



澳門博彩控股有限公司
SJM HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

(在香港註冊成立的有限責任公司)

Stock Code 股份代號 : 880

*The Heart
of
Macau*



An aerial photograph of Macau, China, featuring the Macau Tower on the left, a large body of water in the center, and modern high-rise buildings on the right. The sky is blue with scattered white clouds.

about us

SJM Holdings Limited (the “Company” or “SJM Holdings”) is the holding company of Sociedade de Jogos de Macau, S.A. (“SJM”), one of the six companies authorised to operate casino games of fortune and other games of chance in casinos, under the terms of a concession granted by the Government of the Macau Special Administrative Region (“Macau”) in March 2002. SJM is the only casino gaming concessionaire with its roots in Macau, and is the largest in terms of gaming revenue and number of casinos.

SJM’s casinos are located in prime locations on the Macau Peninsula and Taipa and convenient to principal entry points. Gaming operations are comprised of VIP gaming, mass market table gaming and slot machines.

As at 31 December 2012, SJM operated 17 casinos and 2 slot machine lounges, comprising more than 1,750 gaming tables and over 3,500 slot machines.



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The Heart
of the
City





The Heart
of the
Community





The Heart of the Company





EVENT HIGHLIGHTS

January 2012

- 1 SJM hosts traditional gala dinner on Lunar New Year's Eve

February 2012

Grand Lisboa celebrates 5th anniversary

April 2012

SJM is the title sponsor of Macau Derby 2012

May 2012

- 2 SJM Holdings holds Annual General Meeting

June 2012

- 3 SJM participates in the Macau Dragon Boat Races

August 2012

- 4 The 8th Annual SJM Scholarships Award Ceremony

October 2012

- 5 Aid to Sichuan with love

November 2012

- 6 SJM is the sole Official Sponsor of the 59th Macau Grand Prix

December 2012

- 7 SJM hosts the Fine Wine Charity Auction and Dinner

- 8 SJM directors and staff members participate in Macau's Walk for a Million 2012

New Year's Eve countdown at Grand Lisboa



EVENT HIGHLIGHTS



3



4



2



6



7

FINANCIAL HIGHLIGHTS AND DIVIDEND SCHEDULE

FINANCIAL HIGHLIGHTS

	Year Ended 31 December 2012 (HK\$ million)	Year Ended 31 December 2011 (HK\$ million)
Gaming Revenue	78,884	75,514
Other Income	1,058	789
Adjusted EBITDA*	7,631	6,928
Profit attributable to owners of the Company	6,745	5,308
Earnings per share		
– basic	HK121.8 cents	HK96.4 cents
– diluted	HK120.9 cents	HK95.4 cents
Proposed dividend per ordinary share		
– final dividend	HK50 cents	HK43 cents
– special dividend	HK30 cents	HK22 cents

* *Adjusted EBITDA is earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, loss on disposal of property and equipment and share-based payments.*

DIVIDEND SCHEDULE

Events	Date and Time
Announcement of proposed final dividend and special dividend	27 February 2013
2013 Annual General Meeting	2:30 p.m. on Friday, 31 May 2013
Ex-dividend date	4 June 2013
Record date for proposed final dividend and special dividend	5 June 2013
Latest time to lodge transfer documents with share registrar to qualify for proposed final dividend and special dividend	4:30 p.m. on Wednesday, 5 June 2013
Expected payment date of proposed final dividend and special dividend (if approved at 2013 Annual General Meeting)	19 June 2013

OVERVIEW

(All amounts expressed in Hong Kong dollars unless otherwise stated)

SJM's gaming business continued its growth in 2012. Increased visitation to Macau and spending per visitor combined to boost SJM's mass market table gaming revenue by 13.3% and SJM's total gaming revenue by 4.5% to a record level for the year, whilst economies of scale resulted in greater growth in Adjusted EBITDA (earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, loss on disposal of property and equipment and share-based payments) of 10.1% and growth in profit attributable to owners of 27.1%.

SJM continued to hold the leading position among the six casino operators in Macau, with a market share of 26.7%.

The Group's flagship Casino Grand Lisboa continued to perform strongly in 2012, increasing its Adjusted Property EBITDA by 19.3% for the year. Casino Grand Lisboa's VIP gaming revenue increased by 34.4% and mass market table games revenue increased by 11.5%. Occupancy at the Grand Lisboa Hotel was 95.0% for the full year, at an average room rate of \$2,129.

During 2012, the Group also maintained its financial strength, with total cash and bank balances increasing to \$24.1 billion as at the end of the year. Debt outstanding of the Group was \$1.7 billion as at 31 December 2012.

On 19 October 2012, SJM accepted the proposed draft Land Concession Contract in respect of a lease of land on the Cotai area of Macau having an area of 70,468 square meters. The Group subsequently announced plans to build on this site a casino gaming resort where the Group has informed the Macau Government its intention to operate approximately 700 gaming tables and 1,000 slot machines as well as approximately 2,000 hotel rooms (subject to the obtaining of applicable licenses from licensing authorities). On 19 December 2012, SJM paid MOP800 million (equivalent to approximately \$777 million) to the Macau government as the first installment of the contract premium which totals MOP2,150,504,955 (equivalent to approximately \$2,088 million).

Our strategic objective is sustainable long-term growth in shareholder value. As a leading operator, owner and developer of casinos and related businesses in Macau, our key strategies for delivering this objective are as follows:

- We will continue to build, own and manage or invest in casinos and related businesses in Macau, as permitted by government regulation.
- We will continue to improve and enhance the efficiency of our existing properties in both the mass market and VIP segments of the gaming business.
- We will remain focused principally on Macau, while selectively considering opportunities for future expansion in the Asian region.
- We will maintain a strong financial position, with a view to long term growth.

Subject to approval by shareholders at the 2013 annual general meeting, the Board of Directors has recommended a final dividend of HK50 cents per ordinary share and a special dividend of HK30 cents per ordinary share. In addition to the interim dividend of HK10 cents per ordinary share paid previously, total dividends for the year would amount to HK90 cents per ordinary share.

The Board of Directors would like to express its appreciation to all levels of staff for their contributions to the Company's success during the past year, and to our shareholders and business partners for their support.

For and on behalf of the Board of Directors

SJM Holdings Limited

So Shu Fai

Executive Director and Chief Executive Officer

Hong Kong, 27 February 2013

BUSINESS REVIEW

(All amounts expressed in Hong Kong dollars unless otherwise stated)

GROUP OPERATING RESULTS

The Group's total revenue, gaming revenue, profit attributable to owners of the Company, Adjusted EBITDA and Adjusted EBITDA Margin for the year ended 31 December 2012 each increased substantially from last year:

Group operating results	For the year ended 31 December		Increase
	2012 HK\$ million	2011 HK\$ million	
Total revenue	79,519	76,092	4.5%
Gaming revenue	78,884	75,514	4.5%
Profit attributable to owners of the Company	6,745	5,308	27.1%
Adjusted EBITDA ¹	7,631	6,928	10.1%
Adjusted EBITDA Margin ²	9.6%	9.1%	0.5%

¹ Adjusted EBITDA is earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, loss on disposal of property and equipment and share-based payments.

² Adjusted EBITDA Margin is Adjusted EBITDA as a percentage of total revenue.



Growth in gaming revenue in 2012 comprised increases in mass market table gaming revenue of 13.3%, VIP gaming revenue of 1.0%, and slot machine and other gaming revenue of 3.0%, which reflected increased visitation to Macau from the China Mainland as well as increased spending per visitor. During 2012, the Group accounted for 26.7% of Macau's record casino gaming revenue of \$295,280 million, the largest market share among the six concessionaires and subconcessionaires. The Group's overall market share declined from 29.0% for the full year 2011 due primarily to the opening of new capacity by two competitors in Cotai in May 2011 and April 2012.

Besides growth of gaming revenue, other factors that contributed to higher Adjusted EBITDA in the year were improved operating results at Ponte 16 and Grand Lisboa Hotel. The Group's Adjusted EBITDA margin for the year was 9.6%, an increase from 9.1% in 2011. If calculated under United States generally accepted accounting principles ("US GAAP"), the Group's Adjusted EBITDA margin would be 16.9% for 2012, as compared with 16.3% in 2011 (See "Comparison with United States GAAP Accounting" below).

Net profit for the year 2012 was affected by deductions of share-based payments of \$0.2 million, as compared with \$536 million in the previous year. Depreciation in 2012 was \$1,119 million compared with \$1,114 million in 2011, and interest expense was \$116 million, compared with \$123 million.



OPERATING RESULTS – VIP GAMING

VIP operations	For the year ended 31 December		Increase/ (Decrease)
	2012	2011	
Gaming revenue (HK\$ million)	53,282	52,779	1.0%
Average daily net-win per VIP gaming table (HK\$)	240,625	243,024	(1.0)%
VIP chips sales (HK\$ million)	1,757,756	1,830,047	(4.0)%
Average number of VIP gaming tables (Average of month-end numbers)	605	595	1.7%

VIP gaming operations accounted for 67.5% of the Group's total gaming revenue in 2012, as compared with 69.9% for the previous year. As at 31 December 2012, SJM had 587 VIP gaming tables in operation with 36 VIP promoters, as compared with 609 VIP gaming tables and 32 VIP promoters as at 31 December 2011. As at 31 December 2012, SJM operated VIP gaming in 14 of its casinos.

As VIP chips sales for the year decreased by 4.0%, the increase in VIP gaming revenue of 1.0% resulted from a higher hold rate for the year. The hold rate for SJM's VIP operations increased in 2012 to 3.03% from 2.88% in 2011.

BUSINESS REVIEW

OPERATING RESULTS – MASS MARKET TABLE GAMING

Mass market operations	For the year ended 31 December		Increase
	2012	2011	
Gaming revenue (HK\$ million)	24,104	21,281	13.3%
Average daily net-win per mass market gaming table (HK\$)	56,579	50,218	12.7%
Average number of mass market gaming tables (Average of month-end numbers)	1,164	1,161	0.3%

Gaming revenue from mass market table gaming operations comprised 30.6% of the Group's total gaming revenue in 2012, as compared with 28.2% in 2011. SJM had 1,184 mass market gaming tables in operation as at 31 December 2012, as compared with 1,166 mass market gaming tables as at 31 December 2011.

Increased mass market table gaming revenue of 13.3% resulted from increased visitation to Macau from the Mainland and the Asian region as well as increased spending per visitor.

OPERATING RESULTS – SLOT MACHINES AND OTHER GAMING OPERATIONS

Slot machine operations	For the year ended 31 December		Increase/ (Decrease)
	2012	2011	
Gaming revenue (HK\$ million)	1,499	1,455	3.0%
Average daily net-win per slot machine (HK\$)	1,083	1,009	7.3%
Average number of slot machines (Average of month-end numbers)	3,776	3,947	(4.3)%

Gaming revenue from slot machine operations, which include other electronic gaming machines and the game of Tombola, comprised 1.9% of the Group's total gaming revenue in 2012, the same as in 2011. SJM had 3,532 slot machines in service as at 31 December 2012 as compared with 3,910 slot machines as at 31 December 2011.

As at 31 December 2012, SJM operated slot machines in 14 of its casinos and in two slot halls. In January 2011, SJM ceased operations at Tiger Slot Lounge at the Macau Tower, and in November 2012, SJM ceased operations at the Macau Jockey Club Slot Lounge.



BUSINESS REVIEW

OPERATING RESULTS OF CASINO SEGMENTS – CASINO GRAND LISBOA

SJM's flagship Casino Grand Lisboa achieved substantial growth in revenue and profitability during the year. Visitation to Grand Lisboa grew during the year, from an average of 34,733 visitors per day in the first quarter, to an average of 40,770 visitors per day in the fourth quarter. Narrowing of the Adjusted Property EBITDA Margin resulted from more rapid growth in VIP gaming revenue as compared to growth in mass market gaming revenue.

Casino Grand Lisboa	For the year ended 31 December		Increase/ (Decrease)
	2012	2011	
Revenue (HK\$ million)	29,233	22,797	28.2%
Profit attributable to the Group (HK\$ million)	4,223	3,232	30.6%
Adjusted Property EBITDA ³ (HK\$ million)	4,481	3,756	19.3%
Adjusted Property EBITDA Margin ⁴	15.3%	16.5%	(1.1)%

³ Adjusted Property EBITDA is earnings after adjustment for non-controlling interest and before accounting for interest income and expense, tax, depreciation and amortisation, donations, loss on disposal of property and equipment and share-based payments, and before elimination of inter-company consumption.

⁴ Adjusted Property EBITDA Margin is Adjusted Property EBITDA as a percentage of revenue.

Operating results of Casino Grand Lisboa by operating segment are as follows:

Casino Grand Lisboa	For the year ended 31 December		Increase/ (Decrease)
	2012	2011	
VIP operations			
Gaming revenue (HK\$ million)	22,714	16,896	34.4%
Average daily net-win per VIP gaming table (HK\$)	413,738	364,482	13.5%
VIP chips sales (HK\$ million)	762,016	653,533	16.6%
Average number of VIP gaming tables (Average of month-end numbers)	150	127	18.1%
Mass market operations			
Gaming revenue (HK\$ million)	6,073	5,449	11.5%
Average daily net-win per mass market gaming table (HK\$)	71,218	61,940	15.0%
Average number of mass market gaming tables (Average of month-end numbers)	233	241	(3.3)%
Slot machine operations			
Gaming revenue (HK\$ million)	446	453	(1.5)%
Average daily net-win per slot machine (HK\$)	1,639	1,619	1.2%
Average number of slot machines (Average of month-end numbers)	743	766	(3.0)%

BUSINESS REVIEW



During 2012 Casino Grand Lisboa expanded its VIP gaming operations from 134 tables as at 1 January 2012 to 175 tables as at 31 December 2012. Two areas of the property were converted for VIP gaming, on the 31st floor (since February) and on the 9th and 10th floors (since September). Mass market table gaming grew during the year due to increased numbers of visitors and greater spending at gaming tables, particularly by high limit mass market customers.

If calculated under US GAAP, the Adjusted Property EBITDA margin of Casino Grand Lisboa would be approximately 25.8% for 2012, as compared with 27.2% in 2011 (See "Comparison with United States GAAP Accounting" below).

During 2012, Casino Grand Lisboa attracted a total of over 13.6 million visitors, an average of 37,238 visitors per day, an increase of 11.1% over the previous year. To continue attracting gaming patrons, Casino Grand Lisboa frequently launches special promotions, such as "Treasure Triumph", "Double Goal" and "Fortune Multiplier". Jackpots are paid frequently, with the total exceeding \$277 million for slot machines and over \$75 million for table games (Caribbean Stud Poker) in 2012. During the year, the number of active members of the Casino Grand Lisboa loyalty card programme increased by over 88,000 to 476,966.

As at 31 December 2012, Casino Grand Lisboa operated a total of 175 VIP gaming tables, 240 mass market gaming tables and 731 slot machines.

OPERATING RESULTS OF CASINO SEGMENTS – OTHER SELF-PROMOTED CASINOS AND SLOT HALLS

Other self-promoted casinos are Casino Lisboa, Casino Oceanus at Jai Alai and Casino Jai Alai, all located on the Macau Peninsula. The latter two casinos operate under the same license. The Group also operates two self-promoted slot halls, namely Treasure Hunt Slot Lounge and Yat Yuen Canidrome Slot Lounge (collectively, "Other Self-promoted Casinos and Slot Halls").

	For the year ended 31 December		Increase/ (Decrease)
	2012	2011	
Other self-promoted casinos and slot halls			
Revenue (HK\$ million)	11,084	12,012	(7.7)%
Profit attributable to the Group (HK\$ million)	1,000	929	7.6%
Adjusted EBITDA (HK\$ million)	1,189	1,228	(3.1)%
Adjusted EBITDA Margin	10.7%	10.2%	0.5%

BUSINESS REVIEW

Adjusted Property EBITDA Margin for these operations increased mainly due to a comparatively smaller proportion of VIP gaming revenue at Casino Lisboa during the year, and an increase in revenue per table at Casino Oceanus at Jai Alai. Operating results of other self-promoted casinos and slot halls by operating segment are as follows:

Other self-promoted casinos and slot halls	For the year ended 31 December		Increase/ (Decrease)
	2012	2011	
VIP operations			
Gaming revenue (HK\$ million)	6,117	7,449	(17.9)%
Average daily net-win per VIP gaming table (HK\$)	341,098	364,428	(6.4)%
VIP chips sales (HK\$ million)	214,052	252,448	(15.2)%
Average number of VIP gaming tables (Average of month-end numbers)	49	56	(12.5)%
Mass market operations			
Gaming revenue (HK\$ million)	4,497	4,135	8.8%
Average daily net-win per mass market gaming table (HK\$)	38,275	35,070	9.1%
Average number of mass market gaming tables (Average of month-end numbers)	321	323	(0.6)%
Slot machine operations			
Gaming revenue (HK\$ million)	470	428	9.6%
Average daily net-win per slot machine (HK\$)	1,044	921	13.4%
Average number of slot machines (Average of month-end numbers)	1,226	1,271	(3.5)%

As at 31 December 2012, Casino Lisboa operated a total of 48 VIP gaming tables, 131 mass market gaming tables and 72 slot machines.

As at 31 December 2012, Casino Oceanus at Jai Alai and Casino Jai Alai operated a total of 188 mass market gaming tables, one VIP gaming table and 648 slot machines.



BUSINESS REVIEW

OPERATING RESULTS OF CASINO SEGMENTS – SATELLITE CASINOS AND SLOT HALL

As at 31 December 2012, SJM operated 14 satellite (third party-promoted) casinos, as follows: Casino Babylon, Casino Casa Real, Casino Diamond, Casino Emperor Palace, Casino Fortuna, Casino Golden Dragon, Casino Macau Jockey Club, Casino Greek Mythology, Casino Jimei, Casino Kam Pek Paradise, Casino Lan Kwai Fong, Casino L'Arc Macau, Casino Ponte 16 and Casino Club VIP Legend. A third party-promoted slot hall, Tiger Slot Lounge located at Macau Tower, ceased operations on 19 January 2011.

Twelve of SJM's satellite casinos are located on the Macau Peninsula whilst two satellite casinos are located on the island of Taipa, comprising a total of 625 mass market gaming tables, 363 VIP gaming tables and 1,718 slot machines, as at 31 December 2012.

The satellite casinos are operated in accordance with service agreements between SJM and third party promoters.

Satellite casinos and slot hall	For the year ended 31 December		Increase/ (Decrease)
	2012	2011	
Revenue (HK\$ million)	38,567	40,706	(5.3)%
Profit attributable to the Group (HK\$ million)	1,635	1,525	7.2%
Adjusted EBITDA (HK\$ million)	1,590	1,661	(4.3)%
Adjusted EBITDA Margin	4.1%	4.1%	—

Operating results of satellite casinos and slot hall by operating segment are as follows:

Satellite casinos and slot hall	For the year ended 31 December		Increase/ (Decrease)
	2012	2011	
VIP operations			
Gaming revenue (HK\$ million)	24,450	28,434	(14.0)%
Average daily net-win per VIP gaming table (HK\$)	164,541	189,083	(13.0)%
VIP chips sales (HK\$ million)	781,687	924,066	(15.4)%
Average number of VIP gaming tables (Average of month-end numbers)	406	412	(1.5)%
Mass market operations			
Gaming revenue (HK\$ million)	13,534	11,698	15.7%
Average daily net-win per mass market gaming table (HK\$)	60,619	53,682	12.9%
Average number of mass market gaming tables (Average of month-end numbers)	610	597	2.2%
Slot machine operations			
Gaming revenue (HK\$ million)	583	574	1.6%
Average daily net-win per slot machine (HK\$)	882	823	7.2%
Average number of slot machines (Average of month-end numbers)	1,807	1,911	(5.4)%

BUSINESS REVIEW



NON-GAMING OPERATIONS

For the year ended 31 December 2012, the Grand Lisboa Hotel contributed \$660 million in revenue and \$205 million in Adjusted Property EBITDA to the Group as compared with \$586 million in revenue and \$203 million in Adjusted Property EBITDA for the previous year. The occupancy rate of the hotel, based on 412 average available rooms, averaged 95.0% for the full year, as compared with 92.6% for the previous year, and the average room rate for the full year 2012 was approximately \$2,129 as compared with \$2,055 in 2011.

Food and beverage units at the Grand Lisboa continued to earn international recognition. In the 2012 Michelin Guide Awards, Robuchon au Dôme received three stars and our Cantonese restaurant The Eight received two stars, while the Noodles and Congee Corner was awarded a "Bib Gourmand." The Miele Guide selected Robuchon au Dôme as No. 1 in Asia, and the wine cellars of Robuchon au Dôme and Don Alfonso 1890 received the Grand Award from *Wine Spectator*.

Operating results for the Sofitel at Ponte 16, in which SJM's interest is 51%, improved during 2012 and contributed \$184 million in revenue to the Group, compared with a contribution of \$162 million in 2011. The occupancy rate of the 408-room hotel averaged 80.8% for the full year 2012 as compared with 72.8% in 2011, and the average room rate increased by 0.7% to \$1,210. The Sofitel at Ponte 16 received numerous travel industry awards in 2012 including the Travelers' Choice 2012 Award as one of the "Top 25 Best Hotels in Greater China."

Income from all hotel, catering and related services, after inter-company elimination, totaled \$635 million in 2012, an increase of 9.9% from \$578 million in 2011, due primarily to increased hotel room occupancy. Other income, primarily interest earned on bank deposits, finance leases interest received and dividend income from investment in financial assets at fair value, increased to \$423 million from \$212 million during the year.



CORPORATE SOCIAL RESPONSIBILITY

“From society, to society” is a core value of the SJM Group. In 2012 we continued to support education, arts and culture, sports and other charitable activities to benefit the residents of Macau and to encourage our employees to do likewise.

EDUCATION

The SJM Scholarship Programme awards scholarships annually at University of Macau for 10 outstanding students selected by the faculties. Beginning in 2013, SJM is also providing two scholarships totaling MOP200,000 for two year study at University of Macau by postgraduate students from the Mainland.

For children of staff, the SJM Scholarship Programme awards 10 scholarships annually, to students who are each awarded MOP20,000 per year until they finish their studies (up to five years). Ten outstanding students were selected for Year 2012 by the SJM Scholarship Selection Committee. In addition, two applicants who were not on this awardees list were each awarded MOP10,000 as a token of encouragement for their good performance. Since its establishment in 2005, the SJM Scholarship Programme has awarded scholarships to 79 children of staff, of whom 38 have graduated. SJM also sponsors the full school fees of staff to further their studies at Macau Millennium College, and supports the educational activities of Millennium Secondary School.



ARTS AND CULTURE

SJM regularly sponsors cultural events in Macau such as art exhibitions, and provides or subsidises Hong Kong/Macau ferry tickets for arts and culture groups. SJM also supports cultural activities such as Chinese Opera at the Kam Pek Community Centre in Macau’s Inner Harbour neighbourhood and music performances at the Clube Militare de Macau. In November 2012 SJM was also a sponsor of the 12th Macau Food Festival.

SPORTS

In November 2012 SJM was for the second consecutive year the sole official sponsor of the 59th Macau Grand Prix, and also the Title Sponsor of two headline races: the “SJM Formula 3 Macau Grand Prix” and the “FIA World Touring Car Championship – Guia Race of Macau – Presented by SJM”.

SJM also provides or subsidises Hong Kong/Macau ferry tickets for sports organisations such as the Swimming Association of Macao, China, Macau Special Olympics and Macau Dance Sport Federation, for exchanges in Hong Kong. SJM was also a sponsor of the 17th annual Macau Jockey Club Charity Day, held in January 2012.

In June 2012 SJM sponsored four teams composed of employees to compete in Macau’s annual Dragon Boat races.



CORPORATE SOCIAL RESPONSIBILITY

RESPONSIBLE GAMING

SJM participated in the Responsible Gambling Awareness Week 2012 organised by the University of Macau, the Gaming Inspection and Coordination Bureau, and the Social Welfare Bureau. SJM distributes promotional cards and leaflets and displays related posters in its casinos. During the year SJM, in conjunction with Yat On Pathological Gambler's Counselling Centre, held briefings on Responsible Gambling for 593 colleagues.

OTHER COMMUNITY ACTIVITIES IN 2012

SJM donated MOP550,000 to the annual "Walk for a Million in Macau" charity event in December, and over 3,000 SJM staff and directors participated in the Walk.

In December 2012 SJM hosted the 2012 Fine Wine Charity Auction and Dinner at Grand Lisboa which raised over MOP4.5 million for charities. SJM was the successful bidder for the largest lot in this auction and all money raised was donated to local charities including Tung Sin Tong Charitable Society, Kiang Wu Hospital Charitable Association, Obra das Mães, Macau Special Olympics, Macau Holy House of Mercy, Charity Fund From The Readers of Macao Daily News (2012 Walk for a Million), Caritas de Macau (2013 Caritas Macau Charity Bazaar), Yat On Pathological Gambler's Counselling Centre and Macau Social Services Centre.



Other community service organisations that SJM supported during the past year include Diocese de Macau Paço Episcopal, Associação de Ópera Chinesa dos Moradores Marítimos e Terrestres da Barra de Macau, Kiang Wu Hospital Charitable Association, The Scout Association of Macau, União Geral das Associações dos Moradores de Macau, Dolce Voce de Macau and Macau Social Services Centre.

In 2012 SJM staff members were frequent volunteers to help the needy in society, working with such organisations as the Macau Social Services Centre, Macau Special Olympics, ORBIS and the Youth Volunteer Association of Macau, ("AJVM"). In December 2012, ten volunteers from

SJM were selected as "Best Volunteer" by AJVM in recognition of their contributions to the community.

In September 2012, SJM contributed MOP1.5 million as a major sponsor of the Global Tourism Economy Forum, hosted by the Secretariat for Social Affairs and Culture of the Macau SAR Government, and in November 2012 SJM donated MOP3 million to support the construction of the Macau Federation of Trade Unions' building.

PROSPECTS AND RECENT DEVELOPMENTS

(All amounts expressed in Hong Kong dollars unless otherwise stated)



BUSINESS MODEL AND KEY STRATEGIES

Our strategic objective is sustainable long-term growth in shareholder value. As a leading operator, owner and developer of casinos and related businesses in Macau, our key strategies for delivering this objective are as follows:

- We will continue to build, own and manage or invest in casinos and related businesses in Macau, as permitted by government regulation.
- We will continue to improve and enhance the efficiency of our existing properties in both the mass market and VIP segments of the gaming business.
- We will remain focused principally on Macau, while selectively considering opportunities for future expansion in the Asian region.
- We will maintain a strong financial position, with a view to long-term growth.

MARKET ENVIRONMENT

Growth of Macau's total gaming revenue by 13.5% in 2012 reflected the strength and financial liquidity of the regional economy, as well as Macau's growing appeal as a holiday destination particularly for visitors from the Mainland.

Whilst visitation to Macau increased by 0.3% to 28,082,292 in 2012, according to the Macau Government Statistics and Census Service, visitors from the Mainland increased by 4.6% to 16,902,499, or 60.2% of the total, of which 7,131,904 traveled to Macau under the Individual Visa Scheme. Per Capita spending in Macau by visitors increased by 15.1% over 2011 to \$1,864. During the Lunar New Year period in February 2013, visitation achieved a record level, with the Macau Government reporting 991,113 visitor arrivals, an increase of 15.2% over the previous Lunar New Year holiday period.

PROSPECTS AND RECENT DEVELOPMENTS

The Group expects that its future prospects are excellent, given continued robust growth of visitation and spending in Macau, infrastructure developments that improve access to Macau, the general prosperity of the Asian region, the Group's strategically located network of casinos and its strong balance sheet.

CURRENT AND RECENT INITIATIVES

In pursuit of the Group's strategy of growing its business through expansion of casino and casino-related operations in Macau and improvement in the operating efficiency of existing business units, the Group has been and is progressing on a number of initiatives in 2012 and 2013, which are described below.

- **at Cotai**

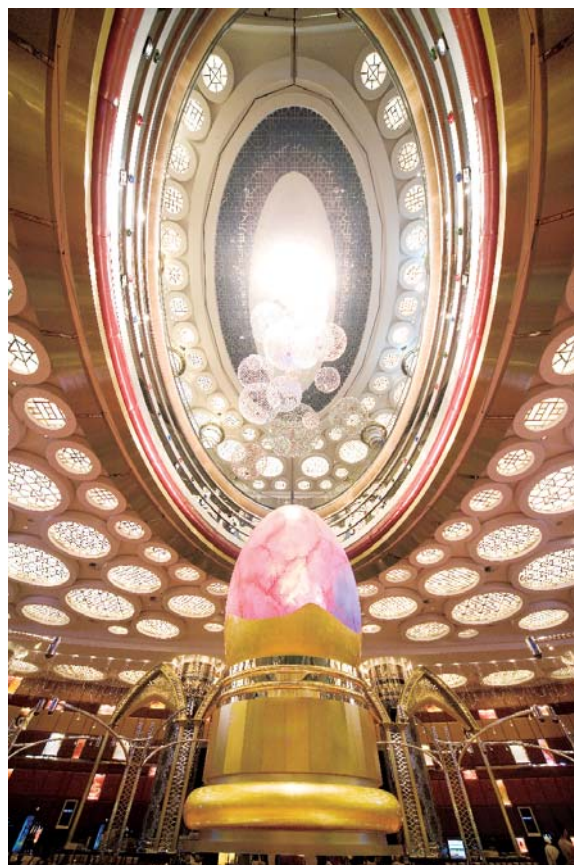
On 19 October 2012, SJM accepted the proposed draft Land Concession Contract in respect of the lease of a site on Cotai with an area of 70,468 square metres. The proposed draft Land Concession Contract permits SJM to develop a complex containing a five-star hotel with total gross floor area of 521,435 square metres and with gaming areas on the site. It also permits SJM, as a gaming concessionaire, to operate and manage gaming operations on the site.

The total contract premium payable to the Macau Government by SJM as determined by the Macau Government and pursuant to the proposed draft Land Concession Contract is MOP2,150,504,955 (equivalent to approximately \$2,087,868,888). The initial payment of the contract premium in the amount of MOP800 million (equivalent to approximately \$776,699,029) was paid on 19 December 2012.

The acceptance of the proposed draft Land Concession Contract represents a milestone development for the Group as it offers the opportunity for SJM to expand its existing gaming operations from Macau Peninsula to Cotai and to enhance the Group's revenue in the future upon completion of the development. SJM plans to build a casino gaming resort and has informed the Macau Government its intention to operate approximately 700 gaming tables and 1,000 slot machines as well as approximately 2,000 hotel rooms on the site (subject to the obtaining of applicable licences from licensing authorities).

- **at Casino Grand Lisboa**

In 2013 SJM is continuing to expand gaming capacity at Casino Grand Lisboa by making more space available for tables on the ground floor for mass market gaming and on the first floor, adjacent to the current high-limit gaming area, for premium mass market gaming. Further space for expansion of premium mass market table games is under consideration involving relocation of food and beverage outlets. SJM is currently working with contractors to determine the actual added capacity, expenditure requirements and timetable. In the first quarter of 2013 additional VIP gaming tables were added on the third floor and on the 31st floor.



PROSPECTS AND RECENT DEVELOPMENTS

- **at Casino Lisboa**

Casino Lisboa is currently upgrading its table capacity and in 2013 will devote more tables for premium mass market gaming in special high-limit gaming areas. In addition, Casino Lisboa has opened a new area for multi-station electronic games and will add 150 slot machines adjacent to the main gaming areas by the second quarter of 2013.

- **at Casino Jai Alai**

As per announcement made on 18 November 2012, a subsidiary of SJM will lease the entire Jai Alai Palace building, which houses Casino Jai Alai and is adjacent to Casino Oceanus at Jai Alai, for a period of three years beginning 1 January 2014. SJM plans to provide facilities at Jai Alai Palace including hotels, restaurants, department stores and others (to be operated by other service providers) to enhance the business of Casino Jai Alai and Casino Oceanus at Jai Alai. Construction has recently begun on the enclosed bridge connecting the two buildings.

- **at Ponte 16 Resort**

Adjusted Property EBITDA contribution of the resort increased to \$332 million in 2012 from \$317 million in 2011, and the project contributed positively to the Group's net profit.

In April 2012 a group of banks led by Industrial and Commercial Bank of China (Macau) Limited completed syndication of 5-year loan facilities for Ponte 16 in the amounts of \$1,900 million and RMB400 million. The proceeds will be used primarily to refinance existing credit facilities, to repay shareholders' loans and to fund the construction of Phase III development of the Resort. Phase III will be a riverside commercial complex with total floor area of approximately 40,000 square metres. In addition to shopping and dining facilities the complex will encompass space for gaming expansion, car parks and the iconic Pier 16 clock tower, and is planned to be completed by 2014.



FINANCIAL REVIEW

(All amounts expressed in Hong Kong dollars unless otherwise stated)

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group maintained a strong financial position, with bank balances and cash amounting to \$23,426 million (not including \$647 million pledged bank deposits) as at 31 December 2012. This represented an increase of 13.9% as compared with the position as at 31 December 2011 of \$20,571 million. The increase was mainly attributable to the increase in EBITDA and working capital throughout the year.

During the year, 5-year loan facilities were signed with a syndicate of banks for Phase III of the Ponte 16 development in the total amounts of HK\$1,900 million and RMB400 million, of which the Company's share is 51%.

Total outstanding balances of bank loans drawn by the Group as at 31 December 2012 amounted to \$1,729 million (as at 31 December 2011: \$3,072 million). The maturity of the Group's borrowings as at 31 December 2012 is as follows:

Maturity Profile				
Within 1 year	1–2 years	2–5 years	Over 5 years	Total
14%	18%	68%	0%	100%

GEARING RATIO

The Group's gearing ratio (defined as the ratio of total outstanding bank loans less bank balances and cash to total assets (excluding bank balances and cash)) was zero at the end of 2012 (as at 31 December 2011: zero).

CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure commitments by the Group amounted to \$796 million as at 31 December 2012 (as at 31 December 2011: \$158 million).

Future projects such as development of land in Cotai will be funded by a combination of internal resources and debt financing. The exact investment plans for the Group's projects are subject to change based upon execution of the business plans, progress of the projects, market conditions and management's view of future business conditions.

PLEDGE OF ASSETS

As at 31 December 2012, certain of the Group's property and equipment and land use rights with carrying values of \$1,317 million and \$82 million, respectively (as at 31 December 2011: \$5,415 million and \$718 million, respectively), were pledged with banks for loan facilities. In addition, the Group had pledged bank deposits of \$647 million as at 31 December 2012, as compared with \$172 million as at 31 December 2011.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2012, the Group had total guarantees given to banks of \$87 million (as at 31 December 2011: \$93 million), which were guarantees in respect of credit facilities granted to an associate and investee companies. The Group had no significant contingent liabilities as at 31 December 2012.

FINANCIAL REVIEW

FINANCIAL RISK

The Group follows a conservative policy in financial management with minimal exposure to currency and interest rate risks. Funds borrowed by the Group are on a floating rate basis. The Group does not currently hedge its interest rate exposure, although it may consider doing so in the future. As at 31 December 2012, the equivalent of approximately \$480.7 million of the Group's outstanding borrowings were denominated in Chinese Yuan, of which the foreign exchange risk has been fully set off with a matching amount of deposits. The Group's principal operations are primarily conducted and recorded in Hong Kong dollars resulting in minimal exposure to foreign exchange fluctuations. Over 97% of the Group's bank deposits are denominated in Hong Kong dollars, United States dollars or Macau patacas. It is the Group's policy to avoid speculative trading activity.

MATERIAL ACQUISITIONS AND DISPOSALS

In August 2012 an indirect subsidiary of the Group purchased for \$480 million a 4% equity interest in Macau Legend Development Limited ("MLD"), which is the owner of the third party promoter associated with Casino Club VIP Legend and Casino Babylon. MLD also owns The Landmark Macau and Macau Fisherman's Wharf. The transaction is subject, in certain circumstances, to an agreed investment return.

Besides the investment in MLD, the Group made no material acquisitions or material disposals of subsidiaries and associated companies during the year ended 31 December 2012.

HUMAN RESOURCES

As at 31 December 2012, the Group had approximately 21,000 full-time employees. The Group's employee turnover rate was minimal in 2012.

Staff remuneration of the Group is determined by reference to personal working performance, professional qualification, industry experience and relevant market trends, and includes salary, allowances, medical insurance and provident fund.

The management of the Group regularly reviews the remuneration policy and evaluates staff performance. Staff are encouraged to attend training classes that are related to the Group's business. The Group provides training for career enhancement in the form of internal courses and workshops for staff, subsidies for education of staff at Macau Millennium College, and awards scholarships to children of staff to study at institutions of their choice.

COMPARISON WITH UNITED STATES GAAP ACCOUNTING

The Group's results are prepared in compliance with Hong Kong generally accepted accounting principles ("HK GAAP"). In comparing the Group's results to those of companies whose results are prepared under US GAAP, it should be noted that gross gaming revenues, presented under US GAAP, are reduced by commissions and discounts paid to players, to arrive at net gaming revenues. An adjusted EBITDA would then be calculated based on these reduced net gaming revenues, resulting in a significantly higher Adjusted EBITDA margin than that calculated under HK GAAP. If calculated under US GAAP, the Group's Adjusted EBITDA margin would be approximately 16.9% for the year ended 31 December 2012, as compared with HK GAAP which gives an Adjusted EBITDA margin of 9.6% for the same period.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Ho Hung Sun, Stanley, aged 91, was appointed a director of the Company in 2006 and is currently the Chairman and an Executive Director of the Company. Dr. Ho has been a member of the Executive Committee of the board of directors of the Company (the "Board") since 2009. He is a director of Sociedade de Jogos de Macau, S.A. ("SJM") and was the Managing Director of SJM from 2001 to 2010. Dr. Ho is also a director of a number of principal subsidiaries of the Company.

Dr. Ho is the founder of and has been the Managing Director of Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") since 1962. He is also the co-chairman of the Advisory Committee of Industrial and Commercial Bank of China (Macau) Limited and the chairman of the board of directors of Macau Horse Racing Company, Limited. Dr. Ho is the group executive chairman of Shun Tak Holdings Limited, which is listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE Main Board"), and the chairman of the board of directors of the Euronext Lisbon listed Estoril-Sol, SGPS, S.A.

Dr. Ho was a Standing Committee member of the 11th National Committee of the Chinese People's Political Consultative Conference ("CPPCC").

Dr. Ho is the honorary life president of The Real Estate Developers Association of Hong Kong, a member of the Court of The Hong Kong Polytechnic University, the honorary lifetime chairman of The University of Hong Kong Foundation for Educational Development and Research, as well as a vice patron of The Community Chest of Hong Kong. In Macau, Dr. Ho is a member of the Economic Development Council of the Macau Special Administrative Region ("Macau SAR") Government, a member of the University Assembly of the University of Macau, and an honourable patron of the University of Macau Development Foundation. Dr. Ho was a vice-president of both the Preparatory Committee and the Basic Law Drafting Committee for the Macau SAR, as well as a member of the Consultative Committee for the Basic Law of the Hong Kong Special Administrative Region ("Hong Kong SAR").

Dr. Ho was awarded the Grand Bauhinia Medal and the Gold Bauhinia Star by the Hong Kong SAR Government in 2010 and 2003 respectively, and the Grand Lotus Medal of Honour and the Golden Lotus Medal of Honour by the Macau SAR Government in 2007 and 2001 respectively. Dr. Ho received decorations from various governments in the world including the *Grã-Cruz da Ordem do Infante Dom Henrique* from Portugal, the Officer of the Order of the British Empire (O.B.E.) from the United Kingdom, the *Commandeur de la Légion d'Honneur* from France, the *Cruz de Plata de la Orden Civil de la Solidaridad Social* from Spain, the Insignia of the Order of the Sacred Treasure from Japan, the *Commandeur de l'Ordre de la Couronne* from Belgium and others.

Dr. Ho received honorary doctoral degrees from the University of Macau, The University of Hong Kong, The Hong Kong Polytechnic University, The Open University of Hong Kong and The Hong Kong Academy for Performing Arts.

Dr. Ho is also an Honorary Fellow of The Hong Kong Academy for Performing Arts, an Honorary Fellow of the School of Accountancy of the Central University of Finance and Economics in China, and a Fellow of The Royal Academy of Dance in the United Kingdom.

DIRECTORS AND SENIOR MANAGEMENT

Dr. So Shu Fai, aged 61, was appointed a director of the Company in 2006 and is currently the Chief Executive Officer and an Executive Director of the Company. He is responsible for execution of the Company's strategy and the overall management of the Company's business. Dr. So has been the First Chairman of the Executive Committee of the Board since 2009. He was the Chairman of each of the Remuneration Committee and the Nomination Committee of the Board from 2008 to March 2012 and thereafter changed to act as a member of the said committees. He has been a director of SJM and a member of the senior management of SJM since 2002. He is a director of a number of principal subsidiaries, an associate and a jointly controlled entity of the Company. Dr. So joined STDM in 1976 and has over 35 years of experience in the casino business. He is an executive director of Tonic Industries Holdings Limited and an independent non-executive director of SHK Hong Kong Industries Limited, both companies are listed on the HKSE Main Board. He is also a director of Estoril-Sol, SGPS, S.A. which is listed on Euronext Lisbon and the chairman of the board of directors of MACAUPORT – Sociedade de Administração de Portos, S.A.

Dr. So is a member of the 12th National Committee of CPPCC, a member of the Committee of Foreign Affairs of the National Committee of CPPCC, the honorary consul of the Republic of Portugal in Hong Kong SAR, as well as a member of the Economic Development Council and of the Cultural Consultative Council of the Macau SAR Government. Dr. So is the president of Clube Militar de Macau, a member of the board of directors of The University of Hong Kong Foundation for Educational Development and Research, as well as a member of the 9th National Committee of China Federation of Literary and Art Circles.

Dr. So was awarded the Medal of Merit – Culture by the Macau SAR Government in 2009. He was awarded the Doctor of Social Sciences *honoris causa* by the University of Macau in 2012, and the Honorary University Fellowship by The University of Hong Kong in 2005.

Dr. So is a Chartered Secretary and a Fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Dr. So graduated with a Bachelor of Science degree from The University of Hong Kong in 1973, and received a doctoral degree in Management Studies from IMC/Southern Cross University in 2001.

Mr. Ng Chi Sing, aged 61, was appointed a director of the Company in 2006 and is currently the Chief Operating Officer and an Executive Director of the Company. Mr. Ng has been a member of the Executive Committee of the Board since 2009. He has been a director and the Chief Operating Officer of SJM since 2002. He is responsible for overseeing SJM's operations. He is also a director of a number of principal subsidiaries of the Company and a director of a jointly controlled entity of the Company.

Mr. Ng joined STDM in 1978 and has more than 30 years of experience in the casino business. Mr. Ng served as the deputy general manager for Casino Administration and Operations of STDM from 1999 to 2002. Mr. Ng is a Standing Committee member of the 12th Shanghai Municipal Committee of CPPCC and a member of the Council of the Macau University of Science and Technology. Mr. Ng holds a Bachelor's degree from The University of Hong Kong and a Master of Management Studies degree from Asia International Open University (Macau).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Rui José da Cunha, aged 71, was appointed a director of the Company in 2006 and is currently an Executive Director of the Company. Mr. Cunha has been a director of SJM since 2001. He is also a director of a number of principal subsidiaries of the Company. Mr. Cunha is the company secretary and president of the general meeting of certain of principal subsidiaries of the Company. As the Company Secretary of SJM since 2003, he is responsible for overseeing the company secretarial and legal affairs of SJM.

Mr. Cunha has been an attorney-at-law in Macau since 1981, and a founding member of the Macau Bar Association. Mr. Cunha is the founder and senior partner of C&C Advogados, a law office with headquarters in Macau and an overseas office in Lisbon, Portugal. From 1965 until 1981, Mr. Cunha served as Public Prosecutor, Attorney General and Judge of High Court in Portugal and various ex-Portuguese colonies. Mr. Cunha is the founder and chairman of Rui Cunha Foundation which was founded in Macau in 2012. Mr. Cunha graduated in 1964 from the University of Lisbon, Portugal.

Ms. Leong On Kei, Angela, aged 51, has been an Executive Director of the Company since 2007. She has been a member of the Executive Committee of the Board since 2009, and a member of each of the Remuneration Committee and the Nomination Committee of the Board since 2008. Ms. Leong has been a director of SJM since 2007 and became Managing Director of SJM in December 2010, and is also the Chairman of the Staff Welfare Consultative Committee of SJM. She has been a director of STDM since 2005.

Ms. Leong is actively involved in public and community services in China, Hong Kong and Macau. She is a Standing Committee member of the Jiangxi Provincial Committee of CPPCC, and a Standing Committee member of Zhuhai Municipal Committee of CPPCC. In 2005 and 2009, respectively, she was elected a member of the 3rd and 4th Legislative Assemblies of the Macau SAR. She is currently the president of the General Association of Administrators and Promoters for Macau Gaming Industry. She has been a director of Po Leung Kuk since 2005 and became vice-chairman of Po Leung Kuk in March 2011. Ms. Leong was awarded the Medal of Merit – Industry and Commerce by the Macau SAR Government in 2009.

Mr. Shum Hong Kuen, David, aged 58, has been an Executive Director of the Company since 2007. He has been a member of each of the Executive Committee and the Nomination Committee of the Board since 2009 and 2008 respectively. Mr. Shum is also a director of a number of principal subsidiaries of the Company. He has been a director of SJM since 2007 and of Sociedade de Turismo e Desenvolvimento Insular S.A.R.L. since 1998. Mr. Shum is an executive director and a member of the executive committee of the board of directors of Shun Tak Holdings Limited (listed on the HKSE Main Board). He is also a director of a number of subsidiaries in the Shun Tak Group.

Mr. Shum holds a Bachelor's degree from the University of Illinois, Urbana-Champaign, and a Master's degree in Business Administration from the University of California, Berkeley, U.S.A.

Mr. Fok Tsun Ting, Timothy, aged 67, was appointed an Executive Director of the Company in August 2010. He is a member of the National Committee of CPPCC, a member of the International Olympic Committee, the president of the Sports Federation and Olympic Committee of Hong Kong, China, a vice-president of the Olympic Council of Asia and the president of the Hong Kong Football Association. He was a member of the Legislative Council of Hong Kong, representing the Sports, Performing Arts, Culture and Publication functional constituency from 1998 to 2012. Mr. Fok is currently a Justice of the Peace. He was educated at the University of Southern California, U.S.A.

Mr. Fok was awarded the Gold Bauhinia Star Medal and the Silver Bauhinia Star Medal by the Hong Kong SAR Government in 2004 and 1999 respectively.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Dato' Dr. Cheng Yu Tung, aged 87, was appointed a director of the Company in 2006 and is currently a Non-executive Director of the Company. He has been a director and the President of the board of directors of SJM since 2001. Dato' Dr. Cheng's business activities are extensive and varied, ranging from jewellery, real estate, infrastructure and hotels to logistics. Dato' Dr. Cheng is the chairman of Melbourne Enterprises Limited, the non-executive chairman of Lifestyle International Holdings Limited, the honorary chairman of Chow Tai Fook Jewellery Group Limited ("CTF") and a non-executive director of Shun Tak Holdings Limited (all of which are listed on the HKSE Main Board). Dato' Dr. Cheng was the chairman and an executive director of New World Development Company Limited (listed on the HKSE Main Board) and retired from the said positions with effect from 1 March 2012. Following the said retirement, he is honoured the title of chairman emeritus of that company. Dato' Dr. Cheng was the non-executive director of CTF from 2011 to December 2012.

Dato' Dr. Cheng was awarded the *Commandeur de L'Ordre des Arts et des Lettres* and the *Chevalier de la Legion d'Honneur* by the French Government. He was awarded the Grand Bauhinia Medal by the Hong Kong SAR Government in 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Tak Hay, aged 70, has been an Independent Non-executive Director of the Company and a member of the Audit Committee of the Board since 2008, a member of the Remuneration Committee of the Board since November 2010, and a member of the Nomination Committee of the Board from 2008 to March 2012 and thereafter appointed as the Chairman of the said committee. He has been an independent non-executive director of Tradelink Electronic Commerce Limited (listed on the HKSE Main Board) since September 2009 and an independent non-executive director of Wheelock and Company Limited (listed on HKSE Main Board) since October 2012.

Between 1988 and 2002, Mr. Chau served in a number of principal official positions in the Hong Kong SAR Government, including Secretary for Commerce and Industry, Secretary for Broadcasting, Culture and Sport, and Secretary for Health and Welfare. Mr. Chau graduated from The University of Hong Kong in 1967. Mr. Chau was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2002.

Mr. Lan Hong Tsung, David, aged 72, has been an Independent Non-executive Director of the Company and a member of the Nomination Committee of the Board since 2008, a member of the Audit Committee of the Board since November 2010, and a member of the Remuneration Committee of the Board from 2008 to March 2012 and thereafter appointed as the Chairman of the said committee. He is the Chairman of David H T Lan Consultants Ltd., the Senior Advisor of Mitsui & Co (HK) Ltd. and an independent non-executive director of Nanyang Commercial Bank, Ltd.. Mr. Lan is also an independent non-executive director of Cheung Kong Infrastructure Holdings Limited, Hutchison Harbour Ring Limited and Hutchison Telecommunications Hong Kong Holdings Limited, each of which is listed on the HKSE Main Board, as well as ARA Asset Management (Prosperity) Limited, the manager of HKSE Main Board listed Prosperity Real Estate Investment Trust. He is an independent non-executive director and a member of the audit committee of ARA Asset Management (Fortune) Limited, the manager of HKSE Main Board listed Fortune Real Estate Investment Trust.

In 2000, Mr. Lan was awarded the Gold Bauhinia Star by the Hong Kong SAR Government for his 39 year-long civil service when he retired as the Secretary for Home Affairs. He was appointed to the 10th and 11th sessions of the National Committee Member of the Chinese People's Political Consultative Conference. He is also a Chartered Secretary and a Fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Mr. Lan graduated from the University of London with a Bachelor of Arts degree and obtained Advanced Management Program (AMP) qualification from the Harvard Business School. He was also a Visiting Fellow of Queen Elizabeth House (Oxford).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Shek Lai Him, Abraham, aged 67, has been an Independent Non-executive Director of the Company and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board since 2008. He is also an independent non-executive director of a number of companies listed on the HKSE Main Board, namely, China Resources Cement Holdings Limited, Chuang's China Investments Limited, Chuang's Consortium International Limited, Country Garden Holdings Company Limited, Dorsett Hospitality International Limited (formerly known as "Kosmopolito Hotels International Limited"), Hop Hing Group Holdings Limited, Hsin Chong Construction Group Ltd., ITC Corporation Limited, ITC Properties Group Limited, Lai Fung Holdings Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, MTR Corporation Limited, NWS Holdings Limited, Paliburg Holdings Limited and Titan Petrochemicals Group Limited. Mr. Shek is an independent non-executive director of Eagle Asset Management (CP) Limited, the manager of Champion Real Estate Investment Trust, and Regal Portfolio Management Limited, the manager of Regal Real Estate Investment Trust, both of the Trusts are listed on the HKSE Main Board.

Mr. Shek graduated from the University of Sydney with a Bachelor of Arts degree and a Diploma in Education. He is a member of the Legislative Council for the Hong Kong SAR representing the real estate and construction functional constituency since 2000. Mr. Shek was appointed a Justice of the Peace in 1995 and awarded Silver Bauhinia Star in 2007. He is also a committee member of the 5th Shenzhen Municipal Committee of CPPCC, a director of the Hong Kong Mortgage Corporation Limited, the vice-chairman of the Independent Police Complaints Council in Hong Kong SAR, and a court member of the Hong Kong University of Science and Technology, and a court and council member of The University of Hong Kong.

Mr. Tse Hau Yin, aged 65, has been an Independent Non-executive Director of the Company, the Chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Board since 2008. Mr. Tse is a member of the Supervisory Committee of SJM and a number of its subsidiary companies. He is also an independent non-executive director of China Telecom Corporation Limited, CNOOC Limited, Sinofer Holdings Limited, Wing Hang Bank Limited and Linmark Group Limited, all of which are listed on the HKSE Main Board. He was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board, until 2010.

Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and a fellow member, past president and a former member of the Audit Committee of the Hong Kong Institute of Certified Public Accountants. He is also a registered auditor in Macau. He joined KPMG in 1976, became a partner in 1984 and retired in 2003. Between 1997 and 2000, Mr. Tse served as the non-executive chairman of KPMG's operations in China and was a member of the KPMG China Advisory Board. He is currently a member of the International Advisory Council of The People's Municipal Government of Wuhan. Mr. Tse holds a Bachelor of Social Sciences degree from The University of Hong Kong.

DIRECTORS' BIOGRAPHICAL DETAILS UPDATE

The Directors' biographical details update, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, since 1 July 2012 and up to 31 December 2012 has been reflected in the above section.

SENIOR MANAGEMENT

The executive directors of the Company are regarded as senior management of the Company and its subsidiaries (collectively the "Group") in view of the fact that they are directly responsible for overseeing the implementation of the Company's strategic objectives and the business operations of the Group.

REPORT OF THE DIRECTORS

(All amounts expressed in Hong Kong dollars unless otherwise stated)

The directors (the “Directors”) of SJM Holdings Limited (the “Company”) have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2012 (the “Financial Statements”).

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, whilst its operating subsidiary, Sociedade de Jogos de Macau, S.A. (“SJM”), conducts casino gaming operations and gaming-related activities in Macau.

An analysis of the revenues and the results of the Company and its subsidiaries (collectively the “Group”) by operating segment during the financial year is set out in note 7 to the Financial Statements.

PRINCIPAL SUBSIDIARIES

A list of principal subsidiaries, together with their places of incorporation/establishment and operations and particulars of their issued share capital/quota capital and principal activity, is set out in note 51 to the Financial Statements.

FINANCIAL RESULTS

The profit of the Group for the year ended 31 December 2012, and the Statement of Financial Position of the Company and of the Group at that date are set out in the Financial Statements on pages 75 to 142.

DIVIDENDS

An interim dividend of HK10 cents per ordinary share of the Company (the “Share”) for the six months ended 30 June 2012 was paid on 19 September 2012 (six months ended 30 June 2011: HK8 cents per Share).

The board of Directors of the Company (the “Board”) recommends a final dividend of HK50 cents per Share (2011: HK43 cents per Share) and a special dividend of HK30 cents per Share (2011: HK22 cents per Share) in respect of the year ended 31 December 2012, which is subject to approval at the forthcoming annual general meeting of the Company to be held on Friday, 31 May 2013 (the “2013 AGM”).

RECORD DATE FOR PROPOSED FINAL DIVIDEND AND SPECIAL DIVIDEND

Record date for proposed final dividend and special dividend	5 June 2013
Latest time to lodge transfer documents with the Company’s share registrar	4:30 p.m. on Wednesday, 5 June 2013
Name and address of the Company’s share registrar	Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
Expected payment date (if approved at 2013 AGM)	19 June 2013

CLOSURE OF REGISTER OF MEMBERS FOR 2013 AGM

Book close dates for 2013 AGM (both days inclusive)	29 May 2013 to 31 May 2013
Latest time to lodge transfer documents with the Company’s share registrar	4:30 p.m. on Tuesday, 28 May 2013
Name and address of the Company’s share registrar	Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2012 is set out on page 143.

MAJOR SUPPLIERS AND CUSTOMERS

I. Suppliers

Under SJM's business arrangements with gaming promoters, SJM regularly provides allowances for transportation, hotel accommodation and food and beverage for their customers. Accordingly, some of the major suppliers of the Group provide SJM with products and services such as hotel rooms and catering services as well as construction, repair and maintenance.

During the year, 35.6% of the Group's purchases was attributable to the Group's five largest suppliers combined as below:

- (i) Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") through Hotel Lisboa Macau and Hotel Sintra, which provides SJM with casino and office leasing, hotel rooms and entertainment services, accounted for 9.4% of the Group's total purchases;
- (ii) Companhia de Electricidade de Macau – CEM, S.A., which provides SJM with electricity, accounted for 9.2% of the Group's total purchases;
- (iii) Angel Playing Cards Co., Ltd., which supplies SJM with playing cards, accounted for 7.0% of the Group's total purchases;
- (iv) STDM, which shares certain administrative costs with SJM and provides SJM with dredging and repair and maintenance services, accounted for 5.9% of the Group's total purchases; and
- (v) Champion Power Property Inc., which provides SJM with casino leasing, repair and maintenance and consultancy, accounted for 4.1% of the Group's total purchases.

Hotel Lisboa Macau and Hotel Sintra are owned by STDM. Dr. Ho Hung Sun, Stanley ("Dr. Ho"), Dato' Dr. Cheng Yu Tung, Ms. Leong On Kei, Angela and Mr. Shum Hong Kuen, David have beneficial interests in STDM and Dr. Ho, Ms. Leong On Kei, Angela and Mr. Shum Hong Kuen, David representing Interdragon Limited are directors of STDM. STDM is a controlling shareholder of the Company and therefore a connected person of the Company as defined under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The purchases from Hotel Lisboa Macau and Hotel Sintra are undertaken pursuant to the Products and Services Master Agreement and the Premises Leasing Master Agreement, further details of which are included in the section headed "Directors' Interests in Contracts and Connected Transactions".

Save as disclosed, no other Director, their associates or shareholders of the Company ("Shareholders") (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) were interested at any time during the year, in the Group's five largest suppliers.

II. Customers

During the year, the percentage of the Group's turnover or sales attributable to the five largest customers was below 30.

REPORT OF THE DIRECTORS

RESERVES AND DISTRIBUTABLE RESERVES

Movements in the reserves of the Company during the year and reserves available for distribution to Shareholders are set out in note 44 to the Financial Statements. Movements in the reserves of the Group are reflected in the Financial Statements on the Consolidated Statement of Changes in Equity.

The Company's reserves available for distribution to Shareholders as at 31 December 2012 amounted to approximately \$7,817.1 million (31 December 2011: \$6,083.7 million).

DONATIONS

Donations made by the Group during the year amounted to \$14.2 million.

MAJOR GROUP PROPERTIES

Details of major properties of the Group as at 31 December 2012 are as follows:

Property	Location	Use	Site area (sq.m.)	Gross floor area/ saleable area (sq.m.)	Group interest
Grand Lisboa Hotel and Casino Complex	Avenida do Infante D. Henrique, N° S/N, Macau	Gaming operation, hotel operation and commercial use	11,626	135,442	100%
Ponte 16	Rua das Lorchas, N° S/N; Rua do Visconde Paço de Arcos, N° S/N, Macau	Gaming operation, hotel operation and commercial use	23,066	126,500	51%
Centro Internacional de Macau	Rua do Terminal Marítimo, N°s 93–103, Edifício I – Bloco V, Macau	Staff quarters	—	5,582.72	100%
Portion of Casino Lisboa	Basement, G/F, 1/F, 2/F, 3/F of Hotel Lisboa, Praça Ferreira do Amaral, N°s 1–5, Macau	Gaming operation	—	7,585.72	100%

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2012 are set out in note 39 to the Financial Statements.

BORROWING COSTS CAPITALISATION

The Group has not capitalised borrowing costs during the year (2011: Nil).

FIXED ASSETS

Details of movements in the property and equipment and land use rights of the Group during the year are set out in notes 15 and 17, respectively, to the Financial Statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 42 to the Financial Statements.

SHARE OPTION SCHEME

At an annual general meeting of the Company held on 13 May 2009, the Shareholders approved the adoption of a share option scheme (the "Scheme") under which the Directors may grant to any participants of the Scheme share options ("Options") to subscribe for Shares, subject to the terms and conditions as stipulated therein.

The principal terms of the Scheme are summarised below:

Purpose	To provide incentives to participants to contribute to the Group and/or to enable the Group to retain and recruit high-calibre employees and/or attract human resources that are valuable to the Group
Participants	Any employee, officer, agent, consultant or representative of the Company or any subsidiary, including any executive or non-executive director of the Company or any subsidiary, who is regarded as a valuable human resources of the Group based on his work experience, knowledge of the industry and other relevant factors
Total number of Shares available for issue	The total number of Shares which may be issued upon exercise of all Options must not in aggregate exceed 10% of the nominal amount of the issued share capital of the Company as at 13 May 2009 (that is, 500,000,000 Shares). As at the date of this annual report, the total number of Shares available for issue under the Scheme is 209,100,000 Shares, representing approximately 3.8% of the total number of Shares in issue.
Maximum entitlement of each participant	<p>In any 12-month period (including the proposed grant date):</p> <p>(a) For participants excluding substantial Shareholders, Independent Non-executive Directors or their respective associates:</p> <p>1% of the number of Shares in issue as at the proposed grant date (including the total number of Shares already issued and those which may fall to be issued upon exercise of Options granted and to be granted to him under the Scheme and any other share option scheme(s) of the Company and/or any subsidiary)</p> <p>(b) For substantial Shareholders, Independent Non-executive Directors or their respective associates:</p> <p>(i) 0.1% of the number of Shares in issue as at the proposed grant date (including the total number of Shares already issued and those which may fall to be issued upon exercise of Options granted and to be granted to him under the Scheme and any other share option scheme(s) of the Company and/or any subsidiary); or</p> <p>(ii) not exceeding \$5 million in aggregate value based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on each relevant date on which the grant of Options is made</p>

REPORT OF THE DIRECTORS

Period within which the Shares must be taken up under an Option	The Board may in its absolute discretion determine, save that such period shall expire on the last day of nine years commencing on the date falling six months after the date of grant.
Minimum period for which an Option must be held before it can be exercised	Such minimum period under the Scheme is six months from the date of grant. At the time of grant of Options, the Board may specify longer minimum period(s) for which Options must be held before they can be exercised.
Amount payable on acceptance of the Option	\$1
Period within which payments or calls must or may be made or loans for such purposes must be repaid	Payable within 28 days from the date of the letter containing the grant, provided that no such grant shall be open for acceptance after the expiry or termination of the Scheme
Basis of determining the exercise price	<p>The exercise price shall be determined by the Board at the time the grant of the Options is made and shall not be less than the highest of:</p> <ul style="list-style-type: none"> (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the grant date, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date; and (c) if applicable, the nominal value of the Shares.
Remaining life of the Scheme	The Scheme will remain in force for a period of 10 years commencing on the adoption date.

REPORT OF THE DIRECTORS

Details of the movement in Options granted under the Scheme during the year ended 31 December 2012 were as follows:

Name or category of participants	Date of grant	Exercise period	Exercise price per Share	Number of Options					Balance as at 31 December 2012
				Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	
Directors of the Company:									
So Shu Fai	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	35,000,000	—	—	—	—	35,000,000
Ng Chi Sing	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	32,000,000	—	—	—	—	32,000,000
Rui José da Cunha	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	3,000,000	—	—	—	—	3,000,000
Leong On Kei, Angela	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	30,000,000	—	—	—	—	30,000,000
Shum Hong Kuen, David	13 July 2009 (Note 1)	13 January 2010 to 12 January 2019	\$2.82	3,000,000	—	—	—	—	3,000,000
	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	3,000,000	—	—	—	—	3,000,000
Fok Tsun Ting, Timothy	31 August 2010 (Note 4)	28 February 2011 to 27 February 2020	\$7.48	3,000,000	—	—	—	—	3,000,000
	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	3,000,000	—	—	—	—	3,000,000
Cheng Yu Tung	13 July 2009 (Note 1)	13 January 2010 to 12 January 2019	\$2.82	1,000,000	—	(1,000,000)	—	—	—
	31 August 2010 (Note 4)	28 February 2011 to 27 February 2020	\$7.48	2,000,000	—	(2,000,000)	—	—	—
	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	3,000,000	—	—	—	—	3,000,000
Chau Tak Hay	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	500,000	—	—	—	—	500,000
Lan Hong Tsung, David	13 July 2009 (Note 1)	13 January 2010 to 12 January 2019	\$2.82	500,000	—	—	—	—	500,000
	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	500,000	—	—	—	—	500,000
Shek Lai Him, Abraham	13 July 2009 (Note 1)	13 January 2010 to 12 January 2019	\$2.82	500,000	—	—	—	—	500,000
	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	500,000	—	—	—	—	500,000
Tse Hau Yin	13 July 2009 (Note 1)	13 January 2010 to 12 January 2019	\$2.82	500,000	—	—	—	—	500,000
	17 March 2011 (Note 5)	17 September 2011 to 16 September 2020	\$12.496	500,000	—	—	—	—	500,000
Sub-total (Directors):				121,500,000	—	(3,000,000)	—	—	118,500,000

REPORT OF THE DIRECTORS

Name or category of participants	Date of grant	Exercise period	Exercise price per Share	Number of Options					Balance as at 31 December 2012
				Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	
Employees	13 July 2009 (Note 1)	13 January 2010 to 12 January 2019	\$2.82	5,090,000	—	(1,265,000)	—	—	3,825,000
Employee	13 July 2009 (Note 1)	13 January 2011 to 12 January 2019	\$2.82	10,000,000	—	(10,000,000)	—	—	—
Employee	13 July 2009 (Note 1)	13 January 2012 to 12 January 2019	\$2.82	10,000,000	—	(10,000,000)	—	—	—
Employee	19 May 2010 (Note 2)	19 November 2010 to 18 November 2019	\$5.11	1,400,000	—	(400,000)	—	—	1,000,000
Employees	26 May 2010 (Note 3)	26 November 2010 to 25 November 2019	\$5.03	260,000	—	—	—	—	260,000
Sub-total (Employees):				26,750,000	—	(21,665,000)	—	—	5,085,000
Other participants	13 July 2009 (Note 1)	13 January 2010 to 12 January 2019	\$2.82	2,250,000	—	(1,100,000)	—	—	1,150,000
Total:				150,500,000	—	(25,765,000)	—	—	124,735,000

Notes:

- The vesting period for all of the Options granted on 13 July 2009 is six months from the date of grant, except the vesting period for Options in respect of a total of 30,000,000 Shares is 1/3 vesting on 13 January 2010, then 1/3 vesting on each of the first and second anniversaries of such date. The closing price of the Shares immediately before the date of grant was \$2.85. The estimated fair value of each Option granted on that date based on an independent valuation is as follows:

166,700,000 Options granted on 13 July 2009	Exercisable periods	Option unit value
146,700,000	13 January 2010 to 12 January 2019	\$1.25819
10,000,000	13 January 2011 to 12 January 2019	\$1.28888
10,000,000	13 January 2012 to 12 January 2019	\$1.31545

- The vesting period for all of the Options granted on 19 May 2010 is six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$4.81. The estimated fair value of each Option granted on that date based on an independent valuation is \$2.0728.
- The vesting period for all of the Options granted on 26 May 2010 is six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$4.83. The estimated fair value of each Option granted on that date based on an independent valuation is \$2.0178.
- The vesting period for all of the Options granted on 31 August 2010 is six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$7.49. The estimated fair value of each Option granted on that date based on an independent valuation is \$2.8926.
- The vesting period for all of the Options granted on 17 March 2011 is six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$12.58. The estimated fair value of each Option granted on that date based on an independent valuation is \$4.5320.
- The weighted average closing price of the Shares immediately before the dates on which the Options were exercised is \$16.19.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Dr. Ho Hung Sun, Stanley
Dr. So Shu Fai
Mr. Ng Chi Sing
Mr. Rui José da Cunha
Ms. Leong On Kei, Angela
Mr. Shum Hong Kuen, David
Mr. Fok Tsun Ting, Timothy

Non-executive Director

Dato' Dr. Cheng Yu Tung

Independent Non-executive Directors

Mr. Chau Tak Hay
Mr. Lan Hong Tsung, David
Mr. Shek Lai Him, Abraham
Mr. Tse Hau Yin

Brief biographical details of Directors are set out on pages 27 to 31 of this annual report. Details of their remuneration are set out in note 11 to the Financial Statements.

In accordance with Article 97 of the Company's articles of association, Mr. Ng Chi Sing, an Executive Director, Dato' Dr. Cheng Yu Tung, a Non-executive Director, and Mr. Chau Tak Hay and Mr. Lan Hong Tsung, David, each an Independent Non-executive Director, will retire from the Board by rotation at the 2013 AGM. Except Dato' Dr. Cheng Yu Tung who for the reason of retirement does not offer himself for re-election, Mr. Ng Chi Sing, Mr. Chau Tak Hay and Mr. Lan Hong Tsung, David, all being eligible, offer themselves for re-election at the 2013 AGM.

In addition, pursuant to Article 98(a) of the Company's articles of association, the Board recommends that Dr. Cheng Kar Shun, Henry, be elected as a Non-executive Director of the Company, subject to the approval of the Shareholders at the 2013 AGM. The brief biographical details of Dr. Cheng Kar Shun, Henry are set out in Appendix II of the Company's circular dated 12 April 2013 to be despatched together with this annual report.

All Independent Non-executive Directors have met all of the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received from each of them an annual written confirmation of his independence and considers each of them to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the 2013 AGM has a service contract with the Company that is not determinable within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Save as disclosed below, no contract of significance (i) to which the Company, its holding company or any of their subsidiaries was a party, and in which a Director was materially interested, whether directly or indirectly, subsisted at any time during the year or at the end of the year, nor (ii) between the Company, or one of its subsidiaries, and a controlling Shareholder or any of its subsidiaries.

I. *Agreements with STDM or its subsidiaries*

Nature and extent of the connected person's interest in the transaction:

Both Dr. Ho and Ms. Leong On Kei, Angela are directors of STDM and have beneficial interests in STDM. Dato' Dr. Cheng Yu Tung and Mr. Shum Hong Kuen, David (who also represents Interdragon Limited, a corporate director of STDM) also have beneficial interests in STDM. Many Town Company Limited is a corporate director of STDM and is owned as to 93.3% by United Worldwide Investment S.A. which is owned as to 50% by Dato' Dr. Cheng Yu Tung.

Connected relationship:

STDM is the controlling Shareholder and therefore STDM and/or its subsidiaries are connected persons of the Company under the Listing Rules.

A. **Parties to the agreements:**

STDM and the Company

1. *Premises Leasing Master Agreement*

Agreement date	Term	Description of the transaction and its purpose	Annual caps and aggregate amount of transactions in 2012
18 June 2008	18 June 2008 to 31 March 2020 (the Company may terminate the agreement by giving at least three months' prior written notice)	<ul style="list-style-type: none">For the leasing of premises by STDM and its associates (excluding the Group) (the "STDM Group") to the Group for use as casinos, offices, or for other business purposesPayments for the premises comprised rental, utility charges, air conditioning service charges and building management fees where the relevant rental must be fair and reasonable, and may not be higher than the rental for the same or comparable type of premises provided by independent third parties in the ordinary course of business; the utility charges payable are based on actual utility consumption; and the air conditioning expenses and building management fees are determined in accordance with and not exceeding the relevant market prices.The terms and conditions on which such premises are to be provided should be no less favourable to the Company than those offered by independent third parties.	See "Annual Caps and Aggregate Amount Table" on page 43 of this report

Further details of the above transactions were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008, the announcements of the Company dated 16 June 2009, 11 September 2009 and 30 December 2010.

REPORT OF THE DIRECTORS

2. *Products and Services Master Agreement*

Agreement date	Term	Description of the transaction and its purpose	Annual caps and aggregate amount of transactions in 2012
19 June 2011	18 June 2011 to 31 December 2013	<ul style="list-style-type: none"> • For the provision of the following categories of products and services by the STDM Group to the Group: <ul style="list-style-type: none"> (i) hotel accommodation (ii) entertainment and staff messing (iii) dredging services (iv) transportation (including jetfoil tickets supplied by Far East Hydrofoil Company, Limited through STDM) (v) maintenance services • The provision of each relevant product or service by the STDM Group shall be on normal commercial terms and made with reference to the prevailing market price after arm's length negotiation between the relevant parties or, where there is no relevant market price, on terms negotiated between the relevant parties at arm's length. • The price of the products and services to be provided by the STDM Group including the basis of the calculation of the payments to be made shall be set out in the relevant implementation agreements and must be fair and reasonable. 	See "Annual Caps and Aggregate Amount Table" on page 43 of this report

Further details of the above transactions were set out in the announcement of the Company dated 19 June 2011.

REPORT OF THE DIRECTORS

B. Parties to the agreements:

STDM and SJM

Chips Agreement

Agreement date	Term	Description of the transaction and its purpose	Annual caps and aggregate amount of transactions in 2012
18 June 2008	No fixed term (may be terminated by mutual agreement or upon termination of SJM's gaming concession contract, whichever is earlier)	<ul style="list-style-type: none"> For regulating the honouring, borrowing and use of the casino chips of STDM for the purposes of its gaming operations. Since 1 April 2002, SJM had been borrowing casino chips from STDM for the purpose of its business operation. STDM agreed to reimburse SJM for the aggregate face value of the chips honoured by SJM which were not sold by SJM. The arrangements are now being phased out as explained below. 	See "Annual Caps and Aggregate Amount Table" on page 43 of this report

Further details of the above transactions were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008 and the announcement of the Company dated 30 December 2010.

Since SJM has secured its own supply of chips and is no longer borrowing any STDM chips, the overall value of STDM chips redeemed in 2012 has declined substantially from the levels seen in earlier years. Furthermore, substantially all casino chips of STDM have been withdrawn from circulation and procedures have been put in place for those holding such chips to redeem them for cash or for casino chips of SJM.

C. Parties to the agreements:

Sky Reach Investments Limited ("Sky Reach"), a subsidiary of the Company and Companhia de Aviação Jet Asia Limitada ("Jet Asia"), a wholly-owned subsidiary of STDM

Aircraft Sublease Agreements

Agreement date	Term	Description of the transaction and its purpose	Annual caps and aggregate amount of transactions in 2012
Various dates in 2007 and 2008	Each agreement has an initial term of 10 years	<ul style="list-style-type: none"> Sky Reach agreed to sublease six aircraft to Jet Asia. The terms of the aircraft sublease agreements are in accordance with normal business practice. 	See "Annual Caps and Aggregate Amount Table" on page 43 of this report

Further details of the said transactions were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008 and the announcements of the Company dated 20 January 2009, 30 July 2009 and 30 December 2010.

Annual Caps and Aggregate Amount Table:

Non-exempt continuing connected transactions	Aggregate amount for the year ended 31 December 2012 \$ million	Annual Cap for the year ended 31 December 2012 \$ million	Annual Cap for the year ending 31 December 2013 \$ million
		(Notes 1, 2, 3 & 4)	(Notes 1, 2, 3 & 4)
Products and Services Master Agreement (Note 1)			
– Hotel accommodation	104.8	131.0	157.0
– Entertainment and staff messing	56.3	110.0	121.0
– Dredging services	122.2	176.0	193.6
– Transportation	145.4	259.0	259.0
– Maintenance services	15.8	82.0	82.0
Premises Leasing Master Agreement (Note 2)	247.7	315	331
Chips Agreement (Note 3)	2.2	200	100
Aircraft Sublease Agreements (Note 4)	41.0	150	150

Notes:

1. In June 2011, STDM and the Company renewed the Products and Services Master Agreement and approved new annual caps for the five categories of continuing connected transactions for the three financial years of 31 December 2011, 2012 and 2013. Those annual caps are determined by reference to a number of factors including (i) the historical consumption of the products and services by the Group; (ii) the business, marketing and promotion plans of the Group; (iii) the inflation rate in Macau; and (iv) the expected transaction volume and market prices of the products and services.
2. In December 2010, the Board approved new annual caps for this category of continuing connected transactions for the three financial years of 31 December 2011, 2012 and 2013 at \$300 million, \$315 million and \$331 million respectively. These annual caps have been determined by reference to (i) the existing leases between the Group and the STDM Group, (ii) the rentals which will be paid from 1 January 2011 on certain additional leased premises which the Group has already been using, and (iii) the estimated demand of the Group for the premises owned by the STDM Group for its business operations up to 31 December 2013 after taking into consideration the market condition and the anticipated market trend of rental.
3. Since (i) the overall value of STDM chips to be redeemed in 2011 and the following two years is expected to decline substantially from the historical levels seen in earlier years, and (ii) as SJM has secured its own supply of chips, the STDM chips to be redeemed by SJM will refer to only those STDM chips already in circulation. As such, in December 2010, the Board set new annual caps for this category of continuing connected transactions for the three financial years of 31 December 2011, 2012 and 2013 at \$400 million, \$200 million and \$100 million respectively.
4. In December 2010, the Board approved new annual caps for this category of continuing connected transactions for the three financial years of 31 December 2011, 2012 and 2013 to be maintained at \$150 million for each year. These annual caps have been determined by reference to the contractual terms of the underlying agreements and reflect the aggregate rental payable for the private jets, an allowance for an increase in prevailing interest rates and the possibility of accelerated lease payments if conditions in the corporate jet market deteriorate substantially.

REPORT OF THE DIRECTORS

II. Master Service Agreement with Shun Tak & CITS Coach (Macao) Limited (“ST-CITS”)

Nature and extent of the connected person’s interest in the transaction:

An aggregate of 51% of ST-CITS is owned by Dr. Ho’s associates as defined under the Listing Rules.

Connected relationship:

Dr. Ho’s family interests have control of more than 50% in the voting power of ST-CITS and therefore ST-CITS is a connected person of the Company under the Listing Rules.

Parties to the agreement:

ST-CITS and SJM

Agreement date	Term	Description of the transaction and its purpose	Annual caps and aggregate amount of transactions in 2012
24 June 2011	24 June 2011 to 31 December 2013 (may be renewed, by mutual written agreement, for successive terms of three years)	<ul style="list-style-type: none"> ST-CITS agreed to, on request and subject to availability of resources, provide and procure members of ST-CITS and its subsidiaries (the “ST-CITS Group”) to provide coach, mini-bus and limousine services to the Group’s gaming patrons, hotel guests and staff in Macau locally as well as operating cross-border routes to mainland cities of China and other services ancillary to or relating to the foregoing (the “Transportation Services”). The consideration for the provision of the Transportation Services shall be on normal commercial terms and determined on an arm’s length basis between the relevant member of both the Group and the ST-CITS Group having regard to the quantity, specifications and/or other conditions of the Transportation Services to be provided and the prevailing price charged by independent third parties for the provision of the same or comparable type of the Transportation Services in the ordinary course of business. 	See “Annual Caps and Aggregate Amount Table” below

Further details of the said transaction were set out in the announcement of the Company dated 24 June 2011.

Annual Caps and Aggregate Amount Table:

Non-exempt continuing connected transaction	Aggregate amount for the year ended 31 December 2012 \$ million	Annual Cap for the year ended 31 December 2012 \$ million	Annual Cap for the year ending 31 December 2013 \$ million
Transportation Services (Note)	44.6	77	88

Note:

The continued annual caps are determined by reference to a number of factors including (i) the historical consumption of the Transportation Services by the Group; (ii) the projected increase in volume of the Transportation Services; (iii) continued inflation in costs of the provision of the Transportation Services including labour, fuel and other overhead costs; and (iv) buffers to accommodate possible additional demand for the Transportation Services required by the Group.

REPORT OF THE DIRECTORS

III. Agreement with Tin Hou Limited (“Tin Hou”)

Nature and extent of the connected person’s interest in the transaction:

Tin Hou is a company indirectly controlled over 50% by a half-brother of a director of certain subsidiaries of the Company.

Connected relationship:

Tin Hou is a connected person pursuant to Rule 14A.11(4)(b)(ii) of the Listing Rules which became effective on 3 June 2010.

Parties to the agreement:

Tin Hou and SJM

Agreement date	Term	Description of the transaction and its purpose	Aggregate amount of transactions in 2012 \$ million
19 February 2010	1 October 2009 to 31 March 2020 (expiration date of SJM’s gaming concession contract) or earlier termination (including winding up or cessation of business of either party)	<ul style="list-style-type: none">• Tin Hou and SJM formalised their business arrangements in respect of the provision by Tin Hou to SJM of certain services in the gaming area located at the Grand Emperor Hotel in Macau (the “Gaming Area”) which had commenced in October 2009.• In consideration for the provision of related services to SJM, Tin Hou together with the nominated junket promoter, which is a fellow subsidiary of Tin Hou, is entitled to a share of the gross win and gross loss in respect of the monthly operating performance of the Gaming Area.• The consideration for the provision of such services was determined after arm’s length negotiation.	1,638.3

Further details of the said transactions were set out in the announcement of the Company dated 13 December 2010.

REPORT OF THE DIRECTORS

IV. Lease Agreement with Netlink Capital Limited (“Netlink”)

Nature and extent of the connected person’s interest in the transaction:

Ms. Leong On Kei, Angela owned approximately 97.3% indirect interests in Netlink.

Connected relationship:

Netlink is wholly owned by Sociedade de Pelota Basca de Macau, S.A. which in turn is owned as to approximately 97.3% by Ms. Leong On Kei, Angela and therefore Netlink is a connected person of the Company under the Listing Rules.

Parties to the agreement:

Netlink and Efort Limited (“Efort”), an indirect subsidiary of the Company

Transaction date	Term	Description of the transaction and its purpose	Annual caps
18 November 2012	1 January 2014 to 31 December 2016 (become effective on the fulfillment or waiver of the conditions precedent and may be renewed for further three years at the then open market prices at the sole discretion of Efort)	<ul style="list-style-type: none">• Netlink will lease the Jai Alai Palace located in Macau to Efort for the operations of Casino Jai Alai and additional facilities by the Group.• The monthly rental (including management fee) of the Jai Alai Palace is MOP10.3 million (equivalent to approximately \$10 million).• Efort shall pay to Netlink a refundable sum of MOP82.4 million (equivalent to approximately \$80 million), being the aggregate of a deposit equivalent to two-month rental (including management fee) and a decoration deposit equivalent to six-month rental (including management fee).• The monthly rental (including management fee) and payment terms of the lease agreement have been negotiated on an arm’s length basis between the parties to the Lease Agreement with reference to prevailing market rents as appraised by an independent property valuer.• Efort may sub-lease any space located in the Jai Alai Palace to third parties, with Netlink’s prior written consent on the selected third party as the sub-lessee, which consent shall not be unreasonably withheld.	See “Annual Caps Table” on page 47 of this report

The conditions precedent of the Lease Agreement have been fulfilled or waived on 31 December 2012. Further details of the said transaction were set out in the announcement of the Company dated 18 November 2012.

REPORT OF THE DIRECTORS

Annual Caps Table:

Lease agreement	Annual Cap for the year ending 31 December		
	2014	2015	2016
	\$ million	\$ million	\$ million
Annual rental (including management fee) (Note)	126	126	126

Note:

The annual caps are determined by reference to (i) the agreed monthly rental (including management fee) of the Jai Alai Palace as set out in the lease agreement; and (ii) a buffer of 5% on the monthly rental (including management fee) for other unexpected charges incidental to the transactions contemplated under the lease agreement.

Under Chapter 14A of the Listing Rules, the above transactions constitute continuing connected transactions of the Group and require disclosure in the annual report of the Company.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged Deloitte Touche Tohmatsu (the "Auditor"), the auditor of the Company, to review the Group's continuing connected transactions in accordance with Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants.

The Auditor has issued a review report to the Board and confirmed that for the year 2012:

- (1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;
- (2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
- (3) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (4) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in previous announcements dated 30 December 2010, 19 June 2011 and 24 June 2011 made by the Company in respect of each of the disclosed continuing connected transactions.

The Independent Non-executive Directors have reviewed these transactions and the report of the Auditor and confirmed that the continuing connected transactions have been entered into:

- (a) in the ordinary and usual course of business of the Company;
- (b) either on normal commercial terms or, on terms no less favourable to the Company than the terms available to and from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

REPORT OF THE DIRECTORS

At a meeting of the Audit Committee held on 27 February 2013, all the Independent Non-executive Directors reviewed and confirmed compliance with an agreement between SJM and STDM dated 18 June 2008 regarding the honouring and borrowing of STDM chips for the purpose of SJM's casino gaming operations. During the year ended 31 December 2012, the net amount received and receivable on reimbursement of STDM chips in circulation amounted to \$2.2 million.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Dr. Ho has beneficial interests in Melco International Development Limited ("Melco") which, through its interest in Melco Crown Entertainment Limited, is also engaged in the casino gaming business in Macau. As at 31 December 2012, he was one of the beneficiaries of a discretionary trust which exercised the conversion rights attaching to the convertible loan notes issued by Melco to it in September 2012 which resulted in 298,982,187 new Shares of Melco, representing approximately 19.5% of the enlarged issued share capital of Melco, being issued to it. Dr. Ho is also a beneficial owner of 342 shares of Melco.

Dr. Ho is not a member of the board of directors of Melco, nor has he exercised, and is not able to exercise any influence on the daily financial and operating policies of Melco or the sub-concessionaire, Melco Crown Gaming (Macau) Limited.

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

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, interests and short positions of each Director and the Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, are as follows:

REPORT OF THE DIRECTORS

I. Interests in Shares, underlying Shares and debentures of the Company

Name of director	Capacity	Long/short position	No. of Shares held	No. of underlying Shares held	Approximate percentage of issued share capital
So Shu Fai	Beneficial owner	Long position	128,327,922	—	(Note 2) 2.31%
	Beneficial owner	Long position	—	35,000,000	0.63%
			128,327,922	35,000,000	2.94%
Ng Chi Sing	Beneficial owner	Long position	96,452,922	—	1.74%
	Beneficial owner	Long position	—	32,000,000	0.58%
			96,452,922	32,000,000	2.32%
Rui José da Cunha	Beneficial owner	Long position	18,107,500	—	0.33%
	Beneficial owner	Long position	—	3,000,000	0.05%
			18,107,500	3,000,000	0.38%
Leong On Kei, Angela	Beneficial owner	Long position	427,950,000	—	7.71%
	Beneficial owner	Long position	—	30,000,000	0.54%
			427,950,000	30,000,000	8.25%
Shum Hong Kuen, David	Beneficial owner	Long position	—	6,000,000	0.11%
Fok Tsun Ting, Timothy	Beneficial owner	Long position	—	6,000,000	0.11%
Cheng Yu Tung	Beneficial owner	Long position	2,000,000	—	0.04%
	Beneficial owner	Long position	—	3,000,000	0.05%
			2,000,000	3,000,000	0.09%
Chau Tak Hay	Beneficial owner	Long position	—	500,000	0.01%
Lan Hong Tsung, David	Beneficial owner	Long position	—	1,000,000	0.02%
Shek Lai Him, Abraham	Beneficial owner	Long position	—	1,000,000	0.02%
Tse Hau Yin	Beneficial owner	Long position	—	1,000,000	0.02%

REPORT OF THE DIRECTORS

II. Interests in shares, underlying shares and debentures of associated corporations

Sociedade de Turismo e Diversões de Macau, S.A.

Name of director	Capacity	Long/short position	No. of shares held			Approximate percentage of issued share capital
			Ordinary	Privileged	Total	
Ho Hung Sun, Stanley	Beneficial owner	Long position	—	100	100	0.12%
Leong On Kei, Angela	Beneficial owner	Long position	637	5,215	5,852	6.86%
Shum Hong Kuen, David	Beneficial owner	Long position	1,004	—	1,004	1.18%

Sociedade de Jogos de Macau, S.A.

Name of director	Capacity	Long/short position	No. of shares held (Type B Shares)	Approximate percentage of issued share capital

Notes:

1. These represent the interests in underlying Shares in respect of share options granted by the Company, the details of which are stated in section "Share Option Scheme" above.
2. The percentage has been calculated based on 5,547,844,293 Shares in issue as at 31 December 2012.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, so far as was known to any Director, as of 31 December 2012, none of the Directors or the Chief Executive Officer had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2012, details of substantial Shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

Name of substantial Shareholder	Capacity	Long/short position	No. of Shares held	No. of underlying Shares held	Approximate percentage of issued share capital
Sociedade de Turismo e Diversões de Macau, S.A.	Beneficial owner	Long position	3,049,987,500	—	(Note 3) 54.98%
Leong On Kei, Angela	Beneficial owner	Long position	427,950,000	—	7.71%
	Beneficial owner	Long position	—	30,000,000 (Note 1)	0.54%
			427,950,000	30,000,000	8.25%
The Capital Group Companies, Inc.	Interest of controlled corporations	Long position	402,719,000 (Note 2)	—	7.26%
Capital Research and Management Company	Investment manager	Long position	280,606,000 (Note 2)	—	5.06%

Notes:

1. These represent the interests in underlying Shares in respect of share options granted by the Company, the details of which are stated in section "Share Option Scheme" above.
2. The Capital Group Companies, Inc. is the parent company of Capital Research and Management Company ("CRMC") and Capital Group International, Inc. ("CGII"). CGII is the parent company of Capital Guardian Trust Company ("CGTC"), Capital International, Inc. ("CII"), Capital International Limited ("CIL") and Capital International Sarl ("CIS"). CRMC, CGTC, CII, CIL and CIS altogether directly held 402,719,000 Shares in aggregate as recorded in the Company's register required to be kept under Section 336 of the SFO as at 31 December 2012.
3. The percentage has been calculated based on 5,547,844,293 Shares in issue as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, the Company had not been notified by any persons (other than a Director or the Chief Executive Officer or their respective associate(s)) of any interest or short position in Shares and underlying Shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the usual course of business are set out in note 50 to the Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards. The related party transactions referred in note 50(b) to 50(j) and 50(m) constitute continuing connected transactions and connected transactions, as defined under the Listing Rules.

NON-COMPETITION UNDERTAKINGS BY STDM AND DR. HO

Pursuant to deeds of non-competition undertakings (the “Non-Competition Undertakings”) dated 18 June 2008, STDM and Dr. Ho have respectively undertaken with the Company that for the period in which the Shares are listed on the Stock Exchange and, variously, STDM remains the controlling Shareholder and Dr. Ho remains as a Director, that neither STDM nor Dr. Ho will compete with the operation of casino gaming businesses of SJM in Macau (apart from maintaining their interests in Melco) and, furthermore, they will not increase their respective interests in Melco. STDM has also undertaken with SJM that if it becomes aware of any venue in Macau that is suitable for casino or slot machine operations, it will notify the Company of such opportunity and Dr. Ho has undertaken that if he becomes aware of any business opportunity which directly or indirectly competes, or may lead to competition with the casino gaming business of SJM in Macau, he will notify the Company of such opportunity and has also agreed to procure that such business opportunity is first offered to the Group upon terms which are fair and reasonable. It is provided in Dr Ho’s Non-Competition Undertaking that if there is any disagreement between Dr. Ho and the Company as to whether any activity or business or proposed activity or business of Dr. Ho or any of his associates directly or indirectly competes or may lead to competition with the casino gaming business of SJM, the matter will be determined by the independent Board whose decision will be final and binding.

At a meeting of the Audit Committee held on 27 February 2013, all the Independent Non-executive Directors reviewed the confirmations from Dr. Ho and STDM in respect of the Non-Competition Undertakings which were submitted to the Company in January 2013 and confirmed compliance with the Non-Competition Undertakings provided by Dr. Ho and STDM.

INDEMNITY ON LITIGATION CLAIMS EXISTING AT TIME OF COMPANY’S GLOBAL OFFERING IN 2008

At the meeting of the Audit Committee held on 27 February 2013, all the Independent Non-executive Directors reviewed the position regarding the indemnity provided by STDM–Investments Limited (“STDM–I”) (liquidated on 15 August 2011) dated 20 November 2007 in respect of certain litigation ongoing at the time of the Company’s global offering of Shares (the “STDM–I Surety”). STDM has informed the Company in August 2011 that the board of directors of STDM was satisfied that upon liquidation of STDM–I, the Company (as beneficiary of the STDM–I Surety) would remain entitled to claim directly against STDM under the same terms and conditions as originally established in the STDM–I Surety. Based on information provided by the law firms in Macau and Hong Kong who had conducted of the relevant legal proceedings, the Independent Non-executive Directors confirmed that there was currently no material claim against STDM in respect of the ongoing litigation.

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the year ended 31 December 2012.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 54 to 72 of this annual report.

AUDITOR

H.C. Watt & Company Limited resigned as one of the joint auditors of the Company with effect from 19 September 2012 and Deloitte Touche Tohmatsu, the remaining joint auditor of the Company, continues to act as the auditor of the Company.

It is proposed to put forward to Shareholders for consideration of passing an ordinary resolution at the 2013 AGM to re-appoint Deloitte Touche Tohmatsu as auditor of the Company until the conclusion of the next annual general meeting.

REVIEW BY AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2012 have been reviewed by the Audit Committee of the Company.

By order of the Board of Directors

SJM Holdings Limited

So Shu Fai

Executive Director and Chief Executive Officer

Hong Kong, 27 February 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

SJM Holdings Limited (the “Company”) is committed to the establishment of good corporate governance practices and procedures and its management team has strived to uphold the highest standards of corporate governance and transparency. The Company was named by *Euromoney* Magazine as the Best Managed Company in Asia – Gaming in their “Best Managed and Governed Companies – Asia Poll 2013”.

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has revised and renamed the Code on Corporate Governance Practices (the “Former CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) to the Corporate Governance Code (the “New CG Code”) effective from 1 April 2012.

The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Former CG Code and the New CG Code.

During the year ended 31 December 2012, the Company has complied with the respective provisions of the Former CG Code and the New CG Code for the relevant periods in which they are in force, except for the deviation from the following code provisions under the New CG Code:

A.6.5: Dr. Ho Hung Sun, Stanley and Dato’ Dr. Cheng Yu Tung had not participated in continuous professional development provided by the Company due to their health reasons.

A.6.7: Mr. Chau Tak Hay, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 10 May 2012 (the “2012 AGM”) as he was absent from Hong Kong on that day. Mr. Shek Lai Him, Abraham, an independent non-executive director of the Company and Dato’ Dr. Cheng Yu Tung, a non-executive director of the Company, were unable to attend the 2012 AGM due to prior business commitments.

E.1.2: Due to health reasons, Dr. Ho Hung Sun, Stanley was absent from the 2012 AGM.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Model Code”) as its own code of conduct regarding securities transactions by directors of the Company (the “Directors”). Having made specific enquiry, the Company confirms that all Directors have complied with the required standards as stated in the Model Code for the year 2012. The Board has formalised in writing guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the Company. Relevant employees include any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, possesses inside information in relation to the Company or its securities.

BOARD COMPOSITION

The Company is governed by the Board which is responsible for directing and supervising its affairs and overseeing the business, strategic direction and performance of the Company and its subsidiaries (collectively the “Group”). Execution of the Board’s decisions and daily operations are delegated to the management. The functions reserved to the Board and those delegated to management have been formalised in writing. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

CORPORATE GOVERNANCE REPORT

The Board has a balance of skills and experience appropriate for the requirements of the business of the Group. During the year and up to the date of this report, the Board composition is as follows:

The Board (including corporate governance functions) (Total no. of directors: 12 (Note 1))		
Executive Directors	Non-executive Director	Independent Non-executive Directors
Dr. Ho Hung Sun, Stanley (Chairman) Dr. So Shu Fai (Chief Executive Officer) Mr. Ng Chi Sing (Chief Operating Officer) Mr. Rui José da Cunha Ms. Leong On Kei, Angela Mr. Shum Hong Kuen, David Mr. Fok Tsun Ting, Timothy	Dato' Dr. Cheng Yu Tung	Mr. Chau Tak Hay Mr. Lan Hong Tsung, David Mr. Shek Lai Him, Abraham Mr. Tse Hau Yin (Note 3)
Total number: 7 % to total directors: 58.3%	Total number: 1 % to total directors: 8.3%	Total number: 4 (Note 2) % to total directors: 33.4% (Note 4)
Notes:		
1. Maximum number of directors: 12 (the article of association of the Company (the "Article") 82)		
2. Minimum number of Independent Non-executive Directors: 3 (Listing Rule 3.10(1))		
3. Independent Non-executive Director having accounting expertise (Listing Rule 3.10(2))		
4. Independent Non-executive Directors represent 1/3 of the Board (Listing Rule 3.10A)		

The Board includes a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) and one third of the Directors are Independent Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Directors and their brief biographical details are set out on pages 27 to 31 of this annual report.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are segregated and not performed by the same individual. The Chairman is responsible for the formulation of the Group's overall business development policies while the Chief Executive Officer is responsible for the overall management of the Group's business. The division of responsibilities between the Chairman and the Chief Executive Officer has been clearly established and set out in writing.

During the year, the Chairman has met with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

The Chairman has delegated his responsibility in respect of ensuring that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner to Dr. So Shu Fai, Executive Director and Chief Executive Officer. Dr. So has also been delegated to be primarily responsible for drawing up and approving the agenda for each board meeting taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda. In addition, Dr. So, representing the Chairman, takes primary responsibility for ensuring that good corporate governance practices and procedures are established.

Dr. So, on behalf of the Chairman, also encourages all Directors to make a full and active contribution to the Board's affairs and takes the lead to ensure that it acts in the best interests of the Company. He promotes a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors. Dr. So encourages Directors with different views to voice their concerns, allows sufficient time for discussion of issues and ensures that Board decisions fairly reflect Board consensus.

As a principal contact person for the Company's investor relations functions, Dr. So has already ensured that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.

BUSINESS RELATIONSHIP BETWEEN DIRECTORS AND CONTROLLING SHAREHOLDER

Mr. Rui José da Cunha is the founder and senior partner in the Macau law firm, C&C Advogados, which provides legal services to Dr. Ho Hung Sun, Stanley, a Director, and Sociedade de Turismo e Diversões de Macau, S.A., the controlling shareholder of the Company, on normal commercial terms.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to the Articles, the Board has the power to appoint any person as a Director either to fill a causal vacancy or as an addition to the Board. The power to appoint any person as a Director is subject to election by shareholders of the Company (the "Shareholders") at the first general meeting after his/her appointment. No person (other than a retiring Director) shall be appointed or re-appointed at any general meeting unless:

- (i) he is recommended by the Board; or
- (ii) not earlier than the day after the dispatch of the notice of the general meeting and not later than seven days prior to the date appointed for the general meeting there has been left at the Company's registered office for the time being a letter, signed by at least two Shareholders (other than the person to be proposed) entitled to vote at the general meeting together holding not less than ten percent. of the entire issued share capital of the Company, notice of his intention to propose a resolution for the appointment or reappointment of that person and a notice executed by that person of his willingness to be appointed or re-appointed.

The Nomination Committee is responsible for considering the suitability of individuals to act as a Director and to make recommendations to the Board on appointment or re-appointment of Directors.

CORPORATE GOVERNANCE REPORT

The Articles specify that at each annual general meeting of the Company one third of the Directors shall retire but shall be eligible for re-election. In determining which Directors shall retire, the Board will make sure that every Director, including those appointed for a specific term, should be subject to rotation at least once every three years. At the forthcoming annual general meeting of the Company to be held on Friday, 31 May 2013 (the "2013 AGM"), the following Directors will retire from the Board by rotation pursuant to Article 97:

Executive Director	:	Mr. Ng Chi Sing
Non-executive Director	:	Dato' Dr. Cheng Yu Tung
Independent Non-executive Directors	:	Mr. Chau Tak Hay Mr. Lan Hong Tsung, David

Except Dato' Dr. Cheng Yu Tung who for the reason of retirement does not offer himself for re-election, Mr. Ng Chi Sing, Mr. Chau Tak Hay and Mr. Lan Hong Tsung, David, all being eligible, offer themselves for re-election at the 2013 AGM.

In addition, pursuant to Article 98(a), the Board recommends that Dr. Cheng Kar Shun, Henry be elected as a Non-executive Director of the Company, subject to the approval of the Shareholders at the 2013 AGM.

The brief biographical details of the retiring Directors who offered themselves for re-election and of Dr. Cheng Kar Shun, Henry and the recommendation of the Board for their re-election and election are set out in a circular to be dated 12 April 2013 for despatch to Shareholders.

NON-EXECUTIVE DIRECTORS

Each of the Non-executive Directors (including Independent Non-executive Directors) has entered into a letter of appointment with the Company for a term of three years which shall either:

- (i) end in any event on (a) the date of the third annual general meeting after the first election as a Non-executive Director or Independent Non-executive Director (as the case may be) by Shareholders at the annual general meeting; or (b) the date on which a Non-executive Director or Independent Non-executive Director (as the case may be) shall retire by rotation, whichever is the earlier, or;
- (ii) subject to retirement by rotation in accordance with the Articles as amended from time to time and the requirements of the Listing Rules.

The Non-executive Directors (including Independent Non-executive Directors) are highly skilled professionals with expertise and experience in the field of financial management, business development or strategies related to the Group's business. They bring independent judgment to bear on issues of strategy, policy and performance, accountability, resources, key appointments and standards of conduct, and enable the Board to maintain high standards of compliance with financial and other mandatory reporting requirements and provide adequate checks and balances to safeguard the interests of Shareholders and the Company.

Independent Non-executive Directors and other Non-executive Directors have given a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They have given the Board and any Board committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. Save for Mr. Chau Tak Hay, an Independent Non-executive Director, who was unable to attend the 2012 AGM as he was absent from Hong Kong on that day, Mr. Shek Lai Him, Abraham, an Independent Non-executive Director, and Dato' Dr. Cheng Yu Tung, a Non-executive Director, were unable to attend the 2012 AGM due to prior business commitments, all other Independent Non-executive Directors have attended the 2012 AGM.

CORPORATE GOVERNANCE REPORT

Other roles of Non-executive Directors (including Independent Non-executive Directors) include:

- (i) taking the lead where potential conflicts of interest arise;
- (ii) serving on the Audit, Remuneration, Nomination and other Board Committees; and
- (iii) scrutinizing the Company's performance in achieving corporate goals and objectives, and monitoring reporting of performance.

All Independent Non-executive Directors of the Company have met all of the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received from each of them an annual written confirmation of his independence and considers each of them to be independent.

The Independent Non-executive Directors have been expressly identified as such in all corporate communications that disclose the names of Directors. The Company has been maintaining the number of Independent Non-Executive Directors at one-third of the number of the Board members and has ensured that the Board contains an Independent Non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise.

RESPONSIBILITIES OF DIRECTORS

The management of the Company updates the Directors on their duties and responsibilities as well as the conduct, business activities and development of the Group. It supplies the Directors and Board committees with adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The management provides sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval. It also supplies additional information than is volunteered by it upon any request and enquiry by the Directors. Timely updates on changes in laws and compliance issues relevant to the Group and appropriate information on the Group's business and activities are provided to our Directors. The Board and each Director has separate and independent access to the senior management, Group Legal Counsel and Company Secretary, whenever necessary, for any information relevant to the Group they may require in discharging their duties.

Given the essential unitary nature of the Board, the Non-executive Directors have the same duties of care and skill and fiduciary duties as the Executive Directors. Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. The Directors have disclosed the identity of the public companies or organisations and an indication of the time involved to the Board and the Board has confirmed that the Directors have spent sufficient time performing their duties in the Company. The Board has established a written procedure to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

The Company has formal letters of appointment for Directors setting out the key terms and conditions of their appointment. The Company has arranged Directors' and Officers' liability insurance in respect of any legal action against Directors.

CORPORATE GOVERNANCE REPORT

PRACTICE AND CONDUCT OF MEETINGS

Notices of Board meetings are usually served to all Directors before the meeting in accordance with the Articles. Notice of at least 14 days is given for regular Board meetings to give all Directors an opportunity to attend. Reasonable notice is given for all other Board meetings. Board meeting agenda and papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner and at least three days or such other agreed period before the intended date of a Board or Board Committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions.

All Directors are entitled to have access to Board papers and related materials, prepared in such form and quality sufficient to enable the Board to make an informed decision on matters placed before it. Queries raised by the Directors will be responded promptly and fully, if possible. All Directors have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

The Company Secretary is responsible for keeping minutes of all Board meetings and Board Committee meetings which record in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views expressed, if any. Draft minutes are circulated to Directors for comment within a reasonable time after each meeting and the final version is open for their inspection and/or is sent to them for records, if necessary.

According to current Board practice, any material transaction that involves a conflict of interests for a substantial Shareholder or a Director will be dealt with by a physical Board meeting rather than a written resolution at which the Independent Non-executive Directors who, and whose associates, have no material interest in the transaction should be present at that Board meeting. The interested Director is required to abstain from voting and will not be counted in the quorum, except as permitted under the Articles. In addition, he shall be physically absent from the venue of the meeting during the time the relevant contract, arrangement or matter is being discussed and voted on by the other Directors.

BOARD AND BOARD COMMITTEE MEETINGS

The Board schedules regular Board meetings in advance, at least four times a year at approximately quarterly intervals, to give Directors the opportunity to participate actively, either in person or through electronic means of communication. Directors are consulted for their views regarding inclusion of specific matters in the agenda for regular Board meetings and the draft agenda is circulated to Directors for their comments. Special Board meetings are convened as and when needed. All Directors are properly briefed on issues arising at Board meetings. Together with the Audit, Nomination and Remuneration Committee meetings, there is an effective framework for the Board and Board Committees to perform their work and discharge their duties.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2012, five Board meetings were held. Details of individual Directors' attendance at the Board meetings, the Board committee meetings and the 2012 AGM held in the year are set out in the following table:

Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meeting	2012 AGM
<i>Executive Directors</i>					
Dr. Ho Hung Sun, Stanley	2/5 (Note)	N/A	N/A	N/A	0/1
Dr. So Shu Fai	5/5	N/A	1/1	1/1	1/1
Mr. Ng Chi Sing	5/5	N/A	N/A	N/A	1/1
Mr. Rui José da Cunha	4/5	N/A	N/A	N/A	1/1
Ms. Leong On Kei, Angela	5/5 (Note)	N/A	1/1	1/1	1/1
Mr. Shum Hong Kuen, David	5/5 (Note)	N/A	N/A	1/1	1/1
Mr. Fok Tsun Ting, Timothy	4/5	N/A	N/A	N/A	1/1
<i>Non-executive Director</i>					
Dato' Dr. Cheng Yu Tung	2/5 (Note)	N/A	N/A	N/A	0/1
<i>Independent Non-executive Directors</i>					
Mr. Chau Tak Hay	5/5	6/6	1/1	1/1	0/1
Mr. Lan Hong Tsung, David	5/5	6/6	1/1	1/1	1/1
Mr. Shek Lai Him, Abraham	5/5	6/6	1/1	1/1	0/1
Mr. Tse Hau Yin	5/5	6/6	1/1	1/1	1/1

N/A: not applicable

Note:

According to Article 96(K) of the Articles, a Director who has a material interest in respect of certain types of contractual arrangements cannot vote or be counted in the quorum at the meeting and, he/she shall also be physically absent from the venue of the meeting during the time the relevant contract, arrangement or matter is being discussed and voted on by the other Directors. Dr. Ho Hung Sun, Stanley, Ms. Leong On Kei, Angela, Mr. Shum Hong Kuen, David and Dato' Dr. Cheng Yu Tung were interested in certain continuing connected transactions. Dr. Ho, Mr. Shum and Dato' Dr. Cheng had to be physically absent themselves from voting on the related Board resolutions at one of the Board meetings whilst Ms. Leong had to be physically absent herself from voting on the related Board resolutions at three Board meetings held during the year.

Dr. Ho was unable to attend most meetings during the period of his hospitalisation and recovery. Dato' Dr. Cheng was unable to attend meetings since late 2012 due to his hospitalisation.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD – BOARD COMMITTEES

The Board has proper delegation of its powers and has established three Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee, in accordance with the requirements under the Listing Rules, with specific written terms of reference that deal clearly with their authority and duties, to oversee particular aspects of the Group's affairs. The Board may establish other Board Committee(s) when necessary in accordance with the Articles. The Board has established an additional standing Board Committee, namely the Executive Committee. The primary purpose of the Executive Committee is to oversee the implementation of the Company's strategic objectives and the business operations of the Group. In addition, the Board has established ad hoc Board committees with specific terms of reference during the year for the purpose of dealing with transactions of the Company. The terms of references of all Board committees have required them to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

Sufficient resources, including the advice of the external auditors and other independent professional advisers, are provided to the Board Committees to enable them to discharge their duties.

AUDIT COMMITTEE

The composition of the Audit Committee is as follows:

Audit Committee (established in June 2008)	
Committee members <i>Independent Non-executive Directors</i> Mr. Tse Hau Yin (Committee Chairman) Mr. Chau Tak Hay Mr. Shek Lai Him, Abraham Mr. Lan Hong Tsung, David Total number of members: 4 % of total Independent Non-executive Directors: 100%	Committee secretary Ms. Kwok Shuk Chong (Company Secretary who keeps the minutes of the Audit Committee)
Minimum number of meetings per year: 2 In attendance: representatives from auditor, Chief Financial Officer, Finance and Accounts Managers, Internal Audit Manager, Anti-Money Laundering Compliance Officer, Group Legal Counsel, the Company Secretary and/or other external professionals	

The Audit Committee is accountable to the Board and its primary role and function is to assist the Board to monitor the Company's financial reporting process, to recommend the appointment of auditor, to consider the nature and scope of audit reviews, to ensure that effective internal control and risk management systems are in place and to review the Group's interim and annual financial statements. The Audit Committee has access to, and maintains an independent communication with, the external auditors and the management, including the Group's internal audit department, to ensure effective information exchange on all relevant financial and accounting matters.

CORPORATE GOVERNANCE REPORT

Under the terms of reference of the Audit Committee, it is specified that any former partner of the Company's existing auditing firm is prohibited from acting as a member of the Audit Committee for a period of one year commencing on the date of his ceasing:

- (i) to be a partner of the firm; or
- (ii) to have any financial interest in the firm,

whichever is the later.

The Audit Committee will report to the Board the major items covered by the committee at each meeting, draw the Board's attention to important issues that the Board should be aware of, identify any matters in respect of which it considers that action or improvement is needed and make appropriate recommendations.

In 2012, the Audit Committee held six meetings and its principal work performed is set out in the table below. In general, it has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including the review of the interim and annual results of the Company. Details of attendance of each Audit Committee member, on a named basis, at each Audit Committee meeting held during the year are set out in the table on page 60.

The principal work performed by the Audit Committee during 2012

Review of annual financial statements of the Group for the year ended 31 December 2011, interim financial statements of the Group for the six months ended 30 June 2012, and quarterly unaudited key performance indicators of the Group for the three months ended 31 March 2012 and 30 September 2012 respectively, with recommendations to the Board for approval

Acceptance of the resignation of H.C. Watt & Company Limited as one of the joint auditors of the Company with effect from 19 September 2012 and recommendation to the Board that Deloitte Touche Tohmatsu (the "Auditor"), the remaining joint auditor, shall continue to act as the auditor of the Company

Review and approval of the engagement letter of the Auditor, the nature and scope of the audit, their reporting obligations and their work plan

Review of the Auditor's performance and recommendation to the Board for re-appointment of the Auditor

Appointment of the Auditor to perform a physical count of chips and review the relevant report

Review of internal controls and risk management systems of the Group and assessment of their effectiveness

Review of internal audit reports, the major findings and recommendations from internal audit

Review of the external consultant's report on the effectiveness of the Group's system of internal controls

Review and approval of internal audit work plan for 2013

Review and report on connected transactions (including continuing connected transactions) carried out during the year

Review of the template for monthly update (including financial information and business operations) of the Group, with recommendations to the Board for approval

Review of the arrangements for the Company's employees to use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, with recommendations to the Board for approval

Review of the Terms of Reference of the Audit Committee and made proposed amendments to the Board

CORPORATE GOVERNANCE REPORT

The terms of reference of the Audit Committee, which conform to the code provision requirements of the New CG Code, are available on the Stock Exchange's website and the Company's website.

REMUNERATION COMMITTEE

The composition of the Remuneration Committee is as follows:

Remuneration Committee (established in June 2008)	
Committee members	Committee secretary
<i>Executive Directors</i> Dr. So Shu Fai (resigned as Committee Chairman on 1 April 2012 and remained as a member) Ms. Leong On Kei, Angela	Ms. Kwok Shuk Chong (Company Secretary who keeps the minutes of the Remuneration Committee)
<i>Independent Non-executive Directors</i> Mr. Chau Tak Hay Mr. Lan Hong Tsung, David (Committee Chairman) (original member appointed as Committee Chairman on 1 April 2012) Mr. Shek Lai Him, Abraham Mr. Tse Hau Yin	
Total number of members: 6 % of total Independent Non-executive Directors: 67%	
Minimum number of meetings per year: 1 In attendance: representatives from senior management, Group Legal Counsel and/or the Company Secretary	

The principal role and function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management, to review their specific remuneration packages and terms of service contracts, and to review and approve performance-based remuneration, and assess the performance of the Executive Directors.

The Remuneration Committee reports to the Board the major items covered by the committee at each meeting, reviews the policy for the remuneration of Directors based on the performance of Executive Directors, adopts the model set out in Code Provision B.1.2(c)(i) of the New CG Code to approve the remuneration packages and service contracts of Executive Directors and senior management, makes recommendations on the remuneration packages and service contracts of Non-executive Directors (including Independent Non-executive Directors) and Board Committee members (including Audit Committee, Nomination Committee and Remuneration Committee) and other remuneration-related matters to the Board. The Remuneration Committee has the duty to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

CORPORATE GOVERNANCE REPORT

The terms of reference of the Remuneration Committee, which conform to the code provision requirements of the New CG Code, are available on the Stock Exchange's website and the Company's website.

In 2012, the Remuneration Committee held one meeting and its principal work performed is set out in the table below:

The principal work performed by the Remuneration Committee during 2012

Review of the remuneration of Executive Directors and senior management for 2012 and the discretionary bonus for 2011 based on their performance and the Company's policy and approved the same

Review of the remuneration of Non-executive Directors including Independent Non-executive Directors for 2012 and the discretionary bonus for 2011, with recommendations to the Board for approval

Review and approval of the letters of appointment for those Executive Directors who have not yet entered into such letter with the Company

Review of the letters of appointment for those retiring Independent Non-executive Directors who offered for re-election at the 2012 AGM, with recommendations to the Board for approval

Review of the Terms of Reference of the Remuneration Committee and made proposed amendments to the Board

In February 2013, the Remuneration Committee has reviewed and made recommendation to the Board on the remuneration of Dr. Cheng Kar Shun, Henry, who is recommended by the Board for election as a Non-executive Director at the 2013 AGM.

No individual Director has taken part in setting his or her own remuneration. Details of attendance of each Remuneration Committee member, on a named basis, at each Remuneration Committee meeting held during the year are set out in the table on page 60.

The Remuneration Committee consults the Chairman and/or Chief Executive Officer about proposals relating to remuneration of other Executive Directors and has access to professional advice if considered necessary.

The emoluments of Directors, including basic salary and performance bonus, are based on each Director's individual skill, work performed and involvement in the Group's affairs, the Company's performance and profitability, remuneration benchmarking in the industry and prevailing market conditions. At the annual general meeting of the Company held on 10 May 2012, a resolution was passed to authorise the Board to fix the Directors' remuneration. A resolution will be proposed at the 2013 AGM to obtain Shareholders' authorisation for the Board to fix Directors' remuneration.

The Executive Directors are also the senior management of the Company and their remuneration is disclosed in Note 11 to the Financial Statements. Retirement benefits schemes of the Group are set out in Note 49 to the Financial Statements.

NOMINATION COMMITTEE

The composition of the Nomination Committee is as follows:

Nomination Committee (established in June 2008)	
<p>Committee members</p> <p><i>Executive Directors</i> Dr. So Shu Fai (resigned as Committee Chairman on 1 April 2012 and remained as a member) Ms. Leong On Kei, Angela Mr. Shum Hong Kuen, David</p> <p><i>Independent Non-executive Directors</i> Mr. Chau Tak Hay (Committee Chairman) (original member appointed as Committee Chairman on 1 April 2012) Mr. Lan Hong Tsung, David Mr. Shek Lai Him, Abraham Mr. Tse Hau Yin</p> <p>Total number of members: 7 % of total Independent Non-executive Directors: 57%</p>	<p>Committee secretary</p> <p>Ms. Kwok Shuk Chong (Company Secretary who keeps the minutes of the Nomination Committee)</p>
<p>Minimum number of meetings per year: 1 In attendance: representatives from senior management, Group Legal Counsel and/or the Company Secretary</p>	

The Nomination Committee is accountable to the Board and its primary role and function is to review the structure, size and composition of the Board, to make recommendations to the Board on appointment or re-appointment of Directors and to assess the independence of Independent Non-executive Directors on an annual basis. It is mandated to nominate candidates to fill casual vacancies of the Board. In its nomination procedures, the Nomination Committee makes reference to criteria including reputation of candidates for integrity, accomplishment and experience, professional and educational background and commitment in respect of available time.

The terms of reference of the Nomination Committee, which conform to the code provision requirements of the New CG Code, are available on the Stock Exchange’s website and the Company’s website.

CORPORATE GOVERNANCE REPORT

In 2012, the Nomination Committee held one meeting and its principal work performed is set out in the table below:

The principal work performed by the Nomination Committee during 2012

Recommendation to the Board that Mr. Chau Tak Hay shall be appointed as the Chairman of the Nomination Committee and Mr. Lan Hong Tsung, David shall be appointed as the Chairman of the Remuneration Committee in replacement of Dr. So Shu Fai for the purposes of compliance with Code Provision A.5.1 of the New CG Code

Review of the Terms of Reference of the Nomination Committee and made proposed amendments to the Board

The reasons why the Board believes the retiring Directors should be re-elected are set out in the circular of the Company dated 12 April 2013 accompanying the notice of the 2013 AGM.

In February 2013, the Nomination Committee has reviewed the biography of Dr. Cheng Kar Shun, Henry and made recommendation to the Board for election as a Non-executive Director at the 2013 AGM having taken into consideration that Dr. Cheng can provide valuable contributions to and give important views on the businesses of the Group. He has extensive experience in real estate, hotels, retail and jewellery businesses and he has participation in businesses in Macau. Dr. Cheng meets the qualification requirements to serve as director as stipulated in relevant laws, regulations and the Articles. The brief biographical details of Dr. Cheng are set out in Appendix II to the circular of the Company dated 12 April 2013 to be despatched together with this annual report.

Details of attendance of each Nomination Committee member, on a named basis, at Nomination Committee meetings held during the year are set out in the table on page 60.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in Code Provision D.3.1 of the New CG code. The principal role and function of the Board in relation to corporate governance is to develop and review the Company's policies and practices on corporate governance, to review and monitor the training and continuous professional development of Directors and senior management, to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, to develop, review and monitor the code of conduct applicable to employee and Directors, and to review the Company's compliance with the New CG Code and disclosure in the Corporate Governance Report.

In addition to the latest terms of reference of each of the Audit Committee, the Remuneration Committee and the Nomination Committee, the up-to-date consolidated version of the Company's memorandum and articles of association and the updated list of the Company's directors identifying their role and functions have been posted on the Stock Exchange's website and the Company's website, whilst procedures for shareholders to propose a person for election as a Director has been posted on the Company's website.

CORPORATE GOVERNANCE REPORT

In 2012, the principal work performed by the Board in relation to corporate governance functions is set out in the table below:

The principal work performed by the Board in relation to corporate governance functions during 2012

Review and approval of the template for monthly update (including financial information and business operations) of the Group

Review and approval of the arrangements for the Company's employees to use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters

Review and approval of the Corporate Governance Policy, Legal and Regulatory Compliance Policy, Shareholders' Communication Policy and Code of Conduct applicable to employee and Directors of the Company

Review and approval of the amendments to terms of reference of Audit Committee, Remuneration Committee and Nomination Committee of the Company

Review of the Company's compliance with the New CG Code and disclosure in the Corporate Governance Report

DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant legal and other regulatory requirements and the business and governance policies of the Company.

A Guidelines for Directors prepared by the Company, including "A Guide on Directors' Duties" issued by the Companies Registry, the extracted information relating to the Hong Kong Companies Ordinance, the Securities and Futures Ordinance, the Listing Rules, and the Company's constitutional documents, have been sent to all Directors for their information during the year.

There are also arrangements in place for providing continuing briefing and professional development training to Directors whenever necessary. During the year, the Company has organised a seminar on "Disclosure of Inside Information, Corporate Governance Code and Rule Amendment 2012, and Environmental, Social and Governance Reporting" presented by an external law firm to the Directors.

CORPORATE GOVERNANCE REPORT

The Directors informed the Company that they had received the following training and continuous professional development during the period from 1 January 2012 to 31 December 2012:

Directors	Reading materials	Attend seminars/ briefings
<i>Executive Directors</i>		
Dr. Ho Hung Sun, Stanley	—	—
Dr. So Shu Fai	✓	✓
Mr. Ng Chi Sing	✓	—
Mr. Rui José da Cunha	✓	—
Ms. Leong On Kei, Angela	✓	✓
Mr. Shum Hong Kuen, David	✓	✓
Mr. Fok Tsun Ting, Timothy	✓	✓
<i>Non-executive Director</i>		
Dato' Dr. Cheng Yu Tung	—	—
<i>Independent Non-executive Directors</i>		
Mr. Chau Tak Hay	✓	✓
Mr. Lan Hong Tsung, David	✓	✓
Mr. Shek Lai Him, Abraham	✓	✓
Mr. Tse Hau Yin	✓	✓

FINANCIAL REPORTING

The Board is accountable to the Shareholders and is committed to presenting comprehensive and timely information to the Shareholders on an assessment of the Company's performance, financial position and prospects. A separate statement containing a discussion and analysis of the Group's performance is included on pages 12 to 19 in this annual report.

Starting from the year 2010, the Company announced quarterly unaudited key performance indicators of the Group for the three months ended 31 March and 30 September respectively to enable the Shareholders, investors and the public to better appraise the position and business performance of the Group. Such financial information was prepared using the accounting policies applied to the Company's interim and annual financial statements.

DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the presentation of financial statements which give a true and fair view of the state of affairs of the Company and the Group and the results and cash flow for each financial period. In preparing the financial statements, the Directors have to ensure that appropriate accounting policies are adopted. The financial statements are prepared on a going concern basis.

The Board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports and other financial disclosures required under the Listing Rules, It should also do so for reports to regulators and information disclosed under statutory requirements.

CORPORATE GOVERNANCE REPORT

AUDITOR'S RESPONSIBILITY

The external Auditor of the Company is Deloitte Touche Tohmatsu. A statement by the Auditor about its reporting responsibilities is included in the Independent Auditor's Report on the Company's Financial Statements on pages 73 and 74.

In arriving at its opinion, the Auditor conducted a full scope audit without any restrictions and had access to individual Directors (including Audit Committee members) and management of the Company.

The Auditor was available at the annual general meeting of the Company to answer questions which Shareholders may have.

JOINT AUDITORS' REMUNERATION

The remuneration paid and payable to Deloitte Touche Tohmatsu, the existing Auditor of the Company, and H.C. Watt & Company Limited, the former joint auditor of the Company, and their respective associates in respect of statutory audit and non-audit services (with each significant non-audit service assignment listed out separately) provided to the Group in 2012 is set out below:

2012 Audit and Non-audit Services	2012 HK\$ million
2012 Annual audit	8.3
2012 Interim review	3.7
2012 Quarterly results review	0.6
Test counts of chips	0.1
Tax consultancy	0.9
Total:	13.6

INTERNAL CONTROLS

The Board is responsible for maintaining a sound and effective system of internal controls and for reviewing its effectiveness. The Board at least annually conducts a review of the effectiveness of internal controls. The system is designed to (i) safeguard the interests of Shareholders; (ii) safeguard assets of the Company and its subsidiaries against misappropriation; (iii) ensure proper maintenance of accounting records for the provision of reliable financial information; and (iv) ensure compliance with relevant legislation and regulations. Such system of internal controls is aimed at limiting the risks of the Company to an acceptable level but cannot, of itself, eliminate all risks.

The key procedures established by the Board to provide effective internal controls include (i) a defined management structure with clear lines of responsibility and limits of authority; (ii) an appropriate organisational structure which adequately provides the necessary information flow for management decisions; (iii) proper budgetary and management accounting control to ensure efficient allocation of resources and to provide timely financial and operational performance indicators for managing business activities; (iv) effective financial reporting control to ensure the recording of complete, accurate and timely accounting and management information; and (v) review work conducted by the Audit Committee.

CORPORATE GOVERNANCE REPORT

The Board continues to review, through the Audit Committee, the effectiveness of the system of internal controls that includes financial, operational, compliance and risk management controls. The review process consists of (i) assessment of internal controls by internal audit department; (ii) compliance review of gaming regulations by compliance department; (iii) operational management's assurance of the maintenance of controls; (iv) control issues identified by external auditors during statutory audit; and (v) external consultant's review conducted on a periodic basis, of the effectiveness of the Group's system of internal controls in specific areas including compliance, procurement, information technology and anti-money laundering. The findings of these reviews were reported to the Audit Committee.

The Internal Audit Department ("Internal Audit") of Sociedade de Jogos de Macau, S.A. ("SJM"), a subsidiary of the Company, performs operational and compliance audits on a regular basis. The Gaming Inspection and Coordination Bureau in Macau also conducts compliance audits on Anti-money Laundering ("AML") and gaming related procedures on an annual basis.

The department head has many years of working experience in audit and financial management and is assisted by a team of internal auditors, who are university graduates with accounting degrees and on average have relevant internal audit experience of five years or more. The internal audit function provides independent assurance to the Board and executive management as to the adequacy and effectiveness of internal controls for the Group on an on-going basis. Internal Audit adopts a risk and control based audit methodology in designing the audit plan that is reviewed and approved by the Audit Committee.

During the year ended 31 December 2012, Internal Audit performed a review of the effectiveness of the internal control system of the Group's businesses with respect to business processes, practices and procedures, which covered all material controls, including financial, operational and compliance controls and risk management functions. Internal Audit was not aware of any significant defect or weakness of the internal control system that would have an adverse impact on the financial position or operations of the Group. Internal Audit conducts internal control and AML reviews and submits its reports to the Audit Committee quarterly with findings and recommendations on improvements. The Audit Committee is satisfied with the internal audit work performed and with the adequacy of resources and qualifications of staff within Internal Audit.

During the year, the Audit Committee and the Board has reviewed the findings report from Deloitte Touche Tohmatsu which was engaged in August 2011 to assess whether internal controls and procedures in certain areas are properly designed and implemented so as to address the Company's key risks. The scope included (i) corporate and general; (ii) casino operations; (iii) hotel and food & beverage operations; and (iv) AML. Appropriate measures for improvement based on the recommendations in the finding report have been adopted.

Looking forward, the Group aims to ensure that the profile of risk management controls is raised through an enhanced management reporting system and through increased training and guidance being provided to operational management on assessing risk and taking timely and appropriate measures to mitigate it.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Ms. Kwok Shuk Chong is a full-time employee of the Company with professional qualifications and extensive experience to discharge the functions of Company Secretary of the Company. She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She has more than 20 years of experience in company secretarial practices in professional firms, private and listed groups of companies. Ms. Kwok has taken no less than 15 hours of relevant professional training in 2012.

The Board is responsible for the approval of the selection, appointment or dismissal of the Company Secretary. The Company Secretary should have day-to-day knowledge of the Company's affairs. She reports to the Chief Executive Officer of the Company, and is responsible for advising the Board on governance matters and to facilitate induction and professional development for Directors. In addition, the Company Secretary shall ensure good information flow within the Board and that the Board policy and procedures are followed.

SHAREHOLDERS' RIGHTS

Pursuant to Article 50 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or in default may be convened by such requisitionists, as provided by section 113 of the Hong Kong Companies Ordinance. If at any time there are not within Hong Kong sufficient Directors capable of acting to form a quorum, any Director or any 2 Members who are entitled to attend and vote at a general meeting may convene an extraordinary general meeting in the same manner as nearly as possible as that in which a meeting may be convened by the Directors.

Section 113 of the Hong Kong Companies Ordinance stipulates that the Directors shall, on the requisition of Shareholders holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene an extraordinary general meeting of the Company. The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date. A meeting convened under this section by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.

Enquiries and suggestions from Shareholders or investors to the Board are welcomed by mail to the Company's registered office at Suites 3001–3006, 30th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong or via email to ir@sjmholdings.com for the attention of the Investor Relations Department. For putting forward proposals at any Shareholders' meeting, Shareholders are invited to send their proposals by mail to the Company's registered office or via email to comsec@sjmholdings.com.

The rights of Shareholders and the procedures for demanding a poll on resolutions at Shareholders' meeting are contained in the Company's Articles. The Listing Rules require that voting is by way of poll at all general meetings of the Company except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Any questions from shareholders regarding voting by way of poll will be answered after explanation of the procedures.

Poll results will be posted on the websites of the Company and of Hong Kong Exchanges and Clearing Limited.

CORPORATE GOVERNANCE REPORT

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. It is the Company's general practice that the Chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, their duly appointed delegates, who are members of the relevant committees, are available to answer questions at the annual general meeting of the Company. Due to health reasons, Dr. Ho Hung Sun, Stanley was absent from the 2012 AGM. Mr. Chau Tak Hay, the chairman of the Nomination Committee was unable to attend the 2012 AGM as he was absent from Hong Kong on that day. Mr. Chau appointed Mr. Tse Hau Yin as his delegate to answer questions at the 2012 AGM. At Shareholders' meeting, individual resolutions are proposed on each substantially separate issue, including the election of individual Directors.

Notices to shareholders are sent, in the case of annual general meetings, at least 20 clear business days before the meeting, and are sent at least 10 clear business days before in the case of all other general meetings.

INVESTOR RELATIONS

The Company recognises the importance of maintaining on-going and timely communications with Shareholders and the investment community to enable them to form their own judgment and to provide constructive feedback. The Board has adopted a Shareholders' Communication Policy for the Company during the year. The Company holds press conferences, analysts' briefings and investor meetings/calls after the announcement of its financial results, and regularly participates in investment forums and briefings hosted by investment banks. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development. Enquiries from investors are dealt with in an informative and timely manner. Enquiries and suggestions from Shareholders or investors are welcomed by mail to the Company's registered office at Suites 3001–3006, 30th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong or by email to ir@sjmholdings.com for the attention of the Investor Relations Department.

There was no change in the Articles during the year. The last Shareholders' meeting of the Company was an annual general meeting which was held at Golden Restaurant, Macau Jockey Club (HK) Club House, 1st Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong on Thursday, 10 May 2012 at 2:30 p.m. at which resolutions were duly passed in respect of major items such as the adoption of the audited financial statements and the reports of the Directors and the Joint Auditors of the Company for the year ended 31 December 2011, declaration of a final dividend and a special dividend, re-election of Directors and authorisation of the Board to fix the Directors' remuneration, re-appointment of Joint Auditors and authorisation of the Board to fix their remuneration and approval of the repurchase mandate for shares of the Company.

The important dates for the 2013 AGM and the proposed final dividend and special dividend are set out in page 10 of this annual report.

The Company's website at <http://www.sjmholdings.com> posts information and updates on the Company's business developments and operations, as well as press releases and financial information.

For and on behalf of the Board of Directors

SJM Holdings Limited

So Shu Fai

Executive Director and Chief Executive Officer

Hong Kong, 27 February 2013

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF SJM HOLDINGS LIMITED

澳門博彩控股有限公司

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of SJM Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 75 to 142, which comprise the consolidated and the Company's statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 February 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK\$ million	2011 HK\$ million
Gaming, hotel, catering and related services revenues		79,518.9	76,092.0
Gaming revenue	8	78,884.1	75,514.4
Special gaming tax, special levy and gaming premium		(30,353.7)	(29,071.1)
		48,530.4	46,443.3
Hotel, catering and related services income		634.8	577.6
Cost of sales and services on hotel, catering and related services		(276.6)	(246.0)
Other income		423.0	211.8
Marketing and promotional expenses		(34,757.4)	(34,090.7)
Operating and administrative expenses		(7,603.5)	(7,389.4)
Finance costs	9	(115.6)	(123.0)
Share of losses of an associate	20	(16.0)	(45.1)
Share of profits of a jointly controlled entity	21	7.5	7.3
Profit before taxation	10	6,826.6	5,345.8
Taxation	12	(74.9)	(35.0)
Profit for the year and total comprehensive income for the year		6,751.7	5,310.8
Profit for the year and total comprehensive income attributable to			
— owners of the Company		6,745.4	5,307.6
— non-controlling interests		6.3	3.2
		6,751.7	5,310.8
Earnings per share			
— Basic	14	HK121.8 cents	HK96.4 cents
— Diluted	14	HK120.9 cents	HK95.4 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK\$ million	2011 HK\$ million
Non-current assets			
Property and equipment	15	8,130.8	8,777.2
Land use rights	17	739.7	775.2
Intangible asset	18	26.9	33.2
Art works and diamonds	19	289.2	289.2
Interest in an associate	20	12.9	28.9
Interest in a jointly controlled entity	21	88.0	80.5
Available-for-sale investments in equity securities	22	480.0	5.5
Deposits made on acquisitions	23	1,195.0	153.0
Amount due from a fellow subsidiary	24	234.2	268.7
Amount due from an associate	25	40.8	40.8
Amount due from a jointly controlled entity	26	14.3	14.3
Amount due from an investee company	27	112.9	128.9
Pledged bank deposits	28	645.8	145.6
		12,010.5	10,741.0
Current assets			
Inventories		63.8	68.5
Trade and other receivables	29	1,706.8	1,318.0
Loan receivables	30	–	246.0
Amount due from ultimate holding company	31	0.8	0.3
Financial assets at fair value through profit or loss	32	84.3	48.9
Pledged bank deposits	28	1.3	26.3
Short-term bank deposits	33	11,494.5	6,011.1
Bank balances and cash		11,931.8	14,559.9
		25,283.3	22,279.0
Current liabilities			
Trade and other payables	34	14,558.6	11,338.8
Amount due to non-controlling interests of a subsidiary	37	22.9	324.0
Obligations under finance leases	38	26.2	25.4
Taxation payable		62.4	38.8
Current portion of long-term bank loans	39	237.9	3,072.0
		14,908.0	14,799.0
Net current assets		10,375.3	7,480.0
Total assets less current liabilities		22,385.8	18,221.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK\$ million	2011 HK\$ million
Non-current liabilities			
Obligations under finance leases	38	234.2	268.7
Long-term bank loans	39	1,490.6	—
Amount due to non-controlling interests of a subsidiary	37	698.3	690.8
Deferred taxation	41	48.7	14.9
		<u>2,471.8</u>	<u>974.4</u>
Net assets		<u>19,914.0</u>	<u>17,246.6</u>
Capital and reserves			
Share capital	42	5,547.8	5,522.1
Reserves		14,330.4	11,685.6
Equity attributable to owners of the Company		<u>19,878.2</u>	<u>17,207.7</u>
Non-controlling interests		35.8	38.9
Total equity		<u>19,914.0</u>	<u>17,246.6</u>

The consolidated financial statements on pages 75 to 142 were approved and authorised for issue by the Board of Directors on 27 February 2013 and are signed on its behalf by:

So Shu Fai
Director

Ng Chi Sing
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK\$ million	2011 HK\$ million
Non-current assets			
Property and equipment	15	4.9	1.5
Investments in subsidiaries	16	4,359.3	4,359.3
Deposits made on acquisitions	23	—	1.4
		4,364.2	4,362.2
Current assets			
Other receivables, deposits and prepayments		34.2	27.3
Amounts due from subsidiaries	35	650.5	512.0
Dividends receivable		5,825.2	4,854.4
Short-term bank deposits	33	6,455.5	5,272.8
Bank balances and cash		750.7	1,232.7
		13,716.1	11,899.2
Current liabilities			
Other payables and accruals		3.5	1.0
Amount due to a subsidiary	35	291.6	291.6
		295.1	292.6
Net current assets		13,421.0	11,606.6
Net assets		17,785.2	15,968.8
Capital and reserves			
Share capital	42	5,547.8	5,522.1
Reserves	44	12,237.4	10,446.7
Total equity		17,785.2	15,968.8

So Shu Fai
Director

Ng Chi Sing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital HK\$ million	Share premium HK\$ million	Share options reserve HK\$ million	Convertible bonds equity reserve HK\$ million	Retained profits HK\$ million	Attributable to owners of the Company HK\$ million	Non-controlling interests HK\$ million	Total HK\$ million
At 1 January 2011	5,454.5	3,456.8	66.4	50.2	4,109.8	13,137.7	37.7	13,175.4
Profit and total comprehensive income for the year	—	—	—	—	5,307.6	5,307.6	3.2	5,310.8
Exercise of share options	18.1	121.4	(39.4)	—	—	100.1	—	100.1
Conversion of convertible bonds	49.5	222.1	—	(50.2)	—	221.4	—	221.4
Transaction costs incurred in connection with the issue of shares	—	(0.2)	—	—	—	(0.2)	—	(0.2)
Recognition of equity-settled share-based payments	—	—	535.9	—	—	535.9	—	535.9
Arising from changes in cash flow estimates on amount due to non-controlling interests of a subsidiary	—	—	—	—	—	—	(2.0)	(2.0)
Dividends paid (note 13)	—	—	—	—	(2,094.8)	(2,094.8)	—	(2,094.8)
	67.6	343.3	496.5	(50.2)	(2,094.8)	(1,237.6)	(2.0)	(1,239.6)
At 31 December 2011	5,522.1	3,800.1	562.9	—	7,322.6	17,207.7	38.9	17,246.6
Profit and total comprehensive income for the year	—	—	—	—	6,745.4	6,745.4	6.3	6,751.7
Exercise of share options	25.7	94.0	(36.8)	—	—	82.9	—	82.9
Transaction costs incurred in connection with the issue of shares	—	(0.1)	—	—	—	(0.1)	—	(0.1)
Recognition of equity-settled share-based payments	—	—	0.2	—	—	0.2	—	0.2
Arising from changes in cash flow estimates on amount due to non-controlling interests of a subsidiary	—	—	—	—	—	—	(9.4)	(9.4)
Dividends paid (note 13)	—	—	—	—	(4,157.9)	(4,157.9)	—	(4,157.9)
	25.7	93.9	(36.6)	—	(4,157.9)	(4,074.9)	(9.4)	(4,084.3)
At 31 December 2012	5,547.8	3,894.0	526.3	—	9,910.1	19,878.2	35.8	19,914.0

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK\$ million	2011 HK\$ million
Operating activities		
Profit before taxation	6,826.6	5,345.8
Adjustments for:		
Interest income	(353.9)	(170.4)
Interest expenses	75.5	74.1
Imputed interest on amount due to non-controlling interests of a subsidiary	40.1	46.2
Imputed interest on convertible bonds	—	2.7
Dividend income	(9.9)	(23.7)
Non-cash donation	—	65.5
Share of losses of an associate	16.0	45.1
Share of profits of a jointly controlled entity	(7.5)	(7.3)
Amortisation of intangible asset	6.3	6.3
Depreciation of property and equipment	1,119.0	1,114.2
Loss on disposal and write-off of property and equipment	31.9	5.5
Gain on disposal of available-for-sale investments	(7.5)	—
Operating lease rentals in respect of land use rights	41.5	41.0
Write-off of art works	—	1.2
Allowance for doubtful debts	3.9	10.0
Change in fair value of financial assets at fair value through profit or loss	(35.4)	25.7
Share-based payments	0.2	535.9
Operating cash flows before movements in working capital	7,746.8	7,117.8
Decrease (increase) in inventories	4.7	(12.6)
Increase in trade and other receivables	(369.6)	(46.0)
Increase in trade and other payables	3,186.2	1,368.6
Cash from operations	10,568.1	8,427.8
Taxation paid	(17.5)	(20.1)
Net cash from operating activities	10,550.6	8,407.7

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK\$ million	2011 HK\$ million
Investing activities		
Interest received	331.6	148.3
Dividends received	9.9	5.3
Purchase of property and equipment	(382.7)	(421.1)
Proceeds from disposal of property and equipment	3.1	3.9
Purchase of land use rights	(6.0)	(11.3)
Purchase of available-for-sale investments	(480.0)	—
Proceeds from disposal of available-for-sale investments	13.0	—
Deposits paid for acquisitions	(1,092.5)	(136.8)
Repayment of loan receivables	246.0	—
Net (advances to) repayment from ultimate holding company	(0.5)	546.4
Advances to an associate	—	(20.8)
Repayment from a fellow subsidiary	33.7	33.9
Repayment from an investee company	16.0	15.3
Withdrawal of bank deposits	18,032.6	6,153.7
Placement of bank deposits	(23,516.0)	(7,128.1)
Withdrawal of pledged bank deposits	25.0	0.1
Placement of pledged bank deposits	(500.2)	—
Net cash used in investing activities	(7,267.0)	(811.2)
Financing activities		
Interest paid	(116.4)	(77.3)
Dividends paid	(4,157.9)	(2,094.8)
Proceeds from issue of shares	82.9	100.1
Transaction costs incurred in connection with the issue of shares	(0.1)	(0.2)
Repayment to a director	—	(29.1)
Repayment of obligations under finance leases	(33.7)	(33.9)
Bank loans raised	1,848.5	—
Repayment of bank loans	(3,192.0)	(1,040.0)
Repayment to non-controlling interests of a subsidiary	(343.0)	—
Net cash used in financing activities	(5,911.7)	(3,175.2)
Net (decrease) increase in cash and cash equivalents	(2,628.1)	4,421.3
Cash and cash equivalents at 1 January	14,559.9	10,138.6
Cash and cash equivalents at 31 December	11,931.8	14,559.9
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	11,931.8	14,559.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

SJM Holdings Limited (the "Company") is a public limited company incorporated in Hong Kong and acts as an investment holding company. The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its subsidiaries are principally engaged in the development and operation of casinos and related facilities in Macau Special Administrative Region, the People's Republic of China ("Macau SAR"). Its ultimate holding company is Sociedade de Turismo e Diversões de Macau, S.A. ("STDM"), a company established in Macau SAR. The address of registered office and principal place of business of the Company is disclosed in Corporate information of this report.

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

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Company and its subsidiaries (collectively referred as the "Group") have applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12
Amendments to HKFRS 7

Deferred tax: Recovery of underlying assets
Financial instruments: Disclosures – Transfers of financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 cycle ²
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities ²
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures ⁴
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities ³
HKFRS 9	Financial instruments ⁴
HKFRS 10	Consolidated financial statements ²
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosure of interests in other entities ²
HKFRS 13	Fair value measurement ²
Amendments to HKAS 1	Presentation of items of other comprehensive income ¹
HKAS 19 (as revised in 2011)	Employee benefits ²
HKAS 27 (as revised in 2011)	Separate financial statements ²
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures ²
Amendments to HKAS 32	Offsetting financial assets and financial liabilities ³
HK(IFRIC *) – INT 20	Stripping costs in the production phase of a surface mine ²

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

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2014.

⁴ Effective for annual periods beginning on or after 1 January 2015.

* IFRIC represents the IFRS Interpretations Committee.

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012

The “Annual improvements to HKFRSs 2009–2011 cycle” include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 “Property, plant and equipment” and the amendments to HKAS 32 “Financial instruments: Presentation”.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 “Income taxes”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Amendments to HKAS 32 Offsetting financial assets and financial liabilities and amendments to HKFRS 7 Disclosures – Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial instruments

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

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2012) and HKAS 28 (as revised in 2011).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures (Continued)

Key requirements of these five standards are described below:

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

HKFRS 11 replaces HKAS 31 "Interests in joint ventures" and HK (SIC)-INT 13 "Jointly controlled entities – Non-monetary contributions by venturers". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

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

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

The management of the Company anticipates that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment entities (Continued)

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted.

HKFRS 13 Fair value measurement

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

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

The management of the Company anticipates that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013.

Amendments to HKAS 1 Presentation of items of other comprehensive income

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

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

However, the application of HKFRS 9 will affect the classification and measurement of the Group's available-for-sale investments. The application of HKFRS 12 and HKFRS 13 may result in more extensive disclosures in the consolidated financial statements of the Group. Other than these, the management of the Company anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group and the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except that certain financial instruments are measured at fair values. The consolidated financial statements have also been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

3.1 Basis of consolidation

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein. Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3.2 Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at deemed cost plus additional capital contribution, less any identified impairment loss. The deemed cost represents the carrying amounts of consolidated net assets of the subsidiaries at the date on which they were transferred to the Company at the time of a group reorganisation in prior accounting periods.

3.3 Interest in an associate

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

The results and assets and liabilities of an associate is incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments are made to conform the associate's accounting policies to those of the Group. Under the equity method, investment in an associate is carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Interest in a joint venture

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

The results and assets and liabilities of a jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of a jointly controlled entity used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the jointly controlled entity's accounting policies to those of the Group. Under the equity method, investment in a jointly controlled entity is carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

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

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3.5 Revenue recognition

Gaming revenue represents the aggregate of gaming wins and losses and is recognised in the profit or loss when the stakes are received by the Group and the amounts are paid out to gaming patrons.

Revenue from hotel operations and related services is recognised when the services are provided.

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

Dividend income is recognised when the Group's right to receive payment has been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property and equipment

Property and equipment, including leasehold land (classified as finance leases) and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less accumulated depreciation and any accumulated impairment loss at the end of the reporting period.

For the leasehold land and buildings in Macau SAR, where the cost of land use right cannot be reliably separated from the cost of land and buildings, the cost of land and buildings is treated as finance lease and depreciated and amortised on a straight line basis over the remaining lease term of the land or estimated useful life of the buildings or remaining terms of the gaming concession, whichever is shorter.

The cost of other buildings in Macau SAR is depreciated over 25 years or 40 years using the straight line method, which represents the shorter of respective lease term or estimated useful life of buildings.

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective tenancy leases or 3 years, whichever is shorter or the remaining terms of the gaming concession or 10 years, whichever is applicable.

Depreciation is provided to write off the cost of other property and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Chips	25%
Furniture, fixtures and equipment	7.6%–50%
Gaming equipment	25%
Motor vehicles	20%
Vessel	10%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment.

3.8 Land use rights

Land use rights represent prepaid lease rentals under operating leases and are initially stated at cost. The cost of land use rights is charged to the profit or loss on a straight line basis over the lease term.

3.9 Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3.10 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

3.11 Art works and diamonds

Art works and diamonds are stated at cost less accumulated impairment loss.

Art works and diamonds are derecognised upon disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Inventories

Inventories, which mainly represent food and beverage held for sale, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3.13 Financial instruments

Financial assets and financial liabilities are recognised in the Group's and the Company's statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(a) Financial assets

The Group's financial assets are classified into one of the three categories, including loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

(i) *Effective interest method*

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

Income is recognised on an effective interest basis for debt instruments.

(ii) *Loans and receivables*

Loans and receivables (including bank deposits and balances, trade and other receivables, loan receivables, amounts due from subsidiaries/ultimate holding company/an associate/a jointly controlled entity/an investee company) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each of the reporting period subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any identified impairment losses.

(iii) *Financial assets at fair value through profit or loss*

A financial asset acquired principally for the purpose of selling in the near future is classified as held for trading. At the end of each of the reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(a) Financial assets (Continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

(v) Impairment of financial assets

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

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

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advances to gaming promoters, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the advances to gaming promoters are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(b) Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(i) *Effective interest method*

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

Interest expense is recognised on an effective interest basis.

(ii) *Financial liabilities*

Financial liabilities including trade and other payables, amounts due to a subsidiary/non-controlling interests of a subsidiary and bank loans are subsequently measured at amortised cost using the effective interest method.

(iii) *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

(c) *Derecognition*

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

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(d) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

3.14 Impairment losses on investments in subsidiaries, tangible and intangible assets

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

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

If the recoverable amount of an asset (or the cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

3.15 Taxation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Taxation (Continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3.16 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

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

3.17 Leases

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

(a) The Group as lessor

Amount due from a fellow subsidiary under finance leases is recorded as receivable at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

(b) The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Leases (Continued)

(b) The Group as lessee (Continued)

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's accounting policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease.

3.18 Share-based payment transactions – Equity-settled share-based payment transactions

(a) Share options granted to directors and employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

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

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

(b) Share options granted to other participants

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

3.19 Retirement benefits costs

Payments to defined contribution retirement benefits plans are recognised as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. KEY SOURCES OF ESTIMATION (Continued)

Allowance for doubtful debts

The Group grants pre-approved revolving credit lines and short-term temporary advances to its gaming promoters and patrons with good credit histories and financial track records. For the outstanding balances from inactive gaming promoters and patrons, an estimated allowance for doubtful accounts is maintained to reduce the Group's receivables to their recoverable amounts. The allowances are estimated based on credit reviews of the outstanding balances from gaming promoters and patrons and an evaluation of the amounts expected to be recovered with reference to relevant commissions accrued to, and deposits received from, the relevant gaming promoters or patrons at the end of the reporting period, the continuous business relationship, the commissions payable to the relevant gaming promoters or patrons subsequent to the end of the reporting period, the cheques and guarantees obtained and the financial background of the relevant gaming promoters or patrons. When the actual future cash flows from the settlement of the outstanding balances from gaming promoters or patrons are less than expected, a material impairment loss may arise and affect profit or loss in the period of change. As at 31 December 2012, the carrying amount of advances to and other receivables from gaming promoters and patrons are HK\$1,218.2 million (2011: HK\$977.5 million), net of allowance for doubtful debts of HK\$87.1 million (2011: HK\$88.1 million).

Estimates of timing and amount of repayment of amount due to non-controlling interests of a subsidiary

The Group's carrying amount of the amount due to non-controlling interests of a subsidiary as at 31 December 2012 was HK\$721.2 million (2011: HK\$1,014.8 million).

The amount is repayable only when the relevant subsidiary has surplus funds which require significant estimates. Surplus fund represents cash available in the relevant subsidiary after estimated payments of all operating expenses and payables including but not limited to bank loans and third party loans which are due for repayment together with the accrued interest. As such, the carrying amount of the amount due to non-controlling interests of a subsidiary and the deemed contribution by non-controlling interests may be adjusted to reflect the revised estimated cash flows when the Group revises its estimates of the surplus funds and consequently the timing and amount of repayment to the non-controlling interests, and may affect the amount of imputed interest to be recognised in profit or loss over the expected life of the amount due to non-controlling interests of a subsidiary.

Estimated impairment of interests in jointly controlled entity and associate

In determining whether there is an impairment loss, the Group takes into consideration the estimation of future cash flows to be generated by the jointly controlled entity and associate. The amount of the impairment loss is measured as the difference between the carrying amount of the interests in jointly controlled entity and associate and the share of the present value of estimated future cash flows expected to be generated by the jointly controlled entity and associate. As at 31 December 2012, the interest in a jointly controlled entity and interest in an associate is HK\$88.0 million (2011: HK\$80.5 million) and HK\$12.9 million (2011: HK\$28.9 million) respectively. Included in the cost of investment in a jointly controlled entity is goodwill of HK\$34.3 million (2011: HK\$34.3 million). Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. CAPITAL RISK MANAGEMENT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. CAPITAL RISK MANAGEMENT (Continued)

The capital structure of the Group consists of bank loans, amount due to non-controlling interests of a subsidiary, and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in these consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, as well as raising bank borrowings and issuing new debt or the redeeming of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

The Group

Financial instruments are fundamental to the Group's daily operations. The risks associated with financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(b) Categories of financial instruments

	The Group		The Company	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Financial assets				
Loans and receivables (including cash and cash equivalents)	26,070.9	22,665.9	13,714.8	11,897.6
Financial assets at fair value through profit or loss	84.3	48.9	—	—
Available-for-sale financial assets	480.0	5.5	—	—
	<u>26,635.2</u>	<u>22,720.3</u>	<u>13,714.8</u>	<u>11,897.6</u>
Financial liabilities				
Amortised cost	13,373.4	12,363.7	295.1	292.6
Obligations under finance leases	260.4	294.1	—	—
	<u>13,633.8</u>	<u>12,657.8</u>	<u>295.1</u>	<u>292.6</u>

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3.

(c) Credit risk management

As at the end of the reporting period, the Group's and the Company's maximum exposure to credit risk which cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group and the Company is arising from:

- the carrying amount of the respective recognised financial assets as stated in the Group's and Company's statements of financial position; and
- the amount of financial guarantee obligations and contingent liabilities disclosed in notes 36 and 48 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk management (Continued)

The Group

The Group has concentration of credit risk as 81% (2011: 86%) of the advances and receivables are due from the Group's five largest gaming promoters. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual advances and receivables from gaming promoters at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group also considers the relevant commissions accrued to, and deposits received from, the relevant gaming promoters at the end of each of the reporting period, the continuous business relationship, the commissions payable to the relevant gaming promoters subsequent to the end of the reporting period, the cheques and guarantees obtained and the financial background of the relevant gaming promoters to ascertain the recoverability of the advances to and receivables from gaming promoters. As a result, the directors of the Company consider that the Group's exposure to credit risk on these advances and receivables is significantly reduced.

In addition, the management considers that there is no significant credit risk on the receivables from the fellow subsidiary, ultimate holding company, an associate, a jointly controlled entity, an investee company as well as those arising from financial guarantees given to banks in respect of credit facilities granted to the investee companies and an associate (note 48) given their strong financial background and good creditability.

The credit risk for bank deposits and bank balances exposure is considered minimal as such amounts are placed in banks in Macau SAR and Hong Kong having good reputation.

Other than concentration of credit risk on advances to and receivables from gaming promoters, amounts due from ultimate holding company/a fellow subsidiary/an associate/a jointly controlled entity/an investee company and liquid funds which are deposited with several banks with high credit ratings (2011: loan receivables, amount due from ultimate holding company/a fellow subsidiary/an associate/a jointly controlled entity/an investee company and liquid funds), the Group does not have any other significant concentration of credit risk.

The Company

The management considers that there is no significant credit risk on receivables from subsidiaries given their strong financial background and good creditability. The Company has concentration of credit risk as 86% (2011: 80%) of the amounts due from subsidiaries are due from two subsidiaries.

The credit risk for bank deposits and bank balances exposure is considered minimal as such amounts are placed in banks in Hong Kong and Macau SAR with good reputation.

(d) Interest rate risk management

The Group

The Group is exposed to cash flow interest rate risk in relation to its bank balances, bank loans, amount due from a fellow subsidiary and obligations under finance leases (2011: bank balances, bank loans, amount due from a fellow subsidiary, obligations under finance leases, loan receivables with variable rate). The Group is also exposed to fair value interest rate risk in relation to its fixed-rate bank deposits, pledged bank deposits, short-term bank deposits and fixed-rate bank loans. The Group currently does not have a policy on hedging of interest rate risks. However, the management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

(d) Interest rate risk management (Continued)

The Group (Continued)

The Group's exposure to interest rate risk on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from bank loans.

The sensitivity analyses below have been determined based on the exposure to interest rates for bank loans, bank balances, amount due from a fellow subsidiary and obligations under finance leases (2011: bank loans, bank balances, amount due from a fellow subsidiary, obligations under finance leases and loan receivables). The analyses were prepared assuming these balances outstanding at the end of the reporting period were outstanding for the whole year. 50 basis points (2011: 50 basis points) increase represents management's assessment of the reasonably possible change in interest rates. The management does not anticipate a decrease in interest rate in the next financial year having regard to the trends in HIBOR and global economic environment. Accordingly, sensitivity analysis on a decrease in interest rates is not presented.

If interest rates on bank loans, bank balances, amount due from a fellow subsidiary, obligations under finance leases and loan receivables had been 50 basis points (2011: 50 basis points) higher and all other variables were held constant, the potential effect on profit for the year:

	2012 HK\$ million	2011 HK\$ million
Increase in profit for the year	41.6	50.2

The Company

The Company is exposed to cash flow interest rate risk in relation to bank balances and exposed to fair value interest rate risk in relation to bank deposits.

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances. The analyses were prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. 50 basis points (2011: 50 basis points) increase represents management's assessment of the reasonably possible change in interest rates. Due to low prevailing interest rate in bank balances, the management does not anticipate a further decline in bank interest rate and therefore, sensitivity analysis on a decrease in interest rates is not presented.

If interest rates on bank balances had been 50 basis points (2011: 50 basis points) higher and all other variables were held constant, the potential effect on the Company's profit for the year is as follows:

	2012 HK\$ million	2011 HK\$ million
Increase in profit for the year	3.8	6.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

(e) Price risk management

The Group

The Group is exposed to equity price risk on the investment in equity securities operating in the entertainment and hotel industry sector and quoted on the Stock Exchange. The Group currently does not have a policy to hedge such risk. For financial assets at fair value through profit or loss, the management monitors market price exposure and will consider hedging significant market price exposure should the need arise. For available-for-sale investments in equity securities which are currently carried at cost as fair value cannot be reliably measured, the directors of the Company would closely monitor the Group's price risk on such available-for-sale investments and its fair value once it becomes determinable.

The sensitivity analyses below have been determined based on the exposure to equity price risk on the listed equity securities at the end of the reporting period. If the market bid price on the listed equity securities had been 10% (2011: 10%) higher, the potential effect on profit for the year is as follows. An opposite impact of the same magnitude would have resulted if it had been 10% (2011: 10%) lower:

	2012 HK\$ million	2011 HK\$ million
Increase in profit for the year	8.4	4.9

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk and price risk as the year end exposure does not reflect the exposure during the year.

(f) Liquidity risk management

The Group and The Company

The directors of the Company consider that the Group's holding of bank balances and cash, bank deposits, together with net cash flow from operating activities and committed credit facilities, can provide adequate sources of funding to enable the Group to meet in full its financial obligations due for the foreseeable future and manage its liquidity position. In addition, the management of the Group expects to fund the remaining estimated construction costs and commitments of its development projects in Macau SAR through a proper balance between internal generated funds and credit facilities secured by the projects' assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

(f) Liquidity risk management (Continued)

The Group and The Company (Continued)

The following table details the Group's remaining contractual maturities of financial liabilities that are exposed to liquidity risk based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group could be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount of interest payment is estimated based on the interest rate at the end of the reporting period.

	Weighted average effective interest rate	On demand HK\$ million	Not more than 3 months HK\$ million	Over 3 months but not more than 6 months HK\$ million	Over 6 months but not more than 1 year HK\$ million	Over 1 year HK\$ million	Total undiscounted cash flow HK\$ million	Carrying amount HK\$ million
The Group								
At 31 December 2012								
Trade payables	—	—	2,187.0	665.1	12.3	—	2,864.4	2,864.4
Chips liabilities	—	6,587.2	—	—	—	—	6,587.2	6,587.2
Other payables	—	—	907.4	321.0	243.7	—	1,472.1	1,472.1
Amount due to non-controlling interests of a subsidiary	4.44%	—	—	—	24.5	856.4	880.9	721.2
Obligations under finance leases	2.31%	—	6.6	8.3	16.7	251.4	283.0	260.4
Bank loans (note 6(f)(i))	3.21%	—	73.9	73.6	145.9	1,620.3	1,913.7	1,728.5
Financial guarantee obligations (note 6(f)(ii))	—	87.3	—	—	—	—	87.3	—
		<u>6,674.5</u>	<u>3,174.9</u>	<u>1,068.0</u>	<u>443.1</u>	<u>2,728.1</u>	<u>14,088.6</u>	<u>13,633.8</u>
At 31 December 2011								
Trade payables	—	—	2,038.5	138.3	7.4	—	2,184.2	2,184.2
Chips liabilities	—	4,991.4	—	—	—	—	4,991.4	4,991.4
Other payables	—	—	582.7	417.4	101.2	—	1,101.3	1,101.3
Amount due to non-controlling interests of a subsidiary	4.80%	—	—	—	343.0	880.9	1,223.9	1,014.8
Obligations under finance leases	2.63%	—	6.7	8.5	17.2	295.9	328.3	294.1
Bank loans (note 6(f)(i))	2.03%	—	267.4	714.1	2,131.3	—	3,112.8	3,072.0
Financial guarantee obligations (note 6(f)(ii))	—	92.6	—	—	—	—	92.6	—
Undrawn revolving loan facility (note 30)	—	4.0	—	—	—	—	4.0	—
		<u>5,088.0</u>	<u>2,895.3</u>	<u>1,278.3</u>	<u>2,600.1</u>	<u>1,176.8</u>	<u>13,038.5</u>	<u>12,657.8</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

(f) Liquidity risk management (Continued) The Group and The Company (Continued)

	Weighted average effective interest rate	On demand HK\$ million	Not more than 3 months HK\$ million	Over 3 months but not more than 6 months HK\$ million	Over 6 months but not more than 1 year HK\$ million	Over 1 year HK\$ million	Total undiscounted cash flow HK\$ million	Carrying amount HK\$ million
The Company								
At 31 December 2012								
Trade and other payables	—	—	3.1	0.4	—	—	3.5	3.5
Amount due to a subsidiary	—	291.6	—	—	—	—	291.6	291.6
		<u>291.6</u>	<u>3.1</u>	<u>0.4</u>	<u>—</u>	<u>—</u>	<u>295.1</u>	<u>295.1</u>
At 31 December 2011								
Trade and other payables	—	—	1.0	—	—	—	1.0	1.0
Amount due to a subsidiary	—	291.6	—	—	—	—	291.6	291.6
		<u>291.6</u>	<u>1.0</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>292.6</u>	<u>292.6</u>

Notes:

- (i) The amounts included above for variable rate bank loans are subject to change if variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.
- (ii) The amounts included in the undiscounted cash flow above for financial guarantee contracts are the maximum amounts the Group and the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. However, based on expectations at the end of the reporting period, the Group and the Company consider that it is likely that no amount will be payable under the arrangement. This estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

(g) Fair value of financial instruments The Group and The Company

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

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets is determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of financial guarantee contracts is determined using models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

(g) Fair value of financial instruments (Continued)

The Group and The Company (Continued)

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

(h) Fair value measurements recognised in the consolidated statement of financial position

The Group

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

	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
At 31 December 2012				
Financial assets at fair value through profit or loss	84.3	—	—	84.3
At 31 December 2011				
Financial assets at fair value through profit or loss	48.9	—	—	48.9

Notes:

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

7. OPERATING SEGMENTS

The Group is currently organised into two operating segments – gaming operations, and hotel and catering operations. Principal activities of these two operating segments are as follows:

- (i) Gaming operations — operation of casinos and related facilities
- (ii) Hotel and catering operations — operation of hotel, catering and related services

For gaming operations, the chief operating decision maker (the “CODM”), which is a group of executive directors of the Company, regularly analyses gaming revenue in terms of VIP gaming operations, mass market table gaming operations, slot machine and other gaming operations. The CODM reviews the operating results of gaming operations as a whole. For hotel and catering operations, the CODM regularly reviews the performance on the basis of individual hotel. For segment reporting under HKFRS 8, financial information of the Group’s hotels with similar economic characteristics has been aggregated into a single operating segment named “hotel and catering operations”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. OPERATING SEGMENTS (Continued)

Segment information about these businesses is presented below:

(a) An analysis of the Group's revenue and results by operating segments is as follows:

	Segment revenue		Segment results	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Gaming operations	78,884.1	75,514.4	7,083.3	5,795.9
Hotel and catering operations				
— external sales	634.8	577.6		
— inter-segment sales	284.4	239.5		
	919.2	817.1	(360.1)	(366.0)
Eliminations	(284.4)	(239.5)		
	634.8	577.6		
	79,518.9	76,092.0		
			6,723.2	5,429.9
Reconciliation from segment results to profit before taxation				
Unallocated corporate income			194.7	112.6
Unallocated corporate expenses			(118.2)	(133.2)
Change in fair value of financial assets at fair value through profit or loss			35.4	(25.7)
Share of losses of an associate			(16.0)	(45.1)
Share of profits of a jointly controlled entity			7.5	7.3
Profit before taxation			6,826.6	5,345.8

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by each segment without allocation of corporate expenses, certain interest income, change in fair value of financial assets at fair value through profit or loss, share of results of associate/jointly controlled entity and income tax expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at a price mutually agreed by both parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. OPERATING SEGMENTS (Continued)

(b) An analysis of the Group's financial position by operating segments is as follows:

	2012 HK\$ million	2011 HK\$ million
ASSETS		
Segment assets		
— gaming operations	21,535.5	18,774.3
— hotel and catering operations	6,816.8	6,487.1
	28,352.3	25,261.4
Interest in an associate	12.9	28.9
Interest in a jointly controlled entity	88.0	80.5
Unallocated bank deposits, bank balances and cash	7,297.9	6,521.6
Unallocated assets	1,542.7	1,127.6
Group's total	37,293.8	33,020.0
LIABILITIES		
Bank loans		
— gaming operations	934.6	1,375.0
— hotel and catering operations	793.9	1,697.0
	1,728.5	3,072.0
Other segment liabilities		
— gaming operations	14,395.9	11,142.9
— hotel and catering operations	238.1	220.3
	14,634.0	11,363.2
Total segment liabilities	16,362.5	14,435.2
Unallocated liabilities	1,017.3	1,338.2
Group's total	17,379.8	15,773.4

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

- (i) unallocated assets include mainly available-for-sale investments in equity securities, amounts due from a fellow subsidiary/an associate/a jointly controlled entity/an investee company, art works and diamonds, loan receivables and financial assets at fair value through profit or loss.
- (ii) unallocated liabilities include mainly amount due to non-controlling interests of a subsidiary and obligations under finance leases.
- (iii) all assets are allocated to operating segments, other than interest in associate/jointly controlled entity, unallocated bank deposits, bank balances and cash and assets not attributable to respective segments.
- (iv) all liabilities are allocated to operating segments, other than liabilities not attributable to respective segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. OPERATING SEGMENTS (Continued)

(c) Other segment information of the Group

	2012 HK\$ million	2011 HK\$ million
Additions to non-current assets (other than financial instruments)		
— gaming operations	582.0	402.8
— hotel and catering operations	45.4	135.6
— corporate level	978.6	24.5
	<u>1,606.0</u>	<u>562.9</u>
Depreciation and amortisation		
— gaming operations	613.5	601.8
— hotel and catering operations	508.6	516.5
— corporate level	3.2	2.2
	<u>1,125.3</u>	<u>1,120.5</u>
Loss on disposal and write-off of property and equipment		
— gaming operations	19.0	4.7
— hotel and catering operations	12.9	0.8
	<u>31.9</u>	<u>5.5</u>
Share-based payments		
— gaming operations	0.2	510.5
— corporate level	—	25.4
	<u>0.2</u>	<u>535.9</u>
Finance costs		
— gaming operations	30.6	29.2
— hotel and catering operations	38.0	35.1
— corporate level	47.0	58.7
	<u>115.6</u>	<u>123.0</u>
Interest income		
— gaming operations	166.2	87.0
— hotel and catering operations	10.6	0.4
— corporate level	177.1	83.0
	<u>353.9</u>	<u>170.4</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. OPERATING SEGMENTS (Continued)

(c) Other segment information of the Group (Continued)

All revenues during each of the reporting periods are derived from customers in Macau SAR and almost all of the non-current assets, other than financial instruments, of the Group are located in Macau SAR. None of the customers of the Group contributed more than 10% of the total revenues during each of the reporting periods.

8. GAMING REVENUE

	2012 HK\$ million	2011 HK\$ million
Gaming revenue from		
— VIP gaming operations	53,281.5	52,778.8
— mass market table gaming operations	24,104.0	21,280.7
— slot machine and other gaming operations	1,498.6	1,454.9
	<u>78,884.1</u>	<u>75,514.4</u>

9. FINANCE COSTS

	2012 HK\$ million	2011 HK\$ million
Interest on		
— bank borrowings wholly repayable within five years	68.6	64.1
— finance leases repayable within five years	2.8	3.0
— finance leases not wholly repayable within five years	4.1	7.0
Imputed interest on amount due to non-controlling interests of a subsidiary	40.1	46.2
Imputed interest on convertible bonds	—	2.7
	<u>115.6</u>	<u>123.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. PROFIT BEFORE TAXATION

	2012 HK\$ million	2011 HK\$ million
<i>Profit before taxation has been arrived at after charging:</i>		
Directors' remuneration (note 11)	81.8	590.5
Retirement benefits scheme contributions for other staff	85.6	74.1
Less: Forfeited contributions	(21.2)	(28.3)
	64.4	45.8
Share-based payments to other staff	0.2	5.6
Other staff costs	4,534.1	3,800.3
	4,534.3	3,805.9
	4,680.5	4,442.2
Auditor's remuneration		
— audit services	8.3	8.7
— non-audit services	5.3	9.3
	13.6	18.0
Operating lease rentals in respect of		
— land use rights	44.0	43.5
— rented premises	363.2	313.4
	407.2	356.9
Allowance for doubtful debts	3.9	10.0
Amortisation of intangible asset (included in operating and administrative expenses)	6.3	6.3
Depreciation of property and equipment	1,119.0	1,114.2
Loss on disposal and write-off of property and equipment	31.9	5.5
Loss on fair value changes on financial assets at fair value through profit or loss	—	25.7
Write-off of art works	—	1.2
<i>and after crediting to other income:</i>		
Dividend income	9.9	23.7
Gain on fair value changes on financial assets at fair value through profit or loss	35.4	—
Gain on disposal of available-for-sale investments	7.5	—
Interest income from		
— a fellow subsidiary	6.9	9.8
— bank deposits	343.4	153.8
— loan receivables	3.6	6.8
	353.9	170.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of directors during the year are analysed as follows:

	2012				2011				
	Fees HK\$ million	Salaries and other benefits HK\$ million	Discretionary bonus HK\$ million	Total HK\$ million	Fees HK\$ million	Salaries and other benefits HK\$ million	Discretionary bonus HK\$ million	Share-based payments HK\$ million	Total HK\$ million
Executive directors									
Dr. Ho Hung Sun, Stanley ("Dr. Ho")	24.3	—	4.0	28.3	24.3	—	—	22.6	46.9
Dr. So Shu Fai (Chief Executive Officer)	10.9	—	3.3	14.2	8.4	—	1.2	158.6	168.2
Mr. Ng Chi Sing	9.5	—	2.9	12.4	7.3	—	1.1	145.0	153.4
Mr. Rui José da Cunha	2.7	—	0.7	3.4	1.7	—	0.2	13.6	15.5
Ms. Leong On Kei, Angela	8.0	0.8	2.7	11.5	5.4	0.8	0.9	136.0	143.1
Mr. Shum Hong Kuen, David	1.1	—	0.2	1.3	0.9	—	—	13.6	14.5
Mr. Fok Tsun Ting, Timothy	0.4	—	0.1	0.5	0.3	—	—	16.3	16.6
Non-executive director									
Dato' Dr. Cheng Yu Tung	6.2	—	1.0	7.2	6.0	—	—	15.4	21.4
Independent non-executive directors									
Mr. Tse Hau Yin	0.5	0.8	0.2	1.5	0.3	0.5	—	2.3	3.1
Mr. Shek Lai Him, Abraham	0.4	—	0.1	0.5	0.3	—	—	2.3	2.6
Mr. Chau Tak Hay	0.4	—	0.1	0.5	0.3	—	—	2.3	2.6
Mr. Lan Hong Tsung, David	0.4	—	0.1	0.5	0.3	—	—	2.3	2.6
	64.8	1.6	15.4	81.8	55.5	1.3	3.4	530.3	590.5

Executive directors are also senior management of the Group.

The five highest paid individuals included four (2011: five) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining highest paid individual in 2012 were as follows:

	2012 HK\$ million	2011 HK\$ million
Employee		
— salaries and allowances	10.6	—
— share-based payments	0.2	—
	10.8	—

No emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office in both years. None of the directors has waived any emoluments in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. TAXATION

	2012 HK\$ million	2011 HK\$ million
Current year taxation	41.1	17.5
Underprovision in prior year	—	2.6
	<u>41.1</u>	<u>20.1</u>
Deferred taxation	33.8	14.9
	<u>74.9</u>	<u>35.0</u>

No provision for Macau SAR Complementary Tax ("CT") on gaming related income is made for a subsidiary of the Company, Sociedade de Jogos de Macau, S.A. ("SJM"). Pursuant to the approval notice issued by Macau SAR government dated 8 December 2007, SJM has been exempted from CT for income generated from gaming operations for the years from 2007 to 2011. This exemption has been further extended for the years from 2012 to 2016 pursuant to an approval notice from Macau SAR government dated 23 November 2011.

In addition, pursuant to the approval letters dated 2 December 2008 and 10 August 2012 issued by the Finance Services Bureau of the Macau SAR government, SJM's shareholders were obligated to pay a dividend tax of MOP18.0 million (equivalent to HK\$17.5 million) and MOP42.3 million (equivalent to HK\$41.1 million) for dividend distribution by SJM (the "Special Tax") for each of the years from 2007 to 2011 and from 2012 to 2016, respectively. During the year, the Company, as a shareholder of SJM, was obligated to pay HK\$41.1 million (2011: HK\$17.5 million).

Regarding the other subsidiaries, CT is calculated at the maximum progressive rate of 12% on the estimated assessable profit for the year.

No provision for Hong Kong Profits Tax has been made as the Group's profit neither arises in, nor is derived from, Hong Kong.

The charge for the year is reconciled to profit before taxation as follows:

	2012 HK\$ million	%	2011 HK\$ million	%
Profit before taxation	<u>6,826.6</u>		<u>5,345.8</u>	
Tax at the applicable income tax rate	819.2	12.0	641.5	12.0
Effect of tax exemption granted to the Group	(844.1)	(12.4)	(687.9)	(12.9)
Effect of share of results of an associate and a jointly controlled entity	1.0	—	4.5	0.1
Effect of income that is not taxable in determining taxable profits	(22.1)	(0.3)	(4.1)	(0.1)
Effect of expenses that are not deductible in determining taxable profits	24.1	0.4	25.4	0.5
Effect of tax loss not recognised	82.6	1.2	40.3	0.8
Utilisation of tax losses previously not recognised	(26.9)	(0.4)	(4.8)	(0.1)
Special Tax	41.1	0.6	17.5	0.3
Underprovision in prior year	—	—	2.6	—
Tax charge and effective tax rate for the year	<u>74.9</u>	<u>1.1</u>	<u>35.0</u>	<u>0.6</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. DIVIDENDS

	2012 HK\$ million	2011 HK\$ million
2010 final dividend of HK30 cents per ordinary share paid	—	1,653.4
2011 interim dividend of HK8 cents per ordinary share paid	—	441.4
2011 final dividend of HK43 cents per ordinary share paid	2,383.7	—
2011 special dividend of HK22 cents per ordinary share paid	1,219.6	—
2012 interim dividend of HK10 cents per ordinary share paid	554.6	—
	<u>4,157.9</u>	<u>2,094.8</u>

A final dividend of HK50 cents per ordinary share and a special dividend of HK30 cents per ordinary share, totalling HK\$4,438.3 million, is proposed by the directors of the Company at a board meeting held on 27 February 2013, which is subject to approval by the shareholders of the Company in the forthcoming annual general meeting and is calculated on the basis of 5,547,844,293 ordinary shares in issue at the date of this report.

14. EARNINGS PER SHARE

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

Earnings

	2012 HK\$ million	2011 HK\$ million
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	6,745.4	5,307.6
Effect of dilutive potential ordinary shares — imputed interest on convertible bonds	—	2.7
Earnings for the purpose of diluted earnings per share	<u>6,745.4</u>	<u>5,310.3</u>

Number of shares

	2012	2011
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,538,603,924	5,505,065,288
Effect of dilutive potential ordinary shares on — share options	39,918,931	53,335,481
— conversion of convertible bonds	—	8,240,144
	<u>39,918,931</u>	<u>61,575,625</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>5,578,522,855</u>	<u>5,566,640,913</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. PROPERTY AND EQUIPMENT

	Leasehold land and buildings HK\$ million	Chips HK\$ million	Furniture, fixtures and equipment HK\$ million	Gaming equipment HK\$ million	Leasehold improvements HK\$ million	Motor vehicles HK\$ million	Vessel HK\$ million	Total HK\$ million
The Group								
COST								
At 1 January 2011	4,866.7	387.7	5,046.2	638.4	2,647.6	15.5	13.7	13,615.8
Additions	22.5	23.3	199.8	46.7	119.6	2.9	—	414.8
Disposals/write-off	—	—	(31.6)	(12.7)	(30.1)	—	—	(74.4)
At 31 December 2011	4,889.2	411.0	5,214.4	672.4	2,737.1	18.4	13.7	13,956.2
Additions	10.3	14.5	176.0	35.4	262.6	8.7	—	507.5
Disposals/write-off	—	—	(53.5)	(65.2)	(74.0)	—	—	(192.7)
At 31 December 2012	4,899.5	425.5	5,336.9	642.6	2,925.7	27.1	13.7	14,271.0
DEPRECIATION								
At 1 January 2011	561.7	344.7	1,682.7	495.4	1,026.0	8.3	11.0	4,129.8
Provided for the year	234.1	25.5	516.7	80.6	253.0	2.9	1.4	1,114.2
Eliminated on disposals/write-off	—	—	(24.6)	(12.7)	(27.7)	—	—	(65.0)
At 31 December 2011	795.8	370.2	2,174.8	563.3	1,251.3	11.2	12.4	5,179.0
Provided for the year	235.1	24.8	510.7	55.8	287.6	3.7	1.3	1,119.0
Eliminated on disposals/write-off	—	—	(42.5)	(65.0)	(50.3)	—	—	(157.8)
At 31 December 2012	1,030.9	395.0	2,643.0	554.1	1,488.6	14.9	13.7	6,140.2
CARRYING VALUES								
At 31 December 2012	3,868.6	30.5	2,693.9	88.5	1,437.1	12.2	—	8,130.8
At 31 December 2011	4,093.4	40.8	3,039.6	109.1	1,485.8	7.2	1.3	8,777.2

At the end of the reporting period, the Group's buildings in Macau SAR were erected on land which is held under medium-term land use right.

Also, at 31 December 2012, pursuant to the gaming concession held by the Group, certain of the Group's property and equipment with an aggregate carrying value of HK\$2,791.9 million (2011: HK\$2,926.7 million) in respect of the Group's gaming business have to be returned to the Macau SAR government upon expiry of the term of the concession in 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. PROPERTY AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment HK\$ million	Leasehold improvements HK\$ million	Total HK\$ million
The Company			
COST			
At 1 January 2011 and 31 December 2011	1.5	3.5	5.0
Additions	2.2	3.5	5.7
Write-off	—	(3.2)	(3.2)
At 31 December 2012	<u>3.7</u>	<u>3.8</u>	<u>7.5</u>
DEPRECIATION			
At 1 January 2011	0.5	1.3	1.8
Provided for the year	0.4	1.3	1.7
At 31 December 2011	0.9	2.6	3.5
Provided for the year	0.5	1.8	2.3
Eliminated on write-off	—	(3.2)	(3.2)
At 31 December 2012	<u>1.4</u>	<u>1.2</u>	<u>2.6</u>
CARRYING VALUES			
At 31 December 2012	<u>2.3</u>	<u>2.6</u>	<u>4.9</u>
At 31 December 2011	<u>0.6</u>	<u>0.9</u>	<u>1.5</u>

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012 HK\$ million	2011 HK\$ million
Unlisted shares, at cost	3,972.3	3,972.3
Deemed capital contribution in relation to issue of convertible bonds by a subsidiary	387.0	387.0
	<u>4,359.3</u>	<u>4,359.3</u>

Details of the Company's principal subsidiaries at the end of the reporting period are set out in note 51.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. LAND USE RIGHTS

	2012 HK\$ million	2011 HK\$ million
The Group		
CARRYING VALUE		
At 1 January	775.2	804.9
Additions	6.0	11.3
Released to profit or loss during the year	(41.5)	(41.0)
At 31 December	<u>739.7</u>	<u>775.2</u>

The amount represents prepayment of rentals for medium-term land use rights situated in Macau SAR.

18. INTANGIBLE ASSET

	HK\$ million
The Group	
COST	
At 1 January 2011, 31 December 2011 and 31 December 2012	<u>63.2</u>
AMORTISATION	
At 1 January 2011	23.7
Amortised for the year	6.3
At 31 December 2011	<u>30.0</u>
Amortised for the year	6.3
At 31 December 2012	<u>36.3</u>
CARRYING VALUE	
At 31 December 2012	<u>26.9</u>
At 31 December 2011	<u>33.2</u>

The cost of a license for operating a casino game is amortised on a straight line basis over the term of the license representing its useful life of ten years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. ART WORKS AND DIAMONDS

The Group

COST AND CARRYING VALUE

At 1 January 2011

Write-off

HK\$ million

290.4

(1.2)

At 31 December 2011 and 31 December 2012

289.2

The amount represents the aggregate cost of art works and diamonds held by the Group. In the opinion of the directors of the Company, after referencing to professional valuation reports, the residual value of the art works and diamonds worth at least its carrying amount at the end of both reporting periods.

20. INTEREST IN AN ASSOCIATE

	The Group	
	2012 HK\$ million	2011 HK\$ million
Cost of investment	25.0	25.0
Discount on acquisition	6.8	6.8
Share of post-acquisition losses	(18.9)	(2.9)
	12.9	28.9

The cost of investment in an associate represents the Group's 49% equity interest in an entity which is established in Macau SAR and engaged in the provision of construction services in Macau SAR and investment holding.

Summarised financial information in respect of the Group's associate prepared using uniform accounting policies in conformity with the accounting policies adopted by the Group is set out below:

	2012 HK\$ million	2011 HK\$ million
Total assets	566.0	509.4
Total liabilities	(725.5)	(450.4)
Net (liabilities) assets*	(159.5)	59.0
Revenue	451.8	322.8
Loss for the year*	(218.9)	(92.1)

* The Group's loss of a construction project is limited to a fixed amount as agreed with the holding company of the associate. Before accounting for the loss of such project, the associate has net assets at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2012 HK\$ million	2011 HK\$ million
Cost of investment	39.7	39.7
Share of post-acquisition profits	48.3	40.8
	<u>88.0</u>	<u>80.5</u>

The cost of investment in jointly controlled entity represents the Group's 49% equity interest in an entity which is established in Macau SAR and engaged in property investment in Macau SAR.

The entity is regarded as a jointly controlled entity as each of the two joint venturers possesses 50% of the voting power of the entity, and the financial and operating policies of the jointly controlled entity require unanimous consent of the joint venturers.

At the end of the reporting period, included in the cost of investment is goodwill of HK\$34.3 million (2011: HK\$34.3 million) arising on acquisition of the jointly controlled entity.

Summarised financial information in respect of the Group's interest in a jointly controlled entity, which is prepared using uniform accounting policies in conformity with the accounting policies adopted by the Group and accounted for using the equity method, is set out below:

	2012 HK\$ million	2011 HK\$ million
Total assets	73.3	66.4
Total liabilities	(19.6)	(20.2)
Net assets	<u>53.7</u>	<u>46.2</u>
Revenue	<u>7.1</u>	<u>7.1</u>
Profit for the year	<u>7.5</u>	<u>7.3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. AVAILABLE-FOR-SALE INVESTMENTS IN EQUITY SECURITIES

The Group

The balance represents investments in unlisted equity securities. During the year ended 31 December 2012, certain investments which had been carried at cost before disposal with carrying value of HK\$5.5 million were disposed of at a consideration of HK\$13.0 million, resulting in a gain of disposal of HK\$7.5 million.

In August 2012, the Group acquired 4% equity interests in a private entity at a consideration of HK\$480 million. Such investment includes certain derivatives which represent (a) a put option to the selling shareholders if the investee does not fulfill certain conditions before a specified date; and (b) derivatives to be net settled at a future date if the investee could fulfill the conditions by a specified date. In the opinion of the directors of the Company, the fair value of such derivatives is insignificant at initial recognition and at 31 December 2012.

The carrying amounts of those equity investments are stated at cost less any identified impairment losses at the end of the reporting period since the directors of the Company are of the opinion that their fair value cannot be measured reliably.

23. DEPOSITS MADE ON ACQUISITIONS

	The Group		The Company	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Deposits made on acquisitions of				
— land use rights (note)	776.7	—	—	—
— property and equipment	418.3	153.0	—	1.4
	<u>1,195.0</u>	<u>153.0</u>	<u>—</u>	<u>1.4</u>

Note: During the year ended 31 December 2012, the Group accepted a proposed draft land concession contract with Macau SAR government in respect of the lease of a land in Macau SAR for the development and operation of casinos and related facilities for 25 years. Pursuant to the draft land concession contract, total land premium is HK\$2,087.9 million and an initial payment of such premium in an amount of HK\$776.7 million was settled during the year. As at 31 December 2012 and up to the date these consolidated financial statements are authorised for issuance, publication of final land concession contract and grant of land use rights are pending from Macau SAR government (see note 46(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The Group

The balance represents the non-current portion of lease receivables from Companhia de Aviação Jet Asia Limitada ("Jet Asia"), a subsidiary of STDM, under a back-to-back arrangement set out in note 38. The receivables carry a variable rate with effective interest at 2.31% (2011: 2.43% to 2.81%) per annum.

25. AMOUNT DUE FROM AN ASSOCIATE

The Group

The amount is unsecured, interest-free and has no fixed repayment terms. At 31 December 2012, the management of the Group expects that the amount will not be realised within 12 months from the end of the reporting period. Hence, the amount is classified as non-current assets.

26. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The Group

The amount is unsecured, interest-free and has no fixed repayment terms. At 31 December 2012, the management of the Group expects that the amount will not be realised within 12 months from the end of the reporting period. Hence, the amount is classified as non-current assets.

27. AMOUNT DUE FROM AN INVESTEE COMPANY

The Group

The amount represents loans to the investee which are unsecured, interest-free and have no fixed repayment terms. At 31 December 2012, the management of the Group does not expect that the amount will be realised within 12 months from the end of the reporting period. Hence the amount is classified as non-current assets.

28. PLEDGED BANK DEPOSITS

The Group

	2012 HK\$ million	2011 HK\$ million
Bank deposits pledged to secure:		
— bank facilities (note a)	500.2	—
— bank facilities (note b)	145.6	145.6
Amount shown under non-current assets	645.8	145.6
Bank deposits pledged:		
— for provision of a guarantee in favour of the Macau SAR government for the payment of land premium of a subsidiary (note c)	—	25.0
— in favour of the Macau SAR court against any future legal proceedings of labour disputes	1.0	1.0
— others	0.3	0.3
Amount shown under current assets	1.3	26.3
	647.1	171.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. PLEDGED BANK DEPOSITS (Continued)

The Group (Continued)

Notes:

- (a) Amount represents deposits pledged to secure the bank facilities granted to a subsidiary of the Company during the year ended 31 December 2012 which would not be released within 12 months from the end of the reporting period until final settlement of respective bank loans. Such deposits are denominated in Renminbi.
- (b) Amount represents deposits pledged to secure the bank facilities granted to a subsidiary of the Company. The bank facilities represent a guarantee amounting to HK\$291.3 million from 1 April 2007 to the earlier of 180 days after the expiry of the gaming concession contract or 31 March 2020, which is in favour of the Macau SAR government against the legal and contractual financial obligations of SJM under the gaming concession contract.
- (c) The pledged bank deposit was released during the year ended 31 December 2012.

At 31 December 2012, the pledged bank deposits carry fixed interest rates ranging from 1.00% to 2.75% (31 December 2011: 0.08% to 1.56%) per annum.

29. TRADE AND OTHER RECEIVABLES

	The Group	
	2012	2011
	HK\$ million	HK\$ million
Advances to gaming promoters and patrons	1,157.6	915.7
Other receivables from gaming promoters	60.6	61.8
Prepayments	112.3	94.0
Other receivables (Note)	376.3	246.5
	1,706.8	1,318.0

Note: Other receivables mainly include deposits paid for rentals and operating supplies, interest receivable, credit card receivables and current portion of lease receivable from a fellow subsidiary (note 38).

The following is the aged analysis of advances to gaming promoters and patrons at the end of the reporting period based on the date of credit granted:

	The Group	
	2012	2011
	HK\$ million	HK\$ million
Age		
0 to 30 days	1,154.1	905.7
Over 90 days	3.5	10.0
	1,157.6	915.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. TRADE AND OTHER RECEIVABLES (Continued)

The advances to gaming promoters and patrons mainly include pre-approved interest-free revolving credit lines and short-term temporary interest-free advances. All advances to gaming promoters are unsecured, repayable on demand at discretion of the Group and generally require cheques and guarantees. For the advances to gaming patrons, the credit period granted to pre-approved gaming patrons with good financial track records is generally 15 days. At 31 December 2012, the advances to gaming patrons of HK\$1.7 million (2011: nil) are neither past due nor impaired.

Advances are only granted to gaming promoters and patrons with good credit histories and financial track records. With the consent of gaming promoters, the Group can offset the advances against commission payables to or deposits from relevant gaming promoters under the gaming promoter agreements. In the event that a gaming promoter fails to repay credit granted by the Group, the Group has the right, pursuant to the relevant gaming promoter agreement, to offset or withhold the commission payable and other payables to that gaming promoter, realise cheques and execute guarantees.

The other receivables from gaming promoters are interest-free, unsecured and repayable on demand at discretion of the Group.

Movement in the allowance for doubtful debts

	The Group	
	2012 HK\$ million	2011 HK\$ million
At 1 January	88.1	78.1
Write-off	(4.9)	—
Allowance for doubtful debts	4.2	13.0
Amounts recovered during the year	(0.3)	(3.0)
At 31 December	<u>87.1</u>	<u>88.1</u>

Allowance for doubtful debts with an aggregate balance of HK\$87.1 million (2011: HK\$88.1 million) mainly represent individually impaired receivables from gaming promoters as the management considered the outstanding balances from these gaming promoters were uncollectible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. TRADE AND OTHER RECEIVABLES (Continued)

Prepayments and other receivables of the Group which included certain balances between the Group and related companies are detailed as follows:

	The Group	
	2012 HK\$ million	2011 HK\$ million
STDM and its associates, excluding the Group (as defined under Chapter 14A of the Listing Rules)	47.7	45.6
An associate of the Group	1.2	1.2
Entities in which STDM, certain directors of the Company and of its subsidiaries and/or their close family members have control/significant influence/beneficial interests	149.1	70.0
	<u>198.0</u>	<u>116.8</u>

30. LOAN RECEIVABLES

The Group

On 22 October 2009, SJM–Investment Limited (“SJM–I”), a subsidiary of the Company entered into a funded participation agreement with an independent finance company (the “Finance Company”), pursuant to which SJM–I agreed to a 100% sub-participation in the revolving loan facility (the “Revolving Loan Facility”) equivalent to HK\$250 million.

A facility agreement was entered into on the same date by (i) the Finance Company as the lender; (ii) the ultimate holding company of the non-controlling interests of a subsidiary, Pier 16 – Property Development Limited (“Pier 16–Property”), as the borrower (the “Borrower”) and (iii) a wholly-owned subsidiary of the Borrower as security provider (the “Chargor”), pursuant to which the Finance Company provided the Borrower with the Revolving Loan Facility.

Under the funded participation agreement, the Finance Company is entitled to a finance charge calculated at the rate of 0.1% per annum on the principal lent by SJM–I to the Borrower via the Finance Company. The proceeds of the Revolving Loan Facility were applied by the Borrower in connection with the cashflow requirements of Pier 16–Property and its subsidiaries, being the obligations to provide shareholders’ loans to Pier 16–Property in their respective ownership proportions. If the Borrower fails to repay, the Chargor shall be entitled to sell and transfer the relevant charged shares, being 51% equity interest in an intermediate holding company of the non-controlling interests of Pier 16–Property, to SJM–I together with all rights, benefits, title and interests.

The Revolving Loan Facility was available for a term of three years commencing from the date of the above facility agreement and was expired in October 2012. The Revolving Loan Facility carried an interest rate at 2.6% over Hong Kong Interbank Offered Rate (“HIBOR”) with effective interest rate from 2.7% to 2.9% (2011: from 2.7% to 2.9%) per annum.

The loan receivables were fully settled during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The Group

The amount due from ultimate holding company arising from the Chips Agreement as defined in note 50(b) is unsecured, interest-free and is expected to realise within 12 months from the end of the reporting period.

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

The amount comprised equity shares listed in Hong Kong and were carried at market bid price at the end of the reporting period.

33. SHORT-TERM BANK DEPOSITS

The Group

At 31 December 2012, the short-term bank deposits carried fixed interest rates ranging from 0.79% to 2.90% (2011: 0.58% to 2.59%) per annum with original maturity ranging from 4 months to 12 months (2011: 4 months to 11 months) and are classified as current assets since their remaining maturity is within 12 months from the end of the reporting period.

The Company

At 31 December 2012, the short-term bank deposits carried fixed interest rates ranging from 0.79% to 2.21% (2011: 1.45% to 2.59%) per annum with original maturity ranging from 6 months to 12 months (2011: 4 months to 11 months), and are classified as current assets since their remaining maturity is within 12 months from the end of the reporting period.

34. TRADE AND OTHER PAYABLES

	The Group	
	2012 HK\$ million	2011 HK\$ million
Trade payables	2,864.4	2,184.2
Special gaming tax payable	2,746.2	2,329.6
Chips liabilities	6,587.2	4,991.4
Payables for acquisition of property and equipment	191.7	102.4
Construction payables	118.9	133.8
Deposits received from gaming patrons and gaming promoters	864.7	693.6
Accrued staff costs	501.5	332.9
Rentals payables	197.3	134.5
Withholding tax payable for gaming promoters and employees	24.0	38.7
Other payables and accruals	462.7	397.7
	14,558.6	11,338.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. TRADE AND OTHER PAYABLES (Continued)

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

Age	The Group	
	2012 HK\$ million	2011 HK\$ million
0 to 30 days	2,833.1	2,159.1
31 to 60 days	16.9	15.0
61 to 90 days	1.5	1.9
Over 90 days	12.9	8.2
	2,864.4	2,184.2

The average credit period on trade payables is 90 days. No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Trade and other payables of the Group which included certain balances between the Group and related companies are detailed as follows:

	The Group	
	2012 HK\$ million	2011 HK\$ million
STDM and its associates, excluding the Group (as defined under Chapter 14A of the Listing Rules)	234.8	178.9
An associate of the Group	3.5	17.6
Entities in which STDM, certain directors of the Company and of its subsidiaries and/or their close family members have control/significant influence/beneficial interests	392.8	374.9
	631.1	571.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. AMOUNTS DUE FROM SUBSIDIARIES/AMOUNT DUE TO A SUBSIDIARY

The Company

The amounts due from subsidiaries are unsecured, interest-free and are expected to realise within 12 months from the end of the reporting period. The amount due to a subsidiary is unsecured, interest-free and is repayable on demand.

36. FINANCIAL GUARANTEE OBLIGATIONS

The Group

The fair value of financial guarantee obligations in respect of the investee companies and an associate (note 48) at initial recognition is insignificant. No provision for financial guarantee contracts have been made at 31 December 2012 and 31 December 2011 as the default risk is low.

37. AMOUNT DUE TO NON-CONTROLLING INTERESTS OF A SUBSIDIARY

The Group

The amount is unsecured, interest-free and to be repaid from surplus funds, which represent the cash available in the relevant subsidiary of the Group after estimated payments of all operating expenses and payables including but not limited to bank loans and third party loans which are due for repayments together with the accrued interests.

Previously, pursuant to the relevant agreement entered into between the Group and the non-controlling shareholders of a subsidiary, the non-controlling shareholders of the subsidiary agreed to subordinate the amount due from the subsidiary to the bank to secure the subsidiary's bank loans due in 2012. As at 31 December 2011, the Group was negotiating with banks for the refinancing of this subsidiary's bank loans.

During the year ended 31 December 2012, the refinancing was completed and the new bank facility allows the subsidiary to repay shareholders' loan, subject to certain terms and conditions, including certain leverage ratio requirements. On this basis, the Group agreed with the non-controlling shareholders of that subsidiary on the amounts and timing of the repayment of the amount due to them, taking into account the scheduled repayment terms of bank loans pursuant to the new bank facility agreement. During the year ended 31 December 2012, amount due to non-controlling interests with carrying amount of HK\$324.0 million (principal amount of HK\$343 million) originally due at the end of 2012 was fully settled. Carrying amounts of HK\$22.9 million (2011: HK\$324.0 million) and HK\$698.3 million (2011: HK\$690.8 million) were classified as current and non-current liabilities respectively at 31 December 2012. These carrying amounts have been adjusted upward by HK\$9.4 million (2011: HK\$2.0 million) because of changes in cash flows estimates, computed based on the present value of future cash outflows discounted at the original effective interest rate.

During the year ended 31 December 2012, imputed interest of HK\$40.1 million (2011: HK\$46.2 million) on the carrying amount of the amount due to the non-controlling interests of the subsidiary of HK\$721.2 million (2011: HK\$1,014.8 million) has been recognised based on the principal amount of HK\$880.9 million (2011: HK\$1,223.9 million) at a weighted average original interest rate of approximately 4.44% (2011: 4.80%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. OBLIGATIONS UNDER FINANCE LEASES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Amounts payable under finance leases				
— within one year	31.6	32.4	26.2	25.4
— between one to two years	33.4	34.2	28.3	27.5
— between two to five years	100.1	102.5	89.0	86.9
— after five years	117.9	159.2	116.9	154.3
	283.0	328.3	260.4	294.1
Less: Future finance charges	(22.6)	(34.2)		
Present value of lease obligations	260.4	294.1		
Less: Amounts due within one year shown under current liabilities			(26.2)	(25.4)
Amounts due after one year			234.2	268.7

In 2007 and 2008, Sky Reach Investments Limited (“Sky Reach”), a wholly-owned subsidiary of the Company, had entered into certain lease agreements each for a term of ten years (the “Aircraft Agreements”) with a finance company and Jet Asia, to lease certain aircraft in Macau SAR in which the aircraft were then immediately sub-leased to Jet Asia. The Aircraft Agreements have terms of renewal and purchase option clauses. Pursuant to the Aircraft Agreements, the Group is entitled to recover any amounts and charges payable to the finance company under the Aircraft Agreements from Jet Asia. The amounts are denominated in United States Dollars and carried variable interest rates with effective interest at 2.31% per annum at 31 December 2012 (2011: 2.43% to 2.81% per annum). The Group’s obligations under finance leases are secured by (i) the leased aircraft held by Jet Asia and (ii) the 100% shareholding of Sky Reach held by the Group.

At 31 December 2012, the relevant lease receivables from Jet Asia for the Aircraft Agreements, which have equivalent repayment terms as the obligations under finance leases amounted to HK\$260.4 million (2011: HK\$294.1 million), out of which HK\$234.2 million (2011: HK\$268.7 million) is recorded as amount due from a fellow subsidiary in the non-current assets as shown in note 24. The remaining amount of HK\$26.2 million (2011: HK\$25.4 million) is included in trade and other receivables in current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. BANK LOANS

	The Group	
	2012	2011
	HK\$ million	HK\$ million
The syndicated secured bank loans are repayable		
— within one year	237.9	3,072.0
— between one to two years	317.7	—
— between two to five years	1,172.9	—
	1,728.5	3,072.0
Less: Amount due within one year shown under current liabilities	(237.9)	(3,072.0)
Amount due after one year	1,490.6	—

At 31 December 2012, the Group's syndicated secured bank loans carried interest at 2.75% to 3.0% over 3-month HIBOR (2011: 1.4% to 2.1% over 3-month HIBOR) per annum with effective interest rates ranging from 3.15% to 3.4% (2011: 1.6% to 2.5%) per annum and are all denominated in Hong Kong dollars, except for a loan amounting to HK\$480.7 million denominated in Renminbi (2011: nil) which carried fixed interest rate of 3.0% per annum. The purpose of the loans is to finance certain construction projects in Macau SAR and settle certain loans from non-controlling shareholders. At 31 December 2012, the loans were secured by certain of the Group's property and equipment and land use rights with carrying values of HK\$1,316.5 million (2011: HK\$5,414.5 million) and HK\$81.9 million (2011: HK\$717.8 million) respectively. In addition, the other key terms and securities pledged are set out as follows:

- (i) a bank pledged deposit amounting to HK\$500.2 million (2011: nil);
- (ii) financial guarantees with promissory notes given by certain subsidiaries and the non-controlling shareholders amounting to approximately HK\$2,400 million (2011: HK\$6,760 million) and HK\$1,176 million (2011: HK\$860 million) respectively;
- (iii) an assignment of all receivables and income from gaming and hotel operation of Pier 16–Property and its subsidiaries;
- (iv) floating charges over all assets (except immovable property) and legal charges over certain bank accounts of certain subsidiaries with an aggregate carrying value of HK\$1,468.2 million (2011: HK\$2,961.9 million);
- (v) an unconditional and irrevocable funding and completion undertaking for phase 3 development project in Ponte 16;
- (vi) assignments of all the rights and benefits of insurance policies and construction contracts relating to certain properties held by the Group; and
- (vii) share pledges over the shares of certain subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. CONVERTIBLE BONDS

The Group

On 28 October 2009, Champion Path Holdings Limited ("Champion Path"), a wholly-owned subsidiary of the Company, issued zero coupon convertible bonds, which were listed on Singapore Exchange Securities Trading Limited, at a principal amount of HK\$2,000 million maturing on 28 October 2015.

The movements of the liability component of the convertible bonds for the year ended 31 December 2011 are as follows:

	HK\$ million
At 1 January 2011	218.7
Imputed interest expense for the year ended 31 December 2011	2.7
Conversion during the year	(221.4)
	<hr/>
At 31 December 2011	—

The convertible bonds were issued at an initial conversion price of HK\$5.35 per share. With effect from 1 June 2010, the conversion price was adjusted to HK\$5.24 per share after accounting for the 2009 final dividend, which was approved by shareholders at the annual general meeting of the Company held on 31 May 2010, in accordance with the terms and conditions set out in the trust deed. No adjustment to the conversion price is required after 2010 interim dividend since the adjustment is less than 1%, in accordance with the trust deed.

During the year ended 31 December 2011, all outstanding convertible bonds with principal amount of HK\$259.4 million as at 31 December 2010 were converted to ordinary shares of the Company at a conversion price of HK\$5.24 per share.

41. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2012 HK\$ million	2011 HK\$ million
Deferred tax assets	—	—
Deferred tax liabilities	(48.7)	(14.9)
	<hr/>	<hr/>
	(48.7)	(14.9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

41. DEFERRED TAXATION (Continued)

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the year:

	Accelerated tax depreciation HK\$ million	Tax losses HK\$ million	Total HK\$ million
At 1 January 2011	—	—	—
(Charged) credited to profit or loss	(34.8)	19.9	(14.9)
At 31 December 2011	(34.8)	19.9	(14.9)
(Charged) credited to profit or loss	(86.5)	52.7	(33.8)
At 31 December 2012	(121.3)	72.6	(48.7)

Also, at 31 December 2012, the Group has unutilised tax losses of HK\$973.3 million (2011: HK\$1,357.9 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams. These unrecognised tax losses will expire in three years from the year of assessment.

The Company has no significant unprovided deferred taxation for the year or at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount HK\$ million	Number of shares	Amount HK\$ million
Ordinary shares of HK\$1 each				
At 1 January 2011	15,000,000,000	15,000.0	5,454,515,488	5,454.5
Exercise of share options	—	—	18,060,000	18.1
Conversion of convertible bonds	—	—	49,503,805	49.5
	<u>15,000,000,000</u>	<u>15,000.0</u>	<u>5,522,079,293</u>	<u>5,522.1</u>
At 31 December 2011	15,000,000,000	15,000.0	5,522,079,293	5,522.1
Exercise of share options	—	—	25,765,000	25.7
	<u>15,000,000,000</u>	<u>15,000.0</u>	<u>5,547,844,293</u>	<u>5,547.8</u>
At 31 December 2012	15,000,000,000	15,000.0	5,547,844,293	5,547.8

During current year, 25,765,000 share options were exercised, resulting in the issue of 23,365,000, 400,000 and 2,000,000 ordinary shares of HK\$1 each in the Company at a price of HK\$2.82, HK\$5.11 and HK\$7.48 per share respectively.

Also, during the year ended 31 December 2011, all outstanding convertible bonds with principal amount of HK\$259.4 million were converted to 49,503,805 ordinary shares of the Company at a conversion price of HK\$5.24 per share.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

43. SHARE OPTION SCHEME

According to an ordinary resolution passed at the annual general meeting held on 13 May 2009, the Company adopted a share option scheme (the "Option Scheme"), which will expire on 13 May 2019, for the purpose of providing incentives to participants to contribute to the Group and/or to enable the Group to recruit high-calibre employees and/or attract human resources that are valuable to the Group. Under the Option Scheme, the directors may grant options to any employees, officers, agents, consultants or representatives of the Company or any subsidiary, including directors of the Company and any subsidiary (the "Participants") who, as the directors may determine in their absolute discretion, are regarded as valuable human resources of the Group.

Options granted are exercisable for a period of nine years commencing on the date falling six months after the date of grant and expiring on the last day of the said nine years period; where the acceptance date should not be later than 28 days after the date of grant. A nominal consideration of HK\$1 is payable on acceptance of the grant of options. The subscription price of the option shares is not less than the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing price of the shares on the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Option Scheme may not exceed in nominal amount of 10% of the issued share capital of the Company at the date of adoption of the Option Scheme. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

43. SHARE OPTION SCHEME (Continued)

The maximum entitlement of each Participant, excluding substantial shareholders and independent non-executive directors, in any 12-month period (including the date of grant) is 1% of the number of shares in issue as at the date of grant. No grant may be made to substantial shareholders and independent non-executive directors of the Company or their respective associates if such grant would result in the shares issued and falling to be issued upon the exercise of such options proposed to be granted and all other options already granted and to be granted (a) representing in aggregate over 0.1% of the number of shares then in issue; and (b) having an aggregate value, based on the closing price of the shares on each relevant date on which the grant of such options is made, is in excess of HK\$5 million, unless such grant has first been approved by the independent shareholders in general meeting.

On 17 March 2011, a total of 116.0 million share options were granted to directors of the Company, at exercise price of HK\$12.496 per share under the terms of the Option Scheme passed on 13 May 2009. Total consideration received from the Participants for taking up the options granted amounted to HK\$12.

A summary of the movements of the outstanding options during the year ended 31 December 2012 under the Option Scheme is as follows:

Type of participants	Date of grant	Vesting period	Exercise period	Exercise price per share HK\$	Number of share options					
					Outstanding at 1.1.2011	Granted in 2011	Exercised in 2011	Outstanding at 31.12.2011	Exercised in 2012	Outstanding at 31.12.2012
Directors	13.7.2009	13.7.2009 to 12.1.2010	13.1.2010 to 12.1.2019	2.82	13,500,000	—	(8,000,000)	5,500,000	(1,000,000)	4,500,000
	31.8.2010	31.8.2010 to 27.2.2011	28.2.2011 to 27.2.2020	7.48	5,000,000	—	—	5,000,000	(2,000,000)	3,000,000
	17.3.2011	17.3.2011 to 16.9.2011	17.9.2011 to 16.9.2020	12.496	—	116,000,000	(5,000,000)	111,000,000	—	111,000,000
Employees	13.7.2009	13.7.2009 to 12.1.2010	13.1.2010 to 12.1.2019	2.82	9,260,000	—	(4,170,000)	5,090,000	(1,265,000)	3,825,000
	13.7.2009	13.7.2009 to 12.1.2011	13.1.2011 to 12.1.2019	2.82	10,000,000	—	—	10,000,000	(10,000,000)	—
	13.7.2009	13.7.2009 to 12.1.2012	13.1.2012 to 12.1.2019	2.82	10,000,000	—	—	10,000,000	(10,000,000)	—
	19.5.2010	19.5.2010 to 18.11.2010	19.11.2010 to 18.11.2019	5.11	1,500,000	—	(100,000)	1,400,000	(400,000)	1,000,000
	26.5.2010	26.5.2010 to 25.11.2010	26.11.2010 to 25.11.2019	5.03	500,000	—	(240,000)	260,000	—	260,000
Others Participants (Note)	13.7.2009	13.7.2009 to 12.1.2010	13.1.2010 to 12.1.2019	2.82	2,800,000	—	(550,000)	2,250,000	(1,100,000)	1,150,000
					<u>52,560,000</u>	<u>116,000,000</u>	<u>(18,060,000)</u>	<u>150,500,000</u>	<u>(25,765,000)</u>	<u>124,735,000</u>
Weighted average exercise price per share					<u>HK\$3.35</u>	<u>HK\$12.496</u>	<u>HK\$5.54</u>	<u>HK\$10.14</u>	<u>HK\$3.22</u>	<u>HK\$11.57</u>

Note: The Company's share options granted to other Participants are measured by reference to the fair value of options granted to directors/employees of the Group since the fair value of the services provided by such other Participants to the Group cannot be estimated reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

43. SHARE OPTION SCHEME (Continued)

In respect of the above options exercised during the year, the weighted average closing price per share at the dates of exercise was HK\$16.51. At the end of the reporting period, 124,735,000 share options are exercisable (2011: 140,500,000).

The estimated fair value of share options granted on 17 March 2011 was HK\$525.7 million.

These fair value of options at grant date were calculated using either the Black-Scholes pricing model ("Black-Scholes") or the Binomial option pricing model ("Binomial"). The inputs into the models were as follows:

Date of grant	13 July 2009	19 May 2010	26 May 2010	31 August 2010	17 March 2011
Model	Black-Scholes	Binomial	Binomial	Binomial	Black-Scholes
Number of share options	166,700,000	1,500,000	500,000	5,000,000	116,000,000
Vesting period	6 to 30 months from the date of grant	6 months from the date of grant	6 months from the date of grant	6 months from the date of grant	6 months from the date of grant
Closing share price at date of grant	HK\$2.82	HK\$5.11	HK\$5.03	HK\$7.48	HK\$12.14
Expected/contractual life	5-6 years	9.5 years	9.5 years	9.5 years	5 years
Exercise price per share	HK\$2.82	HK\$5.11	HK\$5.03	HK\$7.48	HK\$12.496
Exercise multiple	N/A	1.79 times	1.79 times	1.81 times	N/A
Expected volatility	66.46%	56.77%	56.16%	49.56%	54.83%
Risk-free interest rate	1.74-1.94 %	2.47%	2.35%	1.89%	2.49%
Expected dividend yield	3.26%	1.76%	1.79%	1.87%	3.33%

As the Black-Scholes and Binomial models require the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Expected volatility used in the valuation of options granted on 17 March 2011 was determined by using the historical volatility of the Company's share price since the Company's shares were listed on the Stock Exchange in July 2008. The expected life used in Black-Scholes has been estimated, based on the management's best estimates of the vesting period, exercise period and employee's behavioural considerations.

The contractual life used in the Binomial model is the full life of share options from date of grant to expiry date provided by the Company. For estimation of the early exercise behaviour of employees and directors, the management assumed an exercise multiple of 1.79 and 1.81 times for options granted in 2010 based on the historical exercise behaviour of the Company's employees and directors respectively.

In 2012, the Group and the Company recognised total expenses of HK\$0.2 million and HK\$nil million during the year (2011: HK\$535.9 million and HK\$25.4 million respectively) in relation to share options granted by the Company. The Company levied an inter-company charge of HK\$0.2 million (2011: HK\$510.5 million) on the subsidiaries in respect of share options granted to the participants providing services to these subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

44. RESERVES

	Share premium HK\$ million	Share options reserve HK\$ million	Convertible bonds equity reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million
The Company					
At 1 January 2011	3,456.8	66.4	50.2	2,366.2	5,939.6
Exercise of share options	121.4	(39.4)	—	—	82.0
Conversion of convertible bonds	222.1	—	(50.2)	—	171.9
Transaction costs incurred in connection with the issue of shares	(0.2)	—	—	—	(0.2)
Recognition of equity settled share-based payments	—	535.9	—	—	535.9
Dividends paid (note 13)	—	—	—	(2,094.8)	(2,094.8)
Total comprehensive income for the year (note)	—	—	—	5,812.3	5,812.3
At 31 December 2011	3,800.1	562.9	—	6,083.7	10,446.7
Exercise of share options	94.0	(36.8)	—	—	57.2
Transaction costs incurred in connection with the issue of shares	(0.1)	—	—	—	(0.1)
Recognition of equity settled share-based payments	—	0.2	—	—	0.2
Dividends paid (note 13)	—	—	—	(4,157.9)	(4,157.9)
Total comprehensive income for the year (note)	—	—	—	5,891.3	5,891.3
At 31 December 2012	3,894.0	526.3	—	7,817.1	12,237.4

Note: Amount included dividend income from SJM of HK\$5,825.2 million (2011: HK\$5,825.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

45. MAJOR NON-CASH TRANSACTIONS

Other than the transactions disclosed in respective notes to the consolidated financial statements, the Group had the following significant non-cash transactions:

- (a) Property and equipment totalling HK\$50.4 million (2011: HK\$40.9 million) were settled by utilising deposits made on acquisitions.
- (b) In 2011, the Group received dividends of HK\$18.4 million in form of listed securities from the financial assets at fair value through profit or loss.
- (c) In 2011, deposits made on acquisitions of land use rights of HK\$65.5 million and paid by a subsidiary of the Company before 2011, was charged to profit or loss as donation to an educational organisation.

46. OPERATING LEASE COMMITMENTS

The Group

- (a) At the end of the reporting period, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Land use rights		Rented premises	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Within one year	2.5	2.5	231.6	228.4
In the second to fifth year inclusive	10.0	10.0	720.3	529.4
After five years	39.1	41.6	131.1	189.3
	51.6	54.1	1,083.0	947.1

Leases of rented premises are negotiated for terms ranging from 1 to 13 years.

Lease term of land use rights in Macau SAR are negotiated for a term of 25 years at a fixed rental, and payments are subject to revision every 5 years.

At 31 December 2012, operating lease rentals committed to related parties amounted to HK\$951.3 million (2011: HK\$750.2 million).

- (b) As disclosed in note 23, the Group has a commitment on future minimum lease payments in respect of the acceptance of the proposed draft land concession contract from Macau SAR government of HK\$1,311.2 million together with 5% interest per annum, which is payable by the Group in eight equal instalments on a semi-annual basis in an amount of HK\$182.9 million each. The first instalment is due six months from the date when the official gazette is granted by Macau SAR government. Such land has an initial term of 25 years from the gazette date. The Group is required to pay an annual rent to Macau SAR government in the amount of HK\$2.1 million and HK\$8.7 million during the course of development and after completion of the development in Cotai until expiry of the lease respectively. The annual rent for such land is subject to adjustment by the Macau SAR government once every five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

46. OPERATING LEASE COMMITMENTS (Continued)

The Company

At the end of the reporting period, the Company was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2012 HK\$ million	2011 HK\$ million
Within one year	—	1.9

47. CAPITAL COMMITMENTS

	The Group		The Company	
	2012 HK\$ million	2011 HK\$ million	2012 HK\$ million	2011 HK\$ million
Capital expenditure in respect of property and equipment				
— authorised but not contracted for	138.6	92.9	—	—
— contracted for but not provided in the consolidated financial statements	657.7	64.8	—	3.4

48. CONTINGENT LIABILITIES

	The Group			
	2012		2011	
	Maximum guarantees given HK\$ million	Credit facilities utilised HK\$ million	Maximum guarantees given HK\$ million	Credit facilities utilised HK\$ million
Guarantees given to banks in respect of credit facilities granted to				
— an associate	67.3	—	67.3	61.0
— investee companies	20.0	—	25.3	450.0
	87.3	—	92.6	511.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

49. RETIREMENT BENEFITS SCHEMES

The Group

Employees employed by the Group's operations in Macau SAR are members of government-managed social benefits schemes operated by the Macau SAR government. The Macau SAR operations are required to pay a monthly fixed contribution to the social benefits schemes to fund the benefits. The only obligation of the Group with respect to the social benefits schemes operated by the Macau SAR government is to make the required contributions under the schemes.

The Group and the Company operate a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group and the Company in funds under the control of a trustee. The Group and the Company contribute 5% of the relevant payroll costs to the Scheme, which is matched with both voluntary and mandatory contribution of each employee.

SJM operates a defined contribution retirement scheme for all qualifying employees since 1 July 2003. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustees. The retirement scheme cost recognised in profit or loss represents contributions payable to the funds by SJM at rates specified in the rules of the scheme.

Where there are employees of the Group who leave the Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

50. RELATED PARTY TRANSACTIONS

The Group

(a) Other than the transactions and balances with related parties disclosed in respective notes in these consolidated financial statements, during the year, the Group had the following significant transactions with related parties and/or connected parties (as defined under Chapter 14A of the Listing Rules):

Relationship	Nature of transactions	2012 HK\$ million	2011 HK\$ million
STDM and its associates, excluding the Group ("STDM Group") (as defined under Chapter 14A of the Listing Rules)	Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules		
	Property rentals (note 50(c))	247.7	218.4
	Transportation (note 50(d))	145.4	171.1
	Dredging services (note 50(d))	122.2	134.0
	Hotel accommodation (note 50(d))	104.8	81.9
	Entertainment and staff messing (note 50(d))	56.3	67.8
	Maintenance services (note 50(d))	15.8	50.8
	Aircraft sublease rental receipts (note 50(e))	41.0	44.0
	Promotional and advertising services (note 50(d))	—	9.0
	Hotel management and operation (note 50(d))	—	7.1
	Exempt continuing connected transactions under Chapter 14A of the Listing Rules		
	Share of administrative expenses (note 50(f))	12.9	77.5
	Cleaning services (note 50(g))	22.3	20.3
	Hotel management and operation (note 50(d) and (g))	23.9	11.1
	Promotional and advertising services (note 50(d) and (g))	17.4	10.7
	Others (note 50(g))	20.9	22.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

50. RELATED PARTY TRANSACTIONS (Continued)

The Group (Continued)

(a) (Continued)

Relationship	Nature of transactions	2012 HK\$ million	2011 HK\$ million
	Exempt connected transactions under Chapter 14A of the Listing Rules		
	Purchase of property and equipment (note 50(j))	8.0	—
	Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules		
Certain directors of the Company and of its subsidiaries and their associates (as defined under Chapter 14A of the Listing Rules)	Service fees in relation to the promotion of a casino (note 50(h))	1,638.3	1,422.4
	Transportation (note 50(i))	44.6	39.6
	Exempt continuing connected transactions under Chapter 14A of the Listing Rules		
	Entertainment and staff messing (note 50(g))	69.0	61.0
	Others (note 50(g))	47.9	41.2
	Exempt connected transactions under Chapter 14A of the Listing Rules		
	Acquisition of investment in equity securities (note 50(m))	36.0	—
Entities other than above in which STDM, certain directors of the Company and of its subsidiaries and/or their close family members have control/significant influence/ beneficial interests	Service fees in relation to the promotion of a casino (note 50(k))	1,444.1	1,503.5
	Insurance expenses	49.1	43.4
	Promotion and advertising expenses	3.6	15.7
	Service fee in relation to foreign currencies exchange	18.8	17.7
	Property rentals	6.5	12.0
	Others	17.7	20.9
An associate	Construction costs paid	5.8	34.2
	Others	—	1.1
A jointly controlled entity	Property rentals	14.4	14.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

50. RELATED PARTY TRANSACTIONS (Continued)

The Group (Continued)

- (b) In 2002, SJM was granted a concession to operate casinos in Macau SAR. For this purpose, STDM transferred its gaming assets to SJM. SJM has been borrowing casino chips from STDM for the purpose of its business operation since SJM, as a new concessionaire from 2002, did not have sufficient casino chips to meet its business needs. According to the gaming concession contract, SJM is permitted to use STDM's casino chips, both in treasury and those put in circulation by STDM prior to 1 April 2002 and should honour such casino chips. In order to regulate the borrowing and use of STDM chips, the Group entered into an agreement with STDM dated 18 June 2008 (the "Chips Agreement") regarding the honouring and borrowing of STDM chips. Under the Chips Agreement, the Group has agreed to honour the STDM chips in circulation upon their redemption by patrons or clients. In addition, STDM has agreed to reimburse the STDM chips presented by the Group to STDM, by paying to the Group in cheque the aggregate face value of chips so presented within the same quarter when such presentation takes place. During the year ended 31 December 2012, the net amount received and receivable on reimbursement of STDM chips in circulation amounted to HK\$2.2 million (2011: HK\$6.6 million).
- (c) The Group entered into an agreement dated 18 June 2008 with STDM for the leasing of properties by STDM or the members of the STDM group to the Group (the "Premises Leasing Master Agreement"). The term of each implementing lease will be for a term commencing on a date specified in the relevant implementing lease and ending on a date not later than 31 March 2020. The amounts of transactions during the year were disclosed in note 50(a) above.
- (d) The Group entered into an agreement dated 18 June 2008 with STDM for the provision of products and services by STDM and its associates (the "Products and Services Master Agreement"). The types of products and services includes hotel accommodation, hotel management and operation, entertainment and staff messing, dredging services, transportation, promotional and advertising services, travel agency services and maintenance services. On 19 June 2011, the Company entered into a renewed products and services master agreement with STDM ("Renewed Master Agreement") for the provision of products and services as described in the Products and Services Master Agreement, except for hotel management and operation, promotional and advertising services, and travel agency services, which are regarded as de minimis transactions as described in note 50(g). The Renewed Master Agreement will expire on 31 December 2013.
- (e) Regarding the aircraft lease arrangement disclosed in note 38, the Group charged minimum lease payments and related expenses of HK\$41.0 million (2011: HK\$44.0 million) to the fellow subsidiary, and repaid the same amount of minimum lease payments to the finance company during the year ended 31 December 2012.
- (f) The Group entered into an agreement with STDM dated 18 June 2008 (the "Administrative Cost Sharing Agreement") whereby STDM and its associates have agreed to continue to share certain administrative services including, among others, general public relations work, promotional functions, arranging ticketing and hotel accommodations, transportation and the provision of storage services with the Group and the Group has agreed to pay for the shared services on a cost basis. The amount of administrative costs shared between the Group and the STDM group is calculated based on an estimate of (i) the actual time spent by each department for providing services to the Group and the STDM group respectively recorded on time sheets and (ii) the floor area occupied, respectively, by the Group and the STDM group for storage services.

On 19 June 2011, the Company entered into an agreement with STDM to renew the Administrative Cost Sharing Agreement in sharing the cost of the above-mentioned administrative services. The renewed agreement will end on 31 December 2013. The amounts of transactions during the period were disclosed in note 50(a) above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

50. RELATED PARTY TRANSACTIONS (Continued)

The Group (Continued)

- (g) These are de minimis transactions as defined under Rule 14A.31(2) of the Listing Rules, which are continuing connected transactions on normal commercial terms, exempt from reporting, annual review, announcement and independent shareholders' approval requirements as defined under Rule 14A.33(3) of the Listing Rules.
- (h) SJM entered into an agreement with Tin Hou Limited ("Tin Hou") dated 19 February 2010 regarding the provision of management services and promotion service to SJM in the gaming area of Grand Emperor Hotel in Macau SAR for the period from 1 October 2009 to the expiry of SJM's gaming license on 31 March 2020 or any earlier termination with 21 days notice to the other party who is in default of the agreement. Tin Hou is a company controlled over 50% by a half-brother of a director of subsidiaries of the Company pursuant to Rule 14A.11(4)(b)(ii) of the Listing Rules which became effective on 3 June 2011.
- (i) On 24 June 2011, SJM, a subsidiary of the Company, and Shun Tak & CITS Coach (Macao) Limited ("ST-CITS") entered into a master service agreement to formalise business arrangements between the Group and ST-CITS together with its subsidiaries in relation to the provision of transportation services within Macau locally as well as operating crossborder routes to mainland cities of China.

This master service agreement is for a term of three years, provided that either party may terminate this agreement at any time by giving six months' prior written notice to the other party, however, such termination shall not affect the duration of the contracts entered into prior to 24 June 2011, which shall continue in full force and effect until their expiry in accordance with their terms.

Pursuant to Rule 14A.11(4)(b)(ii) of the Listing Rules which became effective on 3 June 2011, ST-CITS is a connected person of the Company by virtue of the family interests of Dr. Ho, director of the Company, having control of more than 50% in the voting power of ST-CITS.

- (j) During the year ended 31 December 2012, pursuant to a transfer agreement entered into between SJM and STD M on 20 November 2011, SJM has procured its subsidiary to take over the operation of the certain departments from STD M on 1 January 2012. The takeover has involved, among other things, (i) transfer of employment contracts of certain employees of the relevant departments to SJM or its subsidiary; (ii) entering into or assignment of lease agreements between SJM or its subsidiary and STD M; (iii) acquisition of certain assets of the departments from STD M for a consideration totalling HK\$8.0 million; and (iv) assignment of certain business contracts to SJM or its subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

50. RELATED PARTY TRANSACTIONS (Continued)

The Group (Continued)

- (k) Service fees in relation to the promotion of a casino were paid to an entity in which certain directors of the Group were the directors and/or key management personnel of the entity.
- (l) Save as disclosed in note 39, in addition to the securities provided by the Group to the relevant bank, the syndicated secured bank loans are also secured by non-controlling interests of a subsidiary of the Group. At the end of the reporting period, the key terms and securities pledged are set out as follows:
 - (i) financial guarantee with promissory note of HK\$1,176 million;
 - (ii) an unconditional and irrevocable funding undertaking for the purpose of satisfying the construction costs of certain properties in Ponte 16 which include (i) the land premium and all other premiums and sums of money payable to the Governmental Agency of Macau SAR in respect of properties in Ponte 16; (ii) all construction costs and all operating costs to be incurred; and (iii) all financial costs and expenses, including interest payable in respect of the syndicated secured bank loans facility;
 - (iii) an unconditional and irrevocable undertaking for the purpose of ensuring the completion of phase 3 development project in Ponte 16; and
 - (iv) share pledges over all shares in Pier 16–Property and its subsidiaries.
- (m) As disclosed in note 22, an available-for-sale investment was acquired at a consideration of HK\$480 million during the year ended 31 December 2012. One of the selling shareholders in the acquisition was a connected person of the Company and hence, the acquisition constituted a connected transaction but was exempted from reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

The Company

The Company's transactions and balances with related companies are disclosed in respective notes in these consolidated financial statements.

In November 2007, the immediate holding company, STDM – Investments Limited (“STDM-I”), had provided a surety (the “STDM-I Surety”) in favour of the Company for the due and punctual payment of obligations the Company may incur in relation to:

- (a) penalties incurred by SJM for any non-criminal violations of relevant laws or regulations pertaining to anti-money laundering, where such violations occurred prior to the listing of the ordinary shares of the Company on the Stock Exchange; and
- (b) losses or contingency provisions incurred by SJM in connection with any judgement of any lawsuit, as set out in the paragraph headed “Litigation” in Appendix VII to the Company's prospectus dated 26 June 2008, to which SJM is a party and which is pending at the time of listing of the ordinary shares of the Company on the Stock Exchange.

STDM has informed the Company in August 2011 that the board of directors of STDM was satisfied that upon liquidation of STDM-I, which occurred during the year ended 31 December 2011, the Company (as beneficiary of the STDM-I Surety) would remain entitled to claim directly against STDM under the same terms and conditions as originally established in the STDM-I Surety.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

51. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at the end of the respective reporting periods are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ quota capital	Attributable proportion of nominal value of issued share capital/ quota capital held by the Group		Principal activity
			2012	2011	
Brilliant Sky International Limited	Macau SAR	Quota capital: MOP25,000	100%	100%	Provision of marketing and promotion services
Brilliant Sky Investments Limited	British Virgin Islands/Macau SAR	Share: US\$1	100%	100%	Investment holding
Cotai Magnific View-Property Development Company Limited	Macau SAR	Ordinary shares: MOP1,000,000	100%	100%	Preparation for property development
Grand Lisboa – Hotel Administration Company Limited	Macau SAR	Ordinary shares: MOP1,000,000	100%	100%	Hotel operations
Grand Lisboa – Property Investment Company Limited	Macau SAR	Ordinary shares: MOP1,000,000	100%	100%	Property holding
Honour State International Limited	British Virgin Islands/Macau SAR	Share: US\$1	100%	100%	Securities holding
Nam Van Lake View Investment Limited	Macau SAR	Quota capital: MOP1,000,000	100%	100%	Property holding
Pier 16 – Entertainment Group Corporation Limited	Macau SAR	Quota capital: MOP25,000	51%	51%	Provision of management services for casino operations
Pier 16 – Gaming Promotion, Limited	Macau SAR	Quota capital: MOP50,000	51%	51%	Provision of gaming promotion services
Pier 16 – Management Limited	Macau SAR	Quota capital: MOP25,000	51%	51%	Hotel operations
Pier 16 – Property Development Limited	Macau SAR	Ordinary shares: MOP10,000,000	51%	51%	Property holding
SJM – Customer Services (HK) Limited	Hong Kong	Ordinary share: HK\$1	100%	100%	Provision of customer services
SJM – F&B Services Limited	Macau SAR	Quota capital: MOP25,000	100%	100%	Provision of food and beverage services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

51. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ quota capital	Attributable proportion of nominal value of issued share capital/ quota capital held by the Group		Principal activity
			2012	2011	
SJM Holdings Management Services Limited	Hong Kong	Ordinary shares: HK\$2	100%	100%	Provision of management services
SJM – Investment Limited	Macau SAR	Quota capital: MOP1,000,000	100%	100%	Investment holding
SJM – Project Management Services (HK) Limited (formerly known as “SJM-Human Resources (HK) Limited”)	Hong Kong	Ordinary share: HK\$1	100%	—	Provision of human resources and project management services
Sky Reach Investments Limited	British Virgin Islands/Macau SAR	Share: US\$1	100%	100%	Provision of aircraft leasing services
Sociedade de Jogos de Macau, S.A.	Macau SAR	Ordinary shares: Type A shares: MOP270,000,000 Type B shares: MOP30,000,000	100% (note 51(a))	100% (note 51(a))	Casino operations and investment holding
Vast Field Investments Limited	British Virgin Islands	Ordinary share: US\$1	100%	—	Investment holding

Notes:

- Pursuant to the relevant requirements under Macau SAR law, SJM's ordinary shares are divided into two categories, namely, Type A shares and Type B shares representing 90% and 10% equity interests in SJM respectively. Holders of Type A shares have voting control of SJM in its shareholders' meeting. Except for one Type A share directly held by a wholly-owned subsidiary of the Company, the Company holds all the remaining Type A shares, whilst Type B shares are held by the managing director of SJM, pursuant to the relevant requirements under Macau SAR law. As Type B shares have restricted rights and only entitle the holder of Type B shares to an aggregate amount of MOP1 of dividend payable, the Company is effectively entitled to a 100% economic interest in SJM.
- Except for SJM Holdings Management Services Limited and SJM, all other principal subsidiaries listed above are indirectly held by the Company.
- The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.
- None of the subsidiaries had any debt securities outstanding at the end of both reporting periods.

FINANCIAL SUMMARY

	For the year ended 31 December				2012 HK\$ million
	2008 HK\$ million	2009 HK\$ million	2010 HK\$ million	2011 HK\$ million	
RESULTS					
Gaming, hotel, catering and related services revenues	28,165.0	34,352.8	57,653.3	76,092.0	79,518.9
Gaming revenue	27,992.4	34,065.8	57,195.0	75,514.4	78,884.1
Profit before taxation	672.2	812.3	3,532.4	5,345.8	6,826.6
Taxation	(16.7)	(17.5)	(17.6)	(35.0)	(74.9)
Profit for the year and total comprehensive income for the year	655.5	794.8	3,514.8	5,310.8	6,751.7
Profit attributable to					
— owners of the Company	796.1	906.7	3,559.4	5,307.6	6,745.4
— non-controlling interests	(140.6)	(111.9)	(44.6)	3.2	6.3
	655.5	794.8	3,514.8	5,310.8	6,751.7
As at 31 December					
	2008 HK\$ million	2009 HK\$ million	2010 HK\$ million	2011 HK\$ million	2012 HK\$ million
ASSETS AND LIABILITIES					
Total assets	18,920.6	23,366.5	28,889.4	33,020.0	37,293.8
Total liabilities	(11,484.3)	(14,847.1)	(15,714.0)	(15,773.4)	(17,379.8)
Net assets	7,436.3	8,519.4	13,175.4	17,246.6	19,914.0

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Executive Director

Dr. Ho Hung Sun, Stanley

Non-executive Director

Dato' Dr. Cheng Yu Tung

Independent Non-executive Directors

Mr. Chau Tak Hay
Mr. Lan Hong Tsung, David
Mr. Shek Lai Him, Abraham
Mr. Tse Hau Yin

Executive Director and Chief Executive Officer

Dr. So Shu Fai

Executive Director and Chief Operating Officer

Mr. Ng Chi Sing

Executive Directors

Mr. Rui José da Cunha
Ms. Leong On Kei, Angela
Mr. Shum Hong Kuen, David
Mr. Fok Tsun Ting, Timothy

AUDIT COMMITTEE

Mr. Tse Hau Yin (*Committee Chairman*)
Mr. Chau Tak Hay
Mr. Shek Lai Him, Abraham
Mr. Lan Hong Tsung, David

NOMINATION COMMITTEE

Mr. Chau Tak Hay (*Committee Chairman*)
(*appointed as Committee Chairman on 1 April 2012*)
Dr. So Shu Fai (*resigned as Committee Chairman*
on 1 April 2012 and remains as a member)
Mr. Lan Hong Tsung, David
Ms. Leong On Kei, Angela
Mr. Shek Lai Him, Abraham
Mr. Shum Hong Kuen, David
Mr. Tse Hau Yin

REMUNERATION COMMITTEE

Mr. Lan Hong Tsung, David (*Committee Chairman*)
(*appointed as Committee Chairman on 1 April 2012*)
Dr. So Shu Fai (*resigned as Committee Chairman*
on 1 April 2012 and remains as a member)
Ms. Leong On Kei, Angela
Mr. Shek Lai Him, Abraham
Mr. Tse Hau Yin
Mr. Chau Tak Hay

CHIEF FINANCIAL OFFICER

Mr. Robert McBain

GROUP LEGAL COUNSEL

Mr. Jonathan Pyne

COMPANY SECRETARY

Ms. Kwok Shuk Chong

REGISTERED OFFICE AND

PRINCIPAL PLACE OF BUSINESS

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One International Finance Centre
1 Harbour View Street, Central
Hong Kong
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Fax: (852) 3960 8111
Website: <http://www.sjmholdings.com>
Email (Investor Relations): ir@sjmholdings.com

LISTING INFORMATION

Share listing: Hong Kong Stock Exchange (Main Board)
Listing date: 16 July 2008
Stock short name: SJM Holdings
Stock code: 880
Board lot: 1,000 shares

LEGAL ADVISORS

On Hong Kong Law:
Baker & McKenzie
Herbert Smith
Linklaters
On Macau Law:
C&C Advogados
Riquito Advogados

FINANCIAL ADVISOR

Somerley Limited

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
(Macau) Limited
Bank of China Limited
Crédit Agricole Corporate and Investment Bank
BNP Paribas
Industrial and Commercial Bank of China (Asia) Limited

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong
Tel: (852) 2862 8555
Fax: (852) 2865 0990
Website: <http://www.computershare.com.hk>
Email: hkinfo@computershare.com.hk

SJM HOLDINGS LIMITED
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