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**FORM 6-K**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**REPORT OF FOREIGN ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of April 2015

Commission File Number: 001-33178

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**MELCO CROWN ENTERTAINMENT LIMITED**

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36<sup>th</sup> Floor, The Centrium

60 Wyndham Street

Central

Hong Kong

(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F. Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- N/A

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[Signature](#)

Exhibit 99.1	<a href="#">Annual Report of MCE Finance Limited</a>
Exhibit 99.2	<a href="#">Annual Report of Studio City Finance Limited</a>

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**MELCO CROWN ENTERTAINMENT LIMITED**

By: /s/ Geoffrey Davis  
Name: Geoffrey Davis, CFA  
Title: Chief Financial Officer

Date: April 30, 2015

**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Annual Report of MCE Finance Limited
99.2	Annual Report of Studio City Finance Limited

**Explanatory Note**

This annual report serves to provide holders of MCE Finance Limited's US\$1,000,000,000 5.00% senior notes due 2021 (the "2013 Senior Notes") with MCE Finance Limited's audited financial statements, on a consolidated basis, in respect of the fiscal year ended December 31, 2014 together with related information, pursuant to the terms of the indenture, dated February 7, 2013, relating to the 2013 Senior Notes. MCE Finance Limited is a wholly owned subsidiary of Melco Crown Entertainment Limited.

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**MCE Finance Limited**

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## INTRODUCTION

In this annual report, unless otherwise indicated:

- “2010 Senior Notes” refers to the US\$600 million aggregate principal amount of 10.25% senior notes due 2018 issued by us on May 17, 2010 and fully redeemed on March 28, 2013;
- “2011 Credit Facilities” refers to the credit facilities entered into pursuant to an amendment agreement dated June 22, 2011, as amended from time to time, between, among others, Melco Crown Macau, Deutsche Bank AG, Hong Kong Branch as agent and DB Trustees (Hong Kong) Limited as security agent, comprising a term loan facility and a revolving credit facility, for a total amount of HK\$9.36 billion (equivalent to approximately US\$1.2 billion);
- “Altira Developments Limited” refers to our subsidiary, a Macau company through which we hold the land and building for Altira Macau;
- “Altira Macau” refers to an integrated casino and hotel development that caters to Asian rolling chip customers, which opened in May 2007 and owned by Altira Developments Limited;
- “China” and “PRC” refer to the People’s Republic of China, excluding Hong Kong, Macau and Taiwan from a geographical point of view;
- “City of Dreams” refers to a casino, hotel, retail and entertainment integrated resort located on two adjacent pieces of land in Cotai, Macau, which opened in June 2009, and currently features casino areas and three luxury hotels, including a collection of retail brands, a wet stage performance theater and other entertainment venues, and owned by Melco Crown (COD) Developments Limited;
- “Cotai” refers to an area of reclaimed land located between the islands of Taipa and Coloane in Macau;
- “Crown” refers to Crown Resorts Limited, an Australian-listed corporation, which completed its acquisition of the gaming businesses and investments of PBL, now known as Consolidated Media Holdings Limited, on December 12, 2007;
- “DICJ” refers to the Direcção de Inspeção e Coordenação de Jogos (the Gaming Inspection and Coordination Bureau), a department of the Public Administration of Macau;
- “Greater China” refers to mainland China, Hong Kong and Macau, collectively;
- “HIBOR” refers to Hong Kong Interbank Offered Rate;
- “HK\$” and “H.K. dollars” refer to the legal currency of Hong Kong;
- “HKSE” refers to The Stock Exchange of Hong Kong Limited;
- “Hong Kong” refers to the Hong Kong Special Administrative Region of the PRC;
- “Macau” and “Macau SAR” refer to the Macau Special Administrative Region of the PRC;
- “Melco” refers to Melco International Development Limited, a Hong Kong listed company;
- “Melco Crown (COD) Developments Limited” refers to our subsidiary, a Macau company through which we hold the land and buildings for City of Dreams;
- “Melco Crown Macau” refers to our subsidiary, Melco Crown (Macau) Limited, a Macau company and the holder of our gaming subconcession;

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- “Mocha Clubs” collectively refers to clubs with gaming machines, the first of which opened in September 2003, and are now the largest non-casino based operations of electronic gaming machines in Macau, and operated by Melco Crown Macau;
- “our subconcession” and “our gaming subconcession” refer to the Macau gaming subconcession held by Melco Crown Macau;
- “Parent” refers to Melco Crown Entertainment Limited, a Cayman Islands exempted company with limited liability;
- “Patacas” and “MOP” refer to the legal currency of Macau;
- “PBL” refers to Publishing and Broadcasting Limited, an Australian-listed corporation that is now known as Consolidated Media Holdings Limited;
- “US\$” and “U.S. dollars” refer to the legal currency of the United States;
- “U.S. GAAP” refers to the accounting principles generally accepted in the United States; and
- “we”, “us”, “our” and “our company” refer to MCE Finance Limited and, as the context requires, its predecessor entities and its consolidated subsidiaries.

This annual report includes our audited consolidated financial statements for the years ended December 31, 2014 and 2013 and as of December 31, 2014 and 2013.

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.



## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This annual report 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. 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. Moreover, because we operate in a heavily regulated and evolving industry, may become highly leveraged, and operate in Macau, a high-growth market with 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. Forward-looking statements involve inherent risks and uncertainties, and a number of factors could cause actual results to differ materially from those contained in any forward-looking statement. These factors include, but are not limited to, (i) growth of the gaming market and visitation in Macau, (ii) capital and credit market volatility, (iii) local and global economic conditions, (iv) our anticipated growth strategies, and (v) our future business development, results of operations and financial condition. In some cases, forward-looking statements can be identified by words or phrases such as “may”, “will”, “expect”, “anticipate”, “target”, “aim”, “estimate”, “intend”, “plan”, “believe”, “potential”, “continue”, “is/are likely to” or other similar expressions.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. 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 with the understanding that our actual future results may be materially different from what we expect.

## GLOSSARY

“average daily rate”	calculated by dividing total room revenues including the retail value of promotional allowances (less service charges, if any) by total rooms occupied, including complimentary rooms, i.e., average price of occupied rooms per day
“cage”	a secure room within a casino with a facility that allows patrons to exchange cash for chips required to participate in gaming activities, or to exchange chips for cash
“chip”	round token that is used on casino gaming tables in lieu of cash
“concession”	a government grant for the operation of games of fortune and chance in casinos in Macau under an administrative contract pursuant to which a concessionaire, or the entity holding the concession, is authorized to operate games of fortune and chance in casinos in Macau
“dealer”	a casino employee who takes and pays out wagers or otherwise oversees a gaming table
“drop”	the amount of cash to purchase gaming chips and promotional vouchers that are deposited in a gaming table’s drop box, plus gaming chips purchased at the casino cage
“drop box”	a box or container that serves as a repository for cash, chips, chip purchase vouchers, credit markers and forms used to record movements in the chip inventory on each table game
“electronic table games”	electronic multiple-player gaming seats
“gaming machine”	slot machine and/or electronic table games
“gaming machine handle”	the total amount wagered in gaming machines
“gaming machine win rate”	gaming machine win expressed as a percentage of gaming machine handle
“gaming promoter”	an individual or corporate entity who, for the purpose of promoting rolling chip and other gaming activities, arranges customer transportation and accommodation, provides credit in its sole discretion if authorized by a gaming operator, and arranges food and beverage services and entertainment in exchange for commissions or other compensation from a gaming operator
“integrated resort”	a resort which provides customers with a combination of hotel accommodations, casinos or gaming areas, retail and dining facilities, MICE space, entertainment venues and spas
“junket player”	a player sourced by gaming promoters to play in the VIP gaming rooms or areas
“marker”	evidence of indebtedness by a player to the casino or gaming operator
“mass market patron”	a customer who plays in the mass market segment
“mass market segment”	consists of both table games and gaming machines played by mass market patrons for cash stakes that are typically lower than those in the rolling chip segment
“mass market table games drop”	the amount of table games drop in the mass market table games segment
“mass market table games hold percentage”	mass market table games win as a percentage of mass market table games drop

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“mass market table games segment”	the mass market segment consisting of mass market patrons who play table games
“MICE”	Meetings, Incentives, Conventions and Exhibitions, an acronym commonly used to refer to tourism involving large groups brought together for an event or specific purpose
“net rolling”	net turnover in a non-negotiable chip game
“non-negotiable chip”	promotional casino chip that is not to be exchanged for cash
“non-rolling chip”	chip that can be exchanged for cash, used by mass market patrons to make wagers
“occupancy rate”	the average percentage of available hotel rooms occupied, including complimentary rooms, during a period
“premium direct player”	a rolling chip player who is a direct customer of the concessionaires or subconcessionaires and is attracted to the casino through direct marketing efforts and relationships with the gaming operator
“progressive jackpot”	a jackpot for a gaming machine or table game where the value of the jackpot increases as wagers are made; multiple gaming machines or table games may be linked together to establish one progressive jackpot
“revenue per available room” or “REVPAR”	calculated by dividing total room revenues including the retail value of promotional allowances (less service charges, if any) by total rooms available, thereby representing a combination of hotel average daily room rates and occupancy
“rolling chip”	non-negotiable chip primarily used by rolling chip patrons to make wagers
“rolling chip patron”	a player who is primarily a VIP player and typically receives various forms of complimentary services from the gaming promoters or concessionaires or subconcessionaires
“rolling chip segment”	consists of table games played in private VIP gaming rooms or areas by rolling chip patrons who are either premium direct players or junket players
“rolling chip volume”	the amount of non-negotiable chips wagered and lost by the rolling chip market segment
“rolling chip win rate”	rolling chip table games win (calculated before discounts and commissions) as a percentage of rolling chip volume
“slot machine”	traditional slot or electronic gaming machine operated by a single player
“subconcession”	an agreement for the operation of games of fortune and chance in casinos between the entity holding the concession, or the concessionaire, a subconcessionaire and the Macau government, pursuant to which the subconcessionaire is authorized to operate games of fortune and chance in casinos in Macau
“table games win”	the amount of wagers won net of wagers lost on gaming tables that is retained and recorded as casino revenues
“VIP gaming room”	gaming rooms or areas that have restricted access to rolling chip patrons and typically offer more personalized service than the general mass market gaming areas
“wet stage performance theater”	the approximately 2,000-seat theater specifically designed to stage <i>The House of Dancing Water</i> show

## EXCHANGE RATE INFORMATION

Although we will have certain expenses and revenues denominated in Patacas, our revenues and expenses will be denominated predominantly in H.K. dollars and in connection with a portion of our indebtedness and certain expenses, U.S. dollars. Unless otherwise noted, all translations from H.K. dollars to U.S. dollars and from U.S. dollars to H.K. dollars in this annual report were made at a rate of HK\$7.78 to US\$1.00.

The H.K. dollar is freely convertible into other currencies (including the U.S. dollar). Since October 17, 1983, the H.K. dollar has been officially linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The market exchange rate has not deviated materially from the level of HK\$7.80 to US\$1.00 since the peg was first established. However, in May 2005, the Hong Kong Monetary Authority broadened the trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar. The Hong Kong government has stated its intention to maintain the link at that rate, and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. However, no assurance can be given that the Hong Kong government will maintain the link at HK\$7.75 to HK\$7.85 per U.S. dollar or at all.

The noon buying rate on December 31, 2014 in New York City for cable transfers in H.K. dollar per U.S. dollar, as certified for customs purposes by the H.10 weekly statistical release of the Federal Reserve Board of the United States, or the Federal Reserve Board, was HK\$7.7531 to US\$1.00. On April 2, 2015, the noon buying rate was HK\$7.7525 to US\$1.00. We make no representation that any H.K. dollar or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or H.K. dollars, as the case may be, at any particular rate or at all.

The Pataca is pegged to the H.K. dollar at a rate of HK\$1.00 = MOP1.03. All translations from Patacas to U.S. dollars in this annual report were made at the exchange rate of MOP 8.0134 = US\$1.00. The Federal Reserve Board does not certify for customs purposes a noon buying rate for cable transfers in Patacas.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following selected historical consolidated statements of operations data for the years ended December 31, 2014 and 2013, and the selected historical consolidated balance sheets data as of December 31, 2014 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this annual report. These consolidated financial statements have been prepared and presented in accordance with U.S. GAAP. You should read this section in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those consolidated financial statements and notes to those statements included elsewhere in the annual report.

	<u>Year ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
	(In thousands of US\$)	
<b>Consolidated Statements of Operations Data:</b>		
Net revenues	\$ 4,832,823	\$ 5,105,953
Total operating costs and expenses	\$(3,998,642)	\$(4,166,001)
Operating income	\$ 834,181	\$ 939,952
Net income	\$ 763,441	\$ 795,823
	<u>As of December 31,</u>	
	<u>2014</u>	<u>2013</u>
	(In thousands of US\$)	
<b>Consolidated Balance Sheets Data:</b>		
Cash and cash equivalents	\$1,186,091	\$1,164,682
Bank deposits with original maturity over three months	\$ 110,616	\$ 587,094
Restricted cash	\$ 629	\$ —
Total assets	\$5,881,530	\$5,819,423
Total current liabilities	\$1,035,083	\$1,072,269
Total debts <sup>(1)</sup>	\$1,443,436	\$1,680,301
Total liabilities	\$2,242,191	\$2,523,525
Total equity	\$3,639,339	\$3,295,898

(1) Total debts include current and non-current portion of long-term debt and other long-term liabilities.

The following table sets forth our consolidated statements of cash flows for the years indicated:

	<u>Year ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
	(In thousands of US\$)	
Net cash provided by operating activities	\$1,080,208	\$ 1,283,549
Net cash used in investing activities	\$ (382,002)	\$(1,572,915)
Net cash used in financing activities	\$ (676,797)	\$ (62,904)
Net increase (decrease) in cash and cash equivalents	\$ 21,409	\$ (352,270)
Cash and cash equivalents at beginning of year	\$1,164,682	\$ 1,516,952
Cash and cash equivalents at end of year	<u>\$1,186,091</u>	<u>\$ 1,164,682</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in connection with "Selected Consolidated Financial Information" and our consolidated financial statements, including the notes thereto, included elsewhere in this annual report. Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements.

### Overview

We are a developer, owner and operator of casino gaming and entertainment resort facilities. Our subsidiary Melco Crown Macau is one of six companies licensed, through concessions or subconcessions, to operate casinos in Macau.

We currently have two major casino based operations in Macau, namely, City of Dreams and Altira Macau, and non-casino based operations in Macau at our Mocha Clubs. We are in an early stage of developing the fifth hotel tower at City of Dreams in Cotai, Macau and are currently reviewing the development plan and schedule of this hotel tower.

Our current and future operations are designed to cater to a broad spectrum of gaming patrons, from high-stakes rolling chip gaming patrons to gaming patrons seeking a broader entertainment experience. We currently own and operate two Forbes 5-Star hotels in Macau: Altira Macau and The Crown Towers hotel. We seek to attract patrons throughout Asia and, in particular, from Greater China.

Our current operating facilities are focused on the Macau gaming market. In 2014, Macau generated approximately US\$43.9 billion of gaming revenues, according to the DICJ, representing a 2.6% decrease from the comparable period of 2013. In addition, Macau is currently the only market in Greater China, and one of only several in Asia, to offer legalized casino gaming.

### City of Dreams

City of Dreams, as of December 31, 2014, featured a casino area of approximately 448,000 square feet with a total of approximately 500 gaming tables and approximately 1,400 gaming machines, approximately 1,400 hotel rooms and suites, over 30 restaurants and bars (together with SOHO), approximately 70 retail outlets, a wet stage performance theater, recreation and leisure facilities, including health and fitness clubs, three swimming pools, spas and salons and banquet and meeting facilities. A wet stage performance theater with approximately 2,000 seats features *The House of Dancing Water* show produced by Franco Dragone. The Club Cubic nightclub features approximately 26,200 square feet of live entertainment space. SOHO, a lifestyle entertainment and dining precinct located on the second floor of City of Dreams which had its grand opening in August 2014, offers customers a wide selection of food and beverage and other nongaming offerings. City of Dreams targets premium market and rolling chip players from regional markets across Asia.

We are expanding our retail precinct at City of Dreams, which is anticipated to open in the first half of 2016. We are also in an early stage of developing the fifth hotel tower at City of Dreams. We are currently reviewing the development plan and schedule of this hotel tower by taking into account a range of factors, including the current and expected future operating environment in Macau and other potential uses of cash and future cash flow.

For the years ended December 31, 2014 and 2013, net revenues generated from City of Dreams amounted to US\$3,855.5 million and US\$3,862.5 million representing 79.8% and 75.6% of our total net revenues, respectively.

### Altira Macau

Altira Macau, as of December 31, 2014, featured a casino area of approximately 173,000 square feet with a total of approximately 120 gaming tables, approximately 230 hotel rooms, several fine dining and casual restaurants and recreation and leisure facilities. Altira Macau is designed to provide a casino and hotel experience that caters to Asian rolling chip players sourced primarily through gaming promoters. For the years ended December 31, 2014 and 2013, net revenues generated from Altira Macau amounted to US\$745.3 million and US\$1,034.4 million representing 15.4 % and 20.3 % of our total net revenues, respectively.

## Mocha Clubs

As of December 31, 2014, we operated eight Mocha Clubs with a total of 1,321 gaming machines in operation. Mocha Clubs focus primarily on general mass market players, including day-trip customers, outside the conventional casino setting. For the years ended December 31, 2014 and 2013, net revenues generated from Mocha Clubs amounted to US\$147.4 million and US\$148.7 million representing 3.0% and 2.9% of our total net revenues, respectively. The source of revenues was substantially all from gaming machines. For the years ended December 31, 2014 and 2013, gaming machine revenues represented 98.4% and 98.8% of net revenues generated from Mocha Clubs, respectively.

## Summary of Financial Results

For the year ended December 31, 2014, our total net revenues were US\$4.83 billion, a decrease of 5.3% from US\$5.11 billion of net revenues for the year ended December 31, 2013. Net income for the year ended December 31, 2014 was US\$763.4 million, as compared to net income of US\$795.8 million for the year ended December 31, 2013. The decline in profitability was primarily attributable to a decrease in group-wide rolling chip revenues, partially offset by improved group-wide mass market table games revenues.

The following summarizes the results of our operations:

	Year ended December 31,	
	2014	2013
	(In thousands of US\$)	
Net revenues	\$ 4,832,823	\$ 5,105,953
Total operating costs and expenses	\$(3,998,642)	\$(4,166,001)
Operating income	\$ 834,181	\$ 939,952
Net income	\$ 763,441	\$ 795,823

## Factors Affecting Our Current and Future Results

Our results of operations are and will be affected most significantly by:

- The current economic and operating environment that affects the gaming markets in Macau, including the impact of global and local economic conditions, changes in capital market conditions, the impact of the political, economic and regulatory environment, including changes to travel and visa policies, anti-smoking legislation as well as gaming table allocation policies in Macau, or any policies implemented by the PRC central and Macau governments and the general economic conditions in China;
- The development of the gaming and leisure market in Macau, which is facilitated by a number of key drivers and initiatives including, among others, favorable population demographics and economic growth in major Asian tourism markets, substantial private capital investment in Macau, particularly in developing diversified destination resort properties, and the commitment and support of the PRC central and Macau governments to improve and develop infrastructure both within, and connecting to, Macau;
- The competitive landscape in Macau, which is expected to evolve as more gaming and non-gaming facilities are developed in Macau, including the expected new supply of integrated resorts in the Cotai region of Macau, as well as the impact of recent or future expansion of gaming markets throughout Asia;
- The different mix of table and machine games at our casinos, such as the mix between rolling chip and mass market table game segments, and customer playing habits; as well as changes in the mix of rolling chip business sourced through gaming promoters or via our direct VIP relationships;

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- Our relationships with gaming promoters, which contribute a significant portion of our casino revenues, expose us to credit risk (given the majority of these gaming promoters are provided with credit as part of the ordinary course of business) and to any change in the gaming promoter commission environment in Macau. For the years ended December 31, 2014 and 2013, approximately 40.1% and 49.8% of our casino revenues were derived from customers sourced through our rolling chip gaming promoters, respectively. For the year ended December 31, 2014, our top five customers and the largest customer were gaming promoters and accounted for approximately 20.4% and 7.0% of our casino revenues, respectively. We believe we have good relationships with our gaming promoters. Commissions paid to our rolling chip gaming promoters (net of amounts indirectly rebated to customers) amounted to US\$284.8 million and US\$391.9 million for the years ended December 31, 2014 and 2013, respectively;
- Our 2011 Credit Facilities, which expose us to interest rate risk, as discussed under “— Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk”; and
- The currency of our operations, our indebtedness and presentation of our financial statements, which expose us to foreign exchange rate risk, as discussed under “— Quantitative and Qualitative Disclosures About Market Risk — Foreign Exchange Risk”.

Our historical financial results may not be characteristic of our potential future results as we continue to expand and refine our service offerings at our properties and develop and open new properties.

### **Key Performance Indicators (KPIs)**

We use the following KPIs to evaluate our casino operations, including table games and gaming machines:

- *Rolling chip volume*: the amount of non-negotiable chips wagered and lost by the rolling chip market segment.
- *Rolling chip win rate*: rolling chip table games win (calculated before discounts and commissions) as a percentage of rolling chip volume.
- *Mass market table games drop*: the amount of table games drop in the mass market table games segment.
- *Mass market table games hold percentage*: mass market table games win as a percentage of mass market table games drop.
- *Table games win*: the amount of wagers won net of wagers lost on gaming tables that is retained and recorded as casino revenues.
- *Gaming machine handle*: the total amount wagered in gaming machines.
- *Gaming machine win rate*: gaming machine win expressed as a percentage of gaming machine handle.

In the rolling chip market segment, customers purchase identifiable chips known as non-negotiable chips, or rolling chips, from the casino cage, and there is no deposit into a gaming table's drop box of rolling chips purchased from the cage. Rolling chip volume and mass market table games drop are not equivalent. Rolling chip volume is a measure of amounts wagered and lost. Mass market table games drop measures buy in. Rolling chip volume is generally substantially higher than mass market table games drop. As these volumes are the denominator used in calculating win rate or hold percentage, with the same use of gaming win as the numerator, the win rate is generally lower in the rolling chip market segment than the hold percentage in the mass market table games segment.



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Our combined expected rolling chip win rate (calculated before discounts and commissions) across our properties is in the range of 2.7% to 3.0%.

We use the following KPIs to evaluate our hotel operations:

- *Average daily rate*: calculated by dividing total room revenues including the retail value of promotional allowances (less service charges, if any) by total rooms occupied including complimentary rooms, i.e., average price of occupied rooms per day.
- *Occupancy rate*: the average percentage of available hotel rooms occupied, including complimentary rooms, during a period.
- *Revenue per available room, or REVPAR*: calculated by dividing total room revenues including the retail value of promotional allowances (less service charges, if any) by total rooms available, thereby representing a combination of hotel average daily room rates and occupancy.

Complimentary rooms are included in the calculation of the above room-related KPIs. The average daily rate of complimentary rooms is typically lower than the average daily rate for cash rooms. The occupancy rate and REVPAR would be lower if complimentary rooms were excluded from the calculation. As not all available rooms are occupied, average daily room rates are normally higher than revenue per available room.

### **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 and judgments are made based on information obtained from our historical experience, terms of existing contracts, industry trends, the prevailing regulatory environment and outside sources, that are currently available to us, and on various other assumptions that management believes to be reasonable and appropriate in the circumstances. 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 significant judgments and estimates used in the preparation of our consolidated financial statements.

#### ***Property and Equipment and Other Long-lived Assets***

During the development and construction stage of our casino gaming and entertainment resort facilities, direct and incremental costs related to the design and construction, including costs under the construction contracts, duties and tariffs, equipment installation, shipping costs, payroll and payroll benefit related costs, depreciation of plant and equipment used, applicable portions of interest and amortization of deferred financing costs, are capitalized in property and equipment. The capitalization of such costs begins when the construction and development of a project starts and ceases once the construction is substantially completed or development activity is suspended for more than a brief period. Pre-opening costs, consisting of marketing and other expenses related to our new or start-up operations are expensed as incurred.

Depreciation and amortization expense related to capitalized construction costs and other property and equipment is recognized from the time each asset is placed in service. This may occur at different stages as casino gaming and entertainment resort facilities are completed and opened.

Property and equipment and other long-lived assets with a finite useful life are depreciated and amortized on a straight-line basis over the asset's estimated useful life. The estimated useful lives are based on factors including the nature of the assets, its relationship to other assets, our operating plans and anticipated use and other economic and legal factors that impose limits. The remaining estimated useful lives of assets are periodically reviewed, including when changes in our business and the operating environment could result in a change in our use of those assets.

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Our land use rights in Macau under the land concession contracts for Altira Macau and City of Dreams are being amortized over the estimated lease term of the land on a straight-line basis. The expiry dates of the leases of the land use rights of Altira Macau and City of Dreams are March 2031 and August 2033, respectively. The maximum useful life of assets at Altira Macau and City of Dreams is therefore deemed to be the remaining life of the land concession contract. The amortization of land use rights is recognized from the date construction commences.

We will evaluate whether the term of the land concession contract is to be extended when it is probable that definitive registration will be obtained prior to the end of the land grant term.

Costs of repairs and maintenance are charged to expense when incurred. The cost and accumulated depreciation of property and equipment retired or otherwise disposed of are eliminated from the respective accounts and any resulting gain or loss is included in operating income or loss.

Our total capital expenditures for the years ended December 31, 2014 and 2013 were US\$300.1 million and US\$109.2 million, respectively, were attributable to our development and construction projects, with the remainder primarily related to the enhancements to our integrated resort offerings of our properties. Refer to note 21 to the consolidated financial statements included elsewhere in this annual report for further details of these capital expenditures.

We also evaluate the recoverability of our property and equipment and other 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 the carrying value of those assets to be held and used 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 with fair value typically based on a discounted cash flow model. If an asset is still under development, future cash flows include remaining construction costs. All recognized impairment losses, whether for assets to be disposed of or assets to be held and used, are recorded as operating expenses.

During the year ended December 31, 2014, an impairment loss of US\$4.1 million was recognized mainly due to reconfiguration of the entertainment area at City of Dreams and renovation of the casinos at City of Dreams and Altira Macau. No impairment loss was recognized during the year ended December 31, 2013.

### ***Goodwill and Purchased Intangible Assets***

We review the carrying value of goodwill and purchased intangible assets with indefinite useful lives, representing the trademarks of Mocha Clubs, that arose from the acquisition of Mocha Slot Group Limited and its subsidiaries by our company in 2006, for impairment at least on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. 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 and discounted cash flow methods. These valuation techniques are based on a number of estimates and assumptions, including the projected future operating results of the reporting unit, discount rates, long-term growth rates and market comparables.

A detailed evaluation was performed as of December 31, 2014 and 2013 and each computed fair value of our reporting unit was in excess of the carrying amount, respectively. As a result of this evaluation, we determined that no impairment of goodwill existed as of December 31, 2014 and 2013.

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Trademarks of Mocha Clubs are tested for impairment at least annually or when events occur or circumstances change that would more likely than not reduce their estimated fair value below their carrying value using the relief-from-royalty method and we determined that no impairment of trademarks existed as of December 31, 2014 and 2013. Under this method, we estimate the fair value of the trademarks through internal and external valuations, mainly based on the incremental after-tax cash flow representing the royalties that we are relieved from paying given we are the owner of the trademarks. These valuation techniques are based on a number of estimates and assumptions, including the projected future revenues of the trademarks, calculated using an appropriate royalty rate, discount rate and long-term growth rates.

Determining the fair value of goodwill and trademarks of Mocha Clubs is judgmental in nature and requires the use of significant estimates and assumptions, including projected future operating results of the reporting unit, discount rates, long-term growth rates and future market conditions. Future changes to our estimates and assumptions based upon changes in operating results, macro-economic factors or management's intentions may result in future changes to the fair value of the goodwill and trademarks of Mocha Clubs.

### ***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.

We follow the accounting standards for reporting revenue gross as a principal versus net as an agent, when accounting for the operations of Grand Hyatt Macau hotel and Taipa Square Casino. For the operations of Grand Hyatt Macau hotel, we are the owner of the hotel property, and the hotel manager operates the hotel under a management agreement, providing management services to us, and we receive all rewards and take substantial risks associated with the hotel business, we are the principal and the transactions of the hotel are therefore recognized on a gross basis. For the 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. As such, we are the principal and casino revenues are therefore recognized on a gross basis.

Room revenues, food and beverage revenues, and entertainment, retail and other revenues are recognized when services are performed. Advance deposits on rooms and advance ticket sales are recorded as customer deposits until services are provided to the customer. Minimum operating and right to use fees, adjusted for contractual base fees and operating fee escalations, are included in entertainment, retail and other revenues and are recognized on a straight-line basis over the terms of the related agreement.

Revenues are recognized net of certain sales incentives which are required to be recorded as a reduction of revenue; consequently, our casino revenues are reduced by discounts, commissions (including commission rebated indirectly to rolling chip players) and points earned in customer loyalty programs, such as the player's club loyalty program. We estimate commission rebated indirectly to rolling chip players based on our assessment of gaming promoters' practice and current market conditions.

The retail value of rooms, food and beverage, entertainment, retail 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 reclassified from rooms costs, food and beverage costs, and entertainment, retail and other services costs and is primarily included in casino expenses.

### ***Accounts Receivable and Credit Risk***

Financial instruments that potentially subject our company to concentrations of credit risk consist principally of casino receivables. We issue credit in the form of markers to approved casino customers following investigations of creditworthiness including our gaming promoters in Macau. Such accounts receivable can be offset against commissions payable and any other value items held by us to the respective customer and for which we intend to set off when required. For the years ended December 31, 2014 and 2013, approximately 40.1% and 49.8% of our casino revenues were derived from customers sourced through our rolling chip gaming promoters, respectively.

As of December 31, 2014 and 2013, a substantial portion of our markers were due from customers residing in foreign countries. Business or economic conditions, the legal enforceability of gaming debts, or other significant events in foreign countries could affect the collectability of receivables from customers and gaming promoters residing in these countries.

Accounts receivable, including casino, hotel, and other receivables, are typically non-interest bearing and are 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 our receivables to their carrying amounts, which approximate fair values. The allowance is estimated based on our specific review of customer accounts as well as management's experience with collection trends in the casino industry and current economic and business conditions. For balances over a specified dollar amount, our review is based upon the age of the specific account balance, the customer's financial condition, collection history and any other known information. At December 31, 2014, a 100 basis-point change in the estimated allowance for doubtful debts as a percentage of casino receivables would change the provision for doubtful debts by approximately US\$4.1 million.

### ***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. As of December 31, 2014 and 2013, we recorded valuation allowances of US\$63.8 million and US\$66.4 million, respectively; as management does not believe that it is more likely than not that the deferred tax assets will be realized. Our assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, and the duration of statutory carryforward periods. To the extent that the financial results of our operations improve and it becomes more likely than not that the deferred tax assets are realizable, the valuation allowances will be reduced.

### ***Recent Changes in Accounting Standards***

See note 2 to the consolidated financial statements included elsewhere in this annual report for discussion of recent accounting standards.

### ***Results of Operations***

#### ***Year Ended December 31, 2014 Compared to Year Ended December 31, 2013***

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

Our total net revenues for the year ended December 31, 2014 were US\$4.83 billion, a decrease of US\$273.1 million, or 5.3%, from US\$5.11 billion for the year ended December 31, 2013. The decline in total net revenues was primarily attributable to lower group-wide rolling chip revenues primarily driven by deteriorating demand from Chinese players as well as restrictive policies including changes to travel and visa policies, partially offset by improved group-wide mass market table games revenues.

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Our total net revenues for the year ended December 31, 2014 consisted of US\$4.65 billion of casino revenues, representing 96.2% of our total net revenues, and US\$185.4 million of net non-casino revenues (total non-casino revenues after deduction of promotional allowances). Our total net revenues for the year ended December 31, 2013 comprised US\$4.94 billion of casino revenues, representing 96.8% of our total net revenues, and US\$164.5 million of net non-casino revenues.

*Casino.* Casino revenues for the year ended December 31, 2014 were US\$4.65 billion, representing a US\$294.0 million, or 6.0%, decrease from casino revenues of US\$4.94 billion for the year ended December 31, 2013, primarily due to a decrease in casino revenues at Altira Macau and City of Dreams of US\$290.3 million, or 28.5%, and US\$6.9 million, or 0.2%, respectively. The overall decrease was primarily a result of decreased rolling chip volume and rolling chip win rate at both Altira Macau and City of Dreams, primarily driven by deteriorating demand from Chinese players as well as restrictive policies including changes to travel and visa policies, partially offset by improved blended mass market table games drop and blended mass table games hold percentage.

*Altira Macau.* Altira Macau's rolling chip volume for the year ended December 31, 2014 was US\$33.6 billion, representing a decrease of US\$11.3 billion, or 25.2%, from US\$44.9 billion for the year ended December 31, 2013. The rolling chip win rate (calculated before discounts and commissions) was 2.76% for the year ended December 31, 2014, within our expected level of 2.7% to 3.0%, while decreasing from 2.96% for the year ended December 31, 2013. In the mass market table games segment, mass market table games drop was US\$756.7 million for the year ended December 31, 2014, representing an increase of 4.5% from US\$724.0 million for the year ended December 31, 2013. The mass market table games hold percentage was 15.8% for the year ended December 31, 2014, a slight increase from 15.4% for the year ended December 31, 2013.

*City of Dreams.* City of Dreams' rolling chip volume for the year ended December 31, 2014 of US\$82.1 billion represented a decrease of US\$14.9 billion, or 15.4%, from US\$97.0 billion for the year ended December 31, 2013. The rolling chip win rate (calculated before discounts and commissions) was 2.83% for the year ended December 31, 2014, in line with our expected range of 2.7% to 3.0%, while decreasing from 2.95% for the year ended December 31, 2013. In the mass market table games segment, mass market table games drop was US\$5.29 billion for the year ended December 31, 2014 which represented an increase of US\$0.63 billion, or 13.5%, from US\$4.66 billion for the year ended December 31, 2013. The mass market table games hold percentage was 37.5% in the year ended December 31, 2014, demonstrating an increase from 34.6% for the year ended December 31, 2013. Average net win per gaming machine per day was US\$464 for the year ended December 31, 2014, an increase of US\$103, or 28.5%, from US\$361 for the year ended December 31, 2013.

*Mocha Clubs.* Mocha Clubs' average net win per gaming machine per day for the year ended December 31, 2014 was US\$303, an increase of approximately US\$91, or 42.9%, from US\$212 for the year ended December 31, 2013.

*Rooms.* Room revenues (including the retail value of promotional allowances) for the year ended December 31, 2014 were US\$137.2 million, representing a US\$8.3 million, or 6.5%, increase from room revenues (including the retail value of promotional allowances) of US\$128.9 million for the year ended December 31, 2013. The increase was primarily due to improved occupancy and the positive impact from the increase in average daily rate. Altira Macau's average daily rate, occupancy rate and REVPAR were US\$232, 99% and US\$229, respectively, for the year ended December 31, 2014, as compared to US\$230, 99% and US\$227, respectively, for the year ended December 31, 2013. City of Dreams' average daily rate, occupancy rate and REVPAR were US\$197, 99% and US\$195, respectively, for the year ended December 31, 2014, as compared to US\$189, 97% and US\$183, respectively, for the year ended December 31, 2013.

*Food, beverage and others.* Other non-casino revenues (including the retail value of promotional allowances) for the year ended December 31, 2014 included food and beverage revenues of US\$85.9 million and entertainment, retail and other revenues of US\$142.6 million. Other non-casino revenues (including the retail value of promotional allowances) for the year ended December 31, 2013 included food and beverage revenues of US\$80.8 million, and entertainment, retail and other revenues of US\$119.2 million. The increase of US\$28.5 million in food, beverage and other revenues from the year ended December 31, 2013 to the year ended December 31, 2014 was primarily due to higher business volumes and improved yield of rental income at City of Dreams.

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

Total operating costs and expenses were US\$4.00 billion for the year ended December 31, 2014, representing a decrease of US\$167.4 million, or 4.0%, from US\$4.17 billion for the year ended December 31, 2013. The decrease in operating costs was primarily due to a decrease in operating costs at Altira Macau which were in-line with the decreased gaming volume and associated decrease in revenues, decrease in depreciation and amortization, partially offset by increase in general and administrative expenses.

*Casino.* Casino expenses decreased by US\$210.4 million, or 6.1%, to US\$3.24 billion for the year ended December 31, 2014 from US\$3.45 billion for the year ended December 31, 2013 primarily due to decrease in gaming tax and other levies and commission expenses of US\$309.9 million, which decreased as a result of decreased gaming volume and an associated decrease in revenues, partially offset by an increase in payroll and other operating costs as well as complimentary to gaming customers of US\$99.5 million.

*Rooms.* Room expenses, which represent the costs of operating the hotel facilities at Altira Macau and City of Dreams, were US\$12.7 million and US\$12.5 million for the years ended December 31, 2014 and 2013, respectively. The slight increase was primarily due to an increase in payroll and other operating costs as a result of increased occupancy, partially offset by a higher level of complimentary hotel rooms offered to gaming customers for which the associated costs were included in casino expenses.

*Food, beverage and others.* Food, beverage and others expenses were US\$85.3 million and US\$93.5 million for the years ended December 31, 2014 and 2013, respectively. The decrease was primarily due to a higher level of complimentary food, beverage and others offered to gaming customers for which the associated costs were included in casino expenses, partially offset by an increase in payroll and other operating costs associated with the increase in revenues.

*General and administrative.* General and administrative expenses increased by US\$67.6 million, or 25.2%, to US\$335.7 million for the year ended December 31, 2014 from US\$268.1 million for the year ended December 31, 2013, primarily due to an increase in payroll expenses, rental expenses, marketing and advertising expenses to support continuing and expanding operations.

*Pre-opening costs.* Pre-opening costs were US\$5.7 million for the year ended December 31, 2014 as compared to US\$0.4 million for the year ended December 31, 2013. Such costs relate primarily to personnel training, rental, marketing, advertising and administrative costs in connection with new or start-up operations. Pre-opening costs for the year ended December 31, 2014 primarily related to the SOHO project. Pre-opening costs for the year ended December 31, 2013 primarily related to the new Taboo at Club Cubic in April 2013.

*Amortization of gaming subconcession.* Amortization of our gaming subconcession continued to be recognized on a straight-line basis at an annual rate of US\$57.2 million for each of the years ended December 31, 2014 and 2013.

*Amortization of land use rights.* Amortization of land use rights expenses remained stable at US\$20.9 million and US\$20.7 million for the years ended December 31, 2014 and 2013, respectively.

*Depreciation and amortization.* Depreciation and amortization expenses decreased by US\$20.3 million, or 8.0%, to US\$233.8 million for the year ended December 31, 2014 from US\$254.1 million for the year ended December 31, 2013. The decrease was primarily due to certain assets becoming fully depreciated at City of Dreams and Altira Macau during the year ended December 31, 2014.

*Property charges and others.* Property charges and others generally include costs related to the remodeling and rebranding of a property, which might include the retirement, disposal or write-off of assets. Property charges and others for the year ended December 31, 2014 were US\$5.2 million, which primarily included assets write-off and impairment of US\$3.2 million as a result of the remodel of non-gaming attractions at City of Dreams. Property charges and others for the year ended December 31, 2013 were US\$6.9 million, which primarily included a write-off of US\$3.0 million for the final payment in relation to a service contract at City of Dreams and assets write-off of US\$1.6 million as a result of the remodel of non-gaming attractions at City of Dreams.

***Non-operating expenses, net***

Net non-operating expenses consist of interest income, interest expenses, net of capitalized interest, amortization of deferred financing costs, loan commitment fees, foreign exchange loss, net, loss on extinguishment of debt and costs associated with debt modification.

Interest income was US\$7.1 million for the year ended December 31, 2014, as compared to US\$6.3 million for the year ended December 31, 2013. The increase was primarily driven by higher level of deposits placed at banks to yield higher interest income during the year ended December 31, 2014.

Interest expenses were US\$54.3 million (net of capitalized interest of US\$7.1 million) for the year ended December 31, 2014, compared to US\$65.7 million (net of capitalized interest of US\$2.3 million) for the year ended December 31, 2013. The decrease in net interest expenses (net of interest capitalization) of US\$11.4 million was primarily due to (i) a lower interest charge of US\$5.5 million as a result of the scheduled repayments of the term loan started from September 2013 and the repayment of the drawn revolving credit facility in late March 2013, both under the 2011 Credit Facilities; (ii) higher interest capitalization of US\$4.8 million primary associated with the development projects at City of Dreams; and (iii) lower interest charges of US\$1.1 million upon our redemption of our 2010 Senior Notes by our issuance of the lower interest rate 2013 Senior Notes in March 2013.

Other finance costs for the year ended December 31, 2014 of US\$18.2 million, included US\$15.4 million of amortization of deferred financing costs and US\$2.8 million of loan commitment fees. Other finance costs for the year ended December 31, 2013 of US\$17.9 million included US\$15.4 million of amortization of deferred financing costs and US\$2.5 million of loan commitment fees.

There was no loss on extinguishment of debt or costs associated with debt modification for the year ended December 31, 2014. Loss on extinguishment of debt for the year ended December 31, 2013 was US\$50.3 million, which mainly represented a portion of the 2010 Senior Notes redemption fees and unamortized deferred financing costs that are not eligible for capitalization.

Costs associated with debt modification for the year ended December 31, 2013 were US\$10.5 million, which mainly represented a portion of underwriting fee, legal and professional fees incurred for refinancing 2010 Senior Notes with 2013 Senior Notes that are not eligible for capitalization.

***Income tax expense***

Income tax expense for the year ended December 31, 2014 was primarily attributable to a lump sum tax payable of US\$2.8 million in lieu of Macau Complementary Tax otherwise due by Melco Crown Macau's shareholders on dividends distributable to them by Melco Crown Macau, partially offset by a deferred tax credit of US\$0.6 million. The effective tax rate for the year ended December 31, 2014 was 0.3%, as compared to 0.7% for the year ended December 31, 2013. Such rates differ from the statutory Macau Complementary Tax rate of 12% primarily due to the effect of a tax exemption on profits generated by Macau gaming operations of US\$109.2 million and US\$125.7 million during the years ended December 31, 2014 and 2013, respectively, which is set to expire in 2016, the effect of change in valuation allowance, the effect of lump sum in lieu of Macau Complementary Tax on dividend and the effect of expenses for which no income tax benefit is receivable. Our management currently does not expect to realize significant income tax benefits associated with net operating loss carryforwards and other deferred tax assets generated by our Macau operations; however, to the extent that the financial results of our Macau operations improve and it becomes more likely than not that the deferred tax assets are realizable, we will be able to reduce the valuation allowance through earnings.

***Net income***

As a result of the foregoing, we had net income of US\$763.4 million for the year ended December 31, 2014, compared to US\$795.8 million for the year ended December 31, 2013.

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### **Liquidity and Capital Resources**

We have relied and intend to rely on our cash generated from our operations and our debt and equity financings to meet our financing needs and repay our indebtedness, as the case may be.

As of December 31, 2014, we held unrestricted cash and cash equivalents, bank deposits with original maturity over three months and restricted cash of approximately US\$1,186.1 million, US\$110.6 million and US\$0.6 million, respectively, and HK\$3.12 billion (approximately US\$401.1 million) of the 2011 Credit Facilities remains available for future drawdown.

### **Cash Flows**

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

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In thousands of US\$)</b>	
Net cash provided by operating activities	\$1,080,208	\$ 1,283,549
Net cash used in investing activities	\$ (382,002)	\$ (1,572,915)
Net cash used in financing activities	\$ (676,797)	\$ (62,904)
Net increase (decrease) in cash and cash equivalents	\$ 21,409	\$ (352,270)
Cash and cash equivalents at beginning of year	\$1,164,682	\$ 1,516,952
Cash and cash equivalents at end of year	<u>\$1,186,091</u>	<u>\$ 1,164,682</u>

#### ***Operating Activities***

Operating cash flows are generally affected by changes in operating income and accounts receivable with VIP table games play and hotel operations conducted on a cash and credit basis and the remainder of the business including mass market table games play, gaming machine play, food and beverage, and entertainment are conducted primarily on a cash basis.

Net cash provided by operating activities was US\$1,080.2 million for the year ended December 31, 2014, compared to US\$1,283.5 million for the year ended December 31, 2013. The decrease in net cash provided by operating activities was mainly due to decline in underlying operating performance as described in the foregoing section and increased working capital for the operations.

#### ***Investing Activities***

Net cash used in investing activities was US\$382.0 million for the year ended December 31, 2014, compared to net cash used in investing activities of US\$1,572.9 million for the year ended December 31, 2013. The decrease was primarily due to a net decrease in bank deposits with original maturity over three months and decrease in advance to shareholder, partially offset by the increased capital expenditure payments in 2014. Net cash used in investing activities for the year ended December 31, 2014 mainly included an advance to shareholder of US\$553.9 million, capital expenditure payment of US\$240.9 million and advance payments and deposits for acquisition of property and equipment of US\$59.3 million, which were offset in part by a net decrease in bank deposits with original maturity over three months of US\$476.5 million.

Our advance to shareholder amounted to US\$553.9 million and US\$860.6 million for the years ended December 31, 2014 and 2013, respectively.

Our total capital expenditure payments for the year ended December 31, 2014 were US\$240.9 million, as compared to US\$95.7 million for the year ended December 31, 2013. Such capital expenditures for both years were associated with enhancements to our integrated resort offerings. The significant increase was primarily due to the development of various projects at City of Dreams, including the fifth hotel tower.



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The decrease of US\$476.5 million in the amount of bank deposits with original maturity over three months was due to maturity of deposits partially offset by new deposits placed during the year. As of December 31, 2014, we have placed bank deposits of US\$110.6 million with their original maturity over three months for a better yield (December 31, 2013: US\$587.1 million).

### **Financing Activities**

Net cash used in financing activities amounted to US\$676.8 million for the year ended December 31, 2014, primarily due to dividend payments of US\$420.0 million and the scheduled repayments of the term loan under 2011 Credit Facilities of US\$256.7 million.

Net cash used in financing activities amounted to US\$62.9 million for the year ended December 31, 2013, primarily due to (i) the early redemption of 2010 Senior Notes of US\$600.0 million and the associated redemption costs of US\$102.5 million; (ii) the repayment of the drawn revolving credit facility under 2011 Credit Facilities of US\$212.5 million; (iii) the scheduled repayments of the term loan under 2011 Credit Facilities of US\$128.4 million; and (iv) the payment of debt issuance costs associated with 2013 Senior Notes of US\$19.6 million. These were offset in part by the proceeds of the issuance of 2013 Senior Notes of US\$1.0 billion.

### **Indebtedness**

The following table presents a summary of our indebtedness as of December 31, 2014:

	<b>As of December 31, 2014</b>
	<b>(in thousands of US\$)</b>
2013 Senior Notes	\$ 1,000,000
2011 Credit Facilities	\$ 417,166
	<u>\$ 1,417,166</u>

Except for the scheduled repayments of the term loan under 2011 Credit Facilities of US\$256.7 million during the year ended December 31, 2014, there was no other change in our indebtedness during the year ended December 31, 2014.

The 2011 Credit Facilities contain change of control provisions, including in respect of our obligations relating to our control and/or ownership of certain of our subsidiaries and their assets. Under the terms of such credit facility agreement, the occurrence of certain change of control events, including a decline below certain thresholds in the aggregate direct or indirect shareholdings of Melco Crown Macau, our company or certain of its subsidiaries held by us and/or Melco and Crown or certain of our subsidiaries, and in the case of the decline of the shareholding of Melco Crown Macau, which is accompanied by a ratings decline, may result in an event of default and/or a requirement to prepay the 2011 Credit Facilities in full. Other applicable change of control events under the 2011 Credit Facilities include the Parent ceasing to be publicly listed on certain designated stock exchanges or steps being taken in connection with the liquidation or dissolution of our company. The terms of the 2013 Senior Notes also contain change of control provisions whereby the occurrence of a relevant change of control event will require us to offer to repurchase the 2013 Senior Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest and, if any, additional amounts and other amount specified under the 2013 Senior Notes to the date of repurchase.

For further details of the above indebtedness, please refer to note 10 to the consolidated financial statements included elsewhere in this annual report, which includes information regarding the type of debt facilities used and still available to us, the maturity profile of such debt facilities, the applicable currency and interest rate structures, the charges on our assets and the nature and extent of any restrictions on our ability, and the ability of our subsidiaries, to transfer funds as cash dividends, loans or advances. Please also refer to “— Long-term Indebtedness and Contractual Obligations” for details of the maturity profile of debt and “— Quantitative and Qualitative Disclosures about Market Risk” for further understanding of our hedging of interest rate risk and foreign exchange risk exposure.

## **Other Financing and Liquidity Matters**

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. We are a growing company with significant financial needs. We expect to have significant capital expenditures in the future as we continue to develop our properties, in particular, the fifth hotel tower at City of Dreams.

We have relied and intend in the future to rely on our operating cash flow and different forms of financing to meet our funding needs and repay our indebtedness, as the case may be.

The timing of any future debt and equity financing activities will be dependent on our funding needs, our development and construction schedule, the availability of funds on acceptable terms to us, and prevailing market conditions. We may carry out activities from time to time to strengthen our financial position and ability to better fund our business expansion. Such activities may include refinancing existing debt, monetizing assets, sale-and-leaseback transactions or other similar activities.

Our company commenced expansion of its retail precinct at City of Dreams, which is expected to open in the first half of 2016. Our company has also commenced the development of the fifth hotel tower at City of Dreams although its development plan and schedule is currently under review and may be subject to change after taking into account a range of factors, including the current and expected future operating environment in Macau and other potential uses of cash and future cash flow. For prevailing Macau market condition, see “Business — Market and Competition”.

Any other future developments may be subject to further financing and a number of other factors, many of which are beyond our control.

As of December 31, 2014, we had capital commitments contracted for but not provided mainly for the construction and acquisition of property and equipment for City of Dreams totaling US\$408.6 million including advance payments for construction costs of US\$41.0 million. In addition, we have contingent liabilities arising in the ordinary course of business. For further details for our commitments and contingencies, please refer to note 19 to the consolidated financial statements included elsewhere in this annual report.

## Long-term Indebtedness and Contractual Obligations

Our total long-term indebtedness and other known contractual obligations are summarized below as of December 31, 2014.

	Payments Due by Period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
	(in millions of US\$)				
<b>Long-term debt obligations<sup>(1)</sup>:</b>					
2011 Credit Facilities	\$ 256.7	\$ 160.5	\$ —	\$ —	\$ 417.2
2013 Senior Notes	—	—	—	1,000.0	1,000.0
Fixed interest payments	50.0	100.0	100.0	56.2	306.2
Variable interest payments <sup>(2)</sup>	6.4	1.3	—	—	7.7
<b>Capital lease obligations<sup>(3)</sup></b>	<b>0.2</b>	<b>0.4</b>	<b>0.2</b>	<b>—</b>	<b>0.8</b>
<b>Operating lease obligations:</b>					
Operating leases, including Mocha Clubs locations	10.7	12.3	10.1	10.8	43.9
<b>Construction costs and property and equipment retention payables</b>	<b>3.7</b>	<b>3.3</b>	<b>—</b>	<b>—</b>	<b>7.0</b>
<b>Other contractual commitments:</b>					
Government annual land use fees <sup>(4)</sup>	1.4	2.7	2.8	18.9	25.8
Fixed interest on land premium <sup>(4)</sup>	0.5	0.1	—	—	0.6
Construction, plant and equipment acquisition commitments <sup>(5)</sup>	315.6	93.0	—	—	408.6
Gaming subconcession premium <sup>(6)</sup>	23.4	47.0	47.0	58.2	175.6
<b>Total contractual obligations</b>	<b>\$ 668.6</b>	<b>\$ 420.6</b>	<b>\$ 160.1</b>	<b>\$ 1,144.1</b>	<b>\$ 2,393.4</b>

(1) See note 10 to the consolidated financial statements included elsewhere in this annual report for further details on these debt facilities.

(2) Amounts for all periods represent our estimated future interest payments on our debt facilities based upon amounts outstanding and HIBOR as at December 31, 2014 plus the applicable interest rate spread in accordance with the debt agreement. Actual rates will vary.

(3) See note 11 to the consolidated financial statements included elsewhere in this annual report for further details on capital lease obligations.

(4) The City of Dreams and Altira Macau sites are located on land parcels in which we have received a land concession from the Macau government for a 25-year term, renewable for further consecutive periods of up to ten years each, until December 19, 2049. Renewal of the land concessions are subject to obtaining approvals from the Macau government. See “Business” for further details of the land concession obligations.

(5) See note 19(a) to the consolidated financial statements included elsewhere in this annual report for further details on construction, plant and equipment acquisition commitments.

(6) In accordance with our gaming subconcession, we are required to pay a fixed annual premium of MOP30.0 million (approximately US\$3.7 million) and minimum variable premium of MOP45.0 million (approximately US\$5.6 million) per year based on number of gaming tables and gaming machines we operate in addition to the 39% gross gaming win tax (which is not included in this table as the amount is variable in nature). Amounts for all periods are calculated based on our gaming tables and gaming machines in operation as at December 31, 2014 through to the termination of the gaming subconcession in June 2022.

## Off-Balance Sheet Arrangements

Except as disclosed in note 19(d) to the consolidated financial statements included elsewhere in this annual report, we have not entered into any material 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 ordinary 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.

## **Distribution of Profits**

All subsidiaries of our company incorporated in Macau are required to set aside a minimum of 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 subsidiaries' statements of operations and is not available for distribution to the shareholders of the subsidiaries. The appropriation of legal reserve is recorded in the subsidiaries' financial statements in the year in which it is approved by the board of directors of the relevant subsidiaries. As of December 31, 2014, the balance of the reserve of all our Macau subsidiaries amounted to US\$31.2 million.

On March 21, 2014, we declared a dividend of US\$349,417.64 per share to the Parent. On March 31, 2015, the board of directors of our company declared a dividend of US\$124,792.01 per share.

During the year ended December 31, 2013, we did not declare or pay any cash dividends on the ordinary share.

## **Restrictions on Distributions**

The 2011 Credit Facilities contain restrictions which apply on and from June 30, 2011 on paying dividends to our company or persons who are not members of the relevant borrowing group, comprising Melco Crown Macau and certain of our subsidiaries specified as guarantors (the "Borrowing Group"), unless certain financial tests and conditions are satisfied. Dividends may be paid from (i) excess cash flow as defined in the 2011 Credit Facilities generated by the Borrowing Group, subject to compliance with the financial covenants under the 2011 Credit Facilities; or (ii) cash held by the Borrowing Group in an amount not exceeding the aggregate cash and cash equivalents investments of the Borrowing Group as of June 30, 2011, subject to a certain amount of cash and cash equivalents being retained for operating purposes and, in either case, there being no event of default continuing or likely to occur under the 2011 Credit Facilities as a result of making such payment. See "Description of Other Material Indebtedness" for more details. The indenture governing the 2013 Senior Notes also contains certain covenants that, subject to certain exceptions and conditions, restrict the payment of dividends by our company and its restricted subsidiaries.

## **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**

Our exposure to interest rate risk is associated with our substantial indebtedness bearing interest based on floating rates. As of December 31, 2014, we are subject to fluctuations in HIBOR as a result of our 2011 Credit Facilities.

We attempt to manage interest rate risk by managing the mix of long-term fixed rate borrowings and variable rate borrowings and we may supplement by hedging activities in a manner we deem prudent. We cannot be sure that these risk management strategies have had the desired effect, and interest rate fluctuations could have a negative impact on our results of operations.

As of December 31, 2014 and 2013, approximately 71% and 60%, respectively, of our total indebtedness was based on fixed rates. The increase was primarily due to the scheduled repayment of the term loan under 2011 Credit Facilities. Based on December 31, 2014 and 2013 indebtedness levels, an assumed 100 basis point change in HIBOR would cause our annual interest cost to change by approximately US\$4.2 million and US\$6.7 million, respectively.

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.

## Foreign Exchange Risk

Our exposure to foreign exchange rate risk is associated with the currency of our operations and our indebtedness and as a result of the presentation of our financial statements in U.S. dollars. The majority of our revenues are denominated in H.K. dollars, given the H.K. dollar is the predominant currency used in gaming transactions in Macau and is often used interchangeably with the Pataca in Macau, while our expenses are denominated predominantly in Patacas and H.K. dollars. In addition, a significant portion of our indebtedness, as a result of the 2013 Senior Notes, and certain expenses, have been and are 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 Pataca against the U.S. dollar may fluctuate and may be affected by, among other things, changes in political and economic conditions. While the H.K. dollar is pegged to the U.S. dollar within a narrow range and the Pataca is in turn pegged to the H.K. dollar and the exchange rates between these currencies has remained relatively stable over the past several years, we cannot assure you that the current peg or linkages between the U.S. dollar, H.K. dollar and Pataca will not be broken or modified and subjected to fluctuation. 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.

We accept foreign currencies from our customers and as of December 31, 2014, in addition to H.K. dollars and Patacas, we also hold other foreign currencies. However, any foreign exchange risk exposure associated with those currencies is minimal.

We have not engaged in hedging transactions with respect to foreign exchange exposure of our revenues and expenses in our day-to-day operations during the years ended December 31, 2014 and 2013. 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. However, we occasionally enter into foreign exchange transactions as part of financing transactions and capital expenditure programs.

See note 10 to the consolidated financial statements included elsewhere in this annual report for further details related to our indebtedness as of December 31, 2014.

Major currencies in which our cash and bank balances (including bank deposits with original maturity over three months and restricted cash) held as of December 31, 2014 were U.S. dollars, H.K. dollars and Patacas. Based on the cash and bank balances as of December 31, 2014 and 2013, an assumed 1% change in the exchange rates between currencies other than U.S. dollars against the U.S. dollar would cause a maximum foreign transaction gain or loss of approximately US\$12.9 million and US\$17.4 million for the years ended December 31, 2014 and 2013, respectively.

Based on the balances of indebtedness denominated in currencies other than U.S. dollars as of December 31, 2014, an assumed 1% change in the exchange rate between H.K. dollar against the U.S. dollar would cause a foreign transaction gain or loss of approximately US\$4.2 million.

## BUSINESS

### Overview

We are a developer, owner and operator of casino gaming and entertainment resort facilities. Our subsidiary Melco Crown Macau is one of six companies licensed, through concessions or subconcessions, to operate casinos in Macau.

We currently have two major casino based operations in Macau, namely, City of Dreams and Altira Macau, and non-casino based operations in Macau at our Mocha Clubs. We are in an early stage of developing the fifth hotel tower at City of Dreams in Cotai, Macau and are currently reviewing the development plan and schedule of this hotel tower.

Our current and future operations are designed to cater to a broad spectrum of gaming patrons, from high-stakes rolling chip gaming patrons to gaming patrons seeking a broader entertainment experience. We currently own and operate two Forbes 5-Star hotels in Macau: Altira Macau and The Crown Towers hotel. We seek to attract patrons throughout Asia and, in particular, from Greater China.

Our current operating facilities are focused on the Macau gaming market. In 2014, Macau generated approximately US\$43.9 billion of gaming revenues, according to the DICJ, representing a 2.6% decrease from the comparable period of 2013. In addition, Macau is currently the only market in Greater China, and one of only several in Asia, to offer legalized casino gaming.

### Our Major Existing Operations

#### *City of Dreams*

City of Dreams is an integrated casino resort in Cotai, Macau which opened in June 2009. City of Dreams is a premium-focused property, targeting high end customers and rolling chip players from regional markets across Asia. As of December 31, 2014, City of Dreams featured a casino area of approximately 448,000 square feet with approximately 500 gaming tables and approximately 1,400 gaming machines.

The resort brings together a collection of brands to create an experience that appeals to a broad spectrum of visitors from around Asia. We have one hotel management agreement, pursuant to which Hyatt of Macau Ltd. manages the Grand Hyatt Macau hotel and receives management fees. We have also entered into license agreements with respect to Crown Towers hotel and Hard Rock Hotel, pursuant to which we have been granted certain rights to use certain intellectual property of the licensors. No fee is payable for our use of the Crown marks and certain fees are payable for our use of the Hard Rock marks. See “— Intellectual Property.” The Crown Towers hotel, a Forbes 5-Star hotel, and the Hard Rock Hotel each offers approximately 300 guest rooms, and the Grand Hyatt Macau hotel offers approximately 800 guest rooms. City of Dreams, together with SOHO, includes around 30 restaurants and bars, approximately 70 retail outlets, recreation and leisure facilities, including health and fitness clubs, three swimming pools, spas and salons, and banquet and meeting facilities. The Club Cubic nightclub offers approximately 26,200 square feet of live entertainment space. SOHO, a lifestyle entertainment and dining precinct located on the second floor of City of Dreams which had its grand opening in August 2014, offers customers a wide selection of food and beverage and other nongaming offerings.

The Dancing Water Theater, a wet stage performance theater with approximately 2,000 seats, features the internationally acclaimed and award winning *The House of Dancing Water* show. The House of Dancing Water show is the live entertainment centerpiece of the overall leisure and entertainment offering at City of Dreams. We believe this production highlights City of Dreams as an innovative entertainment-focused destination and strengthens the overall diversity of Macau as a multi-day stay market and one of Asia’s premier leisure and entertainment destinations. The production incorporates costumes, sets and audio-visual special effects and showcases an international cast of performance artists.

City of Dreams also won the “Best Leisure Development in Asia Pacific” award in the International Property Awards in 2010, which recognizes distinctive innovation and outstanding success in leisure development, and the “Best Casino VIP Room” and “Best Casino Interior Design” awards in the International Gaming Awards in 2011, which recognizes outstanding design in the casino sector. City of Dreams was also recognized for its outstanding customer service and diverse range of unique world class entertainment experiences with the “Best Customer Experience of the Year” award in the International Gaming Awards in 2012.

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We are expanding our retail precinct at City of Dreams, which is anticipated to open in the first half of 2016. We are also in an early stage of developing the fifth hotel tower at City of Dreams. We are currently reviewing the development plan and schedule of this hotel tower by taking into account a range of factors, including the current and expected future operating environment in Macau and other potential uses of cash and future cash flow.

### ***Altira Macau***

Altira Macau is designed to provide a casino and hotel experience that caters to Asian rolling chip customers and players sourced primarily through gaming promoters.

As of December 31, 2014, Altira Macau featured a casino area of approximately 173,000 square feet with a total of approximately 120 gaming tables. Altira Macau's multi-floor layout comprises primarily designated gaming areas and private gaming rooms for rolling chip players, together with a general gaming area for the mass market that offers various table limits to cater to a wide range of mass market patrons. Our multi-floor layout allows us the flexibility to reconfigure Altira Macau's gaming areas to meet the changing demands of our patrons and target specific customer segments.

We consider Altira Hotel, located within the 38-storey Altira Macau, to be one of the leading hotels in Macau as evidenced by its long-standing Forbes 5-star recognition. The top floor of the hotel serves as the hotel lobby and reception area, providing guests with views of the surrounding area. The hotel comprises approximately 230 guest rooms, including suites and villas. A number of restaurants and dining facilities are available at Altira Macau, including a leading Italian restaurant Aurora, several Chinese and international restaurants and several bars. Altira Hotel also offers several non-gaming amenities, including a spa, gymnasium, outdoor garden podium and sky terrace lounge.

Altira Macau offers a luxurious hotel experience with its internationally acclaimed accommodation and guest services. It has been awarded the "Forbes 5-Star" rating in both Lodging and Spa categories by the Forbes Travel Guide for the sixth year in February 2015. Altira Macau also won the "Best Luxury Hotel in Macau" award in the TTG China Travel Awards 2010, "Best Business Hotel in Macau" award in the TTG China Travel Awards 2009 and the "Casino Interior Design Award" in the International Gaming Awards in 2008.

### ***Mocha Clubs***

Mocha Clubs comprise the largest non-casino based operations of gaming machines in Macau. As of December 31, 2014, Mocha Clubs had eight clubs with a total of 1,321 gaming machines in operation, which represented 10.1% of the total machine installation in the market, according to the DICJ. Mocha Clubs focus on general mass market players, including day-trip customers, outside the conventional casino setting. Except for Mocha Altira located at Altira Macau, we operate Mocha Clubs at leased or sub-leased premises or under right-to-use agreements.

In addition to slot machines, each Mocha Club site offers electronic table games without dealers. The gaming facilities at our Mocha Clubs include what we believe is 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 the house in electronic roulette, baccarat and sicbo, a traditional Chinese dice game.

The Macau government enacted an administrative regulation which came into effect on November 27, 2012, pursuant to which gaming machine lounges, such as our Mocha Clubs, may only be installed: (i) in hotels classified with at least five stars; (ii) in properties entirely allocated to non-residential purposes and located within less than 500 meters of an authorized hotel-casino; or (iii) in commercial and leisure complexes, of relevant touristic interest, not inserted in a densely populated area. Under this regulation, all gaming machine lounges were required to comply with the applicable requirements by November 27, 2013. We closed three Mocha Clubs which did not meet the relevant location requirements before November 27, 2013. In May and November 2013, we obtained approval from the Macau government to open two new Mocha Clubs, one of which opened in December 2013 and the other one opened in mid-2014.

## **Our Development Projects**

We continually seek new opportunities for additional gaming or related businesses in Macau. In defining and setting the timing, form and structure for any future development, we focus on evaluating alternative available financing, market conditions and market demand. In order to pursue these opportunities and such development, we have incurred and will continue to incur capital expenditures at our properties and for our projects.

## **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 following core business strategies:

### ***Maintain a Strong Balance Sheet and Conservative Capital Structure to Invest in Growth Opportunities and Return Capital to Shareholders***

We believe that a strong balance sheet and a conservative capital structure are key tenets of our fundamental operating philosophy as a company. This approach provides and maintains financial stability, it also forms and strengthens the core foundation for our future growth strategy and our ability to pay dividends and repurchase shares subject to the discretion of our board of directors. Proactive balance sheet management and an efficient capital structure provide us with the ability and flexibility to pursue opportunistic growth in the future. Additionally, 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 in existing, as well as, new markets.

### ***Develop a Balanced Product Portfolio of Well-Recognized Branded Experiences Tailored for a Broad Spectrum of Customer Segments, with a focus on the Premium Market***

We offer a balanced product portfolio targeting rolling chip and mass market players, with an emphasis on the premium segment. We believe our ability to cater to different market segments will enhance our ability to adapt to the fast growing and changing gaming markets in Macau, as well as to achieve balanced and sustainable long-term growth in the future. That said, we focus on the premium market and have created a service culture and high end customer environments that appeal to this discerning group of patrons.

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 and further strengthen our brands by building and maintaining high quality properties that differentiate us from our competitors throughout Asia and by providing a set of experiences tailored to meet the cultural preferences and expectations of Asian customers.

We have incorporated design elements at our properties that cater to specific customer segments. By utilizing a more focused customer segmentation strategy, we believe we can better service specific segments of the Macau gaming market.

### ***Utilize Melco Crown Macau's Subconcession to Maximize Our Business and Revenue Potential in Macau***

In Macau, we intend to leverage the independence, flexibility and economic benefits we enjoy as a subconcessionaire to capitalize on the potential growth of the local gaming market. As a subconcessionaire, we can, subject to government approval, develop and operate new projects without the need to partner with other concessionaires or subconcessionaires. We will consider opportunities as they arise to utilize our subconcession at newly acquired or developed or existing properties.



### ***Develop Comprehensive Marketing and Customer Loyalty Programs***

We will continue to seek to attract customers to our properties by leveraging our brands and utilizing our own marketing resources. We have combined our brand recognition with customer management techniques and programs in order to build a platform of repeat customers and loyalty club members. In addition, our international marketing network has established marketing offices in various locations across Asia and plans on establishing further marketing offices elsewhere in 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 Clubs brand.

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

- create a cross-platform sales and marketing department to promote all of our brands to potential customers throughout Asia in accordance with applicable laws;
- 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; and
- implement complimentary incentive programs and commission based programs with selected promoters to attract high- end customers.

### ***Create First Class Service Experiences***

We believe that service quality and memorable experiences will continue to grow as a key differentiator among the operators in the territories where we operate. As the depth and quality of product offerings continue to develop and more memorable properties and experiences are created, we believe that tailored services will drive competitive advantage. As such, our focus remains on creating service experiences for the tastes and expectations of our various customers. We believe our dedicated management team with significant experience in operating large scale, high quality resort facilities drive our competitive advantage. As the continued development of our staff and supporting resources are central to our business, we plan to invest in the long-term development of our people through relevant training and experience sharing.

### **Our Properties**

We operate our gaming business at our operating properties in Macau in accordance with the terms and conditions of our gaming subconcession. In addition, our existing operating properties and development projects in Macau are subject to the terms and conditions of land concession contracts.

#### ***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 (equivalent to approximately 1.2 million square feet). In August 2008, the Macau government granted the land on which City of Dreams is located to Melco Crown (COD) Developments Limited and Melco Crown Macau for a period of 25 years, renewable for further consecutive periods of up to ten years each. A guarantee deposit of approximately MOP3.4 million (equivalent to approximately US\$424,000) was paid upon acceptance of the land lease terms in 2008. The initial land premium of approximately MOP842.1 million (equivalent to approximately US\$105.1 million) was paid up in full in February 2013. The land grant was amended on September 15, 2010 to increase the total developable gross floor area at the site to 668,574 square meters (equivalent to approximately 7.2 million square feet) and amend the purpose of such area, which required an additional premium in the amount of MOP257.4 million (equivalent to approximately US\$32.1 million), which was fully paid in March 2010.

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Pursuant to an amendment effective January 2014, the development period under the land concession contract was extended to the date falling 4 years after January 29, 2014 (being the publication date of the amendment in the Macau official gazette) and the hotel to be developed is changed to a five-star hotel areas from a four-star apartment hotel. Such amendment required an additional land premium of approximately MOP187.1 million (equivalent to approximately US\$23.3 million) of which MOP70.0 million (equivalent to approximately US\$8.7 million) were paid to the Macau government, and the remaining amount of approximately MOP117.1 million (equivalent to approximately US\$14.6 million) were to be paid in four bi-annual installment, with interest accruing at the annual rate of 5%, the first of which was due and paid in 2014. The government land use fees were revised to approximately MOP9.9 million (equivalent to approximately US\$1.2 million) per annum.

During the construction period, we paid the Macau government land use fees at an annual rate of MOP30.0 (equivalent to approximately US\$3.74) per square meter of land, or an aggregate annual amount of approximately MOP3.4 million (equivalent to approximately US\$424,000). According to the terms of the revised land concession, the annual government land use fees payable after completion of development will be approximately MOP9.9 million (equivalent to approximately US\$1.2 million). The government land use fee amounts may be adjusted every five years.

See note 19 to the consolidated financial statements included elsewhere in this annual report for information about our future commitments as to government land use fees for the City of Dreams site.

The equipment utilized by City of Dreams in the casino and hotel is owned by us and held for use on the City of Dreams 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.

### ***Altira Macau***

The Altira Macau site is located on a plot of land in Taipa, Macau of approximately 5,230 square meters (equivalent to approximately 56,295 square feet) under a 25-year land lease agreement with the Macau government which is renewable for successive periods of up to ten years each. In March 2006, the Macau government granted the land on which Altira Macau is located to Altira Developments Limited. The land premium of approximately MOP149.7 million (equivalent to approximately US\$18.7 million) was fully paid in July 2006, a guarantee deposit of approximately MOP157,000 (equivalent to approximately US\$20,000) was paid upon acceptance of the land lease terms in 2006 and government land use fees of approximately MOP1.4 million (equivalent to approximately US\$171,000) per annum are payable. The 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 adjustment.

Pursuant to an amendment to the land concession effective December 2013, the total gross floor area of Altira Macau was increased from approximately 95,000 square meters (equivalent to approximately 1,022,600 square feet) to approximately 103,000 square meters (equivalent to approximately 1,108,700 square feet), to reflect the construction plans approved by the Macau government and to enable final registration of the land concession. Such amendment required an additional land premium of approximately MOP19.6 million (equivalent to approximately US\$2.4 million) which was paid to the Macau government in 2013. The amendment also resulted in a revised government land use fees of approximately MOP1.5 million (equivalent to approximately US\$186,000) per annum.

See note 19 to the consolidated financial statements included elsewhere in this annual report for information about our future commitments as to government land use fees for the Altira Macau site.

The equipment utilized by Altira Macau in the casino and hotel is owned by us and held for use on the Altira 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 and casino, hotel furniture, fittings, and equipment.

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### **Mocha Clubs**

Mocha Clubs operate at premises with a total floor area of approximately 89,400 square feet at the following locations in Macau:

<b>Mocha Club</b>	<b>Opening Month</b>	<b>Location</b>	<b>Gaming Area (In square feet)</b>
Royal	September 2003	G/F and 1/F of Hotel Royal	8,450
Taipa Square	January 2005	G/F, 1/F and 2/F of Hotel Taipa Square	9,200
Sintra	November 2005	G/F and 1/F of Hotel Sintra	5,000
Mocha Altira	December 2008	Level 1 of Altira Macau	2,950
Macau Tower	September 2011	LG/F and G/F of Macau Tower	21,500
Golden Dragon	January 2012	G/F, 1/F, 2/F and 3/F of Hotel Golden Dragon	20,500
Inner Harbor	December 2013	No 286–312 Seaside New Street	12,800
Kuong Fat	June 2014	Macau, Rua de Pequim No. 174., Centro Comercial Kuong Fat Cave A	9,000
<b>Total</b>			<b>89,400</b>

Premises are being operated under lease, sublease or rights to use agreements that expire at various dates through June 2022, which are renewable upon reaching an agreement with the owners.

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.

### **Other Premises**

Taipa Square Casino premises, including the fit-out and gaming related equipment, are located on the ground floor and level one within Hotel Taipa Square in Macau and having a floor area of approximately 1,760 square meters (equivalent to approximately 18,950 square feet). We operate Taipa Square Casino under a right-to-use agreement signed on June 12, 2008 with the owner, Hotel Taipa Square (Macao) Company Limited. The term of the agreement is 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.

Apart from the aforesaid property sites, we maintain various offices and storage locations in Macau. We lease all of our office and storage premises.

### **Advertising and Marketing**

We seek to attract customers to our properties and to grow our customer base over time by 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 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. In order to be competitive in the Macau gaming environment, we hold various promotions and special events, operate loyalty programs with our patrons and have developed a series of commission and other incentive-based programs.

## **Customers**

We seek to cater to a broad range of customers through our diverse gaming and non-gaming facilities and amenities across our major existing operating properties.

### ***Non-Gaming Patrons***

In addition to its mass market and rolling chip gaming offerings, City of Dreams offers visitors to Macau an array of multi-dimensional entertainment amenities, three international hotel brands, as well as a selection of restaurants, bars and retail outlets. Altira Macau is designed to provide a high end casino and hotel experience, tailored to meet the cultural preferences and expectations of Asian rolling chip patrons. Mocha Clubs are targeted to deliver a relaxed café-style non-casino based electronic gaming experience.

### ***Gaming Patrons***

Our gaming patrons include rolling chip players and mass market players.

Mass market players are non-rolling chip players and they come to our properties for a variety of reasons, including our direct marketing efforts, brand recognition, the quality and comfort of our mass market gaming floors and our non-gaming offerings. Mass market players are further classified as general mass market and premium mass market players.

Rolling chip players at our casinos are patrons who participate in our in-house rolling chip programs or in the rolling chip programs of our gaming promoters, also known as junket operators. Our rolling chip players play mostly in our dedicated VIP rooms or designated gaming areas.

Our in-house rolling chip programs consist of rolling chip players sourced through our direct marketing efforts and relationships, whom we refer to as premium direct players. Premium direct players can earn a variety of gaming-related rebates, such as cash, rooms, food and beverage and other complimentary products or services.

### ***Gaming Promoters***

A significant amount of our rolling chip play is brought to us by gaming promoters, also known as junket operators. While rolling chip players sourced by gaming promoters do not earn direct gaming related rebates from us, we pay a commission and provide other complimentary services to the gaming promoter.

In Macau, we engage gaming promoters to promote our VIP gaming rooms primarily due to the importance of the rolling chip segment in the overall Macau gaming market, gaming promoters' knowledge of and experience within the Macau gaming market, in particular with sourcing and attracting rolling chip patrons and arranging for their transportation and accommodation, and gaming promoters' extensive rolling chip patron network. Under standard arrangements utilized in Macau, we provide gaming promoters with exclusive or casual access to one or more of our VIP gaming rooms and support from our staff, and gaming promoters source rolling chip patrons for our casinos or gaming areas to generate an expected minimum amount of rolling chip volume per month.

Gaming promoters are responsible for a substantial portion of our casino revenues. For the years ended December 31, 2014 and 2013, approximately 40.1% and 49.8% of our casino revenues were derived from customers sourced through our rolling chip gaming promoters, respectively.

Gaming promoters in Macau are independent third parties that include both individuals and corporate entities and are officially licensed by the DICJ. We have procedures to screen prospective gaming promoters prior to their engagement, and conduct periodic checks that are designed to ensure that the gaming promoters with whom we associate meet suitability standards. We believe that we have strong relationships with some of the top gaming promoters in Macau and have a solid network of gaming promoters who help us market our properties and source and assist in managing rolling chip patrons at our properties. As of December 31, 2014 and 2013, we had agreements in place with 97 and 114 gaming promoters in Macau, respectively. We expect to continue to evaluate and selectively add or remove gaming promoters going forward.

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We typically enter into gaming promoter agreements for a one-year term that are automatically renewed for periods of up to one year unless otherwise terminated. The gaming promoter agreements may be terminated (i) by either party without cause upon 15 days advance written notice, (ii) upon advice from the DICJ or any other gaming regulator to cease having dealings with the gaming promoter or if the DICJ cancels or fails to renew the gaming promoter's license, (iii) if the gaming promoter fails to meet the minimum rolling chip volume it agreed to with us, (iv) if the gaming promoter enters or is placed in receivership or provisional liquidation or liquidation, an application is made for the winding up of the gaming promoter, the gaming promoter becomes insolvent or makes an assignment for the benefit of its creditors, or an encumbrancer takes possession of any of the gaming promoter's assets or (v) if any party to the agreement is in material breach of any of the terms of the agreement and fails to remedy such breach within the timeframe outlined in the agreement. Our gaming promoters are compensated through commission arrangements that are calculated on a monthly or a per trip basis. Commissions paid to our rolling chip gaming promoters (net of amounts indirectly rebated to customers) amounted to US\$284.8 million and US\$391.9 million for the years ended December 31, 2014 and 2013, respectively. We generally offer commission payment structures that are calculated by reference to revenue share or monthly rolling chip volume. Under the revenue share-based arrangements, the gaming promoter participates in our gaming wins or losses from the rolling chip patrons brought in by the gaming promoter. Under the monthly rolling chip volume-based arrangements, commission rates vary but do not exceed the 1.25% regulatory cap under Macau law on gaming promoter commissions. To encourage gaming promoters to use our VIP gaming rooms for rolling chip patrons, our gaming promoters may receive complimentary allowances for food and beverage, hotel accommodation and transportation. Under the Administrative Regulation 29/2009 as promulgated by the Macau government, these allowances must be included in the 1.25% regulatory cap on gaming promoter commissions.

We conduct, and expect to continue to conduct, our table gaming activities at our casinos on a credit basis as well as a cash basis. As is common practice in Macau, we grant credit to our gaming promoters and certain of our premium direct players. The gaming promoters bear the responsibility for issuing to, and subsequently collecting credit, from their players.

We extend interest-free credit to a significant portion of our gaming promoters for short-term, renewable periods under credit agreements that are separate from the gaming promoter agreements. Credit is also granted to certain gaming promoters on a revolving basis. All gaming promoter credit lines are generally subject to monthly review and various settlement procedures, including our credit committee review and other checks performed by our cage, count and credit department to evaluate the current status of liquidity and financial health of such gaming promoter. These procedures allow us to calculate the commissions payable to the gaming promoter and to determine the amount which can be offset, together with any other values held by us from the gaming promoter, against the outstanding credit balances owed by the gaming promoter. Credit is granted to a gaming promoter based on performance and financial background of the gaming promoter and, if applicable, the gaming promoter's guarantor. If we determine that a gaming promoter has good credit history and a track record of large business volumes, we may extend credit exceeding one month of commissions payable. This credit is typically unsecured. Although the amount of such credit may exceed the amount of accrued commissions payable to, and any other amounts of value held by us from, the gaming promoters, we generally obtain personal checks and promissory notes from guarantors or other forms of collateral. We have in place internal controls and credit policies and procedures to manage this credit risk.

We aim to pursue overdue debt from gaming promoters and premium direct players. This collection activity includes, as applicable, frequent personal contact with the debtor, delinquency notices and litigation. However, we may not be able to collect all of our gaming receivables from our credit customers and gaming promoters.

As of December 31, 2014 and 2013, our casino accounts receivable were US\$414.4 million and US\$424.0 million, respectively. Our allowance for doubtful accounts may fluctuate significantly from period to period as a result of having significant individual customer account balances where changes in their status of collectability cause significant changes in our allowance.

For information regarding allowances for doubtful accounts, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Accounts Receivable and Credit Risk."

## Market and 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.

### *Macau Gaming Market*

In 2014 and 2013, Macau generated approximately US\$43.9 billion and US\$45.0 billion of gaming revenue, respectively, according to the DICJ, compared to the US\$6.2 billion and US\$6.4 billion of gaming revenue (excluding sports book and race book), respectively, generated on the Las Vegas Strip, according to the Nevada Gaming Control Board, and compared to the US\$2.7 billion and US\$2.8 billion of gaming revenue (excluding sports book and race book), respectively, generated in Atlantic City, according to the New Jersey Division of Gaming Enforcement. Gaming revenue in Macau has increased at a five year CAGR from 2009 to 2014 of 24.11% compared to five year CAGRs of 2.72% and -7.50% for the Las Vegas Strip and Atlantic City, respectively (excluding sports book and race book). In addition, Macau is currently the only market in Greater China, and one of only several in Asia, to offer legalized casino gaming.

Gross gaming revenues in Macau expanded 18.6% in 2013 and 13.5% in 2012, according to the DICJ. The DICJ figures show that the Macau gaming market has been through a challenging period in 2014, with a year-over-year decline in gross gaming revenues of 2.6% compared to those in 2013, primarily driven by a deteriorating demand environment from our key feeder market, China, as well as other restrictive policies including changes to travel and visa policies and the implementation of further smoking restrictions on the main gaming floor. According to DICJ, the rolling chip segment underperformed the broader market, declining 10.9% year-over-year in 2014, while the higher margin mass market table games segment increased 15.5% over the same period. The weak operating environment has continued into 2015, with gross gaming revenues in Macau declining approximately 35.1% on a year-over-year basis in the first two months of 2015, according to the DICJ.

The mass market table games segment accounted for 35.4% of market-wide gross gaming revenues in 2014, compared to 29.9% for 2013, according to the DICJ. Melco Crown Entertainment, with its large exposure to the mass market table games segment in the fast growing Cotai region, is well positioned to cater to this increasingly important, and more profitable, segment of the market.

Despite these matters, we believe the long-term growth in gaming and non-gaming revenues in Macau is supported by, among other things, the continuing emergence of a wealthier demographic in China, a robust regulatory framework, and significant new infrastructure developments within Macau and China, as well as by the anticipated new supply of gaming and non-gaming facilities in Macau, which is predominantly focused on the Cotai region. Visitation to Macau in 2014, totaled more than 31.5 million visitors. China continues to drive overall visitation growth, increasing 14.1% as compared to 3.9% decrease for all other visitors in 2014, and visitors from China represented 67.4%, while visitors from Hong Kong and Taiwan represented 20.4% and 3.0%, of all visitors to Macau in 2014, respectively.

Gaming in Macau is administered through government-sanctioned concessions awarded to three different concessionaires: Sociedade de Jogos de Macau, S.A. (“SJM”), which is a company listed on the HKSE in which Mr. Lawrence Ho, the co-chairman and chief executive officer, and his family members have shareholding interests; Wynn Resorts (Macau) S.A. (“Wynn Macau”), a subsidiary of Wynn Resorts Ltd.; and Galaxy Casino, S.A. (“Galaxy”), a consortium of Hong Kong and Macau businessmen. SJM has granted a subconcession to MGM Grand Paradise, which was originally formed as a joint venture by MGM-Mirage and Ms. Pansy Ho, sister of Mr. Lawrence Ho. Galaxy has granted a subconcession to Venetian Macau, S.A. (“VML”), a subsidiary of Las Vegas Sands Corporation, the developer of Sands Macao, The Venetian Macao and Sands Cotai Central. Melco Crown Macau obtained its subconcession under the concession of Wynn Macau.

SJM currently operates multiple casinos throughout Macau. SJM has extensive experience in operating in the Macau market and long-established relationships in Macau. SJM has begun construction of its new casino in Cotai which is due to open in 2017.

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Wynn Macau opened the Wynn Macau in September 2006 on the Macau Peninsula. In addition they opened an extension to Wynn Macau called Encore in 2010. In 2012, Wynn Macau started the construction for a new casino in Cotai, which it expects to open in the first half of 2016.

Galaxy currently operates multiple casinos in Macau, including StarWorld, a hotel and casino resort in Macau's central business and tourism district. The Galaxy Macau Resort opened in Cotai in May 2011 and has announced the opening of Phase 2 of the Galaxy Macau Resort in May 2015.

VML, a subsidiary of Sands China Ltd., with a subconcession under Galaxy's concession, operates Sands Macao on the Macau peninsula, together with The Venetian Macao, the Plaza Casino at The Four Seasons Hotel Macao and the Sands Cotai Central, which are located in Cotai. Sands China Ltd. has announced proposals for the development of an additional hotel tower at Sands Cotai Central in Cotai, and the opening of the Parisian in Cotai in 2016.

MGM Grand Paradise, with a subconcession under SJM's concession, opened the MGM Macau in December 2007, which is located next to Wynn Macau on the Macau peninsula. MGM Grand Paradise has announced its intention to develop a new casino in Cotai and began its construction of this additional project, which is scheduled to open in 2016, in February 2013.

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 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. The Macau government further announced that the number of gaming tables operating in Macau should not exceed 5,500 until the end of the first quarter of 2013 and that, thereafter, for a period of ten years, the total number of gaming tables to be authorized will be limited to an average annual increase of 3%. These restrictions are not legislated or enacted into laws or regulations and as such different policies, including on the annual increase rate in the number of gaming tables, may be adopted at any time by the relevant Macau government authorities.

According to the DICJ, the number of gaming tables in Macau as of December 31, 2014 was 5,711. The Macau government has reiterated further that it does not intend to authorize the operation of any new casino that has not already been authorized. However, the policies and laws of the Macau government could change and permit the Macau government to grant additional gaming concessions or subconcessions. Such changes in policies may also result in a change of the number of gaming tables and casinos that the Macau government is prepared to authorize to operate.

### ***Other Regional Markets***

We may also face competition from casinos and gaming resorts located in other Asian destinations together with cruise ships. Casinos and integrated gaming resorts are becoming increasingly popular in Asia, giving rise to more opportunities for industry participants and increasing regional competition. There are major gaming facilities in Australia located in Melbourne, Perth, Sydney and the Gold Coast. 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 Vietnam and Cambodia, although they are relatively small compared to those in Macau.

We will face competition in the Philippine market from hotels and resorts owned by both Philippine nationals and foreigners, including many of the largest gaming, hospitality, leisure and resort companies in the world. These include Travellers International Hotel Group, Inc., Bloomberry Resorts Corporation and Tiger Resorts Leisure and Entertainment Inc. together with MCE Leisure (Philippines) Corporation, the manager and operator of City of Dreams Manila and an indirect subsidiary of the Parent, as well as Philippines Amusement and Gaming Corporation, an entity owned and controlled by the government of the Philippines, which operates certain gaming facilities across the Philippines.

Singapore legalized casino gaming in 2006. Genting Singapore PLC opened its resort in Sentosa, Singapore in February 2010 and Las Vegas Sands Corporation opened its casino in Marina Bay, Singapore in April 2010.

## Seasonality

Our principal market of operation, Macau experiences many peaks and seasonal effects. The “Golden Week” and “Chinese New Year” holidays are in general the key periods where business and visitation fluctuate considerably in Macau. While we may experience fluctuations in revenues and cash flows from month to month, we do not believe that our business is materially impacted by seasonality.

## Employees

We had 12,323 and 11,042 employees as of December 31, 2014 and 2013, 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, 2014 and 2013.

	December 31,			
	2014		2013	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
Mocha Clubs	705	5.7%	618	5.6%
Altira Macau	2,187	17.7%	2,033	18.4%
City of Dreams	8,709	70.7%	7,772	70.4%
Corporate and centralized services	722	5.9%	619	5.6%
Total	12,323	100.0%	11,042	100.0%

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 have implemented a number of human resource initiatives over recent years for the benefit of our employees and their families. These initiatives include a unique in-house learning academy, an on-site high school diploma program, scholarship awards as well as fast track promotion training initiatives jointly coordinated with the School of Continuing Study of Macau University of Science & Technology and Macao Technology Committee.

Our Macau employees participate in government-managed Social Security Fund Scheme (the “SSF Scheme”) operated by the Macau government. We are required to pay a monthly fixed contribution to the SSF Scheme to fund the benefits. Our obligation with respect to the SSF Scheme operated by the Macau government is only to make the required contributions under the scheme. We provided option for our qualifying employees in Macau to enroll in voluntary defined contribution schemes (the “Macau Schemes”) operated by us. We contribute a selected fixed percentage of the eligible employees’ base salaries or fixed amount to the Macau Schemes. Our contributions to the Macau Schemes are vested to employees in accordance with a vesting schedule with full vesting in 10 years from date of employment. The Macau Schemes were established under trust with the assets of the funds held separately from those of the Group by independent trustees in Macau.

Our executive officers participate in Mandatory Provident Fund Scheme (the “MPF Scheme”) operated by us in Hong Kong. We contribute a fixed percentage of the executive officers’ base salaries to the MPF Scheme, which included our mandatory contribution portion. The excess of contributions over our mandatory portion are treated as our voluntary contribution and are vested to the executive officers in accordance with a vesting schedule with full vesting in 10 years from date of employment. Our mandatory contributions to the MPF Scheme are fully and immediately vested to the executive officers once they are paid. The MPF Scheme was established under trust with the assets of the funds held separately from those of us by an independent trustee in Hong Kong.

The total amounts of contributions made by us for such retirement schemes for the years ended December 31, 2014 and 2013 were US\$12.3 million and US\$7.4 million, respectively.



### **Intellectual Property**

We have applied for or registered numerous trademarks, including “Altira”, “Mocha Club”, “City of Dreams” and “Melco Crown Entertainment” in, as the case may be, Macau and other jurisdictions. We have also applied for or registered in Macau and other jurisdictions certain other trademarks and service marks used in connection with the operations of our hotel casino projects in Macau.

### **Legal and Administrative Proceedings**

We are currently a party to certain legal and administrative proceedings which relate to matters arising out of the ordinary course of our business. Save as disclosed in the following paragraph, based on the current status of such proceedings and the information currently available, our management does not believe that the outcome of such proceedings will have a material adverse effect on our business, financial condition or results of operations.

Crown Melbourne Limited, the owner of a number of “Crown” trademarks licensed to us, is from time to time involved in legal proceedings regarding “Crown” trademarks used in Macau. We understand that Crown Melbourne Limited will continue to take vigorous measures to protect its trademarks. 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.

## 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.

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Clarence Yuk Man Chung	52	Director
Rowen Bruce Craigie	59	Director
Lawrence Yau Lung Ho	38	Chief Executive Officer
Geoffrey Stuart Davis	46	Chief Financial Officer

**Mr. Clarence Yuk Man Chung** was appointed as a non-executive director of the Parent on November 21, 2006. He has also been an executive director of Melco since May 2006. He joined Melco in December 2003. Mr. Chung has served as a director of Melco Leisure since 2008. Before joining Melco, he has more than 25 years of experience in the financial industry in various capacities as a chief financial officer, an investment banker and a merger and acquisition specialist. He was named one of the “Asian Gaming 50” for multiple years (including year 2013) by Inside Asian Gaming magazine. Mr. Chung has been the chairman and chief executive officer of Entertainment Gaming Asia Inc., a company listed on the Nasdaq Capital Market, since August 2008 and October 2008, respectively. Mr. Chung has been the chairman and president of MCP, a company listed on the Philippine Stock Exchange, since December 2012. Mr. Chung has also been appointed as a director of a number of our subsidiaries incorporated in various different jurisdictions. Mr. Chung obtained a master’s degree in business administration from the Kellogg School of Management at Northwestern University and The Hong Kong University of Science and Technology and is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

**Mr. Rowen Bruce Craigie** was appointed as a non-executive director of the Parent on March 8, 2005. Mr. Craigie has also been appointed as a director of our subsidiaries in various different jurisdictions.

Mr. Craigie is the Chief Executive Officer and Managing Director of Crown, an operator of casinos and integrated resorts, having been appointed on its formation in 2007. Mr. Craigie is also a director of Crown Melbourne Limited, a casino and integrated resort operator, having been appointed in January 2002, and Burswood Limited, a casino and integrated resort operator, having been appointed in September 2004. Mr. Craigie previously served as the Chief Executive Officer of PBL Gaming from 2005 to 2007 and as the Chief Executive Officer of Crown Melbourne Limited from 2002 to 2007.

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.

Mr. Craigie is a member of the Australian Commonwealth Government’s Trade and Investment Policy Advisory Council (TIPAC) and is President of Casinos and Resorts Australasia. He obtained a bachelor of economics (honors) degree from Monash University, Melbourne, Australia in 1976.

### Executive Officers

**Mr. Lawrence Yau Lung Ho** is our chief executive officer. He was appointed as an executive director of the Parent on December 20, 2004 and has served as a co-chairman and chief executive officer of the Parent since December 2004. Since November 2001, Mr. Ho has also served as the managing director and, since March 2006, the chairman and chief executive officer of Melco. Mr. Ho has also been appointed as the chairman and non-executive director of Summit Ascent Holdings Limited, a company listed on the Main Board of the HKSE, since July 10, 2013.

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As a member of the National Committee of the Chinese People's Political Consultative Conference, Mr. Ho also serves on numerous boards and committees of privately held companies in Hong Kong, Macau and mainland China. He is a member of the Board of Directors, member of the Executive Committee, and a vice patron of The Community Chest of Hong Kong; member of Science and Technology Council of the Macau SAR Government; member of All China Youth Federation; member of Macau Basic Law Promotional Association; chairman of Macau International Volunteers Association; member of the Board of Governors of The Canadian Chamber of Commerce in Hong Kong; honorary lifetime director of The Chinese General Chamber of Commerce of Hong Kong; honorary Patron of The Canadian Chamber of Commerce in Macao; honorary president of Association of Property Agents and Real Estate Developers of Macau and director executive of Macao Chamber of Commerce. In recognition of Mr. Ho's excellent directorship and entrepreneurial spirit, Institutional Investor honored him as the "Best CEO" in 2005. He was also granted the "5th China Enterprise Award for Creative Businessmen" by the China Marketing Association and China Enterprise News, "Leader of Tomorrow" by Hong Kong Tatler and the "Directors of the Year Award" by the Hong Kong Institute of Directors in 2005.

As a socially-responsible young entrepreneur in Hong Kong, Mr. Ho was selected as one of the "Ten Outstanding Young Persons Selection 2006," organized by Junior Chamber International Hong Kong. In 2007, he was elected as a finalist in the "Best Chairman" category in the "Stevie International Business Awards" and one of the "100 Most Influential People across Asia Pacific" by Asiamoney magazine. In 2008, he was granted the "China Charity Award" by the Ministry of Civil Affairs of the People's Republic of China. And in 2009, Mr. Ho was selected as one of the "China Top Ten Financial and Intelligent Persons" judged by a panel led by the Beijing Cultural Development Study Institute and Fortune Times, and was named "Young Entrepreneur of the Year" at Hong Kong's first Asia Pacific Entrepreneurship Awards.

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

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

**Mr. Geoffrey Stuart Davis** is our chief financial officer. Mr. Davis is also the executive vice president and chief financial officer of the Parent and he was appointed to this role in April 2011. Prior to that, he served as our deputy chief financial officer from August 2010 to March 2011 and our senior vice president, corporate finance from 2007, when he joined the Parent. Prior to joining us, Mr. Davis was a research analyst for Citigroup Investment Research, where he covered the U.S. gaming industry from 2001 to 2007. From 1996 to 2000, he was the vice president of corporate communications for Park Place Entertainment, the largest gaming company in the world at the time. Park Place was spun off from Hilton Hotels Corporation and subsequently renamed Caesars Entertainment. Mr. Davis has been a CFA charter holder since 2000 and obtained a bachelor of arts from Brown University in 1991.

**RELATED PARTY TRANSACTIONS**

For discussion of significant related party transactions we entered into during the years ended December 31, 2014 and 2013, see note 20 to the consolidated financial statements included elsewhere in this annual report.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

### 2011 Credit Facilities

#### *Overview*

On September 5, 2007, Melco Crown Macau entered into a project facility with certain lenders in the aggregate amount of US\$1.75 billion to fund the City of Dreams project (the “City of Dreams Project Facility”), which has been amended from time to time. On June 30, 2011, the City of Dreams Project Facility was amended as the 2011 Credit Facilities pursuant to an amendment agreement dated June 22, 2011 between the facility agent, the security agent, Melco Crown Macau and certain of its subsidiaries specified as guarantors under the City of Dreams Project Facility. The amendment reduced the size of the facilities from US\$1.75 billion to US\$1.2 billion (equivalent to approximately HK\$9.36 billion) and amended the structure whereby the term loan facility under the City of Dreams Project Facility which was originally US\$1.5 billion was reduced to HK\$6.24 billion (equivalent to approximately US\$802.2 million) (subsequently known as the “2011 Term Loan Facility”), and the revolving credit facility under the City of Dreams Project Facility which was originally US\$250 million was increased to HK\$3.12 billion (equivalent to approximately US\$401.1 million) (subsequently known as the “2011 Revolving Credit Facility”). The 2011 Credit Facilities also reduced and removed certain restrictions on our business that were imposed by the original covenants, extended the maturity date and provided for the removal of a former subsidiary from the borrowing group under the City of Dreams Project Facility.

#### *Maturity Date*

The final maturity date of the 2011 Credit Facilities is June 30, 2016 or, if earlier, the date of repayment, prepayment or cancellation in full of the 2011 Credit Facilities.

#### *Drawdowns/Repayment*

As of December 31, 2014 and 2013, the 2011 Term Loan Facility has been fully drawn down. During the year ended December 31, 2014, we repaid HK\$1,997.3 million (equivalent to approximately US\$256.7 million) under the 2011 Term Loan Facility according to the quarterly amortization schedule which commenced on September 30, 2013. As of December 31, 2014, we had total outstanding borrowings of HK\$3.25 billion (equivalent to approximately US\$417.2 million) under the 2011 Credit Facilities. The entire 2011 Revolving Credit Facility of HK\$3.12 billion (equivalent to approximately US\$401.1 million) remains available for future drawdown.

The 2011 Revolving Credit Facility is available on a fully revolving basis to the date that is one month prior to the final maturity date of the 2011 Revolving Credit Facility. The rollover of existing revolving loans drawn under the 2011 Credit Facilities is subject to compliance with covenants and satisfaction of conditions precedent. Melco Crown Macau has the right to undertake a program to hedge exposures to interest rate fluctuations under the 2011 Credit Facilities and in certain circumstances, currency fluctuations. The interests of the hedging counterparties under the hedging agreements relating to interest rate and/ or currency exposure under the 2011 Credit Facilities are secured on a pari passu basis with the lenders under the 2011 Credit Facilities. Each 2011 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 it will be rolled over subject to compliance with covenants and satisfaction of conditions precedent. Melco Crown Macau may make voluntary prepayments in respect of the 2011 Term Loan Facility and the 2011 Revolving Credit Facility, subject to certain conditions, without premium or penalty other than (if not made on an interest payment date) break costs, in minimum amounts of HK\$160 million (equivalent to approximately US\$20.6 million). Voluntary prepayments under the 2011 Term Loan Facility will be applied to the term loan principal outstanding on the 2011 Credit Facilities and to maturities on a pro-rata basis and amounts prepaid under the 2011 Term Loan Facility will not be available for redrawing. Mandatory prepayments must be made in respect of the following amounts within the Borrowing Group under the 2011 Credit Facilities, including but not limited to: (i) the net proceeds paid in respect of the compulsory transfer, seizure or acquisition by any governmental authority of the assets of any member of the Borrowing Group (subject to certain exceptions); (ii) the net proceeds of certain asset sales, subject to reinvestment rights and certain exceptions, which are in excess of US\$15 million; (iii) net termination, claim or settlement proceeds paid under Melco Crown Macau’s subconcession contract or the Borrowing Group’s land concessions (subject to certain exceptions); (iv) insurance proceeds net of expenses to obtain such proceeds under the property insurances relating to the total loss of all or substantially all of the Altira Macau gaming business; and (v) other insurance proceeds net of expenses to obtain such proceeds under any property insurances, subject to reinvestment rights and certain exceptions, which are in excess of US\$15 million.

### ***Accounts***

The terms of the 2011 Credit Facilities require that, subject to certain exceptions, all of the bank accounts of members of the Borrowing Group are secured in favor of the security agent for the benefit of the lenders and that certain receipts in respect of mandatory prepayments and amounts for reinvestment or excluded from mandatory prepayments are required to be deposited thereto.

### ***Interest and Fees***

The HK dollar denominated drawdowns under the 2011 Credit Facilities bear an initial interest rate from June 30, 2011 and continues as of the date of this document of HIBOR plus a margin ranging from 1.75% to 2.75% per annum as adjusted in accordance with the leverage ratio, as discussed below, in respect of the Borrowing Group. We are obligated to pay a commitment fee quarterly in arrears from June 30, 2011 throughout the availability period, which is payable on the daily undrawn amount under the available portion of the 2011 Revolving Credit Facility.

### ***Security***

Security for the 2011 Credit Facilities included: a first priority mortgage over all land where Altira Macau and City of Dreams are 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 equivalents; 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 and equipment and tools used in the gaming business by the Borrowing Group; as well as other customary security.

### ***Covenants***

The 2011 Credit Facilities also contain certain covenants customary for such financings including, but not limited to: limitations on (i) incurring additional liens; (ii) incurring additional indebtedness (including guarantees); (iii) making certain investments; (iv) paying dividends and other restricted payments; (v) creating any subsidiaries; (vi) selling assets; and (vii) entering into any contracts for the construction or financing of an additional hotel tower in connection with the development of City of Dreams except in accordance with plans approved by the lenders in accordance with the terms of the 2011 Credit Facilities.

The Borrowing Group is required to comply with certain financial ratios and financial covenants each quarter, such as:

- a. Leverage, as defined in the 2011 Credit Facilities, which cannot exceed 3.00 to 1.00 for the reporting periods ending September 30, 2011, December 31, 2011, March 31, 2012, June 30, 2012, September 30, 2012, December 31, 2012, March 31, 2013 and June 30, 2013 and cannot exceed 2.50 to 1.00 for the reporting periods ending September 30, 2013 onwards;
- b. Total Leverage, as defined in the 2011 Credit Facilities, which cannot exceed 4.50 to 1.00 for the reporting periods ending September 30, 2011, December 31, 2011, March 31, 2012, June 30, 2012, September 30, 2012, December 31, 2012, March 31, 2013 and June 30, 2013 and cannot exceed 4.00 to 1.00 for the reporting periods ending September 30, 2013 onwards; and
- c. Interest Cover, as defined in the 2011 Credit Facilities, which must be greater than or equal to 4.00 to 1.00 for the reporting periods ending September 30, 2011 onwards.

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The 2011 Credit Facilities contain restrictions which apply on and from June 30, 2011 on paying dividends to our company or persons who are not members of the Borrowing Group, unless certain financial tests and conditions are satisfied. Dividends may be paid from (i) excess cash flow as defined in the 2011 Credit Facilities generated by the Borrowing Group subject to compliance with the financial covenants under the 2011 Credit Facilities; or (ii) cash held by the Borrowing Group in an amount not exceeding the aggregate cash and cash equivalents investments of the Borrowing Group as at June 30, 2011 subject to a certain amount of cash and cash equivalents being retained for operating purposes and, in either case, there being no event of default continuing or likely to occur under the 2011 Credit Facilities as a result of making such payment.

### ***Events of Default***

The 2011 Credit Facilities contain customary events of default including, subject to certain grace periods and exceptions: (i) the failure to make any payment when due; (ii) the breach of financial covenants; (iii) a cross-default triggered by any other event of default in the facility agreements or other documents forming the indebtedness of the borrower and/or guarantors; (iv) the breach of the credit facility documents, Melco Crown Macau's subconcession contract and land concessions; (v) insolvency or bankruptcy events; (vi) misrepresentations on the part of the borrower and guarantors in statements made in the loan documents delivered to the lenders; and (vii) the imposition of fines in certain circumstances by the relevant governmental authority for the failure to complete the development of City of Dreams by construction of an additional hotel tower in compliance with the terms of the land concession.

### **Other Financing**

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.

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**MCE FINANCE LIMITED**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of MCE Finance Limited:

We have audited the accompanying consolidated financial statements of MCE Finance Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, shareholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MCE Finance Limited and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

/s/ **Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
April 30, 2015

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

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$1,186,091	\$1,164,682
Bank deposits with original maturity over three months	110,616	587,094
Restricted cash	629	—
Accounts receivable, net (Note 3)	253,111	287,880
Amounts due from affiliated companies (Note 20(b))	263,959	273,018
Inventories	18,749	18,169
Prepaid expenses and other current assets	43,107	46,092
Total current assets	<u>1,876,262</u>	<u>2,376,935</u>
PROPERTY AND EQUIPMENT, NET (Note 4)	2,273,419	2,205,257
GAMING SUBCONCESSION, NET (Note 5)	427,794	485,031
INTANGIBLE ASSETS, NET (Note 6)	4,220	4,220
GOODWILL (Note 6)	81,915	81,915
LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER ASSETS (Note 7)	98,699	64,839
ADVANCE TO SHAREHOLDER (Note 20(d))	664,147	109,856
DEFERRED FINANCING COSTS, NET	79,387	94,785
LAND USE RIGHTS, NET (Note 8)	375,687	396,585
TOTAL ASSETS	<u>\$5,881,530</u>	<u>\$5,819,423</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 10,837	\$ 9,825
Accrued expenses and other current liabilities (Note 9)	724,675	768,007
Income tax payable	2,804	5,601
Capital lease obligations, due within one year (Note 11)	163	—
Current portion of long-term debt (Note 10)	256,717	256,717
Amount due to shareholder (Note 20(d))	20,559	19,940
Amounts due to affiliated companies (Note 20(c))	19,328	12,179
Total current liabilities	<u>1,035,083</u>	<u>1,072,269</u>
LONG-TERM DEBT (Note 10)	1,160,449	1,417,166
OTHER LONG-TERM LIABILITIES (Note 12)	26,270	6,418
DEFERRED TAX LIABILITIES (Note 15)	16,024	16,582
CAPITAL LEASE OBLIGATIONS, DUE AFTER ONE YEAR (Note 11)	577	—
LAND USE RIGHT PAYABLE (Note 19(c))	3,788	11,090
COMMITMENTS AND CONTINGENCIES (Note 19)		

**MCE FINANCE LIMITED****CONSOLIDATED BALANCE SHEETS — continued**  
**(In thousands of U.S. dollars, except share and per share data)**

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>SHAREHOLDER'S EQUITY</b>		
Ordinary shares at US\$0.01 par value per share (Authorized — 5,000,000 shares and issued — 1,202 shares as of December 31, 2014 and 2013 (Note 14))	\$ —	\$ —
Additional paid-in capital	1,841,725	2,261,725
Accumulated other comprehensive income	2,635	2,635
Retained earnings	1,794,979	1,031,538
Total shareholder's equity	<u>3,639,339</u>	<u>3,295,898</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u><b>\$5,881,530</b></u>	<u><b>\$5,819,423</b></u>

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

**MCE FINANCE LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(In thousands of U.S. dollars)**

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>OPERATING REVENUES</b>		
Casino	\$ 4,647,460	\$ 4,941,487
Rooms	137,195	128,866
Food and beverage	85,920	80,761
Entertainment, retail and others	142,584	119,256
Gross revenues	5,013,159	5,270,370
Less: promotional allowances	(180,336)	(164,417)
Net revenues	<u>4,832,823</u>	<u>5,105,953</u>
<b>OPERATING COSTS AND EXPENSES</b>		
Casino	(3,242,160)	(3,452,597)
Rooms	(12,673)	(12,511)
Food and beverage	(23,137)	(29,253)
Entertainment, retail and others	(62,189)	(64,212)
General and administrative	(335,665)	(268,099)
Pre-opening costs	(5,669)	(396)
Amortization of gaming subconcession	(57,237)	(57,237)
Amortization of land use rights	(20,939)	(20,739)
Depreciation and amortization	(233,782)	(254,073)
Property charges and others	(5,191)	(6,884)
Total operating costs and expenses	<u>(3,998,642)</u>	<u>(4,166,001)</u>
<b>OPERATING INCOME</b>	<u>834,181</u>	<u>939,952</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>		
Interest income	7,116	6,269
Interest expenses, net of capitalized interest	(54,296)	(65,730)
Amortization of deferred financing costs	(15,398)	(15,398)
Loan commitment fees	(2,808)	(2,453)
Foreign exchange loss, net	(3,108)	(339)
Loss on extinguishment of debt (Note 10)	—	(50,256)
Costs associated with debt modification (Note 10)	—	(10,538)
Total non-operating expenses, net	<u>(68,494)</u>	<u>(138,445)</u>
<b>INCOME BEFORE INCOME TAX</b>	765,687	801,507
<b>INCOME TAX EXPENSE (Note 15)</b>	(2,246)	(5,684)
<b>NET INCOME</b>	<u>\$ 763,441</u>	<u>\$ 795,823</u>

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

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

	<u>Ordinary Shares</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Total Shareholder's Equity</u>
	<u>Shares</u>	<u>Amount</u>				
BALANCE AT JANUARY 1, 2013	1,202	\$ —	\$2,261,725	\$ 2,635	\$ 235,715	\$ 2,500,075
Net income for the year	—	—	—	—	795,823	795,823
BALANCE AT DECEMBER 31, 2013	1,202	—	2,261,725	2,635	1,031,538	3,295,898
Net income for the year	—	—	—	—	763,441	763,441
Dividends declared (Note 18)	—	—	(420,000)	—	—	(420,000)
BALANCE AT DECEMBER 31, 2014	<u>1,202</u>	<u>\$ —</u>	<u>\$1,841,725</u>	<u>\$ 2,635</u>	<u>\$1,794,979</u>	<u>\$ 3,639,339</u>

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

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

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 763,441	\$ 795,823
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	311,958	332,049
Amortization of deferred financing costs	15,398	15,398
Amortization of discount on senior notes payable	—	71
Loss on disposal of property and equipment	1,099	2,483
Impairment loss recognized on property and equipment	4,146	—
Allowance for doubtful debts and direct write off	37,669	44,299
Loss on extinguishment of debt	—	50,256
Written off deferred financing costs on modification of debt	—	10,538
Changes in operating assets and liabilities:		
Accounts receivable	(7,178)	(15,261)
Amounts due from affiliated companies	9,059	(9,961)
Inventories	(580)	(1,593)
Prepaid expenses and other current assets	3,148	(13,627)
Long-term prepayments, deposits and other assets	(275)	317
Accounts payable	1,012	(3,920)
Accrued expenses and other current liabilities	(76,675)	71,425
Income tax payable	(2,797)	5,596
Amount due to shareholder	619	1,077
Amounts due to affiliated companies	4,754	(546)
Other long-term liabilities	16,369	618
Deferred tax liabilities	(558)	84
Advance from shareholder	(401)	(1,577)
Net cash provided by operating activities	<u>1,080,208</u>	<u>1,283,549</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Advance to shareholder	(553,891)	(860,632)
Payment for acquisition of property and equipment	(240,852)	(95,677)
Placement of bank deposits with original maturity over three months	(110,616)	(587,094)
Advance payments and deposits for acquisition of property and equipment	(59,320)	(8,213)
Payment for land use rights	(3,559)	(19,578)
Payment for entertainment production costs	(1,346)	(2,064)
Changes in restricted cash	(629)	—
Proceeds from sale of property and equipment	1,117	343
Withdrawals of bank deposits with original maturity over three months	587,094	—
Net cash used in investing activities	<u>(382,002)</u>	<u>(1,572,915)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(420,000)	—
Principal payments on long-term debt	(256,717)	(940,846)
Principal payments on capital lease obligations	(80)	—
Payment of deferred financing costs	—	(122,058)
Proceeds from long-term debt	—	1,000,000
Net cash used in financing activities	<u>(676,797)</u>	<u>(62,904)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>21,409</b>	<b>(352,270)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,164,682</b>	<b>1,516,952</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$1,186,091</u></b>	<b><u>\$ 1,164,682</u></b>

**MCE FINANCE LIMITED****CONSOLIDATED STATEMENTS OF CASH FLOWS — continued**  
**(In thousands of U.S. dollars)**

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS</b>		
Cash paid for interest (net of capitalized interest)	\$ (54,794)	\$ (55,241)
Cash paid for tax	(5,600)	(5)
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Costs of property and equipment funded through capital lease obligations	850	—
Construction costs and property and equipment funded through accrued expenses and other current liabilities and other long-term liabilities	48,730	20,920
Construction costs and property and equipment funded through advance from shareholder and amounts due from/to affiliated companies	2,396	305
Land use rights costs funded through accrued expenses and other current liabilities and land use right payable	<u>—</u>	<u>14,608</u>

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

**MCE FINANCE LIMITED**

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

**1. COMPANY INFORMATION**

MCE Finance Limited (the “Company”) was incorporated in the Cayman Islands on June 7, 2006 and the Company together with its subsidiaries (collectively referred to as the “Group”) is a developer, owner and, through its indirect subsidiary, Melco Crown (Macau) Limited (“Melco Crown Macau”) together with its remaining subsidiaries collectively hereafter referred to as the “Gaming Group”), operator of casino gaming and entertainment resort facilities focused on the Macau Special Administrative Region of the People’s Republic of China (“Macau”) market.

The Group currently operates Altira Macau, a casino hotel located at Taipa, Macau, City of Dreams, an integrated urban casino resort located at Cotai, Macau, Taipa Square Casino, a casino located at Taipa, Macau, and Mocha Clubs, non-casino based operations of electronic gaming machines in Macau.

As of December 31, 2014 and 2013, the Company’s sole shareholder is Melco Crown Entertainment Limited (“MCE”), a company incorporated in the Cayman Islands. MCE’s ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) under the stock code of “6883” in the Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”) and its American depository shares are listed on the NASDAQ Global Select Market under the symbol “MPEL” in the United States of America. On January 2, 2015, MCE submitted an application to the Hong Kong Stock Exchange for the voluntary withdrawal of the listing of its ordinary shares on the Main Board of Hong Kong Stock Exchange, which is expected to take effect at 4:00 p.m. on Friday, July 3, 2015, subject to fulfillment of certain conditions. As of December 31, 2014 and 2013, the major shareholders of MCE are Melco International Development Limited (“Melco”), a company listed in Hong Kong, and Crown Resorts Limited (“Crown”), an Australian-listed corporation.

Upon acquisition of Melco Crown Macau in 2006, MCE underwent a group restructuring in order for the Company to become the intermediate holding company of the Gaming Group (the “Transaction”). On June 7, 2006, MCE set up the Company and transferred its interests in MPEL International Limited (“MPEL International”), a wholly-owned subsidiary of MCE, which in turn is the immediate holding company of the Gaming Group, to the Company. The Transaction was completed on June 26, 2006. The consolidated financial statements of the Group have been prepared on the basis that the Company has been the holding company of MPEL International and the Gaming Group since the establishment of MPEL International and the Gaming Group as there is no change in MCE’s control of MPEL International and the Gaming Group before and after the Transaction.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. 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 U.S. 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 judgments are based on historical information, information that is currently available to the Group and on various other assumptions that the Group believes to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.



**MCE FINANCE 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 of Financial Instruments**

Fair value is defined 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 Group estimated the fair values using appropriate valuation methodologies and market information available as of the balance sheet date.

**(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 and cash equivalents are placed with financial institutions with high-credit ratings and quality.

**(e) Restricted Cash**

The current portion of restricted cash represents those cash deposited into bank accounts which are restricted as to withdrawal and use and the Group expects those funds will be released or utilized in accordance with the terms of the respective agreements within the next twelve months. Restricted cash as of December 31, 2014 represents bank accounts that are restricted for withdrawal and for payment of Studio City project costs in accordance with the terms of the Studio City Project Facility as defined in Note 19(e) and other associated agreements. Studio City is a cinematically-themed integrated entertainment, retail and gaming resort in Cotai, Macau currently under development by affiliated companies of the Group which are 60% indirectly held by MCE.

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

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of casino receivables. The Group issues credit in the form of markers to approved casino customers following investigations of creditworthiness including to its gaming promoters in Macau, which receivable can be offset against commissions payable and any other value items held by the Group to the respective customer and for which the Group intends to set-off when required. As of December 31, 2014 and 2013, a substantial portion of the Group’s markers were due from customers residing in foreign countries. Business or economic conditions, the legal enforceability of gaming debts, or other significant events in foreign countries could affect the collectability of receivables from customers and gaming promoters residing in these countries.

Accounts receivable, including casino, hotel and other receivables, are typically non-interest bearing and are 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 Group’s receivables to their carrying amounts, which approximates fair value. 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. Management believes that as of December 31, 2014 and 2013, no significant concentrations of credit risk existed for which an allowance had not already been recorded.

**MCE FINANCE 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****(g) Inventories**

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

**(h) Property and Equipment, Net**

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

During the construction and development stage of the Group's casino gaming and entertainment resort facilities, direct and incremental costs related to the design and construction, including costs under the construction contracts, duties and tariffs, equipment installation, shipping costs, payroll and payroll-benefit related costs, depreciation of plant and equipment used, applicable portions of interest and amortization of deferred financing costs, are capitalized in property and equipment. The capitalization of such costs begins when the construction and development of a project starts and ceases once the construction is substantially completed or development activity is suspended for more than a brief period.

Depreciation and amortization expense related to capitalized construction costs and other property and equipment is recognized from the time each asset is placed in service. This may occur at different stages as casino gaming and entertainment resort facilities are completed and opened.

Property and equipment and other long-lived assets with a finite useful life are depreciated and amortized on a straight-line basis over the asset's estimated useful life. Estimated useful lives are as follows:

<u>Classification</u>	<u>Estimated Useful Life</u>
Buildings	7 to 25 years or over the term of the land use right agreement, whichever is shorter
Leasehold improvements	3 to 10 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	2 to 10 years
Motor vehicles	5 years
Plant and gaming machinery	3 to 5 years

**(i) Capitalization of Interest and Amortization of Deferred Financing Costs**

Interest and amortization of deferred financing costs incurred on funds used to construct the Group's casino gaming and entertainment resort facilities during the active construction period are capitalized. Interest subject to capitalization primarily includes interest paid or payable on the Group's long-term debt. The capitalization of interest and amortization of deferred financing costs ceases once a project is substantially completed 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 Group's outstanding borrowings to the average amount of accumulated qualifying 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. Total interest expenses incurred amounted to \$61,952 and \$67,985, of which \$7,656 and \$2,255 were capitalized for the years ended December 31, 2014 and 2013, respectively. No amortization of deferred financing costs were capitalized during the years ended December 31, 2014 and 2013.

**MCE FINANCE 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**

**(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 Macau, the holder of the gaming subconcession in Macau, in 2006, 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 cost over the fair value of tangible and identifiable intangible net assets of any business acquired. Goodwill is not amortized, but is tested for impairment at the reporting unit level on an annual basis, and between annual tests when circumstances indicate that the carrying value of goodwill may not be recoverable. An impairment loss is recognized in an amount equal to the excess of the carrying amount over the implied fair value.

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 Group'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 Group's intangible assets with indefinite lives represent Mocha Clubs trademarks, which are tested for impairment on an annual basis or when circumstances indicate that the carrying value of the intangible assets may not be recoverable.

**(l) Impairment of Long-lived Assets (Other Than Goodwill)**

The Group 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 year ended December 31, 2014, an impairment loss of \$4,146 was recognized mainly due to reconfiguration of the entertainment area at City of Dreams and renovation of the casinos at City of Dreams and Altira Macau and the amount were included in the consolidated statements of operations. No impairment losses were recognized during the year ended December 31, 2013.

**(m) Deferred Financing Costs, Net**

Direct and incremental costs incurred in obtaining loans or in connection with the issuance of long-term debt are capitalized and amortized over the terms of the related debt agreements using the effective interest method. Amortization expense of approximately \$15,398 and \$15,398 were recorded during the years ended December 31, 2014 and 2013, respectively.

**(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.

**MCE FINANCE 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**

The Group 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.

The Group follows the accounting standards for reporting revenue gross as a principal versus net as an agent, when accounting for operations of Grand Hyatt Macau hotel and Taipa Square Casino. For the operations of Grand Hyatt Macau hotel, the Group is the owner of the hotel property, and the hotel manager operates the hotel under a management agreement providing management services to the Group, and the Group receives all rewards and takes substantial risks associated with the hotel business, it is the principal and the transactions of the hotel are therefore recognized on a gross basis. For the operations of Taipa Square Casino, given the Group 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.

Rooms, food and beverage, entertainment, retail and other revenues are recognized when services are performed. Advance deposits on rooms and advance ticket sales are recorded as customer deposits until services are provided to the customer. Minimum operating and right to use fee, adjusted for contractual base fee and operating fee escalations, are included in entertainment, retail and other revenues and are recognized on a straight-line basis over the terms of the related agreement.

Revenues are recognized net of certain sales incentives which are required to be recorded as a reduction of revenue; consequently, the Group'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, entertainment, retail 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, 2014 and 2013, is reclassified from rooms costs, food and beverage costs, entertainment, retail and other services costs and is included in casino expenses as follows:

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Rooms	\$ 22,209	\$ 19,828
Food and beverage	53,198	43,699
Entertainment, retail and others	7,683	8,301
	<u>\$ 83,090</u>	<u>\$ 71,828</u>

**MCE FINANCE 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**

**(p) Point-loyalty Programs**

The Group operates different loyalty programs in certain of 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 Group 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 resulting in a reduction of the accruals.

**(q) Gaming Taxes**

The Group is subject to taxes based on gross gaming revenue in Macau. These gaming taxes are determined from an assessment of the Group's gaming revenue and are recorded as an expense within the "Casino" line item in the consolidated statements of operations. These taxes totaled \$2,274,244 and \$2,479,958 for the years ended December 31, 2014 and 2013, respectively.

**(r) 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 Group incurred pre-opening costs in connection with certain one-off activities related to the marketing of new facilities and operations.

**(s) Advertising and Promotional Expenses**

The Group expenses all advertising and promotional expenses as incurred or the first time the advertising takes place. Advertising and promotional expenses included in the accompanying consolidated statements of operations were \$35,032 and \$35,962 for the years ended December 31, 2014 and 2013, respectively.

**(t) 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 are the United States dollar (" \$" or "US\$"), the Hong Kong dollar ("HK\$") or the Macau Pataca ("MOP"), 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 income.

**MCE FINANCE 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**

**(u) Income Tax**

The Group is subject to income taxes in Macau where it operates.

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.

The Group's income tax returns are subject to examination by tax authorities in the jurisdictions where it operates. The Group assesses potentially unfavorable outcomes of such examinations based on accounting standards for uncertain income taxes. These accounting standards utilize a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition 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. The second step is to measure the tax benefit as the largest amount which is more than 50% likely, based solely on the technical merits, of being sustained on examinations.

**(v) Accumulated Other Comprehensive Income**

As of December 31, 2014 and 2013, the Group's accumulated other comprehensive income consisted solely of foreign currency translation adjustments.

**(w) Recent Changes in Accounting Standards**

*Newly Adopted Accounting Pronouncement:*

In July 2013, the Financial Accounting Standards Board ("FASB") issued a pronouncement which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments require an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of this guidance was effective for the Group as of January 1, 2014 and did not have a material impact on the Group's consolidated financial results or disclosures.

**MCE FINANCE 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****(w) Recent Changes in Accounting Standards — continued***Recent Accounting Pronouncements Not Yet Adopted:*

In May 2014, the FASB issued an accounting standard update which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principal of this new revenue recognition model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This update also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for interim and fiscal years beginning after December 15, 2016, and early adoption is not permitted. The guidance can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the potential impact of adopting this guidance on the Group's consolidated financial statements.

In April 2015, the FASB issued an accounting standards update which simplifies the financial statement presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts, rather than as an asset. The recognition and measurement guidance for debt issuance costs are not affected by the amendments. These amendments are effective on a retrospective basis for interim and fiscal years beginning after December 15, 2015 with early adoption permitted and will result in changes to the presentation of debt issuance costs in the Group's consolidated balance sheets, but will have no effect on the Group's results of operations and cash flows.

**3. ACCOUNTS RECEIVABLE, NET**

Components of accounts receivable, net are as follows:

	December 31,	
	2014	2013
Casino	\$ 414,362	\$ 423,963
Hotel	1,458	1,353
Other	6,077	5,898
Sub-total	421,897	431,214
Less: allowance for doubtful debts	(168,786)	(143,334)
	<u>\$ 253,111</u>	<u>\$ 287,880</u>

During the years ended December 31, 2014 and 2013, the Group has provided allowance for doubtful debts, net of recoveries of \$29,979 and \$43,750 and has directly written off accounts receivable of \$7,690 and \$549, respectively.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****3. ACCOUNTS RECEIVABLE, NET — continued**

Movement of allowance for doubtful debts are as follows:

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
At beginning of year	\$ 143,334	\$ 113,264
Additional allowance, net of recoveries	29,979	43,750
Reclassified to long-term receivables, net	(4,527)	(13,680)
At end of year	<u>\$ 168,786</u>	<u>\$ 143,334</u>

**4. PROPERTY AND EQUIPMENT, NET**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Cost		
Buildings	\$ 2,428,325	\$ 2,428,325
Furniture, fixtures and equipment	471,140	437,659
Leasehold improvements	328,766	259,382
Plant and gaming machinery	165,028	162,763
Motor vehicles	11,239	9,734
Construction in progress	<u>251,985</u>	<u>89,188</u>
Sub-total	3,656,483	3,387,051
Less: accumulated depreciation and amortization	<u>(1,383,064)</u>	<u>(1,181,794)</u>
Property and equipment, net	<u>\$ 2,273,419</u>	<u>\$ 2,205,257</u>

As of December 31, 2014 and 2013, construction in progress in relation to City of Dreams included interest capitalized in accordance with applicable accounting standards and other direct incidental costs capitalized (representing insurance, salaries and wages and certain other professional charges incurred) which, in the aggregate amounted to \$23,194 and \$11,734, respectively.

The cost and accumulated depreciation and amortization of property and equipment held under capital lease arrangements was \$850 and \$117, respectively, as of December 31, 2014. No property and equipment were held under capital lease as of December 31, 2013. Further information of the lease arrangements is included in Note 11.

**5. GAMING SUBCONCESSION, NET**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Deemed cost	\$ 900,000	\$ 900,000
Less: accumulated amortization	(472,206)	(414,969)
Gaming subconcession, net	<u>\$ 427,794</u>	<u>\$ 485,031</u>

The deemed cost was determined based on the estimated fair value of the gaming subconcession contributed by a shareholder of MCE in 2006. The gaming subconcession is amortized on a straight-line basis over the term of the gaming subconcession agreement which expires in June 2022. The Group expects that amortization of the gaming subconcession will be approximately \$57,237 each year from 2015 through 2021, and approximately \$27,135 in 2022.



**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****6. GOODWILL AND INTANGIBLE ASSETS, NET**

Goodwill relating to Mocha Clubs and other intangible assets with indefinite useful lives, representing trademarks of Mocha Clubs, are not amortized.

To assess potential impairment of goodwill, the Group performs an assessment of the carrying value of the reporting units at least on an annual basis or when events occur or circumstances change that would more likely than not reduce the estimated fair value of those reporting units below their carrying value. If the carrying value of a reporting unit exceeds its fair value, the Group would perform the second step in its 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. The Group estimates the fair value of those reporting units through internal analysis and external valuations, which utilize income and market valuation approaches through the application of capitalized earnings and discounted cash flow methods. These valuation techniques are based on a number of estimates and assumptions, including the projected future operating results of the reporting unit, discount rates, long-term growth rates and market comparable.

Trademarks of Mocha Clubs are tested for impairment at least annually or when events occur or circumstances change that would more likely than not reduce the estimated fair value of trademarks below its carrying value using the relief-from-royalty method. Under this method, the Group estimates the fair value of the trademarks through internal and external valuations, mainly based on the incremental after-tax cash flow representing the royalties that the Group is relieved from paying given it is the owner of the trademarks. These valuation techniques are based on a number of estimates and assumptions, including the projected future revenues of the trademarks calculated using an appropriate royalty rate, discount rate and long-term growth rates.

The Group has performed annual tests for impairment of goodwill and trademarks in accordance with the accounting standards regarding goodwill and other intangible assets. No impairment loss has been recognized during the years ended December 31, 2014 and 2013.

**7. LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER ASSETS**

Long-term prepayments, deposits and other assets consisted of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Entertainment production costs	\$ 73,819	\$ 72,853
Less: accumulated amortization	(34,646)	(26,416)
Entertainment production costs, net	39,173	46,437
Advance payments for construction costs	40,962	—
Long-term receivables, net	10,114	6,250
Deposits and other	8,450	12,152
Long-term prepayments, deposits and other assets	<u>\$ 98,699</u>	<u>\$ 64,839</u>

Entertainment production costs represent amounts incurred and capitalized for entertainment shows in City of Dreams. The Group amortized the entertainment production costs over 10 years or the respective useful life of the entertainment show, whichever is shorter.

Long-term receivables, net represent casino receivables from casino customers where settlement is not expected within the next year. Aging of such balances are all over 90 days and include allowance for doubtful debts of \$24,848 and \$20,321 as of December 31, 2014 and 2013, respectively. During the years ended December 31, 2014 and 2013, net amount of current accounts receivable of \$8,642 and \$17,691 and net amount of allowance for doubtful debts of \$4,527 and \$13,680, respectively, were reclassified to non-current. Reclassifications to current accounts receivable, net, are made when conditions support that it is probable for settlement of such balances to occur within one year.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****8. LAND USE RIGHTS, NET**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Altira Macau (“Taipa Land”)	\$ 146,475	\$ 146,434
City of Dreams (“Cotai Land”)	399,578	399,578
	<u>546,053</u>	<u>546,012</u>
Less: accumulated amortization	(170,366)	(149,427)
Land use rights, net	<u>\$ 375,687</u>	<u>\$ 396,585</u>

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 dates of the leases of the land use rights of Altira Macau and City of Dreams are March 2031 and August 2033, respectively.

In January 2013, the Group recognized an additional land premium of approximately \$2,449 for Taipa Land upon Altira Developments Limited’s (“Altira Developments”), an indirect subsidiary of the Company, acceptance of the initial terms for the revision of the land concession contract issued by the Macau Government further to an amendment request applied by Altira Developments in 2012 for an increase of the total gross floor area, to reflect the construction plans approved by the Macau Government and to enable the final registration of the Taipa Land. In June 2013, the Macau Government issued the final amendment proposal for the revision of the land concession contract for Taipa Land. On July 15, 2013, Altira Developments paid the additional land premium of approximately \$2,449 set forth in the final amendment proposal, and accepted the terms of such proposal on July 16, 2013. The land grant amendment process was completed with the publication in the Macau official gazette of such revision on December 18, 2013. Further details on the revised land amendment for Taipa Land is disclosed in Note 19(c).

In March 2013, the Group recognized an additional land premium of approximately \$23,344 for Cotai Land upon Melco Crown (COD) Developments Limited’s (“Melco Crown (COD) Developments”), an indirect subsidiary of the Company and Melco Crown Macau’s acceptance of the land grant amendment proposal for the land concession contract of the Cotai Land, issued by the Macau Government in February 2013 further to an amendment request applied by Melco Crown (COD) Developments in 2011. Such amendment proposal contemplated the development of an additional five-star hotel area in replacement of the four-star apartment hotel area included in such land grant, and the extension of the development period of the City of Dreams land grant until the date falling four years after publication of the amendment in the Macau official gazette. In October 2013, the Macau Government issued the final amendment proposal for the revision of the land concession contract for Cotai Land. On October 16, 2013, Melco Crown (COD) Developments paid a portion of the additional land premium of approximately \$8,736 set forth in the final amendment proposal, and on October 17, 2013, Melco Crown (COD) Developments and Melco Crown Macau accepted the terms of such proposal. The land grant amendment process for Cotai Land was completed following the publication in the Macau official gazette of such revision on January 29, 2014. Further details on the final land amendment for Cotai Land are disclosed in Note 19(c).

**MCE FINANCE 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**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Outstanding gaming chips and tokens	\$ 236,920	\$ 263,663
Gaming tax accruals	170,024	238,920
Customer deposits and ticket sales	80,677	80,421
Staff cost accruals	80,164	62,152
Operating expense and other accruals and liabilities	47,083	40,472
Property and equipment payables	32,893	19,698
Construction costs payables	27,201	11,212
Other gaming related accruals	23,397	29,157
Interest expenses payable	19,014	18,794
Land use right payable	7,302	3,518
	<u>\$ 724,675</u>	<u>\$ 768,007</u>

**10. LONG-TERM DEBT**

Long-term debt consisted of the following:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
2013 Senior Notes	\$ 1,000,000	\$ 1,000,000
2011 Credit Facilities	417,166	673,883
	1,417,166	1,673,883
Current portion of long-term debt	(256,717)	(256,717)
	<u>\$ 1,160,449</u>	<u>\$ 1,417,166</u>

**2011 Credit Facilities**

On June 22, 2011, Melco Crown Macau (the “Borrower”) entered into an amendment agreement (the “2011 Credit Facilities”) with certain lenders in respect of a senior secured credit facility (the “City of Dreams Project Facility”), which was entered on September 5, 2007 and which was subsequently amended from time to time, in an aggregate amount of \$1,750,000 to fund the City of Dreams project, construction of an integrated entertainment resort complex in Macau. The City of Dreams Project Facility consisted of a \$1,500,000 term loan facility (the “Term Loan Facility”) and a \$250,000 revolving credit facility (the “Revolving Credit Facility”).

On June 30, 2011, the 2011 Credit Facilities, which was subsequently amended from time to time, became effective and among other things: (i) reduced the Term Loan Facility to HK\$6,241,440,000 (equivalent to \$802,241) (the “2011 Term Loan Facility”) and increased the Revolving Credit Facility to HK\$3,120,720,000 (equivalent to \$401,121) (the “2011 Revolving Credit Facility”), both of which are denominated in Hong Kong dollars; (ii) introduced new lenders and removed certain lenders originally under the City of Dreams Project Facility; (iii) extended the repayment maturity date; (iv) reduced and removed certain restrictions imposed by the covenants in the City of Dreams Project Facility; and (v) removed MPEL (Delaware) LLC, a wholly-owned subsidiary of the Borrower which was subsequently dissolved on May 31, 2012, from the borrowing group which included the Borrower and certain of its affiliates and subsidiaries as defined under the City of Dreams Project Facility (the “2011 Borrowing Group”).

**MCE FINANCE LIMITED**

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

**10. LONG-TERM DEBT — continued**

**2011 Credit Facilities — continued**

The final maturity date of the 2011 Credit Facilities is June 30, 2016. The 2011 Term Loan Facility is repayable in quarterly instalments according to an amortization schedule which commenced on September 30, 2013. Each loan made under the 2011 Revolving Credit Facility is repayable in full on the last day of an agreed upon interest period in respect of the loan, generally ranging from one to six months, or rolling over subject to compliance with certain covenants and satisfaction of conditions precedent. The Borrower may make voluntary prepayments in respect of the 2011 Credit Facilities in a minimum amount of HK\$160,000,000 (equivalent to \$20,566), plus the amount of any applicable break costs. The Borrower is also subject to mandatory prepayment requirements in respect of various amounts within the 2011 Borrowing Group, including but not limited to: (i) the net proceeds received by any member of the 2011 Borrowing Group in respect of the compulsory transfer, seizure or acquisition by any governmental authority of the assets of any member of the 2011 Borrowing Group (subject to certain exceptions); (ii) the net proceeds of certain asset sales, subject to reinvestment rights and certain exceptions, which are in excess of \$15,000; (iii) net termination, claim or settlement proceeds paid under the Borrower's subconcession or the 2011 Borrowing Group's land concessions, subject to certain exceptions; (iv) insurance proceeds net of expenses to obtain such proceeds under the property insurances relating to the total loss of all or substantially all of the Altira Macau gaming business; and (v) other insurance proceeds net of expenses to obtain such proceeds under any property insurances, subject to reinvestment rights and certain exceptions, which are in excess of \$15,000.

Drawdowns on the 2011 Term Loan Facility were subject to satisfaction of conditions precedent specified in the 2011 Credit Facilities and the 2011 Revolving Credit Facility is to be made available on a fully revolving basis to the date that is one month prior to the 2011 Revolving Credit Facility's final maturity date.

The indebtedness under the 2011 Credit Facilities is guaranteed by the 2011 Borrowing Group. Security for the 2011 Credit Facilities included: a first priority mortgage over all land where Altira Macau and City of Dreams are 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 equivalents; charges over the bank accounts in respect of the 2011 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 2011 Borrowing Group which are not subject to any security under any other security documentation; first priority charges over the issued share capital of the 2011 Borrowing Group and equipment and tools used in the gaming business by the 2011 Borrowing Group; as well as other customary security.

The 2011 Credit Facilities also contain certain covenants customary for such financings including, but not limited to: limitations on (i) incurring additional liens; (ii) incurring additional indebtedness (including guarantees); (iii) making certain investments; (iv) paying dividends and other restricted payments; (v) creating any subsidiaries; (vi) selling assets; and (vii) entering into any contracts for the construction or financing of an additional hotel tower in connection with the development of City of Dreams except with plans approved by the lenders in accordance with the terms of the 2011 Credit Facilities. The 2011 Credit Facilities removed the financial covenants under the City of Dreams Project Facility, and replaced them with, without limitation, a leverage ratio, total leverage ratio and interest cover ratio. The first test date of the financial covenants was September 30, 2011. As of December 31, 2014, management believes that the 2011 Borrowing Group was in compliance with each of the financial restrictions and requirements.

There are provisions that limit or prohibit certain payments of dividends and other distributions by the 2011 Borrowing Group to the Company or persons who are not members of the 2011 Borrowing Group (described in further detail in Note 17). As of December 31, 2014 and 2013, the net assets of the 2011 Borrowing Group of approximately \$3,559,000 and \$3,220,000, respectively, were restricted from being distributed under the terms of the 2011 Credit Facilities.

**MCE FINANCE LIMITED**

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

**10. LONG-TERM DEBT — continued**

**2011 Credit Facilities — continued**

Borrowings under the 2011 Credit Facilities bear interest at Hong Kong Interbank Offered Rate (“HIBOR”) plus a margin ranging from 1.75% to 2.75% per annum as adjusted in accordance with the leverage ratio in respect of the 2011 Borrowing Group. The Borrower may select an interest period for borrowings under the 2011 Credit Facilities of one, two, three or six months or any other agreed period. The Borrower is obligated to pay a commitment fee quarterly in arrears from June 30, 2011 on the undrawn amount of the 2011 Revolving Credit Facility throughout the availability period. Loan commitment fees on the 2011 Credit Facilities amounting to \$2,808 and \$2,453 were recognized during the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the 2011 Term Loan Facility has been fully drawn down. During the years ended December 31, 2014 and 2013, the Group repaid HK\$1,997,260,800 (equivalent to \$256,717) and HK\$998,630,400 (equivalent to \$128,358), respectively, under the 2011 Term Loan Facility according to the quarterly amortization schedule which commenced on September 30, 2013. The Group repaid HK\$1,653,154,570 (equivalent to \$212,488) during the year ended December 31, 2013, and accordingly, the entire 2011 Revolving Credit Facility of HK\$3,120,720,000 (equivalent to \$401,121) remains available for future drawdown as of December 31, 2014 and 2013. As of December 31, 2014 and 2013, the Group had total outstanding borrowings of HK\$3,245,548,000 (equivalent to \$417,166) and HK\$5,242,809,600 (equivalent to \$673,883), respectively, under the 2011 Credit Facilities.

**2010 Senior Notes**

On May 17, 2010, the Company issued and listed the \$600,000 10.25% senior notes, due 2018 (the “2010 Senior Notes”) on the Official List of Singapore Exchange Securities Trading Limited (“SGX-ST”). The purchase price paid by the initial purchasers was 98.671% of the principal amount. The 2010 Senior Notes were general obligations of the Company, secured by a first-priority pledge of the intercompany note (the “Intercompany Note”) representing the on-lending of the gross proceeds from the issuance of the 2010 Senior Notes by the Company to an indirect subsidiary of the Company to reduce the indebtedness under the City of Dreams Project Facility, ranked equally in right of payment to all existing and future senior indebtedness of the Company and ranked senior in right of payment to any existing and future subordinated indebtedness of the Company. The 2010 Senior Notes would have matured on May 15, 2018. Interest on the 2010 Senior Notes was accrued at a rate of 10.25% per annum and was payable semi-annually in arrears on May 15 and November 15 of each year, commenced on November 15, 2010.

The Company had the option to redeem all or part of the 2010 Senior Notes at any time prior to May 15, 2014, at a “make- whole” redemption price. Thereafter, the Company had the option to redeem all or a portion of the 2010 Senior Notes at any time at fixed redemption prices that declined ratably over time.

Prior to May 15, 2013, the Company had the option to redeem up to 35% of the 2010 Senior Notes with the net cash proceeds from one or more certain equity offerings at a fixed redemption price. In addition, under certain circumstances and subject to certain exceptions as more fully described in the indenture, the Company also had the option to redeem in whole, but not in part of the 2010 Senior Notes at fixed redemption prices.

The indenture governing the 2010 Senior Notes contained certain covenants that, subject to certain exceptions and conditions, limited the ability of the Company and its restricted subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) make specified restricted payments; (iii) issue or sell capital stock; (iv) sell assets; (v) create liens; (vi) enter into agreements that restrict the restricted subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans; (vii) enter into transactions with shareholders or affiliates; and (viii) effect a consolidation or merger.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****10. LONG-TERM DEBT — continued****2010 Senior Notes — continued**

There were provisions under the indenture of the 2010 Senior Notes that limited or prohibited certain payments of dividends and other distributions by the Company and its restricted subsidiaries to persons who were not the Company or members of the Company's restricted subsidiaries, subject to certain exceptions and conditions (described in further detail in Note 17).

On January 28, 2013, the Company made a cash tender offer to repurchase the 2010 Senior Notes at a cash consideration plus accrued interest and also solicited consents to amend the terms of the 2010 Senior Notes to substantially remove the debt incurrence, restricted payment and other restrictive covenants (the "Tender Offer"). Closing of the Tender Offer and consent solicitation were conditioned upon the Company receiving net proceeds from offering of the 2013 Senior Notes (as described below) in an amount sufficient to repurchase the tendered 2010 Senior Notes and related fees and expenses and other general conditions. The Tender Offer expired on February 26, 2013 and \$599,135 aggregate principal amount of the 2010 Senior Notes were tendered. On February 27, 2013, the Company elected to redeem the remaining outstanding 2010 Senior Notes in aggregate principal amount of \$865 on March 28, 2013, at a price equal to 100% of the principal amount outstanding plus applicable premium as of, and accrued and unpaid interest to March 28, 2013. The accounting for the total redemption costs of \$102,497, unamortized deferred financing costs of \$23,793 and unamortized issue discount of \$5,962 in relation to the 2010 Senior Notes as of the redemption date are disclosed as below under the 2013 Senior Notes.

**2013 Senior Notes**

On February 7, 2013, the Company issued and listed \$1,000,000 5% senior notes, due 2021 (the "2013 Senior Notes") and priced at 100% at par on the SGX-ST. The 2013 Senior Notes are general obligations of the Company, rank equally in right of payment to all existing and future senior indebtedness of the Company and rank senior in right of payment to any existing and future subordinated indebtedness of the Company and effectively subordinated to all of the Company's existing and future secured indebtedness to the extent of the value of the assets securing such debt. Certain subsidiaries of the Company (the "2013 Senior Notes Guarantors") jointly, severally and unconditionally guarantee the 2013 Senior Notes on a senior basis. The guarantees are joint and several general obligations of the 2013 Senior Notes Guarantors, rank equally in right of payment with all existing and future senior indebtedness of the 2013 Senior Notes Guarantors, and rank senior in right of payment to any existing and future subordinated indebtedness of the 2013 Senior Notes Guarantors. The 2013 Senior Notes mature on February 15, 2021. Interest on the 2013 Senior Notes is accrued at a rate of 5% per annum and is payable semi-annually in arrears on February 15 and August 15 of each year, commenced on August 15, 2013.

The net proceeds from the offering of the 2013 Senior Notes, after deducting the underwriting commissions and other expenses of approximately \$14,500, was approximately \$985,500. The Group used part of the net proceeds from the offering to (i) repurchase in full the 2010 Senior Notes of \$600,000 and fund the related redemption costs of the 2010 Senior Notes of \$102,497 and (ii) advance funds to MCE for the partial repayment of the MCE's Renminbi 2,300,000,000 3.75% bonds due 2013 on March 11, 2013. As a result, in accordance with the applicable accounting standards, the Group recorded a \$50,256 loss on extinguishment of debt in the consolidated statements of operations for the year ended December 31, 2013 which comprised the portion of the redemption costs of \$38,949, write off of respective portion of unamortized deferred financing costs of \$9,041 and unamortized issue discount of \$2,266 related to the 2010 Senior Notes and recorded \$10,538 costs associated with debt modification in the consolidated statements of operations for the year ended December 31, 2013 which represented the portion of the underwriting fee and other third party costs incurred in connection with the issuance of the 2013 Senior Notes. The remaining portion of the underwriting fee and other third party costs of \$6,523 were capitalized as deferred financing costs.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****10. LONG-TERM DEBT — continued****2013 Senior Notes — continued**

The Company has the option to redeem all or a portion of the 2013 Senior Notes at any time prior to February 15, 2016, at a “make-whole” redemption price. Thereafter, the Company has the option to redeem all or a portion of the 2013 Senior Notes at any time at fixed redemption prices that decline ratably over time.

The Company has the option to redeem up to 35% of the 2013 Senior Notes with the net cash proceeds from one or more certain equity offerings at a fixed redemption price at any time prior to February 15, 2016. In addition, under certain circumstances and subject to certain exceptions as more fully described in the indenture, the Company also has the option to redeem in whole, but not in part of the 2013 Senior Notes at fixed redemption prices.

The indenture governing the 2013 Senior Notes contains certain covenants that, subject to certain exceptions and conditions, limit the ability of the Company and its restricted subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) make specified restricted payments; (iii) issue or sell capital stock; (iv) sell assets; (v) create liens; (vi) enter into agreements that restrict the restricted subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans; (vii) enter into transactions with shareholders or affiliates; and (viii) effect a consolidation or merger. As of December 31, 2014, management believes that the Company was in compliance with each of the financial restrictions and requirements.

There are provisions under the indenture of the 2013 Senior Notes that limit or prohibit certain payments of dividends and other distributions by the Company and its restricted subsidiaries to persons who are not the Company or members of the Company’s restricted subsidiaries, subject to certain exceptions and conditions (described in further detail in Note 17). As of December 31, 2014 and 2013, the net assets of the Company and its restricted subsidiaries of approximately \$3,639,000 and \$3,296,000, respectively, were restricted from being distributed under the terms of the 2013 Senior Notes.

Total interest on long-term debt consisted of the following:

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Interest for 2013 Senior Notes	\$ 50,000	\$ 44,998
Interest for 2011 Credit Facilities	11,337	16,841
Interest for 2010 Senior Notes	—	6,028
Amortization of discount in connection with issuance of 2010 Senior Notes	—	71
	<u>61,337</u>	<u>67,938</u>
Interest capitalized	(7,057)	(2,255)
	<u>\$ 54,280</u>	<u>\$ 65,683</u>

During the years ended December 31, 2014 and 2013, the Group’s average borrowing rates were approximately 3.89% and 4.15% per annum, respectively.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****10. LONG-TERM DEBT — continued**

Scheduled maturities of the long-term debt as of December 31, 2014 are as follows:

Year ending December 31,	
2015	\$ 256,717
2016	160,449
2017	—
2018	—
2019	—
Over 2019	<u>1,000,000</u>
	<u>\$1,417,166</u>

**11. CAPITAL LEASE OBLIGATIONS**

The Group entered into lease agreements with third parties of lease of certain property and equipment during the year ended December 31, 2014.

The Group made assessments at inception of the leases and capitalized the portion related to property and equipment under capital lease at the lower of the fair value or the present value of the future minimum lease payments.

Future minimum lease payments under capital lease obligations for the Group as of December 31, 2014 are as follows:

Year ending December 31,	
2015	\$ 184
2016	184
2017	184
2018	161
2019	80
Total minimum lease payments	<u>793</u>
Less: amounts representing interest	<u>(53)</u>
Present value of minimum lease payments	740
Current portion	<u>(163)</u>
Non-current portion	<u>\$ 577</u>

**12. OTHER LONG-TERM LIABILITIES**

	<b>December 31,</b>	
	<u>2014</u>	<u>2013</u>
Staff cost accruals and others	\$ 15,222	\$ —
Deferred rent liabilities	7,228	6,231
Construction costs retention payables	3,289	—
Other deposits received	531	187
	<u>\$ 26,270</u>	<u>\$ 6,418</u>



**MCE FINANCE LIMITED**

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

**13. FAIR VALUE MEASUREMENTS**

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

- Level 1 — inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 — inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

The carrying values of cash and cash equivalents, bank deposits with original maturity over three months and restricted cash approximated fair value and represented a level 1 measurement. The carrying values of long-term deposits, long-term receivables, advance to shareholder and other long-term liabilities approximated fair value and represented a level 2 measurement. The estimated fair value of long-term debt as of December 31, 2014 and 2013, which included the 2013 Senior Notes and the 2011 Credit Facilities, were approximately \$1,349,866 and \$1,638,213, respectively, as compared to its carrying values of \$1,417,166 and \$1,673,883, respectively. Fair value was estimated using quoted market prices and represented a level 1 measurement for the 2013 Senior Notes. Fair value for the 2011 Credit Facilities approximated the carrying value as the instrument carried variable interest rate approximated the market rate and represented a level 2 measurement. Additionally, the carrying value of land use right payable approximated fair value as the instrument carried the fixed interest rate approximated the market rate and represented a level 2 measurement.

As of December 31, 2014, the Group did not have any non-financial assets or liabilities that are recognized or disclosed at fair value in the consolidated financial statements. The Group's financial assets and liabilities recorded at fair value have been categorized based upon the fair value in accordance with the accounting standards.

**14. CAPITAL STRUCTURE**

The Company was incorporated on June 7, 2006 with authorized shares of 5,000,000 at par value of US\$0.01 per share. As of December 31, 2014 and 2013, the Company had 1,202 ordinary shares issued at par value of US\$0.01 per share.

**15. INCOME TAXES**

The Company and certain of its subsidiaries are exempt from tax in the Cayman Islands, where they are incorporated. The Company's remaining subsidiaries incorporated or conducting businesses in Macau are subject to Macau Complementary Tax, during the years ended December 31, 2014 and 2013.

Pursuant to the approval notices issued by the Macau Government dated June 7, 2007, Melco Crown Macau has been exempted from Macau Complementary Tax on profits generated by gaming operations for five years commencing from 2007 to 2011 and will continue to benefit from this exemption for another five years from 2012 to 2016 pursuant to the approval notices issued by the Macau Government in April 2011. Melco Crown Macau'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 gaming subconcession agreement.

**MCE FINANCE LIMITED**

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

**15. INCOME TAXES — continued**

The Macau Government has granted to subsidiaries of the Company, Altira Hotel Limited (“Altira Hotel”), in 2007, and Melco Crown (COD) Hotels Limited (“Melco Crown (COD) Hotels”), in 2011 and 2013, the declaration of utility purposes benefit in respect of Altira Macau, Hard Rock Hotel, Crown Towers hotel and Grand Hyatt Macau hotel, pursuant to which they are entitled to a property tax holiday, for a period of 12 years, on any immovable property that they own or have been granted. Under such declaration of utility purposes benefit, they will also be allowed to double the maximum rates applicable regarding depreciation and reintegration for the purposes of assessing the Macau Complementary Tax. The Macau Government has also granted to Altira Hotel and Melco Crown (COD) Hotels a declaration of utility purposes benefit on specific vehicles purchased, pursuant to which they were entitled to a vehicle tax holiday, provided that there is no change in use or disposal of those vehicles within 5 years from the date of purchase. The grant of further vehicle tax holiday is subject to the satisfaction by the Group of certain criteria determined by the Macau Government.

The provision for income tax consisted of:

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Income tax provision for current year:		
Macau Complementary Tax	\$ 70	\$ 10
Lump sum in lieu of Macau Complementary Tax on dividend	2,795	5,590
Sub-total	<u>2,865</u>	<u>5,600</u>
Over provision of income tax in prior year:		
Macau Complementary Tax	(1)	—
Deferred tax (credit) charge:		
Macau Complementary Tax	(618)	84
Total income tax expense	<u>\$ 2,246</u>	<u>\$ 5,684</u>

A reconciliation of the income tax expense from income before income tax per the consolidated statements of operations is as follows:

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Income before income tax	\$ 765,687	\$ 801,507
Macau Complementary Tax rate	12%	12%
Income tax expense at Macau Complementary Tax rate	91,882	96,181
Lump sum in lieu of Macau Complementary Tax on dividend	2,795	5,590
Over provision in prior year	(1)	—
Effect of income for which no income tax expense is payable	(778)	—
Effect of expenses for which no income tax benefit is receivable	844	9,932
Effect of profits generated by gaming operations exempted from Macau Complementary Tax	(109,189)	(125,702)
Change in valuation allowance	16,693	19,683
	<u>\$ 2,246</u>	<u>\$ 5,684</u>

Macau Complementary Tax has been provided at 12% on the estimated taxable income earned in or derived from Macau during the years ended December 31, 2014 and 2013, if applicable.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****15. INCOME TAXES — continued**

In 2013, Melco Crown Macau made an application to the Macau Government for a tax concession arrangement for its shareholders. Pursuant to the proposed terms issued by the Macau Government in December 2013 which was accepted by Melco Crown Macau in January 2014, an annual lump sum amount of MOP22,400,000 (equivalent to \$2,795) is payable by Melco Crown Macau to the Macau Government, effective retroactively from 2012 through 2016, coinciding with the 5-year extension of the tax holiday as mentioned above, as payments in lieu of Macau Complementary Tax otherwise due by the shareholders of Melco Crown Macau on dividend distributions from gaming profits. Such annual lump sum tax payments are required regardless of whether dividends are actually distributed or whether Melco Crown Macau has distributable profits in the relevant year. The income tax provision for the year 2013 included the annual lump sum dividend withholding tax payments accrued for the years 2013 and 2012.

The effective tax rates for the years ended December 31, 2014 and 2013 were 0.3% and 0.7%, respectively. Such rates differ from the statutory Macau Complementary Tax rate of 12% primarily due to the effect of profits generated by gaming operations exempted from Macau Complementary Tax, the effect of change in valuation allowance, the effect of lump sum in lieu of Macau Complementary Tax on dividend and the effect of expenses for which no income tax benefit is receivable for the years ended December 31, 2014 and 2013.

The net deferred tax liabilities as of December 31, 2014 and 2013 consisted of the following:

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Deferred tax assets</b>		
Net operating loss carried forwards	\$ 50,602	\$ 55,369
Depreciation and amortization	13,262	11,007
Sub-total	<u>63,864</u>	<u>66,376</u>
<b>Valuation allowance</b>		
Current	(18,251)	(19,406)
Long-term	(45,553)	(46,970)
Sub-total	<u>(63,804)</u>	<u>(66,376)</u>
<b>Total deferred tax assets</b>	<u>60</u>	<u>—</u>
<b>Deferred tax liabilities</b>		
Land use rights	(13,079)	(13,861)
Intangible assets	(505)	(505)
Unrealized capital allowance	(2,500)	(2,216)
<b>Total deferred tax liabilities</b>	<u>(16,084)</u>	<u>(16,582)</u>
<b>Deferred tax liabilities, net</b>	<u>\$ (16,024)</u>	<u>\$ (16,582)</u>

As of December 31, 2014 and 2013, valuation allowances of \$63,804 and \$66,376 were provided, respectively, as management believes that it is more likely than not that these deferred tax assets will not be realized. As of December 31, 2014, adjusted operating tax loss carry forwards, amounting to \$152,596, \$144,236 and \$124,868 will expire in 2015, 2016 and 2017, respectively. Adjusted operating tax loss carried forward of \$159,710 has expired during the year ended December 31, 2014.

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.

**MCE FINANCE LIMITED**

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

**15. INCOME TAXES — continued**

An evaluation of the tax positions for recognition was conducted by the Group by determining if the weight of available evidence indicates it is more likely than not that the positions 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 Group concluded that there was no significant uncertain tax position requiring recognition in the consolidated financial statements for the years ended December 31, 2014 and 2013 and there is no material unrecognized tax benefit which would favorably affect the effective income tax rate in future periods. As of December 31, 2014 and 2013, there were no interest and penalties related to uncertain tax positions recognized in the consolidated financial statements. The Group does not anticipate any significant increases or decreases to its liability for unrecognized tax benefit within the next twelve months.

The income tax returns of the Company's subsidiaries remain open and subject to examination by the tax authorities of Macau until the statute of limitations expires in 5 years.

**16. EMPLOYEE BENEFIT PLANS**

The Group provides defined contribution plans for its employees in Macau. Certain executive officers of the Group are members of defined contribution plan in Hong Kong operated by MCE. During the years ended December 31, 2014 and 2013, the Group's contributions into these plans were \$12,335 and \$7,383, respectively.

**17. DISTRIBUTION OF PROFITS**

All subsidiaries of the Company incorporated in Macau are required to set aside a minimum of 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 subsidiaries' statements of operations and is not available for distribution to the shareholders of the subsidiaries. The appropriation of legal reserve is recorded in the subsidiaries' financial statements in the year in which it is approved by the Board of Directors of the relevant subsidiaries. As of December 31, 2014 and 2013, the balance of the reserve amounted to \$31,198 in each of those years.

The 2011 Credit Facilities contain restrictions which apply on and from June 30, 2011 on paying dividends to the Company or persons who are not members of the 2011 Borrowing Group, unless certain financial tests and conditions are satisfied. Dividends may be paid from (i) excess cash flow as defined in the 2011 Credit Facilities generated by the 2011 Borrowing Group subject to compliance with the financial covenants under the 2011 Credit Facilities; or (ii) cash held by the 2011

Borrowing Group in an amount not exceeding the aggregate cash and cash equivalents investments of the 2011 Borrowing Group as at June 30, 2011 subject to a certain amount of cash and cash equivalents being retained for operating purposes and, in either case, there being no event of default continuing or likely to occur under the 2011 Credit Facilities as a result of making such payment.

The indenture governing the 2013 Senior Notes and the 2010 Senior Notes contain certain covenants that, subject to certain exceptions and conditions, restrict the payment of dividends by the Company and its respective restricted subsidiaries.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****18. DIVIDENDS**

On March 21, 2014, the Company declared a dividend of \$349,417.64 per share and recorded \$420,000 as a distribution against additional paid-in capital. During the year ended December 31, 2013, the Company did not declare or pay any cash dividends on the ordinary share.

On March 31, 2015, a dividend of \$124,792.01 per share has been declared by the Board of Directors of the Company.

**19. COMMITMENTS AND CONTINGENCIES****(a) Capital Commitments**

As of December 31, 2014, the Group had capital commitments contracted for but not provided mainly for the construction and acquisition of property and equipment for City of Dreams totaling \$408,559 including advance payments for construction costs of \$40,962.

**(b) Lease Commitments and Other Arrangements****Operating Leases — As a Lessee**

The Group leases Mocha Clubs sites, office space, warehouses and staff quarters under non-cancellable operating lease agreements that expire at various dates through June 2022. Those lease agreements provide for periodic rental increases based on both contractual agreed incremental rates and on the general inflation rate once agreed by the Group and its lessor and in some cases contingent rental expenses stated as a percentage of turnover. During the years ended December 31, 2014 and 2013, the Group incurred rental expenses amounting to \$20,690 and \$16,324, respectively which consisted of minimum rental expenses of \$13,236 and \$12,095 and contingent rental expenses of \$7,454 and \$4,229, respectively.

As of December 31, 2014, minimum lease payments under all non-cancellable leases were as follows:

Year ending December 31,	
2015	\$10,685
2016	6,933
2017	5,423
2018	5,285
2019	4,828
Over 2019	10,757
	<u>\$43,911</u>

**As Grantor of Operating and Right To Use Arrangement**

The Group entered into non-cancellable operating and right to use agreements mainly for mall spaces in the site of City of Dreams with various retailers that expire at various dates through June 2024. Certain of the operating and right to use agreements include minimum base fee with escalated contingent fee clauses. During the years ended December 31, 2014 and 2013, the Group earned operating and right to use fees amounting to \$25,155 and \$27,248, respectively which consisted of minimum fees of \$7,658 and \$7,685 and contingent fees of \$17,497 and \$19,563, respectively.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****19. COMMITMENTS AND CONTINGENCIES — continued****(b) Lease Commitments and Other Arrangements — continued****As Grantor of Operating and Right To Use Arrangement — continued**

As of December 31, 2014, minimum future fees to be received under all non-cancellable operating and right to use agreements were as follows:

Year ending December 31,	
2015	\$ 5,334
2016	3,867
2017	1,199
2018	1,221
2019	609
	<u>\$12,230</u>

The total minimum future fees do not include the escalated contingent fee clauses.

**(c) Other Commitments****Gaming Subconcession**

On September 8, 2006, the Macau Government granted a gaming subconcession to Melco Crown Macau to operate the gaming business in Macau. Pursuant to the gaming subconcession agreement, Melco Crown Macau has committed to the following:

- i) To pay the Macau Government a fixed annual premium of \$3,744 (MOP30,000,000).
- ii) To pay the Macau Government a variable premium depending on the number and type of gaming tables and gaming machines that the Group 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.
- iii) 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.
- iv) 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.
- v) 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.

**MCE FINANCE LIMITED**

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

**19. COMMITMENTS AND CONTINGENCIES — continued**

(c) **Other Commitments** — continued

**Gaming Subconcession** — continued

- vi) Melco Crown Macau 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 September 8, 2011 until the 180th day after the termination date of the gaming subconcession.

As a result of the bank guarantees given by the bank to the Macau Government as disclosed in Note 19(c)(vi) above, a sum of 1.75% of the guarantee amount will be payable by Melco Crown Macau quarterly to such bank.

**Land Concession Contracts**

The Company's subsidiaries have entered into concession contracts for the land in Macau on which Altira Macau and City of Dreams properties and development projects are located. The title to the land lease right is obtained once the related land concession contract is published in the Macau official gazette. The contracts have a term of 25 years, which is renewable for further consecutive periods of 10 years, subject to payment of a special contribution to be defined by the Macau Government, and impose special development conditions. The Company's land holding subsidiaries are required to i) pay an upfront land premium, which is recognized as land use right in the consolidated balance sheets and a nominal annual government land use fee, which is recognized as general and administrative expense and may be adjusted every five years; and ii) place a guarantee deposit upon acceptance of the land lease terms, which is subject to adjustments from time to time in line with the amounts paid as annual land use fee. During the land concession term, amendments have been sought which have or will result in revisions to the development conditions, land premium and government land use fees.

*Altira Macau*

On December 18, 2013, the Macau Government published in the Macau official gazette the final amendment for revision of the land concession contract for Taipa Land on which Altira Macau is located. The amendment required an additional land premium of approximately \$2,449 which was fully paid by Altira Developments in July 2013 (see Note 8). According to the revised land amendment, the government land use fees was revised from approximately \$171 per annum to \$186 per annum. As of December 31, 2014, the Group's total commitment for government land use fees for Altira Macau site to be paid during the remaining term of the land concession contract which expires in March 2031 was \$3,003.

*City of Dreams*

On January 29, 2014, the Macau Government published in the Macau official gazette the final amendment for revision of the land concession contract for Cotai Land on which City of Dreams is located (see Note 8). The amendment required an additional land premium of approximately \$23,344, with \$8,736 paid in October 2013 upon acceptance of the final amendment proposal and the remaining amount of approximately \$14,608 payable in four biannual instalments, with 5% interest accruing per annum and the first instalment paid in July 2014. As of December 31, 2014 and 2013, the total outstanding balance of the land premium was included in accrued expenses and other current liabilities in an amount of \$7,302 and \$3,518, and in land use right payable in an amount of \$3,788 and \$11,090, respectively. According to the revised land amendment, the government land use fees will be revised to \$1,185 per annum during the development period of additional hotel at City of Dreams; and to \$1,235 per annum after the completion of the hotel. As of December 31, 2014, the Group's total commitment for government land use fees for City of Dreams site to be paid during the remaining term of the land concession contract which expires in August 2033 was \$22,800.

**MCE FINANCE LIMITED**

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

**19. COMMITMENTS AND CONTINGENCIES — continued**

**(d) Guarantees**

Except as disclosed in Note 10, the Group has made the following significant guarantees as of December 31, 2014:

- Melco Crown Macau has issued a promissory note (“Livrança”) of \$68,635 (MOP550,000,000) to a bank in respect of bank guarantees issued to the Macau Government as disclosed in Note 19(c)(vi) to the consolidated financial statements.

**(e) Pledged Assets**

Except as disclosed in Note 10, the Group has the following pledged assets as of December 31, 2014:

- On January 28, 2013, Studio City Company Limited, an affiliated company of the Group which is 60% held indirectly by MCE, executed a senior secured credit facilities with certain lenders with an aggregate amount of HK\$10,855,880,000 (equivalent to \$1,395,357) (the “Studio City Project Facility”) and consisted of a HK\$10,080,460,000 (equivalent to \$1,295,689) term loan facility (the “Studio City Term Loan Facility”) and a HK\$775,420,000 (equivalent to \$99,668) revolving credit facility (the “Studio City Revolving Credit Facility”) to fund the Studio City project. As at December 31, 2014, the Studio City Term Loan Facility of HK\$10,080,460,000 (equivalent to \$1,295,689) was fully drawn down while the entire Studio City Revolving Credit Facility of HK\$775,420,000 (equivalent to \$99,668) remains available for future drawdown, subject to satisfaction of certain conditions precedent. The Studio City Term Loan Facility matures on January 28, 2018 and is subject to quarterly amortization payments commencing on the earlier of (i) December 31, 2016, the first fiscal quarter end date falling not less than 45 months after January 28, 2013 and (ii) the end of the second full fiscal quarter after the opening date as defined in the Studio City Project Facility of the Studio City project. The Studio City Revolving Credit Facility matures on January 28, 2018 and has no interim amortization. Borrowings under the Studio City Project Facility bear interest at HIBOR plus a range of margin per annum at different period of time and as determined in accordance with the total leverage ratio in respect of the borrowing group as defined under the Studio City Project Facility. Certain accounts of Melco Crown Macau related solely to the operation of the Studio City gaming area, including cash deposited into bank accounts of \$629 as at December 31, 2014 and are presented as restricted cash in the consolidated balance sheets, are pledged as security for the Studio City Project Facility and related finance documents.

**(f) Litigation**

As of December 31, 2014, the Group is a party to certain legal proceedings which relate to matters arising out of the ordinary course of its business. Management does not believe that the outcome of such proceedings will have a material effect on the Group’s financial position, results of operations or cash flows.



**MCE FINANCE LIMITED**

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

**20. RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2014 and 2013, the Group entered into the following significant related party transactions:

<u>Related companies</u>	<u>Nature of transactions</u>	<u>Year Ended December 31,</u>	
		<u>2014</u>	<u>2013</u>
<i>Transactions with affiliated companies</i>			
Crown's subsidiary	Consultancy fee expense	\$ 304	\$ 370
	Purchase of property and equipment	1	239
	Software license fee expense	312	312
Lisboa Holdings Limited <sup>(1)</sup>	Office rental expense	1,810	895
MCE's subsidiaries	Management fee recognized as expense	95,477	75,222
	Management fee capitalized in construction in progress	3,103	628
	Office rental expense	76	540
	Transportation service fee expense	20,066	15,232
	Management fee income	34,140	14,802
	Other service fee income	288	284
	Rooms and food and beverage income	3,726	3,158
Melco and its subsidiaries and associated companies (collectively referred to as the "Melco Group")	Purchase of property and equipment	686	597
	Office rental expense	—	308
	Other service fee income	632	510
	Rooms and food and beverage income	115	49
Shun Tak Holdings Limited and its subsidiaries (collectively referred to as the "Shun Tak Group") <sup>(1)</sup>	Traveling expense <sup>(2)</sup>	3,641	2,962
	Traveling expense	1,394	1,809
Sky Shuttle Helicopters Limited ("Sky Shuttle") <sup>(1)</sup>	Traveling expense <sup>(2)</sup>	299	292
Sociedade de Jogos de Macau S.A. ("SJM") <sup>(1)</sup> Sociedade de Turismo e Diversões de Macau, S.A. and its subsidiaries (collectively referred to as the "STDM Group") <sup>(1)</sup>	Office rental expense	1,098	1,094
	Service fee expense	203	222
	Traveling expense <sup>(2)</sup>	14	113
<i>Transactions with shareholder</i>			
MCE	Management fee expense	10,959	9,136
	Management fee income	<u>2,217</u>	<u>1,836</u>

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****20. RELATED PARTY TRANSACTIONS — continued**

## Notes

- (1) Companies in which a relative/relatives of Mr. Lawrence Yau Lung Ho, MCE's Chief Executive Officer, has/have beneficial interests.
- (2) Traveling expenses including ferry and hotel accommodation services within Hong Kong and Macau.

**Other Related Party Transaction**

As at December 31, 2014 and 2013, an operating deposit of \$12,500 was paid by Melco Crown Macau to MCE Transportation Limited, a subsidiary of MCE, for provision of transportation services and the amount was shown as prepaid expenses and other current assets in the consolidated balance sheets.

**(a) Compensation of Key Management Personnel**

For the years ended December 31, 2014 and 2013, the remuneration of the Company's key management was borne by MCE.

**(b) Amounts Due From Affiliated Companies**

The outstanding balances arising from operating income and fund received by affiliated companies on behalf of the Group, net off with operating expenses as of December 31, 2014 and 2013 are as follows:

	December 31,	
	2014	2013
MCE's subsidiaries	\$263,833	\$272,836
Melco Group	118	179
Crown's subsidiary	6	—
Shun Tak Group	2	3
	<u>\$263,959</u>	<u>\$273,018</u>

The outstanding balances due from affiliated companies as of December 31, 2014 and 2013 as mentioned above are unsecured, non-interest bearing and repayable on demand.

**(c) Amounts Due To Affiliated Companies**

The outstanding balances arising from operating expenses and expenses paid by affiliated companies on behalf of the Group, net off with operating income as of December 31, 2014 and 2013 are as follows:

	December 31,	
	2014	2013
MCE's subsidiaries	\$18,702	\$11,496
Shun Tak Group	343	259
Sky Shuttle	130	151
SJM	78	105
STDM Group	75	168
	<u>\$19,328</u>	<u>\$12,179</u>

The outstanding balances due to affiliated companies as of December 31, 2014 and 2013 as mentioned above are unsecured, non-interest bearing and repayable on demand.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****20. RELATED PARTY TRANSACTIONS — continued****(d) Amount Due To/Advance To Shareholder**

The outstanding balances of amount due to MCE as of December 31, 2014 and 2013 were \$20,559 and \$19,940, respectively. The balances mainly related to operating expenses paid by MCE on behalf of the Group, and are unsecured, non-interest bearing and repayable on demand.

As of December 31, 2014 and 2013, the outstanding balances of advance to MCE were \$664,147 and \$109,856, respectively. The balances as of December 31, 2014 and 2013 mainly related to funds advance via Melco Crown (Macau Peninsula) Developments Limited (“Melco Crown MP Developments”), an excluded subsidiary under the 2011 Credit Facilities, to MCE of \$1,696,090 and \$1,142,199 for working capital purposes as of December 31, 2014 and 2013, respectively, net off with funds advance from MCE for construction of City of Dreams. These amounts are unsecured and non-interest bearing. No part of the amounts will be repayable within the next twelve months from the balance sheet date and accordingly, the amounts were shown as non-current assets in the consolidated balance sheets.

**21. SEGMENT INFORMATION**

The Group is principally engaged in the gaming and hospitality business. The chief operating decision maker monitors its operations and evaluates earnings by reviewing the assets and operations of Mocha Clubs, Altira Macau and City of Dreams. Taipa Square Casino is included within Corporate and Others.

The Group’s segment information for total assets and capital expenditures is as follows:

**Total Assets**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Macau:</b>		
Mocha Clubs	\$ 172,979	\$ 158,433
Altira Macau	499,647	574,355
City of Dreams	3,191,671	3,221,317
Sub-total	3,864,297	3,954,105
Corporate and Others	2,017,233	1,865,318
<b>Total consolidated assets</b>	<b>\$5,881,530</b>	<b>\$5,819,423</b>

**Capital Expenditures**

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Macau:</b>		
Mocha Clubs	\$ 13,116	\$ 6,515
Altira Macau	21,984	5,464
City of Dreams	261,686	96,403
Sub-total	296,786	108,382
Corporate and Others	3,290	777
<b>Total capital expenditures</b>	<b>\$ 300,076</b>	<b>\$ 109,159</b>

**MCE FINANCE LIMITED**

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

**21. SEGMENT INFORMATION — continued**

The Group's segment information on its results of operations is as follows:

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>NET REVENUES</b>		
Macau:		
Mocha Clubs	\$ 147,373	\$ 148,683
Altira Macau	745,301	1,034,448
City of Dreams	3,855,505	3,862,450
Sub-total	4,748,179	5,045,581
Corporate and Others	84,644	60,372
Total net revenues	<u>\$4,832,823</u>	<u>\$5,105,953</u>
<b>ADJUSTED PROPERTY EBITDA(1)</b>		
Macau:		
Mocha Clubs	\$ 36,344	\$ 40,225
Altira Macau	85,222	147,979
City of Dreams	1,169,315	1,196,114
Total adjusted property EBITDA	<u>1,290,881</u>	<u>1,384,318</u>
<b>OPERATING COSTS AND EXPENSES</b>		
Pre-opening costs	(5,669)	(396)
Amortization of gaming subconcession	(57,237)	(57,237)
Amortization of land use rights	(20,939)	(20,739)
Depreciation and amortization	(233,782)	(254,073)
Property charges and others	(5,191)	(6,884)
Corporate and Others expenses	(133,882)	(105,037)
Total operating costs and expenses	<u>(456,700)</u>	<u>(444,366)</u>
<b>OPERATING INCOME</b>	<u>834,181</u>	<u>939,952</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>		
Interest income	7,116	6,269
Interest expenses, net of capitalized interest	(54,296)	(65,730)
Amortization of deferred financing costs	(15,398)	(15,398)
Loan commitment fees	(2,808)	(2,453)
Foreign exchange loss, net	(3,108)	(339)
Loss on extinguishment of debt	—	(50,256)
Costs associated with debt modification	—	(10,538)
Total non-operating expenses, net	<u>(68,494)</u>	<u>(138,445)</u>
<b>INCOME BEFORE INCOME TAX</b>	<u>765,687</u>	<u>801,507</u>
<b>INCOME TAX EXPENSE</b>	<u>(2,246)</u>	<u>(5,684)</u>
<b>NET INCOME</b>	<u>\$ 763,441</u>	<u>\$ 795,823</u>

Note

- (1) "Adjusted property EBITDA" is earnings before interest, taxes, depreciation, amortization, pre-opening costs, property charges and others, Corporate and Others expenses, and other non-operating income and expenses. The chief operating decision maker uses Adjusted property EBITDA to measure the operating performance of Mocha Clubs, Altira Macau and City of Dreams and to compare the operating performance of its properties with those of its competitors.

**MCE FINANCE LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — continued**  
**(In thousands of U.S. dollars, except share and per share data)****21. SEGMENT INFORMATION — continued**

The Group's geographic information for long-lived assets is as follows:

**Long-lived Assets**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Macau	<u>\$3,163,035</u>	<u>\$3,173,008</u>
Total long-lived assets	<u>\$3,163,035</u>	<u>\$3,173,008</u>

**22. SUBSEQUENT EVENT**

In preparing the consolidated financial statements, the Group has evaluated events and transactions for potential recognition and disclosure through April 30, 2015, the date the consolidated financial statements were available to be issued.

**Explanatory Note**

This annual report serves to provide holders of Studio City Finance Limited's US\$825,000,000 8.50% senior notes due 2020 (the "Studio City Notes") with Studio City Finance Limited's audited financial statements, on a consolidated basis, in respect of the fiscal year ended December 31, 2014 together with the related information, pursuant to the terms of the indenture, dated November 26, 2012, relating to the Studio City Notes. Studio City Finance Limited is a subsidiary of Melco Crown Entertainment Limited.

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**Studio City Finance Limited**

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## INTRODUCTION

In this annual report, unless otherwise indicated:

- “Additional Development” refers to the additional second phase development project on the Studio City site, which is expected to include an additional luxury hotel and related facilities, retail, entertainment and gaming expansion capacity;
- “China” and “PRC” refer to the People’s Republic of China, excluding Hong Kong, Macau and Taiwan from a geographical point of view;
- “City of Dreams” refers to a casino, hotel, retail and entertainment integrated resort located on two adjacent pieces of land in Cotai, Macau, which opened in June 2009, and currently features casino areas and three luxury hotels, including a collection of retail brands, a wet stage performance theater and other entertainment venues, and owned by Melco Crown (COD) Developments Limited;
- “Concessionaire(s)” refers to the holder(s) of a concession for the operation of casino games in Macau;
- “Cotai” refers to an area of reclaimed land located between the islands of Taipa and Coloane in Macau;
- “Crown” refers to Crown Resorts Limited, an Australian-listed corporation, which completed its acquisition of the gaming businesses and investments of PBL, now known as Consolidated Media Holdings Limited, on December 12, 2007;
- “DICJ” refers to the Direção de Inspeção e Coordenação de Jogos (the Gaming Inspection and Coordination Bureau), a department of the Public Administration of Macau;
- “Greater China” refers to mainland China, Hong Kong and Macau, collectively;
- “HK\$” and “H.K. dollars” refer to the legal currency of Hong Kong;
- “HKSE” refers to The Stock Exchange of Hong Kong Limited;
- “Hong Kong” refers to the Hong Kong Special Administrative Region of the PRC;
- “Land Grant” refers to the land concession by way of lease, for a period of 25 years, subject to renewal, as of October 17, 2001 for a plot of land situated at the Studio City site, described with the Macau Immovable Property Registry under No. 23059 and registered in Studio City Developments’ name under inscription no. 26642 of Book F, titled by Dispatch of the Secretary for Public Works and Transportation no. 100/2001 of October 9, 2001, as amended by Dispatch of the Secretary for Public Works and Transportation no. 31/2012 of July 19, 2012, published in the Macau official gazette no. 30 of July 25, 2012 and including any other amendments from time to time to such land concession;
- “Macau” refers to the Macau Special Administrative Region of the PRC;
- “MCE” refers to Melco Crown Entertainment Limited, a company incorporated in the Cayman Islands whose shares are listed on both the NASDAQ Global Market and HKSE, and which, through its subsidiary MCE Cotai, owns a 60% interest in SCI;



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- “MCE Cotai” refers to MCE Cotai Investments Limited, a subsidiary of MCE and a shareholder of SCI;
- “Melco” refers to Melco International Development Limited, a Hong Kong listed company;
- “Melco Crown Macau” refers to MCE’s subsidiary, Melco Crown (Macau) Limited, a Macau company and the holder of a gaming subconcession;
- “New Cotai Holdings” refers to New Cotai Holdings, LLC, a company incorporated in Delaware, the United States on March 24, 2006 under the laws of Delaware, primarily owned by U.S. investment funds managed by Silver Point Capital, L.P. and Oaktree Capital Management, L.P.;
- “New Cotai” refers to New Cotai, LLC, a Delaware limited liability company owned by New Cotai Holdings;
- “our board” refers to the board of directors of our company or a duly constituted committee thereof;
- “Patacas” and “MOP” refer to the legal currency of Macau;
- “PBL” refers to Publishing and Broadcasting Limited, an Australian listed corporation that is now known as Consolidated Media Holdings Limited;
- “Project Costs” refer to the construction and development costs and other project costs, including licensing, financing, interest, fees and pre-opening costs, of the Studio City Project, as subsequently amended in accordance with the Studio City Project Facility;
- “SCI” refers to Studio City International Holdings Limited (formerly known as Cyber One Agents Limited), a company incorporated in the British Virgin Islands with limited liability, and an indirect parent of our company;
- “Shareholders Agreement” refers to the shareholders agreement dated July 27, 2011, by and among MCE Cotai, New Cotai, MCE and SCI (as amended from time to time);
- “Studio City” refers to a cinematically-themed integrated entertainment, retail and gaming resort in Cotai, Macau to be developed, consisting of the Studio City Project and the Additional Development;
- “Studio City Casino” refers to the gaming areas to be constructed or operated within the Studio City Project;
- “Studio City Company” refers to our subsidiary, Studio City Company Limited, a British Virgin Islands company;
- “Studio City Developments” refers to our subsidiary, Studio City Developments Limited (formerly known as MSC Desenvolvimentos, Limitada and East Asia Satellite Television Limited), a Macau company;
- “Studio City Entertainment” refers to Studio City Entertainment Limited, our subsidiary, a Macau company;
- “Studio City Holdings” refers to Studio City Holdings Limited, a company incorporated in the British Virgin Islands and our intermediate holding company;
- “Studio City Holdings Two” refers to Studio City Holdings Two Limited, a company incorporated in the British Virgin Islands and our subsidiary;
- “Studio City Hotels” refers to Studio City Hotels Limited, a company incorporated under the laws of Macau and a subsidiary of Studio City Holdings Two;
- “Studio City Investments” refers to Studio City Investments Limited, a company incorporated in the British Virgin Islands and our subsidiary;

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- “Studio City Project Facility” refers to the senior secured project facility, dated January 28, 2013, entered into between, among others, Studio City Company as borrower and certain subsidiaries as guarantors for a total sum of HK\$10,855,880,000 (equivalent to approximately US\$1.4 billion) and consisting of a term loan facility and a revolving credit facility;
- “Studio City Project” or the “Project” refers to the first phase of our project to develop the Studio City site into a large-scale integrated leisure resort called “Studio City” combining luxury hotel and related facilities, gaming capacity, retail, attractions and entertainment venues (including a multipurpose entertainment studio);
- “Subconcessionaire(s)” refers to the holder(s) of a subconcession for the operation of casino games in Macau;
- “US\$” and “U.S. dollars” refer to the legal currency of the United States;
- “U.S. GAAP” refers to the accounting principles generally accepted in the United States; and
- “we”, “us”, “our” and “our company” refer to Studio City Finance Limited and, as the context requires, its predecessor entities and its consolidated subsidiaries.

This annual report includes our audited consolidated financial statements for the years ended December 31, 2014 and 2013 and as of December 31, 2014 and 2013.

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report 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. 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. Moreover, because we operate in a heavily regulated and evolving industry, may become highly leveraged, and operate in Macau, a high-growth market with 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. Forward-looking statements involve inherent risks and uncertainties, and a number of factors could cause actual results to differ materially from those contained in any forward-looking statement. These factors include, but are not limited to, (i) growth of the gaming market and visitation in Macau, (ii) capital and credit market volatility, (iii) local and global economic conditions, (iv) our anticipated growth strategies, (v) the number of gaming tables ultimately allocated to us by the applicable regulators, and (vi) our future business development, results of operations and financial condition. In some cases, forward-looking statements can be identified by words or phrases such as “may”, “will”, “expect”, “anticipate”, “target”, “aim”, “estimate”, “intend”, “plan”, “believe”, “potential”, “continue”, “is/are likely to” or other similar expressions.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. 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 with the understanding that our actual future results may be materially different from what we expect.

## EXCHANGE RATE INFORMATION

Although we will have certain expenses and revenues denominated in Patacas, our revenues and expenses will be denominated predominantly in H.K. dollars and in connection with a portion of our indebtedness and certain expenses, U.S. dollars. Unless otherwise noted, all translations from H.K. dollars to U.S. dollars and from U.S. dollars to H.K. dollars in this annual report were made at a rate of HK\$7.78 to US\$1.00.

The H.K. dollar is freely convertible into other currencies (including the U.S. dollar). Since October 17, 1983, the H.K. dollar has been officially linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The market exchange rate has not deviated materially from the level of HK\$7.80 to US\$1.00 since the peg was first established. However, in May 2005, the Hong Kong Monetary Authority broadened the trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar. The Hong Kong government has stated its intention to maintain the link at that rate, and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. However, no assurance can be given that the Hong Kong government will maintain the link at HK\$7.75 to HK\$7.85 per U.S. dollar or at all.

The noon buying rate on December 31, 2014 in New York City for cable transfers in H.K. dollar per U.S. dollar, as certified for customs purposes by the H.10 weekly statistical release of the Federal Reserve Board of the United States, or the Federal Reserve Board, was HK\$7.7531 to US\$1.00. On April 2, 2015, the noon buying rate was HK\$7.7525 to US\$1.00. We make no representation that any H.K. dollar or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or H.K. dollars, as the case may be, at any particular rate or at all.

The Pataca is pegged to the H.K. dollar at a rate of HK\$1.00 = MOP1.03. All translations from Patacas to U.S. dollars in this annual report were made at the exchange rate of MOP 8.0134 = US\$1.00. The Federal Reserve Board does not certify for customs purposes a noon buying rate for cable transfers in Patacas.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following summary statements of operations, balance sheet and cash flows information are derived from our audited consolidated financial statements for the year ended December 31, 2014 and 2013 and the notes relating thereto, which are included elsewhere in this annual report. These consolidated financial statements have been prepared and presented in accordance with U.S. GAAP. You should read this section in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those consolidated financial statements and the notes to those statements included elsewhere in this annual report. Historical results are not necessarily indicative of the results that you may expect for any future period, particularly as the Studio City Project is still in the development stage.

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In thousands of US\$)</b>	
<b>CONSOLIDATED STATEMENTS OF OPERATIONS:</b>		
<b>OPERATING REVENUE</b>		
Other revenue	\$ 1,767	\$ 1,093
<b>OPERATING COSTS AND EXPENSES</b>		
General and administrative	(3,161)	(2,097)
Amortization of land use right	(12,104)	(12,104)
Depreciation and amortization	(26)	—
Pre-opening costs	(14,951)	(2,856)
Total operating costs and expenses	(30,242)	(17,057)
<b>OPERATING LOSS</b>	<b>(28,475)</b>	<b>(15,964)</b>
<b>NON-OPERATING INCOME (EXPENSES)</b>		
Interest income	4,707	86
Interest expenses, net of capitalized interest	(17,106)	(40,129)
Amortization of deferred financing costs	(10,669)	(1,530)
Loan commitment fees	(15,153)	(23,190)
Foreign exchange loss, net	(2,178)	(661)
Total non-operating expenses, net	(40,399)	(65,424)
<b>NET LOSS</b>	<b>\$ (68,874)</b>	<b>\$ (81,388)</b>

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	<b>As of December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In thousands of US\$)</b>	
<b>CONSOLIDATED BALANCE SHEETS:</b>		
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,161	\$ —
Restricted cash	1,368,390	670,555
Amounts due from affiliated companies	3,874	1,812
Amount due from an intermediate holding company	82	—
Prepaid expenses and other current assets	2,999	3,922
<b>Total current assets</b>	<b>1,378,506</b>	<b>676,289</b>
PROPERTY AND EQUIPMENT, NET	1,629,803	722,344
LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER ASSETS	80,687	231,268
RESTRICTED CASH	50,064	98,370
DEFERRED FINANCING COSTS, NET	85,195	15,129
LAND USE RIGHT, NET	142,227	154,331
<b>TOTAL ASSETS</b>	<b>\$3,366,482</b>	<b>\$1,897,731</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accrued expenses and other current liabilities	\$ 139,223	\$ 113,138
Amounts due to affiliated companies	3,730	102
Amount due to ultimate holding company	337	427
<b>Total current liabilities</b>	<b>143,290</b>	<b>113,667</b>
LONG-TERM DEBT	2,120,689	825,000
ADVANCE FROM IMMEDIATE HOLDING COMPANY	942,779	743,239
OTHER LONG-TERM LIABILITIES	57,846	20,678
LAND USE RIGHT PAYABLE	—	24,376
<b>SHAREHOLDER'S EQUITY</b>		
Ordinary shares <sup>(1)</sup>	—	—
Additional paid-in capital	298,596	298,596
Accumulated other comprehensive losses	(84)	(65)
Accumulated losses	(196,634)	(127,760)
<b>Total shareholder's equity</b>	<b>101,878</b>	<b>170,771</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>\$3,366,482</b>	<b>\$1,897,731</b>

(1) The authorized share capital of Studio City Finance Limited was 50,000 shares of US\$1 par value per share, as of December 31, 2014 and December 31, 2013, 1 share of US\$1 par value per share was issued and fully paid.

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In thousands of US\$)</b>	
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS:</b>		
Net cash used in operating activities	\$ (43,519)	\$ (65,041)
Net cash used in investing activities	(1,443,077)	(530,114)
Net cash provided by financing activities	1,489,757	595,155
<b>Net increase in cash and cash equivalents</b>	<b>3,161</b>	<b>—</b>
Cash and cash equivalents at beginning of year	—	—
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,161</b>	<b>\$ —</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in connection with "Selected Consolidated Financial Information" and our consolidated financial statements, including the notes thereto, included elsewhere in this annual report. Our consolidated financial statements for the year ended December 31, 2014 and 2013 included in this annual report were prepared in accordance with U.S. GAAP. Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements.

### Overview

SCI is 60%-owned by MCE, which is a developer, owner and operator of casino gaming and entertainment resort facilities in Asia. On July 27, 2011, MCE, through its subsidiary, MCE Cotai, acquired a 60% equity interest in SCI, the developer, owner and operator of Studio City. New Cotai Holdings, an entity incorporated in Delaware and controlled by funds managed by Silver Point Capital, L.P. and Oaktree Capital Management, L.P., retains the remaining 40% interest in SCI through its wholly owned subsidiary New Cotai.

Studio City is a large-scale cinematically-themed integrated entertainment, retail and gaming resort which is expected to open in the third quarter of 2015. Studio City, upon completion, will include gaming facilities, luxury hotel offerings and various entertainment, retail and food and beverage outlets to attract a diverse range of customers. Studio City is designed to capture the attention of visitors to Macau, especially from the mass market segment, with its destination theming, unique and innovative interactive attractions, including Asia's highest ferris wheel, a Warner Bros.-themed family entertainment center in an area of approximately 40,000 square feet, a TV broadcast studio, the world's first Batman film franchise digital ride, a 5,000-seat multi-purpose live performance arena and a live magic venue, as well as approximately 1,600 hotel rooms, a vast array of food and beverage outlets and "The Boulevard", which will comprise approximately 350,000 square feet of themed and innovative retail space.

### Factors Affecting Our Current and Future Operating Results

Our historical operating results will not be indicative of future operating results because activities previously undertaken were related to our early development stage and our planned future activities include the construction, development and operation of the Studio City Project. Until the Studio City Project commences commercial operations in the third quarter of 2015, we will still be in the development stage and we do not expect to generate any revenue other than bank interest income from accounts in which the proceeds from the Studio City Notes, the Studio City Project Facility and other sources will be deposited. During construction, we will have substantial payment obligations relating to the design, development, construction, equipping, financing and opening of the Studio City Project pursuant to certain agreements. See "— Indebtedness and Capital Contributions — Long-term Indebtedness and Contractual Obligations."

Following the opening of the Studio City Project, we expect to derive a majority of revenues from the Studio City Casino's gaming operations and our remaining revenues from other operations of the Studio City Project, including the hotel, food and beverage, retail and entertainment. We expect the Studio City Casino's gaming operations to be the primary contributor to our earnings. Following the opening of the Studio City Casino, the expenses incurred will be significantly different than those incurred during the development period.

Our expenses will relate primarily to the operation of the Studio City Project. We anticipate the operating costs will be primarily related to the payment of the Studio City Project's (including the Studio City Casino's) payroll, benefits and related costs of employment, gaming taxes, management fees, complementary offers and other customer incentives, daily fees and licensing fees for certain gaming equipment, costs of goods sold for food and beverage and retail operations, utility costs and other facility-related costs, including maintenance and supplies, marketing related expenses including advertising and promotion, accounting, legal, administrative and other professional and consulting services, insurance premiums, recurring fees for information systems, expenses for security, surveillance, custodial and other departments and corporate expenses.

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Our operating expenses will also include amortization of land use right and depreciation and amortization of assets. We expect that non-operating income (expenses) will include interest (including interest rate hedging) income and expenses, amortization of deferred financing costs, loan commitment fees, foreign exchange gain and loss as well as other non-operating income and as we are currently subject to Macau complementary tax, this may result in income tax credits (expenses).

Set out below is a discussion of the most significant factors that we expect may affect our results and financial condition in future periods during the development stage and/or after the Studio City Project commences operations. Factors other than those set forth below could also have significant impact on the results of operations and financial condition in the future.

### ***Construction and Operation of the Studio City Project***

Our results of operations are, and will continue to be, significantly affected by the ongoing development, construction and eventual opening of the Studio City Project. We have incurred and expect to continue to incur significant expenses in relation to the construction of the Studio City Project, such as the payments due to various contractors in connection with the design, development and opening of the Studio City Project and payment of principal and interest on borrowings under the Studio City Project Facility. Also, our costs may be affected by volatility in the labor costs and price of construction materials such as steel and cement, which are subject to market forces. We also expect to incur significant pre-opening expenses, such as employee training and advertising costs, and when the Studio City Project commences operations, we will begin to record revenues and operating expenses in relation to Studio City Project's operations. In addition, we may incur higher amortization and interest charges in relation to higher construction costs if Studio City Project's opening is delayed.

### ***Access to and Cost of Financing***

Our ability to obtain financing, as well as the cost of such financing, affects our business. Although we currently expect all of our estimated expenses for the development and construction of the Studio City Project will be sufficiently funded by the Studio City Notes and the Studio City Project Facility and through the receipt of equity contributions and/or subordinated loans from our shareholders, a number of factors may cause us to seek additional financing for the ongoing construction and operations of the Studio City Project. Our ability to access such additional financing is subject to a variety of factors, including interest rates and other funding costs and market conditions. Any lack of access or higher costs in relation to additional financing that we may require could negatively impact our plans to complete, operate, expand and develop the Studio City Project.

### ***Additional Development***

We will develop the remaining land covered by the Land Grant, and are currently examining options for the Additional Development. The Additional Development is expected to include additional luxury hotel and related facilities, as well as an expansion of retail, entertainment and gaming capacity. Such project will require additional financing (which has not been obtained or committed as of the date of this annual report). To the extent that any of these plans are finalized, the associated costs of such project will have a material effect on our financial condition, including the amount of our indebtedness and results of operations.

### ***Gaming and Leisure Market in Macau***

Studio City Project's 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 and other customers of leisure and hospitality services, as well as the ability to compete effectively against Studio City Project's existing and future competitors for market share. The levels of tourism and overall leisure activity in Macau are expected to be key drivers of our business. We believe that visitation and gaming revenue for the Macau market have been, and will continue to be, driven by a combination of factors, including the PRC central and Macau government's development plans for the region, including improved infrastructure and development of Hengqin Island, Macau's proximity to major Asian population centers; and the level of restrictions on travel to Macau from China. However, the restrictions that govern Chinese citizens' ability to take larger sums of foreign currency out of China when they travel and the recent initiatives and campaigns undertaken by the Chinese government have resulted in an overall dampening effect on the behavior of Chinese consumers and a decrease in their spending, particularly in luxury good sales and other discretionary spending.



***Ability to Attract and Retain Key Customers and Maintain Relationships with Gaming Promoters***

Studio City Casino's operating performance will be influenced by the ability to attract and retain key customers and gaming promoters, which will directly impact the results of operations and cash flow. Studio City Casino's ability to attract mass market and premium direct rolling chip customers through, among other things, the marketing strategies will impact a significant portion of our gaming revenues and profitability. Studio City Casino will likely rely on gaming promoters to source and, in most cases, provide credit to the majority of our rolling chip customers, which in turn will likely contribute a substantial portion of gaming revenues. Further, the commission structure arrangements to be agreed with gaming promoters may materially impact the gaming expenses.

***Taxes***

Companies in Macau are, generally, subject to complementary tax of up to 12% of taxable income, as defined in relevant tax laws. In addition, Concessionaires and Subconcessionaires are currently subject to a 35% special gaming tax as well as other levies of up to 4% under the relevant concession or subconcession contract and may benefit from a corporate tax holiday on their gaming revenues.

Melco Crown Macau benefits from such corporate tax holiday which expires at the end of 2016. In addition, in 2014 the Macau government accepted an application by one of our subsidiaries in Macau for a corporate tax exemption through 2016 on amounts transferred to it by Melco Crown Macau, to the extent that such amounts result from gaming operations within Studio City and have been subject to gaming tax. The Macau government clarified that share dividends payment by such subsidiary would continue to be subject to complementary tax. However, there can be no assurances that the corporate tax holiday benefits will be extended beyond the applicable expiration date.

We intend for our subsidiary, Studio City Hotels, to apply for a declaration of utility purpose pursuant to which Studio City Hotels would be entitled to a property tax holiday for a period of 12 years on any immovable property it owns. Under such tax holiday, Studio City Hotels would also be allowed to double the maximum rates applicable to depreciation and reintegration for the purposes of assessment of Macau complementary tax and to apply for a vehicle tax holiday on specific vehicles purchased. However, there can be no assurances that such tax benefits will be granted to Studio City Hotels or, if granted, when such benefits will be effective.

***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 and judgments are made based on information obtained from our historical experience, terms of existing contracts, industry trends, the prevailing regulatory environment and outside sources, that are currently available to us, and on various other assumptions that management believes to be reasonable and appropriate in the circumstances. 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 significant judgments and estimates used in the preparation of our consolidated financial statements.

***Construction in Progress and Other Long-lived Assets***

During the construction and development stage of our integrated entertainment, retail and gaming resort facilities, direct and incremental costs related to the design and construction, including costs under the construction contracts, duties and tariffs, equipment installation, shipping costs, payroll and payroll-benefit related costs, depreciation of plant and equipment used, applicable portions of interest and amortization of deferred financing costs, are capitalized in property and equipment. The capitalization of such costs begins when the construction and development of a project starts and ceases once the construction is substantially completed or development activity is suspended for more than a brief period. Pre-opening costs, consisting of marketing and other expenses related to our new or start-up operations and resort facilities, are expensed as incurred.

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Depreciation and amortization expense related to capitalized construction costs and other property and equipment is recognized from the time each asset is placed in service. This may occur at different stages as integrated entertainment, retail and gaming resort facilities are completed and opened.

Other long-lived assets with a finite useful life are depreciated and amortized on a straight-line basis over the asset's estimated useful life. The estimated useful lives are based on factors including the nature of the assets, its relationship to other assets, our operating plans and anticipated use and other economic and legal factors that impose limits. The remaining estimated useful lives of assets are periodically reviewed, including when changes in our business and the operating environment could result in a change in our use of those assets.

Our land use right in Macau under the land concession contract for Studio City is being amortized over the estimated lease term of the land on a straight-line basis. The expiry date of the lease of the land use right of Studio City is October 2026. The maximum useful life of assets at Studio City is therefore deemed to be the remaining life of the land concession contract. The amortization of land use right is recognized from the date construction commences. We will evaluate whether the term of the land concession contract is to be extended when it is probable that definitive registration will be obtained prior to the end of the land grant term.

Costs of repairs and maintenance are charged to expense when incurred.

We also evaluate the recoverability of our property and equipment and other 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 the carrying value of those assets to be held and used 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 with fair value typically based on a discounted cash flow model. If an asset is still under development, future cash flows include remaining construction costs. All recognized impairment losses, whether for assets to be disposed of or assets to be held and used, are recorded as operating expenses.

### ***Recent Changes in Accounting Standards***

See note 2 to our consolidated financial statements included elsewhere in this annual report for a discussion of recent changes in accounting standards.

### ***Results of Operations***

We are currently in the development stage, and as a result there is no revenue and cash provided by our intended operations. Accordingly, the activities reflected in our consolidated statements of operations mainly relate to general and administrative expenses, amortization of land use right, interest expenses, amortization of deferred financing costs, loan commitment fees and pre-opening costs. Consequently, we have incurred losses to date and expect these losses to continue to increase until we commence commercial operations with the planned opening of the Studio City Project in the third quarter of 2015.

### ***Year Ended December 31, 2014 compared to Year Ended December 31, 2013***

For the year ended December 31, 2014, we had a net loss of US\$68.9 million, a decrease of US\$12.5 million from a net loss of US\$81.4 million for the year ended December 31, 2013, primarily due to higher interest capitalization upon our continuous development on Studio City, higher interest income and lower loan commitment fees, partially offset by higher interest expenses and amortization of deferred financing costs arising from the drawdown of the entire term loan facility under the Studio City Project Facility on July 28, 2014 and an increase in pre-opening costs.

Amortization of land use right expenses were US\$12.1 million for each of the years ended December 31, 2014 and 2013.

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Pre-opening costs in 2014 were US\$15.0 million, compared to US\$2.9 million incurred in 2013. The increase in pre-opening costs of US\$12.1 million was primarily due to an increase in management fee, payroll costs and the consultancy fee in connection with the start-up operations of Studio City incurred for the year ended December 31, 2014.

Interest expenses (net of capitalized interest of US\$81.3 million) for the year ended December 31, 2014 were US\$17.1 million, compared to US\$40.1 million (net of capitalized interest of US\$35.3 million) for the year ended December 31, 2013. The decrease in net interest expenses (net of capitalized interest) of US\$23.0 million was primarily due to a higher interest capitalization of US\$46.1 million associated with the Studio City construction and development projects, partially offset by an increase in interest expenses of US\$26.3 million upon our drawdown in full of the term loan facility under the Studio City Project Facility in July 2014.

Amortization of deferred financing costs for the year ended December 31, 2014 was associated with the drawdown in full in July 2014 of the term loan facility under the Studio City Project Facility and the Studio City Notes issued in November 2012, totaling US\$10.7 million. Amortization of deferred financing costs for the year ended December 31, 2013 was associated with the Studio City Notes issued in November 2012 and amounted to US\$1.5 million.

Loan commitment fees associated with the Studio City Project Facility were payable from January 2013 and amounted to US\$15.2 million and US\$23.2 million for the year ended December 31, 2014 and 2013, respectively. The decrease in the amount of fees payable resulted from the drawdown in full of the term loan facility under the Studio City Project Facility in July 2014.

## Liquidity and Capital Resources

We have relied on shareholder equity contributions and/or subordinated loans from our shareholders, net proceeds from the Studio City Notes and a portion of the Studio City Project Facility to meet our development project needs through the opening of the Studio City Project. As a development stage company relying on such financing sources, our working capital balance may be negative from time to time as the source of funds will be from long-term debt while our liabilities are current. In addition, we expect our cash outflow to increase as we will have substantial payment obligations relating to various development capital expenditure, pre-opening and working capital expenses and debt financing obligations during the construction period.

As of December 31, 2014, a total of US\$1,280 million, representing all of the capital contribution required under the Shareholders Agreement, has been funded by MCE Cotai and New Cotai. The Shareholders Agreement does not require MCE Cotai or New Cotai to make any additional capital contributions to SCI.

## Cash Flows

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

	Year Ended December 31,	
	2014	2013
	(In thousands of US\$)	
Net cash used in operating activities	\$ (43,519)	\$ (65,041)
Net cash used in investing activities.	(1,443,077)	(530,114)
Net cash provided by financing activities.	1,489,757	595,155
Net increase in cash and cash equivalents	3,161	—
Cash and cash equivalents at beginning of year	—	—
Cash and cash equivalents at end of year	\$ 3,161	\$ —

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### ***Operating Activities***

We are currently developing the Studio City Project, and therefore there was no revenue and cash generated from our intended operations during the periods reported herein. Net cash used in operating activities during the presented periods in this annual report mainly represents general and administrative expenses, pre-opening costs and commitment fees associated with the Studio City Project Facility paid during the year. For the years ended December 31, 2014 and 2013, net cash used in operating activities were US\$43.5 million and US\$65.0 million respectively. The decrease in net cash used in operating activities was primarily due to the increase in interest capitalization.

### ***Investing Activities***

Net cash used in investing activities was US\$1,443.1 million for the year ended December 31, 2014, as compared to US\$530.1 million for the year ended December 31, 2013, primarily due to capital expenditure payment of US\$686.2 million, increase in restricted cash of US\$649.5 million, advance payments and deposits for acquisition of property and equipment of US\$60.4 million and land use right payment of US\$47.0 million.

The increase in restricted cash of US\$649.5 million for the year ended December 31, 2014 resulted primarily from the drawdown of the term loan facility under the Studio City Project Facility on July 28, 2014 of US\$1,295.7 million and the transfer of funds from Studio City Holdings, our immediate holding company, of US\$199.5 million as described below, partially offset by the withdrawal and payment of Project Costs and interest of US\$845.7 million for the year ended December 31, 2014 from bank accounts that are restricted for Project Costs in accordance with the terms of the Studio City Notes and the Studio City Project Facility.

Net cash used in investing activities was US\$530.1 million for the year ended December 31, 2013, primarily due to capital expenditure payment of US\$433.5 million, advance payments for construction of US\$150.1 million and land use right payment of US\$44.7 million, partially offset by the decrease in restricted cash of US\$98.2 million.

The decrease in restricted cash of US\$98.2 million was primarily due to withdrawal and payment of Project Costs of US\$680.3 million and payment of Studio City Notes interest of US\$71.1 million during the year ended December 31, 2013 from bank accounts that are restricted for the Studio City Project Facility, partially offset by the funds transfer from Studio City Holdings, our immediate holding company, of US\$653.2 million as described below.

### ***Financing Activities***

Net cash provided by financing activities was US\$1,489.8 million for the year ended December 31, 2014, primarily from the drawdown of the term loan facility under the Studio City Project Facility on July 28, 2014 of US\$1,295.7 million and advances from Studio City Holdings, our immediate holding company, which are unsecured and non-interest bearing, of US\$199.5 million. The advances from Studio City Holdings of US\$199.5 million were sourced through capital injections from MCE Cotai and New Cotai, shareholders of SCI. These were offset in part by the payment of debt issuance costs associated with the Studio City Notes and the Studio City Project Facility in an aggregate amount of US\$5.5 million.

Net cash provided by financing activities was US\$595.2 million for the year ended December 31, 2013, primarily from the advances from Studio City Holdings, our immediate holding company, which are unsecured and non-interest bearing, of US\$653.2 million. The advances from Studio City Holdings of US\$653.2 million were sourced through capital injections from MCE Cotai and New Cotai, shareholders of SCI. These were offset in part by the prepaid debt issuance costs of US\$56.4 million associated with the Studio City Project Facility and payment of debt issuance cost associated with Studio City Notes of US\$1.6 million.

## Indebtedness and Capital Contributions

The following table presents a summary of our indebtedness as of December 31, 2014:

	<u>As of December 31,</u> <u>2014</u>
	<u>(in thousands of US\$)</u>
Studio City Project Facility	\$ 1,295,689
Studio City Notes	\$ 825,000
	<u>\$ 2,120,689</u>

Except for the drawdown of the term loan facility under the Studio City Project Facility of US\$1.3 billion in July 2014, there was no other change in our indebtedness during the year ended December 31, 2014.

Under the Studio City Project Facility, we have HK\$10,855,880,000 (equivalent to approximately US\$1.4 billion) comprising a five year HK\$10,080,460,000 (equivalent to approximately US\$1.3 billion) term loan facility and a HK\$775,420,000 (equivalent to approximately US\$100.0 million) revolving credit facility. On July 28, 2014, we drew down the entire term loan facility under the Studio City Project Facility, while the revolving credit facility under the Studio City Project Facility remains available for future drawdown, subject to satisfaction of certain conditions precedent. Certain proceeds of the term loan facility (which has been fully drawn) have been placed in a disbursement account, which is secured in favor of the security agent for the facility, and may be withdrawn to pay Project Costs, subject to the satisfaction of certain conditions and requirements pursuant to an agreed term loan facility disbursement facility agreement. Certain proceeds of the Studio City Notes have also been placed in reserved accounts, which are secured in favor of the collateral agent for the Studio City Notes, and may be withdrawn to pay the interests payable under the Studio City Notes, subject to the satisfaction of conditions and requirements as specified by the relevant security documents.

For the purpose of financing the Studio City Project, we issued the US\$825.0 million Studio City Notes and drew down the term loan facility of HK\$10,080,460,000 (equivalent to approximately US\$1.3 billion) under the Studio City Project Facility, in November 2012 and July 2014, respectively. As of the date of this annual report, MCE Cotai and New Cotai, shareholders of SCI, have contributed US\$1,250.0 million (which amount includes the completion guarantee support cash of US\$225.0 million (part of which had been earmarked to partially fund the construction budget increased in June 2014) provided under the Studio City Project Facility) to the Studio City Project and US\$30 million for the initial design works for the Additional Development in accordance with the Shareholders Agreement.

For further details of the above indebtedness, please also refer to note 7 to the consolidated financial statements included elsewhere in this annual report, which includes information regarding the type of debt facilities used and still available to us, the maturity profile of such debt facilities, the applicable currency and interest rate structures, the charges on our assets and the nature and extent of any restrictions on our ability, and the ability of our subsidiaries, to transfer funds as cash dividends, loans or advances. Please also refer to “— Long-term Indebtedness and Contractual Obligations” for details of the maturity profile of debt and “— Quantitative and Qualitative Disclosures about Market Risk” for further understanding of our hedging of interest rate risk and foreign exchange risk exposure.

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### **Long-term Indebtedness and Contractual Obligations**

Our total long-term indebtedness and other known contractual obligations are summarized below as of December 31, 2014.

	Payments Due by Period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
	(in millions of US\$)				
<b>Long-term debt obligations<sup>(1)</sup>:</b>					
Studio City Project Facility	\$ —	\$ 311.0	\$ 984.7	\$ —	\$1,295.7
Studio City Notes	—	—	—	825.0	825.0
Fixed interest payments	70.1	140.3	140.3	64.3	415.0
Variable interest payments <sup>(2)</sup>	61.3	109.8	3.4	—	174.5
<b>Construction costs and property and equipment retention payables</b>	—	55.9	—	—	55.9
<b>Other contractual commitments:</b>					
Government annual land use fees <sup>(3)</sup>	0.5	1.0	1.9	7.7	11.1
Fixed interest on land premium <sup>(3)</sup>	0.6	—	—	—	0.6
Construction, plant and equipment acquisition commitments <sup>(4)</sup>	560.1	—	—	—	560.1
<b>Total contractual obligations</b>	<b>\$ 692.6</b>	<b>\$ 618.0</b>	<b>\$1,130.3</b>	<b>\$ 897.0</b>	<b>\$3,337.9</b>

- (1) See note 7 to the consolidated financial statements included elsewhere in this annual report for further details on these debt facilities.
- (2) Amounts for all periods represent our estimated future interest payments on our debt facility based upon amounts outstanding and HIBOR as at December 31, 2014 plus the applicable interest rate spread in accordance with the debt agreement. Actual rates will vary.
- (3) The land concession from the Macau government for the Studio City site, for a 25-year term from October 17, 2001, is renewable for further consecutive periods of ten years each until December 19, 2049. Renewal of the land concession is subject to obtaining approvals from the Macau government. See “Business” for further details of the land concession obligation.
- (4) See note 14(a) to the consolidated financial statements included elsewhere in this annual report for further details on construction, plant and equipment acquisition commitments.

### **Off-Balance Sheet Arrangements**

Except as disclosed in note 14(c) to the consolidated financial statements included elsewhere in this annual report, we have not entered into any material 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 ordinary 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.

### **Distribution of Profits**

All subsidiaries of our company incorporated in Macau are required to set aside a minimum of 25% of the entity’s profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity’s share capital in accordance with the provisions of the Macau Commercial Code. The legal reserve sets aside an amount from the subsidiaries’ statements of operations and is not available for distribution to the shareholders of the subsidiaries. The appropriation of legal reserve is recorded in the subsidiaries’ financial statements in the year in which it is approved by the board of directors of the relevant subsidiaries. As of December 31, 2014, the legal reserve was nil and no reserve was set aside during the year ended December 31, 2014.

## **Restrictions on Distributions**

The indenture governing the Studio City Notes and the agreement for the Studio City Project Facility contain certain covenants that, subject to certain exceptions and conditions, restrict the payment of dividends by our company and its restricted subsidiaries.

## **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 primary exposure to market risk will be interest rate risk associated with our substantial indebtedness.

### ***Interest Rate Risk***

Our exposure to interest rate risk is associated with our substantial indebtedness bearing interest based on floating rates. As of December 31, 2014, we are subject to fluctuations in HIBOR as a result of the Studio City Project Facility. In addition, we entered into interest rate swaps in connection with a portion of our drawdown of the term loan facility under the Studio City Project Facility in accordance with our obligations under the Studio City Project Facility. As of December 31, 2014, we had five interest rate swap agreements with a total nominal amount of HK\$1,867,199,900 (equivalent to approximately US\$240.0 million) that expired in March 2015. In March 2015, we entered into another five interest rate swap agreements with a total nominal amount of HK\$1,867,199,800 (equivalent to approximately US\$240.0 million) that will expire in September 2015.

We attempt to manage interest rate risk by managing the mix of long-term fixed rate borrowings and variable rate borrowings and we may supplement by hedging activities in a manner we deem prudent. We cannot be sure that these risk management strategies have had the desired effect, and interest rate fluctuations could have a negative impact on our results of operations.

As of December 31, 2014 and 2013, approximately 39% and 100% (respectively) of our total indebtedness was subject to interest at a fixed rate. Based on December 31, 2014 indebtedness and interest rate swap levels, an assumed 1% increase or decrease in HIBOR would cause our annual interest cost to increase or decrease by approximately US\$10.6 million.

### ***Foreign Exchange Risk***

Our exposure to foreign exchange rate risk is associated with the currency of our operations, our indebtedness and as a result of the presentation of our consolidated financial statements in U.S. dollars. The H.K. dollar is the predominant currency used in Macau and is often used interchangeably with the Pataca in Macau. A significant portion of our indebtedness, as a result of the Studio City Notes, is denominated in U.S. dollars, and the costs associated with servicing and repaying such debt will be denominated in U.S. dollars. In addition, the Studio City Project Facility is denominated in H.K. dollars, and the costs associated with servicing and repaying such debt will be denominated in H.K. dollars. The H.K. dollar is pegged to the U.S. dollar within a narrow range and the Pataca is in turn pegged to the H.K. dollar. The exchange rates between these currencies have remained relatively stable over the past several years, resulting in minimal foreign exchange exposure for us. However, we cannot assure you that the current peg or linkages between the U.S. dollar, H.K. dollar and Pataca will not be broken or modified and subjected to fluctuation as such exchange rates may be affected by, among other things, changes in political and economic conditions. Based on the balances of indebtedness denominated in currencies other than U.S. dollars as of December 31, 2014, an assumed 1% change in the exchange rates between currencies other than U.S. dollars against the U.S. dollar would cause a foreign transaction gain or loss of approximately US\$13.0 million for the year ended December 31, 2014. Major currencies in which our cash and bank balances (including restricted cash) were held as of December 31, 2014 included U.S. dollars, H.K. dollars and Patacas. Based on the cash and bank balances as of December 31, 2014, an assumed 1% change in the exchange rates between currencies other than U.S. dollars against the U.S. dollar would cause a maximum foreign transaction gain or loss of approximately US\$13.1 million for the year ended December 31, 2014.

## BUSINESS

### Overview

We are a subsidiary of SCI, which is 60%-owned by MCE, a developer, owner and operator of casino gaming and entertainment resort facilities in Asia. On July 27, 2011, MCE, through its subsidiary, MCE Cotai, acquired a 60% interest in SCI from an affiliate of eSun Holdings Limited, an independent third party. New Cotai Holdings, an entity incorporated in Delaware and controlled by funds managed by Silver Point Capital, L.P. and Oaktree Capital Management, L.P., retains the remaining 40% interest in SCI through its wholly owned subsidiary New Cotai.

We are developing the Studio City Project to be a cinematically-themed integrated entertainment, retail and gaming resort, designed to deliver a unique entertainment proposition to visitors to Macau. We also expect the Studio City Project to capture the attention of visitors to Macau, especially from the mass market segment, with its destination theming, unique and innovative interactive attractions, and strong Asian focus. In addition to its anticipated diverse range of gaming and non-gaming offerings, we believe Studio City's location in the fast growing Cotai region of Macau, directly adjacent to the Lotus Bridge immigration checkpoint ("Where Cotai Begins" which connects China to Macau) and a proposed light rail station, is a major competitive advantage, particularly as it relates to the mass market segment.

The gaming areas of Studio City will be operated by Melco Crown Macau pursuant to the services agreement entered into with our subsidiary, Studio City Entertainment.

The design of the Studio City Project is substantially complete. The foundation works were completed in mid-2013 and the superstructure works are well under way. The Studio City Project is expected to include a luxury hotel (which we intend to operate under our own branding) and related facilities, gaming capacity, retail, attractions and entertainment venues (including a multipurpose entertainment studio). The Studio City Project is currently targeted to open in the third quarter of 2015. Our plan for the Additional Development of the Studio City site, which is expected to include additional luxury hotel and related facilities, as well as an expansion of retail, entertainment and gaming capacity, is currently under review and remains subject to change.

Total construction and design costs for the Studio City Project, excluding the cost of land, capitalized interest and pre-opening expenses, are currently budgeted at approximately US\$2.3 billion. As of December 31, 2014, we had incurred capital expenditure for construction in progress of approximately US\$1.5 billion for the development of the Studio City Project. Other than utilizing equity contributions by and/ or subordinated loans from our shareholders, we have entered into financing arrangements for the Studio City Project, namely the Studio City Notes and the Studio City Project Facility.

Studio City's site is on a plot of land of 130,789 square meters (equivalent to approximately 1.4 million square feet) in Cotai, Macau. Studio City has an approved gross construction area of 707,078 square meters (equivalent to approximately 7.6 million square feet).

We engaged Gary Goddard Entertainment as our master plan designer for the Studio City Project. In addition, we engaged several major internationally recognized consultants for the architectural, building services and structural design works, as well as for hotel interior design and planning and management of the retail area of the Studio City Project.

By the end of 2014, the design of the Project was complete and procurement of all trades was complete except for a few fit-out packages in the retail area and for a few attractions. We have entered into direct contracts with world renowned companies to construct and manage the construction of themed entertainment facilities including Asia's highest ferris wheel attraction, the "Flying Theatre", and magic themed entertainment.

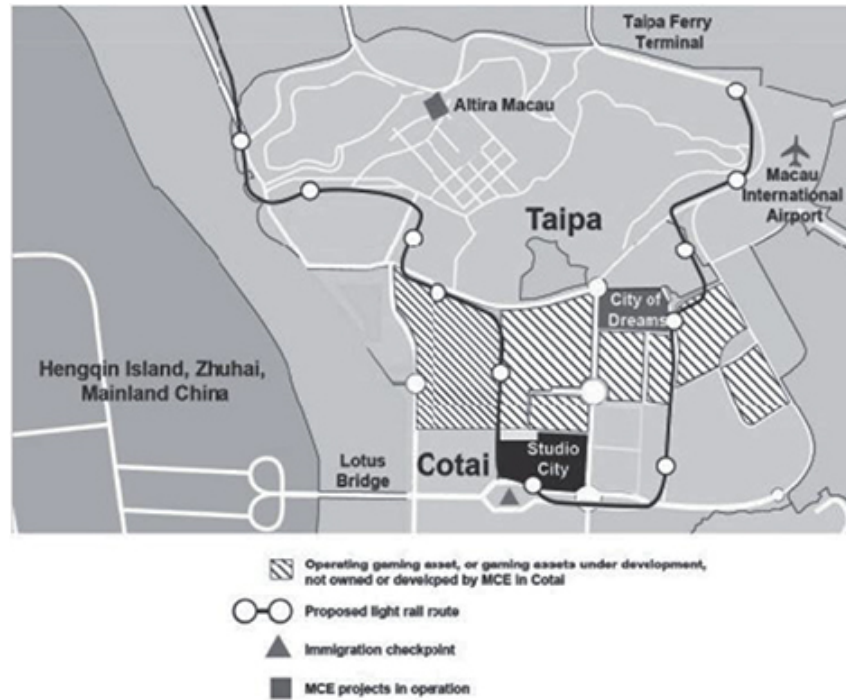


## Competitive Strengths

### *Optimal location*

Studio City is located in Cotai, an area that has become the key growth driver for Macau, where major gaming operators intend to develop further integrated resorts. Branded as “Where Cotai Begins”, Studio City is strategically located directly adjacent to the Lotus Bridge immigration checkpoint and is located along one of the planned Cotai hotel-casino resort stops on the Macau Light Rail Transit line. Studio City Project’s close proximity to these two key entry and transit points is a key competitive advantage, likely making the property one of the first stops for a large number of visitors from Mainland China to Cotai. We believe that Studio City’s location as the first hotel-casino resort stop in Cotai is important in driving mass market visitation, enabling the property to capture a meaningful share of these customers’ spending.

Furthermore, we expect that Studio City’s location and Studio City Casino’s complementary mass market focus will enable significant cross-marketing and cross-promotional opportunities with MCE’s City of Dreams integrated resort, which focuses on the VIP and premium end of the market and is located only minutes by car and two stations away on a proposed light rail from Studio City.



In addition, we believe that the planned development of Hengqin Island, China, will substantially increase traffic flow over time through the Lotus Bridge immigration checkpoint, further enhancing Studio City’s access to its core mainland Chinese target market.

***Innovative property with a focus on non-gaming entertainment attractions***

We anticipate that the Studio City Project's unique design, including its striking and iconic exterior, will enhance the appeal of the property, particularly to the mass market segment, and help capture visitors entering Macau via the Lotus Bridge.

We believe that our focus on non-gaming entertainment attractions will differentiate the Studio City Project from existing Macau resort offerings, which currently place a higher emphasis on gaming, retail and/or meeting, incentives, convention and exhibition offerings. The cinematically-themed entertainment offerings are expected to include regional pop artist concerts, Asia's highest ferris wheel attraction, a "Flying Theatre", magic themed entertainment as well as several other interactive rides and attractions, including a 5,000 seat multi-purpose entertainment studio, designed to cater to a broad range of customer ages, tastes and preferences.

The Studio City Project will also offer numerous casual and fine dining restaurants and bars, as well as other food and beverage outlets.

***Significant Macau operational experience of our controlling shareholder***

Our shareholder, MCE and its subsidiary, Melco Crown Macau, which will operate the Studio City Casino, have successfully developed and are currently operating two major Macau based casino operations, City of Dreams and Altira Macau, illustrating a thorough understanding and knowledge of the Macau gaming industry, including customer needs and preferences, regulatory processes and approvals, and the current and future competitive landscape.

We expect to leverage our relationship with MCE to maximize economies of scale through cost saving initiatives, including the centralization of shared services and support functions, such as legal services, information technology, human resources, supply chain logistics, sales and marketing, warehousing, strategic sourcing and transportation.

We believe that one of our strengths is the combined expertise of our shareholder, MCE, and Melco and Crown, major shareholders of MCE, both of which are represented on the board of directors of SCI, our parent. Melco has an established reputation and a broad network of business relationships in Macau, Hong Kong and elsewhere in other countries, and was one of the first companies to tap the rapidly growing leisure, gaming and entertainment market in Macau. Crown is one of Australia's largest entertainment groups and is an experienced gaming company. We believe that successfully leveraging MCE's operational experience should minimize the Studio City Project's ramp up period after its initial opening.

***Ability to leverage an established customer and international sales network and loyalty programs***

We expect to leverage our relationship with MCE, which has extensive customer and sales network in Asia, as well as its well-developed and recognized customer hosting and loyalty programs, in order to build and develop our own customer base and drive visitation for the Studio City Project to achieve revenue growth. We also expect to leverage our relationship with MCE to capitalize on strategic revenue growth opportunities, including joint marketing and sales campaigns, as well as enticements at MCE properties to visit the Studio City Project and vice versa, and multi-location gaming machine jackpots.

***Premier development team***

Our core project management team and board of directors of SCI include various individuals with significant experience in developing multi-billion dollar integrated resort projects. These individuals have extensive experience developing integrated resorts with total construction costs of over US\$10 billion. Marquee integrated resorts that they have been involved in include: Altira Macau, City of Dreams, MGM Las Vegas, Venetian Macau, Cosmopolitan Las Vegas and Marina Bay Sands Singapore.

***Strong shareholder support and significant equity investment***

As of the date of this annual report, MCE Cotai and New Cotai, shareholders of SCI, contributed a total of US\$1,250 million to the Studio City Project (and US\$30 million for the initial design works for the Additional Development) in accordance with the Shareholders Agreement. Out of the contribution of US\$1,250 million, US\$225 million was deployed as completion support (part of which had been earmarked to partially fund the construction costs increased in June 2014) in the form of cash collateral with lenders of the Studio City Project Facility. We believe that the significant equity investment of our shareholders provides us with a prudent capital structure.

**Our Strategies**

***Differentiate the integrated resort with significant non-gaming attractions***

The cinematically-themed integrated entertainment, retail and gaming resort Studio City is expected to be differentiated from existing hotel-casino integrated resorts through its destination theming, unique array of entertainment and innovative interactive attractions, which will cater to a broad range of customers in Macau and help drive diversification of the Macau economy. At the forefront of Asia's next generation of immersive, world-leading, entertainment-driven gaming and leisure destination experiences, Studio City will offer a wide range of stunning attractions, such as Asia's highest ferris wheel embedded in the façade of the hotel tower; "Batman Dark Flight", the world's first Batman film franchise digital ride; "Warner Bros. Fun Zone", a large-scale family entertainment center enlivened by DC Comics and Warner Bros. characters; a TV broadcast studio, a 5,000-seat multi-purpose live performance arena and a live magic venue, as well as approximately 1,600 hotel rooms, a vast array of food and beverage outlets and "The Boulevard", which will comprise approximately 350,000 square feet of themed and innovative retail space.

***Focus on the higher margin mass market customer segment***

The Studio City Project aims to be a mass market focused integrated resort. Studio City Casino intends to favor the mass market segment in Macau, given the typically higher operating margins and higher expected growth rates, when compared to the rolling chip segment. Incremental costs associated with the VIP rolling chip segment, compared to the mass market segment, include gaming promoter commissions and higher customer incentives. Mass market customers will be targeted by leveraging the Studio City Project's diversified entertainment attractions, strategic marketing and promotional campaigns, as well as through a unique and tiered customer loyalty program, which will cater to a wide range of customers.

The mass market segment is relatively more stable than the VIP rolling chip segment. During the global financial crisis in 2008 and 2009, Macau's quarterly mass market growth remained positive despite the significant disruptions to global markets and weak global economic conditions.

***Develop comprehensive marketing and customer loyalty programs***

We expect to coordinate the marketing efforts for the Studio City Project with our shareholder MCE, enabling substantial cost and revenue synergies, including, among other things, joint marketing and promotional campaigns. We intend to build up an extensive sales reach throughout our core target markets, including China and Hong Kong, ensuring that we strategically target our intended customer base and increase visitation and brand recognition.

We expect that the Studio City Casino will develop strong customer loyalty programs, tailored to attract and retain key customers, with a tiered loyalty approach ensuring each customer segment is specifically recognized and incentivized in accordance with their expected revenue contribution. We anticipate that the Studio City Casino will participate in cross marketing and sales campaigns developed by Melco Crown Macau as well as participate in customer loyalty strategies, which we believe will minimize the Studio City Project's ramp up period, reduce marketing costs through scale synergies and maximize cross-revenue opportunities through complementary marketing programs and campaigns.

### ***Create a first class customer experience***

We aim to provide Studio City’s customers with a high quality experience through Studio City’s product offering and service quality. We believe Studio City’s variety of gaming and non-gaming attractions will provide customers with a superior overall entertainment experience. We expect customers to be able to dine and shop and enjoy the various interactive rides and attractions while also being able to play table games and gaming machines, all without leaving our property. We believe that by leveraging MCE’s operational expertise, we will be able to provide superior customer service. For example, the Studio City Project will have access to MCE’s experienced management team and service staff and will be able to share in the extensive training and hiring programs designed by MCE.

### **Studio City Project**

Our current plan is to develop the Studio City Project into a large-scale cinematically-themed integrated resort, consisting of a luxury hotel and related facilities, gaming capacity, retail, attractions and entertainment venues (including a multipurpose entertainment studio).

### ***Development of the Studio City Project***

The following information describes our plans for the development of the Studio City Project as of the date of this annual report. As we are continually reviewing and developing our project plans, the following description is subject to further revision and change.

### ***Hotel and Gaming Capacity***

The gross construction area for the Studio City Project is approximately 5.2 million square feet (equivalent to approximately 477,336 square meters). It is anticipated that the Studio City Project will include a high rise structure accommodating self-managed luxury hotel facilities with approximately 1,600 rooms and gaming facilities.

### ***Retail***

It is anticipated that the retail space will be located on the lower podium of an integrated superstructure. The total retail gross construction area of approximately 0.39 million square feet (equivalent to approximately 36,000 square meters) is available for the Studio City Project with net leasable area of approximately 0.24 million square feet (equivalent to approximately 22,000 square meters). The retail mall is expected to showcase a variety of shops, and food and beverage offerings.

### ***Entertainment***

At the forefront of Asia’s next generation of immersive, world-leading, entertainment-driven gaming and leisure destination experiences, Studio City will offer a wide range of stunning attractions, such as Asia’s highest ferris wheel, embedded in the façade of the hotel tower; “Batman Dark Flight”, the world’s first Batman film franchise digital ride; “Warner Bros. Fun Zone”, a large-scale family entertainment center enlivened by DC Comics and Warner Bros. characters; a TV broadcast studio, a 5,000-seat multi-purpose live performance arena and a live magic venue.

### ***Design and Procurement Status***

We engaged Gary Goddard Entertainment as our master plan designer for the Project. In addition, we have engaged the following major internationally recognized consultants for the architectural, building services and structural design works:

Executive Architect — Leigh and Orange Limited  
Building Services — Meinhardt (Macau) Limited  
Structural — AECOM Macau Company Limited  
Hotel interior design — LTW Designworks Pte. Ltd  
Retail Area Planning and Management — Taubman Asia

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By the end of 2014, the design of the Project was complete and procurement of all trades was complete except for a few fit-out packages in the retail area and for a few attractions. As of the date of this report, procurement for the attractions was completed.

In addition, we have entered into direct contracts with world renowned companies to construct and manage the construction of themed entertainment facilities including the Asia's highest ferris wheel attraction, the "Flying Theatre", magic themed entertainment and a family entertainment centre.

### ***Construction Status***

Foundation works were completed in mid-2013 by Paul Y Construction, the foundations contractor. We engaged, through competitive tendering, Paul Y Construction and Yau Lee Construction as a joint venture to carry out and complete the main contract works for the Project. As of the date of this report, the construction of the Project is well under way with the reinforced concrete structure works have been completed, and fitting out of the Project is well advanced. Mechanical, electrical and plumbing works are almost complete.

### ***Targeted Customers***

The Studio City Project is expected to focus on targeting the mass market segment (non-VIP), consisting of individuals who are expected to appreciate the broad leisure and entertainment offerings featured at the Studio City Project, including interactive attractions and rides, together with significant retail and food & beverage venues. The Studio City Casino will also cater to the VIP and premium segments, which typically attract wealthy high-end patrons who seek the excitement of high stakes gaming.

The primary target market is expected to be the mid-to-high income population who are both avid players and frequent visitors, with a particular focus on the adjacent Guangdong market and the rest of Greater China. The broader Asian region will serve as secondary and tertiary target markets.

### ***Location and description of the Land Grant***

Studio City is to be developed in Cotai as an integrated resort development project under a land grant concession granted by way of lease for the site.

The Studio City site is on a plot of land of 130,789 square meters (equivalent to approximately 1.4 million square feet) in Cotai, Macau and is strategically adjacent to a projected light rail station and Lotus Bridge immigration checkpoint, "Where Cotai Begins" which connects Macau to Hengqin Island, PRC. The Studio City Project entrance will be approximately one minute's walk from the immigration checkpoint and will be interconnected to the property via an overhead sheltered pedestrian walkway. This direct access from key entry and transit points for Macau visitors will allow Studio City to become the natural first stop in Macau and likely benefit from the largest share of spending from these customers. In addition, the Studio City Project's architecturally striking and iconic exterior will be highly visible and prominent in a prime location, helping to generate significant foot traffic.

Studio City has a gross construction area of approximately 7.6 million square feet (equivalent to approximately 707,078 square meters). The gross construction area for the first phase is approximately 5.2 million square feet (equivalent to approximately 477,336 square meters). Under the Studio City land concession contract, the land premium is approximately MOP1,425.3 million (equivalent to approximately US\$177.9 million), of which approximately MOP1,230.0 million (equivalent to approximately US\$153.5 million) was paid as of December 31, 2014, and the remaining MOP195.3 million (equivalent to approximately US\$24.4 million), bearing interest at 5% per annum was paid in January 2015. Under the Studio City land concession contract, Studio City Developments has provided guarantees in the total amount of MOP7.4 million (equivalent to approximately US\$0.9 million). Currently, the development period under the land concession contract is for 72 months from July 25, 2012.

The Studio City land concession contract, as amended in 2012, permits Studio City Developments to build a complex comprising a luxury hotel, a facility for cinematographic industry, including supporting facilities for entertainment and tourism, parking and free area.

### ***Shared Services and Management***

We intend to share certain resources and services with MCE and certain of its affiliates or subsidiaries, including senior management services, marketing capabilities, operations, supply chain logistics, warehousing and strategic sourcing, transportation, legal and compliance services, certain finance processes, information technology, human resources services and other customarily centralized corporate functions.

We believe that the use of shared resources and services with MCE and certain of its affiliates or subsidiaries will provide us with synergy opportunities through leveraging MCE's extensive Macau experience, utilizing MCE's existing marketing capabilities, realizing cost efficiencies and economies of scale by centralizing support functions and leveraging MCE's management structure and experience, support service, infrastructure and sales network.

We plan to maximize scale opportunities between MCE and the Studio City Project in a mutually beneficial manner. It is expected that MCE will be reimbursed for all reasonable costs incurred in connection with the design, development, construction, equipping, supply, installation, testing, commissioning, opening and operation of the Studio City Project. Such costs may include services or goods provided by MCE related entities on prices and terms that are competitive with the prices and terms of goods or services of equal quality available from third parties as evidenced by third party quotes or tenders for service where appropriate.

### ***Advertising and Marketing***

Closer to the opening of the Studio City Project and/or once it becomes operational, we plan to seek to attract customers to the Studio City Project and to grow our customer base over time by implementing and undertaking various advertising and marketing activities, which may include utilizing local and regional media for publicity, cultivating good public relations, employing different forms of advertising, offering promotions and entertainment options to customers and hosting special events.

### ***Additional Development***

We will develop the remaining land covered by the Land Grant and expect it to include additional luxury hotel and related facilities, retail, entertainment and gaming expansion capacity. Our plan for the Additional Development is under review and remains subject to change.

## **Competition**

### ***Macau Gaming Market***

We believe that the gaming market in Macau is and will continue to be intensely competitive. Competitors of the Studio City Project 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 as compared to the Studio City Project.

Gaming in Macau is administered through government-sanctioned concessions awarded to three different concessionaires: Sociedade de Jogos de Macau, S.A. ("SJM"), which is a company listed on the HKSE in which Mr. Lawrence Ho, the co-chairman and chief executive officer, and his family members have shareholding interests; Wynn Resorts (Macau) S.A. ("Wynn Macau"), a subsidiary of Wynn Resorts Ltd.; and Galaxy Casino, S.A. ("Galaxy"), a consortium of Hong Kong and Macau businessmen. SJM has granted a subconcession to MGM Grand Paradise, which was originally formed as a joint venture by MGM Mirage and Ms. Pansy Ho, sister of Mr. Lawrence Ho. Galaxy has granted a subconcession to Venetian Macau, S.A. ("VML"), a subsidiary of Las Vegas Sands Corporation, the developer of Sands Macao, The Venetian Macao and Sands Cotai Central. Melco Crown Macau obtained its subconcession under the concession of Wynn Macau.

SJM currently operates multiple casinos throughout Macau. SJM has extensive experience in operating in the Macau market and long-established relationships in Macau. SJM has begun construction of its new casino in Cotai which is due to open in 2017.

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Wynn Macau opened the Wynn Macau in September 2006 on the Macau Peninsula. In addition they opened an extension to Wynn Macau called Encore in 2010. In 2012, Wynn Macau started the construction for a new casino in Cotai, which it expects to open in the first half of 2016.

Galaxy currently operates multiple casinos in Macau, including StarWorld, a hotel and casino resort in Macau's central business and tourism district. The Galaxy Macau Resort opened in Cotai in May 2011 and has announced the opening of Phase 2 of the Galaxy Macau Resort in May 2015.

VML, a subsidiary of Sands China Ltd., with a subconcession under Galaxy's concession, operates Sands Macao on the Macau peninsula, together with The Venetian Macao, the Plaza Casino at The Four Seasons Hotel Macao and the Sands Cotai Central, which are located in Cotai. Sands China Ltd. has announced proposals for the development of an additional hotel tower at Sands Cotai Central in Cotai, and the opening of the Parisian in Cotai in 2016.

MGM Grand Paradise, with a subconcession under SJM's concession, opened the MGM Macau in December 2007, which is located next to Wynn Macau on the Macau peninsula. MGM Grand Paradise has announced its intention to develop a new casino in Cotai and began its construction of this additional project, which is scheduled to open in 2016, in February 2013.

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 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. The Macau government further announced that the number of gaming tables operating in Macau should not exceed 5,500 until the end of the first quarter of 2013 and that, thereafter, for a period of ten years, the total number of gaming tables to be authorized will be limited to an average annual increase of 3%. These restrictions are not legislated or enacted into laws or regulations and as such different policies, including on the annual increase rate in the number of gaming tables, may be adopted at any time by the relevant Macau government authorities.

According to the DICJ, the number of gaming tables in Macau as of December 31, 2014 was 5,711. However, the policies and laws of the Macau government could change and permit the Macau government to grant additional gaming concessions or subconcessions. Such changes in policies may also result in a change of the number of gaming tables and casinos that the Macau government is prepared to authorize to operate.

### ***Other Regional Markets***

The Studio City Project may also face competition from casinos and gaming resorts located in other Asian destinations together with cruise ships. Casinos and integrated gaming resorts are becoming increasingly popular in Asia, giving rise to more opportunities for industry participants and increasing regional competition. There are major gaming facilities in Australia located in Melbourne, Perth, Sydney and the Gold Coast. 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 Vietnam and Cambodia, although they are relatively small compared to those in Macau.

We will also face competition in the Philippine market from hotels and resorts owned by both Philippine nationals and foreigners, including many of the largest gaming, hospitality, leisure and resort companies in the world. These include Travellers International Hotel Group, Inc., Bloomberry Resorts Corporation and Tiger Resorts Leisure and Entertainment Inc. together with MCE Leisure (Philippines) Corporation, the manager and operator of City of Dreams Manila and an indirect subsidiary of MCE, as well as Philippines Amusement and Gaming Corporation, an entity owned and controlled by the government of the Philippines, which operates certain gaming facilities across the Philippines.

Singapore legalized casino gaming in 2006. Genting Singapore PLC opened its resort in Sentosa, Singapore in February 2010 and Las Vegas Sands Corporation opened its casino in Marina Bay, Singapore in April 2010.

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### **Employees**

All of our corporate and administrative functions as well as non-gaming activities will be administered by staff of MCE or its affiliates, subsidiaries or designees. Melco Crown Macau will be responsible for the operation of the Studio City Casino facilities, including hiring, employing, training and supervising casino personnel, including in the pre-opening phase of the Studio City Project, and we will reimburse Melco Crown Macau for all of the costs in connection with its operation of the Studio City Casino, including employee costs.

In early 2015, Melco Crown Macau completed a major recruitment exercise, both in Macau and elsewhere, providing internal development opportunities, transferring skilled employees from other business units and recruiting executives, managers and operational employees with suitable industry experience for the Studio City Casino. Melco Crown Macau will manage all training and employment related matters for employees that have been deployed at the Studio City Casino, to ensure that operational requirements are consistently met and have been put into place for a successful opening.

### **Intellectual Property**

As part of our branding strategy, we have applied for or registered a number of trademarks (including “Studio City” trademarks and “Where Cotai Begins” trademarks) in Macau, Hong Kong and other jurisdictions for use in connection with the Studio City Project. Where possible, we intend to continue to register trademarks as we develop, review and implement our branding strategy for the Studio City Project. However, our current and any future trademarks are subject to expiration and we cannot guarantee that we will be able to renew all of them upon expiration. Our inability to renew the registration of certain trademarks and the loss of such trademarks could have an adverse effect on our business, financial condition, results of operations and cash flows once the Studio City Project is operational.

### **Insurance**

We intend to obtain insurance of the types and in amounts that are customary in the industry and which we believe will reasonably protect our interests. During the period in which the Studio City Project is being built, we maintain third party liability (including accidental pollution liability), workers compensation and contractor’s all risks insurances. We also require our general contractors to maintain certain insurances.

Following the opening of the Studio City Project, we intend to maintain commercial general liability (including accidental pollution liability), automobile liability, workers compensation, property damage and machinery breakdown and business interruption insurances. We also intend to require certain contractors who may perform work on the Studio City Project, as well as other vendors, to maintain certain insurances. In each case, we expect all such insurances will be subject to various caps on liability, both on a per claim and aggregate basis, as well as certain deductibles and other terms and conditions.

### **Environmental Matters**

We have been committing to environmental awareness throughout the construction phase of the Studio City Project, and have developed built-in innovative and energy saving green technologies for operations at Studio City. Currently, we are not aware of any environmental complaints made against us.

### **Legal and Administrative Proceedings**

We may be subject to legal proceedings from time to time. We are not currently involved in any legal or administrative proceedings that we expect, individually or in the aggregate, to have a material adverse effect on our financial condition, results of operations or liquidity. A dispute that arose when SCI was under the control of the former joint venture partners in relation to certain development costs in connection with the Studio City Project, which had been referred to arbitration, was settled in July 2013.



## MANAGEMENT

### Directors

The board of SCI will be responsible for the overall management of SCI and its subsidiaries, including our company.

The following table sets forth information regarding our directors as of the date of this annual report.

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Clarence Yuk Man Chung	52	Director
Geoffrey Stuart Davis	46	Director
Stephanie Cheung	52	Director

**Mr. Clarence Yuk Man Chung** is our director. Mr. Chung also served as the non-executive director of MCE since November 21, 2006. Mr. Chung has also been an executive director of Melco since May 2006. He joined Melco in December 2003. Mr. Chung has served as a director of Melco Leisure and Entertainment Group Limited since 2008. Before joining Melco, he has more than 25 years of experience in the financial industry in various capacities as a chief financial officer, an investment banker and a merger and acquisition specialist. He was named one of the “Asian Gaming 50” for multiple years (including year 2013) by Inside Asian Gaming magazine. Mr. Chung has been the chairman and chief executive officer of Entertainment Gaming Asia Inc., a company listed on the Nasdaq Capital Market, since August 2008 and October 2008, respectively. Mr. Chung has been the chairman and president of Melco Crown (Philippines) Resorts Corporation, a company listed on the Philippine Stock Exchange, since December 2012. Mr. Chung has also been appointed as a director of a number of our subsidiaries incorporated in various different jurisdictions. Mr. Chung obtained a master’s degree in business administration from the Kellogg School of Management at Northwestern University and The Hong Kong University of Science and Technology and is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

**Mr. Geoffrey Stuart Davis** is our director. Mr. Davis is also the executive vice president and chief financial officer of MCE and he was appointed to his current role in April 2011. Prior to that, he served as MCE’s deputy chief financial officer from August 2010 to March 2011 and senior vice president, corporate finance from 2007, when he joined MCE. Prior to joining MCE, Mr. Davis was a research analyst for Citigroup Investment Research, where he covered the U.S. gaming industry from 2001 to 2007. From 1996 to 2000, he was the vice president of corporate communications for Park Place Entertainment, the largest gaming company in the world at the time. Park Place was spun off from Hilton Hotels Corporation and subsequently renamed Caesars Entertainment. Mr. Davis has been a CFA charter holder since 2000 and obtained a bachelor of arts from Brown University in 1991.

**Ms. Stephanie Cheung** is our director. Ms. Cheung is also the executive vice president and chief legal officer of MCE and she was appointed to her current role in December 2008. Prior to that, she held the title of general counsel from November 2006, when she joined MCE. She has acted as the secretary to MCE’s board since she joined MCE. Prior to joining MCE, Ms. Cheung was an of counsel at Troutman Sanders from 2004 to 2006 and prior to that she practiced law with various international law firms in Hong Kong, Singapore and Toronto. Ms. Cheung graduated with a bachelor of laws degree from Osgoode Hall Law School in 1986 and a master’s degree in business administration from York University in 1994. Ms. Cheung is admitted as a solicitor in Ontario, Canada, England and Wales, and Hong Kong.

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### Property Management Team

The following table sets forth information regarding the property management team as of the date of this annual report.

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Jay Dee Clayton	62	Property President
Tim Nauss	57	Property CFO

**Mr. Jay Dee Clayton** is the Property President at Studio City. He was appointed to his current role in January 2015. Prior to that, Jay Dee was EVP Operations at Wynn Macau and most recently operated his own consulting practice that focused on assisting companies to improve the customer experience and increase the velocity of business through technological innovation. At Wynn Macau, Jay Dee was Operations Project Manager for the development and delivery of Encore at Wynn Macau. Jay Dee has a strong background and international experience in all aspects of integrated casino resorts including table games operations/ administration, slot operations and casino marketing. Jay Dee has also been directly involved in operating both mass market and VIP gaming facilities. He was the General Manager of a hotel and casino in Darwin, Australia earlier in his career.

**Mr. Timothy G. Nauss** is our Property CFO at Studio City and he was appointed to his current role in January 2015. Most recently, Mr. Nauss was the Executive Director, Finance for Wynn Palace, where he focused on Cotai Strip development for the Finance division. Prior to this role, he was Director of Finance at Wynn Macau and was involved in opening of Encore Macau. Prior to joining Wynn Macau in 2009, Mr. Nauss was the Director of Finance, Cotai for Venetian Macau, Limited, and served as Director of Finance in the pre-opening development, operational development and opening for Venetian Macao Resort Hotel. He was VP of Finance with Wyndham International from 2000 to 2005. Mr. Nauss began his career in hospitality with Hilton Hotels Corporation and served in a number of executive capacities in both Operations and Finance. Mr. Nauss has a bachelor of arts and sciences from the University of South Carolina.

### Project Management Team

The following table sets forth certain information regarding the project management team for the Studio City Project as of the date of this annual report.

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Jaya Jesudason	73	Executive Vice President, Construction and Design
Graham Busst	68	Vice President, Commercial
William Cornish	47	Vice President, Construction
Simon So	59	Director, Construction Projects
Brian Tam	48	Director, Mechanical Electrical Planning
Samuel Lo	60	Director, Construction
Henny W. Kruizinga	60	Director, Design (Podium)
Roman Bugryn	63	Director, Design (Hotel)

The members of our senior project management team have experience in property development, construction project management and architecture and design. The project management team will report to MCE and the board of SCI and oversee and manage the Studio City Project at each stage of the process from design, construction through to completion of the Studio City Project. Our project management team will work closely with our contractors, including the main construction contractor, architects and engineers and will consist primarily of the following persons.

**Mr. Jaya Jesudason** is the Executive Vice President, Construction and Design of MCE. He joined MCE in 2007 as Project Director for the completion of the City of Dreams Project. Prior to that, he worked at Kowloon-Canton Railway Corporation as a general manager of the west rail project and other rail projects. He was also a divisional manager for the Hong Kong airport project of the Hong Kong Airport Authority.

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**Mr. Graham Busst** is Vice President in our Commercial department. He was previously the Commercial Manager for the Leighton-China State-John Holland joint venture in connection with the City of Dreams project, and he previously also served as the Head of Commercial for Gammon and commercial director for Balfour Beatty KCRC Nam Cheong Station and Lok Ma Chau Terminus projects.

**Mr. William Cornish** is Vice President in our Construction department. He was previously the Deputy Project Director and Director of Construction for the Marina Bay Sands Integrated Resort in Singapore. He has also served as Senior Project Manager for Las Vegas Sands Inc. for The Venetian, Cotai and the Sands Casino, Macao. Prior to that, he was Project Manager for PCCW at the Cyberport Development in Hong Kong. Other projects Mr. Cornish worked on include Super Terminal 1 of Hong Kong Air Cargo Terminals Limited at Chek Lap Kok Airport.

**Mr. Simon So** is Director in our Construction Projects department. He was previously a project director on the Orient Town Project for the One Oasis Project. He also has extensive project management experience, having worked on developments such as City of Dreams, Venetian Phase 1 (Macau), Shatin to Central Link and West Rail.

**Mr. Brian Tam** is Director in our Mechanical Electrical Planning department. He is responsible for all of the mechanical and electrical works for the Studio City Project. He previously held a senior position with Balfour Beatty and Gammon, and his projects include Cathay Pacific Cargo Terminal, Hong Kong International Airport, One Island East and KCRC West Rail. He also served as Executive Engineer for Hsin Chong Taylor Woodrow Joint Venture at Hung Hum Station Renovation and Extension Project.

**Mr. Samuel Lo** is Director in our Construction department. He is responsible for all the construction activities for the Studio City Project. He previously held a senior position in construction management with the Kowloon Canton Railway Corporation and the Hong Kong Mass Transit Railway for West rail and the Express rail Link railway projects in Hong Kong.

**Mr. Henny W. Kruizinga** is our Director for design (Podium). He is responsible for all of the podium design management including gaming, retail, restaurants, pool, facade and landscape facilities. From 2007 through to 2010, he was the Director of Design for the Cosmopolitan of Las Vegas Resort & Casino, and prior to that, he served as Director of Design for Marnell Corrao Associates and MGM Mirage Resorts, both located in Las Vegas.

**Mr. Roman Bugryn** is our Director for design (Hotel). He has 36 years of experience in the construction industry as a consultant on a variety of types of projects. He was previously a site architect in Sharm El Sheikh, Egypt for the resort/hotel/villa development project of Emir's Palace for Qatar Development Corporation. From 2007 to 2009, he served as Design Director in City of Dreams and from 1999 to 2006, he served as Director of Architectural Practice for Mirvac.

**RELATED PARTY TRANSACTIONS**

For discussion of significant related party transactions we entered into during the years ended December 31, 2014 and 2013, see note 15 to the consolidated financial statements included elsewhere in this annual report.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

### Studio City Project Facility

On January 28, 2013, Studio City Company, entered into an agreement for the Studio City Project Facility, a senior secured project facility for a total sum of HK\$10,855,880,000 (equivalent to approximately US\$1.4 billion), comprising a five year HK\$10,080,460,000 (equivalent to approximately US\$1.3 billion) term loan facility (the “Term Loan Facility”) and a HK\$775,420,000 (equivalent to approximately US\$100 million) revolving credit facility (the “Revolving Credit Facility”), each as described in further detail below.

#### *Term Loan Facility*

The Studio City Project Facility matures on the date which is five years after the signing date of the definitive agreement in respect of the Studio City Project Facility (the “Signing Date”) and is subject to quarterly amortization payments commencing on the earlier of (i) the first fiscal quarter end date falling not less than 45 months after the Signing Date and (ii) the end of the second full fiscal quarter after the opening date of the Studio City Project (the “Opening Date”). The Term Loan Facility was fully drawn prior to the end of its availability period, and certain proceeds of such facility have been placed in a disbursement account and may be withdrawn to pay Project Costs, subject to the satisfaction of certain conditions and requirements pursuant to an agreed term loan facility disbursement facility agreement.

#### *Revolving Credit Facility*

The Revolving Credit Facility matures on the date which is five years after the Signing Date and has no interim amortization. The Revolving Credit Facility may be utilized prior to the Opening Date for, among other things, the payment of Project Costs by way of issue of letters of credit up to a maximum amount of HK\$387,710,000 (equivalent to approximately US\$50.0 million), and may be borrowed in full on a revolving basis after the Opening Date.

#### *Use of Proceeds*

##### *Term Loan Facility*

The proceeds of borrowings under the Term Loan Facility may be used, among other things, to finance or refinance the design, development, construction and pre-opening costs of the Studio City Project (including interest and other financing costs) and to pay fees and expenses incurred in connection therewith.

##### *Revolving Credit Facility*

The proceeds of borrowings under the Revolving Credit Facility may be used:

- (i) for the issuance of letters of credit, subject to a maximum limit of HK\$387,710,000 (equivalent to approximately US\$50.0 million); and
- (ii) (for all drawings) to finance the general corporate purposes and working capital needs of Studio City Investments, Studio City Company and their subsidiaries (collectively, the “Group”) following the Opening Date (including, in certain circumstances, interest on the Studio City Project Facility and the Studio City Notes).

#### *Repayment*

The Term Loan Facility amortizes by three percent on a quarterly basis commencing on the earlier of (i) the first fiscal quarter end date falling not less than 45 months after the Signing Date and (ii) the end of the second full fiscal quarter after the Opening Date, with a balloon payment due on the final maturity date of the Term Loan Facility, which is five years after the Signing Date. No amortization shall be required with respect to the Revolving Credit Facility. The final maturity date of the Revolving Credit Facility shall also be the date which is five years after the Signing Date.

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### *Interest and Fees*

Borrowings under the Studio City Project Facility bear interest at HIBOR plus a margin of 4.50% per annum until the last day of the second full fiscal quarter after the Opening Date, after which time the interest rate shall be HIBOR plus a margin ranging from 3.75% to 4.50% per annum as determined in accordance with the total leverage ratio in respect of the Group.

Studio City Company is obligated to pay a commitment fee of 40% of the applicable margin on the unused portions of the Studio City Project Facility from the Signing Date through the applicable availability period. The Studio City Project Facility was fully drawn prior to the end of its availability period, and certain proceeds of such facility have been placed in a disbursement account and may be withdrawn to pay Project Costs subject to the satisfaction of certain conditions and requirements pursuant to an agreed term loan facility disbursement facility agreement.

### *Completion Support*

As a condition precedent to the funding of the Studio City Project Facility, SCI was required to procure completion support with an aggregate liability cap of US\$225 million (the "Completion Support"), backed by either (i) letters of credit or guarantees from acceptable financial institutions, including those with specified credit ratings, (ii) cash collateral, or (iii) any combination of the foregoing. This requirement was satisfied in December 2013 by the deposit of cash collateral of US\$225 million into a collateral account maintained by SCI and pledged in favour of the finance parties under the Studio City Project Facility. Of this US\$225 million deposited cash collateral, certain amounts had been earmarked to partially fund the construction budget increased in June 2014.

Calls under the Completion Support will be made in accordance with the terms of an agreed completion support agreement (which, in certain circumstances, will provide for its application against amounts outstanding under the Studio City Project Facility), and the Studio City Notes will not directly benefit from the Completion Support.

### *Security*

Security for the Studio City Project Facility and any hedging related thereto includes, among other things, first-ranking security over all or substantially all of the assets of each company in the Group, including a mortgage of certain land. Certain contractual counterparties, including Melco Crown Macau, are required to enter into direct agreements with certain of the finance parties under the Studio City Project Facility, which will modify the operation of their contracts, including the rights of the parties thereunder. In the case of Melco Crown Macau, a direct agreement was entered into in November 2013 with certain of the finance parties under the Studio City Project Facility pursuant to which a right may arise to retain (after an agreed period following enforcement of the security) (and not reinvest) a portion of the revenues from its operation of the Studio City Casino.

### *Covenants*

Studio City Investments and its subsidiaries (collectively, the "Obligors") are required to comply with certain negative and affirmative covenants that are customary for a financing of this nature, including certain covenants relating to the Studio City Project. These covenants include, among others, restrictions (subject to certain exceptions) on the ability of the Obligors to:

- create or permit to subsist any encumbrance or other security interest;
- dispose of any of its assets;
- make investments;
- make any loan or advance or guarantee indebtedness;
- incur or make payments in respect of indebtedness; or
- make dividends or distributions.

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In addition, Studio City Company is required to comply with certain financial covenants, which include tests of the following ratios:

- cashflow to debt service;
- EBITDA to finance charges;
- senior first lien debt to EBITDA; and
- total debt to EBITDA,

in each case as defined in the definitive agreement in respect of the Studio City Project Facility and tested quarterly (commencing on the earlier of June 30, 2016 and the end of the second full fiscal quarter after the opening date of the Studio City Project).

The financial covenants also include a limitation on additional capital expenditure until an agreed period after the Opening Date.

### *Events of Default*

The definitive agreement in respect of the Studio City Project Facility contains customary events of default, including events of default relating to the failure to meet specified conditions for opening and construction completion of the Studio City Project by agreed long stop dates. These conditions require, among others, the full opening of Studio City for business to the general public by October 1, 2016, with a minimum 400 gaming tables available for operation, and a minimum area of public floor space occupied and open for operations.

### **Other Financing**

To the extent permitted by the definitive agreement in respect of the Studio City Project Facility and the indenture for the Studio City Notes, we may obtain financing in the form of, among other things, additional equity or debt, including additional bank loans or high yield, mezzanine or other debt, or rely on our operating cash flow to fund further project development.

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STUDIO CITY FINANCE LIMITED

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## INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of Studio City Finance Limited:

We have audited the accompanying consolidated financial statements of Studio City Finance Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, shareholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Studio City Finance Limited and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

/s/ **Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
April 30, 2015

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

	December 31,	
	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,161	\$ —
Restricted cash (Note 2(e))	1,368,390	670,555
Amounts due from affiliated companies (Note 15(b))	3,874	1,812
Amount due from an intermediate holding company (Note 15(c))	82	—
Prepaid expenses and other current assets	2,999	3,922
Total current assets	<u>1,378,506</u>	<u>676,289</u>
PROPERTY AND EQUIPMENT, NET (Note 3)	1,629,803	722,344
LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER ASSETS (Note 4)	80,687	231,268
RESTRICTED CASH (Note 2(e))	50,064	98,370
DEFERRED FINANCING COSTS, NET	85,195	15,129
LAND USE RIGHT, NET (Note 5)	142,227	154,331
TOTAL ASSETS	<u>\$3,366,482</u>	<u>\$1,897,731</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accrued expenses and other current liabilities (Note 6)	\$ 139,223	\$ 113,138
Amounts due to affiliated companies (Note 15(d))	3,730	102
Amount due to ultimate holding company (Note 15(e))	337	427
Total current liabilities	<u>143,290</u>	<u>113,667</u>
LONG-TERM DEBT (Note 7)	2,120,689	825,000
ADVANCE FROM IMMEDIATE HOLDING COMPANY (Note 15(f))	942,779	743,239
OTHER LONG-TERM LIABILITIES (Note 8)	57,846	20,678
LAND USE RIGHT PAYABLE (Note 14(b))	—	24,376
COMMITMENTS AND CONTINGENCIES (Note 14)		
<b>SHAREHOLDER'S EQUITY</b>		
Ordinary shares at US\$1 par value per share (Authorized — 50,000 shares and issued — 1 share as of December 31, 2014 and 2013) (Note 10)	—	—
Additional paid-in capital	298,596	298,596
Accumulated other comprehensive losses	(84)	(65)
Accumulated losses	<u>(196,634)</u>	<u>(127,760)</u>
Total shareholder's equity	101,878	170,771
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$3,366,482</u>	<u>\$1,897,731</u>

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

**STUDIO CITY FINANCE LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(In thousands of U.S. dollars)**

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>OPERATING REVENUE</b>		
Other revenue	\$ 1,767	\$ 1,093
<b>OPERATING COSTS AND EXPENSES</b>		
General and administrative	(3,161)	(2,097)
Amortization of land use right	(12,104)	(12,104)
Depreciation and amortization	(26)	—
Pre-opening costs	(14,951)	(2,856)
Total operating costs and expenses	(30,242)	(17,057)
<b>OPERATING LOSS</b>	<b>(28,475)</b>	<b>(15,964)</b>
<b>NON-OPERATING INCOME (EXPENSES)</b>		
Interest income	4,707	86
Interest expenses, net of capitalized interest	(17,106)	(40,129)
Amortization of deferred financing costs	(10,669)	(1,530)
Loan commitment fees	(15,153)	(23,190)
Foreign exchange loss, net	(2,178)	(661)
Total non-operating expenses, net	(40,399)	(65,424)
<b>NET LOSS</b>	<b>\$ (68,874)</b>	<b>\$ (81,388)</b>

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

**STUDIO CITY FINANCE LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(In thousands of U.S. dollars)**

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Net loss	\$ (68,874)	\$ (81,388)
Other comprehensive loss:		
Change in fair value of interest rate swap agreements	(19)	—
Other comprehensive loss	(19)	—
Total comprehensive loss	<u>\$ (68,893)</u>	<u>\$ (81,388)</u>

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

## STUDIO CITY FINANCE LIMITED

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

	Ordinary Share		Additional Paid-in Capital	Accumulated Other Comprehensive Losses	Accumulated Losses	Total Shareholder's Equity
	Share	Amount				
BALANCE AT JANUARY 1, 2013	1	\$ —	\$298,596	\$ (65)	\$ (46,372)	\$ 252,159
Net loss for the year	—	—	—	—	(81,388)	(81,388)
BALANCE AT DECEMBER 31, 2013	1	—	298,596	(65)	(127,760)	170,771
Net loss for the year	—	—	—	—	(68,874)	(68,874)
Change in fair value of interest rate swap agreements	—	—	—	(19)	—	(19)
BALANCE AT DECEMBER 31, 2014	1	\$ —	\$298,596	\$ (84)	\$ (196,634)	\$ 101,878

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

**STUDIO CITY FINANCE LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands of U.S. dollars)**

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (68,874)	\$ (81,388)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,130	12,104
Amortization of deferred financing costs	10,669	1,530
Interest income on restricted cash	(4,707)	—
Changes in operating assets and liabilities:		
Amounts due from affiliated companies	(1,109)	(2,153)
Amount due from an intermediate holding company	(82)	—
Prepaid expenses and other current assets	5,615	(1,253)
Long-term prepayments, deposits and other assets	(1,260)	(757)
Accrued expenses and other current liabilities	1,712	7,581
Amounts due to affiliated companies	504	(778)
Amount due to ultimate holding company	(90)	73
Other long-term liabilities	1,973	—
Net cash used in operating activities	<u>(43,519)</u>	<u>(65,041)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment for acquisition of property and equipment	(686,179)	(433,462)
Changes in restricted cash	(649,514)	98,221
Advance payments and deposits for acquisition of property and equipment	(60,402)	(150,154)
Payment for land use right	(46,982)	(44,719)
Net cash used in investing activities	<u>(1,443,077)</u>	<u>(530,114)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of deferred financing costs	(5,472)	(1,555)
Prepayment of deferred financing costs	—	(56,445)
Advance from immediate holding company	199,540	653,155
Proceeds from long-term debt	1,295,689	—
Net cash provided by financing activities	<u>1,489,757</u>	<u>595,155</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,161</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>—</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 3,161</u></b>	<b><u>\$ —</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS</b>		
Cash paid for interest (net of capitalized interest)	\$ (17,106)	\$ (38,871)
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Construction costs and property and equipment funded through accrued expenses and other current liabilities and other long-term liabilities	130,036	65,757
Construction costs and property and equipment funded through amounts due from/to affiliated companies	3,292	988
Deferred financing costs funded through accrued expenses and other current liabilities	<u>248</u>	<u>4,140</u>

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

**STUDIO CITY FINANCE LIMITED**

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

**1. COMPANY INFORMATION**

Studio City Finance Limited (the “Company”) was incorporated in the British Virgin Islands (“BVI”) on September 28, 2011. The Company together with its subsidiaries (collectively referred to as the “Group”) were indirectly wholly owned by Studio City International Holdings Limited (“Studio City International”), which in turn was 60% held indirectly by Melco Crown Entertainment Limited (“MCE”) and 40% held directly by New Cotai, LLC (“New Cotai”). MCE’s ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) under the stock code of “6883” in the Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”) and its American depository shares are listed on the NASDAQ Global Select Market under the symbol “MPEL” in the United States of America. On January 2, 2015, MCE submitted an application to the Hong Kong Stock Exchange for the voluntary withdrawal of the listing of its ordinary shares on the Main Board of the Hong Kong Stock Exchange, which is expected to take effect at 4:00 p.m. on Friday, July 3, 2015, subject to fulfillment of certain conditions. New Cotai is a private company incorporated in the United States of America.

Immediately before the Reorganization as described below, the Group comprised of i) Studio City Holdings Two Limited (“Studio City Holdings Two”); ii) Studio City Developments Limited (“Studio City Developments”); iii) Studio City Services Limited (“Studio City Services”); iv) Studio City Hospitality and Services Limited (“Studio City Hospitality”); v) Studio City Hotels Limited (“Studio City Hotels”); vi) New Cotai Entertainment, LLC (“New Cotai Entertainment”); vii) Studio City Entertainment Limited (“Studio City Entertainment”); viii) Studio City Investments Limited (“Studio City Investments”); and ix) Studio City Company Limited (“Studio City Company”). Companies of i) to vii) above are collectively referred to as the reorganization companies (the “Reorganization Companies”). Immediately before the Reorganization as described below, Studio City Holdings Two, a company incorporated in BVI, held 96% of Studio City Developments, Studio City Services and Studio City Hotels, companies incorporated in the Macau Special Administrative Region of the People’s Republic of China (“Macau”). The remaining 4% of Studio City Hotels was held directly by Studio City Company. Studio City Services in turn held 100% of Studio City Hospitality, a company incorporated in Macau. New Cotai Entertainment, a company incorporated in U.S. and was dissolved on August 27, 2012, held 99% of Studio City Entertainment, a company incorporated in Macau. The Company held 100% of Studio City Investments, which in turn held 100% of Studio City Company, both Studio City Investments and Studio City Company were incorporated in BVI. The remaining 4% in each of Studio City Developments and Studio City Services, and 1% of Studio City Entertainment were held directly by Studio City International, which also held 100% of Studio City Holdings Two and New Cotai Entertainment, and was considered the then ultimate holding company.

Pursuant to a reorganization dated January 3, 2012 (the “Reorganization”), Studio City Company acquired that entire equity interests in the Reorganization Companies from Studio City International. As a result, the Company became the intermediate holding company of the Reorganization Companies. The Reorganization Companies were wholly owned directly or indirectly by Studio City International immediately before the Reorganization. The Reorganization was accounted for as a reorganization of entities under common control in a manner similar to pooling-of-interests, with assets and liabilities stated at their historical amounts and the share capital of the Company reflected as if it was issued on August 22, 2000, the date of incorporation of Studio City Holdings Two, which was the first incorporated company among the Reorganization Companies.

As of December 31, 2014 and 2013, the Company conducts its principal activities through its wholly owned subsidiaries, which are located in Macau and BVI. The Group does not conduct any substantive operations and is currently developing Studio City, a cinematically-themed integrated entertainment, retail and gaming resort in Cotai, Macau. The completion of Studio City is subject to a number of development and construction risks and uncertainties including adverse developments in applicable legislation, delays or failures in obtaining necessary government licenses, permits or approvals as well as the potential requirement to obtain additional financing to complete the project.

STUDIO CITY FINANCE 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

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

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

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

The Reorganization was accounted for as a reorganization of entities under common control in a manner similar to pooling-of-interests, with assets and liabilities stated at their historical amounts.

(b) **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. 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 judgments are based on historical information, information that is currently available to the Group and on various other assumptions that the Group believes to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.

(c) **Fair Value of Financial Instruments**

Fair value is defined 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 Group estimated the fair values using appropriate valuation methodologies and market information available as of the balance sheet date.

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

(e) **Restricted Cash**

The current portion of restricted cash represents those cash deposited into bank accounts which are restricted as to withdrawal and use and the Group expects those funds will be released or utilized in accordance with the terms of the respective agreements within the next twelve months, while the non-current portion of restricted cash represents those funds that will not be released or utilized within the next twelve months. Restricted cash as of December 31, 2014 and 2013 comprises i) bank accounts that are restricted for withdrawal and for payment of Studio City project costs in accordance with the terms of the Studio City Notes and Studio City Project Facility as defined in Note 7 and other associated agreements; and ii) interest income earned on restricted cash balances which are restricted as to withdrawal and use.



**STUDIO CITY FINANCE 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****(f) Property and Equipment, Net**

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

During the construction and development stage of Studio City, direct and incremental costs related to the design and construction, including costs under the construction contracts, duties and tariffs, equipment installation, shipping costs, payroll and payroll-benefit related costs, depreciation of plant and equipment used, applicable portions of interest and amortization of deferred financing costs, are capitalized in property and equipment. The capitalization of such costs begins when the construction and development of a project starts and ceases once the construction is substantially completed or development activity is suspended for more than a brief period.

Depreciation and amortization expense related to capitalized construction costs and other property and equipment is recognized from the time each asset is placed in service. This may occur at different stages as Studio City's facilities are completed and opened.

Property and equipment and other long-lived assets with a finite useful life are depreciated and amortized on a straight-line basis over the asset's estimated useful life. Estimated useful lives are as follows:

<u>Classification</u>	<u>Estimated Useful Life</u>
Leasehold improvements	5 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	3 to 5 years

**(g) Capitalization of Interest and Amortization of Deferred Financing Costs**

Interest and amortization of deferred financing costs incurred on funds used to construct Studio City during the active construction period are capitalized. Interest subject to capitalization primarily includes interest paid or payable on the Group's long-term debt as disclosed in Note 7 and the land premium payable for the land use right where Studio City is located. The capitalization of interest and amortization of deferred financing costs ceases once a project is substantially completed 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 Group's outstanding borrowings to the average amount of accumulated qualifying 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. Total interest expenses incurred amounted to \$98,448 and \$75,383, of which \$81,342 and \$35,254 were capitalized for the years ended December 31, 2014 and 2013, respectively. Total amortization of deferred financing costs amounted to \$10,945 and \$1,530, of which \$276 and nil were capitalized for the years ended December 31, 2014 and 2013, respectively.

**(h) Impairment of Long-lived Assets**

The Group 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.

STUDIO CITY FINANCE 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

(i) **Deferred Financing Costs, Net**

Direct and incremental costs incurred in obtaining loans or in connection with the issuance of long-term debt are capitalized and amortized over the terms of the related debt agreements using the effective interest method.

(j) **Land Use Right, Net**

Land use right is recorded at cost less accumulated amortization. Amortization is provided over the estimated lease term of the land on a straight-line basis.

(k) **Revenue Recognition**

The Group recognizes revenue at the time persuasive evidence of an arrangement exists, the service is provided, prices are fixed or determinable and collection is reasonably assured.

Other revenue represented management fee income is recognized when services are performed.

(l) **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 Group incurred pre-opening costs in connection with the start-up operations of Studio City.

(m) **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 are the United States dollar (“\$” or “US\$”), the Hong Kong dollar (“HK\$”) or the Macau Pataca, 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.

STUDIO CITY FINANCE 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

(n) **Income Tax**

The Group is subject to income taxes in Macau where it operates.

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.

The Group's income tax returns are subject to examination by tax authorities in the jurisdictions where it operates. The Group assesses potentially unfavorable outcomes of such examinations based on accounting standards for uncertain income taxes. These accounting standards utilize a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition 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. The second step is to measure the tax benefit as the largest amount which is more than 50% likely, based solely on the technical merits, of being sustained on examinations.

(o) **Accounting for Derivative Instruments and Hedging Activities**

The Group uses derivative financial instruments such as floating-for-fixed interest rate swap agreements to manage its risks associated with interest rate fluctuations in accordance with lenders' requirements under the Group's Studio City Project Facility (as defined in Note 7). All derivative instruments are recognized in the consolidated financial statements at fair value at the balance sheet date. Any changes in fair value are recorded in the consolidated statements of operations or accumulated other comprehensive losses, 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 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.

The Group's outstanding interest rate swap agreements as of December 31, 2014 are disclosed in Note 6. Further information on the Group's interest rate swap agreements is included in Note 7.

## STUDIO CITY FINANCE 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

(p) **Comprehensive Loss and Accumulated Other Comprehensive Losses**

Comprehensive loss includes net loss, foreign currency translation adjustments and change in fair value of interest rate swap agreements and is reported in the consolidated statements of comprehensive loss.

As of December 31, 2014 and 2013, the Group's accumulated other comprehensive losses consisted of the following:

	December 31,	
	2014	2013
Foreign currency translation adjustment	\$ (65)	\$ (65)
Change in the fair value of interest rate swap agreements	(19)	—
	<u>\$ (84)</u>	<u>\$ (65)</u>

(q) **Recent Changes in Accounting Standards***Newly Adopted Accounting Pronouncements:*

In July 2013, the Financial Accounting Standards Board ("FASB") issued a pronouncement which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments require an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of this guidance was effective for the Group as of January 1, 2014 and did not have a material impact on the Group's consolidated financial results or disclosures.

In June 2014, the FASB issued a pronouncement related to the financial statement presentation and disclosure for development stage entities. The amendments remove the topic of development stage entities from the FASB Accounting Standards Codification and eliminate all the incremental financial reporting requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments related to the elimination of the incremental financial reporting requirements for development stage entities should be applied retrospectively. These amendments are effective for annual reporting periods beginning after December 15, 2014 with early adoption permitted. The Group has elected to early adopt these amendments and accordingly the incremental financial reporting requirements for development stage entities have not been included in the Group's consolidated financial statements for the year ended December 31, 2014.

## STUDIO CITY FINANCE 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

## (q) Recent Changes in Accounting Standards — continued

*Recent Accounting Pronouncement Not Yet Adopted:*

In April 2015, the FASB issued an accounting standards update which simplifies the financial statement presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts, rather than as an asset. The recognition and measurement guidance for debt issuance costs are not affected by the amendments. These amendments are effective on a retrospective basis for interim and fiscal years beginning after December 15, 2015 with early adoption permitted and will result in changes to the presentation of debt issuance costs in the Group's consolidated balance sheets, but will have no effect on the Group's results of operations and cash flows.

## 3. PROPERTY AND EQUIPMENT, NET

	December 31,	
	2014	2013
Cost		
Furniture, fixtures and equipment	\$ 17,175	\$ 954
Leasehold improvements	19,408	104
Construction in progress	1,593,739	721,496
Sub-total	1,630,322	722,554
Less: accumulated depreciation and amortization	(519)	(210)
Property and equipment, net	<u>\$ 1,629,803</u>	<u>\$ 722,344</u>

As of December 31, 2014 and 2013, construction in progress in relation to Studio City included interest capitalized in accordance with applicable accounting standards and other direct incidental costs capitalized (representing insurance, salaries and wages and certain other professional charges incurred) which, in the aggregate, amounted to \$190,849 and \$83,513, respectively.

## 4. LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER ASSETS

Long-term prepayments, deposits and other assets consisted of the following:

	December 31,	
	2014	2013
Advance payments for construction costs	\$ 59,192	\$ 148,859
Deposits for acquisition of property and equipment	18,557	1,295
Other deposits and other long-term prepayments	2,938	1,678
Prepayment of deferred financing costs	—	79,436
Long-term prepayments, deposits and other assets	<u>\$ 80,687</u>	<u>\$ 231,268</u>

## STUDIO CITY FINANCE LIMITED

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

## 5. LAND USE RIGHT, NET

	December 31,	
	2014	2013
Cost	\$178,464	\$178,464
Less: accumulated amortization	(36,237)	(24,133)
Land use right, net	<u>\$142,227</u>	<u>\$154,331</u>

Land use right is 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 lease of the land use right in Macau, where Studio City site is located and construction costs are incurred, is October 2026.

## 6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31,	
	2014	2013
Construction costs and property and equipment payables	\$ 97,058	\$ 45,824
Land use right payable	24,376	46,982
Operating expense and other accruals and liabilities	17,770	20,332
Interest rate swap liabilities	19	—
	<u>\$139,223</u>	<u>\$113,138</u>

In connection with the Studio City Project Facility (as defined in Note 7), Studio City Company entered into certain floating-for-fixed interest rate swap agreements in September 2014 to limit its exposure to interest rate risk. Under the interest rate swap agreements, Studio City Company pays a fixed interest rate of 0.28% per annum of the notional amount, and receives variable interest which is based on the applicable Hong Kong Interbank Offered Rate (“HIBOR”) for each of the payment dates. All these interest rate swap agreements expired in March 2015.

As of December 31, 2014, the notional amounts of the outstanding interest rate swap agreements amounted to HK\$1,867,199,900 (equivalent to \$240,000).

These interest rate swap agreements were highly effective in fixing the interest rate and qualify for cash flow hedge accounting. Therefore, there was no impact on the consolidated statements of operations from changes in the fair value of the hedging instruments. Instead the fair value of the instruments have been recorded as assets or liabilities on the consolidated balance sheets, with an offsetting adjustment to the accumulated other comprehensive losses until the hedged interest expenses are recognized in the consolidated statements of operations.

As of December 31, 2014, the interest rate swap liabilities of \$19 represented the fair values of the interest rate swap agreements.

## STUDIO CITY FINANCE LIMITED

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

## 7. LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31,	
	2014	2013
Studio City Project Facility	\$ 1,295,689	\$ —
Studio City Notes	825,000	825,000
	2,120,689	825,000
Current portion of long-term debt	—	—
	<u>\$ 2,120,689</u>	<u>\$ 825,000</u>

**Studio City Notes**

On November 26, 2012, the Company issued and listed the \$825,000 8.5% senior notes, due 2020 (the “Studio City Notes”) and priced at 100% at par on the Official List of Singapore Exchange Securities Trading Limited. The Studio City Notes are general obligations of the Company, secured by a first-priority security interest in certain specific bank accounts incidental to the Studio City Notes and a pledge of any intercompany loans from the Company to or on behalf of Studio City Investments or its subsidiaries entered into subsequent to the issue date of the Studio City Notes, rank equally in right of payment to all existing and future senior indebtedness of the Company and rank senior in right of payment to any existing and future subordinated indebtedness of the Company. The Studio City Notes are effectively subordinated to all of the Company’s existing and future secured indebtedness to the extent of the value of the property and assets securing such indebtedness. All of the existing direct and indirect subsidiaries of the Company and any other future restricted subsidiaries that provide guarantees of certain specified indebtedness (including the Studio City Project Facility as described below) (the “Studio City Notes Guarantors”) jointly, severally and unconditionally guarantee the Studio City Notes on a senior basis (the “Guarantees”). The Guarantees are general obligations of the Studio City Notes Guarantors, rank equally in right of payment with all existing and future senior indebtedness of the Studio City Notes Guarantors and rank senior in right of payment to any existing and future subordinated indebtedness of the Studio City Notes Guarantors. The Guarantees are effectively subordinated to the Studio City Notes Guarantors’ obligations under the Studio City Project Facility and any future secured indebtedness that is secured by property and assets of the Studio City Notes Guarantors to the extent of the value of such property and assets. The Studio City Notes mature on December 1, 2020 and the interest on the Studio City Notes is accrued at a rate of 8.5% per annum and is payable semi-annually in arrears on June 1 and December 1 of each year, commenced on June 1, 2013.

The net proceeds from the offering, after deducting the underwriting commissions and other expenses of approximately \$13,200, was approximately \$811,800. The Company used the net proceeds from the offering to fund the Studio City project and the related fees and expenses. The net proceeds from the offering was deposited in a bank account of the Company (the “Escrow Account”) and was restricted for use, which was subsequently released upon signing of the Studio City Project Facility on January 28, 2013. Upon release from the Escrow Account, all the net proceeds were deposited in a bank account of the Company (the “Note Proceeds Account”) and were available for payment of construction and development costs and other project costs of the Studio City project with conditions and sequence for disbursements in accordance with an agreement (the “Note Disbursement and Account Agreement”) as described below, except for a portion of net proceeds amounting to \$239,594, which represents the sum of interest expected to accrue on the Studio City Notes through to the 41-month anniversary of their issue date, which was deposited in a bank account of the Company (the “Note Interest Reserve Account”), and is restricted for use to pay future interest payments until the opening date (the “Opening Date”) of the Studio City project as defined in the Studio City Project Facility.

**STUDIO CITY FINANCE LIMITED**

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

**7. LONG-TERM DEBT — continued**

**Studio City Notes — continued**

Concurrent with the submission of the first utilization request under the Studio City Project Facility on January 10, 2014, an amount equal to the six-month sum of interest due on the Studio City Notes of \$35,063 was released from the Note Interest Reserve Account and deposited in a bank account (the “Note Debt Service Reserve Account”) of Studio City Company, the borrower under the Studio City Project Facility. During the years ended December 31, 2014 and 2013, the Company paid Studio City Notes interest expenses amounting to \$70,125 and \$71,099, respectively, with funds from the Note Interest Reserve Account. The remaining amount in the Note Interest Reserve Account (less an amount equal to the pro-rated portion of interest due on the next interest payment date) will be released and be deposited in a bank account of Studio City Company (the “Revenue Account”) on the Opening Date. The security agent of the Studio City Project Facility has security over the Note Debt Service Reserve Account and the Revenue Account.

As of December 31, 2014, the Group classified the balance of the Note Interest Reserve Account of \$63,340 as current portion of restricted cash, while the balance of Note Debt Service Reserve Account of \$35,064 as non-current portion of restricted cash on the consolidated balance sheets.

The Studio City Notes were subject to a special mandatory redemption at a redemption price in the event that i) the Studio City Project Facility was not executed on or before March 31, 2013; and ii) the funds were not released from the Note Proceeds Account prior to January 28, 2014, the date that was one year from the date of the execution of the Studio City Project Facility due to the failure of the conditions precedent (subject to certain exceptions) to first utilization of the Studio City Project Facility to be satisfied or waived by such date. The first condition was satisfied with execution of the Studio City Project Facility on January 28, 2013 and the second condition was satisfied when the first disbursement funds on the Studio City Notes were released from the Note Proceeds Account to a bank account of the Company for the Studio City project cost payments on January 17, 2014.

On November 26, 2012, the Company and Studio City Company entered into the Note Disbursement and Account Agreement with certain banks and other parties to, among other things, establish the conditions and sequence of funding of the Studio City project costs. The Studio City project costs are financed in the following order:

- the funding from MCE and New Cotai Investments, LLC (“New Cotai Investments”, the indirect holding company of New Cotai) in an aggregate amount of \$825,000 is used until it has been exhausted;
- thereafter, the proceeds in the Note Proceeds Account are used until they have been exhausted; and
- thereafter, the proceeds of the Studio City Project Facility, including any proceeds in any construction disbursement accounts or other accounts established under the Studio City Project Facility, to the extent established for such purpose under the Studio City Project Facility, are used until they have been exhausted.

The Company has the option to redeem all or a portion of the Studio City Notes at any time prior to December 1, 2015, at an additional redemption price. Thereafter, the Company has the option to redeem all or a portion of the Studio City Notes at any time at fixed redemption prices that decline ratably over time.

The Company has the option to redeem up to 35% of the Studio City Notes with the net cash proceeds of certain equity offerings at a fixed redemption price at any time prior to December 1, 2015. In addition, under certain circumstances and subject to certain exceptions as more fully described in the indenture governing the Studio City Notes, the Company also has the option to redeem in whole, but not in part, the Studio City Notes at fixed redemption prices.



**STUDIO CITY FINANCE LIMITED**

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

**7. LONG-TERM DEBT — continued**

**Studio City Notes — continued**

The indenture governing the Studio City Notes contains certain covenants that, subject to certain exceptions and conditions, limit the ability of the Company and its restricted subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) make specified restricted payments; (iii) issue or sell capital stock; (iv) sell assets; (v) create liens; (vi) enter into agreements that restrict the restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans; (vii) enter into transactions with shareholders or affiliates; and (viii) effect a consolidation or merger. As of December 31, 2014, management believes that the Company was in compliance with each of the financial restrictions and requirements.

There are provisions under the indenture governing the Studio City Notes that limit or prohibit certain payments of dividends and other distributions by the Company and its restricted subsidiaries to persons who are not the Company or restricted subsidiaries of the Company, subject to certain exceptions and conditions (described in further detail in Note 13). As of December 31, 2014 and 2013, the net assets of the Company and its restricted subsidiaries of approximately \$102,000 and \$171,000, respectively, were restricted from being distributed under the terms of the Studio City Notes.

**Studio City Project Facility**

On January 28, 2013, Studio City Company (the "Studio City Borrower") and certain lenders (the "Studio City Lenders") executed a senior secured credit facilities denominated in Hong Kong dollars with an aggregate amount of HK\$10,855,880,000 (equivalent to \$1,395,357) (the "Studio City Project Facility"), pursuant to substantially all the terms and conditions set out in a commitment letter (the "Commitment Letter") entered on October 19, 2012 by the Studio City Borrower, the Studio City Lenders, MCE and New Cotai Investments to fund the Studio City project. The Studio City Project Facility consists of a HK\$10,080,460,000 (equivalent to \$1,295,689) term loan facility (the "Studio City Term Loan Facility") and a HK\$775,420,000 (equivalent to \$99,668) revolving credit facility (the "Studio City Revolving Credit Facility"). The Studio City Term Loan Facility matures on January 28, 2018 and is subject to quarterly amortization payments commencing on the earlier of (i) December 31, 2016, the first fiscal quarter end date falling not less than 45 months after January 28, 2013; and (ii) the end of the second full fiscal quarter after the Opening Date of the Studio City project. Amounts under the Studio City Term Loan Facility were able to be borrowed from and after the date that certain conditions precedent were satisfied until July 28, 2014, the date falling 18 months after January 28, 2013. The Studio City Revolving Credit Facility matures on January 28, 2018 and has no interim amortization. The Studio City Revolving Credit Facility may be utilized prior to the Opening Date for project costs by way of issue of letters of credit to a maximum of HK\$387,710,000 (equivalent to \$49,834), and may be borrowed in full on a revolving basis after the Opening Date.

Borrowings under the Studio City Project Facility bear interest at HIBOR plus a margin of 4.50% per annum until the last day of the second full fiscal quarter after the Opening Date, at which time the interest rate shall bear interest at HIBOR plus a margin ranging from 3.75% to 4.50% per annum as determined in accordance with the total leverage ratio in respect of Studio City Investments, Studio City Borrower and its subsidiaries (together, the "Studio City Borrowing Group").

**STUDIO CITY FINANCE LIMITED**

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

**7. LONG-TERM DEBT — continued**

**Studio City Project Facility — continued**

The Studio City Borrower may make voluntary prepayments in respect of the Studio City Project Facility in a minimum amount of HK\$100,000,000 (equivalent to \$12,853), plus the amount of any applicable break costs. The Studio City Borrower is also subject to mandatory prepayment requirements in respect of various amounts within the Studio City Borrowing Group, including but not limited to: (i) net termination or claim proceeds under the Studio City Borrowing Group's land concessions, certain construction agreements or finance or project documents, subject to certain exceptions; (ii) the net proceeds of certain asset sales, subject to reinvestment rights and certain exceptions, which are in excess of \$5,000; (iii) the net proceeds received by any member of the Studio City Borrowing Group in respect of the compulsory transfer, seizure or acquisition by any governmental authority of the assets of any member of the Studio City Borrowing Group (subject to certain exceptions); (iv) 50% of the net proceeds of any permitted equity issuance of any member of the Studio City Borrowing Group; (v) the net proceeds of any debt issuance of any member of the Studio City Borrowing Group, subject to certain exceptions; (vi) insurance proceeds net of expenses to obtain such proceeds under the property insurances, subject to reinvestment rights and certain exceptions, which are in excess of \$10,000; and (vii) certain percentage of excess cash in accordance with leverage test.

The indebtedness under the Studio City Project Facility is guaranteed by Studio City Investments and its subsidiaries (other than the Studio City Borrower). Security for the Studio City Project Facility included: a first priority mortgage over the land where Studio City is located, such mortgage will 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; as well as other customary security. Certain accounts of Melco Crown (Macau) Limited, an indirect subsidiary of MCE, relating solely to the operation of the Studio City gaming area are pledged as security for the Studio City Project Facility and related finance documents.

The Studio City Project Facility contains certain covenants that, subject to certain exceptions and conditions, limit the ability of Studio City Investments and its restricted subsidiaries to, among other things, (i) incur or guarantee additional indebtedness; (ii) make specified restricted payments; (iii) issue or sell capital stock; (iv) sell assets; (v) create liens; (vi) pay dividends and other restricted payments; and (vii) effect a consolidation or merger. The Studio City Project Facility also contains certain financial covenants and the first test date of these financial covenants is the earlier of June 30, 2016 and the end of the second full financial quarter after Opening Date. As of December 31, 2014, management believes that Studio City Borrowing Group was in compliance with each of the financial restrictions and requirements.

There are provisions that limit or prohibit certain payments of dividends and other distributions by the Studio City Borrowing Group to the Company or persons who are not members of the Studio City Borrowing Group (described in further detail in Note 13). As of December 31, 2014 and 2013, the net assets of Studio City Investments and its restricted subsidiaries of approximately \$175,000 and \$217,000, respectively, were restricted from being distributed under the terms of the Studio City Project Facility.

The Studio City Borrower is obligated to pay a commitment fee quarterly in arrears on the undrawn amount of the Studio City Project Facility throughout the availability period which started from January 28, 2013. The Studio City Borrower recognized loan commitment fees on the Studio City Project Facility of \$15,153 and \$23,190, respectively, during the years ended December 31, 2014 and 2013.

**STUDIO CITY FINANCE LIMITED**

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

**7. LONG-TERM DEBT — continued**

**Studio City Project Facility — continued**

In connection with the Studio City Project Facility, Studio City International is required to procure a contingent equity undertaking or similar (with a liability cap of \$225,000) granted in favor of the security agent for the Studio City Project Facility to, amongst other things, pay agreed project costs (i) associated with construction of Studio City and (ii) for which the facility agent under the Studio City Project Facility has determined there is no other available funding under the terms of the Studio City Project Facility. In support of such contingent equity undertaking, Studio City International has deposited and maintains a bank balance of \$225,000 in an account secured in favor of the security agent for the Studio City Project Facility (“Cash Collateral”) as of December 31, 2014 and 2013. The Cash Collateral is required to be maintained until the construction completion date of the Studio City has occurred, certain debt service reserve and accrual accounts have been funded to the required balance and the financial covenants have been complied with. As of December 31, 2014 and 2013, the Cash Collateral is classified as non-current portion of restricted cash in the consolidated balance sheets.

The Studio City Borrower did not draw down on the Studio City Term Loan Facility and/or the Studio City Revolving Credit Facility during the year ended December 31, 2013. On July 28, 2014, the Studio City Term Loan Facility of HK\$10,080,460,000 (equivalent to \$1,295,689) was fully drawn down. As of December 31, 2014, the entire Studio City Revolving Credit Facility of HK\$775,420,000 (equivalent to \$99,668) remains available for future drawdown, subject to satisfaction of certain conditions precedent.

The Studio City Borrower is required, within 120 days after the drawdown of the Studio City Term Loan Facility, to enter into agreements to ensure that at least 50% of the aggregate of drawn Studio City Term Loan Facility and the Studio City Notes are subject to interest rate protection, by way of interest rate swap agreements, caps, collars or other agreements agreed with the facility agent under the Studio City Project Facility to limit the impact of increases in interest rates on its floating rate debt, for a period of not less than three years from the date of the first drawdown of the Studio City Term Loan Facility. Since the Studio City Borrower drew down the Studio City Term Loan Facility on July 28, 2014, the Studio City Borrower entered into certain floating-for-fixed interest rate swap agreements in September 2014 to limit its exposure to interest rate risk. Under the interest rate swap agreements, the Studio City Borrower pays a fixed interest rate of 0.28% per annum of the notional amount, and receives variable interest which is based on the applicable HIBOR for each of the payment dates. All these interest rate swap agreements expired in March 2015. These interest rate swap agreements were highly effective in fixing the interest rate and qualify for cash flow hedge accounting. Therefore, there was no impact on the consolidated statements of operations from changes in the fair value of the hedging instruments. Instead the fair value of the instruments have been recorded as assets or liabilities on the consolidated balance sheets, with an offsetting adjustment to the accumulated other comprehensive losses until the hedged interest expenses were recognized in the consolidated statements of operations. No hedge agreement had been entered as at December 31, 2013 as, at that time, the Studio City Borrower had not drawn down on the Studio City Project Facility.

## STUDIO CITY FINANCE LIMITED

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

## 7. LONG-TERM DEBT — continued

Total interest on long-term debt consisted of the following:

	Year Ended December 31,	
	2014	2013
Interest for Studio City Notes	\$ 70,125	\$ 71,099
Interest for Studio City Project Facility	26,321	—
	96,446	71,099
Interest capitalized	(79,340)	(30,970)
	<u>\$ 17,106</u>	<u>\$ 40,129</u>

During the years ended December 31, 2014 and 2013, the Group's average borrowing rates were 7.49% and 8.50% per annum, respectively.

Scheduled maturities of the long-term debt as of December 31, 2014 are as follows:

Year ending December 31,	
2015	\$ —
2016	155,483
2017	155,483
2018	984,723
2019	—
Over 2019	825,000
	<u>\$ 2,120,689</u>

## 8. OTHER LONG-TERM LIABILITIES

	December 31,	
	2014	2013
Construction costs and property and equipment retention payables	\$ 55,873	\$ 20,678
Staff cost accruals and others	1,682	—
Other deposits received	291	—
	<u>\$ 57,846</u>	<u>\$ 20,678</u>

**STUDIO CITY FINANCE LIMITED**

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

**9. FAIR VALUE MEASUREMENTS**

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

- Level 1 — inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 — inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

The carrying values of cash and cash equivalents and restricted cash approximated fair value and represented a level 1 measurement. The carrying values of long-term deposits, advance from immediate holding company and other long-term liabilities approximated fair value and represented a level 2 measurement. The estimated fair value of long-term debt as of December 31, 2014 and 2013, which included the Studio City Project Facility and the Studio City Notes, were approximately \$2,163,589 and \$912,978, respectively, as compared to its carrying value of \$2,120,689 and \$825,000, respectively. Fair value was estimated using quoted market prices and represented a level 1 measurement for the Studio City Notes. Fair value for the Studio City Project Facility approximated the carrying value as the instrument carried variable interest rate approximated the market rate and represented a level 2 measurement. Additionally, the carrying value of land use right payable approximated fair value as the instrument carried the fixed interest rate approximated the market rate and represented a level 2 measurement.

As of December 31, 2014, the Group did not have any non-financial assets or liabilities that are recognized or disclosed at fair value in the consolidated financial statements.

The Group's financial assets and liabilities recorded at fair value have been categorized based upon the fair value in accordance with the accounting standards. As of December 31, 2014, the interest rate swap agreements carried at fair value and the fair value of these interest rate swap agreements approximated the amounts the Group would pay if these contracts were settled at the respective valuation dates. Fair value is estimated 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 the valuation model, the interest rate swap arrangements represented a level 2 measurement in the fair value hierarchy.

**10. CAPITAL STRUCTURE**

The Company was incorporated on September 28, 2011 with authorized share capital of 50,000 shares of US\$1 par value per share. On the date of incorporation, 1 share of US\$1 par value per share was issued as a subscriber's share. As of December 31, 2014 and 2013, 1 share was issued and fully paid.

## STUDIO CITY FINANCE LIMITED

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

## 11. INCOME TAXES

No income taxes are imposed on the Company and certain of its subsidiaries in BVI, where they are incorporated. Certain subsidiaries incorporated or conducting businesses in Macau are subject to Macau Complementary Tax during the years ended December 31, 2014 and 2013.

Macau Complementary Tax is provided at 12% on the estimated taxable income earned in or derived from Macau during the years ended December 31, 2014 and 2013, if applicable. No provision for Macau Complementary Tax for the years ended December 31, 2014 and 2013 were made as there was no taxable income in respect of subsidiaries of the Company that operate in Macau.

A reconciliation of the income tax from loss before income tax per the consolidated statements of operations is as follows:

	Year Ended December 31,	
	2014	2013
Loss before income tax	\$ (68,874)	\$ (81,388)
Macau Complementary Tax rate	12%	12%
Income tax credit at Macau Complementary Tax rate	(8,265)	(9,767)
Effect of expense for which no income tax benefit is receivable	7,064	9,429
Change in valuation allowance	1,201	338
	<u>\$ —</u>	<u>\$ —</u>

The effective tax rates for the years ended December 31, 2014 and 2013 were 0% in both years. Such rates differ from the statutory Macau Complementary Tax rate of 12% due to the effect of expense for which no income tax benefit is receivable and change in valuation allowance for the years ended December 31, 2014 and 2013.

The deferred tax assets as of December 31, 2014 and 2013 consisted of the following:

	December 31,	
	2014	2013
Deferred tax assets, non-current		
Deferred deductible expenses	\$ 4,402	\$ 3,861
Net operating loss carried forwards	662	—
Sub-total	5,064	3,861
Valuation allowance	(5,064)	(3,861)
Total net deferred tax assets, non-current	<u>\$ —</u>	<u>\$ —</u>

As of December 31, 2014 and 2013, valuation allowances of \$5,064 and \$3,861 were provided, respectively, as management believes that it is more likely than not that these deferred tax assets will not be realized. As of December 31, 2014, adjusted operating tax loss carry forwards, amounting to \$1, \$393 and \$5,121 will expire in 2015, 2016 and 2017, respectively.

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.

**STUDIO CITY FINANCE LIMITED**

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

**11. INCOME TAXES — continued**

An evaluation of the tax positions for recognition was conducted by the Group by determining if the weight of available evidence indicates it is more likely than not that the positions 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 Group concluded that there was no significant uncertain tax position requiring recognition in the consolidated financial statements for the years ended December 31, 2014 and 2013 and there is no material unrecognized tax benefit which would favorably affect the effective income tax rate in future periods. As of December 31, 2014 and 2013, there were no interest and penalties related to uncertain tax positions recognized in the consolidated financial statements. The Group does not anticipate any significant increases or decreases to its liability for unrecognized tax benefit within the next twelve months.

The income tax returns of the Company's subsidiaries remain open and subject to examination by the tax authority of Macau until the statute of limitation expires in 5 years.

**12. EMPLOYEE BENEFIT PLANS**

The Group provides defined contribution plans for its employees in Macau. During the years ended December 31, 2014 and 2013, the Group's contributions into these plans were \$265 and \$186, respectively.

**13. DISTRIBUTION OF PROFITS**

All subsidiaries of the Company incorporated in Macau are required to set aside a minimum of 25% of the entity's profit after taxation to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity's share capital in accordance with the provisions of the Macau Commercial Code. The legal reserve sets aside an amount from the subsidiaries' statements of operations and is not available for distribution to the shareholders of the subsidiaries. The appropriation of legal reserve is recorded in the subsidiaries' financial statements in the year in which it is approved by the Board of Directors of the relevant subsidiaries. As of December 31, 2014 and 2013, the legal reserve was nil in both years and no reserve was set aside during the years ended December 31, 2014 and 2013.

The indenture governing the Studio City Notes contains certain covenants that, subject to certain exceptions and conditions, restrict the payment of dividends by the Company and its restricted subsidiaries.

The Studio City Project Facility contains certain covenants that, subject to certain exceptions and conditions, restrict the payment of dividends by Studio City Investments and its restricted subsidiaries.

During the years ended December 31, 2014 and 2013, the Company did not declare or pay any cash dividends on the ordinary share. No dividends have been proposed since the end of the reporting period.

STUDIO CITY FINANCE LIMITED

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

14. COMMITMENTS AND CONTINGENCIES

(a) **Capital Commitments**

As of December 31, 2014, the Group had capital commitments contracted for but not provided mainly for the construction and acquisition of property and equipment for Studio City totaling \$560,088 including advance payments for construction costs of \$59,192.

(b) **Other Commitment**

**Land Concession Contract**

One of the Company's subsidiaries has entered into a concession contract for the land in Macau on which Studio City is located. The title to the land lease right is obtained once the related land concession contract is published in the Macau official gazette. The contract has a term of 25 years, which is renewable for further consecutive periods of 10 years, subject to payment of a special contribution to be defined by the Macau Government, and imposes special development conditions. The Company's land holding subsidiary is required to i) pay an upfront land premium, which is recognized as land use right in the consolidated balance sheets and a nominal annual government land use fee, which is recognized as general and administrative expense and may be adjusted every five years; and ii) place a guarantee deposit upon acceptance of the land lease terms, which is subject to adjustments from time to time in line with the amounts paid as annual land use fee. During the land concession term, amendments have been sought which have or will result in revisions to the development conditions, land premium and government land use fees.

On July 25, 2012, the Macau Government published in the Macau official gazette the final amendment for revision of the land concession contract for Studio City site. The amendment revised the land premium to approximately \$174,954, with \$23,561 paid in 2006, \$35,316 paid in June 2012 upon acceptance of the final amendment proposal and the remaining amount of approximately \$116,077 payable in five biannual instalments, with 5% interest accruing per annum and the first instalment paid in January 2013. As of December 31, 2014 and 2013, the total outstanding balance of the land premium was included in accrued expenses and other current liabilities in an amount of \$24,376 and \$46,982, and in land use right payable in an amount of nil and \$24,376, respectively. According to the revised land amendment, the government land use fees were revised to \$490 per annum during the development period of Studio City; and to \$1,131 per annum after the development period. As of December 31, 2014, the Group's total commitment for government land use fees for Studio City site to be paid during the remaining term of the land concession contract which expires in October 2026 was \$11,055.

(c) **Guarantees**

Except as disclosed in Note 7, the Group has made the following significant guarantees as of December 31, 2014:

- Pursuant to the Commitment Letter for the Studio City Project Facility as disclosed in Note 7, the Studio City Borrower, among others, provided an indemnity on customary terms to the Studio City Lenders and their affiliates, including in connection with any breach of such Commitment Letter and related documents, such as a breach of warranty in respect of factual information and financial projections provided by or on behalf of MCE and the Studio City Borrower to the Studio City Lenders and their affiliates.
- In October 2013, Studio City Developments entered into a trade credit facility of HK\$200,000,000 (equivalent to \$25,707) ("Trade Credit Facility") with a bank to meet the construction payment obligations of the Studio City project. The Trade Credit Facility is guaranteed by Studio City Company. As of December 31, 2014, approximately \$5,424 of the Trade Credit Facility had been utilized.



## STUDIO CITY FINANCE LIMITED

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

## 15. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2014 and 2013, the Group entered into the following significant related party transactions:

Related companies	Nature of transactions	Year Ended December 31,	
		2014	2013
<i>Transaction with ultimate holding company</i>			
MCE	Management fee expense	\$ 3,176	\$ 1,952
<i>Transactions with affiliated companies</i>			
MCE's subsidiaries	Management fee capitalized in construction in progress	4,353	1,349
	Management fee recognized as expense	<u>4,618</u>	<u>825</u>

(a) **Compensation of Key Management Personnel**

The remuneration of the Company's key management was borne by MCE.

(b) **Amounts Due From Affiliated Companies**

The outstanding balances due from MCE's subsidiaries as of December 31, 2014 and 2013 of \$3,874 and \$1,812, respectively, arising from operating expenses, were unsecured, non-interest bearing and repayable on demand.

(c) **Amount Due From An Intermediate Holding Company**

The outstanding balance due from Studio City International as of December 31, 2014 of \$82, arising from settlement of expenses on behalf of Studio City International, was unsecured, non-interest bearing and repayable on demand.

(d) **Amounts Due To Affiliated Companies**

The outstanding balances due to MCE's subsidiaries as of December 31, 2014 and 2013 of \$3,730 and \$102, respectively, arising from operating expenses, were unsecured, non-interest bearing and repayable on demand.

(e) **Amount Due To Ultimate Holding Company**

The outstanding balances due to MCE as of December 31, 2014 and 2013 of \$337 and \$427, respectively, arising from operating expenses, were unsecured, non-interest bearing and repayable on demand.

(f) **Advance From Immediate Holding Company**

The outstanding balances for advance from Studio City Holdings Limited as of December 31, 2014 and 2013 were \$942,779 and \$743,239, respectively, mainly for construction of the Studio City. The amounts were unsecured and non-interest bearing. No part of the amount will be repayable within the next twelve months from the balance sheet date and accordingly, the amount was shown as non-current liabilities in the consolidated balance sheets.

**STUDIO CITY FINANCE LIMITED**

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

**16. SUBSEQUENT EVENT**

In preparing the consolidated financial statements, the Group has evaluated events and transactions for potential recognition and disclosure through April 30, 2015, the date the consolidated financial statements were available to be issued.