

As filed with the Securities and Exchange Commission on March 31, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 20-F**

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report  
\_\_\_\_\_

Commission file number 001-33178

**MELCO CROWN ENTERTAINMENT LIMITED**

(Exact name of Registrant as specified in its charter)  
\_\_\_\_\_

(Translation of Registrant's name into English)  
\_\_\_\_\_

**Cayman Islands**  
(Jurisdiction of incorporation or organization)  
\_\_\_\_\_

36th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong  
(Address of principal executive offices)  
\_\_\_\_\_

Leanne Palmer, Vice President, Financial Compliance, Tel +852 2598 3600, Fax +852 2537 3618  
36th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong  
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)  
\_\_\_\_\_

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American depositary shares each representing three ordinary shares	The NASDAQ Stock Market LLC

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None.  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None.  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

1,321,550,399 ordinary shares of Registrant outstanding as of December 31, 2008.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
 Large accelerated filer                       Accelerated filer                       Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP                       International Financial Reporting Standards as issued by the International Accounting Standards Board                       Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  
Yes  No

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TABLE OF CONTENTS

<b><u>INTRODUCTION</u></b>	<b>1</b>
<b><u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u></b>	<b>3</b>
<b><u>PART I</u></b>	<b>5</b>
<u>Item 1. Identity Of Directors, Senior Management and Advisers</u>	5
<u>Item 2. Offer Statistics and Expected Timetable</u>	5
<u>Item 3. Key Information</u>	5
<u>A. Selected Financial Data</u>	5
<u>B. Capitalization and Indebtedness</u>	8
<u>C. Reasons for the Offer and Use of Proceeds</u>	8
<u>D. Risk Factors</u>	8
<u>Item 4. Information on the Company</u>	41
<u>A. History and Development of the Company</u>	41
<u>B. Business Overview</u>	42
<u>C. Organizational Structure</u>	65
<u>D. Property, Plant and Equipment</u>	67
<u>Item 4A. Unresolved Staff Comments</u>	67
<u>Item 5. Operating and Financial Review and Prospects</u>	67
<u>A. Operating Results</u>	67
<u>B. Liquidity And Capital Resources</u>	81
<u>C. Research And Development, Patents And Licenses, Etc.</u>	87
<u>D. Trend Information</u>	88
<u>E. Off-Balance Sheet Arrangements</u>	88
<u>F. Tabular Disclosure Of Contractual Obligations</u>	88
<u>G. Safe Harbor</u>	89
<u>Item 6. Directors, Senior Management And Employees</u>	89
<u>A. Directors And Senior Management</u>	89
<u>B. Compensation Of Directors And Executive Officers</u>	95
<u>C. Board Practices</u>	95
<u>D. Employees</u>	101
<u>E. Share Ownership</u>	102
<u>Item 7. Major Shareholders And Related Party Transactions</u>	103
<u>A. Major Shareholders</u>	103
<u>B. Related Party Transactions</u>	107
<u>C. Interests Of Experts And Counsel</u>	108
<u>Item 8. Financial Information</u>	108
<u>A. Consolidated Statements And Other Financial Information</u>	108

## Table of Contents

<u>B. Significant Changes</u>	108
<u>Item 9. The Offer And Listing</u>	109
<u>A. Offering And Listing Details</u>	109
<u>B. Plan Of Distribution</u>	109
<u>C. Markets</u>	109
<u>D. Selling Shareholders</u>	109
<u>E. Dilution</u>	110
<u>F. Expenses Of The Issue</u>	110
<u>Item 10. Additional Information</u>	110
<u>A. Share Capital</u>	110
<u>B. Memorandum And Articles Of Association</u>	110
<u>C. Material Contracts</u>	110
<u>D. Exchange Controls</u>	110
<u>E. Taxation</u>	111
<u>F. Dividends And Paying Agents</u>	115
<u>G. Statement By Experts</u>	115
<u>H. Documents On Display</u>	116
<u>I. Subsidiary Information</u>	116
<u>Item 11. Quantitative And Qualitative Disclosures About Market Risk</u>	116
<u>Item 12. Description of Securities other than Equity Securities</u>	118
<b><u>PART II</u></b>	<b>118</b>
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	118
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	118
<u>Item 15. Controls And Procedures</u>	119
<u>Item 16A. Audit Committee Financial Expert</u>	120
<u>Item 16B. Code of Ethics</u>	120
<u>Item 16C. Principal Accountant Fees and Services</u>	121
<u>Item 16D. Exemptions From The Listing Standards For Audit Committees</u>	121
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	121
<u>Item 16F. Change in Registrant’s Certifying Accountant</u>	121
<u>Item 16G. Corporate governance</u>	121
<b><u>PART III</u></b>	<b>122</b>
<u>Item 17. Financial Statements</u>	122
<u>Item 18. Financial Statements</u>	122

Item 19. Exhibits

122

EX-4.6 AMENDMENT AGREEMENT  
EX-4.7 SECOND AMENDMENT AGREEMENT  
EX-4.8 THIRD AMENDMENT AGREEMENT  
EX-4.20 NOVATION AND TERMINATION AGREEMENT  
EX-4.21 MANAGEMENT AGREEMENT  
EX-4.23 NOVATION AGREEMENT  
EX-4.27 NOVATION AGREEMENT  
EX-4.29 EXTENSION LETTER  
EX-4.30 EXTENSION LETTER  
EX-4.31 EXTENSION LETTER  
EX-8.1 LIST OF SUBSIDIARIES  
EX-11.1 CODE OF BUSINESS CONDUCT AND ETHICS  
EX-12.1 CEO CERTIFICATION PURSUANT TO SECTION 302  
EX-12.2 CFO CERTIFICATION PURSUANT TO SECTION 302  
EX-13.1 CEO CERTIFICATION PURSUANT TO SECTION 906  
EX-13.2 CFO CERTIFICATION PURSUANT TO SECTION 906  
EX-15.1 CONSENT OF WALKERS

## INTRODUCTION

Unless otherwise indicated, references in this annual report on Form 20-F to:

- “China,” “mainland China” and “PRC” are to the People’s Republic of China, excluding Hong Kong, Macau and Taiwan;
- “Greater China” is to mainland China, Hong Kong, Macau and Taiwan, collectively;
- “HKS” and “H.K. dollars” are to the legal currency of Hong Kong;
- “Hong Kong” is to the Hong Kong Special Administration Region of the People’s Republic of China;
- “Macau” and the “Macau SAR” are to the Macau Special Administrative Region of the People’s Republic of China;
- “Patacas” and “MOP” are to the legal currency of Macau;
- “Renminbi” and “RMB” are to the legal currency of China;
- “US\$” and “U.S. dollars” are to the legal currency of the United States; and
- “U.S. GAAP” is to the accounting principles generally accepted in the United States.

Unless the context indicates otherwise, “we,” “us,” “our company” and “MPEL” refer to Melco Crown Entertainment Limited, formerly Melco PBL Entertainment (Macau) Limited, a Cayman Islands exempted company with limited liability, and its predecessor entities and its consolidated subsidiaries, including Melco Crown Gaming (Macau) Limited, formerly Melco PBL Gaming (Macau) Limited, or Melco Crown Gaming, a Macau company and the holder of the gaming subconcession; “Melco” refers to Melco International Development Limited, a Hong Kong-listed company; “Crown” refers to Crown Limited, an Australian-listed corporation which completed its acquisition of the gaming businesses and investments of PBL on December 12, 2007 and which is now our shareholder and as the context may require, shall include its predecessor, PBL; “PBL” refers to Publishing and Broadcasting Limited, an Australian-listed corporation which is now known as Consolidated Media Holdings Limited; “SPV” refers to Melco Crown SPV Limited, formerly Melco PBL SPV Limited, a Cayman Islands exempted company which is 50/50 owned by Melco Leisure and Entertainment Group Limited and PBL Asia Investments Limited; and “our subconcession” refers to the Macau gaming subconcession held by our subsidiary, Melco Crown Gaming. Our other principal operating subsidiaries are (1) Melco Crown (CM) Hotel Limited, or Melco Crown (CM) Hotel (formerly known as Melco PBL Hotel (Crown Macau) Limited) through which we currently operate the hotel at Crown Macau, (2) Melco Crown (CM) Developments Limited, or Melco Crown (CM) Developments (its former names were Melco PBL (Crown Macau) Developments Limited and Great Wonders, Investments, Limited), through which we hold the land and buildings for Crown Macau, (3) Melco Crown (COD) Developments Limited, or Melco Crown (COD) Developments (its former names were Melco PBL (COD) Developments Limited and Melco Hotel and Resorts (Macau) Limited) through which we hold the City of Dreams project, and (4) MPEL (Macau Peninsula) Limited, or MPEL Macau Peninsula, through which we currently hold our Macau peninsula project.

## Table of Contents

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2008, 2007 and 2006 and as of December 31, 2008 and 2007.

We completed our initial public offering of 60,250,000 ADSs, each representing three ordinary shares, par value US\$0.01 per share in December 2006. Since December 19, 2006, we have listed our ADSs on The NASDAQ Stock Market LLC, or the Nasdaq, under the symbol "MPEL". Immediately prior to our initial public offering of ADSs in December 2006, we had 1,000,000,000 total ordinary shares issued and outstanding. During the initial public offering, we initially issued 60,250,000 ADSs, representing 180,750,000 ordinary shares. In addition, we issued 60,382 ADSs representing 181,146 ordinary shares to Melco shareholders as an assured entitlements distribution. On January 8, 2007, we sold an additional 9,037,500 ADSs, representing 27,112,500 ordinary shares pursuant to the underwriters' option to purchase these additional ADSs from us at the initial public offering price less the underwriting commission to cover over-allotments of the ADSs.

On November 6, 2007 we sold 37,500,000 ADSs, representing 112,500,000 ordinary shares at the public offering price less the underwriting commission in a follow-on offering. In connection with our restricted shares granted in 2006, 395,256 ordinary shares were vested and issued during the year ended December 31, 2007. In connection with our share options granted in 2007, 385,180 ordinary shares were issued in the name of a nominee of Deutsche Bank Trust Company Americas, the depository under the deposit agreement, for issuance to employees upon their future exercise of vested share options during the year ended December 31, 2008. In connection with our restricted shares granted in 2006, 226,317 shares were vested and issued during the year ended December 31, 2008.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward-looking statements are contained principally in the sections entitled “Item 3. Key Information—D. Risk Factors”, “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects”. Known and unknown risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. See “Item 3. Key Information—D. Risk Factors” for a discussion of some risk factors that may affect our business and results of operations. These risks are not exhaustive. Other sections of this annual report on Form 20-F may include additional factors that could adversely impact our business and financial performance. Moreover, because we operate in a heavily regulated and evolving industry, may become highly leveraged, and operate in Macau, a market that has historically experienced extremely rapid growth and intense competition, new risk factors may emerge from time to time. It is not possible for our management to predict all risk factors, nor can we assess the impact of these factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those expressed or implied in any forward-looking statement.

In some cases, forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. We have based the forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- growth of the gaming market and visitation in Macau;
- satisfaction of and compliance with conditions and covenants under the US\$1.75 billion City of Dreams Project Facility, or City of Dreams Project Facility, to maintain the facility;
- the completion of the construction of our City of Dreams project;
- obtaining approval from the Macau government for an increase in the developable gross floor area of the City of Dreams site;
- the formal grant of an occupancy permit for the City of Dreams;
- our acquisition and development of the Macau peninsula site;
- the development of Macau Studio City;
- construction cost estimates for our development projects;



## Table of Contents

- increased competition and other planned casino hotel and resort projects in Macau and elsewhere in Asia, including in Macau from Sociedade de Jogos de Macau, S.A, or SJM, Venetian Macau, Wynn Macau, Galaxy and MGM Grand Paradise;
- the completion of infrastructure projects in Macau;
- government regulation of the casino industry, including gaming license approvals and the legalization of gaming in other jurisdictions;
- our ability to raise additional financing;
- the uncertainty of tourist behavior related to spending and vacationing at casino resorts in Macau;
- our entering into new development and construction and new ventures;
- the liberalization of travel restrictions and convertibility of the Renminbi by China;
- fluctuations in occupancy rates and average daily room rates in Macau;
- our anticipated growth strategies; and
- our future business development, results of operations and financial condition.

The forward-looking statements made in this annual report on Form 20-F relate only to events or information as of the date on which the statements are made in this annual report on Form 20-F. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report on Form 20-F and the documents that we referenced in this annual report on Form 20-F and have filed as exhibits with the SEC, completely and with the understanding that our actual future results may be materially different from what we expect.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following reflects selected historical financial data that should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and the notes thereto beginning on page F-1 of this annual report on Form 20-F. The historical results are not necessarily indicative of the results of operations to be expected in the future.

	For the Year Ended December 31, 2008 (Successor)	For the Year Ended December 31, 2007 (Successor)	For the Year Ended December 31, 2006 (Successor)	For the Year Ended December 31, 2005 (Successor)	For the Period from June 9, 2004 to December 31, 2004 (Successor)	For the Period from January 1, 2004 to June 8, 2004 (Predecessor)
<i>(In thousands of US\$, except share and per share data and operating data)</i>						
<b>Consolidated Statement of Operations Data:</b>						
Net revenues	\$ 1,416,134	\$ 358,496	\$ 36,101	\$ 17,328	\$ 6,071	\$ 1,896
Total operating costs and expenses	(1,414,960)	(554,313)	(93,754)	(21,050)	(7,001)	(1,286)
Operating income (loss)	\$ 1,174	\$ (195,817)	\$ (57,653)	\$ (3,722)	\$ (930)	\$ 610
Net (loss) income	\$ (2,463)	\$ (178,151)	\$ (73,479)	\$ (3,259)	\$ (1,007)	\$ 494
<b>Loss per share</b>						
— Basic and diluted	\$ (0.002)	\$ (0.145)	\$ (0.116)	\$ (0.006)	\$ (0.002)	*
— ADS <sup>(1)</sup>	\$ (0.006)	\$ (0.436)	\$ (0.348)	\$ (0.019)	\$ (0.005)	*
<b>Shares used in calculating loss per share</b>						
— Basic and diluted	1,320,946,942	1,224,880,031	633,228,439	522,945,205	625,000,000	*

December 31,				
2008 (Successor)	2007 (Successor)	2006 (Successor)	2005 (Successor)	2004 (Successor)
<i>(In thousands of US\$)</i>				

<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 815,144	\$ 835,419	\$ 583,996	\$ 19,769	\$ 5,537
Restricted cash	67,977	298,983	—	—	—
Total assets	4,498,289	3,620,268	2,279,920	421,208	106,112
Total current liabilities	450,136	483,685	207,613	138,741	17,524
Total debts <sup>(2)</sup>	1,529,195	616,376	212,506	94,577	11,930
Total liabilities	2,089,685	1,191,727	389,554	163,024	23,845
Minority interests	—	—	—	19,492	35
Total shareholders' equity	2,408,604	2,428,541	1,890,366	238,692	82,232

\* Figures not provided as the number of shares of our predecessor and our company are not directly comparable.

(1) Each ADS represents three ordinary shares.

(2) Includes amounts due to shareholders within one year, loans from shareholders and long-term debt.

## Table of Contents

The following events/transactions affect the year-to-year comparability of the selected financial data presented above:

- From January 1, 2004 to June 8, 2004, the consolidated financial statements of Mocha Slot Group Limited, or Mocha, have been prepared for the purpose of presenting the financial information of our predecessor. Mocha is considered as our predecessor because we succeeded to substantially all of the business of Mocha and our own operations prior to the succession were insignificant relative to the operations assumed or acquired.
- From June 9, 2004 for Mocha, July 20, 2004 for Melco Crown (COD) Developments and November 9, 2004 for Melco Crown (CM) Developments through March 7, 2005, the financial statements reflect the consolidated financial statements of Mocha, Melco Crown (COD) Developments and Melco Crown (CM) Developments because they were under common control for this period. The contributions by Melco of its 80% interest in Mocha, 70% interest in Melco Crown (CM) Developments and 50.8% interest in the City of Dreams project to MPEL (Greater China) Limited, formerly Melco PBL Entertainment (Greater China) Limited, a company previously 80% indirectly owned by us and 20% owned by Melco, and cash contributions by Crown of US\$163 million, which were completed on March 8, 2005, were accounted for as the formation of a joint venture for which a carryover basis of accounting has been adopted.
- In December 2004, we began construction of Crown Macau.
- In September 2006, we acquired a Macau subconcession. Prior to this date we did not hold a concession or subconcession to operate gaming activities in Macau and we operated under a services agreement with SJM.
- In April 2006, we commenced construction of the City of Dreams project.
- On May 12, 2007, Crown Macau opened and became fully operational on July 14, 2007.

### **Exchange Rate Information**

Although we will have certain expenses and revenues denominated in Patacas, our revenues and expenses will be denominated predominantly in Hong Kong dollars and in connection with a significant portion of our indebtedness and certain expenses, U.S. dollars. Periodic reports made to shareholders will be expressed in U.S. dollars using the then current exchange rates. The conversion of Hong Kong dollars into U.S. dollars in this annual report on Form 20-F is based on the noon buying rate in The City of New York for cable transfers of Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Hong Kong dollars to U.S. dollars and from U.S. dollars to Hong Kong dollars in this annual report on Form 20-F were made at a rate of HK\$7.78 to US\$1.00. The noon buying rate in effect as of December 31, 2008 was HK\$7.7499 to US\$1.00. We make no representation that any Hong Kong dollar or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Hong Kong dollars, as the case may be, at any particular rate, the rates stated below, or at all. On March 20, 2009, the noon buying rate was HK\$7.7499 to US\$1.00.

## [Table of Contents](#)

The Hong Kong dollar is freely convertible into other currencies (including the U.S. dollar). Since October 7, 1983, the Hong Kong dollar has been officially linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The link is supported by an agreement between Hong Kong's three bank note-issuing banks and the Hong Kong government pursuant to which bank notes issued by such banks are backed by certificates of indebtedness purchased by such banks from the Hong Kong Government Exchange Fund in U.S. dollars at the fixed exchange rate of HK\$7.80 to US\$1.00 and held as cover for the bank notes issued. When bank notes are withdrawn from circulation, the issuing bank surrenders certificates of indebtedness to the Hong Kong Government Exchange Fund and is paid the equivalent amount in U.S. dollars at the fixed rate of exchange. Hong Kong's three bank note-issuing banks are The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Bank of China (Hong Kong) Limited.

In May 2005, the Hong Kong Monetary Authority broadened the link from the original rate of HK\$7.80 per US\$1.00 to a rate range of HK\$7.75 to HK\$7.85 per US\$1.00. No assurance can be given that the Hong Kong government will maintain the link at HK\$7.75 to HK\$7.85 per US\$1.00 or at all.

The following table sets forth the noon buying rate for U.S. dollars in The City of New York for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York.

Period	Noon Buying Rate			
	Period End	Average <sup>(1)</sup> <i>(Hong Kong dollar per US\$1.00)</i>	Low	High
March 2009 (through March 20, 2009)	7.7499	7.7545	7.7593	7.7499
February 2009	7.7551	7.7534	7.7551	7.7511
January 2009	7.7544	7.7563	7.7618	7.7504
December 2008	7.7499	7.7504	7.7522	7.7497
November 2008	7.7501	7.7507	7.7560	7.7497
October 2008	7.7503	7.7589	7.7736	7.7503
September 2008	7.7659	7.7854	7.8094	7.7582
2008	7.7499	7.7814	7.8159	7.7497
2007	7.7984	7.8008	7.8289	7.7497
2006	7.7771	7.7685	7.7928	7.7506
2005	7.7533	7.7755	7.7999	7.7514
2004	7.7723	7.7899	7.8010	7.7632

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

The Pataca is pegged to the Hong Kong dollar at a rate of HK\$1.00 = MOP 1.03. All translations from Patacas to U.S. dollars in this annual report on Form 20-F were made at the exchange rate of MOP 8.0134 = US\$1.00. The Federal Reserve Bank of New York does not certify for customs purposes a noon buying rate for cable transfers in Patacas.

## B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

## C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

## D. RISK FACTORS

Our business, financial condition and results of operations can be affected materially and adversely by any of the following risk factors.

### **Risks Relating to Our Early Stage of Development**

*We are in an early stage of development of our business and properties, and so we are subject to significant risks and uncertainties. Our limited operating history may not serve as an adequate basis to judge our future operating results and prospects.*

In significant respects we remain in a developmental phase of our business and there is limited historical information available about our company upon which you can base your evaluation of our business and prospects. In particular, we opened Crown Macau less than two years ago and are still in the process of constructing City of Dreams. The Macau peninsula project is at an even more preliminary stage of development, and we have not completed the acquisition of the site. The Mocha Club business, which we acquired in 2005, did not commence operations until 2003. Melco Crown Gaming acquired its subconcession and previously did not have any direct experience operating casinos in Macau. As a result, you should consider our business and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and operate major new development projects and gaming businesses in an intensely competitive market.

Among other things, we are still in the process of:

- satisfying and complying with conditions and covenants under the \$1.75 billion City of Dreams Project Facility to rollover existing revolving loans drawn down under the facility and to maintain the facility; and
- acquiring an ownership interest in the company that owns the Macau peninsula site, which is subject to significant conditions in the control of third parties unrelated to us and the seller, and to obtaining Macau governmental approvals, and obtaining financing commitments for the acquisition and development of the Macau peninsula project.

## [Table of Contents](#)

We have encountered and will continue to encounter risks and difficulties frequently experienced by early-stage companies, and those risks and difficulties may be heightened in a rapidly developing market such as the gaming market in Macau. Some of the risks relate to our ability to:

- complete our construction projects within their anticipated time schedules and budgets;
- identify suitable locations and enter into new leases or right to use agreements (which are similar to license agreements) for new Mocha Clubs;
- renew lease agreements for existing Mocha Clubs;
- attract and retain customers and qualified employees;
- operate, support, expand and develop our operations and our facilities;
- maintain effective control of our operating costs and expenses;
- raise additional capital, as required;
- fulfill conditions precedent to draw down funds from current and future credit facilities;
- develop and maintain internal personnel, systems, controls and procedures to assure compliance with the extensive regulatory requirements applicable to the gaming business as well as regulatory compliance as a public company;
- respond to changes in our regulatory environment;
- respond to competitive market conditions; and
- respond to changing financing requirements.

If we are unable to complete any of these tasks, we may be unable to complete those of our projects that are currently under development and operate our businesses in the manner we contemplate and generate revenues from such projects in the amounts and by the times we anticipate. We may also be unable to meet the conditions to draw on our existing or future financing facilities in order to fund our development, construction and acquisition activities or may suffer a default under our existing or future financing facilities. If any of these events were to occur, it would cause a material adverse effect on our business and prospects, financial condition, results of operation and cash flows.

***We could encounter problems that substantially increase the costs to develop our projects.***

The budget estimated for the Macau peninsula project is based on preliminary projections, conceptual design documents and schedule estimates that are prepared with the assistance of our architects and contractors and are subject to change as the plans and design documents are developed and as contract packages are let into the marketplace. We expect revisions to our estimated project costs as we firm up our design plans and hire architects, contractors and sub-contractors for these projects.

## Table of Contents

All our projects are subject to significant development and construction risks, which could have a material adverse impact on our project timetables and costs and our ability to complete the projects. These risks include the following:

- changes to plans and specifications;
- engineering problems, including defective plans and specifications;
- shortages of, and price increases in, energy, materials and skilled and unskilled labor, and inflation in key supply markets;
- delays in obtaining or inability to obtain necessary permits, licenses and approvals;
- changes in laws and regulations, or in the interpretation and enforcement of laws and regulations, applicable to gaming, leisure, residential, real estate development or construction projects;
- labor disputes or work stoppages;
- disputes with and defaults by contractors and subcontractors;
- environmental, health and safety issues, including site accidents;
- weather interferences or delays;
- fires, typhoons and other natural disasters;
- geological, construction, excavation, regulatory and equipment problems; and
- other unanticipated circumstances or cost increases.

The occurrence of any of these development and construction risks could increase the total costs, delay or prevent the construction or opening or otherwise affect the design and features of our projects that are under development, which could materially adversely affect our results of operations and financial condition. We cannot guarantee that our construction costs or total project costs for our projects will not increase.

Our contractors and sub-contractors may not be able to secure lower cost labor and other inputs from mainland China on a timely basis and in an adequate amount, as they need to obtain required licenses from the Macau government to do so. The application for such licenses, if granted at all, may take several weeks or months. Increases in input costs of construction in Macau will increase the risk that contractors will fail to perform under their contracts on time, within budget, or at all, and could increase the costs of any contracts that we may enter into for our projects.

***We could encounter problems in the pre-opening phase of the City of Dreams which could delay its opening and operation.***

We are in the process of completing the construction and pre-opening planning for the City of Dreams, and we are recruiting 7,000 new employees required to be able to open and operate the City of Dreams. Any factors that adversely affect any part of these processes may cause a delay in the opening of the City of Dreams. In addition, an occupancy permit is required to be issued by the Macau government prior to the opening and operation of the City of Dreams. The issuance of an occupancy permit for the City of Dreams and our other projects is subject to administrative procedures which are in certain aspects beyond our control. Upon completion of construction, in order to obtain the formal occupancy permit, we are subject to an inspection led by the Macau Public Works and Transport Department which also includes the participation of representatives from the Institute for Civil and Municipal Affairs, the Health Department and the Fire Department. Any unfavorable report from any of these departments may result in a delay in the issue of a formal occupancy permit or rejection of its issuance. Amongst other details, the inspection is aimed at verifying that construction has been completed in accordance with the approved construction project, the technical details of construction and the certification by the local electricity company that the project was completed in line with local guidelines and may be connected with the electricity distribution network. The inspection report is thereafter subject to certification by the Head of the Macau Public Works and Transport Department who is responsible for the issuance of the occupancy permit. Until such permit is issued we are not able to open or operate the City of Dreams or our other projects as planned. This permit is separate and independent from the operating licenses we are required to obtain in order to operate our hotels and food and beverage outlets. Such operating licenses require further inspections led by the Macau Government Tourism Office, which include the participation of representatives from the Labour Department, the Public Works and Transport Department, the Institute for Civil and Municipal Affairs, the Health Department, the Sports Department, the Police Department and the Fire Department. Any unfavorable report from any of these departments may result in a delay in the issue of the operating licenses or rejection of their issuance which could delay the opening and operation of the City of Dreams and our other projects.

***We may require debt and equity funding to complete our pipeline of future projects and we may be required to incur significant additional indebtedness or sell convertible bonds, ADSs or other equity or equity-linked securities. Our ability to obtain additional financing may be limited, which could delay or prevent the opening of one or more of our projects.***

We may require more debt and equity funding to complete our pipeline of future projects, fund initial operating activities and service debt payments, depending on whether our projects are completed within budget, the timing of completion and commencement of revenue generating operations, any further investments and/or acquisitions we may make, and the amount of cash flow from our operations. If delays and cost overruns are significant, the additional funding we would require could be substantial. The raising of additional debt funding by us, if required, would result in increased debt service obligations and could result in additional operating and financing covenants, or liens on our assets, that would restrict our operations. The sale of additional equity securities could result in additional dilution to our shareholders.



## [Table of Contents](#)

Our ability to obtain required additional capital on acceptable terms is subject to a variety of uncertainties, including:

- limitations on our ability to incur additional debt, including as a result of prospective lenders' evaluations of our creditworthiness and pursuant to restrictions on incurrence of debt in our existing and anticipated credit facilities, which currently prohibits Melco Crown Gaming and our other subsidiaries from incurring additional indebtedness with only limited exceptions, and the fact that our senior creditors have pledges over our operating assets, including Crown Macau and Mocha Clubs;
- limitations on our ability to raise capital from the credit markets, especially if the current turmoil in the credit markets continues;
- investors' and lenders' perception of, and demand for, debt and equity securities of gaming, leisure and hospitality companies, as well as the offerings of competing financing and investment opportunities in Macau by our competitors;
- whether it is necessary to obtain further credit support or other assurances from Melco and Crown on terms and conditions and in amounts that are commercially acceptable to them;
- Melco Crown Gaming's ability to obtain consent from the Macau government as required under our subconcession contract;
- conditions of the U.S., Macau, Hong Kong, and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- requirements for approval for certain transactions from Macau, Hong Kong or Australian authorities, the Nasdaq, our principal lenders and/or shareholders of Melco and/or Crown, among others;
- Macau governmental regulation of gaming in Macau; and
- economic, political and other conditions in Macau, China and the Asian region.

Without the necessary capital, we may not be able to:

- service the existing indebtedness obligations of our subsidiaries;
- complete the development of our existing projects or acquire and develop new projects;
- pay the outstanding land premium for our sites;
- acquire necessary rights, assets or businesses;

## Table of Contents

- expand our operations in Macau;
- hire, train and retain employees;
- market our programs, services and products; or
- respond to competitive pressures or unanticipated funding requirements.

We cannot assure you that the necessary financing will be available in the future in the amounts or on terms acceptable to us, or at all. If we fail to raise additional funds in such amounts and at such times as we may need, we may be forced to reduce our expenditures and growth to a level that can be supported by our cash flow and delay the development of our projects, which may result in default and exercise of remedies by the lenders under our loan facilities, whose loans we expect to be secured by liens on substantially all the shares and assets of our subsidiaries. In that event, we would be unable to complete our projects under construction and could suffer a partial or complete loss of investment in our projects.

***Servicing the debt of our subsidiaries requires a significant amount of cash, and our subsidiaries may not generate a sufficient level of cash flow from their businesses to make scheduled payments on their debt.***

Our subsidiaries' ability to make scheduled payments of the principal of, to pay interest on or to refinance their indebtedness depends on our subsidiaries' future performance, which is subject to certain economic, financial, competitive and other factors beyond our control. Our subsidiaries may not generate cash flow from operations in the future sufficient to service their debt and make necessary capital expenditures. If they are unable to generate such cash flow, our subsidiaries may be required to adopt one or more alternatives, such as selling assets, restructuring debt, incurring additional indebtedness or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our subsidiaries' ability to refinance their indebtedness will depend on the financial markets and their financial condition at such time. Our subsidiaries may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our subsidiaries' debt obligations and a material adverse effect on the value of our ADSs.

***Even if our development projects are completed as planned, they may not be financially successful, which would limit our cash flow and would adversely affect our operations and our ability to repay our debt.***

Even if our development projects are completed as planned, they still may not be financially successful ventures or generate the cash flows that we anticipate. We may not attract the level of patronage that we are seeking. If any of our projects does not attract sufficient business, this will limit our cash flow and would adversely affect our operations and our ability to service payments under our existing and any future loan facilities.

## **Risks Relating to the Completion and Operation of Our Projects**

***For the City of Dreams project, we have directly negotiated and entered into contracts with our construction contractors and vendors, which may increase the risk of delay and cost overruns.***

We have directly negotiated and entered into contracts with our construction contractors and vendors for the City of Dreams project, with the support of our construction manager (with the exception of certain contracts that are related to common temporary site services which are entered into and managed by the construction manager). This approach increases the administrative burden of managing construction contracts, and the risk of construction delays and cost overruns. If we are ineffective in directly overseeing contractual relationships with and ensuring satisfactory performance of those contracts by our construction contractors and vendors, we may experience delays and increases in construction costs in connection with the City of Dreams project.

***Our insurance coverage may not be adequate to cover all losses that we may suffer from our projects. In addition, our insurance costs may increase and we may not be able to obtain the same insurance coverage in the future.***

If we incur loss or damage for which we are held liable for amounts exceeding the limits of our insurance coverage, or for claims outside the scope of our insurance coverage, our business and results of operations could be materially and adversely affected. For example, certain casualty events, such as labor strikes, nuclear events, acts of war, loss of income due to cancellation of conventions or room reservations arising from fear of terrorism, deterioration or corrosion, insect or animal damage and pollution may not be covered under our policies. As a result, certain acts and events could expose us to significant uninsured losses. In addition to the damages caused directly by a casualty loss such as fire, natural disasters, acts of war or terrorism, we may suffer a disruption of our business as a result of these events or be subject to claims by third parties who may be injured or harmed. While we intend to carry business interruption insurance and general liability insurance, such insurance may not be available on commercially reasonable terms, or at all, and, in any event, may not be adequate to cover all losses that may result from such events.

For the construction of City of Dreams, we have obtained insurance policies providing coverage for construction risks that we believe are typically insured in the construction of gaming and hospitality projects in Macau and Hong Kong. However, this insurance coverage excludes certain types of loss and damage, such as loss or damage from acts of terrorism or liability for death or illness caused by contagious or infectious diseases. If loss or damage of those types were to occur, we could suffer significant uninsured losses. The cost of coverage, however, may in the future become so high that we may be unable to obtain the insurance policies we deem necessary for the construction and operation of our projects on commercially practicable terms, or at all, or we may need to reduce our policy limits or agree to certain exclusions from our coverage. We cannot assure you that any such insurance policies we may obtain will be adequate to protect us from material losses.

***Construction at our projects is subject to hazards that may cause personal injury or loss of life, thereby subjecting us to liabilities and possible losses, which may not be covered by insurance.***

The construction of large scale properties such as our development projects can be dangerous. Construction workers at our projects are subject to hazards that may cause personal injury or loss of life, thereby subjecting the contractor and us to liabilities, possible losses, delays in completion of the projects and negative publicity. We believe that we and our contractors take safety precautions that are consistent with industry practice, but these safety precautions may not be adequate to prevent serious personal injuries or loss of life, damage to property or delays. If future accidents occur during the construction of our projects, we may be subject to delays, including delays imposed by regulators, liabilities and possible losses, which may not be covered by insurance, and our business, prospects and reputation may be materially and adversely affected.

***We may continue to encounter all of the risks associated with the development and construction of our projects in the future.***

In connection with the development and ongoing construction of our projects, we encountered a number of risks, including risks related to construction delays, budget overruns, construction contract disputes, failure to obtain, or not obtaining in a timely manner, the necessary government concessions, licenses, permits and approvals, among others. We also experienced increased holding costs as a result of delays. We are and expect to continue to be exposed to similar risks in the development and construction of our ongoing and future projects.

***If we are unable to obtain approval for an increase in the developable gross floor area of the City of Dreams site and the consequent amendments to the terms of our recently obtained land concession, we could forfeit all or a substantial part of our investment in the site and we would not be able to complete and fully operate the facility as planned.***

Land concessions in Macau are issued by the Macau government and generally have a term of 25 years, which is renewable for further consecutive periods of up to ten years each until December 19, 2049 in accordance with Macau law. There are common formulas generally used to determine the cost of these land concessions. On January 31, 2008, we received from the Macau government the final terms of the land lease agreement to be entered into with the Macau SAR for the two adjacent land parcels consisting of approximately 113,325 square meters (1.2 million sq. ft.) of land in Cotai that comprise the City of Dreams site. Our subsidiaries Melco Crown (COD) Developments and Melco Crown Gaming accepted the final terms of the land lease agreement on February 11, 2008 and Melco Crown (COD) Developments made the first scheduled land premium payment on the same date. On August 13, 2008, the Macau government formally granted a land concession to Melco Crown (COD) Developments for a period of 25 years, renewable for further consecutive periods of up to ten years each. The premium is approximately MOP 842.1 million, of which MOP 300.0 million was paid in February 2008 and the remaining premium, accrued with 5% interest, will be paid in nine biannual installments. The land concession enables Melco Crown (COD) Developments to develop five star hotels, four star hotels, apartment hotels and a parking area with the total gross floor area of 515,156 square meters (approximately 5,545,093 sq. ft.). If we are unable to obtain approval to increase the developable gross floor area and the consequent amendments to the land concession on terms that are acceptable to us, we may not be able to complete and fully operate City of Dreams as planned and we could lose all or a substantial part of our investment in City of Dreams. As of December 31, 2008, we had paid approximately US\$1.42 billion of the project costs, excluding the cost of land, for the City of Dreams project, primarily consisting of construction costs and design and consultation fees. The majority of the development and construction costs for hotel and casino projects are typically spent closer to the completion of such projects and we expect that a large portion of our remaining expenditures budgeted for the City of Dreams project, as well as potential additional amounts in excess of the budgeted amounts, will be spent in the months leading up to the expected opening date of City of Dreams.

***We will need to recruit a substantial number of new employees before each of our projects can open and competition may limit our ability to attract qualified management and personnel.***

We required extensive operational management and staff to open and operate Crown Macau. Accordingly, we undertook a major recruiting program before the Crown Macau opening. A major recruitment program for City of Dreams was launched in early 2009 and we expect to undertake another major recruitment program before the Macau peninsula project opens. The pool of experienced gaming and other skilled and unskilled personnel in Macau is severely limited. Many of our new personnel will occupy sensitive positions requiring qualifications sufficient to meet gaming regulatory and other requirements or will be required to possess other skills for which substantial training and experience may be needed. Moreover, competition to recruit and retain qualified gaming and other personnel is expected to continue. In addition, we are not currently allowed under Macau government policy to hire non-Macau resident dealers, croupiers and supervisors. We cannot assure you that we will be able to attract and retain a sufficient number of qualified individuals to operate our projects or that costs to recruit and retain such personnel will not increase significantly. The loss of the services of any of our senior managers or the inability to attract and retain qualified employees and senior management personnel could have a material adverse effect on our business.

***Our contractors may face difficulties in finding sufficient labor at an acceptable cost, which could cause delays and increase construction costs of our projects.***

The contractors we retain to construct our projects may also face difficulties and competition in finding qualified construction laborers and managers. Immigration and labor regulations in Macau may cause our contractors to be unable to obtain sufficient laborers from China to make up any gaps in available labor in Macau and to help reduce costs of construction, which could cause delays and increase construction costs of our projects.

***Our business depends substantially on the continuing efforts of our senior management, and our business may be severely disrupted if we lose their services or their other responsibilities cause them to be unable to devote sufficient time and attention to our company.***

We place substantial reliance on the gaming, project development and hospitality industry experience and knowledge of the Macau market possessed by members of our senior management team, including our co-chairman and chief executive officer, Mr. Lawrence Ho. The loss of the services of one or more of these members of our senior management team could hinder our ability to effectively manage our business and implement our growth and development strategies. Finding suitable replacements for Mr. Lawrence Ho or other members of our senior management could be difficult, and competition for personnel of similar experience could be intense in Macau. We do not currently carry key person insurance on any members of our senior management team.

***Because we are and will be dependent upon a limited number of properties for a substantial portion of our cash flow, we are and will be subject to greater risks than a gaming company with more operating properties.***

We are primarily dependent upon Mocha Clubs and Crown Macau, as well as City of Dreams (upon its opening) and possibly the Macau peninsula project (upon its completion) for our cash flow. Given that our operations are and will be conducted based on a small number of principal properties, we are and will be subject to greater risks than a gaming company with more operating properties due to the limited diversification of our businesses and sources of revenue.

**Risks Relating to Our Operations in the Gaming Industry in Macau**

***Because our operations will face intense competition in Macau and elsewhere in Asia, we may not be able to compete successfully and we may lose or be unable to gain market share.***

The hotel, resort and casino businesses are highly competitive. Our competitors in Macau and elsewhere in Asia include many of the largest gaming, hospitality, leisure and resort companies in the world. Some of these current and future competitors are larger than us and may have more diversified resources and greater access to capital to support their developments and operations in Macau and elsewhere.

We also compete to some extent with casinos located in other countries, such as Malaysia, North Korea, South Korea, the Philippines and Cambodia, as well as in Australia, New Zealand and elsewhere in the world, including Las Vegas and Atlantic City. In addition, certain countries, such as Singapore have legalized casino gaming and others may in the future legalize casino gaming, including Japan, Taiwan and Thailand. Singapore awarded one casino license to Las Vegas Sands and a second casino license to Genting International Bhd. in 2006. We also compete with cruise ships operating out of Hong Kong and other areas of Asia that offer gaming. The proliferation of gaming venues in Southeast Asia could significantly and adversely affect our financial condition, results of operations or cash flows.

Our regional competitors also include Crown's Crown Casino Melbourne and Burswood Casino in Australia and other casino resorts that Melco and Crown may develop elsewhere in Asia outside Macau. Melco and Crown may develop different interests and strategies for projects in Asia under their joint venture which conflict with the interests of our business in Macau or otherwise compete with us for Asian gaming and leisure customers.

***Gaming is a highly regulated industry in Macau and adverse changes or developments in gaming laws or regulations could be difficult to comply with or significantly increase our costs, which could cause our projects to be unsuccessful.***

Gaming is a highly regulated industry in Macau. Current laws, such as licensing requirements, tax rates and other regulatory obligations, including those for anti-money laundering, could change or become more stringent resulting in additional regulations being imposed upon the gaming operations in the Crown Macau and the City of Dreams casinos, the Macau peninsula site, Macau Studio City site and the Mocha Clubs. Any such adverse developments in the regulation of the gaming industry could be difficult to comply with and significantly increase our costs, which could cause our projects to be unsuccessful. For example, the Macau government has announced its intention to set a cap in relation to the payment of commission to gaming promoters. Also the government has announced its intention to raise the minimum age required for the entrance in casinos in Macau from 18 years of age to 21 years of age. As far as employment is concerned, it was further announced that this measure, when adopted, would be implemented during a three year period in order to allow casino employees to maintain their positions while in the process of reaching the minimum required age. If implemented, this could adversely affect our ability to engage sufficient staff for the operation of our projects. Moreover, the Macau government also announced that it intends to restrict the ability of operators to open slot lounges, such as our Mocha Clubs, in residential areas. This policy may limit our ability to find new sites for the operation of new Mocha Clubs on terms acceptable to us.

Current Macau laws and regulations concerning gaming and gaming concessions and matters such as prevention of money laundering are, for the most part, fairly recent and there is little precedent on the interpretation of these laws and regulations. We believe that our organizational structure and operations are currently in compliance in all material respects with all applicable laws and regulations of Macau, but we are still in the process of building our internal staff, systems and procedures for the future operation of our City of Dreams and Macau peninsula projects in compliance with gaming regulatory requirements and standards in Macau. These laws and regulations are complex and a court or an administrative or regulatory body may in the future render an interpretation of these laws and regulations, or issue new or modified regulations, that differ from our interpretation, which could have a material adverse effect on our financial condition, results of operations or cash flows.

Our activities in Macau are subject to administrative review and approval by various agencies of the Macau government. For example, our activities are subject to the administrative review and approval by the DICJ, the Health Department, Labour Bureau, Public Works Bureau, Fire Department, Finance Department and Macau Government Tourism Office. We cannot assure you that we will be able to obtain all necessary approvals, which may materially affect our business and operations. Macau law permits redress to the courts with respect to administrative actions. However, such redress is largely untested in relation to gaming regulatory issues.

***Under Melco Crown Gaming’s subconcession, the Macau government may terminate the subconcession under certain circumstances without compensation to Melco Crown Gaming, which would prevent it from operating casino gaming facilities in Macau and could result in defaults under our indebtedness and a partial or complete loss of our investments in our projects.***

Under Melco Crown Gaming’s gaming subconcession, the Macau government has the right, after notifying Wynn Macau, to unilaterally terminate the subconcession in the event of non-compliance by Melco Crown Gaming with its basic obligations under the subconcession and applicable Macau laws. If such a termination were to occur, Melco Crown Gaming would be unable to operate casino gaming in Macau. We would also be unable to recover the US\$900.0 million consideration paid to Wynn Macau for the issue of the subconcession. For a list of termination events, please see “Item 4. Information on the Company—B. Business Overview—Gaming Regulations—Subconcession Contract”.

These events could lead to the termination of Melco Crown Gaming’s subconcession without compensation to Melco Crown Gaming. In many of these instances, the subconcession contract does not provide a specific cure period within which any such events may be cured and, instead, we would rely on consultations and negotiations with the Macau government to remedy any such violation. Melco Crown Gaming has entered into a service agreement with New Cotai Entertainment (Macau) Limited, or New Cotai Entertainment, and New Cotai Entertainment, LLC pursuant to which Melco Crown Gaming will operate the casino premises in its hotel casino resorts. If New Cotai Entertainment, or other parties with whom we may, in the future, enter into similar agreements were to be found unsuitable or were to undertake actions that are inconsistent with Melco Crown Gaming’s subconcession terms and requirements, we could suffer penalties, including the termination of the subconcession.

Based on information from the Macau government, proposed amendments to the legislation with regard to reversion of casino premises are being considered. We expect that if such amendments take effect, on the expiry or any termination of Melco Crown Gaming’s subconcession, unless Melco Crown Gaming’s subconcession were extended, only that portion of casino premises within our developments as then designated with the approval of the Macau government, including all gaming equipment, would revert to the Macau government automatically without compensation to us. Until such amendments come into effect, all of our casino premises and gaming equipment would revert automatically without compensation to us.

The subconcession contract contains various general covenants, obligations and other provisions as to which the determination of compliance is subjective. For example, compliance with general and special duties of cooperation, special duties of information, and with obligations foreseen for the execution of our investment plan may be subjective. We cannot assure you that we will perform such covenants in a way that satisfies the requirements of the Macau government and, accordingly, we will be dependent on our continuing communications and good faith negotiations with the Macau government to ensure that we are performing our obligations under the subconcession in a manner that would avoid any violations.



## [Table of Contents](#)

Under the subconcession contract, we are required to make a minimum investment in Macau of MOP 4.0 billion (US\$499.2 million), including investment in fully developing Crown Macau and the City of Dreams project, by December 2010. According to our financial statements, we believe that the amount we have invested in developing Crown Macau and the City of Dreams project as at December 31, 2008 is in excess of the minimum investment amount criteria as set out under the subconcession contract. We expect to obtain the necessary Macau government confirmation of our compliance with such minimum investment amount criteria. If we do not receive confirmation of compliance of this minimum investment amount criteria or if we do not meet the required deadline for completing other conditions in the subconcession contract, for example, due to delays in construction, we may lose the right to continue operating our properties developed under the subconcession or suffer the termination of the subconcession by the Macau government.

Under Melco Crown Gaming's subconcession, the Macau government is allowed to request various changes in the plans and specifications of our Macau properties and to make various other decisions and determinations that may be binding on us. For example, the Chief Executive of the Macau SAR has the right to require that we increase Melco Crown Gaming's share capital or that we provide certain deposits or other guarantees of performance with respect to the obligations of our Macau subsidiaries in any amount determined by the Macau government to be necessary. Melco Crown Gaming is limited in its ability to raise additional capital by the need to first obtain the approval of the Macau gaming and governmental authorities before raising certain debt or equity. Melco Crown Gaming's ability to incur debt or raise equity may also be restricted by our existing and any future loan facilities. As a result, we cannot assure you that we will be able to comply with these requirements or any other requirements of the Macau government or with the other requirements and obligations imposed by the subconcession.

Furthermore, pursuant to the subconcession contract, we are obligated to comply not only with the terms of that agreement, but also with laws, regulations, rulings and orders that the Macau government might promulgate in the future. We cannot assure you that we will be able to comply with any such laws, regulations, rulings or orders or that any such laws, regulations, rulings or orders would not adversely affect our ability to construct or operate our Macau properties. If any disagreement arises between us and the Macau government regarding the interpretation of, or our compliance with, a provision of the subconcession contract, we will be relying on the consultation and negotiation process with the applicable Macau governmental agency described above. During any such consultation, however, we will be obligated to comply with the terms of the subconcession contract as interpreted by the Macau government.

Melco Crown Gaming's failure to comply with the terms of its subconcession in a manner satisfactory to the Macau government could result in the termination of its subconcession. We cannot assure you that Melco Crown Gaming would always be able to operate gaming activities in a manner satisfactory to the Macau government. The loss of its subconcession would prohibit Melco Crown Gaming from conducting gaming operations in Macau which would have a material adverse effect on our financial condition, results of operations and cash flows and could result in defaults under our indebtedness and a partial or complete loss of our investments in our projects.

Currently, there is no precedent on how the Macau government will treat the termination of a concession or subconcession upon the occurrence of any of the circumstances mentioned above. Some of the laws and regulations summarized above have not yet been applied by the Macau government. Therefore, the scope and enforcement of the provisions of Macau's gaming regulatory system cannot be fully assessed at this time.

***The Macau government could grant additional rights to conduct gaming in the future, which could significantly increase the already intense competition in Macau and cause us to lose or be unable to gain market share.***

Melco Crown Gaming is one of six companies authorized by the Macau government to operate gaming activities in Macau. The Macau government has agreed under the existing concession agreements that it will not grant any additional concessions before April 2009 and has publicly stated that only one subconcession may be issued under each concession. The Macau Government also announced that until further assessment of the economic situation in Macau there will not be any increase in the number of concessions or subconcessions. However, the policies and laws of the Macau government could change and the Macau government could grant additional concessions or subconcessions, and we could face additional competition which could significantly increase the competition in Macau and cause us to lose or be unable to maintain or gain market share.

***Melco Crown Gaming's subconcession contract expires in 2022 and if we were unable to secure an extension of its subconcession in 2022 or if the Macau government were to exercise its redemption right in 2017, we would be unable to operate casino gaming in Macau.***

Melco Crown Gaming's subconcession contract expires in 2022. Based on information from the Macau government, proposed amendments to the legislation with regard to reversion of casino premises are being considered. We expect that if such amendments take effect, on the expiry or any termination of Melco Crown Gaming's subconcession, unless Melco Crown Gaming's subconcession were extended, only that portion of casino premises within our developments as then designated with the approval of the Macau government, including all gaming equipment, would automatically revert to the Macau government without compensation to us. Until such amendments come into effect, all our casino premises and gaming equipment would revert automatically without compensation to us. Under the subconcession contract, beginning in 2017, the Macau government has the right to redeem the subconcession contract by providing us with at least one year's prior notice. In the event the Macau government exercises this redemption right, we would be entitled to fair compensation or indemnity. The standards for the calculation of the amount of such compensation or indemnity would be determined based on the gross revenue generated by City of Dreams during the tax year immediately prior to the redemption, multiplied by the remaining term of the subconcession. We would not receive any further compensation (including for consideration paid to Wynn Macau for the subconcession). We cannot assure you that Melco Crown Gaming would be able to renew or extend its subconcession contract on terms favorable to us, or at all. We also cannot assure you that if Melco Crown Gaming's subconcession were redeemed, the compensation paid would be adequate to compensate us for the loss of future revenues.

***While Melco Crown Gaming will not initially be required to pay corporate income taxes on income from gaming operations under the subconcession, this tax exemption will expire in 2011, and it may not be extended.***

The Macau government has granted to Melco Crown Gaming the benefit of a corporate tax holiday on gaming income in Macau for five years from 2007 to 2011. When this tax exemption expires, we cannot assure you that it will be extended beyond the expiration date.

## [Table of Contents](#)

Furthermore, the Macau Government has granted to our subsidiary Melco Crown (CM) Hotel the declaration of utility purposes benefit, pursuant to which, for a period of 12 years, it is entitled to a vehicle and property tax holiday on any vehicles and immovable property that it owns or has been granted. Additionally, under the tax holiday, this entity will also be allowed to double the maximum rates applicable regarding depreciation and reintegration for purposes of assessment of corporate income tax for the same period of time. We intend to apply for the same tax holiday for Melco Crown (COD) Hotels for our City of Dreams project, but we cannot assure you that it will be granted by the Macau Government on as favorable terms, or at all.

***We extend credit to a portion of our customers, and we may not be able to collect gaming receivables from our credit customers.***

We conduct our table gaming activities at our casinos to a limited degree on a credit basis, and expect to continue this practice in the future. This credit is often unsecured, as is customary in our industry. High-end patrons typically are extended more credit than patrons who tend to wager lower amounts.

We may not be able to collect all of our gaming receivables from our credit customers. We expect that we will be able to enforce our gaming receivables only in a limited number of jurisdictions, including Macau. As most of our gaming customers are visitors from other jurisdictions, we may not have access to a forum in which we will be able to collect all of our gaming receivables because, among other reasons, courts of many jurisdictions do not enforce gaming debts. We may encounter forums that will refuse to enforce such debts, or we may be unable to locate assets in other jurisdictions against which to seek recovery of gaming debts. The collectability of receivables from international customers could be negatively affected by future business or economic trends or by significant events in the countries in which these customers reside. We may also in given cases have to determine whether aggressive enforcement actions against a customer will unduly alienate the customer and cause the customer to cease playing at our casinos. If we accrue large receivables from the credit extended to our customers, we could suffer a material adverse impact on our operating results if those receivables are deemed uncollectible. In addition, in the event a patron has been extended credit and has lost back to us the amount borrowed and the receivable from that patron is deemed uncollectible, Macau gaming tax will still be payable on the resulting gaming revenue notwithstanding our uncollectible receivable.

***The current credit environment may limit availability of credit to gaming patrons and may negatively impact our revenue.***

We conduct our table gaming activities at our casinos to a limited degree on a credit basis and our gaming promoters and gaming promoter aggregator also conduct their operations by extending credit to gaming patrons. The general economic downturn and turmoil in the financial markets have placed broad limitations on the availability of credit from credit sources as well as lengthening the recovery cycle of extended credit. Continued tightening of liquidity conditions in credit markets may constrain revenue generation and growth and could have a material adverse effect on our business, financial condition and results of operations.

***Our business may face a higher level of volatility due to our focus on the rolling chip segment of the gaming market.***

We are currently heavily dependent on the gaming revenues generated from Crown Macau. Crown Macau caters primarily to the rolling chip segment of the gaming market. The revenues generated from the rolling chip segment of the gaming market are acutely volatile primarily due to high bets, and the resulting high winnings and losses. As a result, our business may be more volatile from quarter to quarter than that of our competitors and may require higher levels of cage cash in reserve to manage our losses.

***We depend upon gaming promoters for a portion of our gaming revenue and if we are unable to establish, maintain and increase the number of successful relationships with gaming promoters, our ability to attract rolling chip patrons may be adversely affected. If we are unable to ensure high standards of probity and integrity in the gaming promoters with whom we are associated, our reputation may suffer or we may be subject to sanctions, including the loss of Melco Crown Gaming's subconcession.***

Gaming promoters, who organize tours for rolling chip patrons to casinos in Macau, are responsible for a portion of our gaming revenues in Macau. With the rise in casino operations in Macau, the competition for relationships with gaming promoters has increased. Currently we have agreements in place with approximately 26 gaming promoters. In addition, Crown has sales and marketing staff in Thailand, Hong Kong, China, Taiwan, Malaysia, Indonesia, Singapore and Macau devoted to attracting business of gaming promoters to Crown's existing casinos, Crown Casino Melbourne and Burswood Casino. There can be no assurance that we will be able to utilize Crown's relationships with regional gaming promoters or enter into additional agreements with other gaming promoters. If we are unable to utilize and develop relationships with gaming promoters, our ability to grow our gaming revenues will be hampered and we will have to seek alternative ways to develop and maintain relationships with rolling chip patrons, which may not be as profitable as relationships developed through gaming promoters.

The Macau government has announced its intention to set a cap in relation to the level of commission payable to gaming promoters. If implemented, this policy may limit our capacity to develop successful relationships with gaming promoters and attract rolling chip patrons.

In addition, the reputations of the gaming promoters we deal with are important to our own reputation and Melco Crown Gaming's ability to continue to operate in compliance with its subconcession. While we endeavor to ensure high standards of probity and integrity in the gaming promoters with whom we are associated, we cannot assure you that the gaming promoters with whom we are associated will always maintain the high standards that we require. If we were to deal with a gaming promoter whose probity was in doubt or who failed to operate in compliance with Macau law consistently, this may be considered by regulators or investors to reflect negatively on our own probity and compliance records. If a gaming promoter falls below our standards of probity, integrity and legal compliance, we and our shareholders may suffer harm to our or their reputation, as well as worsened relationships with, and possibly sanctions from, gaming regulators with authority over our operations.

***We are dependent on the reputation and integrity of the parties with whom we engage in business activities and we cannot assure you that these parties will always maintain high standards or suitability throughout the term of our association with them. Failure to maintain such high standards or suitability may cause us and our shareholders to suffer harm to our and the shareholders' reputation, as well as impaired relationships with, and possibly sanctions from, gaming regulators.***

The reputation and integrity of the parties with whom we engage in business activities, in particular those who are engaged in gaming related activities, such as gaming promoters and developers and hotel operators that do not hold concessions or subconcessions and with which we have or may enter into services agreements, are important to our own reputation and to Melco Crown Gaming's ability to continue to operate in compliance with its subconcession. For parties we deal with in gaming related activities, where relevant, the gaming regulators undertake their own probity checks and will reach their own suitability findings in respect of the activities and parties which we intend to associate with. In addition, we also conduct our internal due diligence and evaluation process prior to engaging such parties. Notwithstanding such regulatory probity checks and our own due diligence, we cannot assure you that the parties with whom we are associated will always maintain the high standards that gaming regulators and we require or that such parties will maintain their suitability throughout the term of our association with them. If we were to deal with any party whose probity was in doubt, this may reflect negatively on our own probity when assessed by the gaming regulators. Also, if a party associated with us falls below the gaming regulators' suitability standards, we and our shareholders may suffer harm to our and the shareholders' reputation, as well as impaired relationships with, and possibly sanctions from, gaming regulators with authority over our operations.

***The consolidation of operations of gaming promoters at Crown Macau under Ama International Limited, or Ama, has resulted in a significant proportion of our business becoming consolidated under one commercial arrangement, and has introduced into Macau the concept of an aggregator of gaming promoters, either of which could have an adverse impact on our future prospects.***

Leading gaming promoters are recognizing superior economics and negotiation leverage from operational scale and market aggregation. The consolidation of operations of gaming promoters at Crown Macau under Ama in December 2007 has resulted in a significant proportion of our business becoming consolidated under one commercial arrangement, giving Ama significant negotiation leverage which could result in changes in our operational agreement. In addition, duplicate aggregator operations could be launched at competitor properties which could result in the loss of business to such competitors. If we suffered a loss of business to a competitor, it could have an adverse effect on our results of operations and the price of our ADSs. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

## [Table of Contents](#)

***We cannot assure you that anti-money laundering policies that we have implemented, and compliance with applicable anti-money laundering laws, will be effective to prevent our casino operations from being exploited for money laundering purposes.***

Macau's free port, offshore financial services and free movements of capital create an environment whereby Macau's casinos could be exploited for money laundering purposes. We have implemented anti-money laundering policies in compliance with all applicable anti-money laundering laws and regulations in Macau. However, we cannot assure you that any such policies will be effective in preventing our casino operations from being exploited for money laundering purposes. Any incidents of money laundering, accusations of money laundering or regulatory investigations into possible money laundering activities involving us, our employees, our gaming promoters or our customers could have a material adverse impact on our reputation, business, cash flows, financial condition, prospects and results of operations.

***If Macau's transportation infrastructure does not adequately support the development of Macau's gaming and leisure industry, visitation to Macau may not increase as currently expected, which may adversely affect our projects.***

Macau consists of a peninsula and two islands and is connected to China by two border crossings. Macau has an international airport and connections to China and Hong Kong by road, ferry and helicopter. To support Macau's planned future development as a mass-market gaming and leisure destination, the frequency of bus, plane and ferry services to Macau will need to increase. While various projects are under development to improve Macau's internal and external transportation links, these projects may not be approved, financed or constructed in time to handle the projected increase in demand for transportation or at all, which could impede the expected increase in visitation to Macau and adversely affect our projects.

### **Risks Relating to Our Indebtedness**

***Our current, projected and potential future indebtedness could impair our financial condition, which could further exacerbate the risks associated with our significant leverage.***

We have incurred and expect to incur, based on current budgets and estimates, secured long-term indebtedness, including the following:

- approximately US\$1.75 billion under the City of Dreams Project Facility primarily for the development and construction of City of Dreams, of which an amount equivalent to the entire facility amount less US\$50 million has been drawn down as of the date of this annual report on Form 20-F;
- financing for a significant portion of the costs of developing the Macau peninsula site in an amount which is as yet undetermined; and
- financing for a significant portion of the costs of developing an apartment hotel complex at the City of Dreams site, in an amount which is as yet undetermined.

Our significant indebtedness could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- impair our ability to obtain additional financing in the future for working capital needs, capital expenditures, acquisitions or general corporate purposes;
- require us to dedicate a significant portion of our cash flow from operations to the payment of principal and interest on our debt, which would reduce the funds available to us for our operations;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- subject us to higher interest expense in the event of increases in interest rates to the extent a portion of our debt will bear interest at variable rates;
- cause us to incur additional expenses by hedging interest rate exposures of our debt and exposure to hedging counterparties' failure to pay under such hedging arrangements, which would reduce the funds available for us for our operations; and
- in the event we or one of our subsidiaries were to default, result in the loss of all or a substantial portion of our and our subsidiaries' assets, over which our lenders have taken or will take security.

***We are in a development stage and currently do not generate sufficient cash flow to service our existing and projected indebtedness and after all our projects commence operations, we may not be able to generate sufficient cash flow to meet our debt service obligations because our ability to generate cash depends on many factors beyond our control.***

Our ability to make scheduled payments due on our existing and anticipated debt obligations and to fund planned capital expenditures and development efforts will depend on our ability to generate cash in the future. We are in a development stage and our current operations are insufficient to support the debt service on our current and anticipated debt. We will require timely completion and generation of sufficient operating cash flow from our projects to service our current and future projected indebtedness. Our ability to obtain cash to service our existing and projected debt is subject to a range of economic, financial, competitive, legislative, regulatory, business and other factors, many of which are beyond our control. After the commencement of operations of our development projects, we may not be able to generate sufficient cash flow from operations to satisfy our existing and projected debt obligations, in which case, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments, or seek to raise additional capital. We cannot assure you that any refinancing or restructuring would be possible, that any assets could be sold, or, if sold, of the timing of the sales or the amount of proceeds that would be realized from those sales. We cannot assure you that additional financing could be obtained on acceptable terms, if at all, or would be permitted under the terms of our various debt instruments then in effect. Our failure to generate sufficient cash flow to satisfy our existing and projected debt obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations.

## [Table of Contents](#)

***The terms of our and our subsidiaries' indebtedness may restrict our current and future operations and harm our ability to complete our projects and grow our business operations to compete successfully against our competitors.***

The City of Dreams Project Facility and associated facility and security documents that Melco Crown Gaming has entered into also contain a number of restrictive covenants that impose significant operating and financial restrictions on Melco Crown Gaming, and therefore, effectively on us. The covenants in the City of Dreams Project Facility restrict or limit, among other things, our and our subsidiaries' ability to:

- incur additional debt, including guarantees;
- create security or liens;
- dispose of assets;
- make certain acquisitions and investments;
- pay dividends, including to us, during the construction of the City of Dreams project;
- make other restricted payments or apply revenues earned in one part of our operations to fund development costs or cover operating losses in another part of our operations;
- enter into sale and leaseback transactions;
- engage in new businesses;
- issue preferred stock; and
- enter into transactions with shareholders and affiliates.

In addition, the restrictions under the City of Dreams Project Facility contain financial covenants, including requirements that we satisfy certain tests or ratios in the future, such as:

- Consolidated Leverage Ratio, as defined in the City of Dreams Project Facility;
- Consolidated Interest Cover Ratio, as defined in the City of Dreams Project Facility; and
- Consolidated Cash Cover Ratio, as defined in the City of Dreams Project Facility.

These covenants may restrict our ability to operate and restrict our ability to incur additional debt or other financing we may require, and impede our growth.



***Draw down of advances under our debt facilities involve satisfaction of extensive conditions precedent and our failure to satisfy such conditions precedent will result in our inability to access loan advances under such facilities. We do not guarantee that we are able to satisfy all conditions precedent under our current or future debt facilities.***

Our current and future debt facilities require and will require satisfaction of extensive conditions precedent prior to the advance of loans under such facilities. The satisfaction of such conditions precedent may involve actions of third parties and matters outside of our control, such as government consents and approvals. If there is a breach of any terms or conditions of our debt facilities or other obligations and they are not cured or capable of being cured, such conditions precedent will not be satisfied. The inability to draw down loan advances in any debt facility may result in funding shortfall in our projects and we may not be able to fulfill our obligations and complete our projects as planned; such events may result in an event of default under such debt facility and may also trigger cross default in our other obligations and debt facilities. We do not guarantee that all conditions precedent to draw down loan advances under our debt facilities will be satisfied in a timely manner or at all. If we are unable to draw down loan advances under any current or future facility, we may have to find a new group of lenders and negotiate new financing terms or consider other financing alternatives. If required, it is possible that new financing would not be available or would have to be procured on substantially less attractive terms, which could damage the economic viability of the relevant development project. The need to arrange such alternative financing would likely also delay the construction of the project, which would affect our cash flows, results of operations and financial condition.

***Our failure to comply with the covenants contained in our or our subsidiaries' indebtedness, including failure as a result of events beyond our control, could result in an event of default that could materially and adversely affect our cash flow, operating results and our financial condition.***

If there were an event of default under one of our or our subsidiaries' debt facilities, the holders of the debt on which we defaulted could cause all amounts outstanding with respect to that debt to become due and payable immediately. In addition, any event of default or declaration of acceleration under one debt facility could result in an event of default under one or more of our other debt instruments, with the result that all of our debt would be in default and accelerated. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt facilities, either upon maturity or if accelerated upon an event of default, or that we would be able to refinance or restructure the payments on those debt facilities. Further, if we are unable to repay, refinance or restructure our indebtedness at our subsidiaries that own or operate our properties, the lenders under those debt facilities could proceed against the collateral securing that indebtedness, which will constitute substantially all the assets and shares of our subsidiaries. In that event, any proceeds received upon a realization of the collateral would be applied first to amounts due under those debt instruments. The value of the collateral may not be sufficient to repay all of our indebtedness, which could result in the loss of your investment as a shareholder.

## [Table of Contents](#)

***Current turmoil in the credit markets taken together with the role of the credit agencies may affect our ability to maintain current financing or obtain future financing which could result in delays in our project development schedule and could impact on our ability to generate revenue from present and future projects.***

The current turmoil in the credit markets may adversely affect our ability to maintain our current debt facility and to obtain additional or future financing for our current and future projects. If we are unable to maintain our current debt facility or obtain suitable financing for our current or future projects, this could cause delays in, or prevent completion of, the development of such projects. This may limit our ability to expand our business and may adversely impact our ability to generate revenue.

***Rolling over existing revolving loans drawn down under the City of Dreams Project Facility involves satisfaction of conditions precedent and our failure to satisfy such conditions precedent will result in our inability to rollover such revolving loans. We do not guarantee that we are able to satisfy all conditions precedent to rollover such revolving loans.***

The rolling over of existing revolving loans under our City of Dreams Project Facility will require satisfaction of conditions precedent prior to such rollovers. If there is a breach of any terms or conditions of our City of Dreams Project Facility and it is not cured or capable of being cured, such conditions precedent will not be satisfied. The inability to roll over such revolving loans may result in funding shortfall in our City of Dreams projects and we may not be able to fulfill our obligations and complete the project as planned. We do not guarantee that all conditions precedent to the rollover of existing revolving loans drawn under the City of Dreams Project Facility will be satisfied in a timely manner. If we are unable to roll over these revolving loans, it may materially and adversely affect our cash flows, results of operations and financial condition.

### **Risks Relating to Our Business and Operations in Macau**

***Conducting business in Macau has certain political and economic risks that may lead to significant volatility and have a material adverse effect on our results of operations.***

All of our operations are in Macau. Accordingly, our business development plans, results of operations and financial condition may be materially adversely affected by significant political, social and economic developments in Macau and in China and by changes in government policies or changes in laws and regulations or the interpretations of these laws and regulations. In particular, our operating results may be adversely affected by:

- changes in Macau's and China's political, economic and social conditions;
- further travel restrictions to Macau which may be imposed by China;
- changes in policies of the government or changes in laws and regulations, or in the interpretation or enforcement of these laws and regulations;
- changes in foreign exchange regulations;
- measures that may be introduced to control inflation, such as interest rate increases or bank account withdrawal controls; and
- changes in the rate or method of taxation.

## [Table of Contents](#)

Our operations in Macau are also exposed to the risk of changes in laws and policies that govern operations of Macau-based companies. Tax laws and regulations may also be subject to amendment or different interpretation and implementation, thereby adversely affecting our profitability after tax. Further, certain terms of our gaming subconcession may be subject to renegotiations with the Macau government in the future, including amounts we will be obligated to pay the Macau government in order to continue operations. Melco Crown Gaming's obligations to make certain payments to the Macau government under the terms of its subconcession include a fixed annual premium per year and a variable premium depending on the number and type of gaming tables and gaming machines that we operate. The results of any renegotiations could have a material adverse effect on our results of operations and financial condition.

The Macau government granted us a lease for a plot of land for Crown Macau and City of Dreams on August 13, 2008. However, we have yet to receive an occupancy permit for the City of Dreams site and we will apply for approval from the Macau government to increase the developable gross floor area of the City of Dreams. In addition, the Macau peninsula project is at an even earlier stage of development, and if we acquire the site we would need to obtain land concession modifications and development approvals from the Macau government.

In January 2008, Former Secretary for Transport and Public Works of Macau, Mr. Ao Man-Long, was convicted and sentenced to a prison term of 27 years on charges involving corruption, bribery, irregular financial activities and money laundering. Those being tried and convicted in cases connected with the conviction of Mr. Ao in 2008 were related to local companies to whom several major public works and services contracts were awarded. During the investigation, additional individuals related to local Macau companies to whom land had been granted in land exchange procedures were detained and charged. After Mr. Ao's arrest and removal from his post as Secretary for Transport and Public Works of Macau, which gave him jurisdiction over all land grants and public works and infrastructure projects in Macau, in December 2006, the Chief Executive of Macau personally assumed such role until Mr. Lao Sio-lo was appointed the new Secretary for Transport and Public Works in March 2007. In February and March 2009, Mr. Ao was subject to additional trial proceedings for further related charges. We cannot predict whether Mr. Ao's removal and conviction, and any further prosecutions and investigations, will adversely affect the functioning of the Macau Land, Public Works and Transports Bureau, any approvals that are pending before it, or for which applications may be made in the future (including with respect to our projects), or will give rise to additional scrutiny or review of any approvals, including those for Crown Macau and City of Dreams, that were previously approved or granted through this Bureau and the Secretary for Transport and Public Works of Macau.

As we expect a significant number of patrons to come to our properties from China, general economic conditions and policies in China could have a significant impact on our financial prospects. The current slowdown in economic growth and recent tightening of restrictions on travel imposed by China could adversely impact the number of visitors from China to our properties in Macau as well as the amounts they are willing to spend in our casinos, which could have a material adverse effect on the results of our operations and financial condition.

***Because we depend upon our properties in one market for all of our cash flow, we will be subject to greater risks than a gaming company that operates in more markets.***

We are and will be primarily dependent upon Mocha Clubs, Crown Macau, City of Dreams (upon its opening) and the Macau peninsula project (upon its development and completion) for our cash flow. Given that our current operations are and will be conducted only at properties in Macau, we will be subject to greater risks than a gaming company with operating properties in several markets. These risks include:

- dependence on the gaming and leisure market in Macau and limited diversification of our businesses and sources of revenue;
- a decline in economic, competitive and political conditions in Macau or generally in Asia;
- inaccessibility to Macau due to inclement weather, road construction or closure of primary access routes;
- a decline in air or ferry passenger traffic to Macau due to higher ticket costs, fears concerning travel or otherwise;
- travel restrictions to Macau imposed now or in the future by China;
- changes in Macau governmental laws and regulations, or interpretations thereof, including gaming laws and regulations;
- natural and other disasters, including typhoons, outbreaks of infectious diseases or terrorism, affecting Macau;
- that the number of visitors to Macau does not increase at the rate that we have expected; and
- a decrease in gaming activities at our properties.

Any of these conditions or events could have a material adverse effect on our business, cash flows, financial condition, results of operations and prospects.

***Our gaming operations could be adversely affected by restrictions on the export of the Renminbi and limitations of the Pataca exchange markets.***

Gaming operators in Macau are currently prohibited from accepting wagers in Renminbi, the currency of China. There are currently restrictions on the export of the Renminbi outside of mainland China, including to Macau. For example, Chinese traveling abroad are only allowed to take a total of RMB20,000 plus the equivalent of up to US\$5,000 out of China. Restrictions on the export of the Renminbi may impede the flow of gaming customers from China to Macau, inhibit the growth of gaming in Macau and negatively impact our operations.

## [Table of Contents](#)

Our revenues in Macau are denominated in H.K. dollars and Patacas, the legal currency of Macau. Although currently permitted, we cannot assure you that H.K. dollars and Patacas will continue to be freely exchangeable into U.S. dollars. Also, because the currency market for Patacas is relatively small and undeveloped, our ability to convert large amounts of Patacas into U.S. dollars over a relatively short period of time may be limited. As a result, we may experience difficulty in converting Patacas into U.S. dollars.

***Terrorism and the uncertainty of war, economic downturns and other factors affecting discretionary consumer spending and leisure travel may reduce visitation to Macau and harm our operating results.***

The strength and profitability of our business depends on consumer demand for casino resorts and leisure travel in general. Changes in Asian consumer preferences or discretionary consumer spending could harm our business. Terrorist acts could have a negative impact on international travel and leisure expenditures, including lodging, gaming and tourism. We cannot predict the extent to which future terrorist acts may affect us, directly or indirectly. In addition to fears of war and future acts of terrorism, other factors affecting discretionary consumer spending, including general economic conditions, amounts of disposable consumer income, fears of recession and lack of consumer confidence in the economy, may negatively impact our business. Consumer demand for hotel casino resorts and the type of luxury amenities we currently offer and plan to offer in the future are highly sensitive to downturns in the economy. An extended period of reduced discretionary spending and/or disruptions or declines in airline travel could significantly harm our operations.

***An outbreak of the highly pathogenic avian influenza caused by the H5N1 virus (avian flu or bird flu), Severe Acute Respiratory Syndrome, or SARS, or other contagious disease may have an adverse effect on the economies of certain Asian countries and may adversely affect our results of operations.***

During 2004, large parts of Asia experienced unprecedented outbreaks of avian flu which, according to a report of the World Health Organization, or WHO, in 2004, placed the world at risk of an influenza pandemic with high mortality and social and economic disruption. As of March 2, 2009, the WHO has confirmed a total of 256 fatalities in a total number of 409 cases reported to the WHO, which only reports laboratory confirmed cases of avian flu since 2003. In particular, Guangdong Province, PRC, which is located across the Zhuhai Border from Macau, has confirmed several cases of avian flu. Currently, fully effective avian flu vaccines have not yet been developed and there is evidence that the H5N1 virus is evolving so there can be no assurance that an effective vaccine can be discovered in time to protect against the potential avian flu pandemic. In the first half of 2003, certain countries in Asia experienced an outbreak of SARS, a highly contagious form of atypical pneumonia, which seriously interrupted economic activities and caused the demand for goods and services to plummet in the affected regions. There can be no assurance that an outbreak of avian flu, SARS or other contagious disease or the measures taken by the governments of affected countries against such potential outbreaks, will not seriously interrupt our gaming operations or visitation to Macau, which may have a material adverse effect on our results of operations. The perception that an outbreak of avian flu, SARS or other contagious disease may occur again may also have an adverse effect on the economic conditions of countries in Asia.

***Macau is susceptible to severe typhoons that may disrupt our operations.***

Macau is susceptible to severe typhoons. Macau consists of a peninsula and two islands off the coast of mainland China. In the event of a major typhoon or other natural disaster in Macau, our properties and business may be severely disrupted and our results of operations could be adversely affected. Although we or our operating subsidiaries do carry insurance coverage with respect to these events, our coverage may not be sufficient to fully indemnify us against all direct and indirect costs, including loss of business, that could result from substantial damage to, or partial or complete destruction of, our properties or other damages to the infrastructure or economy of Macau.

***Any fluctuation in the value of the H.K. dollar, U.S. dollar or Pataca may adversely affect our expenses and profitability.***

Although we will have certain expenses and revenues denominated in Patacas in Macau, our revenues and expenses will be denominated predominantly in Hong Kong dollars and in connection with most of our indebtedness and certain expenses, U.S. dollars. We expect to incur significant debt denominated in U.S. dollars, and the costs associated with servicing and repaying such debt will be denominated in U.S. dollars. The value of the H.K. dollar and Patacas against the U.S. dollar may fluctuate and may be affected by, among other things, changes in political and economic conditions. Although the exchange rate between the H.K. dollar to the U.S. dollar has been pegged since 1983 and the Pataca is pegged to the H.K. dollar, we cannot assure you that the H.K. dollar will remain pegged to the U.S. dollar and that the Pataca will remain pegged to the H.K. dollar. We do not hedge our exposure to foreign currencies. Instead we maintain a certain amount of our operating funds in the same currencies in which we have obligations, thereby reducing our exposure to currency fluctuations. Any significant fluctuations in the exchange rates between H.K. dollars or Patacas to U.S. dollars may have a material adverse effect on our revenues and financial condition. For example, to the extent that we are required to convert U.S. dollar financings into H.K. dollars or Patacas for our operations, fluctuations in the exchange rates between H.K. dollars or Patacas against the U.S. dollar would have an adverse effect on the amounts we receive from the conversion.

***Contract parties may not be able to secure adequate financing.***

During the course of our business, we may enter into agreements with contract parties from which we may derive income in relation to the operation of gaming business. The inability of such contract parties to raise sufficient funds to develop and/or undertake the relevant project and gaming operations may affect our ability to derive such income as contracted for in the relevant agreements, and this may have an adverse impact on our business.

## **Risks Relating to Our Corporate Structure and Ownership**

***Our existing shareholders will have a substantial influence over us and their interests in our business may be different than yours.***

Melco and Crown together own the substantial majority of our outstanding shares, with each beneficially holding approximately 37.57% of our outstanding ordinary shares (exclusive of any ordinary shares represented by ADSs held by Melco Crown SPV Limited or the SPV) as of the date of this Form 20-F. Melco and Crown have entered into a shareholders deed regarding the voting of their shares of our company under which each will agree to, among other things, vote its shares in favor of three nominees to our board designated by the other.

As a result, Melco and Crown, if they act together, will have the power, among other things, to elect directors to our board, including six of ten directors who are designated nominees of Crown and Melco, appoint and change our management, affect our legal and capital structure and our day-to-day operations, approve material mergers, acquisitions, dispositions and other business combinations and approve any other material transactions and financings. These actions may be taken in many cases without the approval of independent directors or other shareholders and the interests of these shareholders may conflict with your interests as minority shareholders. If Melco or Crown provides shareholder support to us in the form of shareholder loans or provides credit support by guaranteeing our obligations, they may become our creditors with different interests than shareholders with only equity interests in us. The concentration of controlling ownership of our shares may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs.

***Melco and Crown may pursue additional casino projects in Asia, which, along with their current operations, may compete with our projects in Macau which may have adverse consequences to us and the interests of our minority shareholders.***

Melco and Crown may take action to construct and operate new gaming projects located in other countries in the Asian region, which, along with their current operations, may compete with our projects in Macau and could have adverse consequences to us and the interests of our minority shareholders. We could face competition from these other gaming projects. We also face competition from regional competitors, which include Crown's Crown Casino Melbourne and Burswood Casino in Australia. We expect to continue to receive significant support from both Melco and Crown in terms of their local experience, operating skills, international experience and high standards. Specifically, we have support arrangements with Melco and Crown under which they provide us technical expertise in connection with the development of the City of Dreams and the Macau peninsula projects and the operations of the Crown Macau and the Mocha Clubs businesses. Should Melco or Crown decide to focus more attention on casino gaming projects located in other areas of Asia that may be expanding or commencing their gaming industries, or should economic conditions or other factors result in a significant decrease in gaming revenues and number of patrons in Macau, Melco or Crown may make strategic decisions to focus on their other projects rather than us, which could adversely affect our growth. We cannot guarantee you that Melco and Crown will make strategic and other decisions which do not adversely affect our business.

***Business conducted through joint ventures involves certain risks.***

We were initially formed as a 50/50 joint venture between Melco and PBL as their exclusive vehicle to carry on casino, gaming machine and casino hotel operations in Macau. Subsequently, Crown acquired all the gaming businesses and investments of PBL, including PBL's investment in MPEL. As a joint venture controlled by Melco and Crown, there are special risks associated with the possibility that Melco and Crown may: (1) have economic or business interests or goals that are inconsistent with ours or that are inconsistent with each other's interests or goals, causing disagreement between them or between them and us which harms our business; (2) have operations and projects elsewhere in Asia that compete with our businesses in Macau and for available resources and management attention within the joint venture group; (3) take actions contrary to our policies or objectives; (4) be unable or unwilling to fulfill their obligations under the relevant joint venture or shareholders' deed; or (5) have financial difficulties. In addition, there is no assurance that the laws and regulations relating to foreign investment in Melco's or Crown's governing jurisdictions will not be altered in such a manner as to result in a material adverse effect on our business and operating results.

***Changes in our share ownership, including a change of control or a change in the amounts or relative percentages of our shares owned by Melco and Crown, could result in our inability to draw loans or events of default under our indebtedness.***

The City of Dreams Project Facility includes provisions under which we may suffer an event of default upon the occurrence of a change of control with respect to Melco Crown Gaming, or a decline in the aggregate indirect holdings of Melco Crown Gaming shares by Melco and Crown below certain thresholds. These provisions are most restrictive during the time when our projects have not commenced commercial operation. Any occurrence of these events could be outside our control and could result in defaults and cross-defaults which cause the termination and acceleration of up to all of our credit facilities and potential enforcement of remedies by our lenders, which would have a material adverse effect on our financial condition and results of operations.

***We are a holding company and our only material sources of cash are and are expected to be dividends, distributions and payments under shareholder loans from our subsidiaries.***

We are a holding company with no material business operations of our own. Our only significant asset is the capital stock of our subsidiaries. We conduct virtually all of our business operations through our subsidiaries. Accordingly, our only material sources of cash are dividends, distributions and payments with respect to our ownership interests in or shareholder loans that we may make to our subsidiaries that are derived from the earnings and cash flow generated by our operating properties. Our subsidiaries might not generate sufficient earnings and cash flow to pay dividends, distributions or payments under shareholder loans in the future. In addition, our subsidiaries' debt instruments and other agreements, including those that we have entered into in connection with the City of Dreams project, limit or prohibit, or are expected to limit or prohibit, certain payments of dividends, other distributions or payments under shareholder loans to us.



## [Table of Contents](#)

***Crown's investment in our company is subject to regulatory review in several jurisdictions and if regulators in those jurisdictions were to find that we, Crown or Melco failed to comply with certain regulatory requirements and standards, then Crown maybe required to withdraw from the joint venture.***

Crown, through wholly owned subsidiaries, owns and operates the Crown Casino in Melbourne, Australia and the Burswood Casino in Perth, Australia. Crown's wholly owned subsidiaries hold casino licenses issued by the States of Victoria and Western Australia in Australia.

Crown, through a 50% owned joint venture subsidiary, owns and operates three casinos in the United Kingdom. The joint venture owns a 50% interest in a fourth casino in the United Kingdom.

Crown, through a 50% owned joint venture subsidiary, operates under a management agreement with the relevant provincial government authority seven casinos in British Columbia and two casinos in Alberta in Canada.

Under a recently announced Preferred Purchase Agreement, Crown is required to be approved by gaming regulators in the States of Nevada and Pennsylvania in the United States in order to make an investment in Cannery Casino Resorts LLC which owns and operates casinos in those states.

In all jurisdictions in which Crown, or one of its wholly owned subsidiaries, holds a gaming license or Crown has a significant investment in a company which holds gaming licenses, gaming regulators are empowered to investigate associates, including business associates of Crown Limited to determine whether the associate is of good repute and of sound financial resources. If, as a result of such investigation, the relevant gaming regulator determines that, by reason of its association, Crown has ceased to be suitable to hold a gaming license or to hold a substantial investment in the holder of a gaming license then the relevant gaming regulator may direct Crown to terminate its association or risk losing its gaming license or approval to invest in the holder of a gaming license in the relevant jurisdiction.

If actions by us or our subsidiaries or by Melco or Crown fail to comply with the regulatory requirements and standards of the jurisdictions in which Crown owns or operates casinos or in which companies in which Crown holds a substantial investment own or operate casinos or if there are changes in gaming laws and regulations or the interpretation or enforcement of such laws and regulations in such jurisdictions, then Crown may be required to withdraw from its joint venture with Melco or limit its involvement in one or more aspects of our gaming operations, which could have a material adverse effect on our business, financial condition and results of operations. Withdrawal by Crown from its joint venture with Melco could cause the failure of conditions to drawing loans under our credit facilities or the occurrence of events that default under our credit facilities or as contemplated by our founders under their joint venture agreement.

## Risks Relating to the ADSs

*The trading price of our ADSs has been volatile and may continue to be volatile regardless of our operating performance.*

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. Our ADSs were first quoted on the Nasdaq Global Market beginning on December 19, 2006, and were upgraded to trade on the Nasdaq Global Select Market on January 2, 2009. During the period from December 19, 2006 until March 25, 2009, the trading prices of our ADSs ranged from US\$2.27 to US\$23.55 per ADS and the closing sale price on March 25, 2009 was US\$3.62 per ADS. The market price for our ADSs may continue to be volatile and subject to wide fluctuations in response to factors including the following:

- uncertainties or delays relating to the financing, completion and successful operation of our projects;
- developments in the Macau market or other Asian gaming markets, including the announcement or completion of major new projects by our competitors;
- regulatory developments affecting us or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other gaming and leisure industry companies;
- addition or departure of our executive officers and key personnel;
- fluctuations in the exchange rates between the U.S. dollar, Hong Kong dollar, Pataca and Renminbi;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs; and
- sales or perceived sales of additional ordinary shares or ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

***We currently do not intend to pay dividends, and we cannot assure you that we will make dividend payments in the future.***

We may pay dividends to shareholders in the future; however, such payments will depend upon a number of factors, including our results of operations, earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors considered relevant by our board of directors. We currently intend to retain all of our earnings to finance the development and expansion of our business. Accordingly, we do not intend to declare or pay cash dividends on our ordinary shares in the near to medium term. Except as permitted under the Cayman Islands Companies Law (as amended) and the common law of the Cayman Islands, we are not permitted to distribute dividends unless we have a profit, realized or unrealized, or a reserve set aside from profits which the directors of our company determine is no longer needed. We currently have no reserve set aside from profits for the payment of dividends. We cannot assure you that we will make any dividend payments on our ordinary shares in the future. Our ability to pay dividends, and our subsidiaries' ability to pay dividends to us, may be further subject to restrictive covenants contained in the City of Dreams Project Facility, and in other facility agreements governing indebtedness we and our subsidiaries may incur.

***Substantial future sales or perceived sales of our ADSs in the public market could cause the price of our ADSs to decline.***

Sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. All of the ordinary shares beneficially held by Melco and Crown are available for sale, subject to volume and other restrictions, as applicable, under Rule 144 and Rule 701 under the Securities Act and subject to the terms of their shareholders' deed. To the extent these shares are sold into the market, the market price of our ADSs could decline.

In addition, Melco and Crown have the right to cause us to register the sale of their shares under the Securities Act, subject to the terms of their shareholders' deed. Registration of these shares under the Securities Act would result in these shares becoming freely tradable as ADSs without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

Any decision by us to file additional registration statements to raise further equity in the market, which would result in dilution to existing shareholders, could cause the price of our ADSs to decline.

***Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise those rights.***

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares of the depositary and in accordance with the provisions of the deposit agreement. Under our amended and restated articles of association, the minimum notice period required to convene a general meeting is seven days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to convene a shareholder meeting.

***You may be subject to limitations on transfers of your ADSs.***

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings and you may not receive cash dividends if it is unlawful or impractical to make them available to you.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depository bank will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

In addition, the depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depository may, at its discretion, decide that it is unlawful, inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property and you will not receive such distribution.

## [Table of Contents](#)

***We are a Cayman Islands exempted company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than that under U.S. law, you may have less protection for your shareholder rights than you would under U.S. law.***

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Law (as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a U.S. public company.

***You may have difficulty enforcing judgments obtained against us.***

We are a Cayman Islands exempted company and substantially all of our assets are located outside of the United States. All of our current operations, and administrative and corporate functions are conducted in Macau and Hong Kong. In addition, substantially all of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in Cayman Islands, Macau and Hong Kong courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands, Macau or Hong Kong would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In addition, it is uncertain whether such Cayman Islands, Macau or Hong Kong courts would be competent to hear original actions brought in the Cayman Islands, Macau or Hong Kong against us or such persons predicated upon the securities laws of the United States or any state.

*We may be treated as a passive foreign investment company, which could result in adverse United States federal income tax consequences to U.S. Holders.*

Although the applicable rules are not clear, we believe that we were not in 2008, and we do not currently expect to be in 2009, a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. This determination is made annually at the end of each taxable year and is dependent upon a number of factors, some of which are beyond our control, including the value of our assets and the amount and type of our income. Accordingly, there can be no assurance that we will not become a PFIC or that the Internal Revenue Service of the United States will agree with our conclusion regarding our PFIC status for 2008 or any taxable year thereafter. If we are a PFIC in any year, U.S. Holders of the ADSs or ordinary shares could suffer certain adverse United States federal income tax consequences. See “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—Passive Foreign Investment Company”.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. HISTORY AND DEVELOPMENT OF THE COMPANY**

Melco Crown Entertainment Limited was incorporated under the name of Melco PBL Entertainment (Macau) Limited in December 2004 as an exempted company with limited liability under the laws of the Cayman Islands and registered as an oversea company under the laws of Hong Kong in November 2006. We were initially formed as a 50/50 joint venture between Melco and PBL as their exclusive vehicle to carry on casino, gaming machine and casino hotel operations in Macau. Subsequently, Crown acquired all the gaming businesses and investments of PBL, including PBL’s investment in MPEL. As a result, in May 2008, we changed our name to Melco Crown Entertainment Limited.

Our subsidiary Melco Crown Gaming is one of six companies authorized by the Macau government to operate casinos in Macau.

In December 2006, we completed the initial public offering of our ADSs, each of which represents three ordinary shares, and listed our ADSs on the Nasdaq. In November 2007, we completed a follow-on offering of ADSs.

In January 2009 we were upgraded to trade on the Nasdaq Global Select Market, which has the highest initial listing standards of any exchange in the world based on financial and liquidity requirements.

Our principal executive offices are located at 36th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. Our telephone number at this address is 852-2598-3600 and our fax number is 852-2537-3618.

We have appointed CT Corporation System at 111 Eighth Avenue, New York, NY 10011 as our agent for service of process in the United States.

You should direct all inquiries to us at the address and telephone number of our principal executive offices set forth above. Our website is [www.melco-crown.com](http://www.melco-crown.com). The information contained on our website is not part of this annual report on Form 20-F.

## B. BUSINESS OVERVIEW

### Overview

We are a developer, owner and, through our subsidiary Melco Crown Gaming, operator of casino gaming and entertainment resort facilities focused on the Macau market. Melco Crown Gaming is one of six companies licensed, through concessions or subconcessions, to operate casinos in Macau. We were initially formed as a 50/50 joint venture between Melco and PBL as their exclusive vehicle to carry on casino, gaming machines and casino hotel operations in Macau. Subsequently, Crown acquired all the gaming businesses and investments of PBL, including PBL's investment in us.

We have chosen to focus on the Macau gaming market because we believe that Macau is well positioned to be one of the largest gaming destinations in the world. In 2008, 2007 and 2006, Macau generated approximately US\$13.6 billion, US\$10.4 billion and US\$7.1 billion of gaming revenue, respectively, according to the DICJ, compared to the US\$6.0 billion, US\$6.7 billion and US\$6.5 billion (excluding sports book and race book) of gaming revenue, respectively, generated on the Las Vegas Strip, according to the Nevada Gaming Control Board, and compared to the US\$4.5 billion, US\$4.9 billion and US\$5.2 billion of gaming revenue (excluding sports book and race book), respectively, generated in Atlantic City, according to the New Jersey Casino Control Commission. Gaming revenue in Macau has increased at a five-year CAGR from 2003 to 2008 of 29.4% compared to five-year CAGRs of 5.3% and 0.0% for the Las Vegas Strip and Atlantic City, respectively (excluding sports book and race book). Macau benefits from its proximity to one of the world's largest pools of existing and potential gaming patrons and is currently the only market in Greater China, and one of only several in Asia, to offer legalized casino gaming.

The Macau market is dominated by gaming table play heavily skewed to baccarat, which historically has accounted for more than 90% of all gaming revenues generated in Macau. There are two distinct forms or programs of baccarat which exist in Macau; rolling chip baccarat and non-rolling chip baccarat. A baccarat patron wagering under the rolling chip program will generally require credit in order to be able to buy-in to non-negotiable rolling chips and will earn a rebate derived from the volume of roll that the patron generates. The rebate has the effect of reducing the house advantage that exists to the favor of the casino on baccarat. Baccarat is also played in Macau on a non-rolling chip (or traditional cash chip) basis, which does not provide the patron with a rebate based on volume of play, and does not involve the provision of credit.

A substantial majority of the rolling chip baccarat segment revenue generated by the casino operators in Macau is derived from patrons who collaborate with gaming promoters, primarily in order to access the credit that is then available. A gaming promoter, also known as a junket representative, is a person who, for the purpose of promoting rolling chip gaming activity, arranges customer transportation and accommodation, and provides credit in their sole discretion, food and beverage services and entertainment in exchange for commissions or other compensation from a concessionaire or subconcessionaire.

## [Table of Contents](#)

Rolling chip program baccarat is referred to as the “VIP segment” in Macau and non-rolling chip baccarat, together with all other forms of gaming table and all gaming machines play, is collectively referred to as the “mass segment” in Macau.

Rolling chip volume and non-rolling chip volume are not equivalent. Rolling chip volume is a measure of amounts wagered and lost. Non-rolling chip volume measures buy-in. Therefore rolling chip volume will generally be substantially higher than non-rolling chip volume.

Macau enjoys a symbiotic relationship with the wider Asian region, and experiences a wide array of peaks and seasonal effects. The “Golden Weeks” and “Chinese New Year” holidays are the key periods where business and visitation fluctuate considerably.

Through our existing operations and our projects currently under construction, we will cater to a broad spectrum of potential gaming patrons, including patrons who seek the excitement of high stake rolling chip gaming, as well as more casual gaming patrons seeking a broader entertainment experience. We will seek to attract these patrons from throughout Asia and in particular from Greater China.

Our leadership and vision have been evident during the last couple of years. Examples include the early development of the Mocha brand, the evolution of the Crown Macau property, understanding the need to diversify our portfolio of properties and supporting our staff through market leading models.

We are still in the early stages of our maturity, and currently we are heavily focused on the opening of our flagship City of Dreams entertainment property, which is due to open in early June 2009.

Our Mocha and Crown Macau operations have successfully driven a solid market share in their respective markets. The introduction of City of Dreams is expected to round out these offerings and result in a well diversified gaming and entertainment mix within Macau.

Our aim to leverage the complimentary nature of and gain maximum benefit from each of our core assets will, we believe, enhance our market leadership position and strengthen our competitive advantage.

### **Operations**

#### ***Crown Macau***

Crown Macau opened on May 12, 2007 and became fully operational on July 14, 2007. The resort is designed to provide a luxurious casino and hotel experience which is primarily tailored to meet the cultural preferences and expectations of Asian rolling chip customers and the gaming promoters who collaborate with them. Crown Macau won the “Best Casino Interior Design Award” in the first International Gaming Awards in 2008 which recognizes outstanding design in the casino sector.



## [Table of Contents](#)

The casino at Crown Macau has approximately 183,000 sq. ft. of gaming space and features approximately 255 gaming tables and approximately 95 gaming machines. This reflects a substantial reconfiguration of the property completed during the fourth quarter of 2007, less than six months after the opening, to accommodate additional rolling chip capacity with a commensurate reduction in mass market tables and gaming machines. On December 1, 2008 Mocha Clubs took over the operation of the gaming machines from Crown Macau and commenced operation of Mocha Crown at Crown Macau. The multi-floor layout provides general gaming areas as well as limited access high-limit private gaming areas and private gaming rooms catering to high-end patrons. High-limit tables located in the limited access private gaming areas provide our high-end patrons with a premium gaming experience in an exclusive private environment. The table limits on our main casino floors accommodate a full range of casino patrons. Due to the flexibility of our multi-floor layout, we are able to reconfigure our casino to meet the evolving demands of our patrons and target specific segments we deem attractive on a periodic basis.

Crown Towers hotel, located within the 38-story Crown Macau, is recognized as one of the leading hotels in Macau. The top floor of the hotel serves as the hotel lobby and reception area, providing guests with sweeping views of the surrounding area. The hotel comprises approximately 216 deluxe rooms, including 24 high-end suites and eight villas and features a luxurious interior design combining elegance and comfort with some of the latest in-room entertainment and communication facilities.

A number of restaurants and dining facilities are available at Crown Macau, including Tenmasa, a renowned Japanese restaurant in Tokyo, several Chinese and international restaurants, dining areas and restaurants focused around the gaming areas and a range of bars across multiple levels of the property. Crown Towers hotel also offers high-quality non-gaming entertainment venues, including a spa, gymnasium, outdoor garden podium and a sky terrace lounge.

The recent introduction of highly experienced local management to the Crown Macau property has been successful. Our team has a deep understanding of its customers and will continue to hone the operational effectiveness of our property through the development of a tailored experience for its customers.

A new brand for the Crown Macau property, developed in-house and targeted at the Asian rolling chip market, is due to launch in the second quarter of 2009. The new brand will continue to support our overarching business objective at the Crown Macau property of leveraging the working capital of our gaming promoters and developing our position as the premier Asian rolling chip casino. Our decision to transition the branding at the Crown Macau property will meet two key strategies: first, to align the brand positioning of the property with the concentrated market focus on Asian rolling chip customers that has prevailed since late 2007; and second, to focus our Crown brand solely at the City of Dreams property targeting premium VIP customers sourced through the regional marketing networks operated by us and Crown.

***Mocha Clubs***

Mocha Clubs first opened in September 2003 and has expanded operations during 2008 to eight clubs with a total of approximately 1,300 gaming machines, each club with an average of approximately 150 gaming machines and gaming space ranging from approximately 5,000 sq. ft. to 15,000 sq. ft. The clubs comprise the largest non-casino-based operations of electronic gaming machines in Macau and are conveniently located with strong pedestrian traffic, typically within three-star hotels. Each club site offers a relaxed ambiance and electronic tables without dealers or punters. Our Mocha Club gaming facilities include the latest technology for gaming machines and offer both single player machines with a variety of games, including progressive jackpots, and multi-player games where players on linked machines play against each other in electronic roulette, baccarat and sicbo, a traditional Chinese dice game.

Mocha Clubs focus on mass market and casual gaming patrons, including local residents and day-trip customers, outside the conventional casino setting. One of our Mocha Clubs located at Mocha Square was temporarily closed for renovations beginning December 31, 2007, and subsequently resumed operations on February 20, 2009. We completed and opened an expansion of the Hotel Royal Mocha outlet on February 5, 2008. On December 1, 2008, Mocha took over the management of Crown Macau slot machines and installed a partially transparent partition to provide more privacy to our customers and to separate the slots hall from the gaming tables area at the property. We completed and opened an expansion of the Hotel Taipa Square Mocha Club outlet on the second floor in December 2008 and re-decorated the ground and first floors to facilitate easier access by customers during January 2009. As of March 9, 2009, Mocha had 1,345 gaming machines in operation, representing 11% of the market total machines installation and a 15% increase compared to December 31, 2008.

***Taipa Square Casino***

Taipa Square Casino held its grand opening on June 12, 2008. The casino has approximately 18,300 sq. ft. of gaming space and features approximately 31 gaming tables servicing rolling chip and mass market patrons. Taipa Square Casino operates within Hotel Taipa Square located on Taipa Island, opposite the Macau Jockey Club.

**Development Projects**

***City of Dreams***

City of Dreams, our flagship integrated urban entertainment resort development, is set to become the “must experience” urban entertainment destination in Macau when it opens in Cotai during the second quarter of 2009. Combining world-class entertainment, attractions, a diverse array of accommodation, regional and international dining, world-class shopping and spacious and contemporary casinos, City of Dreams is expected to quickly establish itself as a landmark property in Macau. The resort brings together a collection of world-renowned brands such as Crown, Grand Hyatt, Hard Rock and Dragone to create an exceptional guest experience that will appeal to a broad spectrum of visitors from around Asia and the world. The initial opening of City of Dreams will feature a 420,000 sq. ft. casino with approximately 520 gaming tables and approximately 1,350

## [Table of Contents](#)

gaming machines; over 20 restaurants and bars; an impressive array of some of the world's most sought-after retail brands; and an iconic and spectacular audio visual multimedia experience. The Crown Towers and the Hard Rock Hotel will offer approximately 300 guest rooms each. Grand Hyatt Macau, offering approximately 800 guest rooms, will be completed in the third quarter of 2009 and a Dragone inspired theatre production is planned for the purpose-built Theatre of Dreams. A final planned phase of development at City of Dreams will feature an apartment hotel consisting of approximately 800 units. The development of the apartment hotel is subject to the availability of additional financing, the Macau government's approval and the approval of our lenders under our existing and any future debt facilities.

The pre-opening marketing campaign kicked off in January 2009 with multiple public relations events and a series of marketing communications activities, including a City of Dreams Spring media briefing, an announcement regarding the appointment of DFS as operator of the first phase retail space, the pre-opening launch of the Macau recruitment drive, and an introduction to "Dragon's Treasure", an immersive multimedia experience in "The Bubble" under production with Falcon's Treehouse LLC. Other marketing activities will include a 360 degree advertising campaign prior to the grand opening of City of Dreams.

City of Dreams is located at the northern end of Cotai, which will make it one of the closest destination resorts in Cotai to the Macau International Airport and the newly developed Hong Kong/Macau Ferry Pier.

The development will be the only major casino resort to open in Macau in 2009. Located opposite to Venetian, City of Dreams will play a major role in both the continued transformation of Macau into a major international multi-day stay destination and our future development as one of Macau's leading casino operators.

The third phase is expected to be comprised of an apartment hotel complex integrated within the City of Dreams footprint, which is expected to be marketed in advance of project completion, subject to compliance with legal and regulatory provisions.

As construction of the City of Dreams project progresses through its final stages the overall scope, timetable to completion, and final turnout costs have stabilized. Our project budget, including the casinos, the Hard Rock hotel, the Crown Towers hotel, the Grand Hyatt twin-tower hotel, the purpose-built wet stage performance theatre, all retail space together with food and beverage outlets, was set at US\$2.1 billion, consisting primarily of construction costs, design and consultation fees, and excluding the cost of land. The budgeted cost of the apartment hotel complex planned for development at the City of Dreams is approximately US\$330 million, excluding the cost of land. Against these project budget forecasts, we anticipate an adverse variance to budget of approximately 10% at final cost turnout. This has been against a background of rising costs of construction, services and materials in Macau through the middle of 2008. However, in response to the global economic downturn, the significant reduction in the volume of construction simultaneously ongoing in the Macau market and a general reduction in commodity prices, the current trend for the cost environment for construction, services and materials in Macau is marginally deflationary.

## [Table of Contents](#)

The project budget for the City of Dreams project is funded from the City of Dreams Project Facility. The construction of the apartment hotel complex at City of Dreams will be financed separately.

We intend to offer the following at the City of Dreams:

- *The Casinos.* We plan to offer casinos and a gaming area of approximately 420,000 sq. ft. housing approximately 520 gaming tables and approximately 1,350 gaming machines with potential for future expansion.
- *The Hotels.* City of Dreams will include three full service luxury hotels and is planned to include an apartment hotel complex, with a total of approximately 2,200 rooms, consisting of: (1) a luxury premium hotel designed with the aim of exceeding the average five-star hotel in Macau, to be operated under the Crown Towers brand by us with approximately 300 rooms, suites and villas; (2) a themed hotel to be operated under the Hard Rock brand with approximately 300 rooms and suites; (3) a twin-tower hotel to be operated under the Grand Hyatt brand with approximately 800 rooms and suites; and (4) an 800-unit luxury apartment hotel complex, planned for future development. This development is subject to the availability of additional financing, the Macau government's approval and the approval of our lenders under our existing and any future debt facilities. We expect to market the sale of shares in the apartment hotel in advance of project completion, subject to compliance with legal and regulatory provisions.
- *The Bubble Theatre.* A dome-shaped theatre is being designed as one of the iconic landmarks located at City of Dreams. The 10-minute "Dragon's Treasure" feature show will be an immersive multi-media experience combining high-definition video content, a sweeping musical score, over 29,000 theatrical LED lights and a variety of sensory effects to create a unique multi-media event.
- *Theatre of Dreams.* A wet stage performance theatre, Theatre of Dreams, offering approximately 2,000 seats is included at City of Dreams. The performance theatre, designed by the award winning Pei Partnership Architects according to the specifications of Dragone, is a purpose-built theatre catering to the preferences of the Asian mass market. The performance theatre will offer a new live stage water-themed production created exclusively for City of Dreams by Franco Dragone, the co-producer and creator of Celine Dion's "A New Day" show. The artistic director and founder of Dragone was formerly the creator and director of several Cirque du Soleil shows.
- *The Boulevard.* City of Dreams includes a retail area of approximately 175,000 sq. ft. "The Boulevard" is designed to feature a wide range of luxury retailers, designed to cater to the needs of residential guests and to attract other visitors to the resort. City of Dreams is collaborating with DFS Group, the world's largest luxury travel retailer, to develop the first 85,000 sq. ft. of retail space in "The Boulevard", a 'lifestyle precinct' offering a combination of outstanding

## [Table of Contents](#)

shopping together with regional and international dining, which directly links the main casino gaming areas and all the hotels with the anchor entertainment venues and the key entry and exit points for the property. Two distinct shopping zones have been developed within “The Boulevard”: Fashion Ready to Wear and Accessories World on level one and Watches & Jewellery World on level two. DFS will showcase many of the world’s premier luxury brands, delivering a superior shopping and lifestyle experience to visitors of City of Dreams.

- *Food and Beverage.* City of Dreams is positioned as one of the leading destinations for food and beverage in Macau and will include a diverse range of world-class and Asian-inspired restaurants. Over 20 venues are planned to include mid- to high-end restaurants, a noodle bar, a modern food court and a number of relaxed bars and lounges offering a variety of cuisines and dining styles. We currently expect to open a significant portion of the food and beverage outlets at the initial opening.
- *Conference Rooms and Ballrooms.* Approximately 100,000 sq. ft. of high quality conference, banqueting and ballroom facilities, featuring some of the latest audio and visual equipment, are included within City of Dreams. We will aim to make these facilities the venue of choice in Macau for high-end banqueting and corporate hospitality. These facilities will be located adjacent to the twin-tower Grand Hyatt hotel.

The construction manager for the City of Dreams project is a joint venture among Leighton Contractors (Asia) Ltd., China State Construction International Holdings Ltd. and John Holland Pty Ltd. Each of the parties forming the construction manager joint venture has provided to us, to the extent that the relevant party is not the ultimate holding company of its group, a parent company guarantee securing the due performance of the relevant party’s obligations under the definitive contract and, in return, we have provided a guarantee to the joint venture partners securing the due performance of Melco Crown (COD) Developments’ obligations under the definitive contract.

The design team has drawn on the services of Leigh & Orange Limited as the executive architect; Arquitectonica as the designer of the hotel towers; Pei Partnership Architects LLP as the designer for the performance theatre; Steelman Partners LLP (previously Paul Steelman Design Group) as the designer for the apartment hotel complex; Hirsch Bedner Associates Design Consultants as the interior designer of the Grand Hyatt twin-tower hotel; The Gettys Group Inc. as the interior designer of the Hard Rock hotel; and Bates Smart Pty Ltd. as the interior designer of the Crown Towers hotel, the casino floor and the VIP salons.

As of December 31, 2008, we had paid approximately US\$1.42 billion (excluding the cost of land) for the City of Dreams project, primarily for construction costs and design and consultation fees. As of the date of this annual report, all principal superstructure construction is complete and the final stages of interior fit out throughout the podium and within the Hard Rock hotel tower and Crown Towers hotel are well advanced.

## **Future Pipeline Projects**

We will continue to target the development of a future project pipeline in Macau in order to maximize the business and revenue potential of Melco Crown Gaming's investment in its subconcession. This remains a core strategy for us. We will also maintain our unwavering focus on three principles in defining and setting the pace, form and structure for any future pipeline development. The three principles we adhere to are: (i) securing financing for any project before commencing construction; (ii) ensuring that our existing portfolio of properties is enhanced by the new development through a developed understanding of how the market for our properties and services has continued to evolve and segment; and (iii) pacing new supply in accordance with the demands of the market. We believe that the dire current capital raising market conditions will continue to exist for the foreseeable future and as such we expect that our existing pipeline of future development projects remains challenged for the remainder of the current year.

### ***Macau Peninsula Site***

In May 2006, we entered into a conditional agreement to acquire a third development site, which is located on the shoreline of Macau peninsula near the current Macau Ferry Terminal, or Macau peninsula site, by acquiring all the outstanding shares of Sociedade de Fomento Predial Omar, Limitada, or Omar. Omar is the current owner of the site. The Macau peninsula site is approximately 6,480 square meters (approximately 69,750 sq. ft.) and the acquisition price is HK\$1.5 billion (US\$192.8 million), of which we have paid a deposit of HK\$100 million (US\$12.9 million). We expect to pay a land premium of approximately HK\$205 million (US\$26.3 million) to the Macau government for this site. The agreement completion deadline was first extended in January 2007 and again in July 2007 and July 2008 when we negotiated an extension of the completion deadline for the conditional agreement to the end of July 2009 in order to benefit from additional flexibility in the timing of the purchase, which is subject to various closing conditions. Other than the extension of the purchase completion deadline, all other provisions of the agreement remain in force, and there were no fees associated with any of the extensions. Completion of the purchase remains subject to (i) significant conditions in the control of third parties unrelated to us and the seller of the property, and (ii) the approval of the Macau government. We are currently considering plans to develop the Macau peninsula site into a mixed-use hotel, serviced apartment and casino facility aimed primarily at day-trip gaming patrons. When the actual timing of the completion of the acquisition of this site is ascertained, we will be better able to evaluate our estimated opening date and project budget.

### ***Macau Studio City Project***

Melco Crown Gaming has entered into a services agreement with New Cotai Entertainment and New Cotai Entertainment, LLC, under which Melco Crown Gaming will operate the casino portions of the Macau Studio City project, a large scale integrated gaming, retail and entertainment resort development. The project is being developed by a joint venture between eSun Holdings Limited and New Cotai Holdings, LLC, which is primarily owned by investment funds and David Friedman, a former senior executive of Las Vegas Sands. Under the terms of the services agreement, Melco Crown Gaming will retain a percentage of the gross gaming revenues from the casino operations of Macau Studio City. We will not be responsible for any of the project's capital development costs, and the operating expenses of the casino will be substantially borne by New Cotai Entertainment. The formal opening of Macau Studio City has not yet been ascertained. One of the influencing factors would be the timing for the completion of financing for this project.

## **Our Objective and Strategies**

Our objective is to become a leading provider of gaming, leisure and entertainment services capitalizing on the expected future growth opportunities in Macau. To achieve our objective, we have developed the business strategies described below.

Service quality and memorable experiences will continue to grow as a key differentiator among the operators in Macau. As the depth and quality of product offerings continue to develop and more memorable properties and experiences are created, tailored services will drive competitive advantage. As such, our focus on creating service experiences attuned to the tastes and expectations of an increasingly segmented, increasingly demanding and constantly evolving consumer is imperative.

The continued development of our staff and supporting resources are central to our success in this regard. We will invest in the long term development of our people through relevant training and experience sharing.

### ***Maintain a Strong Balance Sheet and Conservative Capital Structure, De-Leverage Swiftly and Remain Alert to Opportunistic Growth Opportunities***

We believe that a strong balance sheet is a core foundation for our future growth strategy. We will continue to raise the development funds that we need when we are able to do so, not when we are required to do so, and we will in the first instance and as priority apply surplus cash generated from our operations to de-leveraging. Where applicable, we will plan our developments to include marketable non-core assets that can be sold to aid the financing of our core assets. Our time horizon for the future growth and development of the business is long and we understand that our history of development remains short. We believe that patience is an important attribute in monitoring the development of the markets in which we operate, and in identifying and executing future development. We will endeavor to manage our business with this attitude and frame of mind.

### ***Develop a Targeted Product Portfolio of Well-Recognized Branded Experiences***

We believe that building strong, well-recognized branded experiences is critical to our success, especially in the brand-conscious Asian market. We intend to develop our brands by building higher quality properties than those that are generally available in Macau currently and which rival other high-end resorts located throughout Asia, and by providing a distinctive and unique set of experiences tailored to meet the cultural preferences and expectations of Asian customers.

Although we strive to have all of our properties consistently adhere to the ideals above, we have incorporated design elements at our properties that cater to specific customer segments. By utilizing a more focused strategy, we believe we can better service specific segments of the Macau gaming market.

***Utilize Melco Crown Gaming's Subconcession to Maximize Our Business and Revenue Potential***

We intend to utilize Melco Crown Gaming's subconcession, which, like the other concessions and subconcessions, does not limit the number of casinos we can operate in Macau, to capitalize on the potential growth of the Macau gaming market provided by the greater independence, flexibility and economic benefits afforded by being a subconcessionaire. Possession of a subconcession gives us the ability to negotiate directly with the Macau government to develop and operate new projects without the need to partner with other concessionaires or subconcessionaires. Furthermore, concessionaires and subconcessionaires such as SJM and Galaxy have demonstrated that they can leverage their licensed status by entering into arrangements with developers and hotel operators that do not hold concessions or subconcessions to operate the gaming activities at their casinos under leasing or services arrangements and keep a percentage of the revenues. Melco Crown Gaming has entered into a services agreement with New Cotai Entertainment and New Cotai Entertainment, LLC, under which Melco Crown Gaming will operate the casino portions of the Macau Studio City project, a large scale integrated gaming, retail and entertainment resort development. Under the terms of this services agreement, a percentage of the gross gaming revenues from the casino operations of Macau Studio City will be retained by Melco Crown Gaming. In 2008, the Macau government imposed a moratorium on new casino services agreements. Provided that such moratorium is lifted, we may consider entering into other, similar arrangements with other such developers and hotel operators, subject to obtaining the relevant approvals.

***Develop a Comprehensive Marketing Program***

We will continue to seek to attract customers to our properties by leveraging our brands and utilizing our own marketing resources and those of our founders. Crown Macau has combined its brand recognition with sophisticated customer management techniques and programs in order to build a significant database of repeat customers and loyalty club members. In addition, our international marketing network will establish marketing offices in six locations across nine countries and territories, including Beijing, Hong Kong, Singapore (to also serve the Indonesia and Malaysia markets), Bangkok, Taipei and Tokyo (to also serve the Korea market), as well as a network of independent overseas marketing agents across Asia. Through Mocha Clubs' significant share of the Macau electronic gaming market, we have also developed a significant customer database and have developed a customer loyalty program, which we believe has successfully enhanced repeat play and further built the Mocha brand.

We will seek to continue to grow and maintain our MPEL customer base through the following sales and marketing activities:

- create a cooperative platform to work with the marketing team of Crown and to leverage their strengths and key markets;
- create a cross-platform sales and marketing department to promote all of our brands to potential customers throughout Asia in accordance with applicable laws;



## Table of Contents

- utilize special product offers, special events, tournaments and promotions to build and maintain relationships with our guests, in order to increase repeat visits and help fill capacity during lower-demand periods;
- refine our own customer loyalty programs to further build a significant database of repeat customers, which we closely modeled on Crown's successful "Crown Club" program; and
- implement complimentary incentive programs and commission based programs with selected promoters to attract high-end customers.

### ***Focus on Building First Class Facilities***

We have assembled a dedicated design and project management team and hired contractors with significant experience in completing similar large scale, high quality projects on time and within budget. Our senior project management team has significant experience in property development, construction project management, architecture and design.

### ***Leverage the Experiences and Resources of Our Founders***

We believe one of our great strengths is the combined resources of our shareholders, Melco and Crown. We intend to leverage their experiences and resources in the gaming industry in Asia and particularly with Chinese and other Asian patrons.

### **Our Properties**

We operate our gaming business in accordance with the terms and conditions of our gaming subconcession. In addition, our operations and development projects are also subject to the terms and conditions of land concessions and lease agreements for leased premises.

#### ***Crown Macau***

The Crown Macau property and equipment is located on a plot of land of approximately 5,230 square meters (56,295 sq. ft.) under a 25 year land lease agreement with the Macau government which is renewable for successive periods of ten years until 2049, subject to obtaining approvals from the Macau government. The terms and conditions of the land lease agreement entered into in March 2006 by Melco Crown (CM) Developments, our wholly-owned subsidiary through which Crown Macau was developed, require a land premium payment of approximately MOP 149.7 million (US\$18.7 million). The initial land premium payment of MOP 50 million (US\$6.2 million) was paid on November 25, 2005 upon acceptance of the terms and conditions of the agreement and the balance was paid in four equal semi-annual installments bearing interest at 5% per annum. We paid the outstanding balance in July 2006. A guarantee deposit of approximately MOP 157,000 (US\$20,000) was also paid upon signing of the lease and is subject to adjustments in accordance with the relevant amount of rent payable during the year. We pay annual rent of approximately MOP 1,372,000 (US\$171,000). The rent amounts may be adjusted every five years as agreed between the Macau government and us using applicable market rates in effect at the time of the rent adjustment.

## Table of Contents

The Macau government approved total gross floor area for development for the Crown Macau site of approximately 95,000 square meters (1,022,600 sq. ft.).

The equipment utilized by Crown Macau in the casino and hotel is owned and held for use on the Crown Macau site and includes the main gaming equipment and software to support its table games and gaming machine operations, cage equipment, security and surveillance equipment, casino and hotel furniture, fittings, and equipment.

### ***Mocha Clubs***

Mocha Clubs operate under leased or subleased premises with a total floor area of approximately 63,010 sq. ft. at the following locations:

<u>Mocha Club</u>	<u>Opening Date</u>	<u>Location</u>	<u>Gaming Area</u> <i>(in sq. ft.)</i>
Mocha Crown	December 2008	Level 1 of Crown Macau	4,200
Mocha Square	October 2007	1/F, 2/F and 3/F of Mocha Square	6,000
Marina Plaza	December 2006	1/F and 2/F of Marina Plaza	12,500
Hotel Taipa	January 2006	G/F of Hotel Taipa	6,100
Sintra	November 2005	G/F and 1/F of Hotel Sintra	5,110
Taipa Square	March 2005	G/F, 1/F and 2/F of Hotel Taipa Square	14,500
Kingsway	April 2004	G/F of Kingsway Commercial Centre	6,100
Royal	September 2003	Lobby and 1/F of Hotel Royal	8,500
<b>Total</b>			<b>63,010</b>

All lease and sublease terms are pursuant to lease agreements, each with a term of at least seven years, which are renewable upon our giving notice prior to expiration and subject to incremental increases in monthly rentals.

In addition to leasehold improvements to Mocha Club premises, the onsite equipment utilized at the Mocha Clubs is owned and held for use to support the gaming machines operations.

### ***Taipa Square Casino***

Taipa Square Casino premises, including the fit-out and gaming related equipment, located on the ground floor and level one within Hotel Taipa Square and having a floor area of approximately 1,700 square meters (approximately 18,300 sq. ft.), operates under a Right to Use Agreement signed in June 2008 with the owner, Hotel Taipa Square (Macau) Company Limited. The agreement is for a term of one year from the date of execution and is automatically renewable subject to certain contractual provisions for successive periods of one year under the same terms and conditions until June 26, 2022.

### *City of Dreams*

The City of Dreams site is located on two adjacent land parcels in Cotai, Macau with a combined area of 113,325 square meters (approximately 1.2 million sq. ft.). The Macau government, in a letter dated April 21, 2005, offered to grant to our wholly owned subsidiary, Melco Crown (COD) Developments, a 25 year renewable lease for the development rights in respect of the City of Dreams site, which offer was preliminarily accepted on May 10, 2005. On January 31, 2008, we received from the Macau SAR Land Commission the final terms of the land lease agreement which were accepted by Melco Crown (COD) Developments and Melco Crown Gaming on February 11, 2008. On August 13, 2008, the Macau government formally granted a land concession to Melco Crown (COD) Developments. Under the land concession, the developable gross floor area at the site is 515,156 square meters (approximately 5,545,093 sq. ft.).

The accepted lease terms require us to pay a land premium of approximately MOP 842.1 million (US\$105.1 million), of which MOP 300.0 million (US\$37.4 million) was paid upon our acceptance of the final terms in February 2008. The remaining balance of MOP 542.1 million (US\$67.7 million) is payable in nine equal semi-annual installments bearing interest at 5% per annum commencing from February 2009. We have also provided a guarantee deposit of approximately MOP 3.4 million (US\$424,000), subject to adjustments, in accordance with the relevant amount of rent payable during the year.

During the construction period, we will pay the Macau government rent at an annual rate of MOP 30.0 (US\$3.74) per square meter of land, or an aggregate annual amount of approximately MOP 3.4 million (US\$424,000). Following completion of construction, annual rent payable is approximately MOP 7.2 million (US\$903,000). The rent amounts may be adjusted every five years.

### *Macau Peninsula Site*

We are in the process of acquiring the Macau peninsula site, which has a size of approximately 6,480 square meters (approximately 69,750 sq. ft.), and is located on the shoreline of the Macau peninsula near the Macau Ferry Terminal. Our purchase of the Macau peninsula site remains subject to important conditions, some of which are not in our control, including approval of the Macau government of an extension of the deadline for completion of development on the site.

### *Other Premises*

Apart from the property sites for Crown Macau and City of Dreams, we maintain various offices and storage locations in Macau and Hong Kong. We lease all of our office and storage premises, except for five units located at Zhu Kuan Building whose property rights belong to us. The five units have a total area of approximately 839 square meters (approximately 9,029 sq. ft.) and we operate a Recruitment Centre there. The five units were purchased by MPEL Properties Macau Limited, our indirect wholly owned subsidiary, for approximately HK\$79.7 million (US\$10.2 million) on August 15, 2008. The Zhu Kuan Building is erected on a plot of land under a land lease grant that expires on July 27, 2015. Such land lease grant is renewable for successive periods of ten years until 2049, subject to obtaining certain approvals from the Macau government.

## **Advertising and Marketing**

We seek to attract customers to our properties and to grow our customer base over time by implementing and undertaking several types of advertising and marketing activities and plans. We utilize local and regional media to publicize our projects and operations. We have built a strong public relations and advertising team that cultivates media relationships, promotes our brands and directly liaises with customers within target Asian countries in order to explore media opportunities in various markets. Advertising uses a variety of media platforms that include digital, print, television, online, outdoor, on property (as permitted by Macau, PRC and other regional laws), collateral and direct mail pieces. We hold various promotions and special events, operate loyalty programs and have developed a series of commission and other incentive-based programs for offer to gaming promoters and individuals alike, to be competitive in the Macau gaming environment. We seek to utilize the marketing resources of our founders, including Melco's marketing teams and Crown's existing marketing office network, to assist in sourcing customers for our properties. Marketing to Asian high-end customers requires specialist skills. Crown's marketing network is well experienced in this regard, and has developed close and long standing relationships with customers.

## **Competition**

We believe that the gaming market in Macau is and will continue to be intensely competitive. Our competitors in Macau and elsewhere in Asia include all the current concession and subconcession holders and many of the largest gaming, hospitality, leisure and property development companies in the world. Some of these current and future competitors are larger than us and have significantly longer track records of operation of major hotel casino resort properties.

Gaming in Macau is administered through government-sanctioned concessions awarded to three different concessionaires — SJM, which is controlled by Dr. Stanley Ho, the father of Mr. Lawrence Ho, our co-chairman and chief executive officer, Wynn Macau, a subsidiary of Wynn Resorts Ltd., and Galaxy, a consortium of Hong Kong and Macau businessmen. SJM has granted a subconcession to MGM Grand Paradise, a joint venture formed by MGM-Mirage and Ms. Pansy Ho, Dr. Stanley Ho's daughter and the sister of Mr. Lawrence Ho. Galaxy has granted a subconcession to The Venetian Macau, a subsidiary of US-based Las Vegas Sands Corporation, the developer of Sands Macao and the Venetian Macao. Melco Crown Gaming obtained its subconcession under the concession of Wynn Macau.

The existing concessions and subconcessions do not place any limit on the number of gaming facilities that may be operated. In addition to facing competition from existing operations of these concessionaires and subconcessionaires, we will face increased competition when any of them constructs new, or renovates pre-existing, casinos in Macau or enters into leasing, services or other arrangements with hotel owners, developers or other parties for the operation of casinos and gaming activities in new or renovated properties, as SJM and Galaxy have done. The Macau government has agreed under the existing concessions that it will not grant any additional gaming concessions until April 2009 and has publicly stated that each concessionaire will only be permitted to grant one subconcession. Moreover, the Macau government announced that until further assessment of the economic situation in Macau there would be no increase in the number of concessions and subconcessions. However, the policies and laws of the Macau government could change and permit the Macau government to grant additional gaming concessions or subconcessions.

## Table of Contents

SJM holds one of the three gaming concessions in Macau and currently operates multiple casinos throughout Macau. SJM has recently opened new facilities at Grand Lisboa and Ponte 16. Controlled by Dr. Stanley Ho, SJM has extensive experience in operating in the Macau market and long-established relationships in Macau.

Wynn Resorts (Macau), S.A. holds a gaming concession and opened the Wynn Macau in September 2006 on the Macau peninsula. They are currently constructing an extension to Wynn Macau called Encore which is scheduled to open in 2010.

Galaxy, the third concessionaire in Macau, currently operates multiple casinos in Macau. In October 2006, Galaxy opened the Galaxy StarWorld, a hotel and casino resort in Macau's central business and tourism district. Galaxy has also announced plans to develop Galaxy Mega Resort in Cotai.

With a subconcession under Galaxy's concession, The Venetian Macau Limited operates Sands Macao, together with the Venetian Macao and The Four Seasons Macau which are both located in Cotai.

MGM has entered into a joint venture agreement with Ms. Pansy Ho, the daughter of Dr. Stanley Ho and the sister of Mr. Lawrence Ho, our co-chairman and chief executive officer, to develop, build and operate a major hotel-casino resort in Macau. MGM Grand Paradise, the joint venture, has been granted a subconcession under SJM's concession. In December 2007, MGM Grand Paradise opened the MGM Grand Macau, which is located next to Wynn Macau on the Macau peninsula.

We may also face competition from casinos and gaming resorts located in other Asian destinations together with cruise ships. Genting Highlands is a popular international gaming resort in Malaysia, approximately a one-hour drive from Kuala Lumpur. South Korea has allowed gaming for some time but these offerings are available primarily to foreign visitors. There are also casinos in the Philippines, although they are relatively small compared to those in Macau. There are a number of casino complexes in Cambodia. We believe Australia currently offers the closest gaming facilities in Asia comparable to Macau casinos. The major gaming markets in Australia are located in Melbourne, Perth, Sydney and the Gold Coast.

Singapore has legalized casino gaming and awarded one casino license to Las Vegas Sands Corporation and a second casino license to Genting International Bhd. in 2006. In addition, several other Asian countries are considering or are in the process of legalizing gambling and establishing casino-based entertainment complexes.

## **Intellectual Property**

We have registered the trademarks “Mocha Club” and “City of Dreams” in Macau. We are currently examining the registration in Macau of certain other trademarks and service marks to be used in connection with the operations of our hotel casino projects in Macau. We have entered into a license agreement with Crown Melbourne Limited and obtained an exclusive and non-transferable license to use the Crown brand in Macau. Our hotel management agreements provide us the right to use the Grand Hyatt trademarks on a non-exclusive and non-transferable basis. Our trademark license agreements with Hard Rock Holdings Limited provide us the right to use the Hard Rock brand in Macau, which we plan to use at City of Dreams. Pursuant to these agreements, we have the exclusive right to use the Hard Rock brand for a hotel and casino facility at City of Dreams for a term of ten years based on percentages of revenues generated at the property payable to Hard Rock Holdings Limited. We also purchase gaming tables and gaming machines and enter into licensing agreements for the use of certain trade names and, in the case of the gaming machines, the right to use software in connection therewith. These include a license to use a jackpot system for the gaming machines. Crown Melbourne Limited, the owner of a number of “Crown” trademarks in Macau licensed to us has an ongoing legal proceeding regarding a number of “Crown” trademarks in Macau. For more information, see “—Legal and Administrative Proceedings”.

## **Legal and Administrative Proceedings**

We are currently not a party to any material legal or administrative proceedings and we are not aware of any material legal or administrative proceedings pending or threatened against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. Crown Melbourne Limited, a wholly-owned subsidiary of Crown and the owner of the “Crown” brand, registered a number of “Crown” trademarks in Macau in 1996, or the Initial Crown Marks. In 2005, Crown Melbourne Limited sought to register other trademarks for the “Crown Towers” brand, or the Secondary Crown Marks. In August 2005, a company called Tin Fat Gestao E Investimentos Limitada, or Tin Fat, sought to have the registration of the Initial Crown Marks removed on the basis of non-use and opposed the application for registration of the Secondary Crown Marks. These challenges only relate to the “accommodation” class of registration, not the gaming class. Tin Fat is the operator of a hotel adjacent to the Macau airport, which changed its name in 2004/2005 to Golden Crown China Hotel (Macau). Tin Fat has applied to register Golden Crown China Hotel (Macau) and Crown Melbourne Limited has opposed that registration. Tin Fat’s challenges to the “Crown” trademark failed in the Macau Intellectual Property Department, the Court of First Instance in Macau and finally the Court of Second Instance in Macau. Tin Fat has exhausted all avenues for appeal in this matter. Tin Fat’s challenges to the “Crown Towers” trademark have failed both in the Macau Intellectual Property Department and in the Court of First Instance in Macau. In the “Crown Towers” matter, Tin Fat has lodged a further appeal to the Court of Second Instance in Macau (decision pending). As confirmed by the appellate court in the “Crown” matter and Court of First Instance in the “Crown Towers” matter, we believe we have a valid right under our trademark license agreement with Crown Melbourne Limited to use the Crown trademarks in Macau in our hotel casino business as licensed to us by Crown Melbourne Limited. We understand that Crown Melbourne Limited intends to vigorously defend the appeal lodged by Tin Fat.

## GAMING REGULATIONS

The ownership and operation of casino gaming facilities in Macau are subject to the general laws (e.g., Civil Code, Commercial Code) and to specific gaming laws, in particular, Law No. 16/2001, and various regulations govern the different aspects of the gaming activity. Macau's gaming operations are subject to the grant of a concession or subconcession by and regulatory control of the Macau government ("Dispatch" of the Chief Executive).

The laws, regulations and supervisory procedures of the Macau gaming authorities are based upon declarations of public policy that are concerned with, among other things:

- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- the adequate operation and exploitation of games of fortune and chance;
- the fair and honest operation and exploitation of games of fortune and chance free of criminal influence;
- the protection of the Macau SAR interest in receiving the taxes resulting from the gaming operation; and
- the development of the tourism industry, social stability and economic development of the Macau SAR.

If we violate the Macau gaming laws, Melco Crown Gaming's subconcession could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, we, and the persons involved, could be subject to substantial fines for each separate violation of Macau gaming laws or of the subconcession contract at the discretion of the Macau government. Further, if we terminate or suspend the operation of all or a part of the conceded business without permission, which is not caused by force majeure or the occurrence of serious chaos in our overall organization and operation, or in the event of insufficiency of our facilities and equipment which may affect the normal operation of the conceded business, the Macau government would be entitled to replace Melco Crown Gaming directly or through a third party during the aforesaid termination or suspension or subsistence of the aforesaid chaos and insufficiency and to ensure the operation of the conceded business and cause the adoption of necessary measures to protect the subject matter of the subconcession contract. Under such circumstances, the expenses required for maintaining the normal operation of the conceded business would be borne by us. Limitation, conditioning or suspension of any gaming registration or license or the appointment of a supervisor could, and revocation of Melco Crown Gaming's subconcession would, materially adversely affect our gaming operations.

Any person who fails or refuses to apply for a finding of suitability after being ordered to do so by the Macau government may be found unsuitable. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock of a registered corporation beyond the period of time prescribed by the Macau government may lose his rights to the shares. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us, we:

- pay that person any dividend or interest upon our shares;
- allow that person to exercise, directly or indirectly, any voting right conferred through shares held by that person;

## [Table of Contents](#)

- pay remuneration in any form to that person for services rendered or otherwise; or
- fail to pursue all lawful efforts to require that unsuitable person to relinquish his or her shares.

Additionally, the Macau government, pursuant to its regulatory and supervisory control of suitability, has the authority to reject any person owning or controlling the stock of any corporation holding a subconcession.

The Macau government also requires prior approval for the creation of a lien over real property, shares, gaming equipment and utensils of a concession or subconcession holder and restrictions on its stock in connection with any financing. In addition, the creation of a lien over real property, shares, gaming equipment and utensils of a concession or subconcession holder and restrictions on its stock in respect of any public offering also require the approval of the Macau government to be effective.

The Macau government must give its prior approval to changes in control through a merger, consolidation, stock or asset acquisition, or any act or conduct by any person whereby he or she obtains such control. Entities seeking to acquire control of a corporation must satisfy the Macau government concerning a variety of stringent standards prior to assuming control. The Macau government may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated for suitability as part of the approval process of the transaction.

The Macau government also has the power to supervise subconcessionaires in order to assure financial stability and capacity.

The subconcession premiums and taxes, computed in various ways depending upon the type of gaming or activity involved, are payable to the Macau government. The method for computing these fees and taxes may be changed from time to time by the Macau government. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly or annually and are based upon either:

- a percentage of the gross revenues received; or
- the number and type of gaming devices operated.

In addition to special gaming taxes, we are also required to contribute to the Macau government an amount equivalent to 1.6% of the gross revenue of our gaming business. Such contribution must be delivered to a public foundation designated by the Macau government whose goal is to promote, develop or study culture, society, economy, education and science and engage in academic and charity activities.



## [Table of Contents](#)

Furthermore, we are also obligated to contribute to Macau an amount equivalent to 2.4% of the gross revenue of the gaming business for urban development, tourism promotion and the social security to Macau.

We are required to collect and pay, through withholding, statutory taxes on commissions or other remunerations paid to gaming intermediaries.

We are also required to collect and pay employment taxes in connection with our staff through withholding and all payable and non-exemptible taxes, levies, expenses and handling fees provided by the laws and regulations of Macau.

Non-compliance with these obligations could lead to the revocation of Melco Crown Gaming's subconcession and could materially adversely affect our gaming operations.

### **Anti-Money Laundering Regulations in Macau**

In conjunction with current gaming laws and regulations, we will be required to comply with the laws and regulations relating to anti-money laundering activities in Macau. Law 2/2006 of April 3, 2006, which came into effect on April 4, 2006, the Administrative Regulation (AR) 7/2006 of May 15, 2006, which came into effect on November 12, 2006 and the DICJ Instruction 2/2006 of November 13, 2006 govern our compliance requirements with respect to identifying, reporting and preventing anti-money laundering and terrorism financing crimes at our casinos.

Under these laws and regulations, we are required to:

- identify any customer or transaction where there is a sign of money laundering or financing of terrorism or which involves significant sums of money in the context of the transaction, even if any sign of money laundering is absent;
- refuse to deal with any of our customers who fail to provide any information requested by us;
- keep records following the identification of a customer for a period of five years;
- notify the Finance Information Bureau if there is any sign of money laundering or financing of terrorism; and
- cooperate with the Macau government by providing all required information and documentation requested in relation to anti-money laundering activities.

Under Article 2 of AR 7/2006 and the DICJ Instruction 2/2006, we are required to track and mandatorily report cash transactions and granting of credit with the minimum amount of MOP 500,000 (US\$62,000). Pursuant to the legal requirements above, if the customer provides all required information, and after submitting the reports, we may continue to deal with those customers that we reported to the DICJ and, in case of suspicious transactions, to the Finance Information Bureau.

## [Table of Contents](#)

We use an integrated IT system to track and automatically generate significant cash transaction reports and, if permitted by the DICJ and the Finance Information Bureau, to submit those reports electronically. We also train our staff on identifying and following correct procedures for reporting “suspicious transactions” and to make available for our employees our guidelines and training modules in our intranet and on-line sites.

### **Subconcession Contract**

A summary of the key terms of Melco Crown Gaming’s subconcession contract is as follows:

*Subconcession Term.* The subconcession contract will expire in June 2022, the current expiration date of Wynn Macau’s concession, or, if the Macau government exercises its redemption right, in 2017. Based on information from the Macau government, proposed amendments to the relevant legislation are being considered. We expect that if such amendments take effect, on the expiration date of Melco Crown Gaming’s subconcession, unless the subconcession term is extended, only that portion of casino premises within our developments to be designated with the approval of the Macau government, including all equipment, would automatically revert to the Macau government without compensation to us. Until such amendments come into effect, all of our casino premises and gaming equipment would revert automatically to the Macau government without compensation to us. The Macau government may exercise its redemption right by providing us one year’s prior notice and paying fair compensation or indemnity to us. The amount of such compensation or indemnity will be determined based on the amount of gaming revenue generated by City of Dreams during the tax year prior to the redemption. It would not reimburse us for any portion of the US\$900.0 million paid to Wynn Macau for the subconcession.

*Development of Gaming Projects/Financial Obligations.* The subconcession contract requires us to make a minimum investment in Macau of MOP 4.0 billion (US\$499.2 million), including investment in fully developing Crown Macau and the City of Dreams project, by December 2010. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Operations in the Gaming Industry in Macau—Under Melco Crown Gaming’s subconcession, the Macau government may terminate the subconcession under certain circumstances without compensation to Melco Crown Gaming, which would prevent it from operating casino gaming facilities in Macau and could result in defaults under our indebtedness and a partial or complete loss of our investments in our projects.”

*Payments.* In addition to the initial US\$900.0 million that we paid to Wynn Macau when we obtained the subconcession, we are required to make certain payments to the Macau government, including a fixed annual premium per year of MOP 30.0 million (US\$3.7 million) and a variable premium depending on the number and type of gaming tables and gaming machines that we operate. The variable premium is calculated as follows: (1) MOP 300,000 (US\$37,437) per year for each gaming table (subject to a minimum of 100 tables) located in special gaming halls or areas reserved exclusively for certain kinds of games or to certain players; (2) MOP 150,000 (US\$18,719) per year for each gaming table (subject to a minimum of 100 tables) not reserved exclusively for certain kinds of games or to certain players; and (3) MOP 1,000 (US\$125) per year for each electrical or mechanical gaming machine, including the slot machine.

## Table of Contents

*Termination Rights.* The Macau government has the right, after notifying Wynn Macau, to unilaterally terminate Melco Crown Gaming's subconcession in the event of non-compliance by us with our basic obligations under the subconcession and applicable Macau laws. The Macau government may be able to unilaterally rescind the subconcession contract upon the following termination events:

- the operation of gaming without permission or operation of business which does not fall within the business scope of the subconcession;
- abandonment of approved business or suspension of operations of our gaming business in Macau without reasonable grounds for more than seven consecutive days or more than 14 non-consecutive days within one calendar year;
- transfer of all or part of Melco Crown Gaming's operation in Macau in violation of the relevant laws and administrative regulations governing the operation of games of fortune or chance and other casino games in Macau and without Macau government approval;
- failure to pay taxes, premiums, levies or other amounts payable to the Macau government;
- refusal or failure to resume operations following the temporary assumption of operations by the Macau government;
- repeated opposition to the supervision and inspection by the Macau government and failure to comply with decisions and recommendations of the Macau government, especially those of the DICJ, applicable to us;
- failure to provide or supplement the guarantee deposit or the guarantees specified in the subconcession within the prescribed period;
- bankruptcy or insolvency of Melco Crown Gaming;
- fraudulent activity harming the public interest;
- serious and repeated violation of the applicable rules for carrying out casino games of chance or games of other forms or damage to the fairness of casino games of chance or games of other forms;
- systematic non-compliance with the Macau Gaming Law's basic obligations;

## [Table of Contents](#)

- the grant to any other person of any managing power over the gaming business of Melco Crown Gaming or the grant of a subconcession or entering into any agreement to the same effect; or
- failure by a controlling shareholder in Melco Crown Gaming to dispose of its interest in Melco Crown Gaming, within 90 days, following notice from the gaming authorities of another jurisdiction in which such controlling shareholder is licensed to operate casino games of chance to the effect that such controlling shareholder no longer wishes to own shares in Melco Crown Gaming.

These events could lead to the termination of Melco Crown Gaming's subconcession without compensation to us regardless of whether any such event occurred with respect to us or with respect to our subsidiaries which will operate our Macau projects. Upon such termination, the designated casino gaming premises and related equipment in Macau would automatically revert to the Macau government without compensation to us and we would cease to generate any revenues from these operations. In many of these instances, the subconcession contract does not provide a specific cure period within which any such events may be cured and, instead, we may be dependent on consultations and negotiations with the Macau government to give us an opportunity to remedy any such default.

*Ownership and Capitalization.* (1) Any person who directly acquires voting rights in Melco Crown Gaming will be subject to authorization from the Macau government, (2) Melco Crown Gaming will be required to take the necessary measures to ensure that any person who directly or indirectly acquires more than 5% of the shares in Melco Crown Gaming would be subject to authorization from the Macau government, except when such acquisition is wholly made through the shares of publicly listed companies, (3) any person who directly or indirectly acquires more than 5% of the shares in Melco Crown Gaming will be required to report the acquisition to the Macau government (except when such acquisition is wholly made through shares tradable on a stock exchange as a publicly listed company), (4) the Macau government's prior approval would be required for any recapitalization plan of Melco Crown Gaming, and (5) the Chief Executive of Macau could require the increase of Melco Crown Gaming's share capital if he deemed it necessary. Under the authorization for the transfer of obligations, the Macau government has imposed that the transfer of shares in any direct or indirect shareholders of Melco Crown (CM) Hotel, Melco Crown (CM) Developments and Melco Crown (COD) Developments is subject to authorization from the Macau government.

*Others.* In addition, the subconcession contract contains various general covenants and obligations and other provisions, with respect to which the determination as to compliance is subjective. For example, compliance with general and special duties of cooperation, special duties of information, and with obligations foreseen for the execution of our investment plan may be subjective.

### **Tax**

We were incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we and our subsidiaries incorporated in the Cayman Islands are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands. However, we and our Cayman Islands subsidiaries are subject to Hong Kong profits tax on our activities conducted in Hong Kong.

## [Table of Contents](#)

Our subsidiaries incorporated in the British Virgin Islands are not subject to tax in the British Virgin Islands, but in the case of Mocha Slot Group Limited, it was subject to Macau complementary tax rate of 12% on activities conducted in Macau before the transfer of all of the Mocha Clubs assets and business to Melco Crown Gaming.

Our subsidiaries incorporated in Macau are subject to Macau complementary tax of 12% on their activities conducted in Macau. Having obtained a subconcession, Melco Crown Gaming has applied and has been granted the benefit of a corporate tax holiday on Macau complementary tax (but not gaming tax). This tax holiday exempts us from paying the Macau complementary tax for five years from 2007 to 2011 on income from gaming generated by Crown Macau and Mocha Clubs, but we will remain subject to Macau complementary tax on profits from our non-gaming businesses. When this tax exemption expires, we cannot assure you that it will be extended beyond the expiration date.

Our subsidiary incorporated in Hong Kong is subject to the Hong Kong profits tax on any profits arising in or derived from Hong Kong and the Macau complementary tax on our activities conducted in Macau. Our Hong Kong subsidiary was set up for the purpose of entering into various administrative contracts, including office leases in Hong Kong.

Our subsidiaries incorporated in New Jersey and Delaware in the United States are subject to US federal and relevant state taxes.

### **Dividend Distribution**

*Restrictions on Distributions.* We are a holding company with no material operations of our own. Our assets consist, and will continue to consist, of our shareholdings in our subsidiaries. Our subsidiaries' current and future financing facilities will restrict our subsidiaries' ability to pay dividends to us and any financings we may enter into will likely restrict our ability to pay dividends to our shareholders. There is a blanket prohibition on paying dividends during the construction phase of the City of Dreams project. Upon completion of the construction of the City of Dreams, the relevant subsidiaries will only be able to pay dividends if they satisfy certain financial tests and conditions.

*Distribution of Profits.* All of our subsidiaries incorporated in Macau are required to set aside a minimum ranging from 10% to 25% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 25% to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. The legal reserve sets aside an amount from the statement of operations and is not available for distribution to the shareholders of the subsidiaries. The appropriation of legal reserve is recorded in the financial statements in the year in which it is approved by the boards of directors of the subsidiaries. As of December 31, 2008 and 2007, the balance of the reserve amounted to US\$3,000 in each of these periods.

## C. ORGANIZATIONAL STRUCTURE

### *Current Corporate Structure*

We are a holding company for the following principal operating subsidiaries: (1) Melco Crown Gaming, which is the holder of our subconcession; (2) Melco Crown (CM) Hotel, (3) Melco Crown (CM) Developments, (4) Melco Crown (COD) Developments, and (5) MPEL Macau Peninsula.

At the time of our initial public offering, through three intervening holding company subsidiaries incorporated in the Cayman Islands and wholly-owned by us (1) Melco PBL Holdings Limited, now MPEL Holdings Limited, (2) Melco PBL International Limited, now MPEL International Limited or MPEL International, and (3) Melco PBL Investments Limited, now MPEL Investments Limited or MPEL Investments, we held all of the class B shares of Melco Crown Gaming, representing 72% of the voting control of Melco Crown Gaming and the rights to virtually all the economic interests in Melco Crown Gaming. All of the class A shares of Melco Crown Gaming, representing 28% of its outstanding capital stock were owned by PBL Asia Limited, or PBL Asia (as to 18%) and, as required by Macau law, the managing director of Melco Crown Gaming (as to 10%). Mr. Lawrence Ho was appointed to serve as the managing director of Melco Crown Gaming. The class A shares were entitled as a class to an aggregate of MOP 1 in dividends and MOP 1 in proceeds of any winding up or liquidation of Melco Crown Gaming. MPEL Investments, PBL Asia, the managing director of Melco Crown Gaming and Melco Crown Gaming entered into a shareholders' agreement under which, among other things, PBL Asia agreed to vote its class A shares in the same manner as the class B shares on all matters submitted to a vote of shareholders of Melco Crown Gaming.

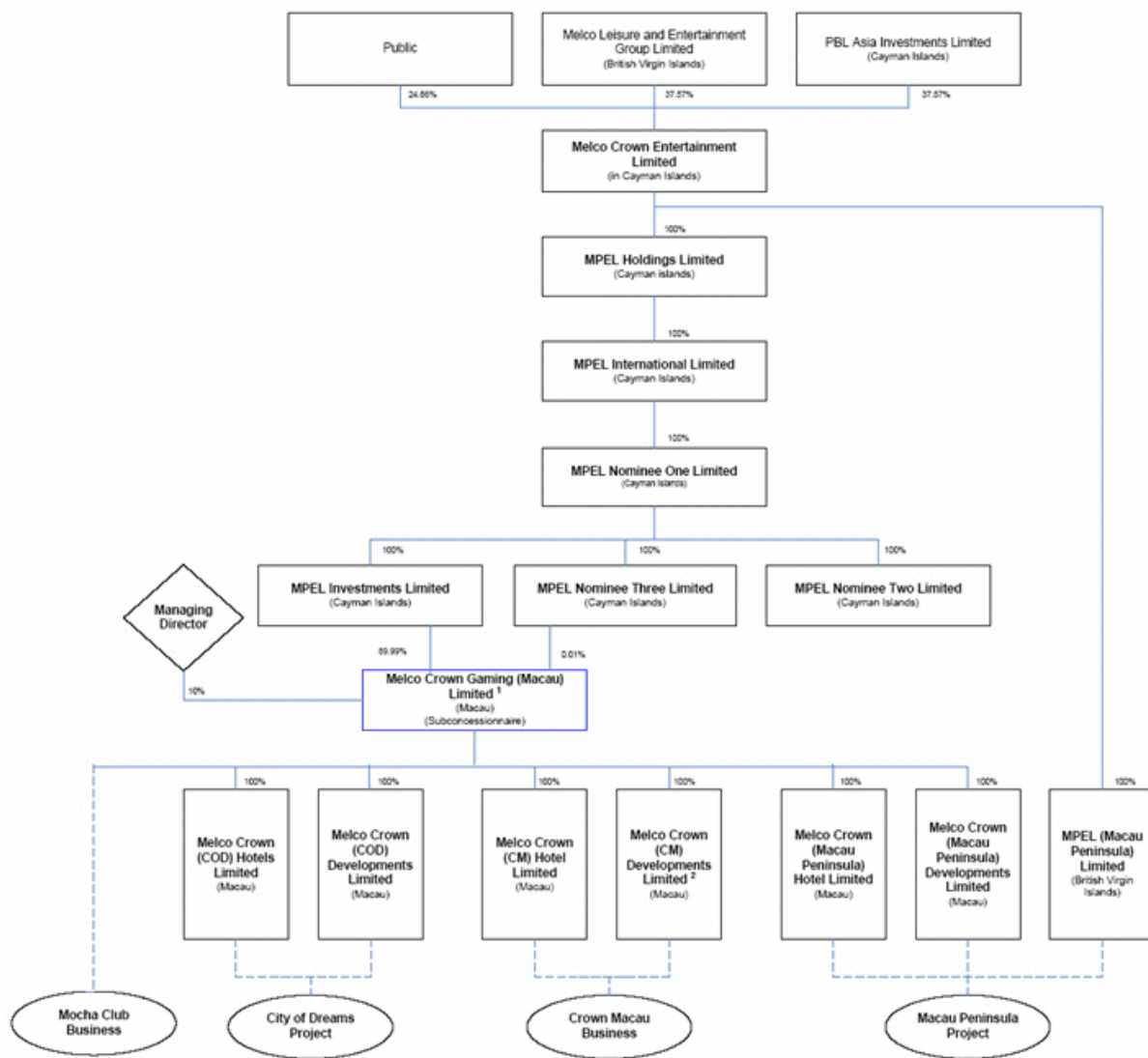
Prior to the close of the City of Dreams Project Facility, three more holding companies were incorporated through which we now hold our shares in Melco Crown Gaming: (1) MPEL Nominee One Limited, a Cayman Islands company, which is a 100% subsidiary of MPEL International and now holds 100% of the shares in MPEL Investments which in turn holds approximately 90% of the shares in Melco Crown Gaming; (2) MPEL Nominee Three Limited, a 100% subsidiary of MPEL Nominee One, which now holds one class A share in Melco Crown Gaming; and (3) MPEL Nominee Two Limited, which holds a minority shareholding in Melco Crown Gaming's Macau operating companies.

The above shareholding structure of Melco Crown Gaming was completed when PBL Asia transferred its 1,799,999 class A shares in Melco Crown Gaming to MPEL Investments and its one class A share to MPEL International on June 12, 2007 and when MPEL International transferred its one class A share in Melco Crown Gaming to MPEL Nominee Three on August 13, 2007. Mr. Lawrence Ho remains the Managing Director and 10% shareholder of Melco Crown Gaming. The shareholders' agreement for Melco Crown Gaming was terminated on December 7, 2007.

We also incorporated a direct wholly-owned subsidiary in Hong Kong, MPEL Services Limited (formerly Melco PBL Services Limited), for the purpose of entering into various administrative contracts, including leases for administrative office space, in Hong Kong.

[Table of Contents](#)

The following diagram illustrates our company’s organizational structure, and the place of formation, ownership interest and affiliation of each of our major subsidiaries as of March 23, 2009.



<sup>1</sup> In respect of shares of each Macau subsidiary shown above, the shares are owned as to 96% by Melco Crown Gaming (Macau) Limited and 4% by MPEL Nominee Two Limited, except for the subsidiary referred to in footnote 2 below.

<sup>2</sup> The shares of this company are owned as to 99.98% by Melco Crown Gaming (Macau) Limited, 0.01% by MPEL Nominee Three Limited and 0.01% by MPEL Nominee Two Limited.

## D. PROPERTY, PLANT AND EQUIPMENT

See “Item 4. Information on the Company—B. Business Overview” for information regarding our material tangible property, plant and equipment.

### ITEM 4A. UNRESOLVED STAFF COMMENTS

Not Applicable.

### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*The following discussion should be read in conjunction with, and is qualified in its entirety by, the audited consolidated financial statements and the notes thereto in this Annual Report on Form 20-F. Certain statements in this “Operating and Financial Review and Prospects” are forward-looking statements. See “Special Note Regarding Forward-Looking Statements” regarding these statements.*

Our audited historical consolidated financial statements and the audited historical financial statements of Mocha have been prepared in accordance with U.S. GAAP.

#### Overview

We are a holding company that, through our subsidiaries, develops, owns and operates casino gaming and entertainment resort facilities focused exclusively on the Macau market. We currently own and operate Crown Macau which opened on May 12, 2007 and Mocha Clubs, a non-casino based operation of electronic gaming machines, which has been in operation since September 2003. We commenced constructing City of Dreams, an integrated urban entertainment resort, in 2006. Our future operating results are subject to significant business, economic, regulatory and competitive uncertainties and risks, many of which are beyond our control. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Early Stage of Development”. For detailed information regarding our operations and development projects, see “Item 4. Information on the Company—B. Business Overview”.

## A. OPERATING RESULTS

### Operations

#### *Crown Macau*

We opened Crown Macau on May 12, 2007 and it became fully operational by July 14, 2007. Crown Macau currently features a casino area of approximately 183,000 sq. ft. with a total of approximately 255 gaming tables and approximately 95 gaming machines, 216 deluxe hotel rooms, including 24 suites and eight villas, four fine dining and four casual restaurants, recreation and leisure facilities, including a health club, pool and spa and lounges and meeting facilities.



## [Table of Contents](#)

Since our opening of Crown Macau, we have further enhanced and refined the casino in response to market demand. The gaming machines were transferred under the management of Mocha Clubs effective December 1, 2008.

### *Mocha Clubs*

The Mocha Clubs have grown rapidly since the inception of Mocha in March 2003 and Melco Crown Gaming currently operates eight Mocha Clubs in Macau with a total of approximately 1,300 gaming machines in operation.

### *Taipa Square Casino*

Taipa Square Casino opened on June 12, 2008 and has approximately 18,300 sq. ft. of gaming space and features approximately 31 gaming tables.

## **Development Projects**

### *City of Dreams*

City of Dreams is being developed to include a casino, three luxury hotels, a performance theatre, retail and food and beverage outlets, an apartment hotel complex, entertainment venues, conference, banqueting and ballroom facilities and other amenities. Upon completion, the City of Dreams development is currently planned to feature approximately 420,000 sq. ft. of gaming space with a capacity of approximately 520 table games and 1,350 gaming machines, 2,200 suites/rooms, approximately 175,000 sq. ft. of retail space, 100,000 sq. ft. of conference rooms and ballrooms together with a wet stage performance theatre.

## **Future Pipeline Projects**

### *The Macau Peninsula Site*

We continue to review and further develop plans for our third development site, located on the shoreline of the Macau peninsula near the current Macau Ferry Terminal with an area of approximately 6,480 square meters (approximately 69,750 sq. ft.). Our plans for this site are subject to completing the acquisition of the site and certain conditions including meeting applicable Macau regulatory requirements.

### *The Macau Studio City Project*

We expect to commence operating the casino portions of the Macau Studio City, a large scale integrated gaming, retail and entertainment resort development at Cotai under a services agreement with New Cotai Entertainment (Macau) Limited upon the completion of construction and occurrence of opening date for this project. Other than entering into this services agreement, there have been no operating cashflows associated with this project.

## [Table of Contents](#)

### Summary of Financial Results

The following summarizes the results of our operations:

	<b>For the Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<i>(in thousands of US\$)</i>		
Net revenues	\$ 1,416,134	\$ 358,496	\$ 36,101
Total operating costs and expenses	(1,414,960)	(554,313)	(93,754)
Operating income (loss)	1,174	(195,817)	(57,653)
Net loss	\$ (2,463)	\$ (178,151)	\$ (73,479)

Our results of operations for the years presented are not comparable for the following reasons:

- On May 12, 2007, Crown Macau opened and was fully operational by July 14, 2007.
- From September 2006 up until the opening of Crown Macau in May 2007, Mocha Clubs was our sole operating business.
- On September 8, 2006, we acquired a Macau subconcession for consideration of US\$900.0 million.

Our historical financial results may not be characteristic of our potential future results as we continue to develop and open new properties. In addition to our debt facility we currently rely on operating cash flows from only two businesses, Crown Macau and Mocha Clubs, which expose us to certain risks that competitors, whose operations are more diversified, may be better able to control.

### Key Performance Indicators (KPIs)

In leading our company to the achievement of our objectives and strategies, we monitor our performance utilizing gaming resort industry key performance indicators.

For casino revenue, KPIs are defined as follows:

- *Table games win*: the amount of wagers won net of wagers lost that is retained and recorded as casino revenue.
- *Drop*: the amount of cash and net markers issued that are deposited in a gaming table's drop box.
- *Turnover*: the sum of all wagers.
- *Gaming machine handle (volume)*: the total amount wagered in gaming machines in aggregate for the period cited.
- *Win percentage-gaming machines*: actual win expressed as a percentage of gaming machine handle.

## Table of Contents

- *Hold percentage*: the amount of win (calculated before discounts and commissions) as a percentage of drop.
- *Expected hold percentage*: casino win based upon our mix of games as a percentage of drop assuming theoretical house advantage is achieved.

There are also additional Macau specific indicators utilized to monitor table game performance in Macau, relating to the VIP and mass market segments. VIP indicators are known as rolling chip indicators and mass market indicators are known as non-rolling chip indicators.

- *Rolling chip volume*: the amount of non-negotiable gaming chips wagered and lost by the VIP market segment.
- *Rolling chip performance indicator*: VIP table games win as a percentage of rolling chip volume.
- *Non-rolling chip volume*: the amount of table games drop in the mass market segment.
- *Non-rolling chip performance indicator*: Mass market table games win as a percentage of non-rolling chip volume.

Rolling chip volume and non-rolling chip volume are not equivalent. Rolling chip volume is a measure of amounts wagered and lost. Non-rolling chip volume measures buy in. Therefore rolling chip volume will generally be substantially higher than non-rolling chip volume.

In August 2008, we modified our expected rolling chip table games hold percentage (calculated before discounts and commissions) from 2.7% to 2.85% to better reflect the performance of our rolling chip operations since the commencement of material rolling chip volumes at Crown Macau. Our decision to modify our expected rolling chip table games hold percentage brings us in line with the third party consensus view and we believe that this target rate will become the normalized rate for the market as a whole in the future. Our expected non-rolling chip table games hold percentage is in the range from 16% to 18% and our expected gaming machine hold percentage is in the range from 6% to 9%.

For Hotel revenue, KPIs are defined as follows:

- *Average Daily Rate, or ADR*: calculated by dividing total room revenue (less service charges, if any) by total rooms occupied, i.e., average price of occupied rooms per day.
- *Revenue per Available Room, or REVPAR*: calculated by dividing total room revenue (less service charges, if any) by total rooms available, thereby representing a summary of hotel average daily room rates and occupancy.
- *Hotel occupancy rate*: the average percentage of available hotel rooms occupied during a period.

As not all available rooms are occupied, average daily room rates are normally higher than revenue per available room.

Our business is and will be influenced most significantly by the growth of the gaming and leisure market in Macau. Such growth will be affected by visitation to Macau and whether Macau develops into a popular international destination for gaming patrons, other customers of leisure and hospitality services and MICE attendees, as well as our ability to compete effectively against our existing and future competitors for market share.

We expect that the hotel operating revenues at our development projects will be affected primarily by the number of rooms to be operated, room rates and occupancy rates, as well as the popularity of our food and beverage outlets at our hotels. We expect hotel operating expenses to consist mainly of labor, and costs of operating supplies.

Our business is affected by the markets for both commercial (including retail) and residential real estate in Macau. Our plan to monetize the apartment hotel complex to be constructed at the City of Dreams will be subject to fluctuations in the Macau real estate market. In addition, fluctuations in the real estate market will affect the land premium that we pay if we complete the acquisition of the Macau peninsula site.

#### **Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

##### ***Revenues***

Consolidated net revenues were US\$1.42 billion, an increase of US\$1.06 billion (or 295.0%) from US\$358.5 million for 2007. The increase in net revenues was driven by improved operating performance and a full year of operations at Crown Macau, which opened on May 12, 2007 and was fully operational by July 14, 2007.

Consolidated net revenues in 2008 comprised of US\$1.41 billion in casino revenues (99.3% of total net revenues) and US\$10.2 million of net non-casino revenues (0.7% of total net revenues). Consolidated net revenues in 2007 comprised of US\$348.7 million in casino revenues (97.3% of total net revenues) and US\$9.8 million of net non-casino revenues (2.7% of total net revenues).

*Casino.* Casino revenues for the year ended December 31, 2008 of US\$1.41 billion represented a US\$1.06 billion (or 303.2%) increase from casino revenues of US\$348.7 million for the year ended December 31, 2007. Crown Macau's hold percentage for VIP rolling chip table games was 2.85% for the year ended December 31, 2008, inline with expected hold. In the second quarter of 2008 we modified expected hold percentage from 2.7% to 2.85% in order to reflect the life-to-date performance of the rolling chip segment since the commencement of material rolling chip volumes at Crown Macau and our view of the normalized rate for the Macau gaming market as a whole. Rolling chip volume was US\$62.3 billion. In the mass table games segment, drop (non-rolling chip) totaled US\$353.2 million and the average table games win percentage was 14.6%, below the expected range of 16% to 18%. Gaming machine handle (volume) was US\$166.9 million and gaming machine revenue was US\$13.4 million. Mocha Club's average net win per gaming machine per day for 2008 was US\$236, an increase of approximately US\$16 over 2007.

## [Table of Contents](#)

*Rooms.* Room revenue of US\$17.1 million for the year ended December 31, 2008 represented a US\$11.4 million (or 201.3%) increase from room revenue of US\$5.7 million for the year ended December 31, 2007 due to a full year of operations at Crown Macau in 2008. ADR, occupancy and REVPAR were US\$236, 94.0% and US\$222, respectively, for the year ended December 31, 2008.

*Food, beverage and others.* Other non-casino revenues for the year ended December 31, 2008 included food and beverage revenue of US\$16.1 million, and entertainment, retail and other revenue of approximately US\$5.4 million. Other non-casino revenue for the year ended December 31, 2007 included food and beverage revenue of US\$11.1 million, and entertainment, retail and other revenue of approximately US\$2.0 million.

### ***Operating costs and expenses***

Total operating costs and expenses were US\$1.41 billion for the year ended December 31, 2008, an increase of US\$860.6 million (or 155.3%) from US\$554.3 million for the year ended December 31, 2007. The increase in operating costs of US\$860.6 million was primarily related to a full year of operation of Crown Macau with increases in casino expenses commensurate with the increase in revenues as more fully described below.

*Casino.* Casino expenses increased by US\$855.8 million (or 294.1%) to US\$1.15 billion in 2008 from US\$291.0 million in 2007 primarily due to US\$574.3 million in 39.0% gross win tax on higher casino revenues and US\$281.5 million in casino-related expenses associated with additional payroll-related expenses and our rolling chip program at Crown Macau.

*Rooms.* Room expenses, which represent the costs in operating the hotel facility at Crown Macau, decreased by 39.6% to US\$1.3 million in 2008 from US\$2.2 million in 2007, primarily due to an increase in complementary sales and recording the related costs under casino expenses.

*Food, beverage and others.* Food, beverage and other expenses increased by US\$3.0 million (or 26.6%) to US\$14.0 million in 2008 from US\$11.0 million in 2007, primarily due to related increases in the revenue for these segments.

*General and administrative.* General and administrative expenses increased by US\$8.0 million (or 8.3%) to US\$104.0 million in 2008 from US\$96.0 million in 2007, primarily due to growth in our operations, which included US\$1.6 million in additional share-based compensation expense.

*Pre-opening costs.* Pre-opening costs of US\$21.8 million were incurred in 2008 relating to the opening of City of Dreams. In 2007 we incurred pre-opening costs associated with both Crown Macau, which opened on May 12, 2007, and City of Dreams of US\$37.0 million and US\$3.0 million, respectively. Such costs relate to personnel training, equipment and other administrative costs in connection with the future opening of these properties. We expect pre-opening expenses related to City of Dreams to increase as its opening approaches.

## [Table of Contents](#)

*Amortization of gaming subconcession.* Amortization of gaming subconcession recorded on a straight-line basis remained stable at US\$57.2 million in 2008 and 2007.

*Amortization of land use rights.* Amortization of land use rights expenses increased by US\$1.0 million (or 5.7%) to US\$18.3 million in 2008 from US\$17.3 million in 2007 primarily due to a full year of amortization expense related to the revised land concession cost for City of Dreams by US\$41.7 million in October 2007, which in turn increased the amount of monthly amortization.

*Depreciation and amortization.* Depreciation and amortization expense increased by US\$11.9 million (or 30.2%) to US\$51.4 million in 2008 from US\$39.5 million in 2007 primarily due to a full year of operation of Crown Macau.

### ***Non-operating (expenses) income***

Non-operating (expenses) income consist of interest income and expenses, write off and amortization of deferred financing costs, loan commitment fees, foreign exchange gain and loss as well as other non-operating income.

Interest income decreased to US\$8.2 million in 2008 from US\$18.6 million in 2007, mainly due to a decline in interest rates and a decrease in average cash balances due to increased investment in the City of Dreams development.

Interest expense for shareholders' loans and the US\$1.75 billion City of Dreams Project Facility was fully capitalized in 2008. The amount of interest expense incurred was US\$49.6 million in 2008, which increased from US\$14.5 million in 2007 primarily due to additional borrowings under the City of Dreams Project Facility and full year of interest charges for the City of Dreams Project Facility incurred in 2008 as compared with three months in 2007.

Other finance costs included US\$0.8 million of amortization of deferred financing costs and US\$15.0 million of loan commitment fees related to the US\$1.75 billion City of Dreams Project Facility. The increase from 2007 was attributable to additional fees incurred on the undrawn commitment of this facility.

The foreign exchange gains for 2008 were US\$1.4 million, mainly resulting from foreign exchange transaction gains on H.K. dollars, compared to US\$3.8 million of foreign exchange gains for 2007. Other non-operating income increased to US\$972,000 in 2008 from US\$275,000 in 2007.

***Income tax credit***

Income tax credit remained at US\$1.5 million in 2008 and 2007 primarily due to the income tax exemption on gaming operations in Macau.

***Net loss***

As a result primarily of the foregoing, there was a net loss of US\$2.5 million for 2008, compared to a net loss of US\$178.2 million in 2007.

**Year Ended December 31, 2007 Compared to Year Ended December 31, 2006**

***Revenues***

Consolidated net revenues were US\$358.5 million for 2007, an increase of US\$322.4 million (or 893.0%) from US\$36.1 million for 2006. The increase in net revenues was principally due to the commencement of operations at Crown Macau with effect from May 2007 which contributed US\$277.2 million in revenue for 2007 and the change in reporting of Mocha Clubs revenues from a service fee basis of US\$36.1 million in 2006 to a gross gaming revenue basis of US\$81.3 million in 2007 as a result of obtaining the subconcession in September 2006.

Consolidated net revenues in 2007 comprised of US\$348.7 million in casino revenue (97.3% of total net revenues) and US\$9.8 million of net non-casino revenues (2.7% of total net revenues). Consolidated net revenues in 2006 comprised of US\$35.4 million in casino revenues (98.0% of total net revenues) and US\$0.7 million of net non-casino revenues (2.0% of total net revenues).

*Casino.* Casino revenues for the year ended December 31, 2007 of US\$348.7 million represented a US\$313.3 million (or 885.5%) increase from casino revenues of US\$35.4 million for the year ended December 31, 2006. Crown Macau's hold percentage for VIP rolling chip table games was 2.4% for the year ended December 31, 2007, below our expected level of 2.7%. Rolling chip volume was US\$14.4 billion. In the mass table games segment, drop (non-rolling chip) totaled US\$240.6 million and the average table games win percentage was 16.5%, within the expected range of 16% to 18%. Gaming machine handle (volume) was US\$142.1 million and gaming machine revenue was US\$9.8 million. Mocha Club's average net win per gaming machine per day for 2007 was US\$219.7, an increase of approximately US\$10 over 2006.

*Rooms.* Room revenue for the year ended December 31, 2007 was US\$5.7 million. ADR, occupancy and REVPAR were US\$265.8, 66% and US\$173.8, respectively.

*Food, beverage and others.* Other non-casino revenues for the year ended December 31, 2007 included food and beverage revenue of US\$11.1 million, and entertainment, retail and other revenue of approximately US\$2.0 million. Other non-casino revenue for the year ended December 31, 2006 included food and beverage revenue of US\$1.5 million.

***Operating costs and expenses***

Total operating costs and expenses were US\$554.3 million for the year ended December 31, 2007, an increase of US\$460.5 million (or 491.2%) from US\$93.8 million for the year ended December 31, 2006. The increase in operating costs of US\$285.0 million primarily related to Crown Macau becoming operational in May 2007, an increase of US\$77.4 million in general and administrative costs, an increase of US\$28.4 million in pre-opening costs relating to the Crown Macau and City of Dreams projects, amortization of gaming subconcession of US\$42.9 million, an increase of US\$4.9 million in amortization of land use rights, and an increase in depreciation and amortization of property and equipment of US\$29.6 million. The increase was partially offset by a decrease in impairment loss recognized in relation to the termination of the slot lounge services agreement in 2006.

## [Table of Contents](#)

*Casino.* Casino expenses increased by 1,450.0% to US\$291.0 million in 2007 from US\$18.8 million in 2006, primarily due to the commencement of operations of Crown Macau. In addition, having obtained our subconcession in September 2006, we incurred Macau taxes and other government dues totaling US\$187.8 million on gaming revenue generated from Crown Macau and Mocha Clubs. We did not incur any Macau taxes and other government dues prior to the grant of the subconcession.

*Rooms.* Room expenses of US\$2.2 million for 2007 represented costs in operating the hotel facility at Crown Macau.

*Food, beverage and others.* Food, beverage and other expenses increased by 1,984.0% to US\$11.0 million in 2007 from US\$0.5 million in 2006, primarily due to commencement of operation of Crown Macau.

*General and administrative.* General and administrative expenses increased by 415.9% to US\$96.0 million in 2007 from US\$18.6 million in 2006, primarily due to the increase in staff at both corporate and Crown Macau, directors' and officers' liability insurance, and an increase in professional services fees in connection with US regulatory compliance and our second public offering in November 2007.

*Pre-opening costs.* Pre-opening costs increased significantly to US\$40.0 million in 2007 from US\$11.7 million in 2006, related principally to pre-opening costs, such as personnel training costs, equipment costs and other administrative costs, in connection with the development of the Crown Macau leading up to its opening in May 2007 and the future opening of City of Dreams.

*Amortization of gaming subconcession.* Amortization of gaming subconcession increased by 299.7% to US\$57.2 million in 2007 from US\$14.3 million in 2006. We began to amortize the subconcession in October 2006 after we obtained the subconcession.

*Amortization of land use rights.* Amortization of land use rights expenses increased by 39.8% to US\$17.3 million in 2007 from US\$12.4 million in 2006. The increase was primarily due to the revised land concession cost for City of Dreams by US\$41.7 million in October 2007, which in turn increased the amount of monthly amortization.

*Depreciation and amortization.* Depreciation and amortization expense increased significantly to US\$39.5 million in 2007 from US\$9.8 million in 2006 as we began to depreciate the building costs associated with Crown Macau in May 2007 upon the commencement of its operations.



## [Table of Contents](#)

### ***Non-operating income (expenses)***

Non-operating income (expenses) consist of interest income and expenses, write off and amortization of deferred financing costs, loan commitment fees, foreign exchange gain and loss as well as other non-operating income.

Interest income increased significantly to US\$18.6 million in 2007 from US\$816,000 in 2006, mainly due to additional invested cash balances that resulted primarily from borrowings under the City of Dreams Project Facility that had not yet been spent and the proceeds from our second public offering.

The decrease in interest expense to US\$770,000 for 2007 from US\$11.2 million for 2006 was a result of the capitalization of interest expense incurred for the US\$1.75 billion City of Dreams Project Facility. In 2006, the interest expense incurred for the gaming subconcession facility was not capitalized.

Amortization of deferred financing costs and loan commitment fees of US\$1.0 million and US\$4.8 million in 2007 related to the US\$1.75 billion City of Dreams Project Facility. We had written off US\$12.7 million of deferred financing costs related to the gaming subconcession facility which was fully repaid in 2006.

The foreign exchange gains for 2007 were US\$3.8 million mainly resulting from foreign exchange transaction gains on H.K. dollar payables, compared to US\$55,000 of foreign exchange gains for 2006. Other non-operating income decreased to US\$275,000 in 2007 from US\$285,000 in 2006.

### ***Income tax credit***

Income tax credit decreased to US\$1.5 million in 2007 from US\$1.9 million in 2006 due to Hong Kong profits tax provisions of US\$1.4 million recognized in 2007 for chargeable income in Hong Kong. The increase in tax provision was offset by an increase of deferred tax credits in 2007 of US\$1.0 million and in 2007 the Macau government granted to Melco Crown Gaming, a subconcessionaire benefit in the form of a corporate tax holiday on gaming income in Macau for five years from 2007 to 2011.

### ***Minority interest***

A share of loss by minority shareholders amounted to nil in 2007, compared with a share of loss by minority shareholders of US\$5.0 million in 2006. The 2006 losses comprised Melco's share of our income and loss through the 20% interest in MPEL (Greater China) that it held until October 2006.

### ***Net loss***

As a result primarily of the foregoing, there was a net loss of US\$178.2 million and US\$73.5 million in 2007 and 2006, respectively.

## **Critical Accounting Policies and Estimates**

Management's discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements. Our consolidated financial statements were prepared in conformity with U.S. GAAP. Certain of our accounting policies require that management apply significant judgment in defining the appropriate assumptions integral to financial estimates. On an ongoing basis, management evaluates those estimates, including those relating to the estimated lives of depreciable assets, asset impairment, allowances for doubtful accounts, accruals for customer loyalty rewards, business combination and revenue recognition. Judgments are based on historical experience, terms of existing contracts, industry trends and information available from outside sources, as appropriate. However, by their nature, judgments are subject to an inherent degree of uncertainty, and therefore actual results could differ from our estimates.

We believe that the critical accounting policies discussed below affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### ***Valuation of long-lived assets, including goodwill and purchased intangible assets***

We review the carrying value of our long-lived assets, including goodwill and purchased intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability of the carrying value of long-lived assets, other than goodwill and purchased intangible assets with indefinite useful lives, is measured by first grouping our long-lived assets into asset groups and, secondly, estimating the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. We define an asset group as the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and estimate the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, we record an impairment loss to the extent the carrying value of the long-lived asset exceeds its fair value. If an asset is still under development, future cash flows include remaining construction costs.

To assess potential impairment of goodwill, we perform an assessment of the carrying value of our reporting units at least on an annual basis or when events and changes in circumstances occur that would more likely than not reduce the fair value of our reporting units below their carrying value. If the carrying value of a reporting unit exceeds its fair value, we would perform the second step in our assessment process and record an impairment loss to earnings to the extent the carrying amount of the reporting unit's goodwill exceeds its implied fair value. We estimate the fair value of our reporting units through internal analysis and external valuations, which utilize income and market valuation approaches through the application of capitalized earnings, discounted cash flow and market comparable methods. These valuation techniques are based on a number of estimates and assumptions, including the projected future operating results of the reporting unit, appropriate discount rates, long-term growth rates and appropriate market comparables.

***Impairment of long-lived assets (other than goodwill)***

We evaluate the recoverability of long-lived assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value. During the years ended December 31, 2008 and 2007, impairment losses amounting to US\$17,000 and US\$421,000 were recognized to write off gaming equipment due to the reconfiguration of the casino at Crown Macau to meet the evolving demands of gaming patrons and target specific segments. During the year ended December 31, 2006, impairment losses amounting to US\$7.6 million and US\$1.1 million were recognized due to the termination of Mocha Clubs slot lounge services agreement and relocation of a Mocha Clubs site.

***Business combinations***

We have made a number of acquisitions to date and may make further strategically important acquisitions in the future. When recording an acquisition to date, we allocate the purchase price of the acquired company to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. We obtain valuation reports from independent appraisers to assist in determining the fair values of identifiable intangible assets. These valuations require us to make significant estimates and assumptions which include future expected cash flows, discount rates, and the period of time the acquired business activities will continue. Such assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions and estimates.

***Share-based compensation***

We issued restricted shares and share options under our share incentive plan during the years ended December 31, 2008, 2007 and 2006. Share-based compensation in the forms of restricted shares and share options are measured using SFAS No. 123 (Revised 2004), "Share-Based Payment", or SFAS No. 123R. We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize the cost over the service period. We use the Black-Scholes valuation model to value the equity instruments issued. The Black-Scholes valuation model requires the use of highly subjective assumptions of expected volatility of the underlying stock, risk-free interest rates, the expected term of options granted and estimated forfeitures. Changes in the subjective input assumptions may materially affect the fair value estimate. Management determines these assumptions through internal analysis and external valuations utilizing current market rates, making industry comparisons and reviewing conditions relevant to our Company.

***Revenue recognition***

We recognize revenue at the time persuasive evidence of an arrangement exists, the service is provided or the retail goods are sold, prices are fixed or determinable and collection is reasonably assured.

Casino revenues are measured by the aggregate net difference between gaming wins and losses less accruals for the anticipated payouts of progressive slot jackpots, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession.

Prior to termination of the service agreement with SJM in September 2006, casino revenues were recognized on an accrual basis in accordance with the contractual terms of the respective service agreement. Such revenue was calculated based on a pre-determined rate, as stipulated in the respective service agreement, of the gaming revenue from the gaming machines, which is the difference between gaming wins and losses less the accruals for the anticipated payouts of progressive slot jackpots.

The Company follows the guidance of Emerging Issues Task Force, or EITF, consensus on Issue 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," when accounting for operations of Taipa Square Casino. Given that we operate the casino under a right to use agreement with the owner of the casino premises and have full responsibility for the casino operations in accordance with our gaming subconcession, we are the principal and casino revenue is therefore recognized on a gross basis.

Rooms, food and beverage, entertainment, retail and other revenues are recognized when services are provided. Advance deposits on rooms are recorded as customer deposits until services are provided to the customer.

Revenues are recognized net of certain sales incentives in accordance with EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)", or EITF 01-9. EITF 01-9 requires that sales incentives be recorded as a reduction of revenue; consequently, the Company's casino revenues are reduced by discounts, commissions and points earned in customer loyalty programs, such as the player's club loyalty program.

The retail value of rooms, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The estimated cost of providing such promotional allowances is included in the casino expenses.

***Accounts Receivable and Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of casino receivables. The Company issues credit in the form of markers to approved casino customers following investigations of creditworthiness. At December 31, 2008 and 2007, a substantial portion of the Company's markers were due from customers residing in foreign countries.

## [Table of Contents](#)

Accounts receivable, including casino receivables, is typically non-interest bearing and is initially recorded at cost. Accounts are written off when management deems it is probable the receivable is uncollectible. Recoveries of accounts previously written off are recorded when received. An estimated allowance for doubtful debts is maintained to reduce the Company's receivables to their carrying amounts, which approximate fair values. The allowance is estimated based on specific review of customer accounts as well as management's experience with collection trends in the casino industry and current economic and business conditions.

### ***Income Tax***

Deferred income taxes are recognized for all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board, or FASB, Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109", or FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides accounting guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. There was no material impact resulting from the adoption of FIN 48 on our consolidated financial statements.

### ***Accounting for Derivative Instruments and Hedging Activities***

We seek to manage market risk, including interest rate risk associated with variable rate borrowings, through balancing fixed-rate and variable-rate borrowings with the use of derivative financial instruments. We account for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", or SFAS No. 133, and all amendments thereto. SFAS No. 133 requires that all derivative instruments be recognized in the financial statements at fair value at the balance sheet date. Any changes in fair value are recorded in the statement of operations or in other comprehensive income (loss), depending on whether the derivative is designated and qualifies for hedge accounting, the type of hedge transaction and the effectiveness of the hedge. The estimated fair values of our derivative instruments obtained from dealer quotes are based on a standard valuation model that projects future cash flows and discounts those future cash flows using market-based observable inputs such as interest rate yields.

**Recent changes in accounting standards**

See Note 2 to the consolidated financial statements included elsewhere in this annual report on Form 20-F for discussion of recent accounting standards.

**B. LIQUIDITY AND CAPITAL RESOURCES**

The following table sets forth a summary of our cash flows for the periods indicated:

	<b>For the Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<i>(in thousands of US\$)</i>		
Net cash (used in) provided by operating activities	\$ (11,158)	\$ 147,372	\$ (20,237)
Net cash used in investing activities	(913,602)	(972,620)	(38,645)
Net cash provided by financing activities	904,485	1,076,671	623,109
Net (decrease) increase in cash and cash equivalents	(20,275)	251,423	564,227
Cash and cash equivalents at beginning of year	835,419	583,996	19,769
Cash and cash equivalents at end of year	<u>\$ 815,144</u>	<u>\$ 835,419</u>	<u>\$ 583,996</u>

***Operating activities***

Net cash used in operating activities was US\$11.2 million in 2008, compared to US\$147.4 million net cash provided by operating activities in 2007. Although operating income for the year ended December 31, 2008 increased due to improved operating performance and a full year of operations at Crown Macau, which opened in May 2007, there was a decrease in operating cash flow mainly attributable to decreased outstanding gaming chips and tokens, customer deposits, commission payables and other gaming related accruals resulting from a decline in gaming activity at the end of 2008 compared to 2007. Net cash provided by operating activities was US\$147.4 million in 2007, compared to US\$20.2 million net cash used in operating activities in 2006. This was primarily attributable to the opening of Crown Macau and greater revenue generated from Mocha Clubs after obtaining the gaming subconcession in September 2006 with gross revenue reported in full instead of previously as 31% of the total gaming machine win.

***Investing activities***

Net cash used in investing activities was US\$913.6 million in 2008, compared to US\$972.6 million in 2007, primarily due to increased construction and development activity of the City of Dreams, with capital expenditures for the year ended December 31, 2008 of US\$1.05 billion and payment of the City of Dreams land use rights deposit of US\$42.1 million. This increase was offset by a decrease of US\$231.0 million in the amount of restricted cash due to the utilization of funds on additional loan drawdowns from the City of Dream Project Facility in 2008. Drawdown proceeds from the facilities must be deposited into restricted accounts and pledged to the credit facility lenders.

## [Table of Contents](#)

Net cash used in investing activities was US\$972.6 million in 2007, compared to the US\$38.6 million in 2006 primarily due to an increase of US\$645.6 million in capital expenditures for the completion of Crown Macau and the ongoing development of the City of Dreams project. In 2007 capital expenditures amounted to US\$668.3 million, as compared to US\$22.7 million in 2006. In 2006, land premium of US\$12.4 million was paid for the Crown Macau site. The increase was also in relation to restricted cash of US\$299.0 million representing the balance of the US\$500.2 million drawdown against the City of Dreams Project Facility in September 2007. Drawdown proceeds from the facilities must be deposited into restricted accounts and pledged to the credit facility lenders.

### ***Financing activities***

*Proceeds from Our Financing.* Net cash provided by financing activities amounted to US\$904.5 million for the year ended December 31, 2008, primarily due to drawdown proceeds of US\$912.3 million from the City of Dreams Project Facility. Net cash provided by financing activities amounted to US\$1.08 billion in 2007, primarily due to proceeds from the sale of additional ADSs pursuant to the exercise of the underwriters' over-allotment option in January 2007, which amounted to US\$160.6 million after underwriting discounts and commissions, following our initial public offering in December 2006, and proceeds from our second public offering in November 2007, which amounted to US\$562.2 million after underwriting discounts and commissions. Net cash provided by financing activities amounted to US\$623.1 million in 2006, primarily due to the proceeds from our initial public offering, which amounted to approximately US\$1.1 billion after underwriting discounts and commissions with US\$500.0 million of the US\$1.1 billion immediately used for the repayment of the Subconcession Facility.

*Shareholder Loans and Contributions.* As of December 31, 2008, we have approximately US\$116.6 million of outstanding shareholder loans from Melco and Crown, of which US\$115.6 million was in the form of fixed term loans repayable in May 2010. The fixed term loan from Crown is at an interest rate of 3-months HIBOR per annum and the fixed term loan from Melco is at 3-months HIBOR per annum to May 15, 2008 and subsequently at 3-months HIBOR plus 1.5% per annum with the remaining balance of US\$1.0 million repayable on demand and non-interest bearing.

No fees or proceeds are payable to Melco and Crown in return for their contributions to us or our subsidiaries and their future economic interest in us is solely based on their share ownership in forming our company.

*City of Dreams Project Facility.* On September 5, 2007, Melco Crown Gaming and certain other subsidiaries specified as guarantors, or the Borrowing Group, entered into the US\$1.75 billion City of Dreams Project Facility to finance a portion of the total project costs of City of Dreams. On September 24, 2007, the first drawdown which comprised both Hong Kong dollars and US dollars totaling the equivalent of US\$500.2 million was made under the City of Dreams Project Facility. Financing costs of US\$7.6 million and US\$49.7 million in relation to the City of Dreams Project Facility were paid accordingly during the years ended December 31, 2008 and 2007. Subsequent drawdowns took place on September 9, October 14 and December 9, 2008, which comprised of both Hong Kong dollars and US dollars totaling the equivalent of US\$485.4 million, US\$177.9 million and US\$249.0 million, respectively, under the Facility. Subject to satisfaction of the relevant conditions precedent, a further US\$323.5 million remained available for future drawdowns as at December 31, 2008 and approximately US\$50.3 million remains available for future drawdown as of the date of this annual report on Form 20-F.

## [Table of Contents](#)

We may obtain financing in the form of, among other things, equity or debt, including additional bank loans or high yield, mezzanine or other debt, or rely on our operating cash flow to fund the development of our projects.

### **Description of Our Indebtedness**

#### *City of Dreams Project Facility*

As previously described, we are currently constructing the City of Dreams. The budgeted cost of construction and development is funded from a combination of the following sources:

- cashflow generated from the operations of our existing businesses;
- borrowings under the US\$1.75 billion City of Dreams Project Facility; and
- a portion of the net proceeds from our initial offering and our second public offering in December 2006 and November 2007 respectively.

#### *Drawdowns*

The final maturity date of the term loan facility is September 5, 2014 and the final maturity date of the revolving credit facility is September 5, 2012 or, if earlier, the date of repayment, prepayment or cancellation in full of the term loan facility.

Drawdowns on the term loan facility are, subject to satisfaction of conditions precedent, available in minimum amounts of US\$5 million (approximately HK\$39 million) until January 5, 2010. The revolving credit facility will be made available on a fully revolving basis from, in the case of any drawing for general working capital purposes or purposes of meeting cost overruns associated with the City of Dreams project, the date upon which the term loan facility has been fully drawn, to the date that is one month prior to the revolving credit facility's final maturity date.

All drawings under the City of Dreams Project Facility are to be paid into a disbursement account that will be subject to security. As of December 31, 2008 total drawdowns which comprised both Hong Kong dollars and US dollars totaling the equivalent of US\$1.41 billion have been made under the City of Dreams Project Facility. The rollover of existing revolving loans drawn under the City of Dreams Project Facility is subject to compliance with covenants and satisfaction of conditions precedent. Melco Crown Gaming is also required to undertake a program to hedge exposures to interest rate fluctuations under the City of Dreams Project Facility and in certain circumstances, currency fluctuations. The interests of the hedging counterparties under the hedging agreements are secured on a pari passu basis with the lenders.

#### *Repayment*

The term loan facility will be repaid in quarterly installments according to an amortization schedule commencing September 5, 2010. Each revolving credit facility loan will be repaid in full on the last day of an agreed upon interest period ranging from one to six months, or rolled-over.



## Table of Contents

Melco Crown Gaming may make voluntary prepayments in respect of the term loan facility and the revolving credit facility, subject to certain conditions, without premium or penalty other than break costs, in minimum amounts of US\$20 million following the completion of the City of Dreams project and in full prior to completion. Voluntary prepayments will be applied to the principal outstanding on the City of Dreams Project Facility and to maturities on a pro-rata basis and amounts prepaid will not be available for redrawing.

We must make mandatory prepayments in respect of the following amounts within the Borrowing Group under the City of Dreams Project Facility: (1) 50% of the net proceeds of any permitted equity issuance of any member of the Borrowing Group and all of the net proceeds of any permitted debt issuance of any member of the Borrowing Group; (2) the net proceeds of any asset sale, subject to reinvestment rights and certain exceptions; (3) net termination proceeds paid under Melco Crown Gaming's subconcession, any lease agreement, the hotel management agreements, or any other material contracts or agreements (subject to certain exceptions); (4) the net proceeds or liquidated damages paid pursuant to obligation, default or breach under the certain documents relating to the City of Dreams project; (5) the insurance proceeds net of expenses to obtain such proceeds, subject to reinvestment rights and certain exceptions; and (6) excess cashflow (as defined under various financial ratio tests).

### *Accounts*

The terms of the City of Dreams Project Facility require that all of the revenues of the gaming business operated by Melco Crown Gaming, including Crown Macau and City of Dreams, be paid into bank accounts established by Melco Crown Gaming, secured in favor of the security agent for the benefit of the lenders. In addition, subject to certain exceptions, all of the accounts of all of the members of the Borrowing Group have been pledged as security for the indebtedness. Subject to such security, such revenues will be paid out in order of priority, in accordance with specified cash waterfall arrangements.

### *Interest and Fees*

The U.S. dollar and H.K. dollar denominated drawdowns will bear an initial interest rate of LIBOR and HIBOR plus a margin of 2.75% per annum. Upon substantial completion of the City of Dreams Project, the margin will be reduced to 2.5% per annum, respectively. The interest rate margin will be further adjusted in accordance with the total debt to EBITDA ratio on a consolidated basis in respect of the Borrowing Group after the completion of the construction of the City of Dreams project. We are obligated to pay a commitment fee quarterly in arrears from September 5, 2007 throughout the availability period. The commitment fee is payable on the daily undrawn amount under the relevant term loan facility and revolving credit facility.

## Table of Contents

### *Melco and Crown Support*

In connection with the signing of the City of Dreams Project Facility in September 2007, Melco and PBL (Crown's predecessor) each provided an undertaking to Deutsche Bank AG, Hong Kong Branch, as agent under the City of Dreams Project Facility, to contribute additional equity up to an aggregate of US\$250 million (divided equally between Melco and PBL) to Melco Crown Gaming to pay any costs (i) associated with construction of the City of Dreams project and (ii) for which Deutsche Bank AG, Hong Kong Branch as agent has determined there is no other available funding. When Crown acquired the gaming businesses and investments of PBL, it also acquired this obligation. In support of such contingent equity commitment, each of Melco and Crown has agreed to maintain a direct or standby letter of credit in favor of the security agent for the City of Dreams Project Facility in an amount equal to the amount of contingent equity it is obliged to ensure is provided to Melco Crown Gaming. These letters of credit are required to be maintained until the final completion date of the City of Dreams project has occurred and certain debt service reserve accounts have been funded. Subject to the approval of the lenders, we may in the future elect to replace the contingent equity commitments provided by Melco and Crown with our own contingent equity commitment in favor of Melco Crown Gaming, along with a similar letter of credit in favor of the security agent in an amount equal to US\$250 million, or another form of security (which could include cash) satisfactory to the lenders.

### *Security*

Security for the City of Dreams Project Facility and hedging agreements include, among others:

- a first priority mortgage over all land and all present and future buildings on and fixtures to such land, and an assignment of land use rights under land concession agreements or equivalent held by the relevant entities in the Borrowing Group;
- the letters of credit described above in “—Description of Our Indebtedness—City of Dreams Project Facility—Melco and Crown Support”;
- charges over the bank accounts in respect of the Borrowing Group;
- assignment of the Borrowing Group's rights under certain insurance policies;
- first priority security over the Borrowing Group's chattels, receivables and other assets which are not subject to any security under any other security documentation;
- pledge over equipment and tools used in the gaming business by Melco Crown Gaming; and
- first priority charges over the issued share capital of the Borrowing Group.

### *Covenants*

The Borrowing Group must comply with certain negative and affirmative covenants. These covenants include, among others, that, without obtaining consent from the Majority Lenders (as defined in the City of Dreams Project Facility), they may not:

- create or permit to subsist further charge or any form of encumbrance over its assets, property or revenues except as permitted under the City of Dreams Project Facility;
- sell, transfer or dispose of any of its assets unless such sale is conducted on an arm's length basis at a fair market value permitted in accordance with the terms of the City of Dreams Project Facility and the proceeds from the sale shall be credited to the relevant accounts over which the lenders have a first priority charge on;

## Table of Contents

- make any payment of fees under any agreement with Melco or Crown (or their affiliates) other than fees approved by the Majority Lenders or, after a certain date, in accordance with the waterfall, or enter into agreements with Melco or Crown or their affiliates except in certain limited circumstances;
- make any loan or guarantee indebtedness except for certain identified indebtedness and guarantees permitted;
- create any subsidiaries except as permitted under the City of Dreams Project Facility, such as those necessary for completion and operation of City of Dreams; or
- make investments other than within agreed upon limitations.

In addition, the Borrowing Group will be required to comply with certain financial ratios and financial covenants each quarter, such as

- Consolidated Leverage Ratio, as defined in the City of Dreams Project Facility, cannot exceed 4.50 to 1 for the reporting periods ending September 30, 2010, December 31, 2010, March 31, 2011 and June 30, 2011, cannot exceed 4.00 to 1 for the reporting periods ending September 30, 2011, December 31, 2011 and March 31, 2012, and cannot exceed 3.75 to 1 for the reporting periods ending June 30, 2012 onwards;
- Consolidated Interest Cover Ratio, as defined in the City of Dreams Project Facility, must be greater than or equal to 2.50 to 1 for the reporting periods ending September 30, 2010, December 31, 2010 and March 31, 2011, and must be greater than or equal to 3.00 to 1 for the reporting periods ending June 30, 2011 onwards; and
- Consolidated Cash Cover Ratio, as defined in the City of Dreams Project Facility, must be greater than or equal to 1.10 to 1 for the reporting periods ending September 30, 2010 onwards.

### *Events of Default*

The City of Dreams Project Facility contains customary events of default including: (1) failure to make any payment when due; (2) breach of financial covenants; (3) cross default triggered by any other event of default in the facility agreements or other documents forming the indebtedness of the borrowers and/or guarantors; (4) failure by Crown and Melco to maintain the letters of credit according to the terms of the City of Dreams Project Facility; (5) breach of the credit facility documents, land agreements, lease agreements for the provision of gaming services or hotel management agreements; (6) insolvency or bankruptcy events; (7) misrepresentations on the part of the borrowers and guarantors in statements made in the loan documents delivered to the lenders; (8) failure to commence or complete the construction by certain specified dates; and (9) various change of control events involving us.

## [Table of Contents](#)

We may obtain financing in the form of, among other things, equity or debt, including additional bank loans or high yield, mezzanine or other debt, or rely on our operating cash flow to fund the development of our projects.

On December 7, 2007, the City of Dreams Facility was amended to introduce a US borrower, Melco PBL (Delaware) LLC, now MPEL (Delaware) LLC, a wholly-owned subsidiary of Melco Crown Gaming.

### **Sources and Uses**

We have been able to meet our working capital needs, and we believe that we will be able to meet our working capital needs in the foreseeable future, with our operating cash flow, existing cash balances, proceeds from our second public offering and additional financings.

New business developments or other unforeseen events may occur, resulting in the need to raise additional funds. There can be no assurances regarding the business prospects with respect to any other opportunity. Any other development would require us to obtain additional financing.

### **Other Liquidity Matters**

Melco Crown Gaming has a rating of “BB” by Standard & Poor’s and a rating of “Ba3” by Moody’s Investors Service. For future borrowings, any decrease in our corporate rating could result in an increase in borrowing costs.

### **C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.**

We have entered into a license agreement with Crown Melbourne Limited and obtained an exclusive and non-transferable license to use the Crown trademark in Macau. Our hotel management agreements for the use of the Grand Hyatt and Hyatt Regency trademarks on a non-exclusive and non-transferable basis were terminated in August 2008 and replaced by a management agreement for the use of the Grand Hyatt trademarks to reflect the branding of the twin-tower hotels under the “Grand Hyatt” brand. In January 2007, we entered into a casino trademark license agreement and a hotel trademark license agreement (which was subsequently novated and amended by a Novation Agreement on August 20, 2008) with Hard Rock Holdings Limited, or Hard Rock, to use the Hard Rock brand in Macau at the City of Dreams. Pursuant to the agreements, we have the exclusive right to use the Hard Rock brand for the hotel and casino facility at the City of Dreams for a term of ten years based on percentages of revenues generated at the property payable to Hard Rock. We also purchase gaming tables and gaming machines and enter into licensing agreements for the use of certain tradenames and, in the case of the gaming machines, the right to use software in connection therewith. These include a license to use a jackpot system for the gaming machines. In addition, we have registered the trademarks “Mocha Club” and “City of Dreams” in Macau. We have registered in Macau certain trademarks and are currently in the process of applying for the registration of certain other trademarks and service marks to be used in connection with the operations of our hotel casino projects in Macau.

#### D. TREND INFORMATION

Other than as disclosed elsewhere in this annual report on Form 20-F, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

#### E. OFF-BALANCE SHEET ARRANGEMENTS

Except as disclosed in Note 18(d) to the consolidated financial statements included elsewhere in this annual report on Form 20-F, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements.

Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

#### F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Our total long-term indebtedness and other known contractual obligations are summarized below as of December 31, 2008.

	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
<i>(in millions of US\$)</i>					
<b>Contractual obligations</b>					
<b>Long-term debt obligations:</b>					
Loans from shareholders (1)	\$ —	\$ 115.6	\$ —	\$ —	\$ 115.6
Other long-term debt (2)	—	367.2	706.3	339.0	1,412.5
<b>Operating lease obligations:</b>					
Rent payable for Crown Macau land (3)	0.2	0.3	0.3	3.0	3.8
Rent payable for City of Dreams land (4)	0.7	1.8	1.8	17.7	22.0
Leases for office space, VIP lounge, recruitment and training center, staff quarter and Mocha Clubs locations	9.9	13.9	11.6	13.3	48.7
<b>Other contractual commitments:</b>					
Interest on land premium for City of Dreams land (4)	3.2	4.3	1.2	—	8.7
Construction, plant and equipment acquisition commitments (5)	467.5	20.6	—	—	488.1
Buses and limousines services commitments	0.8	—	—	—	0.8
Consultancy and other services commitments	2.2	1.2	—	—	3.4
<b>Total contractual obligations</b>	<b>\$ 484.5</b>	<b>\$ 524.9</b>	<b>\$ 721.2</b>	<b>\$ 373.0</b>	<b>\$ 2,103.6</b>

(1) Excludes the working capital loans provided by Melco and Crown, which had an outstanding balance of US\$1.0 million as of December 31, 2008. As of December 31, 2008, the balance of the outstanding term loans from Melco and Crown, amounting to approximately US\$115.6 million, was repayable in May 2010. The term loan from Melco as of December 31, 2008 bearing interest at three months HIBOR to May 15, 2008 and subsequently at three months HIBOR plus 1.5% per annum. The term loan from Crown as of December 31, 2008 bearing interest at three months HIBOR.

## Table of Contents

- (2) Other long-term debt represents US\$1.75 billion under the City of Dreams Project Facility. The loan matures in September 2014 and is subject to quarterly amortization payments commencing in September 2010.
- (3) Annual rent payable is approximately MOP 1.4 million (US\$171,000) and is adjusted every five years as agreed between the Macau government and Melco Crown (CM) Developments in accordance with the applicable market rates from time to time.
- (4) In April 2005, the Macau government offered to grant a medium-term lease of 25 years for the City of Dreams to Melco Crown (COD) Developments, and Melco Crown (COD) Developments preliminarily accepted the offer on May 10, 2005. In February 2008, Melco Crown (COD) Developments and Melco Crown Gaming accepted the final terms of the land lease agreement, which require us to pay a land premium of approximately MOP 842.1 million (US\$105.1 million). We paid MOP 300.0 million (US\$37.4 million) of the land premium upon our acceptance of the final terms on February 11, 2008. On August 13, 2008 the Macau government formally granted the land concession to Melco Crown (COD) Developments. The remaining premium balance of MOP 542.1 million (US\$67.7 million) is payable in nine equal semi-annual installments bearing interest at 5% per annum commencing from February 2009. The principal amount outstanding has been included in the accrued expenses and other current liabilities and land use right payable as of December 31, 2008. We have also provided a guarantee deposit of approximately MOP 3.4 million (US\$424,000), subject to adjustments, in accordance with the relevant amount of rent payable during the year. The annual rent payable during the construction period is approximately MOP 3.4 million (US\$424,000). The annual rent payable after completion of construction is approximately MOP 7.2 million (US\$903,000). The rent payable shall be adjusted every five years as agreed between the Macau government and Melco Crown (COD) Developments and Melco Crown Gaming in accordance with the market rates from time to time.
- (5) The amount as of December 31, 2008 mainly represents construction contracts for the design and construction, plant and equipment acquisitions of the City of Dreams project of US\$488.1 million. The balance includes the remaining payment obligations for the Crown Macau project and Mocha Clubs.

### **G. SAFE HARBOR**

See “Special Note Regarding Forward-Looking Statements”.

### **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

#### **A. DIRECTORS AND SENIOR MANAGEMENT**

##### **Directors and Executive Officers**

The following table sets forth information regarding our directors and executive officers as of the date of this annual report on Form 20-F.

<b>Name</b>	<b>Age</b>	<b>Position/Title</b>
Lawrence (Yau Lung) Ho	32	Co-Chairman and Chief Executive Officer
James D. Packer	41	Co-Chairman
John Wang	48	Director
Clarence Chung	46	Director
John H. Alexander	57	Director
Rowen B. Craigie	53	Director
James A C MacKenzie	55	Independent Director
Thomas Jefferson Wu	36	Independent Director
Alec Tsui	59	Independent Director
Robert Mactier	44	Independent Director
Simon Dewhurst	39	Chief Financial Officer
Stephanie Cheung	46	Executive Vice President and Chief Legal Officer
Nigel Dean	55	Executive Vice President and Chief Internal Audit Officer

[Table of Contents](#)

Name	Age	Position/Title
Akiko Takahashi	55	Executive Vice President and Chief Human Resources/Corporate Social Responsibility Officer
Richard Tsiang	48	Executive Vice President and Chief Development Officer
Greg Hawkins	45	President of City of Dreams
Ted (Ying Tat) Chan	37	President of Crown Macau
Constance (Ching Hui) Hsu	35	President of Mocha Clubs

**Directors**

**Mr. Lawrence (Yau Lung) Ho** has served as our co-chairman and chief executive officer since our inception. Since November 2001, Mr. Ho has also served as the group managing director and, since March 2006, the chairman and chief executive officer of Melco. Mr. Ho serves on numerous boards and committees in Hong Kong, Macau and mainland China. In recognition of Mr. Ho's excellent directorship and entrepreneurial spirit, the Institutional Investor, a leading research and publishing organization, honored him as the "Best CEO" in the Conglomerates category in 2005. As a socially responsible young entrepreneur in Hong Kong, Mr. Ho was elected as one of the "Ten Outstanding Young Persons 2006", organized by the Junior Chamber International HK. Mr. Ho worked at Jardine Fleming from September 1999 to October 2000 and iAsia Technology Limited (the predecessor of Value Convergence Holdings Limited) from October 2000 to November 2001. Mr. Ho graduated with a bachelor of arts degree in commerce from the University of Toronto, Canada.

**Mr. James D. Packer** has served as our co-chairman since our inception. Mr. Packer is the Executive Chairman of Crown and a member of the Crown Investment Committee. Mr. Packer is also Executive Chairman of Consolidated Press Holdings Limited (the largest shareholder of Crown) and Executive Deputy Chairman of Consolidated Media Holdings Limited. Mr. Packer is the Chairman of SEEK Limited, having been appointed on October 31, 2003. He is also a director of the Sunland Group Limited, having been appointed on July 20, 2006, Crown Melbourne Limited, having been appointed on July 22, 1999, and Ellerston Capital Limited, having been appointed on August 6, 2004. Mr. Packer is also a director of Challenger Financial Services Group Limited and Burswood Limited.

**Mr. John Wang** has served as our director since November 2006. Mr. Wang is currently the chief financial officer of Melco. Prior to joining Melco in 2004, Mr. Wang had over 18 years of professional experience in the securities and investment banking industry. He was the managing director of JS Cresvale Securities International Limited (HK) from 1998 to 2004 and had previously worked for Deutsche Morgan Grenfell (HK), CLSA (HK), Barclays (Singapore), SG Warburgs (London), Salomon Brothers (London), the London Stock Exchange and Deloitte Haskins & Sells (London). Mr. Wang qualified as a chartered accountant with the Institute of Chartered Accountants in England and Wales in 1985. He graduated from the University of Kent at Canterbury in the United Kingdom with a bachelor degree in Accounting.

## [Table of Contents](#)

**Mr. Clarence (Yuk Man) Chung** has served as our director since November 2006. Mr. Chung has also been an executive director since May 2006 and the chief operating officer since July 2006 of Melco. Mr. Chung joined Melco in December 2003 and assumed the role of chief financial officer. Before joining Melco, he was the chief financial officer at Megavillage Group, an investment banker at Lazard managing an Asian buy-out fund, a vice-president at Pacific Century Group, and a qualified accountant with Arthur Andersen. Mr. Chung is a director of Melco International Developments Limited and Elixir Gaming Technologies Inc. Mr. Chung holds an MBA from the Kellogg School of Management at Northwestern University and is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

**Mr. John H. Alexander** has served as our director since our inception. Mr. Alexander is the Executive Deputy Chairman of Crown. Mr. Alexander became Executive Chairman of Consolidated Media Holdings Limited in November 2007. Mr. Alexander had previously been Chief Executive Officer and Managing Director of Publishing and Broadcasting Limited (PBL) since June 2004. Mr. Alexander joined ACP Magazines as Group Publisher in 1998 and was appointed Chief Executive Officer of that division in March 1999, a position he held until April 2006. In January 2002, he was appointed Chief Executive Officer of PBL's media businesses which included ACP Magazines and Nine Network. Prior to joining the PBL Group, Mr. Alexander was the Editor-in-Chief, Publisher & Editor of The Sydney Morning Herald, and Editor-in-Chief of The Australian Financial Review. Mr. Alexander is a director of various companies including Crown Melbourne Limited, Burswood Limited, FOXTEL Management Pty Limited and Premier Media Group Pty Limited, as well as an alternate director of SEEK Limited. Mr. Alexander holds a Bachelor of Arts degree from Macquarie University in Sydney, Australia.

**Mr. Rowen B. Craigie** has served as our director since our inception. Mr. Craigie is the Chief Executive Officer and Managing Director of Crown. Mr. Craigie is also a director of Consolidated Media Holdings Limited, Crown Melbourne Limited, and Burswood Limited. Mr. Craigie previously served from 2007 to 2008 as the Chief Executive Officer of PBL Gaming and from 2002 to 2007 as the Chief Executive Officer of Crown Melbourne Limited. Mr. Craigie joined Crown Melbourne Limited in 1993, was appointed as the Executive General Manager of its Gaming Machines department in 1996, and was promoted to Chief Operating Officer in 2000. Prior to joining Crown Melbourne Limited, Mr. Craigie was the Group General Manager for Gaming at the TAB in Victoria from 1990 to 1993, and held senior economic policy positions in Treasury and the Department of Industry in Victoria from 1984 to 1990. He holds a Bachelor of Economics (Honours) degree from Monash University, Melbourne, Australia.

**Mr. James A C MacKenzie** has served as our director since April 2008. Mr. MacKenzie is also chairman of Mirvac Group. He led the transformation of the Victorian Government's Personal Injury Schemes from 2000-2007 and he has previously held senior executive positions with ANZ Banking Group, Norwich Union and Standard Chartered Bank. A chartered accountant by profession, Mr. MacKenzie was a partner in both the Melbourne and Hong Kong offices of an international accounting firm now part of Deloitte. In 2003 Mr. MacKenzie was awarded the Australian Centenary Medal for services to public administration. He holds a Bachelor of Business (Accounting and Quantitative Methods) degree from the Swinburne University of Technology and has completed the Advanced Management Program at the University of Oxford and the Making Corporate Boards More Effective Course at the Harvard Business School. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors. He is the chairman of our audit committee.



## [Table of Contents](#)

**Mr. Thomas Jefferson Wu** has served as our independent director since our Nasdaq listing. Mr. Wu has been the co-managing director of Hopewell Holdings Ltd., a Hong Kong Stock Exchange-listed business conglomerate, since July 2007 and has served in various roles with the Hopewell Holdings group since 1999, including group controller, executive director, chief operating officer and deputy managing director. He is also the managing director of Hopewell Highway Infrastructure Limited. He is a member of the Huadu District Committee and Standing Committee of The Chinese People's Political Consultative Conference, a member of the Advisory Committee of the Hong Kong Securities and Futures Commission, a member of Pan-Pearl River Delta Panel of the Central Policy Unit, Hong Kong SAR Government, and a member of the China Trade Advisory Committee of Hong Kong Trade Development Council. He also acts as the honorary consultant of the Institute of Accountants Exchange, honorary president of the Association of Property Agents and Realty Developers of Macau, and vice chairman of The Chamber of Hong Kong Listed Companies. He holds an MBA from Stanford University and a Bachelor's degree in mechanical and aerospace engineering from Princeton University. He is the chairman of our compensation committee, a member of our audit committee and a member of our nominating and corporate governance committee.

**Mr. Alec Tsui** has served as our independent director since our Nasdaq listing. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management, having served at various international companies. He held key positions at the Securities and Futures Commission of Hong Kong prior to joining the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and becoming the chief executive in 1997. He was the chairman of the Hong Kong Securities Institute from 2001 to 2004. He was an advisor and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. Mr. Tsui is currently the Chairman of WAG Worldsec Corporate Finance Limited and an independent non-executive director of a number of listed companies in Hong Kong and Nasdaq, including Industrial and Commercial Bank of China (Asia) Limited, China Chengtong Development Group Limited, a cement manufacturer and property development company, COSCO International Holdings Limited, a conglomerate engaging in various businesses including ship trading, property development and investment, China Power International Development Limited, Greentown China Holdings Limited, a developer of residential properties, China Blue Chemical Limited, a fertilizer manufacturer, Vertex Group Limited, a communications and technology services provider, China Hui Yuan Juice Holdings Company Limited, Pacific Online Ltd. and ATA Inc., an online educational testing provider. Mr. Tsui graduated from the University of Tennessee with a Bachelor of Science degree and a Master of Engineering degree in industrial engineering. He completed a program for senior managers in government at the John F. Kennedy School of Government at Harvard University. He is the chairman of our nominating and corporate governance committee, a member of our audit committee and a member of our compensation committee.

**Mr. Robert W. Mactier** has served as our independent director since our Nasdaq listing in December 2006. Mr. Mactier is also the independent, non-executive Chairman of STW Communications Group Limited, a publicly listed Australian communications and advertising company and is a director of Aurora Community Television Limited. Since 1990 Mr. Mactier has held a variety of roles across the Australian investment banking and securities markets. He is currently a consultant to UBS Investment Bank in Australia. From March 1997 to January 2006, Mr. Mactier worked with Citigroup Pty Limited and its predecessor firms in Australia, and prior to this he worked with Ord Minnett Securities Limited from May 1990 to October 1994 and E.L.& C. Baillieu Limited from November 1994 to February 1997. During this time, he has gained broad advisory and capital markets transaction experience and specific industry expertise within the telecommunications, media, gaming, entertainment and technology sector and across the private equity sector. Prior to joining the investment banking industry, Mr. Mactier qualified as a chartered accountant, working with KPMG from January 1986 to April 1990 across their audit, management consulting and corporate finance practices. He holds a Bachelor's degree in economics from the University of Sydney, Australia and is a Member of the Australian Institute of Company Directors. Mr. Mactier is a member of our compensation committee and nominating and corporate governance committee.

#### **Executive Officers**

**Mr. Simon Dewhurst** is our chief financial officer. Prior to joining us, Mr. Dewhurst was the head of Media & Entertainment Investment Banking at CLSA Asia Pacific Markets from May 2001 to November 2006. Before joining CLSA, Mr. Dewhurst spent six years as a senior executive at News Corporation based in Hong Kong. Prior to joining News Corporation, Mr. Dewhurst was an experienced senior in the Audit and Business Advisory Division at Arthur Andersen & Co. between May 1991 and June 1995. Mr. Dewhurst holds a Bachelor of Sciences degree from Reading University in the U.K. He qualified as an Associate of the Institute of Chartered Accountants in England & Wales in 1994.

**Ms. Stephanie Cheung** is our executive vice president and chief legal officer. She also acts as the secretary to our board of directors. Prior to joining us, Ms. Cheung was of counsel at the Hong Kong office of U.S.-based law firm Troutman Sanders, primarily advising North American multinational corporations in their acquisitions in Asia and expansion into Hong Kong, mainland China and other countries in Asia, as well as providing general corporate advice to U.S.-listed companies in their operations and transactions in Asia. Between 1990 and 2002, while in private practice in the Hong Kong, Singapore and Toronto offices of major law firms, including Freshfields Bruckhaus Deringer and Baker & McKenzie, Ms. Cheung advised international financial institutions in syndicated loan transactions, PRC and Indonesian airlines in aircraft financing and leasing transactions, project companies in Malaysia and the Philippines involved in the development of toll roads, power plants and newsprint mills in their development work and limited recourse project financing. Ms. Cheung was also involved in the initial public offerings of Asian infrastructure companies, including airlines and mass transit companies based in Hong Kong, Thailand and the PRC. Ms. Cheung holds a Bachelor of Arts degree from the University of Toronto, Ontario, Canada, a Bachelor's degree of Laws from Osgoode Hall Law School, Ontario, Canada, and an MBA (finance) from York University, Ontario, Canada.

**Mr. Nigel Dean** is our executive vice president and chief internal audit officer. Prior to joining us, Mr. Dean was general manager-corporate governance at Coles Myer Ltd, Australia's second largest retailer, where he was responsible for the implementation of Sarbanes-Oxley Act of 2002 and other corporate governance compliance programs. Other positions held at Coles Myer include the head of group internal audit for seven years and head of internal audit of the Supermarkets Division for four years. Previous experience in external and internal audit includes positions with Peat Marwick Mitchell & Co (now KPMG), Ford Asia-Pacific, CRA (now Rio Tinto) and Elders IXL Group. Mr. Dean is a Fellow of the Australian Institute of CPA's and a Certified Internal Auditor. He holds a Bachelor of Laws degree from Deakin University, a Diploma of Business Studies (accounting) from Swinburne College and an MBA from Monash University.

## [Table of Contents](#)

**Ms. Akiko Takahashi** is our executive vice president and chief officer, human resources/corporate social responsibility. Ms. Takahashi served as our group human resources director since December 2006. Prior to joining us, she was the global group director, human resources for Shangri-la Hotels and Resorts, an international luxury hotel group with over 24,000 employees, headquartered in Hong Kong. Between 1993 and 1995, she was senior vice president, human resources and services for Bank of America, Hawaii, FSB, where her last assignment was to lead the human resources integration for the largest international hotel joint venture in Japan. She began her career in the fashion retail industry in merchandising, operations and was VP Human Resources for a major retail group owned by Charles Feeney, founder of Duty Free Shoppers. Ms. Takahashi attended the University of Hawaii.

**Mr. Richard Tsiang** is our executive vice president and chief development officer. Mr. Tsiang joined us from MGM Grand in Macau, where he was the group chief financial officer. Prior to MGM, he was senior vice president and managing director, Asia-Pacific for Cendant Corporation, and chief financial officer, head of strategy, Asia for Yahoo! Mr. Tsiang has a bachelor of commerce and an MBA from the University of Melbourne. He is a chartered accountant having qualified while at PriceWaterhouseCoopers in Australia.

**Mr. Greg Hawkins** has served as our President of City of Dreams since May 2008. Prior to that he acted as the chief executive officer of Crown Macau from January 2006. Prior to joining us, he was general manager for gaming at SKYCITY Entertainment Group, or Skycity, a diversified gaming and entertainment enterprise listed in Australia and New Zealand. At Skycity, he managed the gaming operations and strategies across multiple casino businesses in New Zealand. He also served as a director of Skycity Australia during the period between 2001 and 2004, overseeing the operations of the Skycity's casino in Adelaide, Australia, as well as gaming machine and food and beverage businesses of Skycity in Auckland, New Zealand from 1998 to 2001. Before joining Skycity, he was with Crown Melbourne Limited beginning in 1994 as an initial member of the executive team that launched the Crown Casino Melbourne, and held senior management positions with the Victoria TAB gaming division during the period between 1990 and 1994. Mr. Hawkins graduated with a Bachelor's degree in applied science, majoring in mathematics and general science from Monash University.

**Mr. Ted (Yin Tat) Chan** has served as president of Crown Macau since November 2008. Mr. Chan was the chief executive officer of Amax Entertainment Holdings Limited from December 2007 until November 2008. Prior to joining Amax, Mr. Chan worked with our chief executive officer on special projects from September 2007 to November 2007 and was the general manager of Mocha Clubs from 2004 to 2007. From June 2002 to November 2006, Mr. Chan was the assistant to Mr. Lawrence Ho at Melco, and he was involved in the overall strategic development and management of the company. Mr. Chan served as a director of development at First Shanghai Financial Holding Limited from 1998 to May 2002, specializing in internet trading solutions and China business development. He graduated with a bachelor's degree in business administration from the Chinese University of Hong Kong and with a master's degree in financial management from the University of London, the United Kingdom.

*Ms. Constance (Ching Hui) Hsu* is our president of Mocha Clubs. Ms. Hsu has worked for Mocha Clubs since September 2003. She was Mocha's former financial controller and more recently the chief administrative officer overseeing finance, treasury, audit, legal compliance, procurement and administration and human resources functions. Ms Hsu obtained her Bachelor of Arts degree in business administration with major in accounting in the United States and an MBA (with concentration on financial services) from University of Science and Technology in Hong Kong. Ms Hsu is qualified as a Certified Public Accountant in the State of Washington, United States; a member of the American Institute of Certified Public Accountants; and an associate member of Hong Kong Institute of Certified Public Accountants.

#### **B. COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS**

In addition to the equity awards granted as described below, we paid aggregate remuneration of approximately US\$8.5 million to all the directors and senior executive officers of our Company as a group in relation to the year ended December 31, 2008.

Pursuant to our 2006 Share Incentive Plan (See “—E. Share Ownership—2006 Share Incentive Plan”), we may grant either restricted shares or options to purchase our ordinary shares. In 2008, we issued options to acquire 10,679,754 of our ordinary shares pursuant to our 2006 Share Incentive Plan to the directors and senior executive officers of our Company with exercise prices ranging from US\$1.01 to US\$4.69 per share (US\$3.04 to US\$14.08 per ADS) and 2,261,880 restricted shares with grant date fair value ranging from US\$1.01 to US\$4.01 per share (US\$3.04 to US\$12.04 per ADS). Of those awards, 1,652,541 of our ordinary shares and 726,823 restricted shares were forfeited in 2008. The options expire ten years after the date of grant.

#### **C. BOARD PRACTICES**

##### **Composition of Board of Directors**

Our board of directors consists of ten directors, including three directors nominated by each of Melco and Crown and four independent directors. Nasdaq Marketplace Rule 4350(c) generally requires that a majority of an issuer's board of directors must consist of independent directors, but provides for certain phase-in periods under Nasdaq Marketplace Rule 4350(a)(5). However, Nasdaq Marketplace Rule 4350(a)(1) permits foreign private issuers like us to follow “home country practice” in certain corporate governance matters. Walkers, our Cayman Islands counsel, has provided a letter to the Nasdaq certifying that under Cayman Islands law, we are not required to have a majority of independent directors serving on our board of directors. We rely on this “home country practice” exception and do not have a majority of independent directors serving on our board of directors.

### **Duties of Directors**

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. A shareholder has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our share register.

On March 18, 2008, our board of directors adopted corporate governance guidelines with the intention of strengthening our corporate governance practice.

### **Terms of Directors and Executive Officers**

Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by special resolution or the unanimous written resolution of all shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; or (ii) dies or is found by our company to be or becomes of unsound mind.

### **Committees of the Board of Directors**

Our board of directors established an audit committee, a compensation committee and a nominating and corporate governance committee in December 2006.

#### ***Audit Committee***

Our audit committee consists of Messrs. Thomas Jefferson Wu, Alec Tsui and James MacKenzie, and is chaired by Mr. MacKenzie. All of them satisfy the "independence" requirements of the Nasdaq corporate governance rules. We believe that Mr. MacKenzie qualifies as an "audit committee financial expert". The charter of the audit committee was adopted by our board on November 28, 2006. It was amended and restated on several occasions, with the last amendment on December 16, 2008 to clarify the purpose, duties and powers of the audit committee and to provide the audit committee members with clearer guidance to enable them to carry out their functions. The purpose of the committee is to assist our board in overseeing and monitoring:

- the integrity of the financial statements of our company;
- the qualifications and independence of our independent auditors;

## [Table of Contents](#)

- the performance of our independent auditors;
- the integrity of our systems of internal accounting and financial controls;
- legal and regulatory issues relating to the financial statements of our company, including the oversight of the independent auditor, the review of the financial statements and related material, the internal audit process and the procedure for receiving complaints regarding accounting, internal accounting controls, auditing or other related matters;
- the disclosure, in accordance with our relevant policies, of any material information regarding the quality or integrity of our financial statements, which is brought to its attention by our disclosure committee, which we expect to set up and will comprise certain members of our senior management; and
- the integrity and effectiveness of our internal audit function and risk management policies, procedures and practices.

The duties of the audit committee include:

- selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- at least annually, obtaining a written report from our independent auditor describing matters relating to its independence;
- discussing with our independent auditor, among other things, issues regarding accounting and auditing principles and practices and the management's internal control report;
- approving related-party transactions, amounting to more than US\$120,000 per transaction or series of transactions, which are brought to its attention;
- establishing and overseeing procedures for the handling of complaints and whistle blowing;
- deciding whether any material information regarding the quality or integrity of the Company's financial statements, which is brought to its attention by our disclosure committee, should be disclosed;
- approving the internal audit charter and annual audit plans;
- assessing and approving any policies and procedures to identify, accept, mitigate, allocate or otherwise manage various types of risks presented by management, and making recommendations with respect to our risk management process;

## [Table of Contents](#)

- together with our board, evaluating the performance of the audit committee;
- assessing the adequacy of its charter; and
- cooperating with the other board committees in any areas of overlapping responsibilities.

### ***Compensation Committee***

Our compensation committee consists of Messrs. Thomas Jefferson Wu, Alec Tsui and Robert Mactier, and is chaired by Mr. Wu. All of them satisfy the “independence” requirements of the Nasdaq corporate governance rules. The charter of the compensation committee was adopted by our board on November 28, 2006. It was amended and restated on several occasions with the latest amendment on December 16, 2008 to clarify the purpose, duties and powers of the compensation committee and to provide the compensation committee members with clearer guidance to enable them to carry out their functions.

The purpose of the compensation committee is to discharge the responsibilities of the board relating to compensation of our executives, including by designing (in consultation with management and our board), recommending to our board for approval, and evaluating the compensation plans, policies and programs of our company.

Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any compensation committee meeting during which his compensation is deliberated.

The duties of the compensation committee include:

- in consultation with senior management, making recommendations on our general compensation philosophy and overseeing the development and implementation of our compensation programs;
- making recommendation to the board with respect to the compensation packages of our directors and approving the compensation package of our senior executive officers, including the chief executive officer;
- overseeing our regulatory compliance with respect to compensation matters;
- together with the board, evaluating the performance of the compensation committee;
- assessing the adequacy of its charter; and
- cooperating with the other board committees in any areas of overlapping responsibilities.

*Nominating and Corporate Governance Committee*

Our nominating and corporate governance committee consists of Messrs. Thomas Jefferson Wu, Alec Tsui and Robert Mactier, and is chaired by Mr. Tsui. All of them satisfy the “independence” requirements of the Nasdaq Marketplace Rules. The charter of the nominating and corporate governance committee was adopted by our board on November 28, 2006. It was amended and restated on several occasions, with the latest on December 16, 2008 to clarify the purpose, duties and powers of the nominating and corporate governance committee and to provide the nominating and corporate governance committee members with clearer guidance to enable them to carry out their functions.

The purpose of the nominating and corporate governance committee is to assist our board in discharging its responsibilities regarding:

- the identification of qualified candidates to become members and chairs of the board committees and to fill any such vacancies;
- oversight of our compliance with legal and regulatory requirements, in particular the legal and regulatory requirements of the Macau SAR (including the relevant laws related to the gaming industry), of the Cayman Islands, of the SEC and of the Nasdaq;
- the development and recommendation to our board of a set of corporate governance principles applicable to our company; and
- the disclosure, in accordance with our relevant policies, of any material information (other than that regarding the quality or integrity of our financial statements), which is brought to its attention by the disclosure committee.

The duties of the committee include:

- identifying and recommending to the board nominees for election or re-election to the board committees, or for appointment to fill any such vacancy;
- developing a set of corporate governance principles and reviewing such principles at least annually;
- deciding whether any material information (other than that regarding the quality or integrity of our financial statements), which is brought to its attention by the disclosure committee, should be disclosed;
- together with the board, evaluating the performance of the committee;
- assessing the adequacy of its charter; and
- cooperating with the other board committees in any areas of overlapping responsibilities.



### **Interested Transactions**

A director may vote in respect of any contract or transaction in which he or she is interested, provided that the nature of the interest of any directors in such contract or transaction is disclosed by him or her at or prior to its consideration and any vote in that matter.

### **Remuneration and Borrowing**

The directors may determine remuneration to be paid to the directors. The compensation committee assists the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

### **Qualification**

There is no shareholding qualification for directors.

### **Benefits Upon Termination**

Our directors are not currently entitled to benefits when they cease to be directors.

### **Employment Agreements**

We have entered into an employment agreement with each of our executive officers. The terms of the employment agreements are substantially similar for each executive officer, except as noted below. We may terminate an executive officer's employment for cause, at any time, without notice or remuneration, for certain acts of the officer, including, but not limited to, a serious criminal act, willful misconduct to our detriment or a failure to perform agreed duties. Furthermore, either we or an executive officer may terminate employment at any time without cause upon advance written notice to the other party. Except in the case of Mr. Lawrence Ho, upon notice to terminate employment from either the executive officer or our company, our company may limit the executive officer's services for a period until the termination of employment. Each executive officer is entitled to unpaid compensation upon termination due to disability or death. We will indemnify an executive officer for his or her losses based on or related to his or her acts and decisions made in the course of his or her performance of duties within the scope of his or her employment.

Each executive officer has agreed to hold, both during and after the termination of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or as compelled by law, any of our or our customers' confidential information or trade secrets. Each executive officer also agrees to comply with all material applicable laws and regulations related to his or her responsibilities at our company as well as all material written corporate and business policies and procedures of our company.

## [Table of Contents](#)

Each executive officer is prohibited from gambling at any of our company's facilities during the term of his or her employment and six months following the termination of such employment agreement.

Each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and six months following the termination of such employment agreement. Specifically, each executive officer has agreed not to (i) assume employment with or provide services as a director for any of our competitors who operate in a restricted area; (ii) solicit or seek any business orders from our customers; or (iii) seek directly or indirectly, to solicit the services of any of our employees. The restricted area is defined as Macau, Australia or any other country or region in which our company operates, except for Mr. Lawrence Ho, for whom the restricted area is defined as Macau, Australia and Hong Kong.

### D. EMPLOYEES

#### Employees

We had 4,803, 4,928 and 599 employees as of December 31, 2008, 2007 and 2006, respectively. The following table sets forth the number of employees categorized by the areas of operations and as a percentage of our workforce as of December 31, 2008, 2007 and 2006.

	As of December 31,					
	2008		2007		2006	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
Mocha	615	12.8%	545	11.1%	459	76.6%
Crown Macau	3,540	73.7	4,201	85.2	134	22.4
City of Dreams	317	6.6	83	1.7	—	—
Corporate and centralized services	331	6.9	99	2.0	6	1.0
Total	4,803	100%	4,928	100%	599	100%

None of our employees are members of any labor union and we are not party to any collective bargaining or similar agreement with our employees. We believe that our relationship with our employees is good. We began our recruitment efforts in January 2008 in preparation for the opening and operation of City of Dreams and in this regard we have developed human resources outreach programs in Macau and hosted several recruitment events in cities throughout China. See "Item 3. Key Information—Risk Factors—Risks Relating to the Completion and Operation of Our Projects—We will need to recruit a substantial number of new employees before each of our projects can open and competition may limit our ability to attract qualified management and personnel."

We implemented certain human resource initiatives in late 2008 in response to the recent general economic slowdown. These initiatives include an option to take voluntary sabbatical leave to allow for travel or study, fast track promotion training initiatives jointly coordinated with the School of Continuing Study of Macau University of Science & Technology and Macao Technology Committee, and a short term unpaid leave scheme of between two and three days each month.

## E. SHARE OWNERSHIP

Except as disclosed in Item 7 below, each director and member of senior management individually owns less than 1% of our outstanding ordinary shares.

### 2006 Share Incentive Plan

We have adopted a share incentive plan, or 2006 Plan, to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentives to employees, directors and consultants and promote the success of our business. Under the 2006 Plan, the maximum aggregate number of shares which may be issued pursuant to all awards (including shares issuable upon exercise of options) is 100,000,000 over ten years. Our Board has recently approved the removal of the maximum award amount of 50,000,000 shares over the first five years. The removal of such maximum limit for the first five years is subject to shareholders' approval at our next annual general meeting. As of December 31, 2008, 69,570,105 out of 100,000,000 shares remain available for the grant of stock options or restricted shares.

The following paragraphs describe the principal terms included in our 2006 plan.

*Types of Awards.* The awards we may grant under our 2006 plan include:

- options to purchase our ordinary shares; and
- restricted shares.

*Plan Administration.* The compensation committee will administer the plan and will determine the provisions and terms and conditions of each award grant.

*Award Agreement.* Awards granted will be evidenced by an award agreement that sets forth the terms, conditions and limitations for each award.

*Eligibility.* We may grant awards to employees, directors and consultants of our company or any of our related entities, including Melco, Crown, other joint venture entities of Melco or Crown, our own subsidiaries or any entities in which we hold a substantial ownership interest. However, we may grant options that are intended to qualify as incentive share options only to our employees.

*Exercise Price and Term of Awards.* In general, the plan administrator will determine the exercise price of an option and set forth the price in the award agreement. The exercise price may be a fixed or variable price related to the fair market value of our common shares. If we grant an incentive share option to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of our share capital, the exercise price cannot be less than 110% of the fair market value of our common shares on the date of that grant.

[Table of Contents](#)

The term of each award shall be stated in the award agreement. The term of an award shall not exceed ten years from the date of the grant.

*Vesting Schedule.* In general, the plan administrator determines, or the award agreement will specify, the vesting schedule.

A summary of the awards pursuant to the 2006 Plan as of December 31, 2008, is presented below:

	Exercise price/grant date fair value per ADS	No. of shares		Share-based compensation expenses recognized for year ended December 31, 2008 <sup>(1)(2)</sup> (In thousands of US\$)	Vesting Period
		Granted	Forfeited		
<b>Share Options</b>					
2007 Long Term Incentive Plan	\$14.15–\$15.19	3,908,390	815,133	1,089	4 to 5 years
2008 Long Term Incentive Plan	\$12.04–\$14.08	5,589,948	1,379,559	1,239	4 years
2008 Retention Program	\$3.04	14,968,395	—	270	3 years
		<b>24,466,733</b>	<b>2,194,692</b>	<b>2,598</b>	
<b>Restricted Shares</b>					
Pre-IPO Award	\$19.00	2,532,010	750,453	3,672	6 months to 5 years
2008 Long Term Incentive Plan	\$3.99–\$12.04	630,689	151,752	370	3 to 4 years
2008 Share Exchange and Retention Program	\$3.04	5,899,155	—	378	3 months to 3 years
		<b>9,061,854</b>	<b>902,205</b>	<b>4,420</b>	
				<b>7,018</b>	

- (1) Share-based compensation expenses on restricted shares and share options granted are measured in accordance with U.S. GAAP, which is based on the fair value of the award on the date of grant recognized over the service period, the vesting period in the case of our awards. Of the 22,270,246 outstanding share options as of December 31, 2008, there were no vested share options that were in-the-money.
- (2) During the year ended December 31, 2008, share-based compensation expenses of approximately US\$163,000 were capitalized to construction in progress.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. MAJOR SHAREHOLDERS**

The following table sets forth the beneficial ownership of our ordinary shares (exclusive of any ordinary shares represented by ADSs held by the SPV) as of March 23, 2009 by all persons who are known to us to be the beneficial owners of 5% or more of our share capital.

Name	Ordinary shares beneficially owned <sup>(1)</sup>	
	Number	%
Melco Leisure and Entertainment Group Limited <sup>(2)(3)(4)</sup>	500,000,000	37.57
PBL Asia Investments Limited <sup>(5)</sup>	500,000,000	37.57
Janus Capital Management LLC <sup>(6)</sup>	74,439,336	5.59

- (1) Beneficial ownership is determined in accordance with Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, and includes voting or investment power with respect to the securities. Melco and Crown continue to have a shareholders' agreement relating to certain aspects of the voting and disposition of our ordinary shares held by them, and may accordingly constitute a "group" within the meaning of Rule 13d-3. See "— Melco Crown Joint Venture". However, Melco and Crown each disclaim beneficial ownership of the shares of our company owned by the other.

## Table of Contents

- (2) Melco Leisure and Entertainment Group Limited is incorporated in the British Virgin Islands and is a wholly owned subsidiary of Melco. The address of Melco and Melco Leisure and Entertainment Group Limited is c/o The Penthouse, 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. Melco is listed on the Main Board of the Hong Kong Stock Exchange.
- (3) Mr. Lawrence Ho, our Co-Chairman and Chief Executive Officer and the Chairman, Chief Executive Officer and Managing Director of Melco, personally holds 7,416,628 ordinary shares of Melco, representing approximately 0.6% of Melco's ordinary shares outstanding as of February 18, 2009. In addition, 115,509,024 shares are held by Lasting Legend Ltd., and 288,532,606 shares are held by Better Joy Overseas Ltd., both of which companies are owned by persons and trusts affiliated with Mr. Lawrence Ho. Therefore, we believe that for purposes of Rule 13d-3, Mr. Ho beneficially owns 411,458,258 ordinary shares of Melco, representing approximately 33.46% of Melco's ordinary shares outstanding as of February 18, 2009. This does not include 117,912,694 shares into which convertible notes held by Great Respect Limited, a company controlled by a discretionary trust formed for the benefit of members of the Ho family (including Mr. Ho and Dr. Ho), may be converted upon the issuance of the land certificate for the City of Dreams site. None of the beneficiaries of the trust control the voting or disposition of shares held by the trust or Great Respect Limited.
- (4) As of March 4, 2009, Dr. Stanley Ho personally held 18,587,789 ordinary shares of Melco. In addition, 3,127,107 shares of Melco are held by Lanceford Company Limited, a company 100% owned by Dr. Stanley Ho. Therefore, for purposes of Rule 13d-3, Dr. Ho may be deemed to beneficially own 21,714,896 ordinary shares representing approximately 1.77% of Melco's outstanding shares. Dr. Ho's beneficial ownership does not include 117,912,694 shares into which convertible notes held by Great Respect Limited may be converted upon the issuance of the land certificate for the City of Dreams site.
- (5) PBL Asia Investments Limited is incorporated in the Cayman Islands and is 100% indirectly owned by Crown. The address of Crown is Level 3, Crown Towers, 8 Whiteman Street, Southbank, Victoria 3006, Australia. The address of PBL Asia Investments Limited is c/o Walkers Corporate Services Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands. Crown is listed on the Australian Stock Exchange. As of March 4, 2009, Crown was approximately 35.82% owned by Consolidated Press Holdings Group, which is a group of companies owned by the Packer family.
- (6) Janus Capital Management LLC, or Janus Capital, is a Delaware company. The address of Janus Capital is 151 Detroit Street, Denver, Colorado 80206, USA. Janus Capital has a direct 89.9% ownership stake in INTECH Investment Management, or INTECH, and a direct 78.4% ownership stake in Perkins Investment Management LLC, or Perkins. Janus Capital, Perkins and INTECH are registered investment advisers, each furnishing investment advice to various investment companies registered under Section 8 of the Investment Company Act of 1940 and to individual and institutional clients, or the Managed Portfolios. As a result of its role as investment adviser or sub-adviser to the Managed Portfolios, Janus Capital may be deemed to be the beneficial owner of our shares held by such Managed Portfolios. However Janus Capital does not have the right to receive any dividends from, or the proceeds from the sale of, the securities held in the Managed Portfolios and disclaims any ownership associated with such rights.

As of December 31, 2008 a total of 1,321,550,399 ordinary shares were outstanding, of which 321,060,781 ordinary shares were registered in the name of a nominee of Deutsche Bank Trust Company Americas, the depository under the deposit agreement. We have no further information as to shares held, or beneficially owned, by U.S. persons. Since the completion of our initial public offering in December 2006, all ordinary shares underlying the ADSs quoted initially on the Nasdaq Global Market and since January 2009 on the Nasdaq Global Select Market have been held in Hong Kong by the custodian, Deutsche Bank AG, Hong Kong Branch, on behalf of the depository. In October 2007, we appointed BOCI Securities Limited to assist us in the administration of our long term incentive plan.

None of our shareholders will have different voting rights from other shareholders after the filing of this annual report on Form 20-F. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

## **Melco Crown Joint Venture**

In November 2004, Melco and PBL agreed to form an exclusive new joint venture in Asia to develop and operate casino, gaming machines and casino hotel businesses and properties in a territory defined to include Greater China (comprising Macau, China, Hong Kong and Taiwan), Singapore, Thailand, Vietnam, Japan, the Philippines, Indonesia, Malaysia and other countries that may be agreed (but not including Australia and New Zealand).

In March 2005, Melco and PBL concluded the joint venture arrangements resulting in our company becoming a 50/50 owned holding company and entered into a shareholders' deed that governed their joint venture relationship in our company and our subsidiaries. Subsequently, Crown acquired all the gaming businesses and investments of PBL, including PBL's investment in our company. We act as the exclusive vehicle of Melco and Crown to carry on casino, gaming machines and casino hotel operations in Macau, while activities in other parts of the territory will be carried out under other entities formed by Crown and Melco.

### ***Original and Amended Shareholders' Deed***

Under the original shareholders' deed, projects and activities of the joint venture in Greater China were to be undertaken by MPEL (Greater China), which is effectively owned 60% by Melco and 40% by PBL, with projects in the Territory outside Greater China to be undertaken by one or more other of our subsidiaries which are effectively owned 60% by PBL and 40% by Melco.

### ***Memorandum of Agreement***

Simultaneously with PBL entering into an agreement with Wynn Macau to obtain a subconcession on March 4, 2006, Melco and PBL executed a memorandum of agreement on March 5, 2006, relating to the amendment of certain provisions of the shareholders' deed and other commercial agreements between Melco and PBL in connection with their joint venture. Melco and PBL supplemented the memorandum of agreement by entering into a supplemental agreement to the memorandum of agreement on May 26, 2006. Under the memorandum of agreement, as amended, Melco and PBL agreed in principle to share on a 50/50 basis the risks, liabilities, commitments, capital contributions and economic value and benefits with respect to gaming projects in the Territory, including in Macau, subject to PBL obtaining the subconcession and the transfer of control of Melco Crown Gaming to us. The principal terms and conditions of the shareholders' deed, as amended by the memorandum of agreement and the supplemental agreement to the memorandum of agreement, are:

- Melco and PBL are to share on a 50/50 basis all the economic value and benefits with respect to all gaming projects in the Territory;
- Melco and PBL are to appoint an equal number of members to our board of directors, with no casting vote in the event of a deadlock or other deadlock resolution provisions;

## Table of Contents

- All of the class A shares of Melco Crown Gaming, representing 28% of all the outstanding capital stock of Melco Crown Gaming, are to be owned by PBL Asia Limited (as to 18%) and the Managing Director of Melco Crown Gaming (as to 10%), respectively. Mr. Lawrence Ho has been appointed to serve as the Managing Director of Melco Crown Gaming. The holders of the class A shares, as a class, will have the right to one vote per share, receive an aggregate annual dividend of MOP 1 and return of capital of an aggregate amount of MOP 1 on a wind up or liquidation, but will have no right to participate in the winding up or liquidation assets;
- All of the class B shares of Melco Crown Gaming, representing 72% of all the outstanding capital stock of Melco Crown Gaming are to be owned by MPEL Investments, our wholly owned subsidiary. As the holder of class B shares, we will have the right to one vote per share, receive the remaining distributable profits of Melco Crown Gaming after payment of dividends on the class A shares, to return of capital after payment on the class A shares on a winding up or liquidation of Melco Crown Gaming, and to participate in the winding up and liquidation assets of Melco Crown Gaming;
- The shares of Melco Crown (CM) Developments and Melco Crown (COD) Developments and the operating assets of Mocha would be transferred to Melco Crown Gaming;
- MPEL (Greater China) and Mocha are to be liquidated or remain dormant; and
- The provisions of the shareholders' deed relating to the operation of our company are to apply to Melco Crown Gaming.

### ***Shareholders' Deed***

Melco and PBL entered into a shareholders' deed post our initial offering which was effective in December 2006. In connection with the acquisition of the gaming businesses and investments of PBL by Crown, Melco and Crown have entered into a new variation to the shareholders' deed with us, which became effective in July 2007. The new shareholders' deed includes the following principal terms:

*Exclusivity.* Melco and Crown must not (and must ensure that their respective Affiliates and major shareholders do not), other than through us, directly or indirectly own, operate or manage a casino, a gaming slots business or a casino hotel, or acquire or hold an interest in an entity that owns, operates or manages such businesses in Macau, except that Melco and Crown may acquire and hold up to 5% of the voting securities in a public company engaged in such businesses.

*Directors.* Melco and Crown may each nominate up to three directors and shall vote in favor of the three directors nominated by the other and will not vote to remove directors nominated by the other. Melco and Crown will procure that the number of directors appointed to our board shall not be less than ten. However, if the number of directors on our board is increased, each of Melco and Crown will agree to increase the number of directors that they will nominate so that not less than 60% of our board will be directors nominated by Melco and Crown and voted in favor of by the other.

## [Table of Contents](#)

*Transfer of Shares.* Without the approval of the other party, Melco and Crown may not create any security interest or agree to create any security interest in our shares. In addition, without approval from the other, Melco and Crown may not transfer or otherwise dispose of our shares, except for: (1) permitted transfers to their wholly owned subsidiaries; (2) transfers of up to 1% of our issued and outstanding shares over any three month period up to a total cap of 5% of our issued and outstanding shares; (3) transfers subject to customary rights of first refusal and tag-along rights in favor of Crown or Melco (as the case may be) with respect to their transfers of our shares; and (4) in the case of Melco, the assured entitlement distribution by Melco to its shareholders of the assured entitlement ADSs.

*Events of Default.* If there is an event of default, which is defined as a material breach of the shareholders' deed, an insolvency event of Melco or Crown or their subsidiaries which hold our shares, or a change in control of the Melco or Crown subsidiaries which hold our shares, and it is not cured within the prescribed time period, then the non-defaulting shareholder may exercise: (1) a call option to purchase our shares owned by the defaulting shareholder at a purchase price equal to 90% of the fair market value of the shares; or (2) a put option to sell all of the shares it owns in us to the defaulting shareholder at a purchase price equal to 110% of the fair market value of the shares.

*Notice from a Regulatory Authority.* If a regulatory authority directs either Melco or Crown to end its relationship with the other, or makes a decision that would have a material adverse effect on its rights or benefits in us, then Melco and Crown may serve a notice of proposed sale to the other and, if the other shareholder does not want to purchase those shares, may sell the shares to a third party.

*Term.* The shareholders' deed will continue unless agreed in writing by all of the parties or if a shareholder ceases to hold any of our shares in accordance with the shareholders' deed.

See "Item 4. Information on the Company—C. Organization Structure" for our current corporate structure.

### **B. RELATED PARTY TRANSACTIONS**

See Note 19 to the consolidated financial statements included elsewhere in this annual report on Form 20-F for information required by this item.

#### **Employment Agreements**

We have entered into employment agreements with key management and personnel of our company and our subsidiaries. See "Item 6. Directors, Senior Management and Employees—C. Board Practices—Employment Agreements".



**Equity Incentive Plan**

See “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—2006 Share Incentive Plan”.

**C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

We have appended consolidated financial statements filed as part of this annual report.

**Legal and Administrative Proceedings**

We are currently not a party to any material legal or administrative proceedings and we are not aware of any material legal or administrative proceedings pending or threatened against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

**Dividend Policy**

We have never declared or paid any dividends, nor do we have any present plan to pay any cash dividends on our ordinary shares in the near to medium term. We currently intend to retain most, if not all, of our available funds and any future earnings to finance the construction and development of our projects, to service debt and to operate and expand our business.

Our board of directors has complete discretion on whether to pay dividends, subject to the approval of our shareholders. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

The debt facilities of our subsidiaries contain, or are expected to contain, restrictions on payment of dividends to us, which is expected to affect our ability to pay dividends in the foreseeable future. See “Item 3. Key Information—D. Risk Factors—Risks Relating to the ADSs—We currently do not intend to pay dividends, and we cannot assure you that we will make dividend payments in the future.”

**B. SIGNIFICANT CHANGES**

We have no significant changes since the date of our audited consolidated financial statements included in this annual report on Form 20-F.

**ITEM 9. THE OFFER AND LISTING**

**A. OFFERING AND LISTING DETAILS**

Our ADSs, each representing three ordinary shares, have been listed on the Nasdaq since December 19, 2006. Our ADSs are traded under the symbol “MPEL”.

The following table provides the high and low trading prices for our ADSs on the Nasdaq for the periods indicated as follows:

	Sales Price	
	High	Low
<b>Monthly High and Low</b>		
March 2009 (through March 25, 2009)	3.68	2.52
February 2009	3.23	2.27
January 2009	4.65	2.76
December 2008	3.69	2.71
November 2008	4.75	2.51
October 2008	4.89	2.31
September 2008	6.73	3.77
<b>Quarterly High and Low</b>		
First Quarter 2009 (up to March 25, 2009)	4.65	2.27
Fourth Quarter 2008	4.89	2.31
Third Quarter 2008	9.63	3.77
Second Quarter 2008	14.76	9.00
First Quarter 2008	13.23	8.20
Fourth Quarter 2007	19.09	11.34
Third Quarter 2007	17.00	9.95
Second Quarter 2007	19.45	11.29
First Quarter 2007	22.34	14.12
<b>Annual High and Low</b>		
2008	14.76	2.31
2007	22.34	9.95
2006	23.55	18.88

**B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

Our ADSs, each representing three ordinary shares, have been listed on the Nasdaq since December 19, 2006 under the symbol “MPEL”.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSES OF THE ISSUE**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

We incorporate by reference into this annual report the summary description of our amended and restated memorandum and articles of association, as conferred by Cayman law, contained in our F-1 registration statement (File No. 333-146780) originally filed with the SEC on October 18, 2007, as amended.

**C. MATERIAL CONTRACTS**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” and “Item 7. Major Shareholders and Related Party Transactions” or elsewhere in this annual report on Form 20-F.

**D. EXCHANGE CONTROLS**

**Foreign Currency Exchange**

The Hong Kong dollar is the predominant currency used in gaming transactions in Macau and is often used interchangeably with the Pataca in Macau. The Hong Kong dollar is pegged to the U.S. dollar within a narrow range and the Pataca is in turn pegged to the Hong Kong dollar. Although we will have certain expenses and revenues denominated in Patacas in Macau, our revenues and expenses will be denominated predominantly in Hong Kong dollars and in connection with most of our indebtedness and certain expenses, U.S. dollars. No foreign exchange controls exist in Macau and Hong Kong and there is a free flow of capital into and out of Macau and Hong Kong. There are no restrictions on remittances of Hong Kong dollars or any other currency from Macau and Hong Kong to persons not resident in Macau and Hong Kong for the purpose of paying dividends or otherwise.

## E. TAXATION

### **Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **United States Federal Income Taxation**

The following discussion describes the material United States federal income tax consequences of an investment in the ADSs to U.S. Holders (defined below) that purchase the ADSs in cash pursuant to an offering. This summary applies only to investors that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date hereof and on U.S. Treasury regulations in effect or, in some cases, proposed, on the date hereof, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- insurance companies;
- dealers in securities;
- certain former citizens or residents of the United States;
- persons that elect to mark to market;
- tax-exempt entities;
- real estate investment trusts;
- regulated investment companies;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or other integrated transaction;
- persons that actually or constructively own 10% or more of our voting stock; or
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation or pursuant to the conversion of another instrument.

This discussion does not address any U.S. state or local or non-U.S. tax consequences or any U.S. federal estate, gift or alternative minimum tax consequences.

**U.S. HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS U.S. STATE AND LOCAL AND NON-U.S. TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE ADSs OR ORDINARY SHARES.**

The discussion below of U.S. federal income tax consequences to “U.S. Holders” will apply if you are a beneficial owner of the ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation created or organized under the laws of the United States, any State thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity taxable as a partnership holds the ADSs or ordinary shares, the tax treatment of such entity and each partner thereof generally will depend on the status and activities of the entity and the partner.

***Tax Treatment of ADSs***

If you hold ADSs, you generally should be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

***Dividends and Other Distributions on the ADSs or Ordinary Shares***

Subject to the passive foreign investment company rules discussed below, the gross amount of any distribution to you with respect to the ADSs or ordinary shares generally will be included in your gross income as ordinary dividend income on the date of receipt by the depository, in the case of ADSs, or by you, in the case of ordinary shares, to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it generally will be treated first as a tax-free return, on a share-by-share basis, of your tax basis in your ADSs or ordinary shares, and to the extent the amount of the distribution exceeds your tax basis in an ADS or ordinary share, the excess generally will be treated as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that any distribution from us generally will be treated as a dividend. Any dividend from us will not be eligible for the dividends-received deduction generally allowed to corporations in respect of dividends received from U.S. corporations.

## [Table of Contents](#)

With respect to non-corporate U.S. Holders, including individual U.S. Holders, for taxable years beginning before January 1, 2011, dividends may constitute “qualified dividend income” that is taxed at the lower applicable capital gains rate provided that (1) the ADSs or ordinary shares, as applicable, are readily tradable on an established securities market in the United States, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. For this purpose, ADSs listed on the Nasdaq will be considered to be readily tradable on an established securities market in the United States. You should consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to the ADSs or ordinary shares and certain special rules that apply to such dividends (including rules relating to foreign tax credit limitations).

Dividends from us generally will constitute non-U.S. source income for foreign tax credit limitation purposes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us generally will be treated as “passive category income” or, in the case of certain U.S. Holders, as “general category income.”

### ***Sale, Exchange or Other Disposition of the ADSs or Ordinary Shares***

Subject to the passive foreign investment company rules discussed below, you generally will recognize gain or loss on any sale, exchange or other disposition of an ADS or ordinary share equal to the difference between the amount realized for such ADS or ordinary share and your tax basis in such ADS or ordinary share. Such gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held such ADS or ordinary share for more than one year, you generally will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes. Any such loss, however, could be resourced to the extent of dividends treated as received with respect to such ADS or ordinary share within the preceding 24-month period.

### ***Passive Foreign Investment Company***

Although the applicable rules are not clear, we believe that we were not in 2008, and we do not currently expect to be in 2009, a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. This determination is made annually at the end of each taxable year and is dependent upon a number of factors, some of which are beyond our control, including the value of our assets and the amount and type of our income. Accordingly, there can be no assurance that we will not become a PFIC or that the Internal Revenue Service will agree with our conclusion regarding our PFIC status for 2008 or any taxable year thereafter. If we are a PFIC in any year, U.S. Holders of the ADSs or ordinary shares could suffer adverse consequences as discussed below.

In general, a corporation organized outside the United States will be treated as a PFIC in any taxable year in which either (1) at least 75% of its gross income is “passive income” or (2) on average at least 50% of the value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities transactions and from the sale or exchange of property that gives rise to passive income. In determining whether a non-U.S. corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) is taken into account.

## [Table of Contents](#)

If we are a PFIC in any year during which you own the ADSs or ordinary shares, you could be liable for additional taxes and interest charges upon certain distributions by us or upon a sale, exchange or other disposition of the ADSs or ordinary shares at a gain, whether or not we continue to be a PFIC. The tax will be determined by allocating such distributions or gain ratably to each day of your holding period. The amount allocated to the current taxable year and any portion of your holding period prior to the first taxable year for which we are a PFIC will be taxed as ordinary income (rather than capital gain) earned in the current taxable year. The amount allocated to other taxable years will be taxed at the highest marginal rates applicable to ordinary income for each such taxable year, and an interest charge will also be imposed on the amount of taxes for each such taxable year. In addition, if we are a PFIC, a person who acquires the ADSs or ordinary shares from you upon your death generally will be denied the step-up of the tax basis for U.S. federal income tax purposes to fair market value at the date of your death, which would otherwise generally be available with respect to a decedent dying in any year other than 2010. Instead, such person will have a tax basis equal to the lower of such fair market value or your tax basis.

The tax consequences that would apply if we were a PFIC would be different from those described above if a “mark-to-market” election is available and you validly make such an election as of the beginning of your holding period of the ADSs or ordinary shares. If such election is validly made, (1) you generally will be required to take into account the difference, if any, between the fair market value of, and your tax basis in, the ADSs or ordinary shares at the end of each taxable year as ordinary income or, to the extent of any net mark-to-market gains previously included in income, ordinary loss, and to make corresponding adjustments to your tax basis in the ADSs or ordinary shares and (2) any gain from a sale, exchange or other disposition of the ADSs or ordinary shares will be treated as ordinary income, and any loss will be treated first as ordinary loss (to the extent of any net mark-to-market gains previously included in income) and thereafter as capital loss. A mark-to-market election is available only if the ADSs or ordinary shares, as the case may be, are considered “marketable stock”. Generally, stock will be considered marketable stock if it is “regularly traded” on a “qualified exchange” within the meaning of applicable U.S. Treasury regulations. A class of stock is regularly traded during any calendar year during which such class of stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. The Nasdaq constitutes a qualified exchange, and a non-U.S. securities exchange constitutes a qualified exchange if it is regulated or supervised by a governmental authority of the country in which the securities exchange is located and meets certain trading, listing, financial disclosure and other requirements set forth in U.S. Treasury regulations. Since the ordinary shares are not themselves listed on any securities exchange, the mark-to-market election may not be available for the ordinary shares even if the ADSs are traded on the Nasdaq.

[Table of Contents](#)

The tax consequences that would apply if we were a PFIC would also be different from those described above if a valid qualified electing fund, or QEF, election in respect of us has been in effect during your entire holding period of such ADSs or ordinary shares. A QEF election with respect to us would be available only if we agree to provide you with certain information. As we do not intend to provide you with the required information, you should assume that a QEF election is unavailable.

If you hold the ADSs or ordinary shares in any year in which we are a PFIC, you may be required to file Internal Revenue Service Form 8621.

You are urged to consult your tax advisor regarding the potential application of the PFIC rules to your investment in the ADSs or ordinary shares.

***Information Reporting and Backup Withholding***

Distributions on the ADSs or ordinary shares and proceeds from the sale, exchange or other disposition of the ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding. Backup withholding generally will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. You should consult your tax advisor regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

**F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

**G. STATEMENT BY EXPERTS**

Not applicable.



## H. DOCUMENTS ON DISPLAY

We previously filed with the SEC our registration statement on Form F-1, as amended and prospectus under the Securities Act of 1933, with respect to our ordinary shares.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than six months after the close of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at Judiciary Plaza, 100 F Street, N.E., Washington, D.C. 20549, and at the regional office of the SEC located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP. Our annual reports will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

Nasdaq Marketplace Rule 4350(b) requires each issuer to distribute to shareholders copies of an annual report containing audited financial statements of the company and its subsidiaries a reasonable period of time prior to the company's annual meeting of shareholders. We do not intend to provide copies. However, shareholders can request a copy, in physical or electronic form, from us or our ADR depository bank, Deutsche Bank. In addition, we intend to post our annual report on our website [www.melco-crown.com](http://www.melco-crown.com). Nasdaq Marketplace Rule 4350(a)(1) permits foreign private issuers like us to follow "home country practice" in certain corporate governance matters. Walkers, our Cayman Islands counsel, has provided a letter to the Nasdaq certifying that under Cayman Islands law, we are not required to deliver annual reports to our shareholders prior to an annual general meeting.

## I. SUBSIDIARY INFORMATION

Not applicable.

### ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. We believe our and our subsidiaries' primary exposure to market risk will be interest rate risk associated with our substantial indebtedness.

***Interest Rate Risk***

We have entered into interest rate swaps in connection with our drawdowns under the City of Dreams Project Facility in accordance with our lenders' requirements under the City of Dreams Project Facility. We have incurred substantial indebtedness which will bear interest at floating rates based on LIBOR and HIBOR plus a margin of 2.75% per annum until substantial completion of the City of Dreams Project, at which time, the floating interest rate will be reduced to LIBOR or HIBOR plus a margin of 2.5% per annum. The City of Dreams Project Facility also provides for further reductions in the margin if the Borrowing Group satisfy certain prescribed leverage ratio tests upon completion of the City of Dreams Project. Accordingly, we are subject to fluctuations in HIBOR and LIBOR. The lenders under the City of Dreams Project Facility require us to hedge a minimum of 50% of our floating rate debt through interest rate swaps, caps or other derivatives transactions in accordance with our lenders' requirements. We may also hedge our exposure to floating interest rates in a manner we deem prudent. Interests in security we provide to the lenders under our credit facilities, or other security or guarantees, are required by the counterparties to our hedging transactions, which could increase our aggregate secured indebtedness. We do not intend to engage in transactions in derivatives or other financial instruments for trading or speculative purposes and we expect the provisions of our existing and any future credit facilities to restrict or prohibit the use of derivatives and financial instruments for purposes other than hedging.

As of December 31, 2008, all of our borrowings are at floating rates. Based on December 31, 2008 debt and interest rate swap levels, an assumed 100 basis point change in the HIBOR and LIBOR would cause our annual interest cost to change by approximately US\$6.8 million.

***Foreign Exchange Risk***

The Hong Kong dollar is the predominant currency used in gaming transactions in Macau and is often used interchangeably with the Pataca in Macau. The Hong Kong dollar is pegged to the U.S. dollar within a narrow range and the Pataca is in turn pegged to the Hong Kong dollar. Although we will have certain expenses and revenues denominated in Patacas in Macau, our revenues and expenses will be denominated predominantly in Hong Kong dollars and in connection with most of our indebtedness and certain expenses, U.S. dollars. We cannot assure you that the current peg or linkages between the U.S. dollar, Hong Kong dollar and Pataca will not be broken or modified. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and to Operating in Macau—Any fluctuation in the value of the H.K. dollar, U.S. dollar or Pataca may adversely affect our expenses and profitability." In addition, Crown Macau and Mocha Clubs accept foreign exchange for their cage cash. We and our subsidiaries do not engage in hedging transactions with respect to foreign exchange risk.

***Construction Materials Risk***

The development of our projects involves substantial capital expenditure and requires long periods of time to generate the necessary returns. Our business will continue to be subject to significant expenses before and after the commencement of commercial operation of our projects. Prior to the completion of our development projects, our cost will be primarily driven by expenses attributable to the construction contracts we have entered into and intend to enter into for the City of Dreams project. Although we have implemented measures to maintain the agreed development costs within budget, for example, by controlling all the sub-contractor costs and similar cost control arrangements in the construction contracts for the City of Dreams project, the actual expenses attributable to the construction contracts may increase. In addition, the cost of construction materials or equipment could increase prior to our entering into the construction contracts.

***Credit Risk***

We have conducted, and expect to continue to conduct, our table gaming activities at our casinos on a limited credit basis as well as a cash basis. It is a common practice in Macau for gaming promoters to bear the responsibility for issuing and subsequently collecting credit. While we expect that most of our gaming credit play will be via gaming promoters, who will therefore bear this credit risk, we may also grant gaming credit directly to certain customers. We may not be able to collect all of our gaming receivables from our credit customers. We expect that we will be able to enforce our gaming receivables only in a limited number of jurisdictions, including Macau. As most of our gaming customers are expected to be visitors from other jurisdictions, principally Hong Kong and the PRC, we may not have access to a forum in which we will be able to collect all of our gaming receivables. The collectability of receivables from international customers could be negatively affected by future business or economic trends or by significant events in the countries in which these customers reside. We currently conduct and plan to continue to conduct credit evaluations of customers and generally do not require collateral or other security from our customers. We have established an allowance for doubtful receivables primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers. In the event a customer has been extended credit and has lost back to us the amount borrowed and the receivable from that customer is still deemed uncollectible, Macau gaming tax will still be payable.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not Applicable.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable. See "Item 10. Additional Information" for a description of the rights of securities holders, which remain unchanged.

**Use of Proceeds**

The proceeds relating to our registration statement on Form F-1 (File No. 333-139088), filed by us in connection with our initial public offering of ADSs and declared effective by the SEC on December 18, 2006, which, after deduction of fees and expenses, amounted to US\$1.1 billion, and the additional US\$160.6 million in net proceeds from the sale of additional ADSs pursuant to the underwriters' exercise of the over-allotment option in January 2007, were primarily used to repay our Subconcession Facility dated September 4, 2006 amounting to US\$500 million and to pay development costs of Crown Macau and City of Dreams, including approximately US\$668 million for the acquisition of property and equipment for these projects, and working capital.

## [Table of Contents](#)

The proceeds relating to our registration statement on Form F-1 (File No. 333-146780), filed by us in connection with our second public offering of ADSs, which, after deduction of fees and expenses, amounted to US\$570 million, were primarily used for development costs of City of Dreams and working capital, with the balance being maintained in interest bearing bank deposits as of the date of this annual report.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this annual report, our management, with the participation of our chief executive officer and our chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(3) and 15d-15(3) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, it should be noted that any controls and procedures, no matter how well designed and operated, can only provide reasonable, but not absolute, assurance of achieving the desired control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective to provide reasonable assurance that the desired control objectives were achieved.

#### **Management's Annual Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that the Company's receipts and expenditures are being made only in accordance with authorizations of its management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

## Table of Contents

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, the Company's management used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control—Integrated Framework".

Based on this assessment, management concluded that, as of December 31, 2008, the Company's internal control over financial reporting is effective based on this framework.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008, has been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report which appears herein.

### **Changes in Internal Controls Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13(a)-15(f) and 15(d)-15(f) under the Exchange Act) during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has determined that James MacKenzie qualifies as "audit committee financial expert" as defined in Item 16A of Form 20-F. Each of the members of the Audit Committee is an "independent director" as defined in the Nasdaq Marketplace Rules.

### **ITEM 16B. CODE OF ETHICS**

Our board of directors has adopted a code of business conduct and ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, chief operating officer and any other persons who perform similar functions for us. The code of business conduct and ethics was last amended on November 14, 2008. We have filed our current code of business conduct and ethics as an exhibit to this annual statement on Form 20-F, and posted the code of business conduct and ethics on our website at [www.melco-crown.com](http://www.melco-crown.com). We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu, our principal external auditors, for the periods indicated. We did not pay any other fees to our auditor during the periods indicated below.

	<b>For the Years Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(In thousands of US\$)	
Audit fees (1)	\$ 1,356	\$ 1,480
Audit-related fees (2)	139	100
Tax fees (3)	24	34
All other fees (4)	—	300

- (1) “Audit fees” means the aggregate fees billed in each of the fiscal years indicated for our calendar year audits.
- (2) “Audit-related fees” means the aggregate fees billed in respect of the review of our interim financial statement for the six months ended June 30, 2008 and 2007.
- (3) “Tax fees” include fees billed for tax consultations.
- (4) “All other fees” means the aggregate fees billed in respect of our second public offering in November 2007, which amounted to US\$300,000.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by Deloitte Touche Tohmatsu, including audit services, audit-related services, tax services and other services as described above, other than those for *de minimis* services which are approved by our audit committee prior to the completion of the audit.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

Nasdaq Marketplace Rule 4350(a)(1) permits foreign private issuers like us to follow “home country practice” in certain corporate governance matters. For example, Nasdaq Marketplace Rule 4350(c) generally requires that a majority of an issuer’s board of directors must consist of independent directors. We rely on this “home country practice” exception and do not have a majority of independent directors serving on our board of directors. In addition, Nasdaq Marketplace Rule 4350(b) requires each issuer to distribute to shareholders copies of an annual report containing audited financial statements of the company and its subsidiaries a reasonable period of time prior to the company’s annual meeting of shareholders. We do not intend to provide copies. However, shareholders can request a copy, in physical or electronic form, from us or our ADR depository bank, Deutsche Bank. In addition, we intend to post our annual report on our website [www.melco-crown.com](http://www.melco-crown.com). Walkers, our Cayman Islands counsel, has provided a letter to the Nasdaq certifying that under Cayman Islands law, we are not required to have a majority of independent directors serving on our board of directors and we are not required to deliver annual reports to our shareholders prior to an annual general meeting.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements of Melco Crown Entertainment Limited and its subsidiaries are included at the end of this annual report.

**ITEM 19. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Document</b>
1.1	Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 1.1 from our annual report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-33172 as amended initially filed with the SEC on March 30, 2007)
2.1	Form of Registrant's American Depositary Receipt (included in Exhibit 2.3)
2.2	Registrant's Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
2.3	Form of Deposit Agreement among the Registrant, the depositary and Owners and Beneficial Owners of the American Depositary Shares issued thereunder (incorporated by reference to Exhibit 4.3 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
2.4	Holdco 1 Subscription Agreement dated December 23, 2004 among the Registrant (formerly known as Melco PBL Holdings Limited), Melco, PBL and PBL Asia Investments Limited (incorporated by reference to Exhibit 4.4 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
2.5	Supplemental Agreement to the Memorandum of Agreement dated May 26, 2006 between Melco and PBL (incorporated by reference to Exhibit 4.7 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)

[Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
2.6	Deed of Variation and Amendment relating to the Registrant dated July 27, 2007 between Melco Leisure and Entertainment Group Limited, Melco International Development Limited, PBL Asia Investments Limited, Publishing and Broadcasting Limited, Crown Limited and the Registrant (incorporated by reference to Exhibit 4.11 from our F-1 registration statement (File No. 333-146780), as amended, initially filed with the SEC on October 18, 2007)
2.7	Amended and Restated Shareholders' Deed Relating to the Registrant dated December 12, 2007 among the Registrant, Melco Leisure and Entertainment Group Limited, Melco, PBL Asia Investments Limited and Crown Limited (incorporated by reference to Exhibit 2.7 from our Form 20-F registration statement (File No. 001-33178), filed with the SEC on April 9, 2008)
2.8	Form of Post-IPO Shareholders' Agreement among the Registrant, Melco Leisure and Entertainment Group Limited, Melco, PBL Asia Investments Limited and PBL (incorporated by reference to Exhibit 4.9 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
2.9	Form of Registration Rights Agreement among the Registrant, Melco and PBL (incorporated by reference to Exhibit 4.10 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.1	Form of Indemnification Agreement with the Registrant's directors and executive officers (incorporated by reference to Exhibit 10.1 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.2	Form of Directors' Agreement of the Registrant (incorporated by reference to Exhibit 10.2 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.3	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.3 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.4	English Translation of Subconcession Contract for operating casino games of chance or games of other forms in the Macau Special Administrative Region between Wynn Macau and PBL Macau, dated September 8, 2006 (incorporated by reference to Exhibit 10.4 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)



[Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
4.5	Senior Facilities Agreement dated September 5, 2007 for Melco PBL Gaming (Macau) Limited as Original Borrower, arranged by Australia and New Zealand Banking Group Limited, Banc of America Securities Asia Limited, Barclays Capital, Deutsche Bank AG, Hong Kong Branch and UBS AG Hong Kong Branch as Coordinating Lead Arrangers with Deutsche Bank AG, Hong Kong Branch acting as Agent and DB Trustees (Hong Kong) Limited acting as Security Agent (incorporated by reference to Exhibit 10.32 from our F-1 registration statement (File No. 333-146780), as amended, initially filed with the SEC on October 18, 2007)
4.6*	Amendment Agreement in Respect of Senior Facilities Agreement dated December 7, 2007 for Melco PBL Gaming (Macau) Limited as Company and Deutsche Bank AG, Hong Kong Branch, as Agent
4.7*	Second Amendment Agreement in Respect of Senior Facilities Agreement dated September 1, 2008 for Melco Crown Gaming (Macau) Limited as Company and Deutsche Bank AG, Hong Kong Branch, as Agent
4.8*	Third Amendment Agreement in Respect of Senior Facilities Agreement dated December 1, 2008 for Melco Crown Gaming (Macau) Limited as Company and Deutsche Bank AG, Hong Kong Branch, as Agent
4.9	Agreement dated May 9, 2006 between Dr. Stanley Ho and MPBL International, regarding sale and transfer of Mocha Slot Group Limited, together with Deed of Assignment dated May 9, 2006 between Dr. Ho, as assignor, and MPBL International, as assignee (incorporated by reference to Exhibit 10.8 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.10	English Translation of Sale and Purchase Agreement dated September 21, 2006 between Mocha and Melco PBL Gaming (now Melco Crown Gaming) (incorporated by reference to Exhibit 10.9 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.11	Letter Agreement in relation to termination of the Mocha service arrangement dated March 15, 2006 among Mocha, SJM and Melco (incorporated by reference to Exhibit 10.10 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.12	First Supplementary Agreement to Joint Venture dated February 8, 2005 Relating to transfer of 70% interests in Melco Crown (CM) Developments (its former names were MPBL Crown Macau Developments and Great Wonders) to MPBL (Greater China) (formerly known as Melco Entertainment Limited) among STD, Melco and MPBL (Greater China) (incorporated by reference to Exhibit 10.11 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)

[Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
4.13	Agreement dated March 17, 2005 Relating to transfer of 30% shareholding in Melco Crown (CM) Developments (its former names were MPBL Crown Macau Developments and Great Wonders) from STD M to Melco among STD M, Melco and MPBL (Greater China) (formerly known as Melco Entertainment Limited) (incorporated by reference to Exhibit 10.12 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.14	English Translation of Order of the Secretary for Public Works and Transportation published in Macau Official Gazette no. 9 of March 1, 2006 (incorporated by reference to Exhibit 10.13 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.15	Contract Document dated November 24, 2004 for the design and construction of the hotel and casino at Junction of Avenida Dr. Sun Yat Sen and Avenida de Kwong Tung, Taipa, Macau between Melco Crown (CM) Developments (its former names were MPBL Crown Macau Developments and Great Wonders) and Paul Y. Construction Company Limited (incorporated by reference to Exhibit 10.14 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.16	Agreement dated March 9, 2005 between Melco Leisure and Entertainment Group Limited and MPBL (Greater China) (formerly known as Melco Entertainment Limited) (incorporated by reference to Exhibit 10.15 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.17	Assignment Agreement dated May 11, 2005 in relation to a memorandum of agreement dated October 28, 2004 and a subscription agreement in relation to convertible loan notes in the aggregate principal amount of HK\$1,175,000,000 to be issued by Melco among Great Respect, as assignor, MPBL (Greater China) (formerly known as Melco Entertainment Limited), as assignee, and Melco, as issuer (incorporated by reference to Exhibit 10.16 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.18	Transfer Deed in relation to the entire issued equity capital of Melco Crown (COD) Developments (formerly known as MPBL (COD) Developments) and Assignment Deed in relation to a memorandum of agreement dated October 28, 2004, dated May 17, 2005, between Melco Leisure and Entertainment Group Limited and MPBL (Greater China) (incorporated by reference to Exhibit 10.16 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)

[Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
4.19	Construction Management Agreement dated August 22, 2007 for the Construction and Commissioning of City of Dreams, Macau for Melco Crown (COD) Developments Limited (formerly known as MPBL (COD) Developments) (incorporated by reference to Exhibit 10.33 from our F-1 registration statement (File No. 333-146780), as amended, initially filed with the SEC on October 18, 2007)
4.20*	Novation and Termination Agreement (with respect to the Management Agreement for Grand Hyatt Macau dated June 18, 2006 and the Management Agreement for Hyatt Regency Macau dated June 18, 2006) dated August 30, 2008 between Hyatt of Macau Ltd., Melco Crown (COD) Developments Limited and Melco Crown COD (GH) Hotel Limited
4.21*	Management Agreement dated August 30, 2008 between Melco Crown COD (GH) Hotel Limited and Hyatt of Macau Ltd.
4.22	Hotel Trademark License Agreement by and between Hard Rock Holdings Limited and Melco Crown (COD) Developments (formerly known as Melco PBL (COD) Developments Limited and Melco Hotel and Resorts (Macau) Limited) dated January 22, 2007 (incorporated by reference to Exhibit 4.21 from our annual report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-33178), as amended, initially filed with the SEC on March 30, 2007)
4.23*	Novation Agreement (in respect of Hotel Trademark License Agreement) dated August 30, 2008 between Hard Rock Holdings Limited, Melco Crown (COD) Developments Limited and Melco Crown COD (HR) Hotel Limited
4.24	Casino Trademark License Agreement by and between Hard Rock Holdings Limited and Melco PBL Gaming (now Melco Crown Gaming) dated January 22, 2007 (incorporated by reference to Exhibit 4.22 from our annual report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-33178), as amended, initially filed with the SEC on March 30, 2007)
4.25	Memorabilia Lease (casino) between Hard Rock Cafe International (STP) Inc. and Melco PBL Gaming (now Melco Crown Gaming) dated January 22, 2007 (incorporated by reference to Exhibit 4.23 from our annual report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-33178), as amended, initially filed with the SEC on March 30, 2007)
4.26	Memorabilia Lease (hotel) between Hard Rock Cafe International (STP) Inc. and Melco Crown (COD) Developments dated January 22, 2007 (incorporated by reference to Exhibit 4.24 from our annual report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-33178), as amended, initially filed with the SEC on March 30, 2007)

[Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
4.27*	Novation Agreement (in respect of Hotel Memorabilia Lease) dated August 30, 2008 between Hard Rock Café International (STP), Inc., Melco Crown (COD) Developments Limited and Melco Crown COD (HR) Hotel Limited
4.28	Promissory Transfer of Shares Agreement dated May 17, 2006 with respect to the sale and transfer of Omar Limited (incorporated by reference to Exhibit 10.21 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.29*	Extension Letter (with respect to the Promissory Transfer of Shares Agreement) to Melco PBL (Macau Peninsula) Limited from Double Margin, Angela Leong and Omar dated January 25, 2007
4.30*	Extension Letter (with respect to the Promissory Transfer of Shares Agreement) to Melco PBL (Macau Peninsula) Limited from Double Margin and Angela Leong dated July 17, 2007
4.31*	Extension Letter (with respect to the Promissory Transfer of Shares Agreement) to MPEL (Macau Peninsula) Limited from Double Margin and Angela Leong dated July 2, 2008
4.32	Shareholders' Agreement relating to Melco PBL Gaming (now Melco Crown Gaming) dated November 22, 2006 among PBL Asia Limited, MPBL Investments, Manuela António and Melco PBL Gaming (incorporated by reference to Exhibit 10.22 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.33	Termination Letter dated December 15, 2006 in connection with Shareholders Agreement Relating to Melco PBL Gaming (Macau) Limited dated November 22, 2006 (incorporated by reference to Exhibit 4.27 from our annual report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-33178), as amended, initially filed with the SEC on March 30, 2007)
4.34	Letter dated December 15, 2006 in connection with appointment of Mr. Lawrence Ho as the managing director of Melco PBL Gaming (Macau) Limited (incorporated by reference to Exhibit 4.28 from our annual report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-33178), as amended, initially filed with the SEC on March 30, 2007)
4.35	Termination Agreement relating to the Shareholders' Agreement dated December 15, 2006 among PBL Asia Limited, Melco PBL Investments Limited, Lawrence Yau Lung Ho and Melco PBL Gaming (Macau) Limited (incorporated by reference to Exhibit 4.5 from our F-3 registration statement (File No. 333-148849), filed with the SEC on January 25, 2008)

[Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
4.36	2006 Share Incentive Plan (incorporated by reference to Exhibit 10.23 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.37	Trade Mark License dated November 30, 2006 between Crown Limited and the Registrant as the licensee (incorporated by reference to Exhibit 10.24 from our F-1 registration statement (File No. 333-139088), as amended, initially filed with the SEC on December 1, 2006)
4.38	Agreement between the Registrant and Melco Leisure and Entertainment Group Limited dated March 27, 2007 (incorporated by reference to Exhibit 4.32 from our annual report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-33178), as amended, initially filed with the SEC on March 30, 2007)
4.39	Agreement between the Registrant and PBL Asia Investments Limited dated March 27, 2007 (incorporated by reference to Exhibit 4.33 from our annual report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-33178), as amended, initially filed with the SEC on March 30, 2007)
8.1*	List of Subsidiaries
11.1*	Code of Business Conduct and Ethics, amended and approved as of November 14, 2008
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Walkers

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\* Filed with this Annual Report on Form 20-F

[Table of Contents](#)

MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL  
ENTERTAINMENT (MACAU) LIMITED)

Consolidated Financial Statements  
For the years ended December 31, 2008, 2007 and 2006  
Report of Independent Registered Public Accounting Firm

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[Table of Contents](#)

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 and 2006**

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-3
<a href="#">Consolidated Balance Sheets as of December 31, 2008 and 2007</a>	F-4
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006</a>	F-5
<a href="#">Consolidated Statements of Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006</a>	F-6
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006</a>	F-7
<a href="#">Notes to Consolidated Financial Statements for the years ended December 31, 2008, 2007 and 2006</a>	F-9
<a href="#">Schedule 1 — Melco Crown Entertainment Limited Condensed Financial Statements as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006</a>	F-42

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of Melco Crown Entertainment Limited (formerly known as Melco PBL Entertainment (Macau) Limited):

We have audited the internal control over financial reporting of Melco Crown Entertainment Limited and subsidiaries (the "Company") as of December 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financing Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and related financial statements included in Schedule 1 as of and for the year ended December 31, 2008 of the Company and our report dated March 31, 2009 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

**/s/ Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
March 31, 2009



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of Melco Crown Entertainment Limited (formerly known as Melco PBL Entertainment (Macau) Limited):

We have audited the accompanying consolidated balance sheets of Melco Crown Entertainment Limited and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended December 31, 2008, 2007 and 2006 and the related financial statements included in Schedule 1. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years ended December 31, 2008, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such related financial statements included in Schedule 1, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

*/s/* **Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
March 31, 2009

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**CONSOLIDATED BALANCE SHEETS**  
**(In thousands of U.S. dollars, except share and per share data)**

	December 31,	
	2008	2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 815,144	\$ 835,419
Restricted cash	67,977	298,983
Accounts receivable, net (Note 3)	72,755	49,390
Amounts due from affiliated companies (Note 19(a))	650	—
Inventories	2,170	1,484
Prepaid expenses and other current assets	17,556	15,715
<b>Total current assets</b>	<b>976,252</b>	<b>1,200,991</b>
PROPERTY AND EQUIPMENT, NET (Note 4)	2,107,722	980,241
<b>GAMING SUBCONCESSION, NET (Note 5)</b>	<b>771,216</b>	<b>828,453</b>
INTANGIBLE ASSETS, NET (Note 6)	4,220	4,220
GOODWILL (Note 6)	81,915	81,915
LONG-TERM PREPAYMENT AND DEPOSITS	60,894	15,832
DEFERRED TAX ASSETS (Note 14)	28	—
DEFERRED FINANCING COST	49,336	48,295
DEPOSIT FOR ACQUISITION OF LAND INTEREST (Note 7)	12,853	12,853
LAND USE RIGHTS, NET (Note 8, 18(a))	433,853	447,468
<b>TOTAL</b>	<b>\$ 4,498,289</b>	<b>\$ 3,620,268</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,494	\$ 5,736
Accrued expenses and other current liabilities (Note 9)	442,671	468,236
Income tax payable	1,954	1,560
Amounts due to affiliated companies (Note 19(b))	1,985	6,602
Amounts due to shareholders (Note 19(c))	1,032	1,551
<b>Total current liabilities</b>	<b>450,136</b>	<b>483,685</b>
LONG-TERM DEBT (Note 10)	1,412,516	500,209
<b>OTHER LONG-TERM LIABILITIES (Note 11)</b>	<b>38,304</b>	<b>11,074</b>
DEFERRED TAX LIABILITIES (Note 14)	19,191	21,286
LOANS FROM SHAREHOLDERS (Note 19(c))	115,647	114,616
LAND USE RIGHT PAYABLE (Note 18(a))	53,891	60,857
<b>COMMITMENTS AND CONTINGENCIES (Note 18)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Ordinary shares at US\$0.01 par value per share (Authorized — 1,500,000,000 shares and issued — 1,321,550,399 and 1,320,938,902 shares as of December 31, 2008 and 2007 (Note 13))	13,216	13,209
Treasury shares, at US\$0.01 par value per share (385,180 and nil shares as of December 31, 2008 and 2007 (Note 13))	(4)	—
Additional paid-in capital	2,689,257	2,682,125
Accumulated other comprehensive losses	(35,685)	(11,076)
Accumulated losses	(258,180)	(255,717)
<b>Total shareholders' equity</b>	<b>2,408,604</b>	<b>2,428,541</b>
<b>TOTAL</b>	<b>\$ 4,498,289</b>	<b>\$ 3,620,268</b>

The accompanying notes are an integral part of the consolidated financial statements.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(In thousands of U.S. dollars, except share and per share data)**

	Year Ended December 31,		
	2008	2007	2006
<b>OPERATING REVENUES</b>			
Casino			
- Affiliated customer (Note 19(a))	\$ —	\$ —	\$ 16,276
- External customers	1,405,932	348,725	19,108
<b>Sub-total</b>	<b>1,405,932</b>	<b>348,725</b>	<b>35,384</b>
Rooms	17,084	5,670	—
Food and beverage	16,107	11,121	1,523
Entertainment, retail and others	5,396	1,964	—
<b>Gross revenues</b>	<b>1,444,519</b>	<b>367,480</b>	<b>36,907</b>
Less: promotional allowances	(28,385)	(8,984)	(806)
<b>Net revenues</b>	<b>1,416,134</b>	<b>358,496</b>	<b>36,101</b>
<b>OPERATING COSTS AND EXPENSES</b>			
Casino	(1,146,893)	(291,045)	(18,777)
Rooms	(1,342)	(2,222)	—
Food and beverage	(12,745)	(10,541)	(530)
Entertainment, retail and others	(1,240)	(504)	—
General and administrative	(104,034)	(96,037)	(18,616)
Pre-opening costs	(21,821)	(40,032)	(11,679)
Amortization of gaming subconcession	(57,237)	(57,190)	(14,309)
Amortization of land use rights	(18,269)	(17,276)	(12,358)
Depreciation and amortization	(51,379)	(39,466)	(9,845)
Impairment loss recognized on slot lounge services agreement (Note 6)	—	—	(7,640)
<b>Total operating costs and expenses</b>	<b>(1,414,960)</b>	<b>(554,313)</b>	<b>(93,754)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,174</b>	<b>(195,817)</b>	<b>(57,653)</b>
<b>NON-OPERATING (EXPENSES) INCOME</b>			
Interest income	8,215	18,640	816
Interest expenses, net of capitalized interest	—	(770)	(11,184)
Write off of deferred financing costs	—	—	(12,698)
Amortization of deferred financing costs	(765)	(1,005)	—
Loan commitment fees	(14,965)	(4,760)	—
Foreign exchange gain, net	1,436	3,832	55
Other income, net	972	275	285
<b>Total non-operating (expenses) income</b>	<b>(5,107)</b>	<b>16,212</b>	<b>(22,726)</b>
<b>LOSS BEFORE INCOME TAX</b>	<b>(3,933)</b>	<b>(179,605)</b>	<b>(80,379)</b>
<b>INCOME TAX CREDIT (Note 14)</b>	<b>1,470</b>	<b>1,454</b>	<b>1,885</b>
<b>LOSS BEFORE MINORITY INTERESTS</b>	<b>(2,463)</b>	<b>(178,151)</b>	<b>(78,494)</b>
<b>MINORITY INTERESTS</b>	<b>—</b>	<b>—</b>	<b>5,015</b>
<b>NET LOSS</b>	<b>\$ (2,463)</b>	<b>\$ (178,151)</b>	<b>\$ (73,479)</b>
<b>LOSS PER SHARE:</b>			
Basic and diluted	\$ (0.002)	\$ (0.145)	\$ (0.116)
<b>SHARES USED IN LOSS PER SHARE CALCULATION:</b>			
Basic and diluted	1,320,946,942	1,224,880,031	633,228,439

The accompanying notes are an integral part of the consolidated financial statements.



**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(In thousands of U.S. dollars, except share and per share data)**

	Common Shares		Treasury Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Losses	Total Shareholders' Equity	Comprehensive Loss
	Shares	Amount	Shares	Amount					
BALANCE AT JANUARY 1, 2006	500,000,000	\$ 5,000	—	\$ —	\$ 237,779	\$ —	\$ (4,087)	\$ 238,692	
Net loss for the year	—	—	—	—	—	—	(73,479)	(73,479)	\$ (73,479)
Foreign currency translation adjustment	—	—	—	—	—	740	—	740	740
Share-based compensation (Note 15)	—	—	—	—	278	—	—	278	
Shares issued upon initial public offering, net of offering expenses (Note 13)	180,931,146	1,809	—	—	1,065,665	—	—	1,067,474	
Shares issued during the year (Note 13)	500,000,000	5,000	—	—	315,000	—	—	320,000	
Capital contributions from shareholders (Note 19 (c))	—	—	—	—	150,000	—	—	150,000	
Contribution from Melco	—	—	—	—	109,170	—	—	109,170	
Contribution of Melco Crown Gaming from PBL	—	—	—	—	77,491	—	—	77,491	
<b>BALANCE AT DECEMBER 31, 2006</b>	<b>1,180,931,146</b>	<b>11,809</b>	<b>—</b>	<b>—</b>	<b>1,955,383</b>	<b>740</b>	<b>(77,566)</b>	<b>1,890,366</b>	<b>\$ (72,739)</b>
Net loss for the year	—	—	—	—	—	—	(178,151)	(178,151)	\$ (178,151)
Foreign currency translation adjustment	—	—	—	—	—	(1,685)	—	(1,685)	(1,685)
Change in fair value of interest rate swap agreements	—	—	—	—	—	(10,131)	—	(10,131)	(10,131)
Share-based compensation (Note 15)	—	—	—	—	5,346	—	—	5,346	
Shares issued, net of offering expenses (Note 13)	139,612,500	1,396	—	—	721,400	—	—	722,796	
Shares issued upon restricted shares vested (Note 13)	395,256	4	—	—	(4)	—	—	—	
<b>BALANCE AT DECEMBER 31, 2007</b>	<b>1,320,938,902</b>	<b>13,209</b>	<b>—</b>	<b>—</b>	<b>2,682,125</b>	<b>(11,076)</b>	<b>(255,717)</b>	<b>2,428,541</b>	<b>\$ (189,967)</b>
Net loss for the year	—	—	—	—	—	—	(2,463)	(2,463)	\$ (2,463)
Change in fair value of interest rate swap agreements	—	—	—	—	—	(24,609)	—	(24,609)	(24,609)
Reversal of over-accrued offering expenses	—	—	—	—	117	—	—	117	
Share-based compensation (Note 15)	—	—	—	—	7,018	—	—	7,018	
Shares issued upon restricted shares vested (Note 13)	226,317	3	—	—	(3)	—	—	—	
Shares issued for future exercises of share options (Note 13)	385,180	4	(385,180)	(4)	—	—	—	—	
<b>BALANCE AT DECEMBER 31, 2008</b>	<b>1,321,550,399</b>	<b>\$ 13,216</b>	<b>(385,180)</b>	<b>\$ (4)</b>	<b>\$ 2,689,257</b>	<b>\$ (35,685)</b>	<b>\$ (258,180)</b>	<b>\$ 2,408,604</b>	<b>\$ (27,072)</b>

The accompanying notes are an integral part of the consolidated financial statements.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands of U.S. dollars)**

	Year Ended December 31,		
	2008	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (2,463)	\$ (178,151)	\$ (73,479)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	126,885	113,932	36,512
Amortization of deferred financing costs	765	1,005	—
Impairment loss recognized on slot lounge services agreement	—	—	7,640
Impairment loss recognized on property and equipment	17	421	1,116
(Gain) loss on disposal of property and equipment	(328)	585	24
Allowance for doubtful debts	5,378	2,733	—
Share-based compensation	6,855	5,256	278
Minority interests	—	—	(5,015)
Changes in operating assets and liabilities:			
Accounts receivable	(28,743)	(51,711)	(377)
Amounts due from affiliated companies	89	151	1,276
Inventories	(686)	(1,288)	(109)
Prepaid expenses and other current assets	(1,503)	(13,924)	10,330
Long-term prepayment and deposits	1,219	(7,899)	(1,638)
Deferred tax assets	(28)	—	—
Accounts payable	(3,670)	3,172	2,360
Accrued expenses and other current liabilities	(110,567)	273,166	3,015
Income tax payable	394	1,301	(356)
Amounts due to affiliated companies	(3,461)	428	—
Other long-term liabilities	784	950	—
Deferred tax liabilities	(2,095)	(2,755)	(1,814)
Net cash (used in) provided by operating activities	<u>(11,158)</u>	<u>147,372</u>	<u>(20,237)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	(1,053,992)	(668,281)	(22,743)
Deposits for acquisition of property and equipment	(34,699)	(5,356)	(3,555)
Payment for long-term prepayment	(16,127)	—	—
Restricted cash	231,006	(298,983)	—
Payment for land use rights	(42,090)	—	(12,371)
Proceeds from sale of property and equipment	2,300	—	24
Net cash used in investing activities	<u>(913,602)</u>	<u>(972,620)</u>	<u>(38,645)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of deferred financing costs	(7,641)	(49,735)	—
Loans from shareholders	(181)	(96,583)	75,544
Amounts due to affiliated companies	—	—	(45,643)
Payment of principal of capital leases	—	(16)	(5)
Issue of share capital	—	722,796	1,067,474
Cash from contribution of Melco Crown Gaming from PBL	—	—	25,739
Proceeds from long-term debt	912,307	500,209	—
Repayment of bank loan	—	—	(500,000)
Net cash provided by financing activities	<u>904,485</u>	<u>1,076,671</u>	<u>623,109</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20,275)	251,423	564,227
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>835,419</u>	<u>583,996</u>	<u>19,769</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 815,144</u>	<u>\$ 835,419</u>	<u>\$ 583,996</u>

The accompanying notes are an integral part of the consolidated financial statements.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS — Continued**  
**(In thousands of U.S. dollars)**

	Year Ended December 31,		
	2008	2007	2006
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS</b>			
Cash paid for interest (net of capitalized interest)	\$ (181)	\$ (596)	\$ (10,328)
Cash paid for tax	\$ —	\$ —	\$ (285)
<b>NON-CASH INVESTING ACTIVITIES</b>			
Construction costs funded through accrued expenses and other current liabilities	\$ 246,998	\$ 132,356	\$ 61,383
Construction costs funded through loans from shareholders	\$ —	\$ —	\$ 127,287
Inception of capital leases on property and equipment	\$ —	\$ —	\$ 10
Land use right cost funded through land use right payable, accrued expenses and other current liabilities and loans from shareholders	\$ —	\$ 41,680	\$ 63,411
Costs of property and equipment funded through amounts due from (to) affiliated companies	\$ 1,562	\$ 1,598	\$ 5,616
Disposal of property and equipment through amount due from an affiliated company	\$ (2,788)	\$ —	\$ —
Acquisition of additional 20% share of Mocha Slot Group funded through loans from shareholders	\$ —	\$ —	\$ 32,051
Acquisition of shareholder loan advanced by Dr. Stanley Ho funded through loans from shareholders	\$ —	\$ —	\$ 5,859
Deposit for acquisition of land interest funded through loans from shareholders	\$ —	\$ —	\$ 12,853
Contribution of Melco Crown Gaming from PBL	\$ —	\$ —	\$ 77,491
Contribution of interest in MPEL (Greater China)	\$ —	\$ —	\$ 109,170
Deferred financing costs funded through accounts payable and accrued expenses and other current liabilities	<u>\$ 1,427</u>	<u>\$ 575</u>	<u>\$ —</u>

The accompanying notes are an integral part of the consolidated financial statements.



**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands of U.S. dollars, except share and per share data)**

**1. COMPANY INFORMATION**

Melco Crown Entertainment Limited (formerly known as Melco PBL Entertainment (Macau) Limited (“the Company” together with its subsidiaries, “MPEL”) was incorporated in Cayman Islands on December 17, 2004 and completed an initial public offering of its ordinary shares in December 2006 listing its American depository shares (“ADS”) on The NASDAQ Stock Market LLC, or the Nasdaq, under the symbol of “MPEL”. The Company changed its name from Melco PBL Entertainment (Macau) Limited to Melco Crown Entertainment Limited pursuant to shareholders’ resolutions passed on May 27, 2008.

MPEL is a developer, owner and, through its subsidiary, Melco Crown Gaming (Macau) Limited (“Melco Crown Gaming”) (formerly known as Melco PBL Gaming (Macau) Limited), operator of casino gaming and entertainment resort facilities focused on the Macau Special Administrative Region of the People’s Republic of China (“Macau”) market.

MPEL currently owns and operates Crown Macau, a casino and hotel resort which opened in May 2007, Mocha Clubs, non-casino-based operations of electronic gaming machines which first opened in September 2003, Taipa Square Casino which opened in June 2008, and is constructing its flagship City of Dreams integrated urban entertainment resort development expected to open in June 2009.

Melco Crown Gaming holds the gaming subconcession through which the Macau government provides the right to operate casinos in Macau. The other principal operating subsidiaries are Melco Crown (CM) Hotel Limited (“Melco Crown (CM) Hotel”) (formerly known as Melco PBL Hotel (Crown Macau) Limited) through which the hotel operates at Crown Macau; Melco Crown (CM) Developments Limited (“Melco Crown (CM) Developments”) (formerly known as Melco PBL (Crown Macau) Developments Limited), which holds the land and buildings for Crown Macau; Melco Crown (COD) Developments Limited (“Melco Crown (COD) Developments”) (formerly known as Melco PBL (COD) Developments Limited), which holds the City of Dreams project and MPEL (Macau Peninsula) Limited (“MPEL Macau Peninsula”) (formerly known as Melco PBL (Macau Peninsula) Limited), which is in the process of obtaining a third piece of land in Macau for further development. Mocha Clubs previously operated under Mocha Slot Group Limited. As a result of a series of restructuring that occurred in October 2006, Mocha Slot Group Limited and its subsidiaries (“Mocha Slot Group”) which operated Mocha Clubs, transferred its net assets and businesses to Melco Crown Gaming, thereafter Mocha Slot Group became inactive and Mocha Clubs commenced operating directly under Melco Crown Gaming.

As of December 31, 2008, and 2007 the major shareholders of the Company are Melco International Development Limited (“Melco”), a company listed in the Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”), and Crown Limited (“Crown”), an Australian-listed corporation, which completed its acquisition of the gaming businesses and investments of Publishing and Broadcasting Limited (“PBL”) on December 12, 2007. PBL, an Australian-listed corporation, is now known as Consolidated Media Holdings Limited.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Presentation and Principles of Consolidation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated on consolidation.

**(b) Use of Estimates**

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. These estimates and judgements are based on historical information, information that is currently available to the Company and on various other assumptions that the Company believes to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

**(c) Fair Value Measurements**

Fair values are measured in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS No. 157”) which has been adopted by the Company on January 1, 2008, subject to the deferral provisions. SFAS No. 157 defines fair value as the price that would be received to sell the asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date.

The carrying values of the Company’s financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, amounts due from (to) affiliated companies, accounts payable, accrued expenses and other current liabilities, amounts due to shareholders, loans from shareholders, land use right payable, interest rate swap agreements and debt instruments approximate their fair values.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments which are unrestricted as to withdrawal and use, and which have maturities of three months or less when purchased.

Cash equivalents are placed with financial institutions with high-credit ratings and quality.

**(e) Restricted Cash**

Restricted cash consist of proceeds from the drawdown of the Company’s senior secured credit facility (“City of Dreams Project Facility”) which pursuant to the agreement of this facility entered into in September 2007 as disclosed in Note 10 to the consolidated financial statements, were deposited into restricted accounts and pledged to a disbursement agent for the credit facility lenders. This restricted cash amount will be used as required for the City of Dreams project costs under disbursement terms specified in the credit facility. The disbursement account is subject to a security interest in favor of the lenders under the credit facility. As of December 31, 2008 and 2007, the restricted cash balance was \$67,977 and \$298,983, respectively.

**(f) Accounts Receivable and Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of casino receivables. The Company issues credit in the form of markers to approved casino customers following investigations of creditworthiness. As of December 31, 2008 and 2007, a substantial portion of the Company’s markers were due from customers residing in foreign countries.

Accounts receivable, including casino receivables, is typically non-interest bearing and is initially recorded at cost. Accounts are written off when management deems it is probable the receivable is uncollectible. Recoveries of accounts previously written off are recorded when received. An estimated allowance for doubtful debts is maintained to reduce the Company’s receivables to their carrying amounts. The allowance is estimated based on specific review of customer accounts as well as management’s experience with collection trends in the casino industry and current economic and business conditions.

**(g) Inventories**

Inventories consist of retail merchandise food and beverage items which are stated at the lower of cost or market value. Cost is calculated using the first-in, first-out or specific identification methods. Write downs of potentially obsolete or slow-moving inventory are recorded based on management’s specific analysis of inventory.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

**(h) Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Gains or losses on dispositions of property and equipment are included in operating income (loss). Major additions, renewals and betterments are capitalized, while maintenance and repairs are expensed as incurred.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method from the time the assets are placed in service. Estimated useful lives are as follows:

<u>Classification</u>	<u>Estimated useful life</u>
Buildings	25 years or over the term of the land use right agreement, whichever is shorter
Furniture, fixtures and equipment	3 to 7 years
Plant and gaming machinery	3 to 5 years
Leasehold improvements	10 years or over the lease term, whichever is shorter
Motor vehicles	5 years

Direct and incremental costs related to the construction of assets, including costs under the construction contracts, duties and tariffs, equipment installation and shipping costs, are capitalized.

**(i) Capitalization of Interest and Amortization of Deferred Financing Costs**

Interest and amortization of deferred financing costs incurred on funds used to construct the Company's casino gaming and entertainment resort facilities during the active construction period are capitalized. Interest includes interest paid or payable on loans from shareholders, City of Dreams Project Facility and interest rate swap agreements. The capitalization of interest and amortization of deferred financing costs ceases once a project is substantially complete or development activity is suspended for more than a brief period. The amount to be capitalized is determined by applying the weighted-average interest rate of the Company's outstanding borrowings to the average amount of accumulated capital expenditures for assets under construction during the year and is added to the cost of the underlying assets and amortized over their respective useful lives. Interest of \$49,629, \$13,720 and \$2,286 and amortization of deferred financing costs of \$7,262, \$1,011 and nil was capitalized for the years ended December 31, 2008, 2007 and 2006, respectively.

**(j) Gaming Subconcession, Net**

The gaming subconcession is capitalized based on the fair value of the gaming subconcession agreement as of the date of acquisition of Melco Crown Gaming, and amortized using the straight-line method over the term of agreement which is due to expire in June 2022.

**(k) Goodwill and Intangible Assets, Net**

Goodwill represents the excess of acquisition costs over the fair value of tangible and identifiable intangible net assets of any business acquired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill is not amortized, but is tested for impairment at the reporting unit level on an annual basis, and between annual tests in certain circumstances that indicate the carrying value of the goodwill may not be recoverable, and written down when impaired.

Intangible assets other than goodwill are amortized over their useful lives unless their lives are determined to be indefinite in which case they are not amortized. Intangible assets are carried at cost, less accumulated amortization. The Company's finite-lived intangible asset consists of the gaming subconcession. Finite-lived intangible assets are amortized over the shorter of their contractual terms or estimated useful lives. The Company's intangible assets with indefinite lives represent Mocha Clubs trademarks.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

**(l) Impairment of Long-Lived Assets (Other Than Goodwill)**

In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, the Company evaluates the recoverability of long-lived assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value. During the years ended December 31, 2008 and 2007, impairment losses amounting to \$17 and \$421 were recognized to write off gaming equipment due to the reconfiguration of the casino at Crown Macau to meet the evolving demands of gaming patrons and target specific segments. During the year ended December 31, 2006, impairment losses amounting to \$7,640, as disclosed in Note 6 to the consolidated financial statements, and \$1,116 were recognized due to the termination of Mocha Clubs slot lounge services agreement and relocation of a Mocha Clubs site.

**(m) Deferred Financing Costs**

Direct and incremental costs incurred in obtaining loans are capitalized and amortized over the terms of the related debt agreements using the effective interest method. Approximately \$8,027 and \$2,016 were amortized during the years ended December 31, 2008 and 2007, of which a portion was capitalized as mentioned in Note 2(i) to the consolidated financial statements. During the year ended December 31, 2006, deferred financing cost of \$12,698 was written off.

**(n) Land Use Rights, Net**

Land use rights are recorded at cost less accumulated amortization. Amortization is provided over the estimated lease term of the land on a straight-line basis.

**(o) Revenue Recognition and Promotional Allowances**

The Company recognizes revenue at the time persuasive evidence of an arrangement exists, the service is provided or the retail goods are sold, prices are fixed or determinable and collection is reasonably assured.

Casino revenues are measured by the aggregate net difference between gaming wins and losses less accruals for the anticipated payouts of progressive slot jackpots, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers’ possession.

Prior to termination of the service agreement with Sociedade de Jogos de Macau, S.A. (“SJM”) in September 2006, casino revenues were recognized on an accrual basis in accordance with the contractual terms of the respective service agreement. Such revenue was calculated based on a pre-determined rate, as stipulated in the respective service agreement, of the gaming revenue from the gaming machines, which is the difference between gaming wins and losses less the accruals for the anticipated payouts of progressive slot jackpots.

The Company follows the guidance of Emerging Issues Task Force (“EITF”) consensus on Issue 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent,” when accounting for operations of Taipa Square Casino. Given the Company operates the casino under a right to use agreement with the owner of the casino premises and has full responsibility for the casino operations in accordance with its gaming subconcession, it is the principal and casino revenue is therefore recognized on a gross basis.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

**(o) Revenue Recognition and Promotional Allowances — Continued**

Rooms, food and beverage, entertainment, retail and other revenues are recognized when services are provided. Advance deposits on rooms are recorded as customer deposits until services are provided to the customer.

Revenues are recognized net of certain sales incentives in accordance with EITF 01-9, “Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products)” (“EITF 01-9”). EITF 01-9 requires that sales incentives be recorded as a reduction of revenue; consequently, the Company’s casino revenues are reduced by discounts, commissions and points earned in customer loyalty programs, such as the player’s club loyalty program.

The retail value of rooms, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The estimated cost of providing such promotional allowances for the years ended December 31, 2008, 2007 and 2006, is primarily included in casino expenses as follows:

	Year Ended December 31,		
	2008	2007	2006
Rooms	\$ 4,240	\$ 903	\$ —
Food and beverage	9,955	7,029	596
	\$ 14,195	\$ 7,932	\$ 596

**(p) Point-Loyalty Programs**

The Company operates various loyalty programs across its properties to encourage repeat business from loyal slot machine customers and table games patrons. Members earn points based on gaming activity and such points can be redeemed for free play and other free goods and services. The Company accrues for loyalty program points expected to be redeemed for cash and free play as a reduction to gaming revenue and accrues for loyalty program points expected to be redeemed for free goods and services as casino expense. The accruals are based on management’s estimates and assumptions regarding the redemption value, age and history with expiration of unused points results in a reduction of the accruals.

**(q) Pre-Opening Costs**

Pre-opening costs, consist primarily of marketing expenses and other expenses related to new or start-up operations and are expensed as incurred. The Company incurred pre-opening costs in connection with Crown Macau prior to its opening in May 2007 and continues to incur such costs related to the City of Dreams project.

**(r) Advertising Expenses**

The Company expenses all advertising costs as incurred. Advertising costs incurred during development period are included in pre-opening costs. Once a project is completed, advertising costs are mainly included in general and administrative expenses. Total advertising costs were \$5,283, \$26,854 and \$1,582 for the years ended December 31, 2008, 2007 and 2006, respectively.

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

**(s) Foreign Currency Transactions and Translations**

All transactions in currencies other than functional currencies of the Company during the year are remeasured at the exchange rates prevailing on the respective transaction dates. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than functional currencies are remeasured at the exchange rates existing on that date. Exchange differences are recorded in the consolidated statements of operations.

The functional currencies of the Company and its major subsidiaries were U.S. dollars and, Hong Kong dollars or the Macau Patacas, respectively. All assets and liabilities are translated at the rates of exchange prevailing at the balance sheet date and all income and expense items are translated at the average rates of exchange over the year. All exchange differences arising from the translation of subsidiaries' financial statements are recorded as a component of comprehensive loss.

**(t) Share-Based Compensation Expenses**

The Company issued restricted shares and share options under its share incentive plan during the years ended December 31, 2008, 2007 and 2006. Share-based compensation expenses on restricted shares and share options granted are measured using SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123R").

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes that cost over the service period. Compensation is attributed to the periods of associated service and such expense is being recognized on a straight-line basis over the vesting period of the awards. Forfeitures are estimated at the time of grant, with such estimate updated periodically and with actual forfeitures recognized currently to the extent they differ from the estimate.

Further information on the Company's share-based compensation arrangements is included in Note 15 to the consolidated financial statements.

**(u) Income Tax**

The Company is subject to income taxes in Hong Kong, Macau and the United States of America.

Deferred income taxes are recognized for all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides accounting guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. There was no material impact resulting from the adoption of FIN 48 on the Company's consolidated financial statements.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

(v) **Loss Per Share**

Basic loss per share is calculated by dividing the net loss available to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the year.

Diluted loss per share is calculated by dividing the net loss available to ordinary shareholders by the weighted-average number of ordinary shares outstanding adjusted to include the potentially dilutive effect of outstanding stock-based awards.

The weighted-average number of ordinary and ordinary equivalent shares used in the calculation of basic and diluted loss per share consisted of the following:

	Year Ended December 31,		
	2008	2007	2006
Weighted-average number of ordinary shares outstanding used in the calculation of basic and diluted loss per share	1,320,946,942	1,224,880,031	633,228,439

The Company had securities which would potentially dilute basic loss per share in the future, but which were excluded from the computation of diluted loss per share in the years presented, as their effect would have been anti-dilutive. Such outstanding securities consist of restricted shares and share options of 3,897,756, 2,380,112 and 62,628 for the years ended December 31, 2008, 2007 and 2006, respectively.

(w) **Accounting for Derivative Instruments and Hedging Activities**

The Company uses derivative financial instruments such as interest rate swap agreements to hedge its risks associated with interest rate fluctuations in accordance with lenders' requirements under the City of Dreams Project Facility. The Company accounts for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), and all amendments thereto. SFAS No. 133 requires that all derivative instruments be recognized in the financial statements at fair value at the balance sheet date. Any changes in fair value are recorded in the statements of operations or in other comprehensive income (loss), depending on whether the derivative is designated and qualifies for hedge accounting, the type of hedge transaction and the effectiveness of the hedge. The estimated fair values of interest rate swap agreements obtained from dealer quotes are based on a standard valuation model that projects future cash flows and discounts those future cash flows using market-based observable inputs such as interest rate yields.

Further information on the Company's outstanding financial instrument arrangements as of December 31, 2008 is included in Note 11 to the consolidated financial statements.

(x) **Accumulated Other Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss) represents foreign currency translation adjustments and changes in the fair value of interest rate swap agreements. As of December 31, 2008 and 2007, the Company's accumulated other comprehensive income (loss) consisted of the following:

	December 31,	
	2008	2007
Foreign currency translation adjustments	\$ (945)	\$ (945)
Changes in the fair value of interest rate swap agreements	(34,740)	(10,131)
	\$ (35,685)	\$ (11,076)



**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

**(y) Reclassifications**

The consolidated financial statements for prior years reflect certain reclassifications, which have no effect on previously reported net loss, to conform to the current year presentation.

**(z) Recent Changes in Accounting Standards**

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements under other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurements in any new circumstances. SFAS No. 157 is effective for financial statements, and interim periods within those fiscal years, beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (“FSP”) SFAS No. 157-2, “Effective Date of FASB Statement No. 157”, which defers the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company adopted the provisions of SFAS No. 157 for financial assets, financial liabilities and nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements. The adoption did not have a material impact on the Company’s financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of SFAS No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to elect, at specified election dates, to measure eligible items at fair value and report unrealized gains and losses related to these items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 on January 1, 2008, did not have a material impact on the Company’s financial position, results of operations and cash flows as the Company has not elected the fair value option for any eligible financial instruments as of December 31, 2008.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”). The objective of SFAS No. 141R is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS No. 141R requires an acquirer to recognize any assets and noncontrolling interest acquired and liabilities assumed to be measured at fair value as of the acquisition date. Liabilities related to contingent consideration are recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of the consideration may be resolved beyond a reasonable doubt. This revised approach replaces SFAS No. 141’s allocation process in which the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their respective fair values. This statement applies prospectively to business combinations where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS No. 141R is not expected to have a material impact on the Company’s financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interest in Consolidation Financial Statements an Amendment of Accounting Research Bulletin No. 51” (“SFAS No. 160”). This statement amends ARB 51 and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It requires noncontrolling interest (minority interest) to be recognized as equity in the consolidated financial statements and separate from the parent’s equity and the amount of net income (loss) attributable to the noncontrolling interest to be included in consolidated net income (loss) on the face of the consolidated statement of operations. SFAS No. 160 clarifies that changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income (loss) when a subsidiary is deconsolidated and also requires expanded disclosures regarding the interests of the parent and the interests of the noncontrolling owners.



**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Continued**

**(z) Recent Changes in Accounting Standards — Continued**

SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS No. 160 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133" ("SFAS No. 161"). SFAS No. 161 enhances the required disclosures under SFAS No. 133 in order to provide the investing community additional transparency in an entity's financial statements and to more adequately disclose the impact of investments in derivative instruments and use of hedging on an entity's financial position, results of operations, and cash flows. SFAS No. 161 is effective for annual and interim periods beginning after November 15, 2008, with early application allowed. The adoption of SFAS No. 161 is not expected to have a material impact on the Company's financial position, results of operations and cash flows and disclosures.

In April 2008, FASB issued FSP SFAS No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP SFAS No. 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R. FSP SFAS No. 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. Since this guidance will be applied prospectively, on adoption, there will be no impact to the Company's current financial position, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and a prioritized framework for selecting the principles to be used for preparation of the financial statements of nongovernmental entities that are presented in conformity with US GAAP. SFAS No. 162 replaces the US GAAP hierarchy specified in the American Institute of Certified Public Accountants ("AICPA") Statement on Auditing Standards No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". SFAS No. 162 was effective on November 15, 2008. The adoption of SFAS No. 162 did not have a material impact on Company's financial position, results of operations and cash flows.

In October 2008, the FASB issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP SFAS No. 157-3"). FSP SFAS No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides guidance on the key considerations in determining the fair values of financial instruments when the market for these instruments is not active. The clarifying guidance provided in FSP SFAS No. 157-3 did not result in a change to Company's financial position, results of operations and cash flows.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**3. ACCOUNTS RECEIVABLE, NET**

	December 31,	
	2008	2007
Components of accounts receivable, net are as follows:		
Casino	\$ 78,649	\$ 50,710
Hotel	1,647	1,157
Other	572	258
Sub-total	\$ 80,868	\$ 52,125
Less: allowance for doubtful debts	(8,113)	(2,735)
	\$ 72,755	\$ 49,390

During the years ended December 31, 2008 and 2007, the Company has provided allowance for doubtful debts of \$5,378 and \$2,733, respectively.

**4. PROPERTY AND EQUIPMENT, NET**

	December 31,	
	2008	2007
Cost		
Buildings	\$ 312,007	\$ 300,437
Furniture, fixtures and equipment	77,289	62,165
Plant and gaming machinery	69,104	67,731
Leasehold improvements	36,770	22,903
Motor vehicles	1,502	1,400
Sub-total	\$ 496,672	\$ 454,636
Less: accumulated depreciation	(107,847)	(52,638)
Sub-total	\$ 388,825	\$ 401,998
Construction in progress	1,718,897	578,243
Property and equipment, net	\$ 2,107,722	\$ 980,241

As of December 31, 2008 and 2007, construction in progress included interest on loans from shareholders, City of Dreams Project Facility and interest rate swap agreements, amortization of deferred financing costs and other direct incidental costs capitalized, amounted to \$114,700 and \$32,515, respectively, mainly for the City of Dreams project. Other direct incidental costs represented insurance, salaries and wages and certain other professional charges incurred directly in relation to the City of Dreams project.

**5. GAMING SUBCONCESSION, NET**

	December 31,	
	2008	2007
Deemed cost	\$ 900,000	\$ 900,000
Less: accumulated amortization	(128,784)	(71,547)
Gaming subconcession, net	\$ 771,216	\$ 828,453

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**5. GAMING SUBCONCESSION, NET — Continued**

The deemed cost was determined based on the estimated fair value of the gaming subconcession. The gaming subconcession is amortized on a straight-line basis over the term of the gaming subconcession agreement which expires in June 2022. The Company expects that amortization of the gaming subconcession will be approximately \$57,237 each year from 2009 through 2021, and approximately \$27,135 in 2022.

**6. GOODWILL AND INTANGIBLE ASSETS, NET**

Goodwill and other intangible assets with indefinite useful lives, representing trademarks of Mocha Clubs, are not amortized. The Company has performed annual tests for impairment of goodwill and trademarks in accordance with SFAS No. 142 and concluded that there was no impairment.

The Company recognized an impairment loss of \$7,640 during the year ended December 31, 2006 as a result of termination of the Mocha Clubs slot lounge agreement with SJM in contemplation of the grant of a gaming subconcession to Melco Crown Gaming. The slot lounge agreement, which previously had a carrying amount of \$8,879 with an estimated useful life of 10 years, was written down to \$1,239 with reference to a valuation performed by an independent third party and amortized and charged to the consolidated statements of operations until the termination date of the slot lounge services agreement.

**7. DEPOSIT FOR ACQUISITION OF LAND INTEREST**

On May 17, 2006, MPEL Macau Peninsula entered into an agreement to purchase the entire issued share capital of Sociedade de Fomento Predial Omar, Limitada (“Omar”), a company which holds the rights to a land lease in respect of a plot of land with an area of 6,480 square meters located at Zona dos Novos Aterros do Porto Exterior, on the Macau peninsula. The aggregate consideration is \$192,802, which is payable in cash and an amount of \$12,853 was paid as down payment upon signing of the sale and purchase agreement, which was financed from Melco and PBL, equally, and is included in deposit for acquisition of land interest. The balance is payable on completion of the acquisition, which is subject to conditions that are not under the control of the Company. The agreement completion deadline was first extended in January 2007 and again in July 2007 and July 2008 when the Company negotiated an extension of the completion deadline for the conditional agreement to the end of July 2009. Other than the extension of the purchase completion deadline, all other provisions of the agreement remain in force, and there were no fees associated with any of the extensions.

**8. LAND USE RIGHTS, NET**

Land use rights consisted of the following:

	December 31,	
	2008	2007
Crown Macau	\$ 141,543	\$ 141,543
City of Dreams	343,903	339,249
	485,446	480,792
Less: accumulated amortization	(51,593)	(33,324)
<b>Land use rights, net</b>	<b>\$ 433,853</b>	<b>\$ 447,468</b>

Land use rights are recorded at cost less accumulated amortization. Amortization is provided over the estimated lease term of the land on a straight-line basis. The expiry date of the leases of the land use rights of the Crown Macau and City of Dreams projects were March 2031 and August 2033, respectively.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	December 31,	
	2008	2007
Construction costs payable	\$ 246,998	\$ 132,356
Customer deposits	9,808	12,926
Outstanding gaming chips and tokens	54,758	166,691
Other gaming related accruals	32,699	44,105
Gaming tax accruals	42,038	34,434
Rental payable	226	1,936
Land use right payable	13,763	44,234
Operating expense accruals	42,381	31,554
	<u>\$ 442,671</u>	<u>\$ 468,236</u>

**10. LONG-TERM DEBT**

In February 2006, Melco Crown (CM) Developments, entered into a two-tranche \$164,524 term loan facility (“Crown Macau Project Facility”) with certain lenders to finance the construction of Crown Macau. A subsidiary of the Company, MPEL (Greater China) Limited (“MPEL (Greater China)”) (formerly known as MPBL Entertainment (Greater China) Limited) guaranteed all the obligations of Melco Crown (CM) Developments arising under the Crown Macau Project Facility, and such guarantee was subsequently replaced by the Company’s guarantee. The Crown Macau Project Facility was not drawn down and on July 5, 2007, Melco Crown (CM) Developments cancelled the Crown Macau Project Facility and all securities pledged with respect to such facility have been released.

In September 2006, Melco Crown Gaming entered into a \$500,000 term loan facility (“Subconcession Facility”) with certain lenders to pay a portion of the purchase price due to Wynn Macau upon the approval of Macau government for the issuance of a gaming subconcession to Melco Crown Gaming. The Subconcession Facility was drawn and used to settle \$500,000 of the gaming subconcession in September 2006 upon the issuance of the gaming subconcession to Melco Crown Gaming. The \$500,000 Subconcession Facility was repaid from part of the net proceeds of the Company’s initial public offering in December 2006.

Melco Crown Gaming, along with Melco and PBL, also entered into a commitment letter with those same banks as arrangers for a \$1,600,000 facility (“COD Project Facility”) to finance the development costs of the City of Dreams project and, if not already refinanced by the time of the first drawing under the COD Project Facility, to refinance any amounts still outstanding under the Subconcession Facility. The granting of the COD Project Facility was subject to conditions set forth in the commitment letter and the finalization of the negotiation of certain material terms and would be terminated if facility documents were not executed by June 30, 2007.

On September 5, 2007, Melco Crown Gaming (“Borrower”) entered into a senior secured credit facility (“City of Dreams Project Facility”) with certain lenders in the aggregate amount of \$1,750,000 to fund the City of Dreams project. The City of Dreams Project Facility consists of a \$1,500,000 term loan facility (the “Term Loan Facility”) and a \$250,000 revolving credit facility (the “Revolving Credit Facility”). The Term Loan Facility matures on September 5, 2014 and is subject to quarterly amortization payments commencing on September 5, 2010. The Revolving Credit Facility matures on September 5, 2012 or, if earlier, the date of repayment, prepayment or cancellation in full of the Term Loan Facility and has no interim amortization. Drawdowns on the Term Loan Facility are, subject to satisfaction of conditions precedent specified in the City of Dreams Project Facility agreement, including registration of the land concession and execution of construction contracts, compliance with affirmative, negative and financial covenants and the provision of certificates from technical consultants, available until January 5, 2010. The Revolving Credit Facility will be made available on a fully revolving basis from the date upon which the Term Loan Facility has been fully drawn, to the date that is one month prior to the Revolving Credit Facility’s final maturity date.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**10. LONG-TERM DEBT — Continued**

The indebtedness under the City of Dreams Project Facility is guaranteed by certain subsidiaries of the Company (together with the Borrower collectively referred to as the “Borrowing Group”). Security for the City of Dreams Project Facility includes a first-priority mortgage over the land granted by Macau government in August 2008 where the City of Dreams project is located, such mortgages also cover all present and any future buildings on, and fixtures to, the relevant land; an assignment of any land use rights under land concession agreements, leases or equivalent; charges over the bank accounts in respect of the Borrowing Group, subject to certain exceptions; assignment of the rights under certain insurance policies; first priority security over the chattels, receivables and other assets of the Borrowing Group which are not subject to any security under any other security documentation; first priority charges over the issued share capital of the Borrowing Group; equipment and tools used in the gaming business by the Borrowing Group; as well as other customary security.

The City of Dreams Project Facility agreement contains certain affirmative and negative covenants customary for such financings, including, but not limited to, limitations on incurring additional liens, incurring additional indebtedness, (including guarantees), making certain investment, paying dividends and other restricted payments, creating any subsidiaries and selling assets. The City of Dreams Project Facility also requires the Borrowing Group to comply with certain financial covenants, including, but not limited to, consolidated leverage ratio, consolidated interest cover ratio and consolidated cash cover ratio.

In addition, there are provisions that limit or prohibit certain payment of dividends and other distribution by the Borrowing Group to the Company. At December 31, 2008 and 2007, the net assets of the Borrowing Group of approximately \$1,832,000 and \$1,864,000 were restricted from being distributed under the terms of the City of Dreams Project Facility, respectively.

Melco Crown Gaming is also required to undertake a program to hedge 50% of the outstanding indebtedness on the City of Dreams Project Facility, which is achieved through interest rate swap agreements to limit the impact of increases in interest rates on its floating rate debt derived from the City of Dreams Project Facility. Details of the hedging agreements are included in Note 11 to the consolidated financial statements.

Borrowings under the City of Dreams Project Facility bear interest at the London Interbank Offered Rate (“LIBOR”) or HIBOR plus a margin of 2.75% per annum until substantial completion of the City of Dreams project, at which time the interest rate is reduced to LIBOR or HIBOR plus a margin of 2.50% per annum. The City of Dreams Project Facility also provides for further reductions in the margin if the Borrowing Group satisfy certain prescribed leverage ratio tests upon completion of the City of Dreams project. Melco Crown Gaming is obligated to pay a commitment fee quarterly in arrears on the undrawn amount of the City of Dreams Project Facility throughout the availability period. During the year ended December 31, 2008 and 2007, the Company incurred loan commitment fees of \$14,965 and \$4,760, respectively.

In connection with the signing of the City of Dreams Project Facility in September 2007, Melco and PBL each provided an undertaking to an agent under the City of Dreams Project Facility, to contribute additional equity up to an aggregate of \$250,000 (divided equally between Melco and PBL) to Melco Crown Gaming to pay any costs (i) associated with construction of the City of Dreams project and (ii) for which the agent has determined there is no other available funding. When Crown acquired the gaming businesses and investments of PBL during the year ended December 31, 2007, it also acquired this obligation as described in Note 1 to the consolidated financial statements. In support of such contingent equity commitment, each of Melco and Crown has agreed to maintain a direct or standby letter of credit in favor of the security agent for the City of Dreams Project Facility in an amount equal to the amount of contingent equity it is obliged to ensure is provided to Melco Crown Gaming. These letters of credit are required to be maintained until the final completion date of the City of Dreams project has occurred and certain debt service reserve accounts have been funded.

Melco Crown Gaming drew down \$176,384 and HK\$5,725,483,618 (equivalent to \$735,923) totaling \$912,307 during the year ended December 31, 2008 and \$103,114 and HK\$3,089,397,811 (equivalent to \$397,095) totaling \$500,209 during the year ended December 31, 2007 on the Term Loan Facility, respectively.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**10. LONG-TERM DEBT — Continued**

As of December 31, 2008 and 2007, all the amounts remain outstanding. Management believes the Company is in compliance with all such covenants as of December 31, 2008 and 2007.

Total interest incurred on long-term debt for the years ended December 31, 2008 and 2007 were \$40,178 and \$9,695, respectively, of which \$40,178 and \$9,552, were capitalized as discussed in Note 2(i) to the consolidated financial statements.

As of December 31, 2008 and 2007, the Company's borrowing rates were approximately 5.58% and 6.80%, respectively.

Maturities of the Company's long-term debt as of December 31, 2008 are as follows:

<u>Year</u>	
2009	\$ —
2010	84,751
2011	282,503
2012	324,879
2013	381,379
Over 2013	<u>339,004</u>
	<u>\$ 1,412,516</u>

**11. OTHER LONG-TERM LIABILITIES**

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Interest rate swap liabilities	\$ 34,733	\$ 10,124
Deferred rent liabilities	3,371	950
Other deposits	<u>200</u>	<u>—</u>
	<u>\$ 38,304</u>	<u>\$ 11,074</u>

In connection with the signing of the City of Dreams Project Facility in September 2007 as disclosed in Note 10 to the consolidated financial statements, Melco Crown Gaming entered into floating-for-fixed interest rate swap agreements to limit its exposure to interest rate risk. In addition to the eight interest rate swap agreements entered in 2007 that expire in 2010, Melco Crown Gaming entered into six interest rate swap agreements in 2008 that expire in 2011. Under the interest rate swap agreements, Melco Crown Gaming pays a fixed interest rate ranging from 2.50% to 4.74% of the notional amount, and receives variable interest which is based on the applicable HIBOR for each on the payment date. As of December 31, 2008 and 2007, the notional amounts of the outstanding interest rate swap agreements amounted to \$714,235 and \$349,862 respectively.

These interest rate swap agreements were and are expected to remain highly effective in fixing the interest rate and qualify for cash flow hedge accounting. Therefore, there was no impact on consolidated statements of operations from changes in the fair value of the hedging instruments. Instead, the fair value of the instruments were recorded as assets or liabilities on the Company's consolidated balance sheets, with an offsetting adjustment to the accumulated other comprehensive income (loss).

As of December 31, 2008 and 2007, the fair values of interest rate swap agreements of \$34,733 and \$10,124 are recorded as interest rate swap liabilities, respectively.

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**12. FAIR VALUE MEASUREMENTS**

The Company adopted SFAS No. 157 on January 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value as the price that would be received to sell the asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 also discusses valuation techniques, such as market, income and/or cost approaches and specifies a three-level hierarchy of valuation inputs that prioritizes the inputs to valuation techniques used to measure fair value.

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity’s own assumptions.

The Company’s financial assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157. The following fair value hierarchy table present information about the Company’s financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

	Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2008
<b>Other long-term liabilities</b>				
Interest rate swap liabilities	\$ —	\$ 34,733	\$ —	\$ 34,733

The Company has fourteen interest rate swap agreements with an aggregate fair value of \$34,733 and recorded as interest rate swap liabilities in the consolidated balance sheets. The fair values of the interest rate swap agreements obtained from dealer quotes are based on a standard valuation model that projects future cash flows and discounts those future cash flows to a present value using market-based observable inputs such as interest rate yields. Since significant observable inputs are used in valuation model, the interest rate swap arrangements are considered a level 2 item in the fair value hierarchy.

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**13. CAPITAL STRUCTURE**

On September 28, 2006, the Company issued 500,000,000 ordinary shares at par value of US\$0.01 per share for a total consideration of \$320,000. In December 2006, the Company offered 60,250,000 ADSs, representing 180,750,000 ordinary shares, to the public and listed the ADSs on the Nasdaq. In addition, the Company issued 60,382 ADSs, representing 181,146 ordinary shares, to Melco shareholders as an assured entitlements distribution.

On January 8, 2007, the Company issued an additional 9,037,500 ADSs, representing 27,112,500 ordinary shares, pursuant to the underwriters' option to subscribe these additional ADSs from the Company at the initial public offering price of \$19 per ADS less the underwriting commission to cover over-allotments of the ADSs.

On November 6, 2007, the Company offered 37,500,000 ADSs, representing 112,500,000 ordinary shares, to the public in its second public offering.

In connection with the Company's restricted shares granted as disclosed in Note 15 to the consolidated financial statements, 226,317 and 395,256 ordinary shares were vested and issued during the years ended December 31, 2008 and 2007, respectively.

In connection with the Company's share options granted as disclosed in Note 15 to the consolidated financial statements, the Company issued 385,180 ordinary shares to its depository bank for issuance to employees upon their future exercise of vested share options during the year ended December 31, 2008. As of December 31, 2008, none of these ordinary shares have been issued to employees and continue to be held by the Company for future issuance.

As of December 31, 2008 and 2007, the Company had 1,321,165,219 and 1,320,938,902 ordinary shares issued and outstanding, respectively.

**14. INCOME TAX CREDIT**

The Company, MPEL International Limited ("MPEL International") (formerly known as Melco PBL International Limited), MPEL (Greater China), MPEL Holdings Limited (formerly known as Melco PBL Holdings Limited), MPEL Investments Limited (formerly known as Melco PBL Investments Limited), MPEL Nominee One Limited (formerly known as Melco PBL Nominee One Limited), MPEL Nominee Two Limited (formerly known as Melco PBL Nominee Two Limited) and MPEL Nominee Three Limited (formerly known as Melco PBL Nominee Three Limited) are exempt from tax in the Cayman Islands, where they are incorporated, however, the Company is subject to Hong Kong Profits Tax on its activities conducted in Hong Kong. MPEL Services Limited (formerly known as Melco PBL Services Limited) is subject to Hong Kong Profits Tax, where it is incorporated and is subject to Macau Complementary Tax on its activities conducted in Macau. MPEL Ventures Limited (formerly known as Always Prosper Investments Limited), MPEL Projects Limited, MPEL Aviation Limited and MPEL Macau Peninsula are exempt from tax in the British Virgin Islands, where they are incorporated. Mocha Slot Group Limited is exempt from tax in the British Virgin Islands, where it is incorporated, but is subject to Macau Complementary Tax on its activities conducted in Macau. MPEL Services (US) Limited (formerly known as Melco PBL Services (US) Limited) and MPEL (Delaware) LLC (formerly known as Melco PBL (Delaware) LLC) are subject to the income tax in the United States of America. The Company's remaining subsidiaries are all incorporated in Macau and are subject to Macau Complementary Tax on their activities conducted in Macau.

Pursuant to the approval notices issued by Macau government dated June 7, 2007, Melco Crown Gaming has been exempted from Macau Complementary Tax for income generated from gaming operations for five years commencing from 2007 to 2011.



**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**14. INCOME TAX CREDIT — Continued**

The Macau government has granted to a subsidiary of the Company, Melco Crown (CM) Hotel Limited (“Melco Crown (CM) Hotel”) (formerly known as Melco PBL Hotel (Crown Macau) Limited), the declaration of utility purpose benefit, pursuant to which it is entitled to a vehicle tax holiday and, for a period of 12 years, property tax holiday, on any vehicles and immovable property that it owns or has been granted. Under such tax holiday, it will also be allowed to double the maximum rates applicable regarding depreciation and reintegration for purposes of assessment of Macau Complementary tax.

The provision for income tax consisted of:

	Year Ended December 31,		
	2008	2007	2006
<b>Income tax provision for current year:</b>			
Hong Kong Profits Tax	\$ 892	\$ 1,301	\$ —
<b>Over provision of income tax in prior years:</b>			
Macau Complementary Tax	\$ —	\$ —	\$ (71)
Hong Kong Profits Tax	(239)	—	—
<b>Sub-total</b>	<u>(239)</u>	<u>—</u>	<u>(71)</u>
<b>Deferred tax (credit) charge:</b>			
Macau Complementary Tax	\$ (2,038)	\$ (2,812)	\$ (1,814)
Hong Kong Profits Tax	(85)	57	—
<b>Sub-total</b>	<u>(2,123)</u>	<u>(2,755)</u>	<u>(1,814)</u>
<b>Total income tax credit</b>	<u>\$ (1,470)</u>	<u>\$ (1,454)</u>	<u>\$ (1,885)</u>

A reconciliation of the income tax credit to loss before income tax per the consolidated statements of operations is as follows:

	Year Ended December 31,		
	2008	2007	2006
Loss before income tax	\$ (3,933)	\$ (179,605)	\$ (80,379)
Macau Complementary Tax rate	12%	12%	12%
Income tax credit at Macau Complementary Tax rate	(472)	(21,553)	(9,645)
Effect of different tax rates of subsidiaries operating in other jurisdiction	126	641	—
Overprovision in prior year	(239)	—	(71)
Effect of income for which no income tax expense is payable	(1,102)	(2,671)	(255)
Effect of expense for which no income tax benefit is receivable	779	1,048	1,404
Effect of tax holiday granted by Macau government	(8,855)	—	—
Losses that cannot be carried forward	—	20,045	—
Change in valuation allowance	8,293	1,036	6,682
	<u>\$ (1,470)</u>	<u>\$ (1,454)</u>	<u>\$ (1,885)</u>

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**14. INCOME TAX CREDIT — Continued**

The deferred income tax assets and liabilities as of December 31, 2008 and 2007, consisted of the following:

	December 31,	
	2008	2007
<b>Deferred income tax assets</b>		
Net operating loss carryforwards	\$ 16,088	\$ 7,795
Depreciation and amortization	28	—
Sub-total	16,116	7,795
<b>Valuation allowance</b>		
Current	(1,330)	(62)
Long-term	(14,758)	(7,733)
Sub-total	(16,088)	(7,795)
<b>Total net deferred income tax assets</b>	\$ 28	\$ —
<b>Deferred income tax liabilities</b>		
Land use rights	\$ (18,686)	\$ (20,724)
Intangible assets	(505)	(505)
Unrealized capital allowance	—	(57)
Net deferred income tax liabilities	\$ (19,191)	\$ (21,286)

As of December 31, 2008 and 2007, valuation allowance of \$16,088 and \$7,795 were provided respectively, as management does not believe that it is more likely than not that these deferred tax assets will be realized. As of December 31, 2008, operating loss carry forwards amounting to \$11,085, \$60,930 and \$62,055 will expire in 2009, 2010 and 2011, respectively.

Macau Complementary Tax and Hong Kong Profits Tax have been provided at 12% (2007 and 2006: 12%) and 16.5% (2007 and 2006: 17.5%) on the estimated taxable income earned in or derived from Macau and Hong Kong, respectively during the relevant years, if applicable. No provision of the income tax in the United States of America is made since MPEL Services (US) Limited and MPEL (Delaware) LLC both incurred net loss for the years ended December 31, 2008 and 2007.

Deferred tax, where applicable, is provided under the liability method at the enacted statutory income tax rate of the respective tax jurisdictions, applicable to the respective financial years, on the difference between the consolidated financial statements carrying amounts and income tax base of assets and liabilities.

Melco Crown Gaming has been granted with tax holidays on casino gaming profits by the Macau government in 2007. Melco Crown Gaming reported net income during the year ended December 31, 2008 and had Melco Crown Gaming been required to pay such taxes, the Company's consolidated net loss for the year ended December 31, 2008 would have been increased by \$8,855 and basic and diluted loss per share would have reported additional loss of \$0.007 per share. During the year ended December 31, 2007, Melco Crown Gaming incurred net loss and therefore it had no impact to the basic and diluted loss per share of the Company. The Company's non-gaming profits remain subject to the Macau Complementary Tax and its casino revenues remain subject to the Macau special gaming tax and other levies in accordance with its concession agreement.

Melco Crown (CM) Hotel has been granted with tax holidays on hotel operating profits by the Macau government in 2007. During the years ended December 31, 2008 and 2007, Melco Crown (CM) Hotel incurred net loss and therefore it had no impact to the basic and diluted loss per share of the Company.

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**14. INCOME TAX CREDIT — Continued**

The Company adopted the provisions of FIN48 effective January 1, 2007. The adoption of FIN48 did not have a material impact on the Company's consolidated financial statements. An evaluation of the tax position for recognition was conducted by the Company by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. Uncertain tax benefits associated with the tax positions were measured based solely on the technical merits of being sustained on examinations. The Company concluded that there was no significant uncertain tax position requiring recognition in the consolidated financial statements for the years ended December 31, 2008 and 2007 and there is no material unrecognized tax benefit which would favourably affect the effective income tax rate in future periods. As of December 31, 2008 and 2007, there was no interest and penalties related to uncertain tax positions being recognized in the consolidated financial statements. The Company does not anticipate any significant increases or decreases to its liability for unrecognized tax benefit within the next twelve months.

The positions for tax years 2008 and 2007 remain open and subject to examination by the Hong Kong, Macau and the United States of America's tax authorities until the statute of limitations expire in each corresponding jurisdiction.

**15. SHARE-BASED COMPENSATION**

The Company has adopted a share incentive plan in 2006, to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentives to employees, directors and consultants and to promote the success of its business. Under the share incentive plan, the Company may grant either options to purchase the Company's ordinary shares or restricted shares. The plan administrator will determine the exercise price of an option and set forth the price in the award agreement. The exercise price may be a fixed or variable price related to the fair market value of our ordinary shares. If the Company grants an incentive share option to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of our share capital, the exercise price cannot be less than 110% of the fair market value of our ordinary shares on the date of that grant. The term of an award shall not exceed 10 years from the date of the grant. The maximum aggregate number of shares which may be issued pursuant to all awards (including shares issuable upon exercise of options) is 100,000,000 over 10 years, with a maximum of 50,000,000 over the first five years. As of December 31, 2008 and 2007, 69,570,105 shares and 93,881,424 shares out of 100,000,000 shares remain available for the grant of stock options or restricted shares respectively.

The Company granted ordinary share options to certain personnel during the year ended December 31, 2008 with exercise price determined at the closing price of the date of grant. During the year ended December 31, 2007, the exercise price of share options granted in September 2007 were determined at the closing price preceding the date of grant; and exercise price of share options granted in November 2007 were determined at the higher of the average of the closing price for the five trading days following from the date of grant and the closing price on the fifth trading day. These ordinary share options became exercisable over different vesting periods ranging from three years to five years with different vesting scale. The ordinary share options granted expire 10 years after the date of grant.

The Company has also granted restricted shares to certain personnel during the years ended December 31, 2008, 2007 and 2006. These restricted shares have a vesting period ranging from six months to five years. The grant date fair value is determined with reference to the market closing price at date of grant as adjusted by the factor that these restricted shares are not entitled to dividends during the vesting period.

Under SFAS No. 123R, the Company uses the Black-Scholes valuation model to determine the estimated fair value for each option grant issued, with highly subjective assumptions, changes in which could materially affect the estimated fair value. Expected volatility is based on the historical volatility of a peer group of publicly traded companies. Expected term is based upon the vesting term or the historical of expected term of publicly traded companies. The risk-free interest rate used for each period presented is based on the United States of America Treasury yield curve at the time of grant for the period equal to the expected term.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**15. SHARE-BASED COMPENSATION — Continued**

The fair value per option was estimated on the date of grant using the following weighted-average assumptions:

	December 31,		
	2008	2007	2006
Expected dividend yield	—	—	—
Expected stock price volatility	57.65%	38.26%	—
Risk-free interest rate	1.67%	3.96%	—
Forfeiture rate	—	—	—
Expected average life of options (years)	4.7	5.2	—

*Share Options*

A summary of share options activity under the share incentive plan as of December 31, 2008 and 2007, and changes during the years ended December 31, 2008 and 2007 are presented below:

	Number of Share Options	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	—	—		—
Granted	3,908,390	\$ 5.02		
Exercised	—	—		
Forfeited	(191,514)	\$ 5.06		
Expired	—	—		
Outstanding at December 31, 2007	3,716,876	\$ 5.02		—
Granted	20,558,343	\$ 1.83		
Exercised	—	—		
Forfeited	(2,003,178)	\$ 4.34		
Expired	(1,795)	\$ 5.06		
Outstanding at December 31, 2008	<u>22,270,246</u>	<u>\$ 2.14</u>	<u>9.6</u>	<u>—</u>
Exercisable at December 31, 2008	<u>383,385</u>	<u>\$ 4.97</u>	<u>8.8</u>	<u>—</u>

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**15. SHARE-BASED COMPENSATION — Continued**

*Share Options* — Continued

A summary of share options vested and expected to vest at December 31, 2008 are presented below:

	Vested			
	Number of Share Options	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Range of exercise prices per share (\$4.72 — \$5.06) (Note)	<u>383,385</u>	<u>\$ 4.97</u>	<u>8.8</u>	<u>—</u>

Note: 385,180 share options vested during the year ended December 31, 2008 of which 1,795 share options expired as of December 31, 2008.

	Expected to Vest			
	Number of Share Options	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Range of exercise prices per share (\$1.01 — \$5.06)	<u>21,886,861</u>	<u>\$ 2.09</u>	<u>9.6</u>	<u>—</u>

The weighted-average fair value of share options granted during the years ended December 31, 2008 and 2007 were \$0.80 and \$1.64, respectively. No share options were exercised during the years ended December 31, 2008 and 2007 and therefore no cash proceeds and tax benefits were recognized.

As of December 31, 2008, there was \$16,310 unrecognized compensation costs related to unvested share options. The costs are expected to be recognized over a weighted-average period of 3.0 years.

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**15. SHARE-BASED COMPENSATION — Continued**

*Restricted Shares*

A summary of the status of the share incentive plan's restricted shares as of December 31, 2008, and changes during the years ended December 31, 2008, 2007 and 2006 are presented below:

	Number of Restricted Shares	Weighted- Average Grant Date Fair Value
Unvested at January 1, 2006	—	\$ —
Granted	2,532,010	6.33
Vested	—	—
Forfeited	—	—
Unvested at December 31, 2006 and January 1, 2007	2,532,010	\$ 6.33
Granted	—	—
Vested	(395,256)	6.33
Forfeited	(130,310)	6.33
Unvested at December 31, 2007 and January 1, 2008	2,006,444	\$ 6.33
Granted	6,529,844	1.30
Vested	(226,317)	6.33
Forfeited	(771,895)	5.88
Unvested at December 31, 2008	<u>7,538,076</u>	<u>\$ 2.02</u>

The total fair values of the restricted shares vested during the years ended December 31, 2008 and 2007 were \$1,433 and \$2,502, respectively.

As of December 31, 2008, there was \$9,634 of unrecognized compensation costs related to restricted shares. The costs are expected to be recognized over a weighted-average period of 1.8 years.

The impact of share options and restricted shares for the years ended December 31, 2008, 2007 and 2006 recognized in the consolidated financial statements were as follows:

	Year Ended December 31,		
	2008	2007	2006
Share options	\$ 2,598	\$ 518	\$ —
Restricted shares	<u>4,420</u>	<u>4,828</u>	<u>278</u>
Total share-based compensation expenses	7,018	5,346	278
Less: share-based compensation expenses capitalized	<u>(163)</u>	<u>(90)</u>	<u>—</u>
Share-based compensation recognized in general and administrative expenses	<u>\$ 6,855</u>	<u>\$ 5,256</u>	<u>\$ 278</u>

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**16. EMPLOYEE BENEFIT PLANS**

The Company provides defined contribution plans for their employees in Macau and Hong Kong. For the years ended December 31, 2008, 2007 and 2006, the Company's contributions into the provident fund were \$4,584, \$1,495 and \$27, respectively.

**17. DISTRIBUTION OF PROFITS**

All subsidiaries incorporated in Macau are required to set aside a minimum of 10% — 25% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 25% — 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. The legal reserve sets aside an amount from the consolidated statements of operations and is not available for distribution to the shareholders of the subsidiaries. The appropriation of legal reserve is recorded in the consolidated financial statements in the year in which it is approved by the boards of directors of the relevant subsidiaries. As of December 31, 2008 and 2007, the balance of the reserve amounted to \$3 in each of those years.

The City of Dreams Project Facility signed in September 2007 contains restrictions on payment of dividends for the Borrowing Group. There is a restriction on paying dividends during the construction phase of the City of Dreams project. Upon completion of the construction of the City of Dreams, the relevant subsidiaries will only be able to pay dividends if they satisfy certain financial tests and conditions.

**18. COMMITMENTS AND CONTINGENCIES**

**(a) Capital Commitments**

As of December 31, 2008, the Company had capital commitments contracted for but not provided mainly for the construction and acquisition of property and equipment for the City of Dreams project totaling \$488,112.

Melco Crown (COD) Developments accepted in principle an offer from the Macau government to acquire the Cotai Land in Macau for approximately \$105,091, with \$37,437 paid at signing of the government lease in February 2008. In August 2008, Melco Crown (COD) Developments obtained the official title of this land use right and is required to pay the remaining balance of approximately \$67,654 in nine half-yearly installments bearing interest at 5% per annum with the first installment payable in February 2009, six months from the date of publication of the land grant in the Macau government gazette. The outstanding balance has been included in the accrued expenses and other current liabilities of \$13,763 and land use right payable of \$53,891, respectively as of December 31, 2008. A guarantee deposit of approximately \$424 was also paid upon signing of the government lease in February 2008, subject to adjustments based on the relevant amount of rent payable during the year. During the construction period, rent in an aggregate amount of \$424 per annum will be payable to the Macau government. Following the completion of construction, rent in an aggregate amount of \$903 per annum will be payable to the Macau government. The rent amounts may be adjusted every five years as agreed between the Macau government and Melco Crown (COD) Developments, using the applicable market rates in effect at the time of the rent adjustment. The construction of the City of Dreams project commenced in April 2006. At December 31, 2008, the Company's total commitments of rent for the lease of the City of Dreams site was \$21,960.

In 2006, the Macau government had officially granted the Taipa Land to Melco Crown (CM) Developments. A guarantee deposit of approximately \$20 was paid upon signing of the lease in 2006, subject to adjustments in accordance with the relevant amount of rent payable during the year. During the construction period, rent was due at an annual amount of \$20. The annual rent became due at \$171 after the completion of construction in May 2007. The rent amounts may be adjusted every five years as agreed between the Macau government and Melco Crown (CM) Developments, using the applicable market rates in effect at the time of the rent adjustment. At December 31, 2008, the Company's total commitments of rent for the lease of Crown Macau site was \$3,795.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**18. COMMITMENTS AND CONTINGENCIES — Continued**

(a) **Capital Commitments — Continued**

MPEL Macau Peninsula entered into an agreement to purchase the entire issued share capital of a company which holds the rights to a land lease in respect of a plot of land on the Macau peninsula. The aggregate consideration is \$192,802 and an amount of \$12,853 was paid as a down payment upon signing of the sale and purchase agreement and is included in deposit for acquisition of land interest as disclosed in Note 7 to the consolidated financial statements. The balance is payable on completion of the acquisition. The agreement completion deadline was first extended in January 2007 and again in July 2007 and July 2008 when the Company negotiated an extension of the completion deadline for the conditional agreement to the end of July 2009. The completion of the acquisition is subject to conditions that are not under control of the Company.

(b) **Lease Commitments**

The Company leases office space, Mocha Club sites and certain equipment under non-cancellable operating lease agreements that expire at various dates through December 2021. Those lease agreements provide for periodic rental increases based on the general inflation rate. During the years ended December 31, 2008, 2007 and 2006, the Company incurred rental expenses amounting to \$12,060, \$11,716 and \$3,375, respectively.

As of December 31, 2008, minimum lease payments under all non-cancellable leases were as follows:

**Operating Leases**

Year

2009	\$ 9,908
2010	7,906
2011	5,989
2012	5,882
2013	5,681
Over 2013	<u>13,364</u>
<b>Total minimum lease payments</b>	<b><u>\$ 48,730</u></b>

(c) **Other Commitments**

On September 8, 2006, the Macau government granted a gaming subconcession to Melco Crown Gaming to operate the gaming business in Macau. Pursuant to the gaming subconcession agreement, Melco Crown Gaming has committed to the following:

- i) To make a minimum investment in Macau of \$499,164 (MOP 4,000,000,000) by December 2010.
- ii) To pay the Macau government a fixed annual premium of \$3,744 (MOP30,000,000) starting from June 26, 2009 if the hotel, casino and resort projects operated by the Company's subsidiaries are not completed by then.
- iii) To pay the Macau government a variable premium depending on the number and type of gaming tables and gaming machines that the Company operates. The variable premium is calculated as follows:
  - \$37 (MOP300,000) per year for each gaming table (subject to a minimum of 100 tables) reserved exclusively for certain kind of games or to certain players;
  - \$19 (MOP150,000) per year for each gaming table (subject to a minimum of 100 tables) not reserved exclusively for certain kind of games or to certain players; and
  - \$0.1 (MOP1,000) per year for each electrical or mechanical gaming machine, including the slot machine.



**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**18. COMMITMENTS AND CONTINGENCIES — Continued**

(c) **Other Commitments** — Continued

- iv) To pay the Macau government a sum of 1.6% of the gross revenues of the gaming business operations on a monthly basis, that will be made available to a public foundation for the promotion, development and study of social, cultural, economic, educational, scientific, academic and charity activities, to be determined by the Macau government.
- v) To pay the Macau government a sum of 2.4% of the gross revenues of the gaming business operations on a monthly basis, which will be used for urban development, tourist promotion and the social security of Macau.
- vi) To pay special gaming tax to the Macau government of an amount equal to 35% of the gross revenues of the gaming business operations on a monthly basis.
- vii) Melco Crown Gaming must maintain two bank guarantees issued by a specific bank with the Macau government as the beneficiary in a maximum amount of \$62,395 (MOP500,000,000) from September 8, 2006 to September 8, 2011 and a maximum amount of \$37,437 (MOP300,000,000) from that date until the 180th day after the termination date of the gaming subconcession. A sum of 1.75% of the guarantee amount will be payable by Melco Crown Gaming quarterly to such bank.

At December 31, 2008, the Company had other commitments contracted for but not provided in respect of shuttle buses and limousines services for the operations of Crown Macau and the City of Dreams projects totaling \$763. Payment for the shuttle buses and limousines services during the years ended December 31, 2008 and 2007 amounted to \$3,457 and 3,660, respectively.

At December 31, 2008, the Company had other commitments contracted for but not provided in respect of consulting, marketing, and other services for the operations of Crown Macau and the City of Dreams projects totaling \$3,365. Expenses incurred for such services during the year ended December 31, 2008 amounted to \$2,432.

(d) **Contingencies**

As of December 31, 2008, the Melco Crown Gaming has issued a promissory note (“livranca”) of \$68,635 (MOP50,000,000) to a bank in respect of bank guarantees issued to the Macau government as disclosed in Note 18(c)(vii) to the consolidated financial statements.

In addition, during the year ended December 31, 2008, the Company entered into two deeds of guarantee with third parties to guarantee certain payment obligations of the City of Dreams’ operations amounted to US\$10,000.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**19. RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2008, 2007 and 2006, the Company entered into the following material related party transactions:

	Year Ended December 31,		
	2008	2007	2006
<i>Amounts paid/payable to affiliated companies</i>			
Advertising and promotional expenses	\$ 597	\$ 65	\$ —
Consultancy fee capitalized in construction in progress	246	2,294	3,015
Consultancy fee recognized as expense	1,168	4,150	2,525
Interest charges	—	—	413
Management fees	1,698	—	144
Network support fee	52	238	193
Project management fees capitalized in construction in progress	—	1,442	1,420
Operating and office supplies	255	707	—
Property and equipment	16,327	12,141	11,991
Office rental	1,466	1,114	473
Repairs and maintenance	655	41	—
Service fee expense	781	—	1,988
Traveling expense capitalized in construction in progress	66	—	—
Traveling expense recognized as expense	1,387	746	375
<i>Amounts received/receivable from affiliated companies</i>			
Rooms and food and beverage income	100	41	—
Sales proceeds for disposal of property and equipment	2,788	—	—
Service fee income	—	—	16,276
Other service fee income	276	—	—
<i>Amounts paid/payable to shareholders</i>			
Interest charges capitalized in construction in progress	3,367	4,167	586
Interest charges recognized as expense	—	758	1,814

Details of those material related party transactions provided in the table above are as follows:

**(a) Amounts Due From Affiliated Companies**

SJM — The Company earned service fee income prior to Melco Crown Gaming obtaining the gaming subconcession in September 2006 for the provision of services to certain electronic gaming lounges of SJM. Service fee income was calculated based on a pre-determined rate stipulated in the respective agreement of the gaming revenue from the gaming machines. The Company purchased plant and equipment from SJM during the year ended December 31, 2006. There were no outstanding balances with SJM as of December 31, 2008 and 2007.

Elixir International Limited (“Elixir”) — The Company disposed certain gaming machines to Elixir, a wholly-owned subsidiary of Melco during the year ended December 31, 2008. Property and equipment was purchased from Elixir primarily for the Crown Macau and City of Dreams projects during the years ended December 31, 2008, 2007 and 2006. Elixir provided certain services to the Company primarily related to the Crown Macau and City of Dreams projects including repairs and maintenance, network support and consultancy during the years ended December 31, 2008, 2007 and 2006. Elixir purchased rooms and food and beverage services from the Company during the years ended December 31, 2008 and 2007. As of December 31, 2008 and 2007, the outstanding balances due from Elixir were \$622 and nil, respectively.

Melco’s subsidiary — Melco’s subsidiary purchased rooms services and food and beverages from the Company during the years ended December 31, 2008 and 2007. The outstanding balances due from the Melco’s subsidiary as of December 31, 2008 and 2007 were \$28 and nil, respectively.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**19. RELATED PARTY TRANSACTIONS — Continued**

**(b) Amounts Due To Affiliated Companies**

Sociedade de Turismo e Diversões de Macau, S.A.R.L. (“STDM”) and its subsidiaries (together with STDM referred to as “STDM Group”) and Shun Tak China Travel Ship Management Limited (“Shun Tak”) — The Company incurred expenses associated with its use of STDM and Shun Tak ferry and hotel accommodation services within Hong Kong and Macau during the years ended December 31, 2008, 2007 and 2006. Relatives of Mr. Lawrence Ho, the Company’s Co-Chairman and Chief Executive Officer, have beneficial interests within those companies. The traveling expenses in connection with the Crown Macau and City of Dreams projects were capitalized to construction in progress during the construction period. STDM Group provided advertising and promotional services to the Company during the years ended December 31, 2008 and 2007. The outstanding balances due to STDM Group were \$215 and \$61 and Shun Tak were \$8 and \$43 as of December 31, 2008 and 2007, respectively, and were unsecured, non-interest bearing and repayable on demand.

Melco’s subsidiaries — Melco’s subsidiaries provided services to the Company primarily for the Crown Macau and City of Dreams projects and operations which included advertising and promotion, consultancy associated with marketing and public relations in Macau and China, network support, system maintenance and administration support, project management, management of general and administrative matters and repairs and maintenance during the years ended December 31, 2008, 2007 and 2006. The Company incurred rental expense from its leases of office premises and equipment from Melco’s subsidiaries during the years ended December 31, 2008, 2007 and 2006. The Company purchased property and equipment and operating and office supplies from Melco’s subsidiaries during the years ended December 31, 2008, 2007 and 2006. The Company reimbursed Melco’s subsidiaries for service fees incurred on its behalf for rental, office administration, travel and security coverage for the operation of the office of the Company’s Chief Executive Officer during the year ended December 31, 2008. Melco’s subsidiaries fees charged for management of general administrative services, project management and consultancy, were determined based on actual cost incurred during the years ended December 31, 2007 and 2006. The project management fee and consultancy fee in connection with the Crown Macau and City of Dreams projects were capitalized to construction in progress during the construction period during the years ended December 31, 2007 and 2006.

The outstanding balances due to Melco’s subsidiaries as of December 31, 2008 and 2007, were \$1,507 and \$786, respectively, and were unsecured, non-interest bearing and repayable on demand. Interest was paid in respect of the interest-bearing balance of \$16,857 during the year ended December 31, 2006 which bore interest at 9% per annum and had been charged up to June 30, 2006 from which date onwards the amounts due ceased to be interest bearing.

Dr. Stanley Ho — The Company received funds from Dr. Stanley Ho for working capital purposes. The amount was unsecured and bore interest at 4% per annum. The funds were fully repaid in 2006. Interest was paid in respect of the balances due during the year ended December 31, 2006.

Publishing and Broadcasting (Finance) Limited — The Company paid service fees to Publishing and Broadcasting (Finance) Limited, a subsidiary of PBL, for the year ended December 31, 2006. The service fees were paid for general administrative services provided and were based on a pre-determined fixed monthly amount. There was no outstanding balance as of December 31, 2008 and 2007.

Lisboa Holdings Limited — During the years ended December 31, 2008, 2007 and 2006, the Company paid rental expenses and service fees for Mocha Clubs gaming premises to Lisboa Holdings Limited, a company in which a relative of Mr. Lawrence Ho has beneficial interest. There was no outstanding balance as of December 31, 2008 and 2007.

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**19. RELATED PARTY TRANSACTIONS — Continued**

**(b) Amounts Due To Affiliated Companies — Continued**

Crown's subsidiary — Crown's subsidiary provided services to the Company primarily for the Crown Macau and City of Dreams projects and operations which included general consultancy, project management, management of sale representative offices and the Company reimbursed Crown's subsidiary with associated costs including traveling during the years ended December 31, 2008, 2007 and 2006. Part of the consultancy charges was capitalized in construction in progress during construction period for the years ended December 31, 2008, 2007 and 2006. The Company purchased property and equipment from Crown's subsidiary during the years ended December 31, 2008 and 2007. Crown's subsidiary purchased rooms and food and beverage services from the Company during the years ended December 31, 2008 and 2007. As of December 31, 2008 and 2007, the outstanding balances due to Crown's subsidiary of \$241 and \$5,712, respectively, were unsecured, non-interest bearing and repayable on demand.

Shuffle Master Asia Limited ("Shuffle Master") and Stargames Corporation Pty. Limited ("Stargames") — The Company purchased spare parts, property and equipment and incurred repairs and maintenance expense with Stargames and Shuffle Master in which the Company's Chief Operating Officer is an independent non-executive director of its parent company, during the years ended December 31, 2008 and 2007. There was no outstanding balance with Stargames as of December 31, 2008 and 2007. The outstanding balance due to Shuffle Master as of December 31, 2008 and 2007 were \$4 and nil, respectively, were unsecured, non-interest bearing and repayable on demand.

Chang Wah Garment Manufacturing Company Limited ("Chang Wah") — The Company purchased uniforms from Chang Wah during the year ended December 31, 2008, a company in which a relative of Mr. Lawrence Ho has beneficial interest, for Crown Macau. The outstanding balance due to Chang Wah as of December 31, 2008 was \$10, was unsecured, non-interest bearing and repayable on demand.

**(c) Amounts Due To/Loans From Shareholders**

Melco — The Company received funds from Melco, for working capital purposes, acquisition of interests in the Taipa Land and Cotai Land, construction of the Crown Macau and City of Dreams projects, acquisition of additional 20% interest in Mocha Slot Group and repayment of shareholder loan advanced by Dr. Stanley Ho and payment of the deposit for acquisition of land interest.

During the year ended December 31, 2006, Melco and PBL agreed to convert the working capital loan of a total of \$150,000, contributed in equal proportions, into equity.

The outstanding balances due to Melco as of December 31, 2008 and 2007 of \$75,283 and \$74,704, respectively, were unsecured. A portion of these outstanding balances totaling \$74,367 and \$73,999 as of December 31, 2008 and 2007 were interest bearing at 3-months HIBOR to May 15, 2008 and subsequently at 3-months HIBOR plus 1.5% per annum. The remaining portion of the outstanding balances as of December 31, 2008 and 2007 were non-interest bearing. The final maturity date was extended in September 2007 to May 2009 at which time the balance was \$73,999 and further extended in June 2008 to May 2010 at which time the balance was \$74,367. The loan balance has therefore been classified as non-current liabilities as of December 31, 2008. The remaining balances of \$916 and \$705 as of December 31, 2008 and 2007, respectively, were repayable on demand and classified as current liabilities.

Crown — The Company received funds from PBL, for working capital purposes, acquisition of interests in the Taipa Land and Cotai Land, construction of the Crown Macau and City of Dreams projects, acquisition of an additional 20% interest in Mocha Slot Group and repayment of shareholder loan advanced by Dr. Stanley Ho and payment of the deposit for acquisition of land interest.

During the year ended December 31, 2006, Melco and PBL agreed to convert the working capital loan of a total of \$150,000, contributed in equal proportions, into equity.

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**19. RELATED PARTY TRANSACTIONS — Continued**

**(c) Amounts Due To/Loans From Shareholders — Continued**

Crown replaced PBL as shareholder of the Company as discussed in Note 1 to the consolidated financial statements and assumed PBL's interest in outstanding balance due from the Group.

The outstanding balances due to Crown as of December 31, 2008 and 2007 of \$41,396 and \$41,463, respectively, were unsecured. A portion of these outstanding balances totaling \$41,280 and \$40,617 as of December 31, 2008 and 2007, respectively, were interest bearing at 3-months HIBOR per annum, and the remaining portion of the outstanding balances as of December 31, 2008 and 2007 were non-interest bearing. The final maturity date was extended in September 2007 to May 2009 at which time the balance was \$40,617 and further extended in June 2008 to May 2010 at which time the balance was \$41,280. The loan balance has therefore been classified as non-current liabilities as of December 31, 2008. The remaining balances of \$116 and \$846 as of December 31, 2008 and 2007, respectively, were repayable on demand and classified as current liabilities.

- (d) Melco contributed its interest in Melco Crown (COD) Developments to the Company pursuant to a shareholders agreement. Pursuant to an agreement signed on May 11, 2005, a subsidiary of Melco acquired from Great Respect Limited the remaining 49.2% interest in the City of Dreams project for \$150,641 and contributed it to MPEL (Greater China), subject to certain conditions precedent. The acquisition was completed on September 5, 2005 and \$48,077 out of \$150,641 was financed by a loan from Melco and PBL. The price paid to acquire the additional interest was previously classified as other assets. Since the construction work for the City of Dreams project commenced in April 2006, the amount was reclassified to the land use right as of that date.

- (e) On April 21, 2005, a consent was issued by the Macau government to Melco Crown (COD) Developments pursuant to which the Macau government offered to Melco Crown (COD) Developments the right to be granted a medium term lease of Cotai Land, to construct and develop the City of Dreams project. The construction work for the City of Dreams project commenced in April 2006. The land use right and related payable to the Macau government of \$63,411 has been included in the land use right, accrued expenses and other current liabilities, and land use right payable as of December 31, 2006. In October 2007, the Macau government revised the terms of the land use right of Cotai Land with land use right and related payables increased to \$105,091. The revised amount has been included in the land use right, accrued expenses and other current liabilities, and land use right payable as of December 31, 2007. In January 2008, the Company received from the Macau government the final terms of the land lease agreement of \$105,091 and paid \$37,437 at signing of the government lease in February 2008. In August 2008, Melco Crown (COD) Developments obtained the official title of this land use right and the remaining balance of approximately \$67,654 due in nine half-yearly installments bearing interest at 5% per annum with the first installment payable in February 2009, six months from the date of publication of the land grant in the Macau government gazette. The outstanding balance has been included in the accrued expenses and other current liabilities and land use right payable as of December 31, 2008. The expiry date of the lease of the Cotai Land is August 2033 and the Company amortizes the land use right from the commencement date of the construction work to the expiry date.

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**19. RELATED PARTY TRANSACTIONS — Continued**

- (f) On February 8, 2005, Melco completed the acquisition of an additional 20% equity interest in Melco Crown (CM) Developments from STDM for \$16,360 in convertible notes of Melco. Melco then transferred this 20% equity interest to the Company together with the 50% interest in Melco Crown (CM) Developments purchased in the year ended December 31, 2004. On July 28, 2005, the Group completed the acquisition of the remaining 30% interest in Melco Crown (CM) Developments from STDM for \$51,282, of which \$25,641 was financed by an advance from Melco and PBL.

On June 24, 2005, Melco Crown (CM) Developments accepted a formal offer from the Macau government to acquire the Taipa Land for \$18,600, which was included in the amount of land use rights as of December 31, 2006. As of December 31, 2005, Melco Crown (CM) Developments had paid \$6,229 for the Taipa Land. The remaining balance of approximately \$12,371 was fully settled as of December 31, 2006.

The expiry date of the lease of the Taipa Land is March 2031 and the Company amortizes the land use right from the commencement date of the construction work to the expiry date.

- (g) On November 11, 2004, Melco Crown (CM) Developments entered into letters of confirmation with SJM pursuant to which SJM would lease the casino premises at and operate the casino gaming activities at the Crown Macau project pursuant to an arrangement under which Melco Crown (CM) Developments would receive fees and rentals based on a percentage of the revenues from such gaming operations. The letters of confirmation were terminated subsequently in March 2006 when PBL entered into an agreement with Wynn Macau to acquire a gaming subconcession under Wynn Macau's concession.
- (h) The Company completed a reorganization in October 2006. As a result of the restructuring, the Company acquired Melco Crown Gaming, the holder of the gaming subconcession in Macau, and Melco's 20% interest in MPEL (Greater China), the holding company of Mocha Slot Group, Melco Crown (CM) Developments and Melco Crown (COD) Developments.
- (i) On March 15, 2006, in contemplation of the grant of the gaming subconcession to Melco Crown Gaming, and for the purposes of continuity of the slot lounge services provision business, Melco, Mocha Slot Group Limited, Mocha Slot Management Limited, one of the subsidiaries of MPEL and SJM entered into an agreement for the conditional termination of all existing services agreements of Mocha Slot. The termination became effective subsequent to the grant of gaming subconcession to Melco Crown Gaming in September 2006.

In contemplation of the acquisition of Melco Crown Gaming by the Group, Mocha Slot has made use of the gaming subconcession of Melco Crown Gaming before Melco Crown Gaming was contributed to the Company, at nil consideration, to operate the slot lounge business, in accordance with an arrangement letter signed.

- (j) On May 9, 2006, MPEL International entered into a sale and purchase agreement ("Sale and Purchase Agreement") to acquire the remaining 20% of Mocha Slot held by Dr. Stanley Ho and repaid the shareholder loan advanced from Dr. Stanley Ho to Mocha Slot for an aggregate consideration of approximately \$37,910. The Sale and Purchase Agreement was completed on the same date on which the Sale and Purchase Agreement was signed.

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**19. RELATED PARTY TRANSACTIONS — Continued**

(k) On May 17, 2006, MPEL Macau Peninsula entered into an agreement to purchase the entire issued share capital of a company of which Dr. Stanley Ho is one of the directors but in which he holds no shares. Dr. Stanley Ho is the father of Mr. Lawrence Ho, Co-Chairman and Chief Executive Officer of the Company and the chairman of Melco until he resigned this position in March 2006. The company holds the rights to a land lease in respect of a plot of land with an area of 6,480 square meters located at Zona dos Novos Aterros do Porto Exterior, on the Macau peninsula. The aggregate consideration is \$192,802, which is payable in cash and an amount of \$12,853 was paid as down payment upon signing of the sale and purchase agreement, which was financed from Melco and PBL, equally, and is included in deposit for acquisition of land interest. The balance is payable on completion of the acquisition, which is subject to conditions that are not under the control of the Company. The agreement completion deadline was first extended in January 2007 and again in July 2007 and July 2008 when the Company negotiated an extension of the completion deadline for the conditional agreement to the end of July 2009. Other than the extension of the purchase completion deadline, all other provisions of the agreement remain in force, and there were no fees associated with any of the extensions.

**20. SEGMENT INFORMATION**

The Company is principally engaged in the gaming and hospitality business. Starting from 2006, the Company's chief operating decision makers monitor its operations and evaluate earnings by reviewing the assets and operations of Mocha Clubs, Crown Macau and City of Dreams projects and determined that the Company has three reportable segments. Crown Macau was an operation of casino and hotel resort and Mocha Clubs was non-casino-based operations of electronic gaming machines. As of December 31, 2008 and 2007, Mocha Clubs and Crown Macau are the two primary businesses of the Company as the City of Dreams project is in the development and construction phase. No revenue was generated by the City of Dreams project and Taipa Square Casino is included within Corporate and Others. All revenues were generated in Macau.

**Total Assets**

	December 31,	
	2008	2007
Mocha Clubs	\$ 166,241	\$ 149,524
Crown Macau	617,383	781,832
City of Dreams	2,117,951	918,198
Corporate and Others	1,596,714	1,770,714
<b>Total consolidated assets</b>	<b>\$ 4,498,289</b>	<b>\$ 3,620,268</b>

**Capital Expenditures**

	Year Ended December 31,		
	2008	2007	2006
Mocha Clubs	\$ 15,491	\$ 13,297	\$ 19,977
Crown Macau	6,275	203,845	139,500
City of Dreams	1,148,098	519,522	61,786
Corporate and Others	21,334	4,219	426
<b>Total capital expenditures</b>	<b>\$ 1,191,198</b>	<b>\$ 740,883</b>	<b>\$ 221,689</b>

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued**  
**(In thousands of U.S. dollars, except share and per share data)**

**20. SEGMENT INFORMATION — Continued**

For the years ended December 31, 2008 and 2007, there was no single customer that contributed more than 10% of the total revenues. For the year ended December 31, 2006, one customer, SJM, accounted for 45% of total revenues.

The Company's segment information on its results of operations for the following years is as follows:

	Year Ended December 31,		
	2008	2007	2006
<b>NET REVENUES</b>			
Mocha Clubs	\$ 91,967	\$ 81,343	\$ 36,101
Crown Macau	1,313,047	277,153	—
Corporate and Others	11,120	—	—
<b>Total net revenues</b>	<u>1,416,134</u>	<u>358,496</u>	<u>36,101</u>
<b>ADJUSTED EBITDA (1)</b>			
Mocha Clubs	25,805	22,056	12,846
Crown Macau	162,969	(22,444)	(1,901)
<b>Total adjusted EBITDA</b>	<u>188,774</u>	<u>(388)</u>	<u>10,945</u>
<b>OPERATING COSTS AND EXPENSES</b>			
Pre-opening costs	(21,821)	(40,032)	(11,679)
Amortization of gaming subconcession	(57,237)	(57,190)	(14,309)
Amortization of land use rights	(18,269)	(17,276)	(12,358)
Depreciation and amortization	(51,379)	(39,466)	(9,845)
Stock-based compensation	(6,855)	(5,256)	(278)
Marketing expense relating to Crown Macau opening	—	(11,959)	—
Impairment loss recognized on slot lounge services agreement	—	—	(7,640)
Corporate and others expenses	(32,039)	(24,250)	(10,538)
Minority interest included in adjusted EBITDA Mocha Clubs	—	—	(1,951)
<b>Total operating costs and expenses</b>	<u>(187,600)</u>	<u>(195,429)</u>	<u>(68,598)</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,174</u>	<u>(195,817)</u>	<u>(57,653)</u>
<b>NON-OPERATING (EXPENSES) INCOME</b>			
Interest income	8,215	18,640	816
Interest expenses, net of capitalized interest	—	(770)	(11,184)
Write off of deferred financing costs	—	—	(12,698)
Amortization of deferred financing costs	(765)	(1,005)	—
Loan commitment fees	(14,965)	(4,760)	—
Foreign exchange gain, net	1,436	3,832	55
Other income, net	972	275	285
<b>Total non-operating (expenses) income</b>	<u>(5,107)</u>	<u>16,212</u>	<u>(22,726)</u>
<b>LOSS BEFORE INCOME TAX</b>	<u>(3,933)</u>	<u>(179,605)</u>	<u>(80,379)</u>
<b>INCOME TAX CREDIT</b>	<u>1,470</u>	<u>1,454</u>	<u>1,885</u>
<b>LOSS BEFORE MINORITY INTERESTS</b>	<u>(2,463)</u>	<u>(178,151)</u>	<u>(78,494)</u>
<b>MINORITY INTERESTS</b>	<u>—</u>	<u>—</u>	<u>5,015</u>
<b>NET LOSS</b>	<u>\$ (2,463)</u>	<u>\$ (178,151)</u>	<u>\$ (73,479)</u>



**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued  
(In thousands of U.S. dollars, except share and per share data)**

**20. SEGMENT INFORMATION — Continued**

Note

- (1) “Adjusted EBITDA” is earnings before interest, taxes, depreciation, amortization, other expenses (including pre-opening costs, share-based compensation, marketing expense relating to Crown Macau opening in May 2007, non-operating income (expenses) and impairment loss recognized on the slot lounge services agreement). The Adjusted EBITDA is presented for results of Mocha Clubs and Crown Macau. Prior to the opening of the casino operation of Crown Macau in May 2007, the management of the Company used Adjusted EBITDA for Mocha Clubs to measure the operating performance of the Company as Mocha Clubs was the Company’s business until then. Subsequent to the opening of the casino operation of Crown Macau in May 2007, the management of the Company used Adjusted EBITDA of Mocha Clubs and Crown Macau to measure their operating performance as they are the two primary operations of the Company. The management of the Company does not use Adjusted EBITDA on the City of Dreams project to measure its operating performance since it is still in its development stage.

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**ADDITIONAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE 1**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**BALANCE SHEETS**

(In thousands of U.S. dollars, except share and per share data)

	December 31,	
	2008	2007
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 163,014	\$ 573,650
Amounts due from affiliated companies	—	2
Amounts due from subsidiaries	580,423	163,223
Prepaid expenses and other current assets	720	3,473
Total current assets	744,157	740,348
INVESTMENTS IN SUBSIDIARIES	1,967,503	1,992,448
LONG-TERM PREPAYMENT AND DEPOSITS	1,715	—
TOTAL	\$ 2,713,375	\$ 2,732,796
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES		
Accrued expenses and other current liabilities	\$ 4,907	\$ 2,905
Income tax payable	1,296	1,177
Amounts due to affiliated companies	1,553	3,661
Amounts due to subsidiaries	180,336	180,345
Amounts due to shareholders	1,032	1,551
Total current liabilities	189,124	189,639
LOANS FROM SHAREHOLDERS	115,647	114,616
<b>SHAREHOLDERS' EQUITY</b>		
Ordinary shares at US\$0.01 par value per share (Authorized — 1,500,000,000 shares and issued — 1,321,550,399 and 1,320,938,902 shares as of December 31, 2008 and 2007 (Note 13))	13,216	13,209
Treasury shares, at US\$0.01 par value per share, 385,180 and nil shares as of December 31, 2008 and 2007 (Note 13)	(4)	—
Additional paid-in capital	2,689,257	2,682,125
Accumulated other comprehensive losses	(35,685)	(11,076)
Accumulated losses	(258,180)	(255,717)
Total shareholders' equity	2,408,604	2,428,541
TOTAL	\$ 2,713,375	\$ 2,732,796

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**ADDITIONAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE 1**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF OPERATIONS**

(In thousands of U.S. dollars, except share and per share data)

	Year Ended December 31,		
	2008	2007	2006
REVENUE	\$ —	\$ —	\$ —
OPERATING EXPENSES			
General and administrative	(22,115)	(16,323)	(4,282)
Total operating expenses	(22,115)	(16,323)	(4,282)
OPERATING LOSS	(22,115)	(16,323)	(4,282)
NON-OPERATING INCOME (EXPENSES)			
Interest income	5,755	11,159	240
Interest expenses	—	(758)	—
Foreign exchange (loss) gain, net	(409)	5,138	2
Other income, net	18,291	16,106	—
Share of results of subsidiaries	(3,866)	(192,296)	(69,439)
Total non-operating income (expenses)	19,771	(160,651)	(69,197)
LOSS BEFORE INCOME TAX	(2,344)	(176,974)	(73,479)
INCOME TAX EXPENSE	(119)	(1,177)	—
NET LOSS	\$ (2,463)	\$ (178,151)	\$ (73,479)

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**ADDITIONAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE 1  
FINANCIAL INFORMATION OF PARENT COMPANY  
STATEMENTS OF SHAREHOLDERS' EQUITY  
(In thousands of U.S. dollars, except share and per share data)**

	Common Shares		Treasury Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Losses	Total Shareholders' Equity	Comprehensive Loss
	Shares	Amount	Shares	Amount					
BALANCE AT JANUARY 1, 2006	500,000,000	\$ 5,000	—	\$ —	\$ 237,779	\$ —	\$ (4,087)	\$ 238,692	
Net loss for the year	—	—	—	—	—	—	(73,479)	(73,479)	\$ (73,479)
Foreign currency translation adjustment	—	—	—	—	—	740	—	740	740
Share-based compensation (Note 15)	—	—	—	—	278	—	—	278	
Shares issued upon initial public offering, net of offering expenses (Note 13)	180,931,146	1,809	—	—	1,065,665	—	—	1,067,474	
Shares issued during the year (Note 13)	500,000,000	5,000	—	—	315,000	—	—	320,000	
Capital contributions from shareholders (Note 19 (c))	—	—	—	—	150,000	—	—	150,000	
Contribution from Melco	—	—	—	—	109,170	—	—	109,170	
Contribution of Melco Crown Gaming from PBL	—	—	—	—	77,491	—	—	77,491	
<b>BALANCE AT DECEMBER 31, 2006</b>	<b>1,180,931,146</b>	<b>11,809</b>	<b>—</b>	<b>—</b>	<b>1,955,383</b>	<b>740</b>	<b>(77,566)</b>	<b>1,890,366</b>	<b>\$ (72,739)</b>
Net loss for the year	—	—	—	—	—	—	(178,151)	(178,151)	\$ (178,151)
Foreign currency translation adjustment	—	—	—	—	—	(1,685)	—	(1,685)	(1,685)
Change in fair value of interest rate swap agreements	—	—	—	—	—	(10,131)	—	(10,131)	(10,131)
Share-based compensation (Note 15)	—	—	—	—	5,346	—	—	5,346	
Shares issued, net of offering expenses (Note 13)	139,612,500	1,396	—	—	721,400	—	—	722,796	
Shares issued upon restricted shares vested (Note 13)	395,256	4	—	—	(4)	—	—	—	
<b>BALANCE AT DECEMBER 31, 2007</b>	<b>1,320,938,902</b>	<b>13,209</b>	<b>—</b>	<b>—</b>	<b>2,682,125</b>	<b>(11,076)</b>	<b>(255,717)</b>	<b>2,428,541</b>	<b>\$ (189,967)</b>
Net loss for the year	—	—	—	—	—	—	(2,463)	(2,463)	\$ (2,463)
Change in fair value of interest rate swap agreements	—	—	—	—	—	(24,609)	—	(24,609)	(24,609)
Reversal of over-accrued offering expenses	—	—	—	—	117	—	—	117	
Share-based compensation (Note 15)	—	—	—	—	7,018	—	—	7,018	
Shares issued upon restricted shares vested (Note 13)	226,317	3	—	—	(3)	—	—	—	
Shares issued for future exercises of share options (Note 13)	385,180	4	(385,180)	(4)	—	—	—	—	
<b>BALANCE AT DECEMBER 31, 2008</b>	<b>1,321,550,399</b>	<b>\$ 13,216</b>	<b>(385,180)</b>	<b>\$ (4)</b>	<b>\$ 2,689,257</b>	<b>\$ (35,685)</b>	<b>\$ (258,180)</b>	<b>\$ 2,408,604</b>	<b>\$ (27,072)</b>

**MELCO CROWN ENTERTAINMENT LIMITED**  
**(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**ADDITIONAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE 1**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF CASH FLOWS**  
**(In thousands of U.S. dollars)**

	Year Ended December 31,		
	2008	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (2,463)	\$ (178,151)	\$ (73,479)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Share-based compensation	6,855	5,256	278
Share of results of subsidiaries	3,866	192,296	69,439
Changes in operating assets and liabilities:			
Amounts due from affiliated companies	2	28	(30)
Prepaid expenses and other current assets	2,753	(3,052)	(421)
Long-term prepayment and deposits	(1,715)	126	(126)
Accrued expenses and other current liabilities	2,119	(1,216)	4,121
Income tax payable	119	1,177	—
Amounts due to affiliated companies	(2,108)	1,361	2,299
Amounts due to subsidiaries	(9)	60	1,965
Net cash provided by operating activities	<u>9,419</u>	<u>17,885</u>	<u>4,046</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Amounts due from subsidiaries	<u>(420,055)</u>	<u>(399,878)</u>	<u>(742,664)</u>
Net cash used in investing activities	<u>(420,055)</u>	<u>(399,878)</u>	<u>(742,664)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loans from shareholders	—	(96,583)	—
Issue of share capital	—	722,796	1,067,474
Net cash provided by financing activities	<u>—</u>	<u>626,213</u>	<u>1,067,474</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(410,636)	244,220	328,856
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>573,650</u>	<u>329,430</u>	<u>574</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 163,014</u>	<u>\$ 573,650</u>	<u>\$ 329,430</u>

**MELCO CROWN ENTERTAINMENT LIMITED  
(FORMERLY KNOWN AS MELCO PBL ENTERTAINMENT (MACAU) LIMITED)**

**ADDITIONAL INFORMATION — FINANCIAL STATEMENTS SCHEDULE 1  
FINANCIAL INFORMATION OF PARENT COMPANY  
NOTES TO FINANCIAL STATEMENTS SCHEDULE 1**

1. Schedule 1 has been provided pursuant to the requirements of Rule 12-04(a) and 4-08(e)(3) of Regulation S-X, which require condensed financial information as to financial position, changes in financial position and results and operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of the consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of end of the most recently completed fiscal year. As of December 31, 2008 and 2007, approximately \$1,832,000 and \$1,864,000, respectively of the restricted net assets not available for distribution, and as such, the condensed financial information of the Company has been presented for the years ended December 31, 2008, 2007 and 2006.

2. Basis of presentation

The condensed financial information has been prepared using the same accounting policies as set out in MPEL's consolidated financial statements except that the parent company has used equity method to account for its investments in subsidiaries.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**MELCO CROWN ENTERTAINMENT LIMITED**

By: /s/ Lawrence Ho

Name: Lawrence Ho

Title: Co-Chairman and Chief Executive Officer

Date: March 31, 2009

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Document</b>
4.6	Amendment Agreement in Respect of Senior Facilities Agreement dated December 7, 2007 for Melco PBL Gaming (Macau) Limited as Company and Deutsche Bank AG, Hong Kong Branch, as Agent
4.7	Second Amendment Agreement in Respect of Senior Facilities Agreement dated September 1, 2008 for Melco Crown Gaming (Macau) Limited as Company and Deutsche Bank AG, Hong Kong Branch, as Agent
4.8	Third Amendment Agreement in Respect of Senior Facilities Agreement dated December 1, 2008 for Melco Crown Gaming (Macau) Limited as Company and Deutsche Bank AG, Hong Kong Branch, as Agent
4.20	Novation and Termination Agreement (with respect to the Management Agreement for Grand Hyatt Macau dated June 18, 2006 and the Management Agreement for Hyatt Regency Macau dated June 18, 2006) dated August 30, 2008 between Hyatt of Macau Ltd., Melco Crown (COD) Developments Limited and Melco Crown COD (GH) Hotel Limited
4.21	Management Agreement dated August 30, 2008 between Melco Crown COD (GH) Hotel Limited and Hyatt of Macau Ltd.
4.23	Novation Agreement (in respect of Hotel Trademark License Agreement) dated August 30, 2008 between Hard Rock Holdings Limited, Melco Crown (COD) Developments Limited and Melco Crown COD (HR) Hotel Limited
4.27	Novation Agreement (in respect of Hotel Memorabilia Lease) dated August 30, 2008 between Hard Rock Café International (STP), Inc., Melco Crown (COD) Developments Limited and Melco Crown COD (HR) Hotel Limited
4.29	Extension Letter (with respect to the Promissory Transfer of Shares Agreement) to Melco PBL (Macau Peninsula) Limited from Double Margin, Angela Leong and Omar dated January 25, 2007
4.30	Extension Letter (with respect to the Promissory Transfer of Shares Agreement) to Melco PBL (Macau Peninsula) Limited from Double Margin and Angela Leong dated July 17, 2007
4.31	Extension Letter (with respect to the Promissory Transfer of Shares Agreement) to MPEL (Macau Peninsula) Limited from Double Margin and Angela Leong dated July 2, 2008
8.1	List of Subsidiaries
11.1	Code of Business Conduct and Ethics, amended and approved as of November 14, 2008
12.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Walkers



**DATED 7 DECEMBER 2007**

**MELCO PBL GAMING (MACAU) LIMITED**  
as Company

**DEUTSCHE BANK AG, HONG KONG BRANCH**  
as Agent

\_\_\_\_\_  
AMENDMENT AGREEMENT IN RESPECT OF  
SENIOR FACILITIES AGREEMENT  
\_\_\_\_\_

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## CONTENTS

<b>Clause</b>	<b>Page</b>
1. DEFINITIONS AND INTERPRETATION	1
2. SUPPLEMENT OF FACILITY AGREEMENT	1
3. REPRESENTATIONS	2
4. CONTINUITY AND FURTHER ASSURANCE	2
5. MISCELLANEOUS	2
6. GOVERNING LAW	3
SIGNATURES	4
SCHEDULE 1	6
SCHEDULE 2	9

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**THIS AGREEMENT** is dated 7 December 2007 and made between:

- (1) **MELCO PBL GAMING (MACAU) LIMITED** (in its own capacity and as Obligors' Agent for and on behalf of the Relevant Obligors) (the "**Company**"); and
- (2) **DEUTSCHE BANK AG, HONG KONG BRANCH** in its capacity as Agent (the "**Agent**").

**RECITALS:**

- (A) The parties hereto entered into a USD1,750,000,000 Senior Secured Term Loan and Revolving Credit Facilities Agreement dated 5 September 2007 (the "**Facility Agreement**").
- (B) The Facility Agreement has been amended pursuant to a transfer agreement between, *inter alios*, the parties hereto dated 17 October 2007 and a Supplemental Deed in respect of the Deed of Appointment between, *inter alios*, the parties hereto dated 19 November 2007.
- (C) It has also been proposed that certain amendments may be made to the Facility Agreement in connection with an amendment request made by the Company in its letter to the Agent dated 16 November 2007 and as a result, it has now been agreed to further amend the Facility Agreement as set out below.

**IT IS AGREED** as follows:

**1. DEFINITIONS AND INTERPRETATION**

**1.1 Incorporation of defined terms**

- (a) Unless a contrary indication appears, a term defined in or by reference in Schedule 2 (*Amended and Restated Facility Agreement*) has the same meaning in this Agreement.
- (b) The principles of construction and rules of interpretation set out or referred to in the Schedule 2 (*Amended and Restated Facility Agreement*) shall have effect as if set out in this Agreement.

**1.2 Clauses**

In this Agreement any reference to a "Clause" or a "Schedule" is, unless the context otherwise requires, a reference to a Clause or a Schedule to this Agreement.

**1.3 Designation**

In accordance with the Facility Agreement, each of the Company and the Agent designates this Agreement as a Finance Document.

## 2. AMENDMENT OF FACILITY AGREEMENT

With effect from the date falling two Business Days (or such earlier date as may be agreed by the Agent, acting in its sole discretion) from the date upon which the Agent confirms to the other Finance Parties and the Company that it has received each of the documents listed in Schedule 1 (*Conditions Precedent*) (or waived receipt of, as the case may be) in a form and substance satisfactory to the Agent (such date the “**Effective Date**”), the Facility Agreement shall be amended and apply as between the parties thereto so that it shall be read and construed for all purposes as set out in Schedule 2 (*Amended and Restated Facility Agreement*) (the “**Amended and Restated Facility Agreement**”).

## 3. REPRESENTATIONS

The representations and warranties set out in Schedule 5 (*Representations and Warranties*) of the Facility Agreement are deemed to be made by each Relevant Obligor (by reference to the facts and circumstances then existing) on the date of this Agreement and on the Effective Date and, in each case, as if any reference therein to any Finance Document in respect of which any amendment, acknowledgement, confirmation, consolidation, novation, restatement, replacement or supplement is expressed to be made by any of the documents referred to in Clause 1.3 (*Designation*) included, to the extent relevant, such document and the Finance Document as so amended, acknowledged, confirmed, consolidated, novated, restated, replaced or supplemented.

## 4. CONTINUITY AND FURTHER ASSURANCE

### 4.1 Continuity

The provisions of the Facility Agreement and the other Finance Documents shall, save as amended by this Agreement, apply and continue in full force and effect. In particular, nothing in this Agreement shall affect the rights of the Secured Parties in respect of the occurrence of any Default which is continuing or which arises on or after the date of this Agreement.

### 4.2 Further Assurance

Each Relevant Obligor shall, upon the written request of the Agent and at its own expense, do all such acts and things reasonably necessary to give effect to the amendments effected or to be effected pursuant to this Agreement.

## 5. MISCELLANEOUS

### 5.1 Incorporation of terms

The provisions of clause 1.3 (*Third Party Rights*), clause 18.1 (*Transaction Expenses*), clause 30 (*Notices*), clause 32 (*Partial Invalidity*), clause 33 (*Remedies and Waivers*) and clause 37 (*Enforcement*) of Schedule 2 (*Amended and Restated Facility Agreement*) shall be incorporated into this Agreement as if set out in full herein and as if references in those clauses to “Agreement” are references to this Agreement and cross-references to specified clauses thereof are references to the equivalent clauses set out or incorporated herein.

## 5.2 Counterparts

This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

## 6. GOVERNING LAW

This Agreement is governed by English law.

**This Agreement has been entered into on the date stated at the beginning of this Agreement.**

**SIGNATURES**

**The Company**

(in its own capacity and as Obligors' Agent for and on behalf of the Relevant Obligors)

**MELCO PBL GAMING (MACAU) LIMITED.**

By: /s/ Simon Dewhurst

**The Agent**

**DEUTSCHE BANK AG, HONG KONG BRANCH**

By: /s/ Frank Fazio  
Frank Fazio Director

By: /s/ Chiu Kin Wing Edward  
Chiu Kin Wing Edward  
Authorised Signatory

**SCHEDULE 1**  
**Conditions Precedent**

**1. Corporate Documents**

- (a) A copy of a resolution of the board of directors of the Company:
  - (i) save if such resolution is not required under the law of incorporation or the articles of association of the Company, approving the terms of, and the transactions contemplated by, the Finance Documents referred to in paragraph 2 below to which it is a party and resolving that it execute, deliver and perform the Finance Documents referred to in paragraph 2 below on its behalf and on behalf of the other Relevant Obligors;
  - (ii) authorising a specified person or persons to execute the Finance Documents referred to in paragraph 2 below on its behalf; and
  - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in connection with the Finance Documents referred to in paragraph 2 below (each, for the purposes of this Schedule 2 and for so long as such authorisation remains effective, an “authorised signatory” of the Company).
- (b) A specimen of the signature of each person authorised by the resolution or power of attorney referred to in paragraph (a) above in relation to and, who will be executing, the Finance Documents referred to in paragraph 2 below and related documents.
- (c) A certificate of an authorised signatory of the Company, certifying that there have been no amendments to the Constitutional Documents of each Relevant Obligor since the date of the Facility Agreement.
- (d) A certificate of an authorised signatory of the Company, certifying (or declaration of a director or other authorised signatory of the Company confirming) that each document, copy document and other evidence relating to it (and each other document, copy document or other evidence) specified in this Schedule 1 (*Conditions Precedent*) (other than those referred to in paragraph 2 below) is correct, complete and in full force and effect and has not been amended or superseded as at a date no earlier than the Effective Date.

**2. Finance Documents**

- (a) Receipt by the Agent of an original of each of the following Finance Documents, in each case duly executed by the parties thereto:
  - (i) this Agreement; and
  - (ii) any other document entered into which the Agent and the Company agree prior to the Effective Date to designate as a Finance Document.



- (b) Receipt by the Agent of evidence that in respect of each Finance Document referred to in this paragraph 2:
- (i) it has been duly authorised, executed and delivered by or on behalf of such of the Obligors as are party thereto and duly filed, notified, recorded, stamped and registered as necessary;
  - (ii) all conditions precedent to the effectiveness thereof (other than any such conditions relating to the occurrence of the Effective Date) have been satisfied or waived in accordance with their respective terms and each such Finance Document (save as provided in this sub-paragraph (b)) is in full force and effect accordingly; and
  - (iii) none of such of the Obligors as is party to any such Finance Document is or, but for the passage of time and/or giving of notice will be, in breach of any obligation thereunder.

**3. Accession of Melco PBL (Delaware) LLC**

Receipt by the Agent of the documents and other evidence required with respect to the accession of Melco PBL (Delaware) LLC as an Additional Borrower and an Additional Guarantor under the Facility Agreement.

**4. Legal opinions**

Receipt by the Agent of legal opinions from:

- (a) Mr Henrique Saldanha, as to certain matters of Macanese law;
- (b) Manuela António Advogados & Notários as to certain matters of Macanese law; and
- (c) Clifford Chance as to English law,

or such other lawyers or law firms as may be reasonably acceptable to the Agent.

**5. Fees and expenses**

Receipt by the Agent of evidence that:

- (a) all taxes, fees and other costs payable in connection with the execution, delivery, filing, recording, stamping and registering of the documents referred to in this Schedule 1; and
- (b) all fees, costs and expenses due to the Finance Parties and their advisers under the Finance Documents on or before the Effective Date,

have been paid or shall be paid (to the extent that such amounts have been duly invoiced) by no later than the Effective Date.

**6. Termination Agreement**

Receipt by the Agent of a certified copy of the Termination Agreement in respect of the Shareholders' Agreement dated 15 December 2006 between PBL Asia Limited, Melco PBL Investments Limited, Mr Lawrence Ho and the Company.

**7. Insurance**

Evidence that each Insurance has been amended and endorsed, in each case, as required by Schedule 8 (*Insurances*) to the Amended and Restated Facility Agreement.

**8. Other documents and evidence**

A copy of any other authorisation or other document, opinion or assurance which the Agent considers to be necessary or desirable (if it has notified the Company accordingly) in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document.

**SCHEDULE 2**  
**Amended and Restated Facility Agreement**

**DATED 1st September 2008**

**MELCO CROWN GAMING (MACAU) LIMITED**  
as Company

**DEUTSCHE BANK AG, HONG KONG BRANCH**  
as Agent

\_\_\_\_\_  
SECOND AMENDMENT AGREEMENT IN RESPECT OF  
SENIOR FACILITIES AGREEMENT  
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## CONTENTS

<b>Clause</b>	<b>Page</b>
1. DEFINITIONS AND INTERPRETATION	1
2. SUPPLEMENT OF FACILITY AGREEMENT	1
3. REPRESENTATIONS	2
4. CONTINUITY AND FURTHER ASSURANCE	2
5. MISCELLANEOUS	2
6. GOVERNING LAW	2
SIGNATURES	3
SCHEDULE 1	5
SCHEDULE 2	7

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**THIS AGREEMENT** is dated 1<sup>st</sup> September 2008 and made between:

- (1) **MELCO CROWN GAMING (MACAU) LIMITED** formerly known as Melco PBL Gaming (Macau) Limited (in its own capacity and as Obligors' Agent for and on behalf of the Relevant Obligors) (the "**Company**"); and
- (2) **DEUTSCHE BANK AG, HONG KONG BRANCH** in its capacity as Agent (the "**Agent**").

**RECITALS:**

- (A) The parties hereto entered into a USD1,750,000,000 Senior Secured Term Loan and Revolving Credit Facilities Agreement dated 5 September 2007 (the "**Facility Agreement**").
- (B) The Facility Agreement has been amended pursuant to a transfer agreement between, *inter alios*, the parties hereto dated 17 October 2007 and a Supplemental Deed in respect of the Deed of Appointment between, *inter alios*, the parties hereto dated 19 November 2007 and an Amendment Agreement between the parties hereto dated 7 December 2007.
- (C) It has also been proposed that certain amendments may be made to the Facility Agreement in connection with an amendment request made by the Company in its letter to the Agent dated 13 August 2008 and as a result, it has now been agreed to further amend the Facility Agreement as set out below.

**IT IS AGREED** as follows:

**1. DEFINITIONS AND INTERPRETATION**

**1.1 Incorporation of defined terms**

- (a) Unless a contrary indication appears, a term defined in or by reference in Schedule 2 (*Amended and Restated Facility Agreement*) has the same meaning in this Agreement.
- (b) The principles of construction and rules of interpretation set out or referred to in the Schedule 2 (*Amended and Restated Facility Agreement*) shall have effect as if set out in this Agreement.

**1.2 Clauses**

In this Agreement any reference to a "Clause" or a "Schedule" is, unless the context otherwise requires, a reference to a Clause or a Schedule to this Agreement.

**1.3 Designation**

In accordance with the Facility Agreement, each of the Company and the Agent designates this Agreement as a Finance Document.

**2. AMENDMENT OF FACILITY AGREEMENT**

With effect from the date upon which the Agent confirms to the other Finance Parties and the Company that it has received each of the documents listed in Schedule 1 (*Conditions Precedent*) (or waived receipt of, as the case may be) in a form and substance satisfactory to the Agent (such date the "**Effective Date**"), the Facility Agreement shall be amended and apply as between the parties thereto so that it shall be read and construed for all purposes as set out in Schedule 2 (*Amended and Restated Facility Agreement*) (the "**Amended and Restated Facility Agreement**").

### 3. REPRESENTATIONS

The representations and warranties set out in Schedule 5 (*Representations and Warranties*) of the Facility Agreement are deemed to be made by each Relevant Obligor (by reference to the facts and circumstances then existing) on the date of this Agreement and on the Effective Date and, in each case, as if any reference therein to any Finance Document in respect of which any amendment, acknowledgement, confirmation, consolidation, novation, restatement, replacement or supplement is expressed to be made by any of the documents referred to in Clause 1.3 (*Designation*) included, to the extent relevant, such document and the Finance Document as so amended, acknowledged, confirmed, consolidated, novated, restated, replaced or supplemented.

### 4. CONTINUITY AND FURTHER ASSURANCE

#### 4.1 Continuity

The provisions of the Facility Agreement and the other Finance Documents shall, save as amended by this Agreement, apply and continue in full force and effect. In particular, nothing in this Agreement shall affect the rights of the Secured Parties in respect of the occurrence of any Default which is continuing or which arises on or after the date of this Agreement.

#### 4.2 Further Assurance

Each Relevant Obligor shall, upon the written request of the Agent and at its own expense, do all such acts and things reasonably necessary to give effect to the amendments effected or to be effected pursuant to this Agreement.

### 5. MISCELLANEOUS

#### 5.1 Incorporation of terms

The provisions of clause 1.3 (*Third Party Rights*), clause 18.1 (*Transaction Expenses*), clause 30 (*Notices*), clause 32 (*Partial Invalidity*), clause 33 (*Remedies and Waivers*) and clause 37 (*Enforcement*) of Schedule 2 (*Amended and Restated Facility Agreement*) shall be incorporated into this Agreement as if set out in full herein and as if references in those clauses to "Agreement" are references to this Agreement and cross-references to specified clauses thereof are references to the equivalent clauses set out or incorporated herein.

#### 5.2 Counterparts

This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

### 6. GOVERNING LAW

This Agreement is governed by English law.

**This Agreement has been entered into on the date stated at the beginning of this Agreement.**

**SIGNATURES**

**The Company**

(in its own capacity and as Obligors' Agent for and on behalf of the Relevant Obligors)

**MELCO CROWN GAMING (MACAU) LIMITED.**

By: /s/ Simon Dewhurst  
Simon Dewhurst



**The Agent**

**DEUTSCHE BANK AG, HONG KONG BRANCH**

By: /s/ Angus Barker  
Angus Barker  
Managing Director

By: /s/ Katherine Lau  
Katherine Lau  
Director

/s/ Chiu Kin Wing Edward  
Chiu Kin Wing Edward  
Authorised Signatory

/s/ Chao Shen  
Chao Shen

**SCHEDULE 1**  
**Conditions Precedent**

**1. Corporate Documents**

- (a) A copy of a resolution of the board of directors of the Company:
  - (i) save if such resolution is not required under the law of incorporation or the articles of association of the Company, approving the terms of, and the transactions contemplated by, the Finance Documents referred to in paragraph 2 below to which it is a party and resolving that it execute, deliver and perform the Finance Documents referred to in paragraph 2 below;
  - (ii) authorising a specified person or persons to execute the Finance Documents referred to in paragraph 2 below on its behalf; and
  - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in connection with the Finance Documents referred to in paragraph 2 below (each, for the purposes of this Schedule 2 and for so long as such authorisation remains effective, an “authorised signatory” of the Company).
- (b) A specimen of the signature of each person authorised by the resolution or power of attorney referred to in paragraph (a) above in relation to and, who will be executing, the Finance Documents referred to in paragraph 2 below and related documents.
- (c) A certificate of an authorised signatory of the Company, certifying that there have been no amendments to the Constitutional Documents of each Relevant Obligor since the date of the Facility Agreement.
- (d) A certificate of an authorised signatory of the Company, certifying (or declaration of a director or other authorised signatory of the Company confirming) that each document, copy document and other evidence relating to it (and each other document, copy document or other evidence) specified in this Schedule 1 (*Conditions Precedent*) (other than those referred to in paragraph 2 below) is correct, complete and in full force and effect and has not been amended or superseded as at a date no earlier than the Effective Date.

**2. Finance Documents**

- (a) Receipt by the Agent of an original of each of the following Finance Documents, in each case duly executed by the parties thereto:
  - (i) this Agreement; and
  - (ii) any other document entered into which the Agent and the Company agree prior to the Effective Date to designate as a Finance Document.

- (b) Receipt by the Agent of evidence that in respect of each Finance Document referred to in this paragraph 2:
- (i) it has been duly authorised, executed and delivered by or on behalf of such of the Obligors as are party thereto and duly filed, notified, recorded, stamped and registered as necessary;
  - (ii) all conditions precedent to the effectiveness thereof (other than any such conditions relating to the occurrence of the Effective Date) have been satisfied or waived in accordance with their respective terms and each such Finance Document (save as provided in this sub-paragraph (b)) is in full force and effect accordingly; and
  - (iii) none of such of the Obligors as is party to any such Finance Document is or, but for the passage of time and/or giving of notice will be, in breach of any obligation thereunder.

**3. Legal opinions**

Receipt by the Agent of legal opinions from:

- (a) Mr Henrique Saldanha, as to certain matters of Macanese law;
- (b) Manuela António Advogados & Notários as to certain matters of Macanese law; and
- (c) Clifford Chance as to English law,

or such other lawyers or law firms as may be reasonably acceptable to the Agent.

**4. Fees and expenses**

Receipt by the Agent of evidence that:

- (a) all taxes, fees and other costs payable in connection with the execution, delivery, filing, recording, stamping and registering of the documents referred to in this Schedule 1; and
- (b) all fees, costs and expenses due to the Finance Parties and their advisers under the Finance Documents on or before the Effective Date,

have been paid or shall be paid (to the extent that such amounts have been duly invoiced) by no later than the Effective Date.

**5. Other documents and evidence**

A copy of any other authorisation or other document, opinion or assurance which the Agent considers to be necessary or desirable (if it has notified the Company accordingly) in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document.

**SCHEDULE 2**  
**Amended and Restated Facility Agreement**

DATED 1 December 2008

MELCO CROWN GAMING (MACAU) LIMITED  
as Company

DEUTSCHE BANK AG, HONG KONG BRANCH  
as Agent

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**THIRD AMENDMENT AGREEMENT IN RESPECT OF  
SENIOR FACILITIES AGREEMENT**

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## CONTENTS

<b>Clause</b>	<b>Page</b>
1. DEFINITIONS AND INTERPRETATION	1
2. SUPPLEMENT OF FACILITY AGREEMENT	2
3. REPRESENTATIONS	2
4. CONTINUITY AND FURTHER ASSURANCE	2
5. MISCELLANEOUS	3
6. GOVERNING LAW	3
SIGNATURES	4
SCHEDULE 1	6
SCHEDULE 2	9

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**THIS AGREEMENT** is dated 1 December 2008 and made between:

- (1) **MELCO CROWN GAMING (MACAU) LIMITED** (formerly known as Melco PBL Gaming (Macau) Limited) (in its own capacity and as Obligors' Agent for and on behalf of the Relevant Obligors) (the "**Company**"); and
- (2) **DEUTSCHE BANK AG, HONG KONG BRANCH** in its capacity as Agent (the "**Agent**").

**RECITALS:**

- (A) The parties hereto entered into a USD1,750,000,000 Senior Secured Term Loan and Revolving Credit Facilities Agreement dated 5 September 2007 as amended pursuant to a transfer agreement between, *inter alios*, the parties hereto dated 17 October 2007, a Supplemental Deed in respect of the Deed of Appointment between, *inter alios*, the parties hereto dated 19 November 2007, an amendment agreement between the parties hereto dated 7 December 2007 and as further amended pursuant to a second amendment agreement between the parties hereto dated 1st September 2008 ( the "**Facility Agreement**").
- (B) It has also been proposed that certain amendments be made to the Facility Agreement in connection with an amendment request made by the Company in its letter to the Agent dated 7 November 2008 and as a result, it has now been agreed to further amend the Facility Agreement as set out below.

**IT IS AGREED** as follows:

1. **DEFINITIONS AND INTERPRETATION**

1.1 **Incorporation of defined terms**

- (a) Unless a contrary indication appears, a term defined in or by reference in Schedule 2 (*Amended and Restated Facility Agreement*) has the same meaning in this Agreement.
- (b) The principles of construction and rules of interpretation set out or referred to in the Schedule 2 (*Amended and Restated Facility Agreement*) shall have effect as if set out in this Agreement.

1.2 **Clauses**

In this Agreement any reference to a "Clause" or a "Schedule" is, unless the context otherwise requires, a reference to a Clause or a Schedule to this Agreement.

### 1.3 **Designation**

In accordance with the Facility Agreement, each of the Company and the Agent designates this Agreement as a Finance Document.

### 2. **AMENDMENT OF FACILITY AGREEMENT**

With effect from the date upon which the Agent confirms to the other Finance Parties and the Company that it has received each of the documents listed in Schedule 1 (*Conditions Precedent*) (or waived receipt of, as the case may be) in a form and substance satisfactory to the Agent (such date the “**Effective Date**”), the Facility Agreement shall be amended and apply as between the parties thereto so that it shall be read and construed for all purposes as set out in Schedule 2 (*Amended and Restated Facility Agreement*) (the “**Amended and Restated Facility Agreement**”).

### 3. **REPRESENTATIONS**

The representations and warranties set out in Schedule 5 (*Representations and Warranties*) of the Facility Agreement are deemed to be made by each Relevant Obligor (by reference to the facts and circumstances then existing) on the date of this Agreement and on the Effective Date and, in each case, as if any reference therein to any Finance Document in respect of which any amendment, acknowledgement, confirmation, consolidation, novation, restatement, replacement or supplement is expressed to be made by any of the documents referred to in Clause 1.3 (*Designation*) included, to the extent relevant, such document and the Finance Document as so amended, acknowledged, confirmed, consolidated, novated, restated, replaced or supplemented.

### 4. **CONTINUITY AND FURTHER ASSURANCE**

#### 4.1 **Continuity**

The provisions of the Facility Agreement and the other Finance Documents shall, save as amended by this Agreement, apply and continue in full force and effect. In particular, nothing in this Agreement shall affect the rights of the Secured Parties in respect of the occurrence of any Default which is continuing or which arises on or after the date of this Agreement.

#### 4.2 **Further Assurance**

Each Relevant Obligor shall, upon the written request of the Agent and at its own expense, do all such acts and things reasonably necessary to give effect to the amendments effected or to be effected pursuant to this Agreement.



5. **MISCELLANEOUS**

5.1 **Incorporation of terms**

The provisions of clause 1.3 (*Third Party Rights*), clause 18.1 (*Transaction Expenses*), clause 30 (*Notices*), clause 32 (*Partial Invalidity*), clause 33 (*Remedies and Waivers*) and clause 37 (*Enforcement*) of Schedule 2 (*Amended and Restated Facility Agreement*) shall be incorporated into this Agreement as if set out in full herein and as if references in those clauses to “Agreement” are references to this Agreement and cross-references to specified clauses thereof are references to the equivalent clauses set out or incorporated herein.

5.2 **Counterparts**

This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

6. **GOVERNING LAW**

This Agreement is governed by English law.

**This Agreement has been entered into on the date stated at the beginning of this Agreement.**

**SIGNATURES**

**The Company**

(in its own capacity and as Obligors' Agent for and on behalf of the Relevant Obligors)

**MELCO CROWN GAMING (MACAU) LIMITED.**

By: /s/ Simon Dewhurst

**The Agent**

**DEUTSCHE BANK AG, HONG KONG BRANCH**

By: /s/ Kyoko Murai

By: /s/ Chiu Kin Wing Edward  
Chiu Kin Wing Edward  
Authorised Signatory

**SCHEDULE 1**  
**Conditions Precedent**

**1. Corporate Documents**

- (a) A copy of a resolution of the board of directors of the Company:
  - (i) save if such resolution is not required under the law of incorporation or the articles of association of the Company, approving the terms of, and the transactions contemplated by, the Finance Documents referred to in paragraph 2 below to which it is a party and resolving that it execute, deliver and perform the Finance Documents referred to in paragraph 2 below;
  - (ii) authorising a specified person or persons to execute the Finance Documents referred to in paragraph 2 below on its behalf; and
  - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in connection with the Finance Documents referred to in paragraph 2 below (each, for the purposes of this Schedule 2 and for so long as such authorisation remains effective, an “authorised signatory” of the Company).
- (b) A specimen of the signature of each person authorised by the resolution or power of attorney referred to in paragraph (a) above in relation to and, who will be executing, the Finance Documents referred to in paragraph 2 below and related documents.
- (c) A certificate of an authorised signatory of the Company, certifying that there have been no amendments to the Constitutional Documents of each Relevant Obligor since 1st September 2008.
- (d) A certificate of an authorised signatory of the Company, certifying (or declaration of a director or other authorised signatory of the Company confirming) that each document, copy document and other evidence relating to it (and each other document, copy document or other evidence) specified in this Schedule 1 (*Conditions Precedent*) (other than those referred to in paragraph 2 below) is correct, complete and in full force and effect and has not been amended or superseded as at a date no earlier than the Effective Date.

**2. Finance Documents**

- (a) Receipt by the Agent of an original of each of the following Finance Documents, in each case duly executed by the parties thereto:
  - (i) this Agreement; and
  - (ii) any other document entered into which the Agent and the Company agree prior to the Effective Date to designate as a Finance Document.
- (b) Receipt by the Agent of evidence that in respect of each Finance Document referred to in this paragraph 2:
  - (i) it has been duly authorised, executed and delivered by or on behalf of such of the Obligors as are party thereto and duly filed, notified, recorded, stamped and registered as necessary;
  - (ii) all conditions precedent to the effectiveness thereof (other than any such conditions relating to the occurrence of the Effective Date) have been satisfied or waived in accordance with their respective terms and each such Finance Document (save as provided in this sub-paragraph (b)) is in full force and effect accordingly; and
  - (iii) none of such of the Obligors as is party to any such Finance Document is or, but for the passage of time and/or giving of notice will be, in breach of any obligation thereunder.

**3. Legal opinions**

Receipt by the Agent of legal opinions from:

- (a) Mr Henrique Saldanha, as to certain matters of Macanese law;
- (b) Manuela António Advogados & Notários as to certain matters of Macanese law; and
- (c) Clifford Chance as to English law,

or such other lawyers or law firms as may be reasonably acceptable to the Agent.

**4. Fees and expenses**

Receipt by the Agent of evidence that:

- (a) all taxes, fees and other costs payable in connection with the execution, delivery, filing, recording, stamping and registering of the documents referred to in this Schedule 1; and
- (b) all fees, costs and expenses due to the Finance Parties and their advisers under the Finance Documents on or before the Effective Date, have been paid or shall be paid (to the extent that such amounts have been duly invoiced) by no later than the Effective Date.

**5. Other documents and evidence**

A copy of any other authorisation or other document, opinion or assurance which the Agent considers to be necessary or desirable (if it has notified the Company accordingly) in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document.

**SCHEDULE 2**  
**Amended and Restated Facility Agreement**

Dated 30 August 2008

HYATT OF MACAU LTD.

AND

MELCO CROWN (COD) DEVELOPMENTS LIMITED

AND

MELCO CROWN COD (GH) HOTEL LIMITED

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NOVATION AND TERMINATION  
AGREEMENT

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## Contents

	<u>Page</u>
<b>1. NOVATION</b>	4
<b>2. DEEMED PAYMENTS</b>	5
<b>3. FURTHER ASSURANCE</b>	5
<b>4. COSTS AND EXPENSES</b>	5
<b>5. NO WAIVER OF DEFAULTS AND FUTURE TRANSFERS</b>	5
<b>6. TERMINATION OF THE HYATT MA AGREEMENTS</b>	5
<b>7. GOVERNING LAW AND JURISDICTION</b>	6
<b>8. CONFIDENTIALITY</b>	6
<b>9. MISCELLANEOUS</b>	6

**THIS NOVATION AND TERMINATION AGREEMENT** is made on 30<sup>th</sup> day of August 2008

**BETWEEN**

- (1) **Hyatt of Macau Ltd.**, a company incorporated in Hong Kong with its registered office at Tricor Services Limited, Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong ("**Hyatt**");
- (2) **Melco Crown (COD) Developments Limited** (formerly known as Melco Hotels and Resorts (Macau) Limited) a company incorporated under the laws of Macau (registered number 19157 (SO)) whose registered office is at Avenida Xian Xing Hai, No. 105, Zhu Kuan Building, 19th floor, A-C e K-N, Macau (the "**Old Owner**"); and
- (3) **Melco Crown COD (GH) Hotel Limited** a company incorporated under the laws of Macau (registered number 31453 (SO)) whose registered office is at Avenida Xian Xing Hai, No. 105, Zhu Kuan Building, 19th floor, A-C e K-N, Macau (the "**New Owner**").

**WHEREAS**

- (A) By a management agreement dated 18 June 2006 (the "**Grand Hyatt 2006 MA Agreement**") the Old Owner and Hyatt entered into an agreement to render management services in respect of the Grand Hyatt Hotel.
- (B) By a management agreement dated 18 June 2006 (the "**Hyatt Regency 2006 MA Agreement**") the Old Owner and Hyatt entered into an agreement to render management services in respect of the Hyatt Regency Hotel. The Hyatt Regency 2006 MA Agreement, together with the Grand Hyatt 2006 MA Agreement shall collectively be referred to herein as the "**Hyatt MA Agreements**").
- (C) The Old Owner wishes to be released and discharged from the Hyatt MA Agreements and the New Owner wishes to take up the rights and benefits of the Hyatt MA Agreements and to assume the obligations and liabilities of the Old Owner under the Hyatt MA Agreements, which have arisen and accrued on or before the date hereof.
- (D) Hyatt has agreed to release and discharge the Old Owner upon the terms that, inter alia, the New Owner undertakes to assume the obligations and liabilities of the Old Owner under the Hyatt MA Agreements, which have arisen and accrued on or before the date hereof in lieu of the Old Owner.

**NOW IT IS HEREBY AGREED**

In consideration of HK\$100 paid by each of Hyatt and the Old Owner to the New Owner, receipt and sufficiency of which the New Owner hereby acknowledges:

**1. NOVATION**

- 1.1 The New Owner hereby undertakes to observe, perform, discharge and be bound by the terms, conditions and covenants of the Hyatt MA Agreements (including all the liabilities and obligations of the Old Owner arising under the Hyatt MA Agreements, whether actual, contingent or otherwise, and which have arisen and accrued on or before the date hereof) in every way as if the New Owner were, and had originally been, a party to the Hyatt MA Agreements in place of the Old Owner.
- 1.2 Hyatt hereby releases and discharges the Old Owner from the performance of the Hyatt MA Agreements and from all liabilities and obligations of the Old Owner arising under the Hyatt MA Agreements, whether actual, contingent or otherwise, and which have arisen and accrued (on or before the date hereof) and accepts, the liabilities and obligations of the New Owner under the Hyatt MA Agreements in place of the liabilities and obligations of the Old Owner and Hyatt agrees to observe, perform and discharge its liabilities and obligations under the Hyatt MA Agreements which have arisen and accrued on or before the date hereof in every way as if the New Owner were, and had originally been, a party to the Hyatt MA Agreements in place of the Old Owner.
- 1.3 Hyatt covenants not to bring any suit, action or proceeding or make any demand or claim of any type against the Old Owner relating to or in connection with the Hyatt MA Agreements or the relationship created thereby. Such release and discharge in Clause 1.2 being without prejudice to the liabilities and obligation of the New Owner to Hyatt under the Hyatt MA Agreements as novated by this Novation and Termination Agreement. Nothing in this provision shall affect Hyatt's, the Old Owner's or the New Owner's right to make claims or bring an action for breach of this Novation and Termination Agreement.
- 1.4 The Old Owner hereby releases and discharges Hyatt from the performance of the Hyatt MA Agreements and from all liabilities and obligations of the Old Owner arising under the Hyatt MA Agreements, whether actual, contingent or otherwise, and which have arisen and accrued on or before the date hereof). The Old Owner covenants not to bring any suit, action or proceeding or make any demand or claim of any type against Hyatt relating to or in connection with the Hyatt MA Agreements or the relationship created thereby. Such release and discharge in this Clause 1.4 being without prejudice to the liabilities and obligation of Hyatt to the New Owner under the Hyatt MA Agreements as novated by this Novation and Termination Agreement. Nothing in this provision shall affect Hyatt's, Old Owner's or New Owner's right to make claims or bring an action for breach of this Novation and Termination Agreement.
- 1.5 The Old Owner hereby assigns and transfers absolutely to the New Owner all its rights, title and interests in the Hyatt MA Agreements including all correspondence, memoranda, drawings, samples, calculations, plans, specifications, models and other relevant documents and information pertaining to the services and work the Old Owner previously provided under the Hyatt MA Agreements prior to the date hereof.

**2. DEEMED PAYMENTS**

The New Owner agrees with Hyatt that all previous payments made to Hyatt by the Old Owner, and all previous performance by the Old Owner, under the Hyatt MA Agreements shall for the purpose of this Novation and Termination Agreement be deemed to be payments and / or, as the case may be, performance made by the New Owner.

**3. FURTHER ASSURANCE**

Each party to this Novation and Termination Agreement shall at all times hereinafter and at their own cost and expense make, do and execute or cause to be made, done or executed all such acts, instruments, assurances and writings whatsoever as may be reasonable to perform or give effect to this Novation and Termination Agreement.

**4. COSTS AND EXPENSES**

The New Owner shall bear all the costs and expenses incurred by Hyatt arising out of or in connection with this Novation and Termination Agreement and all related documentation prepared in consequence of this Novation and Termination Agreement.

**5. NO WAIVER OF DEFAULTS AND FUTURE TRANSFERS**

Except as specifically provided herein, no provision of this Novation and Termination Agreement, nor any action by Hyatt prior to the date hereof, shall be construed as a waiver by Hyatt of any right under the Hyatt MA Agreements or any other agreement or applicable law, including, without limitation, any right with respect to any default under the Hyatt MA Agreements. The New Owner understands and agrees that it shall not rely on this Novation and Termination Agreement as indicative of the position Hyatt will take in future proposed transfers or assignments by New Owner or its owners.

**6. TERMINATION OF THE HYATT MA AGREEMENTS**

Without prejudice to the provisions in Clause 1 of this Novation and Termination Agreement, with effect from the date hereof, the obligations of each of Hyatt and the Old Owner under, in relation to or in respect of the Hyatt MA Agreements shall terminate and shall be of no force and effect. Save as expressly provided in this Novation and Termination Agreement, no party to either of the Hyatt MA Agreements shall have any further rights or claims against, or obligations to, the other in respect thereof and the respective liabilities and obligations of each of Hyatt and the Old Owner to each other thereunder shall hereafter be released and discharged in accordance with the provisions in Clause 1 of this Novation and Termination Agreement.

**7. GOVERNING LAW AND JURISDICTION**

7.1 This Novation and Termination Agreement shall be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region.

**8. CONFIDENTIALITY**

Each of Old Owner and New Owner agrees to keep confidential and not disclose the existence or terms of this Novation and Termination Agreement or any agreement related hereto without the prior written consent of Hyatt save that any such party shall be entitled to make such disclosure:

- (a) in connection with any proceedings arising out of or in connection with this Novation and Termination Agreement to the extent that either party may consider necessary to protect its interests;
- (b) if required to do so by an order of a court of competent jurisdiction whether in pursuance of any procedure for discovering documents or otherwise or pursuant to any law;
- (c) to its auditors or legal advisors or other professional advisers;
- (d) if required to do so by any applicable law or in order for such party to comply with its obligations under this Novation and Termination Agreement;
- (e) to its financiers, their agent or legal advisers; or
- (f) to a governmental, banking, taxation, stock exchange, securities or regulatory authority which has legal or other regulatory authority over the relevant party.

**9. MISCELLANEOUS**

9.1 This Novation and Termination Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any party hereto may execute this Novation and Termination Agreement by signing any such counterpart.

9.2 If any provision of this Novation and Termination Agreement is prohibited or unenforceable in any jurisdiction, such prohibition or unenforceability shall not invalidate the remaining provisions hereof or affect the validity or enforceability of such provision in any other jurisdiction.

9.3 This Novation and Termination Agreement constitutes the entire agreement between the parties hereto in respect of the novation and termination of the Hyatt MA Agreements and any previous arrangements, understandings and negotiations in connection thereto are of no effect.

IN WITNESS whereof the parties hereto have executed this Novation and Termination Agreement as a deed the day and year first above written.

**HYATT OF MACAULTD.**

Signed, Sealed and Delivered as a Deed ) Authorised signatory L.S.  
for and on behalf of Hyatt of )  
Macau Ltd., acting by its ) Full name Larry Tchou  
authorised signatory:- )  
 ) /s/ Larry Tchou  
in the presence of: )

/s/ Gary Kwok  
Signature of Witness

Gary Kwok  
Name:

---

**MELCO CROWN (COD) DEVELOPMENTS LIMITED**

Signed, Sealed and Delivered as a Deed ) Authorised signatory /s/ Garry Saunders L.S.  
for and on behalf of Melco Crown (COD) )  
Developments Limited, acting by its ) Full name Garry Saunders  
authorised signatory:- )

in the presence of: )

/s/ Stephanie Cheung  
Signature of Witness

Stephanie Cheung  
Name:

---

**MELCO CROWN COD (GH) HOTEL LIMITED**

Signed, Sealed and Delivered as a Deed ) Authorised signatory /s/ Garry Saunders L.S.  
for and on behalf of Melco Crown COD )  
(GH) Hotel Limited, acting by its ) Full name Garry Saunders  
authorised signatory:- )  
)  
in the presence of: )

/s/ Stephanie Cheung  
Signature of Witness

Stephanie Cheung  
Name:



**MANAGEMENT AGREEMENT  
FOR  
GRAND HYATT MACAU**

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**MANAGEMENT AGREEMENT**  
**(Grand Hyatt Macau)**

**INDEX**

ARTICLE I The Site and Design, Construction, Equipping and Furnishing of the Hotel	2
Section 1. The Site	2
Section 2. Construction, Furnishing and Equipping of the Hotel	2
Section 3. The Hotel	2
Section 4. Mixed-Use Development	3
Section 5. Title to the Hotel	4
Section 6. Fund for Training, Pre-Opening and Opening Expenses	5
Section 7. Formal Opening of the Hotel	7
ARTICLE II Operating Term and Provisions Relating to Termination	7
Section 1. Operating Term	7
Section 2. Termination Related Provisions	7
ARTICLE III Operation of the Hotel	8
Section 1. Key Operating Principles	8
Section 1A. Standards of Operation	8
Section 2. Control of Operation	9
Section 3. Leases and Concessions	9
Section 4. Management Services	10
Section 5. Operating Bank Account(s)	11
Section 6. Consultations with Owner	12
Section 7. Hyatt's and General Manager's Right to Contract	12
Section 8. Contracts with Hyatt affiliates	13
Section 9. Agency Relationship	13
Section 10. Hyatt's Right to Reimbursement	14
Section 11. Employees of the Hotel	15
Section 12. The General Manager	16
Section 13. Hyatt's Management Modules	16
Section 14. Staff Facilities	17
Section 15. Special Provisions Relating to the Development and the Casino	17
ARTICLE IV Management Fees and Owner's Profit Distribution	20
Section 1. Hyatt's Fees	20
Section 2. Payment of Fees	21
Section 3. Owner's Profit Distribution	22
Section 4. Year-end Adjustment	22
Section 5. Fiscal Years	22
ARTICLE V Determination of Gross Operating Profit	23
Section 1. Books and Records	23
Section 2. Gross Operating Profit	23
ARTICLE VI Repairs and Changes	26
Section 1. Normal Repairs and Maintenance	26
Section 2. Replacements of and Additions to Furnishings and Equipment	26
Section 3. Alterations	26
Section 4. Essential Repairs, Changes and Replacements	27
Section 5. Other Changes, Replacements and Additions	27
ARTICLE VII General Covenants of Hyatt and Owner	27
Section 1. Opening Inventories and Working Capital	27
Section 2. Chain Marketing Services, Gold Passport and other Services	28
Section 3. Right of Inspection and Review	29
Section 4. Reports	29

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ARTICLE VIII Insurance	34
Section 1. Insurance to be Maintained by Owner	34
Section 2. Insurance to be Maintained by Hyatt	34
ARTICLE IX Damage to and Destruction of the Hotel	35
ARTICLE X Condemnation	36
ARTICLE XI Right to Perform Covenants and Reimbursement	37
ARTICLE XII Defaults	37
ARTICLE XIIA Force Majeure	39
ARTICLE XIII Trade Name and Exclusivity	39
Section 1. Name of Hotel	39
Section 2. Exclusivity	40
ARTICLE XIV Arbitration	40
ARTICLE XV Successors and Assigns	41
Section 1. Assignment by Hyatt	41
Section 2. Assignment by Owner	41
Section 2A. Owner Sale	42
Section 3. Successors and Assigns	43
ARTICLE XVI Further Instruments	43
ARTICLE XVII Notices	44
ARTICLE XVIII Applicable Law	44
ARTICLE XIX Miscellaneous	44
Section 1. Right to Make Agreement	44
Section 2. Consents and Approvals	45
Section 3. Entire Agreement	45
Section 4. Survival and Continuation	45
Section 5. Waiver	45
Section 6. Proration	45
Section 7. Costs and Expenses	45
ARTICLE XX Early Termination	46
Section 1. Performance Test	46
Section 2. Cure Rights	46
ARTICLE XXI Special Conditions	47

**MANAGEMENT AGREEMENT**  
***(Grand Hyatt Macau)***

**THIS MANAGEMENT AGREEMENT** (“**Agreement**”), dated this 30<sup>th</sup> day of August, 2008, by and between **Melco Crown COD (GH) Hotel Limited** (hereinafter called “**Owner**”), a company organized in Macau Special Administrative Region, with its registered office at Avenida Xian Xing Hai, No 105, Edificio Zhu Kuan, 19<sup>o</sup> andar, Petras A-C & K-N em Macau with its correspondence address at 36<sup>th</sup> Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong Special Administrative Region, People’s Republic of China (“**Hong Kong**”) and **Hyatt of Macau Ltd.** (hereinafter called “**Hyatt**”), a company organized in Hong Kong Special Administrative Region, with its registered office at Tricor Services Limited, Level 28, Three Pacific Place, 1 Queen’s Road East, Hong Kong, and its principal place of business at Suite 1301, The Gateway, Tower I, 25 Canton Road, Kowloon, Hong Kong Special Administrative Region, People’s Republic of China, and a wholly-owned subsidiary of Hyatt International Corporation (hereinafter called “**H.I.**”).

**WHEREAS**, Owner’s affiliate, Melco Crown (COD) Developments Limited (“**Titleholder**”), is acquiring a parcel of land in Macau, Special Administrative Region (“**Macau**”) upon which it intends to develop and construct a multi-use development comprised of a variety of facilities including, but not limited to, (i) a first-class casino to be operated by an affiliate of Owner (the “**Casino**”), and (ii) a twin tower hotel facility to be operated by Hyatt as a “Grand Hyatt” hotel; and

**WHEREAS**, the Titleholder and Hyatt originally intended to have the hotel facility operated with a Grand Hyatt hotel and also a Hyatt Regency hotel and accordingly, entered into an agreement to render management services in respect of the Grand Hyatt hotel dated 18 June 2006 between Hyatt and the Titleholder (the “**Hyatt 2006 Agreement**”) and an agreement dated 18th June 2006 between Hyatt and the Titleholder in connection with equivalent aforesaid management services related to the proposed Hyatt Regency hotel (the “**Regency 2006 Agreement**”).

**WHEREAS**, the Titleholder and Hyatt have considered and now determined that they wish that the twin tower hotel be operated as a single hotel of Grand Hyatt Standards, with one of the towers consisting of premium “Grand Club” guestrooms (“**Tower A**”) and the other of regular “Grand Hyatt” hotel rooms (“**Tower B**”); and

**WHEREAS**, the Titleholder and Hyatt desire (i) to novate the Hyatt 2006 Agreement and the Regency 2006 Agreement from the Titleholder in favour of the Owner and then terminate, as between the Titleholder and Hyatt, both the Hyatt 2006 Agreement and the Regency 2006 Agreement (as novated) all pursuant to a novation and termination agreement to be entered into between the Owner, the Titleholder and Hyatt (the “**Novation and Termination Agreement**”) and thereafter, terminate, as between the Owner and Hyatt, the Hyatt 2006 Agreement and Regency 2006 Agreement (as novated) pursuant to a termination agreement to be entered into between Hyatt and the Owner (the “**Termination Agreement**”) and (ii) for the Owner and Hyatt to enter into this replacement agreement for Hyatt to render management and related services, upon the terms and conditions hereinafter set forth.

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**NOW THEREFORE**, the parties hereto covenant and agree that performance by either party of an obligation with respect to a provision under either of the Hyatt 2006 Agreement or the Regency 2006 Agreement (as novated to the Owner in accordance with the Novation and Termination Agreement) that has already occurred prior to the date of the Termination Agreement shall be deemed to have occurred and be in satisfaction of but only to the extent of, the equivalent obligation *mutatis mutandis* of this Agreement, and the parties hereby further covenant and agree as follows:

**ARTICLE I**

**The Site and Design, Construction, Equipping and Furnishing of the Hotel**

**Section 1. The Site.**

The Development (as hereinafter defined) shall be constructed upon lands to be granted to the Titleholder located at Cotai, Macau S.A.R., in that area known (or to be known) as the "City of Dreams" (hereinafter called the "**Site**") and as more particularly described on Exhibit A1 attached hereto.

**Section 2. Construction, Furnishing and Equipping of the Hotel.**

On the Site, subject to applicable provisions set forth in Section 15 of Article III, Owner shall, at its expense, and in accordance with the plans, specifications and designs (which shall be produced by or on behalf the Titleholder or as it may direct) substantially in conformity with H.I.'s Design and Engineering Recommendations and Minimum Standards for newly-constructed hotels and comparable to those prevailing for "Grand Hyatt" hotels under construction around the world, as at the date hereof and as defined and acknowledged in Clause 3.1 of the TSA (hereinafter defined) (the "**Grand Hyatt Standards**"), and with all reasonable diligence procure at its expense, the building, equipping, furnishing and decoration of the Hotel (hereinafter defined). During the Operating Term (as defined below), the maintenance of the Grand Hyatt Standards with respect to the Hotel, insofar as they relate to structural (except those in relation to the basic building frame or supporting structure of the Hotel), equipping, furnishing and decoration shall be subject to changes and the implementation of any such changes shall be required if they are implemented at a majority of Grand Hyatt hotels in the Asia Pacific region but if they are not so implemented at a majority of Grand Hyatt hotels in the Asia Pacific region, then they shall be subject to the agreement of Owner and Hyatt in advance, such agreement not to be unreasonably withheld.

**Section 3. The Hotel.**

The hotel (the "**Hotel**") shall consist of the following:

A. that portion of the Site dedicated to the Hotel and more particularly described on Exhibit A2 attached hereto (the "**Hotel Site**");

B. Tower A and Tower B and associated podium facilities located on the Hotel Site, completely air conditioned, with access to the Site, including:-

- (1) areas and facilities therein, including (a) approximately 367 guest rooms and suites, each with private bathroom in Tower A, (b) approximately 423 guest rooms, each with private bathroom in Tower B, (c) restaurants, bars and banquet, ballroom, meeting and other public rooms, (d) commercial space for the sale of merchandise, goods or services, (e) garage or other parking space for guests and employees, (f) storage and service support areas, (g) offices for employees, (h) health (fitness) and business centers, and (i) recreational facilities and areas;

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(2) appropriate millwork (including, but not limited to, built in cabinetry, shelving, internal decorations and similar assets) and all installations and building systems necessary for the operation of the Hotel for hotel purposes (including, without limitation, elevator, heating, ventilating, air conditioning, electrical including lighting, plumbing including sanitary, refrigerating, telephone and communications, safety and security, laundry and kitchen installations and systems);

(3) all furniture and furnishings, which shall include guest room, office, public area, and other furniture, carpeting, draperies, lamps and similar items;

(4) kitchen and laundry (if necessary) equipment (it being recognized that the Hotel may use a valet or third party laundry service);

(5) special hotel equipment, and adequate spare parts therefor, which shall include (a) all equipment required for the operation of (i) guest rooms, including televisions, mini-bars and safes, (ii) banquet rooms, (iii) employee locker rooms, and (iv) a health (fitness) center, (b) office equipment, including computer hardware and software as selected by H.I. and being compatible with software selected by Owner for use in the Development, (c) dining room wagons, (d) material handling equipment, (e) cleaning and engineering equipment, and (f) motor vehicles as required for guest and employee transportation;

(6) dining room accessories, kitchen utensils, engineering tools and equipment, housekeeping utensils and miscellaneous equipment and accessories (hereinafter called "**Ancillary Hotel Equipment**"); and

(7) uniforms, china, glassware, linens and silverware and the like (hereinafter called "**Operating Equipment**");

C. such other facilities and appurtenances within the Hotel, as are necessary or desirable with respect to the Hotel under Grand Hyatt Standards and/or the Grand Hyatt Operating Standards (as defined in Article III Section 1A) as the case may be.

The items to be supplied by Owner under (3), (4) and, with the exception of spare parts, (5) of subsection B above are hereinafter collectively referred to as "**Furnishings and Equipment**".

**Section 4. Mixed-Use Development.**

Owner has advised Hyatt that the balance of the Site, excluding the Hotel Site, shall be dedicated to other uses, including retail, a casino, an apartment hotel tower and two other hotel towers, all of which will be operated by companies which may be affiliated with Owner (collectively, the "**Development**").

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**Section 5. Title to the Hotel.**

Owner warrants that, save as permitted pursuant to the other provisions of this Section, it has, or will acquire, and throughout the Operating Term (as defined in Article II Section 1 below) will maintain a full right to use or occupy the Hotel through a lease, concession, ownership of strata unit, right to use, sub-right to use or other agreement (the "**Right to Use Agreement**"). Owner shall keep and maintain said lease, concession, ownership, right to use, sub-right to use or other agreement with respect to the Hotel in full force and effect throughout said term, free and clear of any liens, encumbrances, covenants, charges, burdens or claims, except (a) those that permit or do not materially and adversely affect the operation of the Hotel by Hyatt, through the General Manager on behalf of the Owner in accordance with and subject to this Agreement (b) those arising by operation of law, (c) those arising as a result of or in connection with any act or omission by Hyatt or any of its affiliates (or any of its or their respective officers, employers, agents or contractors), (d) those arising as a result of or in connection with any act or omission or other event or circumstance contemplated hereby or permitted hereunder, (e) those arising under or permitted by or in connection with any documents entered into with any lenders or other persons (together, "**Lenders**") in connection with the financing of the construction and development of the Development or any other requirements of the Owner or its affiliates or, in either case, any restructuring or refinancing thereof (the "**Financing Documents**") or the enforcement thereof, or (f) those arising under or as permitted under any agreement that provides that this Agreement shall not be subject to forfeiture or termination, except only in accordance with the provisions of this Agreement. Owner further warrants that Hyatt, through the General Manager, on distributing the profits to Owner in accordance with this Agreement and fulfilling its other obligations hereunder, shall and may peaceably and quietly manage and operate the Hotel during the entire Operating Term. Notwithstanding the generality of the foregoing, in the event that Owner shall, through banks or other Lenders, finance the construction of the Hotel, or refinance the Hotel, or use the Hotel as collateral in connection with a borrowing for non-Hotel purposes, Owner shall secure a non-disturbance and attornment agreement, in a form and content reasonably acceptable to Hyatt, from such Lenders. Such agreement between the Lenders and Hyatt would provide for matters which may arise following any foreclosure or similar action by the Lender or Lenders and their successors and assigns, including any person who may acquire the assets of the Hotel. Subject to the consent and approval of the Lenders, Owner will procure the Titleholder to enter into an agreement with Hyatt in relation to matters which may arise out of the termination of the Right to Use Agreement, in form and substance reasonably satisfactory to the Titleholder and Hyatt.

Hyatt acknowledges that the Titleholder is responsible for the payment and discharge of any ground rents, or other rental payments, concession charges and any other charges payable by such Titleholder in respect of the Hotel Site. Owner undertakes to procure that the Titleholder take all appropriate actions with respect to its capacity as holder of title to the Hotel Site in order that Hyatt can perform its obligations under this Agreement. Hyatt also acknowledges that the Titleholder is responsible to pay all real estate taxes and assessments that may become a lien on the Hotel and that may be due and payable during the Operating Term, unless payment thereof is in good faith being contested by Titleholder and enforcement thereof is stayed, and Owner undertakes that it shall, at its expense, procure the timely payment of all such taxes and assessments. Owner shall not later than twenty (20) days following the written request by Hyatt or the General Manager furnish to Hyatt or the General Manager copies of official tax bills and assessments and tax receipts showing the payment of such taxes and assessments, as received from the Titleholder.

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**Section 6. Fund for Training, Pre-Opening and Opening Expenses.**

Hyatt shall prepare a training, pre-opening and opening expenses budget (the "**Pre-opening Budget**") and deliver such Pre-opening Budget (in the format as outlined in Appendix B attached hereto) to Owner for its approval, which approval shall not be unreasonably withheld, and shall be given by no later than September 30, 2008 (or such other date as may be agreed to by Hyatt and Owner) for a projected formal opening date of the Hotel of September 30, 2009 or such other date as may be agreed by the parties or otherwise notified to Hyatt by the Owner in writing ("**Target Opening Date**"). Owner shall make available funds as required in accordance with the Pre-opening Budget, pursuant to a disbursement schedule prepared by Hyatt and approved by Owner and shall deposit such funds into a bank account of the Owner but designated in the trade name of the Hotel (the "**Pre-opening Account**"). The authorized signatories of this Pre-opening Account shall be the General Manager or an Executive Assistant Manager of the Hotel as "A" signatories and the Director of Finance or Assistant Director of Finance of the Hotel as "B" signatories and such other signatories as may be agreed to between Owner and Hyatt. Such authorized signatories shall be approved by resolution(s) of the Board of Directors or, if required, the shareholders of Owner. The Pre-opening Budget shall include the costs and expenses of (a) recruiting, relocating, training and compensating Hotel employees (including temporary subsistence for relocated employees until they have procured permanent accommodations within or outside the Hotel in accordance with H.I.'s personnel policies), (b) organizing Hotel operations, (c) pre-opening advertising, promotion, and literature, (d) obtaining all necessary licenses and permits (including the fees of attorneys and other consultants incidental thereto), (e) interim office space outside the Hotel, (f) telephone, telefax and electronic mail charges, (g) travel and business entertainment (including opening celebrations and ceremonies), (h) the staff facilities described in Section 14 of Article III, and (i) other pre-opening activities incurred prior to or concurrently with the formal opening of the Hotel. Hyatt and its affiliates and other hotels operated by H.I. and its affiliates shall be reimbursed for all reasonable costs (evidenced by valid receipts in appropriate cases) incurred by them in connection with pre-opening activities of the Hotel, including, inter-alia, (a) for a period of twelve (12) months prior to the formal opening of the Hotel, Chain Marketing Services as defined in Section 2 of Article VII, based on US\$394.00 (in 2008 United States dollars) per guest room, per annum, (b) the salaries, transportation, and subsistence outside the Hotel of personnel of Hyatt, its affiliates or other H.I. hotels assigned temporarily to the Hotel to assist in pre-opening activities (Hyatt shall make available to Owner, upon request, information on any such salaries and other subsistence to demonstrate the validity and accuracy of any such amounts), and (c) the expenses, excluding salaries, of such personnel making occasional visits to the Hotel in connection with pre-opening activities (with suitable evidence to demonstrate the validity and accuracy of any such expenses), provided that such costs are included within the Pre-opening Budget.

The Pre-opening Budget shall be revised as necessary prior to the formal opening of the Hotel, provided that such revisions do not or will not result in the total amount disbursed, with the exception of the additional amounts required, as provided below in this Section, as the result of postponement of the formal opening of the Hotel beyond Target Opening Date, exceeding the total of the initially agreed Pre-opening Budget. Accordingly, amounts allocated for various expense classifications within the Pre-opening Budget may be increased or decreased by Hyatt in consultation with Owner.



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For the purposes hereof, Hyatt and the General Manager shall utilize the currency of Macau ("**Patacas**") to the fullest extent possible and the balance of the funds required hereunder shall be made available in United States dollars or in currency freely convertible into United States dollars, without reduction for income, withholding, business tax, if any, value added or any other taxes imposed by Macau or the People's Republic of China, or bank charges or any other charges. If the tax authorities of Macau or the People's Republic of China shall impose any income, withholding, business tax, if any, value added or other tax upon the funds for pre-opening expenses, the Pre-opening Budget shall in any event be revised so that it includes such taxes in order that such funds shall be available to Hyatt and/or the General Manager, on a full and timely basis.

If Hyatt shall not receive timely payment from Owner of pre-opening funds in accordance with the aforesaid Pre-opening Budget, Hyatt shall have the right, but not the obligation, to fund such pre-opening expenses in accordance with the Pre-Opening Budget and to be reimbursed therefor, all subject to and in accordance with the provisions of Article XI of this Agreement.

In the event of the postponement of the formal opening of the Hotel beyond the Target Opening Date the newly scheduled formal opening date notified in accordance with Section 6 of this Article 1 shall be set forth in a memorandum to be signed by Hyatt and Owner. Hyatt shall and shall procure that the General Manager, shall during the period of 3 months following the Target Opening Date use their best efforts to minimize the additional costs and expenses resulting from such postponement and any such additional costs and expenses shall be agreed by Owner and Hyatt (such agreement not to be unreasonably withheld or delayed). If by the expiry of a period of 3 months from the Target Opening Date the formal opening of the Hotel has not occurred, Owner and Hyatt shall agree any appropriate increases in the Pre-opening Budget as reasonably required by Hyatt, as agreed with Owner (such agreement not to be unreasonably withheld or delayed), due to the delay in, and until, the formal opening of the Hotel beyond a period of 3 months from the Target Opening Date. With the consent of Owner, Hyatt may, through the General Manager on behalf of the Owner, prior to said formal opening conduct partial operations of the Hotel, the expenses and revenues of said partial operations to increase or reduce the pre-opening expenditures budgeted in accordance with the provisions of this Section, and Hyatt shall be entitled to receive monthly its basic management and incentive fees, at the rates provided for in Section 1 of Article IV and upon the terms set forth in Section 2 of Article IV, based upon Revenue and Gross Operating Profit, as defined in Article V, resulting from such partial operations.

With the exception of fees for partial operations as provided for above, neither Hyatt nor any affiliate of Hyatt shall receive any fee or profit for rendering pre-opening services as described in this Section 6. However, if this Agreement shall be terminated before the expiration of five (5) years following the formal opening of the Hotel as the result of any default by Owner, then Hyatt shall be entitled to receive from Owner, as liquidated damages solely to compensate Hyatt for rendering pre-opening services (and without prejudice to Hyatt's right (if any) to claim and receive damages to compensate it for any other loss arising in respect of the termination of this Agreement, including, without limitation, the loss of Hyatt's future fees and other entitlements hereunder for itself and for H.I. affiliates), the amount of US\$1,000,000. The parties agree that the US\$1,000,000 is the actual quantum of the damages in respect of the value of pre-opening services Hyatt would suffer due to such early termination and that the same is a genuine pre-estimate of such damages and loss under or in connection with this Agreement by Hyatt, HI and the HI affiliates in respect of such pre-opening services.

Hyatt shall, through the General Manager on behalf of the Owner, within four (4) months after the formal opening of the Hotel, account to Owner for all expenditures made under this Section and pay over to Owner forthwith any excess of the funds advanced by Owner over the total of such expenditures.

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**Section 7. Formal Opening of the Hotel.**

The formal opening of the Hotel shall occur on a date to be mutually agreed upon by Owner and Hyatt (which agreement shall not, notwithstanding any of the provisions hereof, be unreasonably withheld or delayed), by reference to the Target Opening Date and in any event only after (a) (i) the Hotel has been practically completed including without limitation in accordance with that certain Technical Services Agreement, dated the date hereof between Owner and Hyatt International Technical Services, Inc. ("**TSA**") and (ii) the Furnishings and Equipment, Ancillary Hotel Equipment and Operating Equipment have been substantially installed therein, all in accordance with the provisions of Section 2 of this Article, (b) the construction manager has issued its certificate of completion, (c) all licenses and permits required for the operation of the Hotel (including police, fire and health department permits) have been obtained, save in respect of those where failure to obtain any such license and permits for any part of the Hotel will not affect the operation of the Hotel as a whole, (d) adequate working capital has been furnished by Owner in accordance with Section 1 of Article VII, and (e) the Hotel is ready to render appropriate service to guests on a fully operational basis to Grand Hyatt Operating Standards (as defined below). Hyatt shall promptly upon becoming aware (and, in any event, prior to the Target Opening Date) notify the Owner with supporting evidence reasonably acceptable to Owner of any circumstances in which the Hotel does not or is not reasonably likely to meet the above paragraph (e) criteria, the burden of proof being on Hyatt. Notwithstanding the formal opening of the Hotel (but subject to the foregoing), Owner shall proceed diligently thereafter to fulfill all of its obligations hereunder regarding the construction, furnishing, equipping and decorating of the Hotel and to cure all defects or deficiencies as to which notice shall be given by Hyatt to Owner as soon as practicable after said formal opening.

**ARTICLE II  
Operating Term and Provisions Relating to Termination**

**Section 1. Operating Term.**

The term of this Agreement shall commence upon the date hereof and the initial operating term hereunder shall commence at the formal opening of the Hotel and expire at midnight on December 31 of the eighteenth (18<sup>th</sup>) full calendar year following said formal opening subject to earlier termination (if any) in accordance with the terms hereof. "**Operating Term**" shall mean and include the initial operating term subject as aforesaid and any extension thereof as may be mutually agreed by the parties, each acting in their sole discretion.

**Section 2. Termination Related Provisions.**

(1) Upon the expiration or earlier termination of this Agreement for whatever cause, Hyatt shall, at Owner's cost and expense, novate or assign to Owner or otherwise put into the name of Owner if not already in that name, all contracts (if any and without prejudice to the restriction on Hyatt entering into contracts in its own name on behalf of the Owner in Article III Section 3 and Section 7) entered into by Hyatt in relation to the Hotel or the performance of Hyatt's obligations hereunder, subject, where appropriate, to the Owner's right to refuse such novation or agreement, where the contract in question is not entered into in the Hotel's and Hyatt's ordinary course of trading or contains unusually onerous terms and subject to any costs under the contract having been included by Owner and Hyatt as part of the operating expenses or management fee payable to Hyatt in accordance with this Agreement. Provided however, Owner understands and agrees that contracts entered into by Hyatt or its affiliates for services which are provided for the benefit of hotels operated by Hyatt or its affiliates, such as credit card acceptance agreements, frequent flyer program participation agreements and the like, shall not be novated or assigned to Owner upon the expiration or termination of this Agreement.

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(2) Hyatt shall deliver to the Owner (or its agent or nominee) all plans, designs, drawings, layouts, specifications and other documents or materials (which are not owned by Hyatt) relating to the Hotel or created or acquired by Hyatt, on behalf of Owner, in the performance of its obligations hereunder and in the custody or control of Hyatt within thirty (30) days from termination.

(3) Hyatt shall leave at the Hotel all property located therein (other than property owned by or proprietary to Hyatt or affiliates of Hyatt) in its then existing condition.

**ARTICLE III  
Operation of the Hotel**

**Section 1. Key Operating Principles.**

In recognizing that the Hotel forms part of the Development which comprises an integrated entertainment complex including a casino, the parties have agreed on their management philosophy in undertaking their respective roles as manager and owner of the Hotel and have recorded those philosophies in the key operating principles set out in Appendix D ("**Key Operating Principles**"). The intention is to ensure that Hyatt performs its management services and its obligations under this Agreement having regard to the Key Operating Principles and that Owner will perform its obligations under this Agreement having regard to the Key Operating Principles. The Key Operating Principles must be reviewed annually by the parties after the Annual Plan is agreed in accordance with Section 4 of Article VII, and any agreed amendments to the Key Operating Principles must be recorded in an instrument supplemental hereto and signed by the parties.

**Section 1A. Standards of Operation.**

Hyatt shall, through the General Manager and on behalf of the Owner, operate the Hotel to the standards comparable to those that are customary and usual and generally prevailing in international, upscale Grand Hyatt hotels operated by HI and its subsidiaries and affiliates in the Asia Pacific region, provided that the same is not in contravention of Macanese law or regulation (the "**Grand Hyatt Operating Standards**"). Hyatt shall, through the General Manager and on behalf of the Owner, conduct all activities of the Hotel in a manner that is customary and usual to such an operation and in accordance with the laws and regulations of Macau and, insofar as feasible and in its opinion advisable, local character and traditions, with diligence and care generally attributable to a professional manager of a hotel with similar characteristics. Hyatt shall perform and shall use its diligent efforts to ensure that the General Manager acts, with reasonable skill, care and diligence in a professional and appropriate manner in the operation of the Hotel and that the relationship with Owner operates through channels of dialogue and transparency.

For the purpose of this Agreement, Owner undertakes from time to time to provide to Hyatt and General Manager written information related to relevant requirements concerning the operation of the Hotel and this Agreement, under the Financing Documents, and Hyatt shall, and shall procure that the General Manager shall, consistent with the rights and obligations of Hyatt under the terms of this Agreement use commercially reasonable efforts to comply therewith.

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**Section 2. Control of Operation.**

Hyatt shall, through the General Manager and on behalf of the Owner control, operate and manage of the Hotel in accordance with and subject to this Agreement. Nothing herein shall constitute or be construed to be or to create a partnership or joint venture between the Owner and Hyatt, and without prejudice to any other rights or remedies of Owner, the right of Owner to receive financial returns solely based upon the operation of the Hotel shall not be deemed to give Owner any rights or obligations, save as otherwise set out in this Agreement, with respect to the operation or management of the Hotel. Recommendations with respect to the operation of the Hotel and any matter addressed or contained in the Annual Plan or, as the case may be, the Approved Annual Plan (each as defined in Section 4D of Article VII hereof) made by Owner shall be considered by Hyatt and the General Manager and, (a) if required by law or regulations, shall be implemented or (b) if otherwise consistent with Grand Hyatt Operating Standards shall be implemented where feasible. Any such matters may be discussed, at Owner's discretion, in the monthly meeting with the General Manager as provided in Section 6 of this Article III. The control and management by Hyatt, through the General Manager on behalf of the Owner, shall include, subject always to the other terms of this Agreement, the use of the Hotel for all customary purposes, terms of admittance, charges for rooms and commercial space, entertainment and amusement, food and beverages, labor policies, wage rates and the hiring and discharging of employees, maintenance of and, holding of funds in, the bank accounts of the Owner designated in the trade name of the Hotel, and all phases of promotion and publicity relating to the Hotel. Hyatt shall have the right to select and appoint, on behalf of Owner and subject to and in accordance with this Agreement, all employees of the Hotel, including the General Manager, the executive committee members, expatriate personnel and other key executives of the Hotel; provided, however, Owner shall have the right to approve, which approval shall not be unreasonably withheld, the appointment of the General Manager, the Director of Finance and the Director of Marketing of the Hotel and any replacements thereof (collectively, "**Hyatt Senior Managers**") and Owner will be responsible for reasonable accommodation expenses of such Hyatt Senior Managers (which accommodations shall be consistent with H.I. standards and policies generally in effect for those having equivalent positions to Senior Managers at hotels of comparable standing, quality and size to the Hotel), as separately agreed between Hyatt and Owner. Owner shall have the right, on any occasion where Hyatt believes it is necessary to appoint a new General Manager, Director of Finance, or Director of Marketing, to meet the candidate(s) for such positions and to express to Hyatt its approval or articulate concerns about such candidate(s).

**Section 3. Leases and Concessions.**

Hyatt shall, through the General Manager and on behalf of the Owner, operate in the Hotel, subject to the terms of this Agreement, all facilities and provide all services that are located within the confines of the Hotel and are dedicated to service of the guests of the Hotel (including, without limitation, the lobby shop and newsstand). Hyatt shall not lease or grant concessions in respect of such services or facilities without the prior written consent of Owner, which shall not be unreasonably withheld, except that Hyatt or the General Manager shall have the right in the Owner's name or, if agreed to between Hyatt and the Owner, in its own name as agent of Owner, to lease or grant concessions on arm's length terms and for fair market value in respect of commercial space or services of the Hotel that are generally and customarily subject to lease or concession in comparable hotels, provided that this Section is subject to provisions in Section 7 of this Article III. The rentals or other payments received by Hyatt, the General Manager or Owner under each such lease or concession (but not the receipts of the lessees or concessionaires) shall be included in the Revenue, as hereinafter defined.

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No lessee or concessionaire shall be allowed to utilize the name "Grand Hyatt Macau" or "澳門君悅酒店" in Chinese directly as part of its trade name in its advertising or promotional materials. However, lessees or concessionaires operating in the Hotel shall be at liberty to state the name "Grand Hyatt Macau" or "澳門君悅酒店" in Chinese as part of their address.

**Section 4. Management Services.**

Without limiting the generality of the foregoing, during the term of this Agreement Hyatt shall, through the General Manager and on behalf of the Owner, inter-alia:

(a) ask for, demand, collect and give receipts for all charges, rents and other amounts due from guests, patrons, tenants, sub-tenants, concessionaires and other third parties providing services to guests of the Hotel and, when desirable or necessary, cause notices to be served on such guests, patrons, tenants, sub-tenants and concessionaires to quit and surrender space occupied or used by them;

(b) arrange for association with one or more credit card systems in conformity with H.I.'s general policy in such regard;

(c) recruit, interview, and hire employees of the Hotel and pay from the Operating Bank Account(s) of the Hotel salaries, wages, taxes thereon as appropriate, and social benefits;

(d) subject to the affiliate provisions of Section 8 of this Article III, establish purchasing policy for the selection of suppliers and negotiate supply contracts to assure purchases on the best available terms;

(e) subject to the affiliate provisions of Section 8 of this Article III, arrange for the purchase of utilities, equipment maintenance, telephone and telex services, vermin extermination, security protection, garbage removal and other services necessary for the operation of the Hotel, and for the purchase of all food, beverages, operating supplies and expendables, Furnishings and Equipment and such other services and merchandise necessary for the proper operation of the Hotel;

(f) provide appropriate sales and marketing services including definition of policies, determination of annual and long-term objectives for occupancy, rates, revenues, clientele structure, sales terms and methods;

(g) provide appropriate advertising and promotional services including definition of policies and preparation of advertising and promotional brochures (folders, leaflets, tariffs and fact sheets, guide books, maps, etc.) to be distributed in H.I. hotels and sales offices;

(h) cause its affiliates to furnish the sales and marketing services and centralized reservation services as provided for in Section 2 of Article VII;

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(i) make available its own and its affiliated companies' personnel for the purpose of reviewing all plans and specifications for alteration of the premises, and advising with reference to the design of replacement Furnishings and Equipment and the quantities required, and in general for the purpose of eliminating operational problems or improving operations;

(j) establish and implement training and motivational programs for employees, such as the "Training for Your Future" program and other training and motivational programs implemented in H.I. hotels;

(k) arrange for the insurance coverage to be maintained by Hyatt as provided in Section 2 of Article VIII and comply with the terms of all applicable insurance policies;

(l) subject to Owner's approval, institute in the name of Owner lawsuits or other legal actions in connection with the operation of the Hotel deemed necessary or advisable by Hyatt, provided that Owner shall have the right to participate in and approve any settlement or compromise thereof;

(m) install and maintain the accounting books and records in accordance with the provisions of Section 1 of Article V and other information systems required for the efficient operation of the Hotel and file such tax returns relating to Hotel operations as may be required by the laws of Macau;

(n) subject the accounting books and records and operations systems of the Hotel to review by internal auditors of H.I. or its affiliates;

(o) maintain and enhance the computer software for the Hotel operations management system; and

(p) pay, when due, the Common Area Allocation (as hereinafter defined) and the Marketing Allocation (as hereinafter defined) for the Hotel.

**Section 5. Operating Bank Account(s).**

Hyatt shall, through the General Manager and on behalf of the Owner, deposit all funds received from the operation of the Hotel into one or more bank account(s) in the name and title of the Owner but which may be designated in the trade name of the Hotel (the "**Operating Bank Accounts**") that shall be opened by Owner and operated by Hyatt for the benefit of Owner, at an internationally recognized bank in good standing chosen by Owner, and from which disbursements of the entire cost and expense of maintaining, conducting and supervising the operation of the Hotel, the payments pursuant to Sections 1 and 3 of Article IV, Section 2 of Article VII, capitalized alterations, additions and improvements pursuant to Sections 2 and 3 of Article VI, and any other expenditures, all as permitted by and in accordance with the terms of this Agreement shall be made by, and in accordance with the requirements for, the sole authorized signatories of the Operating Banks Account(s) (as specified below), designated by Hyatt and approved by Owner (in the case of the "A" signatories and the "B" signatories (each as referred to below)), each of whose signatures shall be authorized by resolution of the Board of Directors or, if required, the shareholders of Owner. The sole authorized signatories of the Operating Bank Account(s) shall be the General Manager or an Executive Assistant Manager of the Hotel (as "A" signatories), the Director of Finance or Assistant Director of Finance of the Hotel (as "B" signatories), and such other signatories agreed to by Hyatt and Owner from time to time. Notwithstanding the foregoing, Owner's approval (not to be unreasonably withheld, conditioned or delayed) shall be required prior to payment of any single transaction (or series of related transactions) of an amount equal to or in excess of US\$200,000 (in 2008 terms, and which amount shall on an annual basis be adjusted by the consumer price index of Macau S.A.R.), but excluding any payment for salaries and salary related expenses of the Hotel employees, insurance premiums, reimbursement of Chain Allocation expenses, payment of Reservations charges, payment of charges for the Gold Passport program (as each of the foregoing are defined or provided in Section 2 of Article VII hereof), and payment for service contracts in the Approved Annual Plan (as defined in Section 4D of Article VII). All monies in the Operating Bank Accounts and any interest accrued or accruing thereon, are Owner's property and under no circumstances may these monies be mingled with any funds which are not connected with the operation of the Hotel. Notwithstanding any of the foregoing, Hyatt shall only make expenditures from the Operating Bank Accounts in a manner consistent with the Approved Annual Plan and the terms of this Agreement.

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**Section 6. Consultations with Owner.**

The General Manager of the Hotel shall meet with Owner monthly to review, explain to and discuss with Owner the monthly financial and operating results and cash flows of the Hotel, to review the forecast for the next succeeding three (3) months of the Hotel, and to discuss other operational matters and matters of interest to Owner. In addition, at Owner's request, Hyatt's Area Vice President (or other appropriate executive) shall meet with Owner on a quarterly basis to review the operation of the Hotel and to discuss the quarterly results. Hyatt's Area Vice President (or other appropriate executive) shall also, upon Owner's request, explain and discuss with the appointed representative(s) of Owner the Annual Plan (as hereinafter defined) and the opinions, views and recommendations of Owner with respect thereto.

**Section 7. Hyatt's and General Manager's Right to Contract.**

In order to carry out its duties under this Agreement during the Operating Term, Hyatt shall, through the General Manager and on behalf of the Owner, have the right, in the name of the Owner, and as permitted by and in accordance with this Agreement, to incur expenses and to enter into contracts with third parties in the ordinary course of trading of the Hotel and the Owner, in connection with pre-opening activities pursuant to Section 5 of Article I as well as during the Operating Term, which such contracts may include, without limitation, contracts for sales of rooms, food and beverages and other facilities of the Hotel, the purchase of food and beverages and Operating Supplies (as defined in Article VII Section 1 below), employment of personnel, advertising and business promotion, repairs and maintenance, administration, heat, light and power, insurance, legal and accounting services, and other goods and services; provided, however, that save to the extent Owner has waived this requirement, any contract (or a series of related contracts) involving any amounts or other obligations or liabilities (excluding payments hereunder to Hyatt or any employees) in excess of US\$200,000 in 2008 terms, which amount shall be adjusted on an annual basis by the consumer price index of Macau, S.A.R. shall require the prior approval of Owner. Hyatt shall not enter into any onerous or restrictive obligations which would not normally be undertaken by an operator of a hotel of the same class. Pursuant to and subject to compliance with Section 5 of this Article, all amounts due and payable to the suppliers of goods and services in accordance with the terms of such contracts shall be paid from the Operating Bank Account(s) of the Hotel, which shall be replenished, to the extent necessary to make all such payments, by Owner, as required under Section 1 of Article VII of this Agreement. Any such contracts entered into by Hyatt or the General Manager on behalf of Owner in accordance with this Section 7 and this Agreement shall be honored by Owner if they shall survive earlier termination of this Agreement. Hyatt must obtain the approval of Owner before entering into any contract with a term that exceeds the Operating Term. So long as Hyatt complies with the terms of this provision with respect to the matters set forth in this Section 7, Hyatt shall be deemed to be in compliance with the terms and conditions with respect to the matters set forth in this Section 7 and shall not have any further liability or obligations with respect to the matters set forth in this Section 7.

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**Section 8. Contracts with Hyatt Affiliates.**

Subject to the provisions of this Section 8, in its management of the Hotel, Hyatt or the General Manager, may on behalf of the Owner purchase goods, supplies, insurance and services from or through H.I. or any of their respective affiliates so long as the prices and terms thereof are competitive with the prices and terms of goods, supplies and services of equal quality available from third parties including subject to the provisions of this Section 8, Hyatt may on behalf of the Owner retain itself or H.I. or any of their respective affiliates as a consultant and to perform technical services in connection with the maintenance and enhancement of computer software for the Hotel operations management system and any substantial remodeling, repairs, construction or other capital improvement to the Hotel and Hyatt or H.I. or their respective affiliates shall be reasonably compensated for its services. Hyatt shall, through the General Manager and on behalf of the Owner, have the right on behalf of the Owner to utilize the Hotel and its facilities to train employees of other hotels operated by Hyatt or H.I. and their respective affiliates. The Hotel shall be reimbursed for any additional expenses that may be caused as a result of such training, unless such expenses shall be offset by benefits accruing to the Hotel arising out of services performed by such trainees provided that such offset shall not exceed the reimbursement amount. Except for Chain Marketing Services and other services identified in Article VII Section 2, neither Hyatt nor the General Manager shall purchase goods, supplies or services from itself or any affiliate, or enter into any other transaction with an affiliate of Hyatt or H.I. wherein any portion of the cost thereof will be paid or reimbursed by the Hotel or from the Operating Accounts or otherwise by Owner or any of its affiliates, except with the prior consent of Owner, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, recognizing the varied nature and scope of investments by or on behalf of the Pritzker Family, there will be situations where a company in which the Pritzker Family holds an interest does business, directly or indirectly, with Hyatt or individual Hyatt hotels, in some cases without the knowledge of such interest by Hyatt management. Subject to the provisions of the succeeding sentence of this Section 8, any such transactions entered into in the ordinary course of trading will not be deemed a violation of the provisions of this Section. However, where the Pritzker Family interest is material and is known or becomes known to Hyatt management, Hyatt will inform Owner, and will discontinue such arrangements if then requested by Owner. "**Pritzker Family**" shall mean (i) all natural and adoptive lineal descendants of Nicholas J. Pritzker, deceased, and their spouses; (ii) all trusts for the benefit of any person described in clause (i) and the trustees of such trusts in their capacities as such; (iii) all legal representatives of any person or trusts described in clauses (i) or (ii); and (iv) all partnerships, corporations, limited liability companies or other entities controlled by or under common control with any person, trust or other entity described in clauses (i), (ii) or (iii). "Control" for purposes of this definition shall mean the ability to direct or otherwise significantly affect the major policies, activities or actions of any person.

**Section 9. Agency Relationship.**

In the performance of their duties hereunder provided that such is in accordance with the terms of this Agreement, Hyatt and the General Manager shall act solely as agents of Owner. All debts and liabilities to third persons incurred by Hyatt and the General Manager as aforesaid in the course of their operation and management of the Hotel and in accordance with this Agreement shall, save to the extent this Agreement provides otherwise, be the debts and liabilities of Owner only and Hyatt and the General Manager shall not be liable for any such obligations by reason of their management, supervision, direction and operation of the Hotel for Owner. Hyatt and the General Manager may so inform third parties with whom they deal on behalf of Owner in accordance with this Agreement and may take any other reasonable steps to carry out the intent of this Section.



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**Section 10. Hyatt's Right to Reimbursement.**

During the term of this Agreement and to the extent such amounts have not otherwise been funded under the Pre-opening Budget, Hyatt may elect (but shall have no obligation to elect) to pay any such costs and expenses incurred for the benefit of the Hotel operation that Hyatt shall have the right or the obligation to incur or cause to be incurred in accordance with and subject to the provisions of this Agreement (and which are so incurred), (a) whether incurred (i) separately and distinctly from costs and expenses incurred on behalf of other hotels of Hyatt or H.I. or its affiliates (hereinafter collectively called the "**H.I. group**") or (ii) in conjunction therewith (including, without limitation, insurance premiums, advertising, business promotion, training and internal auditing programs, social benefits of the H.I. group for which employees of the Hotel may be eligible, attendance of such employees at meetings and seminars conducted by members of the H.I. group and the Chain Marketing Services and other services provided in accordance with Section 2 of Article VII), and (b) irrespective of whether such funds shall be paid to any third party or to any member of the H.I. group or any other hotels operated by any member of the H.I. group. If Hyatt or any member of the H.I. group or any hotel operated by any member of the H.I. group shall pay with its own funds as aforesaid, it shall be entitled to prompt reimbursement therefor by the Owner.

Any amount required to be reimbursed which is referred to in this Section 10 to Hyatt or H.I. or any of their respective affiliates in accordance with the provisions of this Agreement shall be payable in United States dollars or in the currency in which the expense was incurred, without reduction for income, withholding, business tax, if any, value added or any other taxes imposed by the tax authorities of Macau, or the People's Republic of China, or bank charges or any other charges, at the principal office of Hyatt or H.I. or their respective affiliates or such other place as Hyatt may, from time to time, designate. In the event that the tax authorities of Macau or the People's Republic of China shall impose any income, withholding, business tax, if any, value added or other tax upon such reimbursements of costs and expenses, or deem such reimbursements to be income taxable to Hyatt or its affiliates, and the Annual Plan or the Approved Annual Plan, as the case may be, shall in any event be revised in accordance with the provisions of this Agreement to cover such amounts in order that Hyatt or its affiliates shall receive full and timely reimbursement for all of its advances hereunder. Hyatt shall, through the General Manager and on behalf of the Owner, have the right to withdraw the amount of such reimbursement of operating expenses which is referred to in this Section 10 from the Operating Bank Accounts of the Hotel when due, utilizing such United States dollars or other currency freely convertible into United States dollars that may be available in such Operating Bank Accounts, or Hyatt (or the General Manager) may convert such amount from Patacas to United States dollars. If exchange control regulations of Macau or the People's Republic of China delay the conversion of an amount into United States dollars, Hyatt or H.I. or its affiliate may elect to receive and retain such amount in Patacas during the period of such delay, but such election shall not constitute a waiver of the right of Hyatt, or H.I. or their respective affiliates to receive payment of other amounts in the future in United States dollars. Hyatt shall ensure that the reimbursement operating expenses which are referred to in this Section 10 and remitted to Hyatt or H.I. are documented and supported by invoices, receipts or other documents showing that such amounts are properly and reasonably incurred in connection with the operation of the Hotel in accordance with the terms of this Section 10.

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**Section 11. Employees of the Hotel.**

Subject to the provisions of Section 2 of Article III, Hyatt shall, on behalf of and in consultation with Owner, select and appoint the General Manager of the Hotel. Hyatt shall, through the General Manager, on behalf of Owner and subject to the provisions of Section 2 of Article III, select and appoint all employees of the Hotel, including the executive committee members, expatriate personnel and other key executives of the Hotel. With respect to any Hyatt Senior Managers, any executive committee members, any expatriate personnel and any other key executives, who are hired by the General Manager, on behalf of the Owner as contemplated in this Section 11, if Hyatt determines that their expertise and experience justify a higher level of social benefits and compensation and can reasonably demonstrate to Owner the level of such experience and expertise, then provided that such higher level of benefits and compensation is not in contravention of any Macanese law or regulation, Owner shall pay for and reimburse Hyatt for any such benefits or compensation that may be advanced by Hyatt. Owner and Hyatt hereby agree to cooperate with each other to comply with all and any applicable Macau laws or regulations regarding this issue and whenever required by the Owner, Hyatt shall provide any evidence necessary to substantiate the experience and expertise of the applicable candidate for any such position. Each employee of the Hotel, including the General Manager, shall be the employee of Owner and not of Hyatt, and Hyatt shall not, save as otherwise contemplated in this Agreement, be liable to such employees for their wages or compensation, and every person performing services under and in accordance with this Agreement, including any agent or employee of Hyatt or H.I. or any of its affiliates or any agent or employee of Owner hired by Hyatt who is, in each case, so acting, shall be acting as the agent of Owner. The aforesaid notwithstanding, Hyatt may, subject to the terms of this Agreement and applicable laws and regulations of Macau (a) elect to assign employees of Hyatt or H.I. or any of its affiliates or of other hotels of H.I. temporarily as full-time members of the executive staff of the Hotel and (b) pay the compensation, including social benefits, of such employees. In such event Owner shall reimburse Hyatt monthly for the total aggregate compensation as agreed by the Owner, including social benefits paid or payable to or with respect to such employees, and Hyatt shall make available to Owner, upon request, information on any such salaries and social benefits to demonstrate the validity and accuracy of any such reimbursed amounts. To the extent that Hyatt deems advisable and in Owner's best interest but subject and without prejudice to the other provisions of this Agreement (including, without limitation, any provisions which expressly reserve to Owner any rights or discretions in respect of such matters), Owner shall delegate to the General Manager of the Hotel the authority to employ, pay, supervise and discharge employees of the Hotel as shall be required in accordance with and subject to this Agreement.

Hyatt and the General Manager shall inform Owner of any major changes of the Hotel's personnel as soon as practicable. Hyatt shall, unless explanations for not doing so are given by Hyatt to the reasonable satisfaction of Owner and provided such would not contravene law or regulation in Macau, terminate the employment of any personnel of the Hotel forthwith or where practicable, after consultation with Owner, if at any time any such personnel shall:

- (1) be guilty of serious misconduct or commit a material breach of any of the terms of his employment or after warning in writing, willfully neglect to perform his assigned duties; or
- (2) commit any act of fraud or dishonesty (whether or not connected with his employment); or

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- (3) be incapacitated (including by reason of illness or accident) from performing his assigned duties for a period or periods in aggregate amounting to six calendar months in any period of twelve months; or
- (4) as a result of his other activities or interests, be in a position which conflicts with his assigned duties.

Owner may request that Hyatt removes any of such personnel for any of the aforementioned reasons if it has reasonable grounds to believe that that is the case. Hyatt shall comply with Owner's request either forthwith or as soon as possible upon investigation of the matter.

Owner shall have the right to request Hyatt to remove (on not less than thirty (30) days' written notice by notice to the Area Senior Vice President of Hyatt, or an appropriate level executive of Hyatt) the General Manager, Director of Finance, and/or Director of Marketing if, in the Owner's reasonable opinion, the General Manager, Director of Finance, and/or Director of Marketing, as appropriate, has demonstrated poor performance due to the lack of skills or neglect of his or her duties; provided, that Hyatt, as to the General Manager, Director of Finance or Director of Marketing, as appropriate, shall have previously received at least two (2) prior written notices, on dates at least thirty (30) days apart, from the Owner with respect to poor performance of the General Manager, Director of Finance or Director of Marketing, as appropriate, provided the applicable individual shall have theretofore been afforded with a reasonable opportunity to cure such circumstances not exceeding 90 days.

Owner will reimburse General Manager for reasonable Macau accommodation expenses incurred by the General Manager during his term of appointment as General Manager under this Agreement. The amount of such reimbursement shall be for accommodations consistent with H.I. standards and policies generally in effect for the general managers of hotels of comparable standing, quality and size to the Hotel, provided the same is not in contravention of Macanese law or regulations and shall be as agreed to between Owner and Hyatt, from time to time.

**Section 12. The General Manager.**

The parties understand that Hyatt shall, in order to perform, and without prejudice to, its obligations to operate and manage the Hotel under, in accordance with and subject to the terms of this Agreement, exercise its control and discretion, subject to and in accordance with the terms of this Agreement (and without prejudice to its other obligations in respect of the exercise of such control and discretion), in such operation and management by designating the General Manager to be employed by Owner, which General Manager (herein called the "**General Manager**") Hyatt shall ensure shall (a) be familiar with H.I.'s method of hotel operation, (b) be furnished with H.I.'s policies and systems and procedures manuals from time to time in effect, and (c) whose major activities shall be reviewed and supervised by Hyatt while he shall retain full autonomy to make day-to-day decisions with respect to such operations. To such purpose, but without prejudice to any of the foregoing, Owner shall pass such resolutions as may be required to confer on General Manager the necessary power for such purpose.

**Section 13. Hyatt's Management Modules.**

The parties understand further that all of H.I.'s management modules including, but not limited to, policies and procedures, operations, accounting and training, which are furnished by Hyatt in connection with its management of the Hotel are and shall be at all times, without further act or action, the exclusive property of H.I. and Owner shall, ensure that the General Manager on behalf of the Owner, remove such management modules from the Hotel to the extent then in the possession of the Owner and return them to Hyatt upon the expiration or sooner termination of this Agreement.

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**Section 14. Staff Facilities.**

During the pre-opening period (the period of at least twelve (12) months prior to the formal opening of the Hotel) and during the Operating Term, Owner shall reimburse the General Manager, the executive committee members, key executives and expatriate personnel of the Hotel for reasonable Macau accommodation expenses. The amount of such reimbursement shall be for accommodations consistent with H.I. standards and policies generally in effect for equivalent positions at hotels of comparable standing, quality and size to the Hotel, provided the same is not in contravention of Macanese law or regulations and shall be as agreed to between Owner and Hyatt and shall be provided for in the Pre-opening Budget and the Annual Plan.

**Section 15. Special Provisions Relating to the Development and the Casino.**

A. Hyatt acknowledges that the Hotel will be only one component of the Development and that Owner has advised Hyatt that it is contemplated that the Hotel and the non-Hotel components will share certain common areas and facilities. Subject to Hyatt's reasonable approval, Owner may locate certain standard Hotel facilities such as, but without limitation, by way of example, the fitness center in the non-Hotel components of the Development. The parties hereto acknowledge that as at the date hereof, there are no such Hotel facilities intended to be located in the non-Hotel components of the Development but agree that should this be proposed in future, the agreement in respect thereof shall be set forth in a supplemental document to this Agreement to be signed by both parties hereto.

B. Hyatt shall cause the General Manager to meet regularly and work cooperatively with the general managers (or equivalent position) of the other components of the Development (such group, including the General Manager, the "**Senior Development Management Team**"), to develop and implement, and to review and update from time to time as appropriate, policies and strategies (collectively, the "**Project Integration Strategies**") designed to facilitate the effective coordination of operations of the Hotel and the other components of the Development and to promote the efficient, effective and profitable operation of the overall Development as a whole while permitting the operation of the Hotel in accordance with the Key Operating Principles and in accordance with the terms of this Agreement. By way of example (but not limitation), the Project Integration Strategies may include policies and strategies relating to:

- (1) Sales and Marketing. Sales and marketing (e.g., advertisement of Hotel jointly with the Development, and establishment and maintenance of a website and toll-free number for the Development), booking, pricing and collection strategies, all to facilitate the coordination of such matters across the components of the Development;
- (2) Preferred Customers. To the extent the Senior Development Management Team determines that it is in the interest of the Development to offer package pricing or other discounting of room rates to Hotel guests who are preferred customers of the Casino or other components of the Development, the establishment of appropriate allocations of the revenues and expenses associated with such Hotel guests' patronage of the Casino and other components of the Development;

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- (3) Services and Facilities. Sharing of services and facilities among the components of the Development;
- (4) Purchasing. Purchasing of Furnishings and Equipment and Operating Supplies;
- (5) Repair and Maintenance. Leveraging of resources to promote the efficient and effective repair and maintenance of the various components of the Development;
- (6) Employment Matters. Coordination of union human resources matters, including matters relating to salaries, benefits and other terms of employment at individual components of the Development;
- (7) Insurance. Placement of insurance coverages and adjustment of insurance claims;
- (8) Information Technology. Integration of information technology systems; and
- (9) Other. Such other matters as the Senior Development Management Team shall determine to be reasonably necessary or advisable to promote the efficient and effective operation of the Development as described above.

Hyatt acknowledges that Owner may elect, in connection with the non-Hotel components, to provide to the guests of the non-Hotel components access to certain Hotel facilities. Hyatt shall reasonably cooperate with Owner, and with the persons entitled to such access, it being understood and agreed, however, that Hyatt shall have a reasonable opportunity to review and approve such arrangements, provide input and suggestions with respect thereto, and satisfy itself that the Hotel facilities to which access is being granted are of sufficient size and capacity to permit use thereof by such additional persons without thereby adversely affecting use thereof by Hotel guests and patrons. Notwithstanding the preceding, the Hotel management shall have the exclusive right to control ingress to and egress from areas of the Hotel that are intended to serve the Hotel guests exclusively, and the Hotel management may limit access to and from the Hotel in its reasonable discretion including, without limitation, in matters involving public safety.

C. A portion of the costs (the "**Common Area Allocation**") relating to the Hotel and to the non-Hotel components of the Development such as, for example, but not by way of limitation, insurance, common area landscaping, site maintenance, trash removal, extermination and other such costs intended for the benefit both of the Hotel and the non-Hotel portions of the Development, shall be allocated for payment by the Hotel and the non-Hotel elements in a fair and reasonable manner. Prior to the opening of the Hotel, Owner shall propose to Hyatt, for Hyatt's review and approval acting reasonably, the proposed allocation methodology for determining the Common Area Allocation. The agreement of the parties in respect of the Common Area Allocation shall be set forth in a supplemental document to this Agreement to be signed by both parties.

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D. The Hotel shall pay, as an operating expense, a reasonable allocation (the "**Marketing Allocation**") of the actual out of pocket expenses incurred by Owner in marketing the overall Development. Prior to the opening of the Hotel, Owner shall propose to Hyatt, for Hyatt's review and approval acting reasonably, the proposed allocation methodology for determining the Marketing Allocation. The agreement of the parties in respect of the Marketing Allocation shall be set forth in a supplemental document to this Agreement to be signed by both parties.

E. In respect of the Common Area Allocation and the Marketing Allocation, Owner shall provide Hyatt, upon request, with reasonable substantiation to back-up the allocations. Hyatt shall have the right not more than six (6) times during the Operating Term to audit, as a Hotel expense, the allocations.

F. The Casino shall have its own signage, entrance and location within the Development. Hyatt shall not manage the Casino. Owner has advised Hyatt, and Hyatt thereby acknowledges, that the Casino will be operated by Owner's affiliate which holds a gaming subconcession to manage and operate casinos in Macau. Prior to the formal opening of the Hotel, Owner shall provide Hyatt, for Hyatt's review and approval, which approval shall not be unreasonably withheld, proposed arrangements relating to (1) the provision of and charges for rooms and other Hotel services for customers of the Casino and (2) to the use of and charges for Hotel services by Casino guests including, without limitation, the ability for Casino guests to make charges for Hotel services on to a guest account maintained at the Casino. To the extent that such rooms or services are requested to be made available on a discounted basis, the extent to which Owner shall offset the amount of the discount with revenue from the Casino must be set out in the agreed arrangements referred to above. The parties acknowledge that the administrative details relating to the relationship of the Hotel and Casino may need to be set forth in an agreement supplemental to this Agreement, and that, in addition, more specific provisions embodying the terms of the preceding sentence will need to be agreed upon. In that connection, Hyatt agrees that it shall negotiate in good faith in all matters pertaining to the Casino and will, in all events, act reasonably so long as the terms and provisions thereof shall not be inconsistent with the preceding provisions.

G. Should Owner's affiliate not be the operator of the Casino at any time or for any reason and the operator of the Casino is changed to another person and such change results in, or give rise to an inquiry or other proceeding that could result in, a determination, ruling or order of a government or regulatory authority having jurisdiction over either party to this Agreement and/or its affiliates which objects to such party continuing this Agreement or which has the effect of revoking or jeopardizing (or, should such determination, ruling or order be directed to a party to this Agreement due to any contractual relationship it may have with another beyond such party's control, which could reasonably lead to revocation or jeopardy of) a material license held by such party and/or its affiliate over a significant part of its or their business if such party continues this Agreement, then such change of operator shall be considered and deemed to be an "Owner Sale" as provided in Section 2A of Article XV hereof, and the provisions of such Section shall apply to the change of Casino manager. Hyatt confirms that it has no objection to a change of the operator of the Casino to another affiliate of Owner or a company economically owned jointly by Melco International Development Limited and Crown Limited, provided that such change does not result in, or give rise to an enquiry or other proceeding that could result in, a determination, ruling or order as referred to above in this Section.

**ARTICLE IV**  
**Management Fees and Owner's Profit Distribution**

**Section 1. Hyatt's Fees.**

During the Operating Term and any extension thereof, and during the period of partial operations (if any) prior to the formal opening of the Hotel, Hyatt shall be entitled to receive:

A. as basic management fee (i) with respect to each month (or part thereof) falling during the Initial Period, an amount equal to two percent (2%) of the Revenue (as defined in Article V) relative to and calculated for such month (or part thereof) but subject to the year end adjustment in Section 1 C, below; and

(ii) with respect to each month (or part thereof) falling during the Subsequent Period, an amount equal to one and three quarters percent (1.75%) of the Revenue relative to and calculated for such month (or part thereof) but subject to the year end adjustment in Section 1C, below; and

B. as incentive fee, with respect to each month (or part thereof) falling during the Total Period (a "**relevant month**"), as an installment of its incentive fee, an amount equal to the designated percentage (set forth below) of the Gross Operating Profit of the Hotel with respect to the period (the "**Relevant Cumulative Period**") from the commencement of the then current fiscal year in which such relevant month (or part thereof) falls up to and including the last day of the month immediately preceding such relevant month (or part thereof) and falling during such fiscal year:

	<b>Percentage of Gross Operating Profit for the Relevant Cumulative Period</b>
If Gross Operating Profit for the Relevant Cumulative Period, expressed as a percentage of Revenue for such Relevant Cumulative Period, is less than or equal to 20% of Revenue for such Relevant Cumulative Period	3%
If Gross Operating Profit for the Relevant Cumulative Period is greater than 20% of Revenue for such Relevant Cumulative Period and is less than or equal to 30% of Revenue for such Relevant Cumulative Period	4%
If Gross Operating Profit for the Relevant Cumulative Period is greater than 30% of Revenue for such Relevant Cumulative Period and is less than or equal to 40% of Revenue for such Relevant Cumulative Period	5%
If Gross Operating Profit for the Relevant Cumulative Period is greater than 40% of Revenue for such Relevant Cumulative Period	7.5%

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in each case after deducting from such incentive fee payment calculated with respect to such relevant month, all incentive fee installment payments previously made to Hyatt with respect to the fiscal year in which such relevant month (or part thereof) falls.

C. Upon receipt of the profit and loss statement referenced in subsection C. of Section 4 of Article VII after the end of each fiscal year during the Total Period and subject always to Article IV, Section 4 below, an adjustment payment (if the information in such profit and loss statement means that such payment is necessary) based upon the applicable percentage rate (as set forth in Section 1.A or 1.B) of Revenue or Gross Operating Profit, as the case may be, for the entire fiscal year (as confirmed by the profit and loss statement, referenced in subsection C. of Section 4 of Article VII), after deducting therefrom, however, the amount of the payments and preliminary installments paid under Sections 1.A and 1.B above, as the case may be.

For the purposes of this Article IV, Section 1:

“**fiscal year**” shall be determined in accordance with the provisions of Section 5 of this Article.

“**Gross Operating Profit**” shall be calculated in accordance with the provisions of Article V, Section 2 but with respect to the Relevant Cumulative Period in question.

“**Initial Period**” means the period commencing from the date of formal opening of the Hotel (as referred to in Article 1, Section 7) or, if earlier the first day of partial operations of the Hotel (if any) (as referred to in Article I, Section 6) up to and including the last day of the third (3rd) fiscal year.

“**Revenue**” shall be calculated in accordance with the provisions of Article V, Section 2 but with respect to each month in question or, in the case of Article IV Section 1.C., with respect to the relevant fiscal year either during the Initial Period or the Subsequent Period, as the case may be.

“**Subsequent Period**” means the period commencing from the first day of the fourth (4th) fiscal year up to and including the last day of the Operating Term.

“**Total Period**” means the aggregate of the Initial Period and the Subsequent Period.

**Section 2. Payment of Fees.**

Hyatt's basic management and incentive fees (collectively referred to as “**Hyatt's Fees**”) shall be determined in Patacas and shall be payable in United States dollars at the official rate of exchange prevailing on such dates as such fees shall be remitted, which fees shall be remitted within thirty (30) days after the end of each calendar month. If Hyatt's Fees are remitted after thirty (30) days after the end of such calendar month, then such fees shall be converted at the official rate of exchange prevailing on such dates as such fees are determined (i.e., originally calculated). Hyatt shall through the General Manager, subject to and in accordance with the requirements set out in Article III (in respect of signatories on the Operating Bank Accounts) on behalf of the Owner, have the right to withdraw the amount of its fees from the Operating Bank Accounts and, after deducting such income or withholding taxes imposed by the tax authorities of Macau as shall be applicable to such fees (and the parties acknowledge that it is intended that Hyatt is solely responsible for income taxes imposed on its net income attributable to such fees), utilize such United States dollars or other currency freely convertible into United States dollars that may be available in such bank accounts or convert such net amount from Patacas to United States dollars and remit such dollars or other foreign currency to its principal office or such other place as Hyatt may, from time to time, designate. If exchange control regulations of Macau delay the conversion of any fees into United States dollars, Hyatt may elect to receive and retain such fees in Patacas during the period of such delay, but such election shall not constitute a waiver of Hyatt's right to receive payment of other fees in the future in United States dollars at the rate of exchange as aforesaid. In the event that such fees shall be subject to any value added tax on turnover imposed by the tax authorities of Macau, such fees shall be increased by the amount of such value added tax.



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**Section 3. Owner's Profit Distribution.**

Subject always to the retention of working capital in accordance with this Agreement sufficient to assure the uninterrupted and efficient operation of the Hotel (including, without limitation but subject to always to Article VII Section I, amounts then deemed by Hyatt to be reasonably required to pay Hotel creditors, Hotel operating expenses, Hyatt's fees and H.I. reimbursements due hereunder, and amounts required to be credited to the Replacement Reserve all incurred or required to be so retained subject to and in accordance with this Agreement), Hyatt shall during the Total Period with respect to each month (or part thereof), cause to be paid monthly to Owner at its principal office, or at such other place as Owner may, from time to time, designate, an amount equal to the Gross Operating Profit calculated with respect to the immediately preceding month but after deduction of Hyatt's fees provided for in Section 1 of this Article (hereinafter referred to as "**Owner's Profit Distribution**") with respect to that preceding month). Subject always to the retention of sufficient working capital as aforesaid, Owner's Profit Distribution for each such calendar month shall be transferred to Owner within thirty (30) days following the end of such month.

**Section 4. Year-end Adjustment.**

If, for any fiscal year, Owner's Profit Distribution due under Section 3 and/or the Hyatt's Fees payable to Hyatt as calculated under Section 1 of this Article shall, in accordance with the profit and loss statement certified by the independent public accountant pursuant to subsection C of Section 4 of Article VII, be calculated to have been more or, as the case may be, less than the actual amounts respectively paid in accordance with Section 3 and Section 1 above, with respect to that fiscal year, Owner and/or Hyatt as the case may be shall respectively repay the amount of the difference to the party owed within thirty (30) days after receipt by Owner of said profit and loss statement.

**Section 5. Fiscal Years.**

Under this Agreement, "**fiscal year**" shall coincide with and be identical to calendar years for all purposes, except that the first fiscal year shall be the period between the date of the formal opening of the Hotel and December 31 of the same year, unless the period is three (3) calendar months or less, in which event the first fiscal year shall be the period from the formal opening of the Hotel until December 31 in the next succeeding year and the last fiscal year, if the Operating Term shall be terminated prior to its expiry date including any extensions thereof, shall be the period between January 1 of the year of termination and the date of such termination.

**ARTICLE V**  
**Determination of Gross Operating Profit**

**Section 1. Books and Records.**

Hyatt shall, through the General Manager on behalf of the Owner, keep full and adequate books of account and other records reflecting the results of the operation of the Hotel. Such books and records shall be kept in Patacas on the accrual basis and in all material respects in accordance with the then latest edition of the "Uniform System of Accounts for the Lodging Industry", as adopted by the American Hotel and Lodging Association ("**Uniform System**"), except as otherwise specified in this Agreement, and in accordance with the laws of Macau and so as to comply with any reasonable requests of Owner to enable compliance with the Financing Documents, provided Owner provides Hyatt in writing all necessary information related to such requests (which requests shall relate to the operation of the Hotel, consistent with the rights and obligations of Hyatt under the terms of this Agreement).

**Section 2. Gross Operating Profit.**

The term "**Gross Operating Profit**" as used in this Agreement shall mean with respect to any relevant period of time (a "**relevant period**"), the amount computed with respect to that period as follows:

A. All revenues and income of the Owner derived with respect to such relevant period directly or indirectly from the operation of the Hotel and recorded in its books and accounts in accordance with Section 1 of Article V including service charges collected from guests and rental or other payments from lessees or concessionaires (but not the gross receipts of such lessees or concessionaires) (herein called "**Revenue**" with respect to such relevant period). For avoidance of doubt, the following items of monies shall be excluded from the definition of Revenue with respect to such relevant period:

- (1) working capital and other funds furnished by Owner;
- (2) interest or other income accrued on amounts in the Replacement Reserve;
- (3) government and local authority excise, sales and use taxes collected directly from patrons and guests or as part of the sales price of any foods, services or displays, gross receipts, admissions, or similar or equivalent taxes and paid over to government or local authorities;
- (4) gratuities received and actually paid to employees;
- (5) proceeds of any insurance or compensation other than any proceeds of any insurance or compensation paid for any resumption or business interruption; provided, however, that in calculating Hyatt's Fees, such proceeds in respect of resumption or business interruption shall be included in the definition of Revenue for the purposes of that calculation; and
- (6) funds collected in respect of activities where a commission only is derived by the Hotel such as, without limitation, commercial tour operations; provided, however, any commissions received from such activities shall be included in Revenue.

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B. From the Revenue, with respect to the relevant period, shall be deducted the entire cost and expense of maintaining, conducting and supervising, in accordance with the terms of this Agreement, the operation of the Hotel accrued with respect to the relevant period, which shall include, without limiting the generality of the foregoing, the following, provided such are made in accordance with the terms of this Agreement:

(1) The cost of all food and beverages and Operating Supplies, as defined in Section 1 of Article VII, sold or consumed and the total relocation expenses, salaries, wages, severance payments and other compensation of all employees of the Hotel, including the General Manager, and their social benefits, which shall include, inter-alia, the cost of the life, disability and health insurance, incentive compensation and pension benefits of the H.I. chain for which they are qualified as a result of such employment;

(2) The cost of replacements of or additions to Ancillary Hotel Equipment and Operating Equipment;

(3) All costs and expenses of any advertising and business promotion for the Hotel separate and distinct from other hotels of Hyatt or H.I. or its affiliates and the Hotel's pro-rata or per-formula share of the costs and expenses of any reservation, advertising and business promotion program in which the Hotel participates with one or more hotels of Hyatt, or H.I. or its affiliates, including Chain Allocation charge, the Reservation charge and the Reserve System Transaction charge, as defined in Section 2 of Article VII, and the Hyatt Gold Passport program and selected airline mileage programs;

(4) The cost of all other goods and services incurred for the operation of the Hotel in accordance with the terms of this Agreement;

(5) Out-of-pocket expenses incurred by Hyatt and its affiliates for the account of the Hotel operation, including reasonable traveling expenses of employees, executives or other representatives or consultants of Hyatt and its affiliates incurred for the operation of the Hotel in accordance with the terms of this Agreement, provided that such persons shall be afforded reasonable accommodations, food, beverages, laundry, valet and other such services by and at the Hotel without charge to such persons or Hyatt;

(6) All costs and expenses of any personnel training of the Hotel, internal audits and management operations reviews (which average two (2) to three (3) weeks in duration) for the Hotel and special training programs conducted by personnel of Hyatt, H.I. or its affiliates for the Hotel, and the Hotel's pro-rata share of the costs and expenses of any personnel training program in which the Hotel participates with one or more other hotels of Hyatt or H.I. or its affiliates;

(7) All expenditures made by Hyatt and/or the General Manager, for maintenance and repairs to keep the Hotel in good operating condition in accordance with Section 1 of Article VI;

(8) The provision for replacements of and additions to Furnishings and Equipment in accordance with Section 2 of Article VI together with any additional cost thereof in excess of the amount in the Replacement Reserve, in accordance with Section 2 of Article VI;

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(9) The cost of alterations, additions and improvements in accordance with Section 3 of Article VI;

(10) Premiums (or reimbursements to Hyatt for premiums) for insurance maintained in accordance with Section 2 of Article VIII (premiums on policies for more than one year to be pro-rated over the period of insurance) and losses incurred on self-insured or uninsured risks;

(11) All taxes and public dues, other than (a) income taxes, payable by or assessed against Hyatt with respect to the operation of the Hotel (including the business tax imposed on turnover by Macau) and on Hyatt's net income, and (b) all taxes levied or imposed against Owner, the Hotel or its contents, such as rates and real and personal property taxes;

(12) Legal, auditing and other professional fees for the operation of the Hotel in accordance with the terms of this Agreement not relating to negotiation, renewal, termination or default under this Agreement;

(13) A reasonable provision for uncollectible accounts receivable in accordance with the Uniform System;

(14) The basic management fee payable to Hyatt under Section 1.A of Article IV; and

(15) The Common Area Allocation and the Marketing Allocation.

C. In determining the Gross Operating Profit for any fiscal year, no adjustment shall be made for or on account of any deficiency in the Gross Operating Profit of any prior fiscal year.

D. Owner's Costs and Expenses. For the purposes of clarification, it is understood and agreed that Owner's costs and expenses (other than anything referenced in Article V, Section 2, Subsection B (1)-(15), inclusive) are not operating expenses of the Hotel and therefore shall not be deducted from the Revenue of the Hotel in determining the Gross Operating Profit of the Hotel for any relevant period. Owner's costs and expenses shall include, but not be limited to, (a) Owner's administrative costs and expenses; (b) property damage insurance ("building and contents" insurance) against fire, boiler explosion and such other risks (the term building and contents shall mean the Hotel building, the Hotel building's mechanical, boiler, plumbing, air-conditioning and electrical plant and equipment, Furnishings and Equipment, Operating Equipment and inventories); (c) ground rent, real estate taxes and assessments, rates, real and personal property taxes, Owner's corporate profits and income taxes, etc.; (d) debt service, including payments of principal and interest on loans, mortgages, etc.; (e) costs relating to differences in exchange rates on Owner's cash and loans; and (f) amortization of pre-opening costs and expenses.

**ARTICLE VI**  
**Repairs and Changes**

**Section 1. Normal Repairs and Maintenance.**

Subject to the provision of adequate working capital by Owner pursuant to Section 1 of Article VII, Hyatt shall, through the General Manager and on behalf of the Owner, (save as provided in Section 4 of this Article) repair and maintain the Hotel in good order and condition, ordinary wear and tear excepted.

**Section 2. Replacements of and Additions to Furnishings and Equipment.**

Hyatt shall, through the General Manager and on behalf of the Owner procure the credit to a reserve for the replacements of and additions to Furnishings and Equipment (the "**Replacement Reserve**") of (a) for the first 24 months of the Operating Term, for each month of that period an amount equal to 2% of Revenue (if any) for the preceding month, (b) for the next 24 months of the Operating Term, for each month of that period, an amount equal to 3% of the Revenue (if any) for the preceding month, and (c) thereafter up to the end of the Operating Term, for each month of that period, an amount equal to 4% of the Revenue (if any) for the preceding month, in each case, as a provision for the replacements of and additions to Furnishings and Equipment and all proceeds from the sale of Furnishings and Equipment (which, for the purposes of this Section only, shall include telephone and switchboard equipment, otherwise included as building installations or systems). Subject to the retention of an amount equal to US\$900,000, which amount shall be available for unanticipated Furnishings and Equipment expenditures, Hyatt shall, through the General Manager, procure the transfer from the Operating Bank Account(s) of the Hotel to Owner the respective amounts set forth in the preceding sentence (the "**Replacement Fund**"). A book entry shall be credited in the amount that is to be accumulated in the Replacement Reserve. Hyatt shall be entitled to call upon Owner to remit, and Owner shall to the extent available out of the Replacement Fund, procure the remittance of, any amounts required to make all replacements of and additions to Furnishings and Equipment deemed by it to be necessary (except as provided under Section 4 of this Article) or desirable, which Furnishings and Equipment shall be and become, forthwith upon acquisition and installation and without further act or action, the property of Owner.

Replacements of and additions to Furnishings and Equipment deemed by Hyatt to be necessary or desirable, the cost of which shall exceed the balance in the Replacement Reserve, shall be subject to the approval of Owner, which shall make available to Hyatt, as additional working capital, the necessary funds therefor, and the cost thereof shall be charged directly to current expenses or shall be capitalized on the books of account in accordance with sound hotel accounting practices. The costs of such replacements and additions that are capitalized shall be depreciated by charges to the Hotel's operating expenses over their estimated useful lives.

Any amounts remaining in the Replacement Fund at the termination of the agreement or the expiration of the Operating Term shall be credited to Gross Operating Profit in the last fiscal year of the Operating Term.

**Section 3. Alterations.**

Hyatt shall, through the General Manager on behalf of the Owner and subject to the same being contemplated in the Approved Annual Plan, have the right to make, from time to time, such alterations, or improvements in or to the Hotel Site, Hotel, installations and building systems in relation thereto which are generally and customarily made in the operation of first-class hotels built to Grand Hyatt Standards. The cost of such alterations, additions or improvements shall be charged directly to current expenses or shall be capitalized on the books of account in accordance with sound hotel accounting practices. The costs of alterations, additions or improvements that are capitalized shall be amortized or depreciated by charges to the Hotel's operating expenses over their estimated period of usefulness.

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**Section 4. Essential Repairs, Changes and Replacements.**

Other than any matter referenced in Sections 1, 2 and 3 of this Article VI, if at any time during the Operating Term, repairs to the Hotel, installations or building systems in relation thereto, changes in the Hotel, or replacements (a) shall be required by reason of any laws, ordinances or regulations, or by any order of governmental authority, or (b) shall be essential to the safety of the Hotel, including its structural integrity, or its continued operation under and to the Grand Hyatt Standards, such repairs or replacements shall be made by Owner, shall be paid for by Owner, at its expense and not as a charge against operations pursuant to Subsection B of Section 2 of Article V, and shall be made promptly and with as little hindrance to the operation of the Hotel as possible.

**Section 5. Other Changes, Replacements and Additions.**

Any changes, replacements, additions, or improvements not otherwise provided for in this Agreement shall, if mutually agreed upon, be made promptly by Owner (or, if Hyatt agrees, by Hyatt, upon receipt from Owner of sufficient funds therefor) and, if agreed by the parties, shall be a charge against operations pursuant to Subsection B of Section 2 of Article V.

**ARTICLE VII  
General Covenants of Hyatt and Owner**

**Section 1. Opening Inventories and Working Capital.**

Hyatt shall prepare for Owner's approval an initial inventories and working capital budget in respect to initial inventories and working capital required for the operation of the Hotel with the format as outlined in Appendix C attached hereto (the "**Initial Inventories and Working Capital Budget**").

Owner shall:

(a) in advance of the formal opening of the Hotel, at such time as anticipated in the Pre-Opening Plan, provide sufficient funds for the Operating Bank Accounts, house cash funds, and inventories of food, beverages, and other items ready to be consumed, such as cleaning material and paper supplies (herein referred to as "**Operating Supplies**"); and

(b) initially and throughout the Operating Term at its sole expense provide working capital sufficient (to the extent there is or will be any insufficiency in amounts available in the Operating Bank Accounts) to assure the timely payment of all current liabilities of the Hotel (including Hyatt's Fees payable under Section 1 of Article IV, the Chain Marketing Services payable under Section 2 of this Article and reimbursement for out-of-pocket and other expenses incurred by Hyatt or its affiliates for the account of the Hotel operation in all such foregoing cases, payable in accordance with the terms of this Agreement);

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in each case so as to ensure the uninterrupted and efficient operation of the Hotel and the performance by Hyatt of its obligations under this Agreement, provided that such funds and working capital respectively shall be in amounts which are reasonable and commensurate with Hyatt's obligation to operate and manage the Hotel in a financially prudent manner, subject to meeting Grand Hyatt Operating Standards. Initial estimates, in 2008 United States dollars, indicate the Initial Inventories and Working Capital Budget for the Hotel to be approximately US\$5,000,000. Hyatt shall use its commercially reasonable efforts to obtain the best possible credit conditions from the Hotel's suppliers, and to convert into cash in the shortest possible time the stocks of merchandise and pending accounts.

Hyatt shall, through the General Manager and on behalf of Owner, use commercially reasonable efforts to operate the Hotel in a manner that maximizes efficiency and reduces expenses, subject to the Hotel meeting the Grand Hyatt Operating Standards.

**Section 2. Chain Marketing Services, Gold Passport and other Services.**

Hyatt shall, in the operation of the Hotel and for the benefit of its guests, cause its affiliates to provide outside Macau, convention, business and sales promotion services (including the maintenance and staffing of H.I.'s home office sales force and regional sales offices in various parts of the world), publicity and public relations services, reservation services and all other group benefits, services and facilities including institutional advertising programs (which exclude advertising in which one or more other H.I. hotels participates by mutual agreement and shares the cost thereof), to the extent appropriate furnished to other hotels operated by H.I. and its affiliates to Grand Hyatt Operating Standards (herein called "**Chain Marketing Services**").

Neither Hyatt, nor any other affiliate of Hyatt shall receive any profit for the rendition of Chain Marketing Services. Hyatt's affiliates shall, however, be entitled to be reimbursed for the Hotel's share (herein called "**Chain Allocation**") of all costs incurred by Hyatt's affiliates including salaries of officers or employees, in the rendition of said services, and shall also be reimbursed for reservation costs. Charges to the Hotel for Chain Marketing Services (including reservation services) shall be made, commencing from the period 12 months prior to the Target Opening Date of the Hotel, on the same basis as to the other hotels operated by H.I. and its affiliates to Grand Hyatt Operating Standards. The current 2008 formula for Chain Allocation is based on US\$394.00 per guest room, per annum, plus one percent (1%) of the gross room revenue of the Hotel per annum during the Operating Term and period of partial operations, if any. The Reservation charge is currently US\$8.00 per gross reservation plus, in circumstances where H.I.'s proprietary SPIRIT/RESERVE reservation system (or its successor) is used in making the reservation, US\$0.70 per such reservation. The Chain Allocation formula, the Reservation charge and the reservation system charges are subject to change in the future, but all H.I. and its affiliates hotels operated to Grand Hyatt Operating Standards shall be charged on the same basis. Hyatt shall cause its affiliates to provide Owner with a copy of the audited annual Chain Allocation expenditure statements.

In addition to charges for the above services, the Hotel shall be charged in connection with the Gold Passport Program (or any program that replaces the Gold Passport Program) on the same basis applicable to all H.I. and its affiliates hotels operated to Grand Hyatt Operating Standards. The charge for the Gold Passport Program is currently four percent (4%) of the total charges incurred by Gold Passport Members at a participating hotel, which amount will be paid into the Gold Passport fund. The Hotel shall receive a Gold Passport per-formula payment when guests use Gold Passport points for stays at the Hotel. Neither Hyatt, nor any other affiliate of Hyatt, shall receive any profit for the rendition of the Gold Passport Program.

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Hyatt shall be reimbursed for the cost of performing internal audits, management operations reviews to the extent set out in the Approved Annual Plan (“**M.O.R.’s**”) and specialized training programs based on the executive time involved (averaging two to three weeks per audit or M.O.R.) at the Hotel. The per diem charges currently range from US\$200 to US\$350 dependent upon the seniority of the executives performing the audit, M.O.R. or training.

The Hotel will be also charged for key Hotel executives’ (including expatriate personnel’s) social benefits, including life, disability and health insurance, incentive compensation and pension benefits arranged by Hyatt and consistent with the practices and policies in hotels operated by H.I. to Grand Hyatt Operating Standards.

Hyatt shall be reimbursed for the Hotel’s proportionate share of premiums for the worldwide insurance coverage (for public liability and crime insurance, such as employee fidelity and cash-in-transit coverage), and Owner shall provide to Hyatt in writing all necessary information related to the premiums and coverage which may be required under the Financing Documents, and Hyatt and the General Manager shall use commercially reasonable efforts to comply therewith.

**Section 3. Right of Inspection and Review.**

The duly authorized officers, accountants, employees, agents, and attorneys of Owner shall have the right, upon reasonable notice to the General Manager of the Hotel, to enter upon any part of the Hotel at all reasonable times during the Operating Term for the purpose of examining or inspecting the Hotel or examining or making extracts from the books and records of the Hotel operation, or for any other purpose which Owner, in its discretion, shall deem necessary or advisable, but the same shall be done with as little disturbance to the operation of the Hotel as possible and all inquiries arising out of such inspection and review shall be addressed only to Hyatt or to the General Manager or such person or persons designated by him. Upon termination or expiration of this Agreement, all books and records relating to the operation of the Hotel shall be delivered by Hyatt to Owner. For a period of two (2) years following the expiration or earlier termination of the Operating Term, Owner shall accord to Hyatt the same right to examine or make extracts from the books and records of the Hotel operation applicable to the Operating Term.

**Section 4. Reports.**

Hyatt shall, through the General Manager and on behalf of the Owner, deliver to Owner:

A. Within ten (10) days after the end of each month a profit and loss statement showing the results of the operation of the Hotel for that month and the fiscal year to date, and containing computations of the Gross Operating Profit, Hyatt’s Fees and Owner’s Profit Distribution for that month and the fiscal year to date. The figures contained in such statement shall be taken from the books of account maintained by Hyatt and the General Manager. Such statement shall reflect the terms of this Agreement and shall be prepared, insofar as feasible, in all material respects in accordance with the Uniform System, as set forth, for purposes of illustration only, in Appendix A hereof.

B. On or before the date falling forty-five (45) days after the end of each calendar quarter (March 31, June 30, September 30 and December 31) of each fiscal year including the first fiscal year, a profit and loss statement showing the results of the operation of the Hotel for the applicable calendar quarter, and containing computations of the Gross Operating Profit, Hyatt’s Fees and Owner’s Profit Distribution for the relevant periods. The figures contained in such statement shall be taken from the books of account maintained by Hyatt and the General Manager. Such statement shall reflect the terms of this Agreement and shall be prepared, insofar as feasible, in all material respects in accordance with the Uniform System, as set forth, for purposes of illustration only, in Appendix A hereof, and signed by the General Manager and the Director of Finance.



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C. Within sixty (60) days after the end of each fiscal year, with the exception of the last fiscal year, a profit and loss statement, certified by an independent public accountant selected from one of the four (4) largest international public accounting firms (the "**Big Four**" firms) or their affiliates in Macau and retained by Hyatt, taken from the books of account of the Hotel and showing the results of the operation of the Hotel during the preceding fiscal year, containing a computation of the Gross Operating Profit, Hyatt's Fees and Owner's Profit Distribution for such period, and with a schedule annexed thereto showing all deposits in and withdrawals from the Replacement Fund made during such fiscal year and the balance thereof. The cost of the audit shall be charged to operations of the Hotel. Within sixty (60) days after the end of the last fiscal year, Owner shall deliver to Hyatt a profit and loss statement certified by the aforesaid independent public accountant, showing the results of the operation of the Hotel during such last fiscal year, containing computations of Revenue and Gross Operating Profit and the basic management and incentive fees payable to Hyatt for such period. Hyatt agrees to provide reasonable assistance to the accountant in the preparation of the annual statements. Provided that said accountant's opinions shall be unqualified, such certified statements shall be deemed correct and conclusive for all purposes.

D. No later than November 1st of each calendar year during the Operating Term or as otherwise reasonably required by Owner by notice to Hyatt to comply with the Financing Documents (provided Owner so informs any requirement for such compliance in writing to Hyatt), Hyatt will prepare and submit to Owner for the following calendar year (i) a forecasted budget of the Hotel's operations, including forecasts of revenues and operating expenses, estimates of necessary working capital and the assumptions underlying the same; (ii) a proposed marketing plan; and (iii) a proposed budget of capital expenditures (for this purpose, inclusive of additions to and replacements of Furnishings & Equipment and additions, alterations and improvements pursuant to Section 3 of Article VI) for the ensuing year. The materials described in clauses (i) and (ii) above are herein collectively referred to as the "**Operating Budget**", the budget referred to in clause (iii) above is herein referred to as the "**Annual CapEx Plan**" and the Operating Budget and Annual CapEx Plan are collectively referred to as the "**Annual Plan**" provided that once any of the Operating Budget or the Annual CapEx Plan as the case may be is approved by Owner and Hyatt it shall be the "**Approved Operating Budget**", the "**Approved Annual CapEx Plan**" and the Approved Operating Budget and the Approved CapEx Plan are collectively referred to as the "**Approved Annual Plan**". Hyatt agrees that it shall use commercially reasonable efforts to operate the Hotel in a manner consistent with the Approved Annual Plan including both as relates to estimates of actual amounts of expenditures, and the operating assumptions underlying the same.

(1) The Annual Plan shall be prepared in accordance with Hyatt's standard internal planning and budgeting procedures on Hyatt's standard formats but so as to comply with any reasonable requests of Owner to enable compliance with the Financing Documents and provided Owner provides Hyatt in writing all necessary information Hyatt requires in order to comply with such requests. Owner agrees that it shall promptly review all Operating Budgets and Annual CapEx Plans submitted to it, and Hyatt agrees that it shall provide Owner with such additional and supplemental information with respect thereto as shall be reasonably requested by Owner and which may be prepared or compiled without unreasonable delay, expense or interruption of normal operations.

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(2) Promptly after submission of the Annual Plan, representatives of Owner and Hyatt shall meet at the Hotel or at such other location as may be mutually agreed and at a mutually convenient time to discuss, and attempt in good faith to agree upon, the Annual Plan as provided below.

E. All items of expenditure contained in the Operating Budget shall be subject to approval of Owner, with the exception of the following: (i) costs associated with contracts or arrangements Hyatt or H.I. has made on a chain-wide, regional or business-segment basis in accordance with Hyatt's authority under the terms of this Agreement; (ii) individual compensation levels for Hotel employees or for Hyatt or H.I. benefit programs subject to and in accordance with the terms of this Agreement; (iii) items (such as room rates, menu or banquet prices, and the like) affecting the estimate of Hotel revenues; or (iv) other expenditures required to be paid or reimbursed to Hyatt or its affiliates for services provided by Hyatt or its affiliates under the express provisions of this Agreement including, without limitation, expenditures for Management Fees, Chain Allocation, reservation costs, and Gold Passport. Owner shall not withhold its approval for any expenditures which are reasonably necessary, in nature or amount, to enable the Hotel to continue operating in accordance with Grand Hyatt Operating Standards. Notwithstanding the preceding exceptions regarding Hyatt's right to establish revenue and expenditure items, Owner shall have the right to suggest changes in such items if it considers the changes reasonably necessary to achieve the Key Operating Principles or if it considers such amounts are not reasonable, subject in all respects to the maintenance of the Grand Hyatt Operating Standards identified in this Agreement. To the extent Hyatt disagrees with suggested changes, Hyatt shall provide Owner explanation for its disagreement explaining why such items meet the Key Operating Principles or the costs thereof are reasonable (to maintain Grand Hyatt Operating Standards), as the case may be. The parties will seek to resolve any dispute as to whether an item of expenditure meets the Key Operating Principles or is reasonable (to maintain Grand Hyatt Operating Standards), as the case may be, in accordance with subsection E (1) below, failing which the dispute shall be submitted to an independent, internationally recognized hotel consulting firm or individual who is qualified to resolve the issue in question, and which has at least ten (10) years of international hospitality consulting experience with regional knowledge of the hospitality industry, which is appointed in each instance by agreement of the parties or, failing agreement, each party shall select one (1) such independent, internationally recognized consulting firm or individual and the two (2) respective firms and/or individuals so selected shall select another such independent, internationally recognized consulting firm or individual to be the expert (the "**Expert**"), who shall act as an expert and not as arbitrator to resolve the matter. The decision of the Expert shall be binding upon Hyatt and Owner and shall be made by not later than the 31<sup>st</sup> day of December of the year in which the Annual Plan has been submitted for review, and resolution of Operating Budget disputes by the Expert shall be the sole and exclusive process for resolution, Hyatt and Owner agreeing that any such disputes as aforesaid shall not be subject to arbitration hereunder. The costs of the Expert must be paid equally by the parties.

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(1) Hyatt shall take into consideration the views and suggestions of Owner regarding all aspects of the Operating Budget and both Owner and Hyatt shall attempt, in good faith, to reach a mutually satisfactory agreement, and thereupon to incorporate any such agreements into the Operating Budget. In this connection, in addition to its other rights above, Owner shall have the right to suggest changes in operating policies and in the proposed Operating Budget which it considers reasonably necessary to achieve the objectives of near-term and long-term maximization of Hotel profits, subject in all respects to the Grand Hyatt Operating Standards. To the extent Hyatt disagrees with Owner's suggestions and comments, Hyatt shall provide written explanations for its disagreements. Promptly following the foregoing discussions and explanations, Hyatt shall submit a revised Operating Budget for further comment and discussion in the manner set forth above. Thereafter, the parties shall continue to discuss the Operating Budget until such time as both Hyatt and Owner shall have reached agreement on all items comprising the Operating Budget for which Owner has approval rights hereunder.

(2) Until such time as the parties have agreed on all line items of the proposed Operating Budget for which Owner has approval rights hereunder, Hyatt shall have the right to operate the Hotel in accordance with an Operating Budget comprised of those line items which do not require Owner approval hereunder, those line items that have theretofore been agreed upon by Owner and Hyatt and, only with respect to those line items not yet approved by Owner (and for which Owner has approval rights hereunder), the standards of operation and operating policies in effect during the preceding calendar year (or, with respect to the Hotel's first fiscal year, as proposed by Hyatt in connection with the takeover of the Hotel)

(3) Notwithstanding anything to the contrary in this Section 4 of Article VII, Owner and Hyatt both acknowledge that the forecasts of revenues and estimated expenses contained in the Operating Budget represent Hyatt's best estimate of the same for the following calendar year and not in any way a guarantee of actual results. Actual revenues and expenses can vary from forecasts and estimates for reasons beyond the reasonable control of Hyatt including, without limitation, the following: (a) the volume of business and the levels of hotel occupancy; (b) the mix of business (that is, the relationship of food and beverage revenues to other hotel related revenues and the relationship of group business to individual travel business); (c) prevailing wage rates and the effects of collective bargaining agreements; (d) inflation; (e) utility rates, insurance premiums and tax increases; (f) unanticipated and extraordinary repair and maintenance expenses; (g) the need to meet competitive market conditions; and (h) other similar causes. Owner acknowledges that so long as Hyatt adheres to its covenants in this Agreement including, without limitation, to use commercially reasonable efforts to operate the Hotel in a manner consistent with the Approved Annual Plan and provided that Hyatt acts with all reasonable care in preparing each Annual Plan and Approved Annual Plan based on reasonable assumptions, Hyatt shall have no liability to Owner, and shall not otherwise be deemed in default hereunder, if actual operating results vary from the Approved Annual Plan.

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(4) If at any time during the year Hyatt anticipates that revenues shall be less or expenditures shall be more than those forecasted in the Approved Annual Plan, Hyatt shall submit revisions to the Approved Annual Plan for Owner approval as provided above; provided, however, in no event shall the need for any such reforecasting of the Approved Annual Plan, or any portion of it, be deemed a default by Hyatt hereunder.

F. All items of expenditure contained in the Annual CapEx Plan shall be subject to Owner's approval (provided, however, Owner agrees that it shall approve the Annual CapEx Plan or relevant portions thereof that are reasonably necessary in order to enable the Hotel to meet the Grand Hyatt Standards). If Owner does not approve the proposed Annual CapEx Plan, or any line items or specific capital expenditure projects within the proposed Annual CapEx Plan, within thirty (30) days after delivery of the same to Owner, then such Annual CapEx Plan, or such line item(s) or capital expenditure projects not specifically disapproved by Owner, as the case may be, shall be deemed approved. In the event of any disapproval, Owner and Hyatt shall meet and confer in good faith in an effort to reconcile differences and reach consensus during the thirty (30) day period thereafter.

(1) If, by the end of the sixty (60) day period following Hyatt's submission of the Annual CapEx Plan to Owner, Owner has yet to approve the Annual CapEx Plan or any portion thereof, Hyatt shall notify Owner in writing of any capital expenditure(s) Hyatt deems necessary for the Hotel to meet the Grand Hyatt Standards (collectively, the "**Disputed Capital Expenditures**"). If Owner does not agree to approve the Disputed Capital Expenditures in the Annual CapEx Plan, within thirty (30) days after delivery of Hyatt's notice, Hyatt shall have the right to submit the issue of whether the Disputed Capital Expenditures are necessary to enable the Hotel to meet the Grand Hyatt Standards to arbitration as provided in Article XIV. The arbitrator's determination shall be final and binding on both Owner and Hyatt.

(2) Hyatt may not incur capital expenditures that are in excess of those required or permitted under the Approved Annual Plan except for the following: (i) expenditures for the replacement of or additions to Furnishings & Equipment from funds then on deposit or to be deposited in the Replacement Fund which do not exceed US\$100,000 for any single expenditure, with maximum in any event of US\$500,000 in the aggregate in any calendar year, which amounts shall on an annual basis be adjusted by the Consumer Price Index of Macau S.A.R.; and (ii) expenditures, including capital expenditures, which Hyatt reasonably deems necessary to minimize personal injury and property damage in cases of casualty or other emergency, or which Hyatt deems reasonably necessary in order to comply with applicable legal requirements.

**ARTICLE VIII  
Insurance**

**Section 1. Insurance to be Maintained by Owner.**

Owner shall, at its expense, at all times during the period of construction, furnishing and equipping of the Hotel and at such times during the Operating Term as Owner shall be making essential repairs, changes and replacements and other repairs and changes as provided in Sections 4 and 5 of Article VI, procure and maintain public liability and property damage insurance in financially responsible insurance companies against loss or damage arising in connection with the preparation, construction, furnishing and equipping and any pre-opening activities of the Hotel or in connection with such repairs, changes and replacements made during the Operating Term. Owner shall further, at its expense, at all times from the commencement of the construction of the Hotel and during the Operating Term, procure and maintain insurance for the full replacement value of the Hotel in financially responsible insurance companies against all risks of physical loss or damage to the Hotel and its contents from, including, but not limited to, fire, boiler explosion, and such other risks and casualties for which insurance is customarily provided for hotels of similar character. If possible, such policy shall also cover "business interruption" (loss of profits or fixed costs), in respect of both Owner and Hyatt. All policies shall provide that Owner (and, at Owner's request, any mortgagee or Lender) be named insureds and that Hyatt, H.I. and its subsidiaries, and Hyatt Corporation be named as additional insureds thereby, as their interests may, from time to time, appear. The fire and extended coverage policy insuring damage to the building and contents shall provide that the insurance company agrees to waive any rights of subrogation against Hyatt, H.I. and its subsidiaries, and Hyatt Corporation. During the Operating Term and for the pre-opening activities (where appropriate), Owner shall procure and maintain workmen's compensation insurance for the employees of the Hotel.

All insurances to be maintained by Owner under this Section 1 shall be subject to reasonable deductibles as customarily maintained by similar hotels managed by international management companies and as specified on the policies. Such insurances shall also be in the form and subject to terms and conditions as may be required by Owner's Lenders (but shall in no event be less than the coverages required under the terms of this Agreement). Owner shall, upon request, furnish to Hyatt satisfactory evidence of all insurance maintained by Owner pursuant to this Section 1.

**Section 2. Insurance to be Maintained by Hyatt.**

Hyatt shall, through the General Manager, procure and maintain at all times during the Operating Term and for the pre-opening activities (where appropriate), the following insurance, if available on usual terms and at customary rates:

(A) Public and products liability insurance, including a cross liability clause, for limit of indemnity of not less than US\$50,000,000 in respect of any one occurrence and in annual aggregate including but not limited to personal injury, property damage, innkeeper's liability and advertising liability; automobile liability insurance required under applicable laws; and crime insurance for limit of indemnity of US\$25,000,000 in respect of any one occurrence, including, but not limited to, employee fidelity.

(B) Workmen's compensation, employers' liability or other such insurance as may be required under applicable laws or which Hyatt shall deem advisable, for the employees of Hyatt or H.I. or any of their respective affiliates or of other hotels of H.I. that Hyatt may assign temporarily as full-time members of the executive staff of the Hotel.

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(C) In its discretion, Hyatt or the General Manager, may maintain such other insurance as it or he/she shall deem necessary for protection against claims, liabilities and losses, wherever asserted, determined or incurred, arising from the operation to Grand Hyatt Standards of the Hotel in accordance with this Agreement.

The insurance policies referred to in this Section may contain provisions for deductibility and Hyatt may elect to maintain all or part of such insurance under an arrangement insuring one or more hotels operated by Hyatt or its affiliates, in which event the cost of such insurance shall be allocated by Hyatt to the Hotel on a reasonable basis. All policies shall provide that Hyatt, H.I. and its subsidiaries and Hyatt Corporation, be named insureds and, if requested by Owner, Owner (and, at Owner's request, any mortgagee or Lender) be named as additional insureds thereby, as their interests may, from time to time, appear. All insurance policies maintained by Hyatt pursuant to this Article VIII shall be primary to any insurance maintained by Owner.

All insurances to be maintained by Hyatt under this Section 2 shall be in the form and subject to the terms and conditions as may reasonably be required by Owner's Lenders. Hyatt shall, through the General Manager on behalf of Owner, upon request, furnish to Owner satisfactory evidence of all insurance maintained by Hyatt pursuant to this Section 2.

**ARTICLE IX  
Damage to and Destruction of the Hotel**

If the Hotel or any portion thereof shall be damaged or destroyed at any time or times during the Operating Term by fire or any insured casualty, provided that the funds to do so are being made available by the Lenders to the Owner, and Lenders are not otherwise currently preventing the Owner from doing so, the Owner shall, at its cost and expense and with due diligence, repair, rebuild or replace the same so that after such repairing, rebuilding or replacing, the Hotel shall be substantially the same as prior to such damage or destruction. Except to the extent the same is in contradiction of the terms of the Financing Documents, if Owner fails to commence such repair, rebuilding or replacing work within ninety (90) days after the fire or other casualty, or shall fail to complete the same diligently, Hyatt may, but shall not be obligated to, undertake or complete such work for the account of Owner and shall be entitled to be repaid therefor as provided in Article XI, and the proceeds of insurance shall accordingly be made available to Hyatt and Hyatt and Owner shall ensure that any proceeds from insurance shall be applied to such repairing, rebuilding or replacing.

Notwithstanding the foregoing, if:

(i) the Hotel is damaged or destroyed to such an extent that the cost of repairs or restoration as reasonably estimated by Owner exceeds thirty percent (30%) of the full replacement cost (excluding land, excavations, footings and foundations) of the Hotel; or

(ii) the Hotel is damaged or destroyed to such an extent that the estimated time for repair or restoration thereof, in the reasonable opinion of Owner, shall exceed eighteen (18) months from the commencement of such repair or restoration; or

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(iii) the damage or destruction shall occur at any time within the last three (3) years of the Operating Term (unless Hyatt shall have any remaining extension options, in which event this provision shall apply only to an occurrence in the last three (3) years of the last extension of the Operating Term, or during the last year of the initial Operating Term or the then applicable extended Operating Term if Hyatt has failed theretofore to have exercised its extension option);

and if in connection with any of the foregoing, Owner elects not to rebuild or restore the Hotel, then Owner shall be entitled to elect by notice to Hyatt given at any time within one hundred eighty (180) days after the occurrence of such damage or destruction to terminate this Agreement without liability to Hyatt or Owner by reason of such termination; provided, however, if Owner terminates this Agreement by reason of any of the foregoing provisions, and Owner thereafter nevertheless commences repair or restoration or rebuilding of a first-class hotel on the Hotel Site utilizing the proceeds of replacement cost insurance (and such proceeds are of themselves, sufficient for this purpose), at any time within three (3) years following any such termination, Hyatt shall have the right (but not the obligation) exercisable at any time within ninety (90) days after Hyatt has actual knowledge of Owner's intention to rebuild or restore the Hotel, to elect to manage and operate the rebuilt or restored Hotel in accordance with the provisions of this Agreement from the opening date of the rebuilt or restored Hotel and for the unexpired Term (including any extensions) remaining as of the date of the damage or destruction event which resulted in Owner's termination hereof. If there shall be any dispute between Owner and Hyatt as to whether Owner's estimate of the cost of restoration, the full replacement cost of the Hotel, or the estimated time for repair or restoration is reasonable under the circumstances, the said dispute shall be submitted to arbitration conducted in accordance with the provisions of Article XIV.

**ARTICLE X  
Condemnation**

If the whole of the Hotel shall be taken or condemned in any eminent domain, condemnation, compulsory acquisition or like proceeding by any competent authority for any public or quasi-public use or purpose, or if such portion thereof shall be taken or condemned so as to make it imprudent or unreasonable, in Hyatt's or Owner's reasonable opinion, to use the remaining portion as a hotel of the type and class immediately preceding such taking or condemnation, then the Operating Term shall terminate as of the date of such taking or condemnation. Hyatt shall have the right to seek an independent award from the authority exercising its rights of eminent domain for the value of this Agreement.

Except to the extent that the following is in contradiction of the terms of the Financing Documents, if only a part of the Hotel shall be taken or condemned and the taking or condemnation of such part does not make it unreasonable or imprudent, in Hyatt's reasonable opinion, to operate the remainder as a hotel of the type and class immediately preceding such taking or condemnation, this Agreement shall not terminate, but so much of any award made to Owner shall be made available as shall be reasonably necessary for making alterations or modifications of the Hotel, or any part thereof, so as to make it a satisfactory architectural unit as a hotel of similar type and class prior to the taking or condemnation. Except to the extent that the following is in contradiction of the terms of the Financing Documents, the balance of the award, after deduction of the sum necessary for such alterations or modifications, shall be fairly and equitably apportioned between Owner and Hyatt, so as to compensate Hyatt and Owner for their respective losses of income resulting from the taking or condemnation.

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**ARTICLE XI  
Right to Perform Covenants and Reimbursement**

If Hyatt at any time shall fail, within the time limit and after due notice as specified in Article XII, to make any payment or to perform any act to be made or performed by it pursuant to this Agreement, Owner may without further notice to or demand upon Hyatt, and without waiving or releasing Hyatt from any obligations under this Agreement, make or procure such payment or perform or procure performance of such act. All sums so paid and all necessary incidental costs and expenses in connection with the performance of any such act by Owner, together with interest thereon at the best lending rate of The Hongkong and Shanghai Banking Corporation Limited from the date of making such expenditures or such performance shall be payable by Hyatt to Owner upon demand.

If Owner shall fail, within the time limit and after due notice as specified in Article XII, to make any payment or perform any act to be made or performed by it pursuant to this Agreement, Hyatt may, without further notice to or demand upon Owner and without waiving or releasing Owner from any of its obligations under this Agreement, make such payment or perform such act. All sums so paid by Hyatt, and all necessary costs and expenses incurred in connection with the performance of any such act by Hyatt together with interest thereon at the best lending rate of The Hongkong and Shanghai Banking Corporation Limited from the date of Hyatt's making of such expenditures, as well as all sums properly payable by Owner to Hyatt or its affiliates, together with interest thereon at the rate above specified from the date on which payment to Hyatt therefor is due, shall be payable to Hyatt by Owner upon demand, or at the option of Hyatt, may be deducted from any installment or installments of Owner's Profit Distribution then due or thereafter becoming due under this Agreement.

With the exception of emergency cases, neither party shall have the right to make any payment or to perform any act, if there is a bona fide dispute between the parties as to the necessity thereof and such dispute has been submitted to arbitration.

**ARTICLE XII  
Defaults**

The following shall constitute events of default:

- (1) The failure of either party to make any payment to the other provided for herein for a period of thirty (30) calendar days after such payment is payable;
- (2) The filing of a voluntary petition in bankruptcy or insolvency or a petition for reorganization under any bankruptcy law by either party;
- (3) The consent to an involuntary petition in bankruptcy or the failure to vacate within sixty (60) calendar days from the date of entry thereof of any order approving an involuntary petition by either party;
- (4) The appointment of a receiver for all or any substantial portion of the property of either party;



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(5) The entering of an order, judgment or decree by any court of competent jurisdiction, on the application of a creditor, adjudicating either party as bankrupt or insolvent or approving a petition seeking reorganization or appointing a receiver, trustee or liquidator of all or a substantial part of such party's assets, and such order, judgment or decree shall continue unstayed and in effect for any period of one hundred twenty (120) consecutive calendar days;

(6) The failure by Owner to build the Hotel in accordance with Grand Hyatt Standards or to cure defects or deficiencies of which Hyatt shall notify Owner under Article I and in each case the continuance of any such failure for a period of thirty (30) calendar days after notice of said failure;

(7) The failure by either party to perform, keep or fulfill any of the other material covenants, undertakings, obligations or conditions set forth in this Agreement, and the continuance of any such default for a period of thirty (30) calendar days after notice of said failure;

(8) The termination of the TSA, provided such termination results from a default thereunder and such termination is in accordance with the terms hereof; and

(9) If Hyatt knowingly does or, omits to do, or permits to be done or omitted any matter or thing that it knows is reasonably likely to result in the termination or suspension of the Owner's affiliate's gaming sub-concession with the government of Macau S.A.R.

In any of such events of default, the non-defaulting party may give to the defaulting party notice of intention to terminate this Agreement after the expiration of a period of thirty (30) calendar days from the date of such notice, and upon the expiration of such period, this Agreement shall terminate. If, however, upon receipt of such notice, the defaulting party shall promptly cure the default, then such notice shall be of no force and effect or, when such default cannot be cured within thirty (30) calendar days, if the defaulting party shall take action to cure such default with all due diligence, then the effective date of the termination notice shall be extended for such reasonable time as shall be required for the defaulting party to cure such default. Notwithstanding the foregoing, with respect to the default set forth in Paragraph (8) above, any termination of the TSA as contemplated in Paragraph (8) shall result in the immediate termination of this Agreement, provided that contemporaneously with such termination, Owner shall pay all fees and reimbursements due and payable to Hyatt under the terms of this Agreement, including without limitation, all outstanding Hyatt's Fees **provided that** no event or circumstance set out in this Article XII has then occurred (other than under paragraph (8) of this Article XII) which would entitle Owner to terminate this Agreement.

Notwithstanding the foregoing, neither party shall be deemed to be in default under this Agreement if a bona fide dispute as to the occurrence of any of the foregoing events of default has arisen between the parties and such dispute has been submitted to arbitration.

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**ARTICLE XIIA  
Force Majeure**

In the event that any party hereto shall be rendered unable to carry out the whole or any part of its obligations under this Agreement by reason of acts of God, acts of government in exercise of its sovereign power, other *force majeure*, strikes, wars, riots, civil commotion, acts of terrorism, and any other causes of such nature, then the performance of the obligations hereunder of that party or all the parties hereto as the case may be and as they are affected by such cause shall be excused during the continuance of any inability so caused, but such inability shall as far as possible be remedied with all reasonable dispatch. Notwithstanding anything herein contained to the contrary, if by reason of any one or more of the matters aforesaid, any party hereto is delayed in performing or is unable to perform any material obligation hereunder for more than three (3) months, then, either party may terminate this Agreement by ninety (90) days' prior notice given after the expiration of the said three (3) month period without liability save for any accrued rights and obligations.

**ARTICLE XIII  
Trade Name and Exclusivity**

**Section 1. Name of Hotel.**

During the Operating Term, the Hotel shall at all times be known and designated as either "**Grand Hyatt Macau**" or "**Grand Hyatt City of Dreams**" (in English), at the Owner's election, and, in Chinese, as "澳門君悅酒店" or "夢幻之城君悅酒店" (or such other Chinese name equivalent for "Grand Hyatt City of Dreams" as may be suggested by Owner), except as may otherwise be mutually agreed by Owner and Hyatt. Hyatt hereby covenants that it has the right and authority to grant Owner a non-exclusive license to designate the Hotel under the said trade names. Subject to any approval Owner may be required to obtain, Owner hereby licenses Hyatt to use the "City of Dreams" name in connection with the operation of the Hotel as contemplated by this Agreement and covenants that it has the right and authority to grant Hyatt a non-exclusive license to use the name in respect of the operation of the Hotel. Hyatt will cause the trade names to be duly and properly registered and protected in Macau and shall ensure that neither Hyatt, its affiliates nor any third parties shall own, manage or operate another hotel under the trade name "**Grand Hyatt**" in English and/or "君悅酒店" in Chinese in Macau during the continuance of this Agreement. It is recognized, however, that the names "Hyatt", "Regency", "Hyatt Regency", "Grand Hyatt" and "Park Hyatt" when used alone or in conjunction with some other word or words, are the exclusive property of H.I. and Hyatt Corporation. Accordingly, no right or remedy of Owner for any default of Hyatt, nor delivery of the operation and management of the Hotel to Owner upon expiration or sooner termination of this Agreement, nor any provision of this Agreement shall confer upon Owner, or any transferee, assignee or successor of Owner or any person, firm or corporation claiming by or through Owner, the right to use the names "Hyatt", "Regency", "Hyatt Regency", "Grand Hyatt" or "Park Hyatt" or "凱悅", "君悅", or "柏悅" in Chinese, either alone or in conjunction with any other word or words, in the use or operation of the Hotel or otherwise. In the event of any breach of this covenant by Owner, Hyatt shall be entitled to damages, to relief by injunction, and to other legal rights or remedies, and this provision shall be deemed to survive the expiration or sooner termination of this Agreement.

Upon the expiration or early termination of this Agreement, Owner shall change the name of the Hotel to exclude the names "Hyatt" or "Grand Hyatt" in English or "凱悅", or "君悅" in Chinese.

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Subject to Hyatt's review and written approval, which review Hyatt shall promptly undertake following written request of Owner, Owner may use the name of the Hotel and the Hotel logo in connection with the marketing for the Development including for use on any web site of the Owner for the Development. Among other reasons, Hyatt may disapprove of any such use if Hyatt deems the depiction of the Hotel logo inconsistent with Hyatt's corporate marketing standards.

**Section 2. Exclusivity.**

During the Operating Term, Hyatt and its affiliates shall not own, manage, franchise, or operate another hotel in Macau (the "**Restricted Area**") under a trade name that includes "Hyatt" in English and/or "凯悦酒店" in Chinese. Other than the restriction set forth in the preceding sentence, there shall be no restriction on Hyatt's ability to own, manage, franchise or otherwise permit the operation of hotels in the Restricted Area including any of the following:

(a) hotels under the trade name "Park Hyatt" or the corresponding Chinese name for "Park Hyatt", provided that, in respect of the period commencing as of the date hereof and continuing through the first three (3) years of the Operating Term Hyatt shall have first notified Owner, in writing, of its proposal to own, manage, franchise or otherwise permit the operation of a hotel under the trade names "Park Hyatt" or the corresponding Chinese name for "Park Hyatt" in the Restricted Area, such written notice (the "**Park Hyatt Notice**") to include the key commercial terms and Owner shall not have made a written offer to Hyatt to manage a hotel under the trade names "Park Hyatt" or the corresponding Chinese name for "Park Hyatt" in the Restricted Area on terms that are not materially less favorable to Hyatt than those set out in the Park Hyatt Notice;

(b) timeshare facilities that are part of the "Hyatt Vacation Club" timeshare program;

(c) lodging facilities within the Restricted Area operated under brand names that do not include the name "Hyatt", notwithstanding that such facility may participate in and receive the benefits of Chain Marketing Services and the other services described in Section 2 of Article VII; or

(d) lodging facilities that are part of a chain of hotels recognized in the hospitality industry generally as being a select or limited service hotel product offering including, without limitation, "Hyatt Place" or "Hyatt Summerfield Suites" hotels, notwithstanding that such hotels participate in and receive some of the benefits of the Chain Marketing Services and other services described in Section 2 of Article VII.

**ARTICLE XIV  
Arbitration**

Any dispute, controversy or claim arising out of or in connection with this Agreement, or the breach, termination or validity hereof, shall be settled by final and binding arbitration in accordance with the Rules of Arbitration of the International Chamber of Commerce ("**ICC**") in force on the date of this Agreement.

The arbitration shall be heard and determined by one arbitrator, who shall be selected by the parties. If within thirty (30) days following the date upon which a claim is received by the respondent, the parties cannot agree on who the arbitrator is to be, the appointing authority shall select the arbitrator. The appointing authority shall be the Hong Kong branch of the ICC or if such branch is unable to act, then the Hong Kong International Arbitration Center.

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The place of arbitration shall be Hong Kong, the award shall be deemed a Hong Kong award, and the English language shall be used in the arbitral proceedings.

Any monetary award shall be made and shall be payable in US dollars free of any tax or any other deduction. The award shall include the costs and expenses of the prevailing party, including its reasonable legal fees, and interest from the date of any breach or other violation of this Agreement to the date when the award is paid in full. The arbitrator shall also fix an appropriate rate of interest. In no event, however, should the interest rate during such period be lower than the best lending rate of The Hong Kong and Shanghai Banking Corporation.

The award of the arbitrator shall be the sole and exclusive remedy between the parties regarding any and all claims and counterclaims presented to the arbitrator.

**ARTICLE XV  
Successors and Assigns**

**Section 1. Assignment by Hyatt.**

Hyatt shall have the right to assign its rights and transfer its obligations under this Agreement (which transfer the Owner hereby consents to and shall agree to) to (i) any one or more affiliates of H.I. or of Global Hyatt Corporation, a Delaware, U.S.A. corporation ("**GHC**"), (ii) any person that may become an affiliate of H.I. or GHC as a result of a related and substantially concurrent transaction, or (iii) to any successor or assign of H.I. or of GHC that may result from any merger, consolidation or reorganization, or to a person that shall acquire all or substantially all of the business and assets of H.I. and its affiliates, provided that such assignee has and will maintain the necessary expertise and resources to carry out the services contemplated under this Agreement and enjoys the benefits of the H.I. organization in the same degree as Hyatt. Hyatt shall take such steps as are necessary to ensure that the assignee is bound by this Agreement, and, notwithstanding any such assignment, Hyatt shall not be released from any duties or obligations arising hereunder. Except as provided herein, Hyatt shall not assign this Agreement or assign or transfer any rights or obligations hereunder without the prior consent of Owner. In the event a permitted assignment or transfer occurs under this clause, Hyatt shall provide a copy of the assignment or transfer agreement to Owner as soon as possible thereafter.

**Section 2. Assignment by Owner.**

Owner shall have the right to assign its rights and, transfer its obligations under this Agreement (which transfer Hyatt hereby consents to and shall agree to) to any direct or indirect wholly owned subsidiary of Melco Crown Entertainment Limited (being a company listed on the NASDAQ) ("**MPEL**") provided that the parties hereto acknowledge that Melco Crown Gaming (Macau) Limited ("**Gaming**") is owned as to 90% by companies wholly owned by MPEL and as to 10% by Gaming's managing director pursuant to Macau law and the parties hereto agree that the term "wholly owned subsidiary" in this Article XV, Section 2 shall include and be deemed to include (a) Gaming; (b) any direct or indirect subsidiary of Gaming and (c) any company the shares (or equivalent rights under Macau law) of which are held directly or indirectly and jointly by MPEL and Gaming, provided that in the case of an assignment, Owner shall continue to be liable under this Agreement to the same extent as though such assignment had not been made. Owner shall provide as soon as practicable Hyatt with copies of the documents evidencing a permitted assignment hereunder.

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In addition, but subject to Section 2A of this Article XV, Owner shall also have the right to assign or transfer this Agreement (including the rights and obligations hereunder) (which transfer Hyatt hereby consents to and shall agree to), or sell assign or transfer its interest in the Hotel, or such persons who hold the majority direct or indirect equity interest in Owner at the date of this Agreement, shall have the right to sell, assign, or transfer their majority equity interest in Owner, without the prior consent of Hyatt, to any person or entity who agrees to be bound by all the terms of this Agreement.

In addition, subject to the delivery of a non-disturbance and attornment agreement referenced in Section 5, Article I of this Agreement, Owner shall have the right to assign, pledge or charge its rights under this Agreement to Lenders (or a company which is a holding company or a subsidiary of Owner or a subsidiary of the holding company of the Owner (an "**Associated Company**") including without limitation any person party to any hedging arrangements entered into by the Owner or an Associated Company in connection with such financing and any agent, security agent, security trustee or delegate appointed by such persons in connection with such financing or hedging arrangements). In the event that the Owner assigns and/or transfers and/or novates its rights and obligations under this Agreement in accordance with the provisions of the Non-Disturbance Agreement dated on or around the date of this Agreement between Hyatt, Titleholder, Melco Crown (COD) Hotels Limited and the Owner a copy of which is annexed hereto (the "**RTU NDA**") then such assignment or transfer or novation shall only be effective at such time as, and Hyatt undertakes to ensure that, Hyatt's rights and obligations hereunder are transferred or novated to the New Operating Company (as defined in the RTU NDA) pursuant to the terms, *mutatis mutandis*, of Clause 3.2(a)(ii), Clause 3.3 or Clause 3.6 of the RTU NDA.

**Section 2A. Owner Sale.**

In the event Owner elects to sell, assign or transfer the Hotel (or the persons who hold the majority equity interest in Owner elect to sell, assign or transfer their majority equity interest including a public offering of equity interests in Owner) to a person or entity, and the acquisition by such person or entity results in, or gives rise to an inquiry or other proceeding that could result in, a determination, ruling or order of a government or regulatory authority having jurisdiction over either party and/or its affiliates which objects to such party continuing this Agreement or which has the effect of revoking or jeopardizing (or, should such determination, ruling or order be directed to a party to this Agreement due to any contractual relationship it may have with another beyond such party's control, which could reasonably lead to revocation or jeopardy of) a material license held by such party and/or its affiliate over a significant part of its or their business if such party continues this Agreement, then, in such event, Hyatt shall have the right, subject to the provisions of the next paragraph, to terminate this Agreement by providing not less than one-hundred twenty (120) days' prior written notice of such termination.

In connection with a determination by (or notice from) any government or regulatory authority that would, if carried to its logical conclusion, adversely affect or jeopardize a material license as provided in the preceding paragraph before either party exercises its right to terminate this Agreement, it shall afford to the other party (i) full access of official correspondence or other records that provide explanation for the government or regulatory action, (ii) the ability to consult with the affected party in good faith regarding the potential effect of the determination, and (iii) an opportunity to participate in any hearing or other proceeding that bears upon the determination giving rise to the right to terminate this Agreement. It is the intention of this provision that any such matter shall be viewed as affecting both parties hereunder such that both parties should be able to address such a determination before any action to terminate is taken hereunder.

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In the event of termination under this Section 2A, no compensation shall be payable by or to either party as a result of such termination.

**Section 3. Successors and Assigns.**

The terms, provisions, covenants, undertakings, agreements, obligations and conditions of this Agreement shall be binding upon and shall inure to the benefit of the successors in interest and the assigns of the parties, except that no assignment (subject to Section 2 of this Article XV), transfer, or lease by or through Hyatt or by or through Owner, as the case may be, in violation of the provisions of this Agreement shall vest any rights in the assignee, transferee, lessee or in any occupant.

**ARTICLE XVI  
Further Instruments**

Each party hereto covenants to the other party that it shall execute and deliver all other appropriate supplemental agreements and other instruments, and take any other action, including obtaining any government approval, necessary to make this Agreement fully and legally effective, binding, and enforceable as between the parties and as against third parties. Owner, together with Hyatt, shall take the appropriate steps to register this Agreement with the relevant government departments in the People's Republic of China. Any fees or expenses incurred in connection with the actions called for by this Article XVI shall be borne by Owner.

If required under applicable law in Macau, Hyatt shall register its business as a service provider pursuant to this Agreement with the Serviços de Finanças de Macau (the "MFD") as soon as reasonably practicable. Hyatt shall procure the MFD to make a determination of whether Hyatt is required to register with the MFD no later than June 30, 2009. If Hyatt does not submit this Agreement to the MFD for determination by March 1, 2009, Owner shall be permitted to submit the Agreement for determination by the MDF, provided Owner shall first give Hyatt a written notice of not less than fifteen (15) days before its submission of this Agreement to the MDF. If the MDF determines that a registration by Hyatt is required, Hyatt shall register its business, and upon request, immediately deliver to Owner the certified copy of the registration application with acknowledgement of receipt by the MFD ("Form M1"), which shall be kept in Owner's files. If the MFD determines that a registration is not required, Hyatt shall have no obligation to register, and shall have no obligation to deliver Form M1 to Owner. The parties hereto agree that unless the MFD has made a final determination that Hyatt is not required to register, Owner shall have no obligation to make, and Hyatt shall not claim, payment of any amount to Hyatt under this Agreement until Hyatt has delivered the Form M1 to Owner and satisfied any other requirement of the MFD. The parties hereto agree that if MFD has made a final determination that Hyatt is not required to register, Owner shall have the obligation to make all payments required to be made under this Agreement all in accordance with the terms hereof.

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**ARTICLE XVII  
Notices**

Any notice by either party to the other shall be deemed to have been duly given, if either delivered personally or enclosed in a registered post paid envelope addressed:

to Owner at: 36<sup>th</sup> Floor, The Centrium  
60 Wyndham Street  
Central, Hong Kong, S.A.R.  
People's Republic of China

to Hyatt at: 1301, The Gateway, Tower 1  
25 Canton Road  
Kowloon, Hong Kong, S.A.R.  
People's Republic of China

as the case may be, or to such other address and to the attention of such persons as the parties may designate by like notice hereunder.

Any such notice shall be deemed to have been rendered or given (i) on the date hand delivered or delivered by reputable courier service (or when delivery is refused), unless such hand or courier delivery was not on a business day or was later than 5:30 p.m. (local time) on a business day, in which event delivery shall be deemed to have been rendered on the next business day and (ii) five (5) business days from the date deposited in the mail, if mailed as aforesaid.

**ARTICLE XVIII  
Applicable Law**

This agreement shall be construed, interpreted and applied in accordance with, and shall be governed by, the laws applicable in the Hong Kong Special Administrative Region of the People's Republic of China.

**ARTICLE XIX  
Miscellaneous**

**Section 1. Right to Make Agreement.**

Each party warrants, with respect to itself, that neither the execution of this Agreement nor the completion of the transactions contemplated hereby, shall violate any provision of law or the judgment, writ, injunction, order or decree of any court or governmental authority having jurisdiction over it; result in or constitute a breach or default under any indenture, contract, other commitment or restriction to which it is a party or by which it is bound; or, except as provided in Article XVI or in the case of the Owner under the terms of the Financing Documents, require any consent, vote or approval which, at the time of the transaction involved shall not have been given or taken. Each party covenants that it has and will continue to have throughout the term of this Agreement and any extensions thereof, the full right to enter into this Agreement and perform its obligations hereunder.

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**Section 2. Consents and Approvals.**

Wherever in this Agreement the consent or approval of Owner or Hyatt is required, such consent or approval shall not be unreasonably withheld or delayed, shall be in writing and shall be executed by a duly authorized officer or agent of the party granting such consent or approval. Save as expressly otherwise provided herein, if either Owner or Hyatt fails to respond within thirty (30) days of a request by the other party for a consent or approval, such consent or approval shall be deemed to have not been given.

**Section 3. Entire Agreement.**

This Agreement, together with other writings signed by the parties expressly stated to be supplemental hereto and together with the RTU NDA and any instruments to be executed and delivered pursuant to this Agreement, constitutes the entire agreement between the parties and supersedes all prior understandings and writings, and may be amended or changed only by a writing signed by the parties hereto.

**Section 4. Survival and Continuation.**

Notwithstanding the termination of this Agreement or of the General Manager's management of the Hotel in accordance with this Agreement, all obligations of either party provided for herein, that need to survive such termination, including *inter alia*, the payment of monies due by Owner to Hyatt or due by Hyatt to Owner prior to such termination, shall survive and continue until they have been fully satisfied or performed.

**Section 5. Waiver.**

The waiver of any of the terms and conditions of this Agreement on any occasion or occasions shall not be deemed a waiver of such terms and conditions on any future occasion.

**Section 6. Proration.**

Wherever in this Agreement there is a reference to the payment of a sum of money applicable to a fiscal year during the Operating Term, such payment shall be prorated for any part of such fiscal year that shall be less than twelve (12) calendar months save where in respect of any payment for any part of such fiscal year such payment has already been pro-rated pursuant to the provision of Article IV.

**Section 7. Costs and Expenses.**

Each party shall bear its own legal costs and expenses for and incidental to the preparation, execution and finalization of this Agreement.

**Section 8. Counterparts.**

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing any such counterpart.



**ARTICLE XX**  
**Early Termination**

**Section 1. Performance Test.**

Commencing with the earlier of (a) the third (3<sup>rd</sup>) full fiscal year after the completion of the last component of the entire Development, as set forth in the final plan for the Development, and (b) the sixth (6<sup>th</sup>) full fiscal year of the Operating Term, Owner shall have the right to terminate this Agreement and any related agreements if, for any two (2) consecutive full fiscal years of operation, excluding any year in which a claim of *force majeure* (as defined in Article XI(A)) exists, both (a) the Hotel's RevPAR (as hereinafter defined) is less than eighty percent (80%) of the weighted average (based upon proportionate number of keys of each hotel) RevPAR of its Competitive Set (as hereinafter defined) for each of the two (2) consecutive operating years in question **AND** (b) the Hotel's Gross Operating Profit is less than 80% of the Gross Operating Profit as projected for each such year in the Approved Annual Plan for each such year (together the "**Performance Test**"). Notice of Owner's election to terminate shall be given in writing within sixty (60) days following the delivery of the annual audited profit and loss statement for the second of two (2) failed consecutive fiscal years. Failure by Hyatt to achieve the Performance Test contemplated in this Section 1 shall not be deemed a default by Hyatt under this Agreement. For the purposes of this Agreement, the term "**RevPAR**" shall mean the occupancy rate multiplied by the average daily room rate of the Hotel or the Competitive Set, as applicable.

For purposes of this Section 1, the term Competitive Set means the international hotels located in the area of Macau located at Cotai whose age, size (not less than 500 guestrooms), guest standards, clientele, facilities, sizes and locations are comparable to and competitive with those of the Hotel, which as at the date of this Agreement include hotels to be owned or operated by any of the following (it being acknowledged that, at the time of execution hereof, not all of the hotels have been built): Hilton International Corporation; Starwood Hotels & Resorts Worldwide, Inc.; Shangri La Hotels Corporation; Fairmont Raffles Holdings Limited; Venetian Macau; Far East Consortium International Limited; Marriott International; MGM; and Wynn Resorts Limited. In the event that either party hereto in good faith believes that any hotel included in the Competitive Set should be changed because such hotel(s) is no longer competitive with the Hotel (or in the event any such Hotel is not built), such party shall propose a change to the other party, and if the other party agrees, the parties shall designate a new list in writing signed by each of them. If the non-proposing party does not agree, the proposing party shall have the right to submit the dispute to binding arbitration as provided in Article XIV of this Agreement.

**Section 2. Cure Rights.**

In the event notice has been given to Hyatt of Owner's election to terminate under Section 1 above, Hyatt shall have the right, within forty-five (45) days of receipt of Owner's notice, to cure such Performance Test failure on not more than one (1) occasion during the Operating Term by paying to Owner an amount equal to the deficiency between Gross Operating Profit actually achieved for each of the two (2) consecutive operating years in which the Performance Test was failed and the amount equal to 80% of the projected Gross Operating Profit as projected for each such year in the Annual Plan for each such year. In the event Hyatt elects to cure a Performance Test failure, such cure payment shall be deemed a payment by Hyatt to Owner and none of such cure payment shall be repayable to Hyatt. Nothing herein contained shall be deemed to obligate Hyatt to cure any Performance Test failure, and the failure to cure the same shall not be deemed an Event of Default by Hyatt under this Agreement.

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**ARTICLE XXI  
Special Conditions**

Hyatt shall have the right, which may be exercised notwithstanding any claim of force majeure by Owner, to terminate this Agreement without any liabilities for either party other than those that expressly survive such termination in accordance with the terms of this Agreement if:

(1) Owner shall not have obtained, by June 30, 2010, all necessary government approvals decrees, acts, orders, consents, licenses and permits to enable Hyatt, through the General Manager on behalf of the Owner, to operate the Hotel in accordance with the terms of this Agreement; or unless Owner is in compliance with Section 5.4(a) of the TSA.

(2) The Titleholder shall not, by June 30, 2010, have substantially completed the construction, equipping, furnishing and decorating of the Hotel and have caused the Hotel to be delivered to Hyatt unless Owner is in compliance with Section 5.4(a) of the TSA.

[Signatures follow on next page.]

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**MELCO CROWN COD (GH) HOTEL LIMITED**

**HYATT OF MACAU LTD.**

By: /s/ Garry Saunders  
Name: Garry Saunders  
Title: Director

By: /s/ Larry Tchou  
Name: Larry Tchou  
Title: Director

By: /s/ Stephanie Cheung  
Witness: Stephanie Cheung

By: /s/ Gary Kwok  
Witness: Gary Kwok

APPENDIX A  
STATEMENT OF PROFIT AND LOSS

Rooms	
Revenue	
Payroll and related expenses	
Other expenses	
Departmental income	
Food and Beverage	
Revenue	
Food	
Beverage	
Cost of Sales	
Food	
Beverage	
Other income	
Payroll and related expenses	
Other expenses	
Departmental income	
Telephone departmental income	
Net income from minor operated departments	
Rentals and Other Income	
Total Operating department income	
Undistributed operating expenses	
Administrative and General	
Human Resources	
Marketing	
Energy costs	
Property operation and maintenance	
Replacements of and additions to Furnishings and Equipment	
Basic Management Fee	
Gross Operating Profit	
Incentive Management Fee	
Owner's Profit Distribution	

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**APPENDIX B**  
Schedule of Pre-Opening Expenses Format

**1.0 ADMINISTRATIVE AND GENERAL EXPENSES:**

**1.1 Payroll and Related Expenses:**

(Rooms, Minor Operated Departments, Administrative and General, Personnel and Engineering.

**1.2 Business Related Expenses:**

- Professional fees
- Business Related
  - Travel
  - Entertainment
  - Meeting Expenses

**1.3 Office Related Expenses:**

- Office Rental
- Communication Costs
- Office Supplies
- Office Utilities
- Office Miscellaneous
- Deposits (communications)
- Installations — Office Equipment

**2.0 SALES AND MARKETING EXPENSES:**

**2.1 Payroll and Related Expenses:**

- Sales and Marketing Department.

**2.2 Business Related Expenses:**

- Office Related Expenses
  - Office Rental
  - Communication Costs
  - Office Supplies
  - Office Miscellaneous
- Travel
- Entertainment
- Meeting Expenses

**2.3 Marketing Expenses:**

- Sales Materials:
  - Pre-opening Brochures
  - Fact Sheets
  - Rate Sheets
  - Photography/Slides
  - Destination Folders
  - Posters/Mailings

- Audio/Visual tools
- Direct Mail
- Trade Shows
- Promotions
- Advertising
- Public Relations
- Chain Allocation

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**2.4 Opening Ceremonies:**

**2.5 Miscellaneous:**

**3.0 FOOD AND BEVERAGE EXPENSES:**

**3.1 Payroll and Related Expenses:**

- Food & Beverage Department.

**3.2 Business Related Expenses:**

- Office Related Expenses
  - Office Rental
  - Communication Costs
  - Office Supplies
  - Office Miscellaneous
- Travel
- Entertainment
- Meeting Expenses

**3.3 Marketing Expenses:**

- Sales Materials:
  - Banquet Brochures
  - Banquet Folders
  - Posters/Mailings
  - Promotional Material
- Advertising
- Entertainment and Promotion
- Market Research

**3.4 Training Expenses:**

- Food Testing
- Beverage/Drink
- Photography

**3.5 Miscellaneous:**

**4.0 OTHER EXPENSES:**

**4.1 Training — Support Team Expenses:**

- Salary and Related Expenses
- Airfares
- Board and Lodging
- Miscellaneous

**5.0 CONTINGENCIES:**

**6.0 SOFT OPENING — PROFIT/(LOSS):**





**APPENDIX C**  
**Schedule of Initial Inventories & Working Capital Format**

**1.0 WORKING CAPITAL:**

- 1.1 Cash Fund
- 1.2 Prepayments (Deposits)
- 1.3 Accounts Receivable (initial)
- 1.4 Funding of Operating Losses

**2.0 INITIAL INVENTORIES:**

- 2.1 Salable Inventories:
  - Food Inventories
  - Beverage Inventories
- 2.2 Operating Supplies:
  - Guest Supplies
  - General Supplies
  - Printing Supplies
  - Engineering Supplies

**APPENDIX D**  
**Key Operating Principles**

1. The role of the Hotel is to support the core business of gaming in the Casino by providing accommodation and related hospitality services, in line with Grand Hyatt Standards.
2. When formulating business strategy, the parties should seek to ensure that the goals and objectives of the Hotel are strategically aligned with those for the Casino and the Development as a whole.
3. The parties should seek to maximize REVPAR by ensuring the highest levels of occupancy as the primary objective over a high room rate. In evaluating REVPAR, the parties will use an appropriate competitive set including the other internationally branded hotels in Macau.
4. The parties should seek to attract business to the Hotel that will provide the highest potential opportunities for on-spend, and which maximize the profit potential for the Casino and throughout the rest of the Development.
5. The Hotel should support the Casino by making its facilities available to the most important patrons of the Casino as required provided that appropriate allocations will be made so the Hotel does not incur undue expense.
6. The Hotel should be operated in a manner that ensures maximum integration with, and fully leverages the facilities available throughout the Development.
7. It is recognized that Hyatt must (a) protect its brand integrity, (b) be able to maintain the standards required to enable the Hotel to operate in accordance with the Grand Hyatt Standards, and (c) match the performance of the Competitive Set

**CONFIDENTIAL; Do not copy or distribute**

**Exhibit A1**  
**Development Site**  
[Please see separate attachment "Exhibit A1"]**Exhibit A2**  
**Hotel Site**

Dated 30<sup>th</sup> August 2008

**HARD ROCK HOLDINGS LIMITED**

**AND**

**MELCO CROWN (COD) DEVELOPMENTS LIMITED**

**AND**

**MELCO CROWN COD (HR) HOTEL LIMITED**

---

**NOVATION AGREEMENT  
in respect of Hotel Trademark  
License Agreement**

---



**THIS NOVATION AGREEMENT** is made on 30<sup>th</sup> day of August 2008

**BETWEEN**

- (1) **Hard Rock Holdings Limited** a corporation of the United Kingdom (“**the Licensor**”);
- (2) **Melco Crown (COD) Developments Limited** (formerly known as Melco Hotels and Resorts (Macau) Limited) a company incorporated under the laws of Macau whose registered office is at Avenida Xian Xing Hai, No. 105, Zhu Kuan Building, 19th floor, A-C e K-N, Macau (the “**Old Licensee**”); and
- (3) **Melco Crown COD (HR) Hotel Limited** a company incorporated under the laws of Macau whose registered office is at Avenida Xian Xing Hai, No. 105, Zhu Kuan Building, 19th floor, A-C e K-N, Macau (the “**New Licensee**”).

**WHEREAS**

- (A) By a hotel trademark license agreement dated 22<sup>nd</sup> January 2007 (the “**License Agreement**”) the Licensor granted to the Old Licensee certain rights to use intellectual property in connection with the operation of a Hard Rock Hotel (as defined therein) at a specified licensed location.
- (B) The Old Licensee wishes to be released and discharged from the License Agreement and the New Licensee wishes to take up the rights and benefits of the License Agreement and to assume the obligations and liabilities of the Old Licensee under the License Agreement whether arising on or before or after the date hereof.
- (C) The Licensor has agreed to release and discharge the Old Licensee upon the terms that, inter alia, the New Licensee undertakes to perform the License Agreement in lieu of the Old Licensee and agrees to be bound by the terms and conditions of the License Agreement.

**NOW IT IS HEREBY AGREED**

In consideration of HK\$100 paid by each of the Licensor and the Old Licensee to the New Licensee, receipt and sufficiency of which the New Licensee hereby acknowledges:

**1. NOVATION**

- 1.1 The New Licensee hereby undertakes to observe, perform, discharge and be bound by the terms, conditions and covenants of the License Agreement (including all the liabilities and obligations of the Old Licensee arising under the License Agreement, whether actual, contingent or otherwise, and whether arising on or before or after the date hereof) in every way as if the New Licensee were, and had originally been, a party to the License Agreement in place of the Old Licensee.
  - 1.2 The Licensor hereby releases and discharges the Old Licensee from the performance of the License Agreement and from all obligations, liabilities, claims and demands howsoever arising under or in relation to the License Agreement and accepts, the obligations and liabilities of the New Licensee under the License Agreement in place of the liabilities and obligations of the Old Licensee and the Licensor agrees to observe, perform, discharge and be bound by the terms and conditions and covenants of the License Agreement in every way as if the New Licensee were, and had originally been, a party to the License Agreement in place of the Old Licensee.
-

- 1.3 The Licensor covenants not to bring any suit, action or proceeding or make any demand or claim of any type against the Old Licensee relating to or in connection with the License Agreement or the relationship created thereby. Such release and discharge in Clause 1.2 being without prejudice to the liabilities and obligation of New Licensee to the Licensor under the License Agreement as novated by this Novation Agreement. Nothing in this provision shall affect the Licensor's, Old Licensee's or New Licensee's right to make claims or bring an action for breach of this Novation Agreement.
- 1.4 The Old Licensee hereby releases and discharges the Licensor from the performance of the License Agreement and from all obligations, liabilities, claims and demands howsoever arising under or in relation to the License Agreement. The Old Licensee covenants not to bring any suit, action or proceeding or make any demand or claim of any type against the Licensor relating to or in connection with the License Agreement or the relationship created thereby. Such release and discharge being without prejudice to the liabilities and obligation of the Licensor to the New Licensee under the License Agreement as novated by this Novation Agreement. Nothing in this provision shall affect the Licensor's, Old Licensee's or New Licensee's right to make claims or bring an action for breach of this Novation Agreement.
- 1.5 The Old Licensee hereby assigns and transfers absolutely to the New Licensee all its rights, title and interests in the License Agreement including all correspondence, memoranda, drawings, samples, calculations, plans, specifications, models and other relevant documents and information pertaining to the services and work the Old Licensee provided under the License Agreement.
- 1.6 Notwithstanding any provisions to the contrary it is hereby agreed that:-
- (a) the words "Licensee shall acquire (either in freehold or by leasehold estate under a lease) and develop the Licensed Location and the Hotel" in clause 5(A)(1) of the License Agreement shall be deleted and replaced with the words "Licensee shall, or shall procure that its Affiliate shall, acquire (either in freehold or by leasehold estate under a lease or grant from the Macau SAR government) and develop the Licensed Location and the Hotel";
  - (b) the words "Licensee shall have the right to encumber, pledge, grant, or convey its rights, title and interest in and to its interests in this Agreement by way of a security agreement, a pledge and/or collateral assignment" in clause 5(C)(2)(a) of the License Agreement shall be deleted and replaced with the words " Licensee shall have the right to encumber, pledge, grant, or convey its rights, title and interest in and to its interests in this Agreement by way of a security agreement, a pledge, collateral assignment and/or other form of security interest"; and
  - (c) the words "Licensor will, upon Licensee's written request and upon payment of the Technical Services Fee, render the following technical advisory services to Licensee during the Pre-Opening Period" in clause 5(H) of the License Agreement shall be deleted and replaced with the words "Licensor will, upon Licensee's written request and upon payment of the Technical Services Fee, render the following technical advisory services to Licensee or, in case where Licensee's Affiliate (rather than Licensee) acquires (either in freehold or by leasehold estate under a lease) and develops the Licensed Location and the Hotel, such Affiliate during the Pre-Opening Period".
-

**2. DEEMED PAYMENTS**

The New Licensee agrees with the Licensor that all previous payments made to the Licensor by the Old Licensee, and all previous performance by the Old Licensee, under the License Agreement shall for the purpose of this Novation Agreement be deemed to be payments and / or, as the case may be, performance made by the New Licensee.

**3. FURTHER ASSURANCE**

Each party to this Novation Agreement shall at all times hereinafter and at their own cost and expense make, do and execute or cause to be made, done or executed all such acts, instruments, assurances and writings whatsoever as may be reasonable to perform or give effect to this Novation Agreement.

**4. COSTS AND EXPENSES**

The New Licensee shall bear all the costs and expenses incurred by the Licensor arising out of or in connection with this Novation Agreement and all related documentation prepared in consequence of this Novation Agreement.

**5. ENTIRE AGREEMENT; NO WAIVER OF DEFAULTS AND FUTURE TRANSFERS**

This Agreement is supplemental to the License Agreement. The terms and conditions of this Novation Agreement represent the entire agreement between the parties relating to the novation of the License Agreement and except as specifically supplemented by this Novation Agreement all the terms and conditions of the License Agreement remain in full force and effect. Except as specifically provided herein, no provision of this Novation Agreement, nor any action by Licensor prior to the date hereof, shall be construed as a waiver by Licensor of any right under the License Agreement or any other agreement or applicable law, including, without limitation, any right with respect to any default under the License Agreement. New Licensee understands and agrees that it shall not rely on this Novation Agreement as indicative of the position Licensor will take in future proposed transfers or assignments by New Licensee or its owners.

**6. GOVERNING LAW AND JURISDICTION**

- 6.1 This Novation Agreement shall be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region.
  - 6.2 In the event of any dispute and/or disagreement arising in connection with this Agreement, the dispute resolution clauses as provided for in the License Agreement shall apply.
-

**7. CONFIDENTIALITY**

Each of Old Licensee and New Licensee agrees to keep confidential and not disclose the existence or terms of this Novation Agreement or any agreement related hereto without the prior written consent of Licensor save that any such party shall be entitled to make such disclosure:

- (a) in connection with any proceedings arising out of or in connection with this Novation Agreement to the extent that either party may consider necessary to protect its interests;
  - (b) if required to do so by an order of a court of competent jurisdiction whether in pursuance of any procedure for discovering documents or otherwise or pursuant to any law;
  - (c) to its auditors or legal advisors or other professional advisers;
  - (d) if required to do so by any applicable law or in order for such party to comply with its obligations under this Novation Agreement;
  - (e) to its financiers, their agent or legal advisers; or
  - (f) to a governmental, banking, taxation, stock exchange, securities or regulatory authority which has legal or other regulatory authority over the relevant party.
-



IN WITNESS whereof the parties hereto have executed this Novation Agreement the day and year first above written.

Signed by ) Authorised signatory /s/ Jay Anthony Wolszcza  
for and on behalf of Hard Rock Holdings ) Full name Jay Anthony Wolszcza  
Limited, acting by its )  
authorised signatory:- )  
in the presence of: )

/s/ Stephanie K. Barnes  
Signature of Witness

Stephanie K. Barnes  
Name:

---

Signed by  
for and on behalf of Melco Crown (COD)  
Developments Limited, acting by its  
authorised signatory:-

) Authorised signatory /s/ Gary Saunders  
) Full name Gary Saunders  
)  
)  
)  
)

in the presence of:

/s/ Debbie Wong  
Signature of Witness

DEBBIE WONG  
Name:

---

Signed by  
for and on behalf of Melco Crown COD  
(HR) Hotel Limited, acting by its  
authorised signatory:-

) Authorised signatory /s/ Gary Saunders  
) Full name Gary Saunders  
)  
)  
)  
)

in the presence of:

/s/ Debbie Wong  
Signature of Witness

DEBBIE WONG  
Name:

Dated 30<sup>th</sup> August 2008

HARD ROCK CAFE INTERNATIONAL (STP), INC.

AND

MELCO CROWN (COD) DEVELOPMENTS LIMITED

AND

MELCO CROWN COD (HR) HOTEL LIMITED

---

NOVATION AGREEMENT  
in respect of Hotel Memorabilia Lease

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**THIS NOVATION AGREEMENT** is made on 30<sup>th</sup> day of August 2008

**BETWEEN**

- (1) **Hard Rock Cafe International (STP), INC.** a Florida corporation (“**the Lessor**”);
- (2) **Melco Crown (COD) Developments Limited** (formerly known as Melco Hotel and Resorts (Macau) Limited) a company incorporated under the laws of Macau whose registered office is at Avenida Xian Xing Hai, No. 105, Zhu Kuan Building, 19th floor, A-C e K-N, Macau (the “**Old Lessee**”); and
- (3) **Melco Crown COD (HR) Hotel Limited** a company incorporated under the laws of Macau whose registered office is at Avenida Xian Xing Hai, No. 105, Zhu Kuan Building, 19th floor, A-C e K-N, Macau (the “**New Lessee**”).

**WHEREAS**

- (A) By a memorabilia lease dated 22<sup>nd</sup> January 2007 (the “**Lease**”) the Lessor leased to the Old Lessee the right to use certain articles of memorabilia for display and exhibition at a specified licensed location.
- (B) The Old Lessee wishes to be released and discharged from the Lease and the New Lessee wishes to take up the rights and benefits of the Lease and to assume the obligations and liabilities of the Old Lessee under the Lease whether arising on or before or after the date hereof.
- (C) The Lessor has agreed to release and discharge the Old Lessee upon the terms that, inter alia, the New Lessee undertakes to perform the Lease in lieu of the Old Lessee and agrees to be bound by the terms and conditions of the Lease.

**NOW IT IS HEREBY AGREED**

In consideration of HK\$100 paid by each of the Lessor and the Old Lessee to the New Lessee, receipt and sufficiency of which the New Lessee hereby acknowledges:

**1. NOVATION**

- 1.1 The New Lessee hereby undertakes to observe, perform, discharge and be bound by the terms, conditions and covenants of the Lease (including all the liabilities and obligations of the Old Lessee arising under the Lease, whether actual, contingent or otherwise, and whether arising on or before or after the date hereof) in every way as if the New Lessee were, and had originally been, a party to the Lease in place of the Old Lessee.
  - 1.2 The Lessor hereby releases and discharges the Old Lessee from the performance of the Lease and from all obligations, liabilities, claims and demands howsoever arising under or in relation to the Lease and accepts, the obligations and liabilities of the New Lessee under the Lease in place of the liabilities and obligations of the Old Lessee and the Lessor agrees to observe, perform, discharge and be bound by the terms, conditions and covenants of the Lease in every way as if the New Lessee were, and had originally been, a party to the Lease in place of the Old Lessee.
-

- 1.3 The Lessor covenants not to bring any suit, action or proceeding or make any demand or claim of any type against the Old Lessee relating to or in connection with the Lease or the relationship created thereby. Such release and discharge in Clause 1.2 being without prejudice to the liabilities and obligation of New Lessee to the Lessor under the Lease as novated by this Novation Agreement. Nothing in this provision shall affect the Lessor's, Old Lessee's or New Lessee's right to make claims or bring an action for breach of this Novation Agreement.
- 1.4 The Old Lessee hereby releases and discharges the Lessor from the performance of the Lease and from all obligations, liabilities, claims and demands howsoever arising under or in relation to the Lease. The Old Lessee covenants not to bring any suit, action or proceeding or make any demand or claim of any type against the Lessor relating to or in connection with the Lease or the relationship created thereby. Such release and discharge being without prejudice to the liabilities and obligation of the Lessor to the New Lessee under the Lease as novated by this Novation Agreement. Nothing in this provision shall affect the Lessor's, Old Lessee's or New Lessee's right to make claims or bring an action for breach of this Novation Agreement.
- 1.5 The Old Lessee hereby assigns and transfers absolutely to the New Lessee all its rights, title and interests in the Lease including all correspondence, memoranda, drawings, samples, calculations, plans, specifications, models and other relevant documents and information pertaining to the services and work the Old Lessee provided under the Lease.

**2. DEEMED PAYMENTS**

The New Lessee agrees with the Lessor that all previous payments made to the Lessor by the Old Lessee under the Lease, and all previous performance by the Old Licensee under the Lease, shall for the purpose of this Novation Agreement be deemed to be payments and /or, as the case may be, performance made by the New Lessee.

**3. FURTHER ASSURANCE**

Each party to this Novation Agreement shall at all times hereinafter and at their own cost and expense make, do and execute or cause to be made, done or executed all such acts, instruments, assurances and writings whatsoever as may be reasonable to perform or give effect to this Novation Agreement.

**4. COSTS AND EXPENSES**

The New Lessee shall bear all the costs and expenses incurred by the Lessor arising out of or in connection with this Novation Agreement and all related documentation prepared in consequence of this Novation Agreement.

---

**5. ENTIRE AGREEMENT; AND FUTURE TRANSFERS**

This Agreement is supplemental to the Lease. The terms and conditions of this Novation Agreement represent the entire agreement between the parties relating to the novation of the Lease and except as specifically supplemented by this Novation Agreement all the terms and conditions of the Lease remain in full force and effect. Except as specifically provided herein, no provision of this Novation Agreement, nor any action by Lessor prior to the date hereof, shall be construed as a waiver by Lessor of any right under the Lease or any other agreement or applicable law, including, without limitation, any right with respect to any default under the Lease. New Lessee understands and agrees that it shall not rely on this Novation Agreement as indicative of the position Lessor will take in future proposed transfers or assignments by New Lessee or its owners.

**6. GOVERNING LAW AND JURISDICTION**

- 6.1 This Novation Agreement shall be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region.
- 6.2 In the event of any dispute and/or disagreement arising in connection with this Agreement, the dispute resolution clauses as provided for in the Lease shall apply.

**7. CONFIDENTIALITY**

Each of Old Lessee and New Lessee agrees to keep confidential and not disclose the existence or terms of this Novation Agreement or any agreement related hereto without the prior written consent of Lessor save that any such party shall be entitled to make such disclosure:

- (a) in connection with any proceedings arising out of or in connection with this Novation Agreement to the extent that either party may consider necessary to protect its interests;
  - (b) if required to do so by an order of a court of competent jurisdiction whether in pursuance of any procedure for discovering documents or otherwise or pursuant to any law;
  - (c) to its auditors or legal advisors or other professional advisers;
  - (d) if required to do so by any applicable law or in order for such party to comply with its obligations under this Novation Agreement;
  - (e) to its financiers, their agent or legal advisers; or
  - (f) to a governmental, banking, taxation, stock exchange, securities or regulatory authority which has legal or other regulatory authority over the relevant party.
-

IN WITNESS whereof the parties hereto have executed this Novation Agreement the day and year first above written.

Signed by ) Authorised signatory /s/ Jay Anthony Wolszcza  
for and on behalf of ) Full name Jay Anthony Wolszcza  
Hard Rock Café International (STP), Inc., )  
acting by its )  
authorised signatory:- )  
in the presence of: )

/s/ Stephanie K. Barnes  
Signature of Witness

Stephanie K. Barnes  
Name:

---



Signed by  
for and on behalf of Melco Crown (COD)  
Developments Limited, acting by its  
authorised signatory:-

) Authorised signatory /s/ Gary Saunders  
) Full name Gary Saunders  
)  
)  
)  
)

in the presence of:

/s/ Debbie Wong  
Signature of Witness

DEBBIE WONG  
Name:

---

Signed by  
for and on behalf of Melco Crown COD  
(HR) Hotel Limited, acting by its  
authorised signatory:-

) Authorised signatory /s/ Gary Saunders  
) Full name Gary Saunders  
)  
)  
)

in the presence of:

/s/ Debbie Wong  
Signature of Witness

DEBBIE WONG  
Name:

To:

**Melco PBL (Macau Peninsula) Limited, formerly known as Swift Profit Investments Limited ("Melco PBL")**  
P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola  
British Virgin Islands

Macau, 25 of January, 2007

Dear Sirs,

**Re:** Promissory Transfer of Shares Agreement dated 17 May 2006 ("AGREEMENT") entered into between **MELCO PBL** as promissory buyer and we, (i.) **DOUBLE MARGIN LIMITED**, a company duly incorporated under the laws of the British Virgin Islands ("**DOUBLE MARGIN**"), (ii.) **LEONG ON KEI**, aka **ANGELA LEONG** ("**ANGELA LEONG**"), as promissory sellers ("**PROMISSORY SELLERS**"), and (iii.) **SOCIEDADE DE FOMENTO PREDIAL OMAR, LIMITADA**, a company duly incorporated under the laws of Macau ("**OMAR**"), in relation to the Purchase of the entire issued share capital of **OMAR**.

We, **DOUBLE MARGIN**, **ANGELA LEONG** and **OMAR** refer to the **AGREEMENT**. For convenience, all words and expressions use in this letter have the same meaning as defined in the **AGREEMENT**, unless the contrary intention appears.

Under clause 6.1. of the **AGREEMENT** completion should take place on or before January 27, 2007, upon fulfilment of the conditions precedent set forth in the Recital (d) and the conditions for completion set forth in clauses 6.1.1. and 6.1.2. of the **AGREEMENT**.

We hereby inform that compliance with all the conditions above mentioned will not be fulfilled on or before January 27, 2007.

Therefore, we propose an extension of the date of completion, until **July 27, 2007**, and in case the aforesaid conditions remain unfulfilled by that date, then the completion date shall be further postponed if there is mutual agreement. The said postponement of the completion date shall not prejudice any of the rights and obligations of the **PROMISSORY SELLERS**, **OMAR** and **MELCO PBL** under the **AGREEMENT**, including but not limited to, all **MELCO PBL**'s rights under clauses 6.1.2 and 6.1.3 of the **AGREEMENT**.

Other than the postponement of the completion date operated by means of your acceptance of the terms and conditions of this letter, all other provisions of the **AGREEMENT**, including but not limited to, all the conditions precedent and conditions for completion, shall remain fully valid and in force.

---

Please sign the enclosed copy of this letter to signify your acceptance and agreement to the terms and conditions of this letter set out herein.

Yours faithfully,

Double Margin Limited

SIGNED by Mr. )  
 ) /s/ Lee Chi Keong  
 )  
in the presence of:- )

 ) /s/ Angela Leong

Witness :

**Leong On Kei aka Angela Leong** )  
 )  
signed in the presence of:- )

 )

Witness:

**Sociedade de Fomento Predial Omar, Limitada** )

SIGNED by Ms. )  
and Mr. )  
 )  
in the presence of:- )

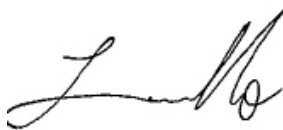
\_\_\_\_\_)  
Witness: )

We hereby confirm our acceptance of and agreement to the terms and conditions of the letter set out above.

Melco PBL (Macau Peninsula) Limited

SIGNED by

)  
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)

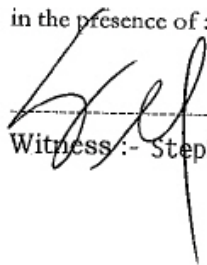


in the presence of:-

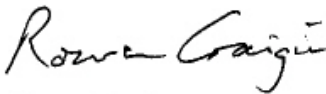
)  
)

in the presence of:-

)



Witness:- Stephanie Cheung



To:

**Melco PBL (Macau Peninsula) Limited**, formerly known as **Swift Profit Investments Limited (“Melco PBL”)**  
P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola  
British Virgin Islands

Macau, 17 of July, 2007

Dear Sirs,

**Re:** Promissory Transfer of Shares Agreement dated 17 May 2006 (“**Agreement**”) entered into between **Melco PBL** as promissory buyer and **we, (i.) Double Margin Limited**, a company duly incorporated under the laws of the British Virgin Islands (“**Double Margin**”), **(ii.) Leong On Kei, aka Angela Leong (“Angela Leong”)**, as promissory sellers (“**Promissory Sellers**”), and **(iii.) Sociedade de Fomento Predial Omar, Limitada**, a company duly incorporated under the laws of Macau (“**Omar**”), in relation to the Purchase of the entire issued share capital of **Omar**.

**We, Double Margin and Angela Leong** refer to the **Agreement**. For convenience, all words and expressions use in this letter have the same meaning as defined in the **Agreement**, unless the contrary intention appears.

Under clause 6.1. of the **Agreement**: (i) completion should take place on or before January 27, 2007, upon fulfilment of the conditions precedent set forth in the Recital (d) and the conditions for completion set forth in clauses 6.1.1. and 6.1.2. of the **Agreement**; and (ii) if the said conditions for completion do not occur or fulfil on or before January 27, 2007, **Melco PBL** may agree with the **Promissory Sellers** for such other date of completion.

---

Pursuant to clause 6.1 of the **Agreement** and by a separate letter agreement dated 25 January 2007, **Melco PBL** and the **Promissory Sellers** have agreed to postpone the date of completion to July, 27, 2007.

We hereby inform that compliance with all the conditions above mentioned will not be fulfilled on or before July 27, 2007. Therefore, we propose a further extension of the date of completion, until July 27, 2008, and in case the aforesaid conditions remain unfulfilled by that date, then the completion date shall be further postponed if there is mutual agreement. The said further postponement of the completion date to July 27, 2008 shall not prejudice any of the rights and obligations of the **PROMISSORY SELLERS, OMAR and MELCO PBL** under the **AGREEMENT**, including but not limited to, all **Melco PBL's** rights under clauses 6.1.2 and 6.1.3 of the **Agreement**.

Other than the further postponement of the completion date to July 27, 2008 operated by means of your acceptance of the terms and conditions of this letter, all other provisions of the **Agreement**, including but not limited to, all the conditions precedent and conditions for completion, shall remain fully valid and in force.

Please sign the enclosed copy of this letter to signify your acceptance and agreement to the terms and conditions of this letter set out herein.

Yours faithfully,

**Double Margin Limited**

SIGNED by Mr. Lee Chi Keong ) /s/ Lee Chi Keong

in the presence of:- ) /s/ Kong Ieong

Witness : Kong Ieong, Connie )

**Leong On Kei aka Angela Leong** ) /s/ Angela Leong

signed in the presence of:- )

Witness: Kong Ieong, Connie ) /s/ Kong Ieong

---

We hereby confirm our acceptance of and agreement to the terms and conditions of the letter set out above.

**Melco PBL (Macau Peninsula) Limited** ) /s/ Clarence Chung  
)  
SIGNED by Clarence Chung )  
)  
in the presence of:- )

Edmond Choi  
Witness:- ) /s/ Edmond Choi



To:

**MPEL (Macau Peninsula) Limited** (formerly known as **Melco PBL (Macau Peninsula) Limited**, and **Swift Profit Investments Limited**) ("**MPEL MP**")

P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands

Macau, July 2, 2008

Dear Sirs,

**Re:** Promissory Transfer of Shares Agreement dated 17 May 2006 ("**Agreement**") entered into between **MPEL MP** as promissory buyer and **we, (i.) Double Margin Limited**, a company duly incorporated under the laws of the British Virgin Islands ("**Double Margin**"), **(ii.) Leong On Kei, aka Angela Leong** ("**Angela Leong**"), as promissory sellers ("**Promissory Sellers**"), and **(iii.) Sociedade de Fomento Predial Omar, Limitada**, a company duly incorporated under the laws of Macau ("**Omar**"), in relation to the sale and purchase of the entire issued share capital of **Omar**.

**We, Double Margin and Angela Leong** refer to the **Agreement**. For convenience, all words and expressions use in this letter have the same meaning as defined in the **Agreement**, unless the contrary intention appears.

Under clause 6.1 of the **Agreement**: (i) Completion should take place on or before January 27, 2007, upon fulfilment of the conditions precedent set forth in Recital (d) and the conditions for Completion set forth in clauses 6.1.1 and 6.1.2 of the **Agreement**; and (ii) if the said conditions for Completion do not occur or fulfil on or before January 27, 2007, **MPEL MP** may agree with the **Promissory Sellers** for such other date of Completion.

Pursuant to clause 6.1 of the **Agreement** and by letter agreements dated January 25, 2007 and July 17, 2007 respectively, **MPEL MP** and the **Promissory Sellers** have agreed to postpone the date of Completion to July 27, 2008.

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We hereby confirm that compliance with all the conditions above mentioned will not be fulfilled on or before July 27, 2008. Therefore, we propose a further extension of the date of Completion to July 27, 2009, and in case the aforesaid conditions remain unfulfilled by that date, then the date of Completion shall be further postponed if there is mutual agreement. The said further postponement of the date of Completion to July 27, 2009 shall not prejudice any of the rights and obligations of the **PROMISSORY SELLERS, OMAR and MPEL MP** under the **AGREEMENT**, including but not limited to, all **MPEL MP**'s rights under clauses 6.1.2 and 6.1.3 of the **Agreement**.

Other than the further postponement of the date of Completion to July 27, 2009 operated by means of your acceptance of the terms and conditions of this letter, all other provisions of the **Agreement** (as supplemented by the said letter agreements), including but not limited to, all the conditions precedent and conditions for Completion, shall remain fully valid and in force.

Please sign the enclosed copy of this letter to signify your acceptance and agreement to the terms and conditions set out herein.

Yours faithfully,

**Double Margin Limited**

SIGNED by Mr. Li Chi Keung ) /s/ Li Chi Keung

in the presence of:- )

/s/ Connie Kong leong )

Witness : Kong leong, Connie )

**Leong On Kei aka Angela Leong** ) /s/ Angela Leong

signed in the presence of:- )

/s/ Connie Kong leong )

Witness: Kong leong, Connie )

We hereby confirm our acceptance of and agreement to the terms and conditions of the letter set out above.

**MPEL (Macau Peninsula) Limited** ) /s/ Chung Yuk Man

SIGNED by Chung Yuk Man )

in the presence of:- )

Purple Whang )

Witness:- )

Date: July 15, 2008

List of Subsidiaries

1. MPEL Holdings Limited, incorporated in Cayman Islands
2. MPEL International Limited, incorporated in Cayman Islands
3. MPEL Nominee One Limited, incorporated in Cayman Islands
4. MPEL Investments Limited, incorporated in Cayman Islands
5. MPEL Nominee Three Limited, incorporated in Cayman Islands
6. MPEL Nominee Two Limited, incorporated in Cayman Islands
7. Melco Crown Gaming (Macau) Limited, incorporated in Macau Special Administrative Region of the People's Republic of China
8. Melco Crown (COD) Hotels Limited, incorporated in Macau Special Administrative Region of the People's Republic of China
9. Melco Crown (COD) Developments Limited, incorporated in Macau Special Administrative Region of the People's Republic of China
10. Melco Crown (CM) Hotel Limited, incorporated in Macau Special Administrative Region of the People's Republic of China
11. Melco Crown (CM) Developments Limited, incorporated in Macau Special Administrative Region of the People's Republic of China
12. Melco Crown (Macau Peninsula) Hotel Limited, incorporated in Macau Special Administrative Region of the People's Republic of China
13. Melco Crown (Macau Peninsula) Developments Limited, incorporated in Macau Special Administrative Region of the People's Republic of China
14. MPEL (Macau Peninsula) Limited, incorporated in British Virgin Islands



## CODE OF BUSINESS CONDUCT AND ETHICS

### I. Introduction

#### A. Purpose

This Code of Business Conduct and Ethics (the “Code”) was adopted by the Board of Directors (the “Board”) of Melco Crown Entertainment Limited (“MPEL”).

This Code contains general guidelines for conducting the business of MPEL and its subsidiaries consistent with the highest standards of business ethics. To the extent this Code requires a higher standard than required by commercial practice or applicable laws, rules or regulations, we will adhere to these higher standards.

This Code applies to all of the directors, officers and employees of MPEL and its subsidiaries (which, unless the context otherwise requires, are collectively referred to as the “Company” in this Code). We refer to all persons covered by this Code as “Company employees” or simply “employees.” All references to “you” shall be references to the employees. We also refer to our Chief Executive Officer, our Chief Operating Officer, our Chief Financial Officer and the heads of our business units as our “principal officers.”

#### B. Seeking Help and Information

This Code is not intended to be a comprehensive rulebook and cannot address every situation that you may face. If you feel uncomfortable about a situation or have any doubts about whether it is consistent with the Company’s ethical standards, seek help. We encourage you to contact the Human Resources department for help. The Chief Legal Officer of the Company, has initially been appointed by the Board as the Compliance Officer for the Company.

#### C. Reporting Violations of the Code

All employees have a duty to report any known or suspected violation of this Code, including any violation of the laws, rules, regulations or policies that apply to the Company. If you know of or suspect a violation of this Code, immediately report the conduct to the Human Resources department, which will work with you to investigate your concern or direct your concern to the appropriate department within the Company. If you do not feel comfortable reporting the conduct to your supervisor or you do not get a satisfactory response, you may contact the Compliance Officer directly or submit your complaint to our hotline or via email set up under our Procedures for Handling Complaints and Whistleblowing. All reports of known or suspected violations of applicable laws or this Code will be handled sensitively and with appropriate confidentiality. The Company will protect your confidentiality to the extent possible, consistent with law and the Company’s need to investigate your concern.

This Code will be enforced on a uniform basis for everyone, without regard to an employee's position within the Company. It is Company policy that any employee who violates this Code will be subject to appropriate discipline, which may include termination of employment. This determination will be based upon the facts and circumstances of each particular situation. An employee accused of violating this Code will be given an opportunity to present his or her version of the events at issue prior to any determination of appropriate discipline. Employees who violate any applicable law or this Code may become subject to civil damages, criminal fines and prison terms. The Company may also face substantial fines and penalties and may incur damage to its reputation and standing in the community. Your conduct as a representative of the Company, if it does not comply with applicable laws or with this Code, can result in serious consequences for both you and the Company.

*D. Policy Against Retaliation*

In no event will there be any retaliation against someone for reporting an activity that he or she in good faith believes to be a violation of any law, rule or regulation. Any supervisor or other employee intimidating or imposing sanctions on an employee for reporting a matter will be disciplined, which may include termination of employment.

Employees should know that it is a crime to retaliate against a person, including with respect to their employment, for providing truthful information to a law enforcement officer relating to the possible commission of any violation of law. Employees who believe that they have been retaliated against by the Company, its employees, contractors, subcontractors or agents, for providing information to or assisting in an investigation conducted by a governmental authority or a person with supervisory authority over the employee (or another employee who has the authority to investigate or terminate misconduct) in connection with conduct that the employee reasonably believes constitutes a violation of rule or law, may seek redress through governmental agencies.

*E. Waivers of the Code*

Employees should understand that waivers or exceptions to our Code will be granted only in advance and only under exceptional circumstances. Waivers of this Code for employees may be made only by an executive officer of the Company. Any waiver of this Code for our directors, executive officers or other principal officers may be made only by the Board and will be disclosed to the public as required by applicable laws or the rules of the Nasdaq.

## II. Internal and External Dealings

### A. Patrons

The Company seeks to provide excellent service to all third parties (“**Patrons**”) with whom it conducts business. To this end, the employees of the Company shall abide by the following principles.

- Act in good faith in its dealings with the Company’s patrons.
- Respect the views of the Company’s patrons, including suggestions and requests made by the patrons concerning services offered by the Company. Moreover, the Company shall seek to address all customer complaints promptly and fairly.
- Provide the Company’s patrons with all facts which the patrons should be aware of concerning the services offered by the Company.

The employees shall maintain the confidentiality of information entrusted to them by the Company or its patrons, except when disclosure is duly authorized or legally mandated. Confidential information includes all non-public information that may be of use to the Company’s competitors, or harmful to the Company or its patrons, if disclosed.

### B. Shareholders

The Company shall endeavor to maximize shareholder value. The employees of the Company shall implement the following principles.

- The Company shall seek to maximize shareholder value by achieving profitability through sound management.
- The Company shall respect the rights of its shareholders, including the right to obtain adequate access to information which the Company is required by law to disclose. Disclosure about the Company’s affairs, operations and financial condition shall be made in accordance with the Company’s Guidelines for Corporate Communications and Disclosure Controls and Procedures.

### C. Employment Practices

The Company and the employees shall seek to create a workplace environment that is harmonious, respectful of the rights of all employees, and conducive to attaining excellence in the quality of service provided to the Company’s patrons. The employees of the Company shall respect each other as a member of the same community, and shall endeavor to create and maintain a harmonious corporate culture. To achieve this objective, the following principles shall be implemented at all times.

- The Company shall not engage in any discriminatory employment practice, whether on the basis of place of birth, gender, marital status, physical disability or any other characteristic which is not in compliance with applicable laws.
- Sexual harassment is strictly prohibited on the part of the employees as well as any party providing services to the Company, including temporary workers, independent contractors or other professional service providers of the Company.
- Decisions regarding employees, including promotion, shall be made fairly based on merit; that is, capability, effort and degree of contribution made by the employees concerned.

#### *D. Competitors and Business Partners*

The Company prides itself on being a responsible corporate citizen. The Company shall continue to abide by the following principles.

- The Company shall respect its competitors and compete fairly and honestly with them. The Company shall not seek any competitive advantage obtained through unethical or illegal means.
- The Company shall not take unfair advantage of any person through concealment, manipulation or abuse of privileged information, misrepresentation of material facts or any unfair business practice.

### **III. Conflicts of Interest**

#### *A. Identifying Potential Conflicts of Interest*

A conflict of interest can occur when an employee's private interest interferes, or appears to interfere, with the interests of the Company as a whole. Such conflicts of interest can undermine our business judgment and our responsibility to the Company and threaten the Company's business and reputation. Accordingly, all apparent, potential, and actual conflicts of interest should be scrupulously avoided and any transactions between an employee and the Company which involves a potential conflict of interest should only be entered into after you receive the appropriate approval. You should refer all requests for such approvals to the Human Resources department.

Identifying potential conflicts of interest may not always be clear-cut. The following situations are examples of potential conflicts of interest:

- Outside Employment. No employee should be employed by, serve as a director of, or provide any services to a company that is a material customer or supplier to, or any competitor of, the Company.
- Improper Personal Benefits. No employee should obtain any material (as to him or her) personal benefits or favors because of his or her position with the Company. Please see "Gifts and Entertainment" below for additional guidelines in this area.



- Personal Interests. No employee shall have a direct or indirect personal interest in a transaction involving the Company, except when the interest has been fully disclosed to and approved by the Company.
- Financial Interests. No employee should have a financial interest (ownership or otherwise) in any company that is a material customer, supplier or competitor of the Company, except when the interest has been fully disclosed to and approved by the Company. However, it is not typically considered a conflict of interest (and therefore, prior approval is not required) to have an interest of less than 1% of the outstanding shares of a publicly traded company.
- Loans or Other Financial Transactions. No employee should obtain loans or guarantees of personal obligations from, or enter into any other personal financial transaction with, the Company or any company that is a material customer or supplier to, or any competitor of, the Company. This guideline does not prohibit arms-length transactions with banks, brokerage firms or other financial institutions.
- Service on Boards and Committees. No employee should serve on a board of directors or trustees or on a committee of any entity (whether profit or not-for-profit) whose interests reasonably would be expected to conflict with those of the Company.
- Actions of Family Members. The actions of family members outside the workplace may also give rise to the conflicts of interest described above because they may influence an employee's objectivity in making decisions on behalf of the Company. For purposes of this Code, "family members" include your spouse or life-partner, brothers, sisters and parents, in-laws and children whether such relationships are by blood or adoption. Please see "Family Members Working in the Industry" below for additional guidelines in this area.
- Outside Activity. No employee shall engage in any outside activity that materially detracts from or interferes with the performance of his or her services to the Company.

For purposes of this Code, a company is a "material" customer if the company has made payments to the Company in the past year in excess of US\$200,000 or 5% of the customer's gross revenues, whichever is greater. A company is a "material" supplier if the company has received payments from the Company in the past year in excess of \$200,000 or 5% of the supplier's gross revenues, whichever is greater. A company is a "material" competitor if the company competes in the Company's line of business and has annual gross revenues from such line of business in excess of US\$10,000,000. For purposes of this Code, Melco International Development Limited and its subsidiaries ("**Melco**"), Crown Limited and its subsidiaries ("**Crown**"), and any other joint venture entities of Melco and Crown are not considered to be "material" competitors, suppliers or patrons.

*B. Disclosure of Conflicts of Interest*

The Company requires that employees disclose any situations that reasonably would be expected to give rise to a conflict of interest. If you suspect that you have a conflict of interest, or something that others could reasonably perceive as a conflict of interest, you must report it to the Human Resources Department. The Human Resources department will work with you to determine whether you have a conflict of interest, or will direct your report to the appropriate department in the Company, and, if a conflict is determined to exist, you will be assisted in determining how best to address the conflict. Although conflicts of interest are not automatically prohibited, they are not desirable and may only be waived as described in “Waivers of the Code” above.

*C. Family Members Working in the Industry*

You may find yourself in a situation where (i) your Family Member is a competitor, supplier, guest, patron, visitor or tenant of the Company or is employed by one or (ii) your Family Member is also employed by the Company. Such situations are not prohibited, but they call for extra sensitivity to security, confidentiality and potential conflicts of interest.

There are several factors to consider in assessing such a situation. Among them: the relationship between the Company and the other company; the nature of your responsibilities as a Company employee and those of the other person; and the access each of you has to your respective employer’s confidential information. Such a situation, however harmless it may appear to you, could arouse suspicions among your colleagues that might affect your working relationships. The very appearance of a conflict of interest can create problems, regardless of the propriety of your behavior.

To remove any such doubts or suspicions, you must disclose your specific situation to the Human Resources department to assess the nature and extent of any concern and how it can be resolved. In some instances, any risk to the Company’s interests is sufficiently remote that the Human Resources department may only remind you to guard against inadvertently disclosing Company confidential information and not to be involved in decisions on behalf of the Company that involve the other company.

*D. Presence in Gaming Areas*

In general, employees of the Company’s gaming operations may only enter the gaming areas operated by the Company in the course of their normal work activities. Employees should refer to and strictly comply with the policies of the relevant business units related to access to gaming areas. Employees of non-gaming operations and their guests may enter gaming areas operated by the Company but they may not engage in gaming activities in such venues.

#### IV. Gifts and Entertainment

The giving and receiving of gifts is a common business practice. Appropriate business gifts and entertainment are welcome courtesies designed to build relationships and understanding among business partners. However, gifts and entertainment should not compromise, or appear to compromise, your ability to make objective and fair business decisions.

When you are providing a gift, entertainment or other accommodation in connection with Company business, you must do so in a manner that is in good taste and without excessive expense. Except for complimentary goods and services customarily provided to patrons in the ordinary course of the Company's business, you may not furnish or offer to furnish any gift that is of more than token value or that goes beyond the common courtesies associated with accepted business practices. You should follow the below guidelines for receiving gifts, in determining when it is appropriate to give gifts and when prior written approval from the Human Resources department is required.

Our suppliers and tenants likely have gift and entertainment policies of their own. You must be careful never to provide a gift or entertainment that you know violates the other company's gift and entertainment policy.

It is your responsibility to use good judgment in this area. As a general rule, you may give or receive gifts or entertainment to or from patrons or suppliers only if the value of such gift or entertainment is not unreasonable and such gift or entertainment would not be viewed as an inducement to or reward for any particular business decision. All gifts and entertainment expenses should be properly accounted for on expense reports. The following specific examples may be helpful:

- Meals and Entertainment. You may occasionally accept or give meals, refreshments or other entertainment if:
  - The items are of reasonable value;
  - The purpose of the meeting or attendance at the event is business related; and
  - The expenses would be paid by the Company as a reasonable business expense if not paid for by another party.

Entertainment of reasonable value may include food and tickets for sporting and cultural events if they are generally offered to other patrons, suppliers or vendors.

- Advertising and Promotional Materials. You may occasionally accept or give advertising or promotional materials of nominal value.
- Personal Gifts. You may accept or give personal gifts of reasonable value that are related to recognized special occasions such as a cultural event, celebration or holiday (for example, Chinese New Year, Christmas, Mid-Autumn Festival and Chung Yeung Festival). A gift is also acceptable if it is based on a family or personal relationship and unrelated to the business between the individuals. If you are unsure whether a gift is acceptable, please report the receipt of the gift to the Human Resources department for further guidance.

- Gifts Rewarding Service or Accomplishment. You may accept a gift from a civic, charitable or religious organization specifically related to your service or accomplishment.
- Travel. Any gift that involves regional or international travel shall only be accepted after clearance from your supervisor.

This guideline does not prohibit authorized employees in designated job categories from accepting traditional customer gratuities (“tips”).

You must be particularly careful that gifts and entertainment are not construed as bribes, kickbacks or other improper payments. See “Compliance with Laws, Rules and Regulations - The Foreign Corrupt Practices Act” for additional discussion of our policies regarding giving or receiving gifts related to business transactions.

You should make every effort to refuse or return a gift that is beyond these permissible guidelines. If it would be inappropriate to refuse a gift or you are unable to return a gift, you should promptly report the gift to the Human Resources department. The Human Resources department will bring the gift to the attention of the Compliance Officer, who may require you to donate the gift to an appropriate community organization.

If you provide any gift, entertainment or other accommodation in connection with the Company’s business, you must do so in a manner that is in good taste, without excessive expense and in strict compliance with applicable laws. In particular, employees are reminded that Macau civil servants are prohibited from accepting gifts with a value in excess of MOP 500.

#### **V. Confidential, Proprietary Information**

One of the Company’s most valuable assets is information. Employees should maintain the confidentiality of information (whether or not it is considered proprietary) entrusted to them not only by the Company, but also by suppliers, patrons and others related to our business. Confidential information includes all non-public information that might be of use to our competitors or harmful to the Company, or its patrons or suppliers, if disclosed. Examples of confidential information include trade secrets, new product or marketing plans, customer lists, research and development ideas, manufacturing processes, or acquisition or divestiture prospects.

Employees should take steps to safeguard confidential information by keeping such information secure, limiting access to such information to those employees who have a “need to know” in order to do their job, and avoiding discussion of confidential information in public areas, for example, in elevators, on planes, and on mobile phones.

Confidential information may be disclosed to others when disclosure is authorized by the Company or legally mandated. The obligation to preserve confidential information is ongoing, even after termination of employment.

## **VI. Company Records**

Accurate and reliable records are crucial to our business. Our records are the basis of our earnings statements, financial reports and other disclosures to the public and guide our business decision-making and strategic planning. Company records include booking information, payroll, timecards, travel and expense reports, e-mails, accounting and financial data, measurement and performance records, electronic data files and all other records maintained in the ordinary course of our business.

All Company records must be complete, accurate and reliable in all material respects. Undisclosed or unrecorded funds, payments or receipts are inconsistent with our business practices and are prohibited. You are responsible for understanding and complying with our record keeping policy.

## **VII. Accuracy of Financial Reports and Other Public communications**

As a public company we are subject to various securities laws, regulations and reporting obligations. These laws, regulations and obligations and our policies require the disclosure of accurate and complete information regarding the Company's business, financial condition and results of operations. Inaccurate, incomplete or untimely reporting will not be tolerated and can severely damage the Company and result in legal liability.

The Company's principal officers and other employees working in the Finance Department have a special responsibility to ensure that all of our financial disclosures are full, fair, accurate, timely and understandable. These employees must understand and strictly comply with generally accepted accounting principles and all standards, laws and regulations for accounting and financial reporting of transactions, estimates and forecasts. This policy applies to all public disclosure of material information about the Company, including written disclosures, oral statements, visual presentations, press conferences and media calls. Please read the Company's Disclosure Controls and Procedures and Guidelines for Corporate Communication for more information.

In addition, U.S. federal securities law requires the Company to maintain proper internal books and records and to devise and maintain an adequate system of internal accounting controls. The Securities and Exchange Commission ("SEC") has supplemented the statutory requirements by adopting rules that prohibit (1) any person from falsifying records or accounts subject to the above requirements and (2) officers or directors from making any materially false, misleading, or incomplete statement to an accountant in connection with an audit or any filing with the SEC. These provisions reflect the SEC's intent to discourage officers, directors, and other persons with access to the Company's books and records from taking action that might result in the communication of materially misleading financial information to the investing public.

## VIII. Compliance with Laws, Rules and Regulations

Each employee has an obligation to comply with all laws, rules and regulations applicable to the Company's business. These include laws covering bribery and kickbacks, copyrights, trademarks and trade secrets, information privacy, insider trading, illegal political contributions, antitrust prohibitions, foreign corrupt practices, offering or receiving gratuities, environmental hazards, employment discrimination or harassment, occupational health and safety, false or misleading financial information and misuse of corporate assets. These laws also include Macau laws requiring our employees to report any event that may affect the suitability of our Macau subsidiary which is a holder of our gaming subconcession, or its direct or indirect shareholders, directors or employees, to conduct a gaming business in Macau, and to provide all information required by Macau gaming regulators pursuant to their supervisory authority of our gaming business in Macau. Any such required report should be made to the Human Resources Department.

You are expected to understand and comply with all laws, rules and regulations that apply to your job position. It is the Company's policy to abide by the national and local laws of our host nations and communities. The fact that in some countries certain standards of conduct are legally prohibited, but these prohibitions are not enforced in practice, or their violation is not subject to public criticism or censure, will not excuse any illegal action by an employee.

### A. *Compliance with Insider Trading Laws*

Employees are prohibited from trading in the stock or other securities of the Company while in possession of material, nonpublic information about the Company. In addition, employees are prohibited from recommending, "tipping" or suggesting that anyone else buy or sell stock or other securities of the Company on the basis of material, nonpublic information. Employees who obtain material nonpublic information about another company in the course of their employment are prohibited from trading in the stock or securities of the other company while in possession of such information or "tipping" others to trade on the basis of such information. Violation of insider trading laws can result in severe fines and criminal penalties, as well as disciplinary action by the Company, up to and including termination of employment.

Please refer to the Company's Statement of Policies and Procedures Governing Material, Non-Public Information and the Prevention in Insider Trading for more information.

### B. *The Foreign Corrupt Practices Act*

The Foreign Corrupt Practices Act (the "FCPA") prohibits the Company and its employees and agents from offering or giving money or any other item of value to win or retain business or to influence any act or decision of any governmental official, political party, candidate for political office or official of a public international organization. Stated more concisely, the FCPA prohibits the payment of bribes, kickback or other inducements to foreign (i.e., non-U.S.) officials. This prohibition also extends to payments to a sales representative or agent if there is reason to believe that the payment will be used indirectly for a prohibited payment to foreign officials. Violation of the FCPA is a crime that can result in severe fines and criminal penalties for the employee and the Company, as well as disciplinary action by the Company, up to and including termination of employment.

Certain small facilitation or “grease” payments to foreign officials may be permissible under the FCPA if customary in the country or locality and intended to secure routine governmental action. Governmental action is “routine” if it is ordinarily and commonly performed by a foreign official and does not involve the exercise of discretion. For instance, “routine” functions would include setting up a telephone line or expediting a shipment through customs. To ensure legal compliance, all facilitation payments must receive prior written approval and must be clearly and accurately reported in the Company’s financial records. Requests for approval of facilitation payments should be directed to the Human Resources department.

*C. Compliance with Laws against Money Laundering*

Employees are prohibited from engaging in activities which would amount to money-laundering. Violation of laws against money laundering can result in severe fines and criminal penalties, as well as disciplinary action by the Company, up to and including termination of employment. In addition, employees should comply with the Company’s policy against money-laundering.

**IX. Fair Dealing**

The Company’s success depends on building productive relationships with one another and third parties on honesty, integrity, ethical behavior and mutual trust. Every employee should endeavor to deal fairly with each of our patrons, suppliers, competitors and other employees. No employee should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practices.

**X. Protection and Proper Use of Assets**

Proper and efficient use of Company, supplier, customer and other third party assets, such as electronic communication systems, information (proprietary or otherwise), material, facilities and equipment, as well as intangible assets, is each employee’s responsibility. Employees must not use such assets for personal profit for themselves or others. In addition, employees must act in a manner to protect such assets from loss, damage, misuse, theft, removal and waste. Finally, employees must ensure that such assets are used only for legitimate business purposes. However, in limited instances, Company assets may be used for other purposes approved by management.

**XI. Conclusion**

This Code of Business Conduct and Ethics contains general guidelines for conducting the business of the Company consistent with the highest standards of business ethics. If you have any questions about these guidelines, please contact the Human Resources department. We expect all Company employees to adhere to these standards.

*This Code of Business Conduct and Ethics shall be our “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder.*

*The Code does not in any way constitute an employment contract or an assurance of continued employment. It is for the sole and exclusive benefit of the Company and may not be used or relied upon by any other party. The Company may modify or repeal the provisions of the Code or adopt a new Code at any time it deems appropriate, with or without notice.*

**CERTIFICATION OF COMPLIANCE**

I have received, reviewed, and understood the above Code of Business Conduct and Ethics and hereby undertake, as a condition to my present and continued employment at or affiliation with the Company (as defined above), to comply fully with the policies and procedures contained therein.

\_\_\_\_\_  
SIGNATURE

\_\_\_\_\_  
DATE

\_\_\_\_\_  
NAME

\_\_\_\_\_  
POSITION

Issue No. 3

Approval Date: 14 November 2008

Corporate Governance Policy 1 — Code of Business Conduct and Ethics

Issue No. 3 Approval 14 November 2008



**Certification by the Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Lawrence Ho, certify that:

1. I have reviewed this annual report on Form 20-F of Melco Crown Entertainment Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation, and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

March 31, 2009

By: /s/ Lawrence Ho  
Name: Lawrence Ho  
Title: Co-Chairman and Chief Executive Officer

**Certification by the Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Simon Dewhurst, certify that:

1. I have reviewed this annual report on Form 20-F of Melco Crown Entertainment Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation, and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

March 31, 2009

By: /s/ Simon Dewhurst

Name: Simon Dewhurst

Title: Executive Vice President and Chief Financial Officer

**Certification by the Chief Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Melco Crown Entertainment Limited (the "Company") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lawrence Ho, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2009

By: /s/ Lawrence Ho

Name: Lawrence Ho

Title: Co-Chairman and Chief Executive Officer

**Certification by the Chief Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Melco Crown Entertainment Limited (the "Company") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Simon Dewhurst, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2009

By: /s/ Simon Dewhurst

Name: Simon Dewhurst

Title: Executive Vice President and Chief Financial Officer

31 March 2009

Our Ref: DW/LY/M4237-H01577

The Board of Directors  
Melco Crown Entertainment Limited  
36th Floor  
The Centrium  
60 Wyndham Street  
Central  
Hong Kong

Dear Sirs,

We consent to the reference to our firm under the heading "Board Practices" in item 6 and the heading "Documents on Display" in item 10H in the Annual Report on Form 20-F of Melco Crown Entertainment Limited for the year ended 31 December 2008, which will be filed with the U.S. Securities and Exchange Commission (the "**Commission**") on 31 March 2009; under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under the Securities Act, or the Rules and Regulations of the Commission thereunder.

Yours faithfully

/s/ Walkers  
**Walkers**