS DUE FROM (TO) ASSOCIATES/A RELATED COMPANY

THE GROUP

Included in amounts due from associates are:

a) Amount due from an associate of approximately HK$2,373,000 (2012: HK$2,379,000) is unsecured, non-interest bearing and repayable on demand and approximately HK$165,761,000 (2012: HK$185,211,000) due from the associate is unsecured, interest bearing at 3% per annum and repayable on demand. All of the above balances were fully impaired as at 31 December 2013 and 2012.

b) The remaining amounts due from associates amounting to HK$12,164,000 (2012: HK$175,000) are unsecured, non-interest bearing and repayable on demand.

Amount due from a related company is unsecured, non-interest bearing and repayable on demand. Mr. Ho, Lawrence Yau Lung, a shareholder with significant influence of holding over 20% shareholding and director of the Company, has significant shareholding in that related company. Maximum amount outstanding during the year ended 31 December 2013 is approximately HK$441,000 (2012: nil).

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% (2012: 100%) of amounts due from associates as at 31 December 2013.

THE COMPANY

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

33. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

As at 31 December 2013, amounts due from subsidiaries are unsecured and non-interest bearing. Except for amounts due from subsidiaries of approximately HK$1,095,634,000 (2012: HK$59,027,000) 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$100,327,000 (2012: HK$98,098,000) from amounts due from subsidiaries repayable after one year is derived from interest rate of HIBOR plus 2.46% (2012: HIBOR plus 2.31%) per annum. During the year ended 31 December 2013, the Company recognized an impairment loss of approximately HK$56,407,000 (2012: HK$34,160,000) 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

	2013 HK$'000	2012 HK$'000
At 1 January	**673,614**	639,454
Impairment losses recognized	**56,407**	34,160
At 31 December	**730,021**	673,614

As at 31 December 2013, amounts due to subsidiaries include i) approximately HK$1,257,218,000 (2012: HK$306,506,000) which are unsecured, non-interest bearing and repayable on demand; ii) HK$40,200,000 (2012: HK$40,200,000) which is unsecured, interest bearing at HIBOR plus 2% per annum, in which HK$1,245,000 (2012: nil) is repayable within one year and the remaining portion is repayable after one year; and iii) HK$23,000,000 (2012: 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 1.7% (2012: 1.9%) 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 0.5% (2012: 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	
	2013 HK$'000	2012 HK$'000
Within 30 days	**2,980**	31,562
31 – 90 days	**–**	11,111
Over 90 days	**15,761**	6,006
	18,741	48,679

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.

For the year ended 31 December 2013

36. BORROWINGS

	THE GROUP		THE COMPANY	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans (Note a)	**457,230**	489,210	**390,000**	390,000
Other borrowings (Note b)	**760,000**	–	**–**	–
	1,217,230	489,210	**390,000**	390,000
Secured	**44,230**	76,210	**–**	–
Unsecured	**1,173,000**	413,000	**390,000**	390,000
	1,217,230	489,210	**390,000**	390,000
Carrying amount repayable:				
Within one year				
– With repayable on demand clause	**23,000**	23,000	**–**	–
– Without repayable on demand clause	**4,980**	10,980	**–**	–
More than one year, but not exceeding two years	**394,980**	10,980	**390,000**	–
More than two years, but not exceeding five years	**774,940**	419,940	**–**	390,000
Exceeding five years	**19,330**	24,310	**–**	–
	1,217,230	489,210	**390,000**	390,000
Less: Amounts due within one year shown under current liabilities	**(27,980)**	(33,980)	**–**	–
	1,189,250	455,230	**390,000**	390,000

Notes:

(a) 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% (2012: HIBOR plus 1.5% to 2.5%) per annum.

(b) In February 2013, Melco Finance Limited, a wholly owned subsidiary of the Company, issued guaranteed bonds with principal amount of HK$760,000,000 ("Bonds") to independent investors. The interest on the Bonds is accrued at a fixed rate of 4.15% per annum, payable quarterly in arrears, with maturity date of 5 March 2018. The Bonds are guaranteed by the Company. The proceeds will be used by the Company for general working capital and future investment purposes.

(c) For the year ended 31 December 2013, the effective interest rates on the Group's and the Company's borrowings were 3.66% and 2.71% (2012: 2.69% and 2.81%) per annum, respectively.

37. 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	Accelerated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 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 and 1 January 2013	**–**	**(18,683)**	**7,891**	**(10,792)**
Credit (charge) to profit or loss for the year	**–**	**108**	**(911)**	**(803)**
Derecognition upon disposals of investment properties	**–**	**6,366**	**–**	**6,366**
At 31 December 2013	**–**	**(12,209)**	**6,980**	**(5,229)**

At the end of the reporting period, the Group has unused estimated tax losses of approximately HK$668,878,000 (2012: HK$565,403,000). A deferred tax asset has been recognized in respect of HK$42,298,000 (2012: HK$47,824,000) 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$626,580,000 (2012: HK$517,579,000) due to the unpredictability of future profit streams.

Included in unrecognized tax losses are losses of HK$44,028,000 (2012: HK$49,114,000) that are allowed to be carried forward and utilized against the income which shall not exceed 5 years which is up to 2018. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$11,254,000 (2012: HK$9,152,000) 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 nil (2012: HK$952,000) 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.

37. DEFERRED TAX LIABILITIES – continued

THE COMPANY

	Convertible loan note HK$'000
At 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, 1 January 2013 and 31 December 2013	–

As at 31 December 2013, the Company has approximately HK$135,471,000 (2012: HK$80,637,000) 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.

38. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2013	2012	**2013 HK$'000**	2012 HK$'000
THE GROUP AND THE COMPANY				
Authorised:				
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	**1,532,966,567**	1,231,363,780	**766,483**	615,682
Conversions of the convertible loan note	**–**	298,982,187	**–**	149,491
Exercise of share options	**3,414,000**	2,620,600	**1,707**	1,310
At the end of the year, shares of HK$0.5 each	**1,536,380,567**	1,532,966,567	**768,190**	766,483

As at 31 December 2013, the Company's 3,750,385 (2012: 4,009,385) and 75,000 (2012: 75,000) issued shares with an aggregate nominal value of approximately HK$1,875,000 (2012: HK$2,005,000) and HK$38,000 (2012: HK$38,000) were held by the Company's share purchase scheme and share subscription scheme, respectively.

For the year ended 31 December 2013

39. RESERVES

	Share premium HK$'000	Capital reserve HK$'000	Convertible loan note equity reserve HK$'000	Share options reserve HK$'000	Shares held under share award schemes HK$'000	Share award reserve HK$'000	(Accumulated losses)/ Retained profits HK$'000	Total HK$'000
THE COMPANY								
At 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 loan note	1,240,507	–	(345,321)	–	–	–	–	895,186
Exercise of share options	7,875	–	–	(2,376)	–	–	–	5,499
Recognition of equity-settled share based payments	–	–	–	38,222	–	30,591	–	68,813
Transfer of share option reserve upon expiry of share options	–	–	–	(3,499)	–	–	3,499	–
Shares vested under the share award schemes	–	–	–	–	23,903	(21,250)	(2,653)	–
Purchase of shares for unvested shares under share award schemes	–	–	–	–	(34,478)	–	–	(34,478)
Dividend paid (Note 17)	–	(18,509)	–	–	–	–	–	(18,509)
At 31 December 2012 and 1 January 2013	**4,386,213**	**234,495**	**–**	**125,839**	**(27,481)**	**19,728**	**(531,020)**	**4,207,774**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**933,290**	**933,290**
Exercise of share options	**31,829**	**–**	**–**	**(11,143)**	**–**	**–**	**–**	**20,686**
Recognition of equity-settled share based payments	**–**	**–**	**–**	**50,468**	**–**	**30,895**	**–**	**81,363**
Shares vested under the share award schemes	**–**	**–**	**–**	**–**	**30,658**	**(38,049)**	**7,391**	**–**
Purchase of shares for unvested shares under share award schemes	**–**	**–**	**–**	**–**	**(103,252)**	**–**	**–**	**(103,252)**
Dividend paid (Note 17)	**–**	**(23,020)**	**–**	**–**	**–**	**–**	**–**	**(23,020)**
At 31 December 2013	**4,418,042**	**211,475**	**–**	**165,164**	**(100,075)**	**12,574**	**409,661**	**5,116,841**

40. LONG TERM INCENTIVE SCHEMES

Share option scheme

(I) The Company

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 which was adopted by the Company at its extraordinary general meeting held on 8 March 2002 (the "2002 Share Option Scheme").

The 2002 Share Option Scheme had expired on 7 March 2012. Following the expiry of the 2002 Share Option Scheme, the shareholders of the Company adopted a new share option scheme (the "2012 Share Option Scheme") on 30 May 2012. Under the 2012 Share Option 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 2002 Share Option Scheme, the share options which had been granted during the life of the 2002 Share Option 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.

(a) The 2002 Share Option Scheme

The following is a summary of the principal terms of the 2002 Share Option Scheme:

(i) Purpose

The purpose of the 2002 Share Option 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.

(ii) Participants

The participants of the 2002 Share Option Scheme shall be (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.

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

(a) The 2002 Share Option Scheme – continued

(iii) Maximum number of shares available for issue under the 2002 Share Option Scheme

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2002 Share Option 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 2002 Share Option Scheme (the ‘Scheme Mandate Limit”) unless the Company seeks approval of its shareholders in general meeting to refresh the Scheme Mandate Limit. 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 2002 Share Option 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.

As at 31 December 2013, a total of 39,002,888 Shares (representing approximately 2.54% 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 2002 Share Option Scheme.

(iv) 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.

(v) 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.

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

(a) The 2002 Share Option Scheme – continued

(vi) 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 2002 Share Option 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 14 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.

(vii) 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.

(viii) Remaining life of the 2002 Share Option Scheme

The 2002 Share Option Scheme had expired on 7 March 2012. No further options shall thereafter be offered under the 2002 Share Option Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect.

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

(a) The 2002 Share Option Scheme – continued

Movements of the share options under the 2002 Share Option Scheme, during the year ended 31 December 2013 are set out below:

	Number of share options											
Category of participant	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2012 & 1.1.2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2013	Date of grant of share options	Share price at date of grant of share options HK$	Exercise price of share options HK$
Directors[2]	200,000	–	(200,000)	–	–	–	–	–	–	01.02.2005	7.40	7.40
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	15.70	15.87
Directors[7]	153,000	–	–	–	153,000	–	–	–	153,000	28.02.2008	11.50	11.50
Directors[8]	1,316,520	–	–	–	1,316,520	–	–	–	1,316,520	01.04.2008	10.70	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	–	–	–	3,480,000	27.01.2012	7.10	7.10
Sub-total	16,024,520	3,480,000	(200,000)	–	19,304,520	–	–	–	19,304,520			
Employees[2]	550,000	–	(550,000)	–	–	–	–	–	–	17.09.2004	1.6875	1.6875
Employees[2]	230,000	–	–	(230,000)	–	–	–	–	–	01.02.2005	7.40	7.40
Employees[14]	850,000	–	–	–	850,000	–	(440,000)	–	410,000	13.02.2006	11.75	11.80
Employees[8]	358,200	–	–	–	358,200	–	(239,000)	–	119,200	01.04.2008	10.70	10.804
Employees[9]	195,668	–	–	–	195,668	–	(69,000)	–	126,668	17.12.2008	2.02	2.02
Employees[10]	411,000	–	(52,000)	–	359,000	–	(64,000)	–	295,000	03.04.2009	2.99	2.99
Employees[11]	2,218,000	–	(77,000)	–	2,141,000	–	(461,000)	–	1,680,000	07.04.2010	3.76	3.76
Employees[12]	6,791,000	–	(134,000)	(37,000)	6,620,000	–	(870,000)	–	5,750,000	08.04.2011	5.75	5.75
Employees[13]	–	4,113,000	(19,600)	(44,200)	4,049,200	–	(143,000)	–	3,906,200	27.01.2012	7.10	7.10
Sub-total	11,603,868	4,113,000	(832,600)	(311,200)	14,573,068	–	(2,286,000)	–	12,287,068			
Others[2, 15]	9,900,000	–	(900,000)	(9,000,000)	–	–	–	–	–	17.09.2004	1.6875	1.6875
Others[14, 15]	3,362,000	–	–	–	3,362,000	–	–	–	3,362,000	13.02.2006	11.75	11.80
Others[6, 15]	300,000	–	–	–	300,000	–	–	–	300,000	03.04.2006	15.70	15.87
Others[7, 15]	51,000	–	–	–	51,000	–	–	–	51,000	08.02.2008	11.50	11.50
Others[8, 15]	766,300	–	–	(9,000)	757,300	–	–	–	757,300	01.04.2008	10.70	10.804
Others[9, 15]	546,000	–	(546,000)	–	–	–	–	–	–	17.12.2008	2.02	2.02
Others[10, 15]	332,000	–	(142,000)	–	190,000	–	(6,000)	–	184,000	03.04.2009	2.99	2.99
Others[11, 15]	572,000	–	–	–	572,000	–	(262,000)	–	310,000	07.04.2010	3.76	3.76
Others[12, 15]	2,400,000	–	–	–	2,400,000	–	(690,000)	–	1,710,000	08.04.2011	5.75	5.75
Others[13, 15]	–	850,000	–	–	850,000	–	(113,000)	–	737,000	27.01.2012	7.10	7.10
Sub-total	18,229,300	850,000	(1,588,000)	(9,009,000)	8,482,300	–	(1,071,000)	–	7,411,300			
Total	45,857,688	8,443,000	(2,620,600)	(9,320,200)	42,359,888	–	(3,357,000)	–	39,002,888			
Share options exercisable at year end	26,754,188				25,257,488				29,173,088			

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

(a) The 2002 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 2013, the Company had 39,002,888 share options outstanding under the 2002 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 39,002,888 additional ordinary shares of the Company and additional share capital of approximately HK$19,501,000 and share premium of approximately HK$240,469,000 before issuance expenses.

4. During the period ended 31 December 2013, no share options lapsed and/or were cancelled under the 2002 Share Option 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 on the dates on which the options were exercised was HK$16.18 and HK$16.44 respectively.

5. The options granted on 13 February 2006 were divided into 3 tranches exercisable from 1 April 2008, 1 April 2010 and 1 April 2012 respectively to 31 January 2016.

6. The options granted on 3 April 2006 were divided into 3 tranches exercisable from 3 April 2008, 3 April 2010 and 3 April 2012 respectively to 2 April 2016.

7. The options granted on 28 February 2008 were divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 27 February 2018.

8. The options granted on 1 April 2008 were divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 31 March 2018.

9. The options granted on 17 December 2008 were divided into 6 tranches exercisable from 1 February 2009, 1 May 2009, 1 August 2009, 1 November 2009, 1 February 2010 and 1 May 2010 respectively to 16 December 2018.

10. The options granted on 3 April 2009 were divided into 3 tranches exercisable from 3 April 2010, 3 April 2011 and 3 April 2012 respectively to 2 April 2019.

11. The options granted on 7 April 2010 were divided into 6 tranches exercisable from 7 April 2010, 7 April 2011, 7 April 2012, 7 April 2013, 7 April 2014 and 7 April 2015 respectively to 6 April 2020.

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

(a) The 2002 Share Option Scheme – continued

Notes: – continued

12. The options granted on 8 April 2011 were divided into 2 tranches exercisable from 5 May 2011 and 8 April 2012 respectively to 7 April 2021 or 4 tranches exercisable from 5 May 2011, 8 April 2012, 8 April 2013 and 8 April 2014 respectively to 7 April 2021.

13. The options granted on 27 January 2012 were divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022.

14. The options granted on 13 February 2006 were divided into 6 tranches exercisable from 1 April 2008, 1 April 2010, 1 April 2012, 3 April 2008, 3 April 2010 and 3 April 2012 respectively to 31 January 2016.

15. 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.

(b) The 2012 Share Option Scheme

The following is a summary of the principal terms of the 2012 Share Option Scheme:

(i) Purpose

The purpose of the 2012 Share Option 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.

(ii) Participants

The participants of the 2012 Share Option Scheme shall be (1) 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 (2) any executives and employees of and consultants and advisers to the Company or any of its subsidiaries or associated companies.

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

(b) The 2012 Share Option Scheme – continued

(iii) Maximum number of shares available for issue under the 2012 Share Option Scheme

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2012 Share Option 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 2012 Share Option 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 Share Option 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 2012 Share Option 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.

As at 31 December 2013, the total number of Shares available for issue under the 2012 Share Option Scheme is 115,671,038 Shares (representing approximately 7.53% of the issued share capital of the Company) and a total of 7,667,000 shares of the Company (representing approximately 0.50% 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 2012 Share Option Scheme.

(iv) 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.

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

(b) The 2012 Share Option Scheme – continued

(v) 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.

(vi) 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 2012 Share Option 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.

(vii) 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.

(viii) Remaining life of the 2012 Share Option Scheme

The 2012 Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption date. It will expire on 29 May 2022.

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

(b) The 2012 Share Option Scheme – continued

Movements of share options under 2012 Share Option Scheme during the year ended 31 December 2013 are set out below:

Category of participant	Number of share options									Date of grant of share options	Share price at date of grant of share options	Exercise price of share options
	Outstanding at 30.5.2012	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31.12.2012 & 1.1.2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2013		HK$	HK$
Directors[4]	–	–	–	–	–	3,800,000	–	–	3,800,000	02.04.2013	13.20	13.40
Sub-total	–	–	–	–	–	3,800,000	–	–	3,800,000			
Employees[4]	–	–	–	–	–	3,349,000	(38,000)	–	3,311,000	02.04.2013	13.20	13.40
Sub-total	–	–	–	–	–	3,349,000	(38,000)	–	3,311,000			
Others[4,5]	–	–	–	–	–	575,000	(19,000)	–	556,000	02.04.2013	13.20	13.40
Sub-total	–	–	–	–	–	575,000	(19,000)	–	556,000			
Total	–	–	–	–	–	7,724,000	(57,000)	–	7,667,000			
Share options exercisable at year end	–				–				2,128,000			

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

(b) The 2012 Share Option Scheme – continued

During the year ended 31 December 2013, the Company granted a total of 7,724,000 share options to the directors and certain employees and consultants of the Company under the 2012 Share Option Scheme on 2 April 2013. The validity period of the options granted is ten years, from 2 April 2013 to 1 April 2023. The options entitle the grantees to subscribe for a total of 7,724,000 shares of HK$0.50 each at an exercise price of HK$13.40 per share of the Company. The closing price of the shares of the Company immediately before and on the dates on which the options were granted was HK$13.44 and HK$13.20 respectively.

Notes:

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

2. As at 31 December 2013, the Company had 7,667,000 share options outstanding under the 2012 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,667,000 additional ordinary shares of the Company and additional share capital of approximately HK$3,834,000 and share premium of approximately HK$98,904,000 before issuance expenses.

3. During the period ended 31 December 2013, no share options lapsed and/or were cancelled under the 2012 Share Option 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 on the dates on which the options were exercised was HK$23.81 and HK$23.79 respectively.

4. The 7,724,000 options granted on 2 April 2013 were divided into 4 tranches exercisable from 2 April 2013, 2 April 2014, 2 April 2015 and 2 April 2016 respectively to 1 April 2023.

5. The category 'Others" represents the 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.

   The estimated fair values of the 7,724,000 share options granted on 2 April 2013 was approximately HK$57,670,000. The fair value per option granted during the year ended 31 December 2013 was HK$7.47.

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(I) The Company – continued

The inputs into the Binomial model were as follows:

	Share options grant date	
	2 April 2013	27 January 2012
Share price at date of grant of share options	**HK$13.20**	HK$7.10
Exercise price	**HK$13.40**	HK$7.10
Expected volatility	**64%**	64%
Expected life	**10 years**	10 years
Risk-free rate	**1.09%**	1.32%
Expected dividend yield	**0.19%**	0%
Suboptimal exercise factor	**2.2 – 2.6**	1.7 – 2.3

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted as appropriate, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group and the Company recognized the total expenses of approximately HK$50,468,000 for the year ended 31 December 2013 (2012: HK$38,222,000) 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.

(II) MelcoLot Limited ("MelcoLot") (a listed subsidiary of the Company)

The share option scheme adopted by MelcoLot at the general meeting on 20 April 2002 (the "MelcoLot's Old Scheme") has expired on 20 April 2012. The share options granted thereunder prior to the expiry date of MelcoLot's Old Scheme will continue to be valid and exercisable in accordance with the terms of MelcoLot's Old Scheme. At the annual general meeting of MelcoLot held on 18 May 2012, the shareholders of MelcoLot approved the adoption of a new share option scheme (the "MelcoLot's New Scheme") under which the directors of MelcoLot may grant share options to eligible persons to subscribe for the shares of MelcoLot, subject to the terms and conditions as stipulated therein. MelcoLot's New Scheme will remain valid for a period of 10 years from the date of its adoption, i.e. 18 May 2012.

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(II) MelcoLot Limited ("MelcoLot") (a listed subsidiary of the Company) – continued

Movements of the share options, which were granted under the MelcoLot's Old Scheme and MelcoLot's New Scheme, during the year ended 31 December 2013, are set out below:

(a) Share options granted by MelcoLot to the Directors of the Company

Category of participant	Number of share options									Date of grant of share options	Share price at date of grant of share options	Exercise price of share options
	Outstanding at 12.12.2012 (date of acquisition)	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31.12.2012 & 1.1.2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2013		HK$	HK$
(i) MelcoLot's Old Scheme												
Directors[2]	6,622,256	–	–	–	6,622,256	–	(6,622,256)	–	–	31.03.2008	0.89	0.679
Directors[3]	5,241,200	–	–	–	5,241,200	–	(5,241,200)	–	–	10.07.2009	0.32	0.280
Directors[2]	6,551,500	–	–	–	6,551,500	–	(6,551,500)	–	–	18.11.2010	0.15	0.116
Total	**18,414,956**	**–**	**–**	**–**	**18,414,956**	**–**	**(18,414,956)**	**–**	**–**			
(ii) MelcoLot's New Scheme												
Directors[5]	–	–	–	–	–	17,252,000	(4,313,000)	–	12,939,000	02.07.2013	0.54	0.544
Total	**–**	**–**	**–**	**–**	**–**	**17,252,000**	**(4,313,000)**	**–**	**12,939,000**			

For the year ended 31 December 2013

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(II) MelcoLot Limited ("MelcoLot") (a listed subsidiary of the Company) – continued

(b) Share options granted by MelcoLot to other eligible participants

Category of participant	Number of share options: Outstanding at 12.12.2012 (date of acquisition)	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31.12.2012 & 1.1.2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2013	Date of grant of share options	Share price at date of grant of share options HK$	Exercise price of share options HK$
(i) MelcoLot's Old Scheme												
Others[4,6]	1,572,360	–	–	–	1,572,360	–	(1,572,360)	–	–	20.02.2003	0.14	0.105
Others[4,6]	1,670,629	–	(81,893)	–	1,588,736	–	(1,005,654)	–	583,082	12.01.2007	0.09	0.067
Others[2,6]	26,692,118	–	–	–	26,692,118	–	(17,841,043)	(3,879,798)	4,971,277	31.03.2008	0.89	0.679
Others[3,6]	15,068,450	–	–	–	15,068,450	–	(11,687,876)	–	3,380,574	16.02.2009	0.30	0.229
Others[3,6]	33,982,630	–	(262,060)	–	33,720,570	–	(27,031,489)	(216,199)	6,472,882	10.07.2009	0.32	0.280
Others[2,6]	42,178,557	–	(4,979,140)	–	37,199,417	–	(32,109,840)	(288,266)	4,801,311	18.11.2010	0.15	0.116
Total	**121,164,744**	**–**	**(5,323,093)**	**–**	**115,841,651**	**–**	**(91,248,262)**	**(4,384,263)**	**20,209,126**			
(ii) MelcoLot's New Scheme												
Others[5,6]	–	–	–	–	–	22,000,000	(5,500,000)	–	16,500,000	02.07.2013	0.54	0.544
Total	–	–	–	–	**–**	**22,000,000**	**(5,500,000)**	**–**	**16,500,000**			

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(II) MelcoLot Limited ("MelcoLot") (a listed subsidiary of the Company) – continued

Notes:

1. During the year ended 31 December 2013, no share options were cancelled under MelcoLot's Old Scheme and MelcoLot's New Scheme. In respect of the share options exercised during the year, the weighted average closing price of the shares of MelcoLot immediately before and at the dates on which the share options were exercised were HK$0.90 and HK$0.91 respectively.

2. These grants under MelcoLot's Old Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of one year, starting from six months of the grant date at stepped six months increments of 50% of the total share options granted.

3. These grants under MelcoLot's Old Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of three years, starting from the first anniversary of the grant date at stepped annual increments of 33% of the total share options granted.

4. These grants under MelcoLot's Old Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of four years, starting from the first anniversary of the grant date at stepped annual increments of 25% of the total share options granted.

5. These grants under MelcoLot's New Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of three years, starting from the grant date at stepped annual increments of 25% of the total share options granted.

6. The category "Others" represents the directors, employees or consultants of MelcoLot.

The estimated fair values of the 39,252,000 share options granted on 2 July 2013 was approximately HK21,196,080. The fair value per option granted during the year ended 31 December 2013 was HK$0.54.

The fair value of share options granted by MelcoLot during the year ended 31 December 2013 were calculated using the Binomial model. The inputs into the model were as follows:

	Share options grant date 2 July 2013
Exercise price	**HK$0.544**
Expected volatility	**85%**
Expected life	**10 years**
Risk-free rate	**2.03%**
Expected dividend yield	**0%**
Suboptimal exercise factor	**2.8**

40. LONG TERM INCENTIVE SCHEMES – continued

Share option scheme – continued

(II) MelcoLot Limited ("MelcoLot") (a listed subsidiary of the Company) – continued

Expected volatility was determined by using the historical volatility of MelcoLot's share price over the previous years. The expected life used in the model has been adjusted as appropriate, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognized a total expense of HK$6,525,000 (2012: HK$460,000) for the year ended 31 December 2013 in relation to share options granted by MelcoLot.

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).

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 subsidiary of the Company) 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.

40. LONG TERM INCENTIVE SCHEMES – continued

Share award schemes – continued

Share Purchase Scheme – continued

Vesting of the Shares will be conditional on the selected employee remaining an employee of the Company or a subsidiary of the Company 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.

40. 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 2013 are set out below:

	Number of awarded shares									
Category of participant	Outstanding at 1.1.2012	Awarded during the year	Vested during the year	Outstanding at 31.12.2012 & 1.1.2013	Awarded during the year	Vested during the year	Outstanding at 31.12.2013	Share price at date of award HK$	Date of award	Vesting date
Directors	46,000	–	(46,000)	–	–	–	–	2.99	03.04.2009	03.04.2012
Directors	2,400,000	–	(2,400,000)	–	–	–	–	5.75	08.04.2011	08.04.2012
Directors	–	1,000,000	(1,000,000)	–	–	–	–	7.10	27.01.2012	27.01.2012
Directors	–	3,000,000	–	3,000,000	–	(3,000,000)	–	7.10	02.01.2012	27.01.2013
Directors	–	–	–	–	1,250,000	(1,250,000)	–	13.40	02.04.2013	02.04.2013
Directors	–	–	–	–	1,250,000	–	1,250,000	13.40	02.04.2013	01.04.2014
Sub-total	2,446,000	4,000,000	(3,446,000)	3,000,000	2,500,000	(4,250,000)	1,250,000			
Employees	28,000	–	(28,000)	–	–	–	–	2.99	03.04.2009	03.04.2012
Sub-total	28,000	–	(28,000)	–	–	–	–			
Others (Note)	16,000	–	(16,000)	–	–	–	–	2.99	03.04.2009	03.04.2012
Sub-total	16,000	–	(16,000)	–	–	–	–			
Total	2,490,000	4,000,000	(3,490,000)	3,000,000	2,500,000	(4,250,000)	1,250,000			

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

40. 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.

40. 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 2013 are set out below:

	Number of awarded shares							
Category of participant	Outstanding at 1.1.2012	Vested during the year	Outstanding at 31.12.2012 & 1.1.2013	Vested during the year	Outstanding at 31.12.2013	Share price at date of award HK$	Date of award	Vesting date
Employees	21,000	(21,000)	–	–	–	2.99	03.04.2009	03.04.2012
Sub-total	21,000	(21,000)	–	–	–			
Others (Note)	6,000	(6,000)	–	–	–	2.99	03.04.2009	03.04.2012
Sub-total	6,000	(6,000)	–	–	–			
Total	27,000	(27,000)	–	–	–			

Note: Others represent the former employees of the Group.

The Group and the Company recognized the total expenses of approximately HK$30,895,000 (2012: HK$30,591,000) for the year ended 31 December 2013 in relation to the share award schemes.

The share price of the date of award has been used to determine the fair value of the share award schemes.

41. 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 was 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.

41. ACQUISITION OF A SUBSIDIARY – continued

Assets acquired and liabilities recognized at the date of acquisition were 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.

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 represented the fair value of MelcoLot Shares received from Power Way during the Distribution which was measured at the quoted price of such shares at the date of acquisition.

(b) The amount represented 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 was recognized in profit or loss as gain on disposal of interest in an associate of approximately HK$45,726,000.

41. ACQUISITION OF A SUBSIDIARY – continued

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 was 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 ended 31 December 2012 was profit of approximately HK$754,000 attributable to the additional business generated by MelcoLot. Revenue for the year ended 31 December 2012 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.

42. 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$14,067,000 (2012: HK$11,311,000).

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	
	2013	2012
	HK$'000	HK$'000
Within one year	**14,440**	5,703
In the second to fifth year inclusive	**17,437**	6,113
	31,877	11,816

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.

42. OPERATING LEASE ARRANGEMENTS – continued

(b) The Group as lessor

At 31 December 2013, 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	
	2013	2012
	HK$'000	HK$'000
Within one year	**1,157**	8,667
In the second to fifth year inclusive	**–**	500
	1,157	9,167

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

43. 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% each of relevant payroll costs to the Scheme, subject to a maximum contribution of HK$1,250 (HK$1,000 before June 2012), which contribution is matched by the employee.

44. RELATED PARTY TRANSACTIONS

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

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Interest income received from associates	**–**	1,113
Rental income received from an associate (Note)	**2,391**	4,562
Overseas travels, entertainment and gifts expenses charged by an associate	**532**	1,383
Interest expense on convertible loan note to a company controlled by a discretionary family trust in which Mr. Ho, Lawrence Yau Lung and his family members are the beneficiaries	**–**	89,043
Service income received from associates	**11,087**	31,960
Service income received from a related company	**240**	–
Sundry income received from associates	**414**	563
Consultancy fee income from an associate	**300**	–
Management fee income from a non-controlling shareholder of a subsidiary	**910**	–
Sales of lottery terminals to a subsidiary of a non-controlling shareholder of a subsidiary	**17,119**	–
Sales of lottery terminals to an associate of a non-controlling shareholder of a subsidiary	**22,192**	–
Sales of property, plant and equipment to a non-controlling shareholder of a subsidiary	**2,178**	–

Note: As at 31 December 2012, included in future minimum lease arrangement as lessor (Note 42(b)) of approximately HK$4,562,000 would be receivable within one year 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	
	2013	2012
	HK$'000	HK$'000
Short-term benefits	**17,859**	13,829
Post-employment benefits	**109**	97
Share-based compensation	**73,446**	58,518
	91,414	72,444

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.

For the year ended 31 December 2013

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

45.1 General information of principal subsidiaries

Details of the Group's principal subsidiaries at the end of the reporting period are set out below.

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	
				2013	2012	**2013**	2012
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	**–**	–	**86.68%**	86.68%
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	**–**	–	**84.75%**	84.75%
Jumbo Catering Management Limited	Hong Kong	Provision of management services in Hong Kong	220 ordinary shares of HK$5,000 each	**–**	–	**86.68%**	86.68%
Melco Technology Group Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	**–**	–
EGT Entertainment Holding Limited	Hong Kong	Investment holding in Hong Kong	833,333 ordinary shares of HK$1 each	**–**	–	**100%**	100%
Melco Services Limited	British Virgin Islands	Investment holding in Hong Kong	1 share of US$1	**100%**	100%	**–**	–
Melco Investment Holdings Limited	British Virgin Islands	Investment holding in Macau	1 share of US$1	**100%**	100%	**–**	–
Zonic Technology Limited	British Virgin Islands	Investment holding in Hong Kong	1 share of US$1	**–**	–	**100%**	100%
Melco LottVentures Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	1 share of US$1	**–**	–	**100%**	100%
Melco Finance Limited	British Virgin Islands	Issuer of bonds	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	2,408,041,487 (2012: 2,288,565,269) ordinary shares of HK$0.01 each	**–**	–	**43.93%**	51.64%

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

45.1 General information of principal subsidiaries – continued

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 at the end of the year except for Melco Finance Limited which issued HK$760,000,000 guaranteed bonds, as disclosed in Note 36, in which the Group has no interest.

45.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interest		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013**	2012	**2013**	2012
				HK$'000	HK$'000	**HK$'000**	HK$'000
MelcoLot (i)	Cayman Island/PRC	**56.07%**	48.36%	**(3,870)**	69	**(108,331)**	(106,708)
Individually immaterial subsidiaries with non-controlling interests						**34,730**	30,169
						(73,601)	(76,539)

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

45.2 Details of non-wholly owned subsidiaries that have material non-controlling interests– continued

(i) MelcoLot is listed on the Hong Kong Stock Exchange. Although the Group has only 43.93% ownership in MelcoLot Limited, the directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant entities of MelcoLot Limited on the basis of the Group's absolute size of shareholding and the relative size of and dispersion of the shareholdings owned by other shareholders. The 56.07% ownership interests in MelcoLot Limited are owned by large numbers of shareholders with insignificant shareholding that are unrelated to the Group, none of the shareholders that unrelated to the Group individually holding more than 10%.

Summarized financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

MelcoLot

	2013 **HK$'000**	2012 HK$'000
Current assets	**101,011**	95,968
Non-current assets	**3,038**	6,282
Current liabilities	**(305,481)**	(323,207)
Non-current liabilities	**–**	–
Deficiency attributable to owners of MelcoLot	**(210,738)**	(232,864)
Non-controlling interests	**9,306**	11,907

For the year ended 31 December 2013

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

45.2 Details of non-wholly owned subsidiaries that have material non-controlling interests – continued

MelcoLot – continued

	2013 **HK$'000**	2012 HK$'000
Revenue	**54,561**	313,707
Expenses	**(67,531)**	(243,166)
(Loss) profit for the year	**(12,970)**	70,541
(Loss) profit attributable to owners of MelcoLot	**(17,117)**	78,981
Profit (loss) attributable to the non-controlling interests of MelcoLot	**4,147**	(8,440)
(Loss) profit for the year	**(12,970)**	70,541
Other comprehensive expense attributable to owners of MelcoLot	**(5,638)**	(4,507)
Other comprehensive income attributable to the non-controlling interests of MelcoLot	**86**	179
Other comprehensive expense for the year	**(5,552)**	(4,328)
Total comprehensive (expense) income attributable to owners of MelcoLot	**(22,755)**	74,474
Total comprehensive income (expense) attributable to the non-controlling interests of MelcoLot	**4,233**	(8,261)
Total comprehensive (expense) income for the year	**(18,522)**	66,213
Dividend to non-controlling shareholders	**6,748**	–
Net cash outflow from operating activities	**(11,099)**	(16,292)
Net cash inflow (outflow) from investing activities	**4**	(8,670)
Net cash inflow from financing activities	**38,051**	27,381
Net cash inflow	**26,956**	2,419

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

45.3 Change in ownership interest in a subsidiary

During the year, the Group disposed of 123,940,000 MelcoLot's shares (the "Disposal") representing 5.15% of the issued share capital of MelcoLot as at 31 December 2013, for an aggregate consideration, net of expenses, of approximately HK$149,003,000, which was received in cash in the open market. The consideration was calculated by reference to the market share price of MelcoLot at the time of the disposal.

The gain in respect of the Disposal was approximately HK$160,943,000, was calculated by (a) adding the net liabilities of MelcoLot attributable to the non-controlling interests of approximately HK$11,940,000 and (b) deducting the related costs and expenses of the disposal of approximately HK$537,000 from the gross proceeds of the Disposal of approximately HK$149,540,000, has been credited to special reserve.

Five Years Financial Summary

RESULTS

	For the year ended 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	709,553	206,691	129,314	146,851	**183,274**
(Loss) profit for the year	(1,448,416)	(208,608)	281,392	1,123,614	**1,604,116**
Attributable to:					
Owners of the Company	(1,449,685)	(209,464)	280,085	1,121,903	**1,596,715**
Non-controlling interests	1,269	856	1,307	1,711	**7,401**
	(1,448,416)	(208,608)	281,392	1,123,614	**1,604,116**

ASSETS AND LIABILITIES

	At 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	8,537,923	8,340,680	8,578,030	9,925,332	**12,943,071**
Total liabilities	(1,828,863)	(1,484,838)	(1,366,454)	(627,438)	**(1,327,724)**
	6,709,060	6,855,842	7,211,576	9,297,894	**11,615,347**
Equity attributable to owners of the Company	6,681,756	6,827,951	7,182,646	9,374,433	**11,688,948**
Non-controlling interests	27,304	27,891	28,930	(76,539)	**(73,601)**
	6,709,060	6,855,842	7,211,576	9,297,894	**11,615,347**

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. HO, Lawrence Yau Lung
(Chairman & Chief Executive Officer)
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence

Non-executive Director

Mr. NG Ching Wo

Independent Non-executive Directors

Sir Roger LOBO
Mr. SHAM Sui Leung, Daniel
Dr. TYEN Kan Hee, Anthony

EXECUTIVE COMMITTEE

Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
Mr. TSANG Yuen Wai, Samuel*
Mr. TAM Chi Wai, Dennis*

AUDIT COMMITTEE

Sir Roger LOBO *(Chairman)*
Mr. NG Ching Wo
Mr. SHAM Sui Leung, Daniel
Dr. TYEN Kan Hee, Anthony

REMUNERATION COMMITTEE

Mr. SHAM Sui Leung, Daniel *(Chairman)*
Sir Roger LOBO
Mr. NG Ching Wo

NOMINATION COMMITTEE

Dr. TYEN Kan Hee, Anthony *(Chairman)*
Sir Roger LOBO
Mr. NG Ching Wo

CORPORATE GOVERNANCE COMMITTEE

Mr. NG Ching Wo *(Chairman)*
Mr. SHAM Sui Leung, Daniel
Dr. TYEN Kan Hee, Anthony
Mr. TSANG Yuen Wai, Samuel*

REGULATORY COMPLIANCE COMMITTEE

Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Mr. TSANG Yuen Wai, Samuel*

FINANCE COMMITTEE

Mr. HO, Lawrence Yau Lung *(Chairman)*
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
Mr. TAM Chi Wai, Dennis*

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Sir Roger LOBO *(Chairman)*
Mr. HO, Lawrence Yau Lung
Mr. TSUI Che Yin, Frank
Mr. CHUNG Yuk Man, Clarence
Ms. MA Po Ming, Maggie*

COMPANY SECRETARY

Mr. TSANG Yuen Wai, Samuel

QUALIFIED ACCOUNTANT

Mr. TAM Chi Wai, Dennis

Corporate Information

REGISTERED OFFICE

38th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

King & Wood Mallesons
Gibson, Dunn & Crutcher LLP

PRINCIPAL BANKERS

Credit Suisse
Bank of China, Macau Branch
UBS AG

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited: 200

WEBSITE

http://www.melco-group.com

* *non-voting co-opted members*

www.melco-group.com

Hong Kong
Penthouse, 38/F., The Centrium,
60 Wyndham Street, Central, Hong Kong
Tel : (852) 3151 3777

Macau
22/F., Golden Dragon Centre,
Avenida Xian Xing Hai, Macau
Tel : (853) 8296 1777

MIX
Paper from responsible sources
FSC™ C013909
www.fsc.org