



銀娛 GEG

2012

ANNUAL REPORT 年報



Galaxy Entertainment Group Limited  
銀河娛樂集團有限公司

Stock Code 股份代號：27

# GALAXY'S BUSINESS PHILOSOPHY

## 銀娛的經營理念

### Local Market Insights

Leveraging Chinese heritage and deep understanding of Asian and Chinese customer preferences

#### 洞悉本地市場

深明中華文化，對亞洲及中國旅客喜好有透徹了解，為銀娛一大競爭優勢

### Proven Expertise

Focus on ROI (return on investment) with prudent CAPEX (capital expenditure) plan, proven construction and hotel expertise, and controlled development

#### 專業經驗

透過審慎的資本開支計劃、憑著在建築及酒店業的專業經驗及嚴密監控的發展計劃，致力為股東帶來投資回報

### Well Positioned

Position Galaxy as a leading operator of integrated gaming, leisure and entertainment facilities

#### 定位清晰

將銀娛定位為領先的綜合博彩及休閒娛樂設施營運商

### Demand Driven Strategy

Monitor the market's developments and expand prudently in a timely manner

#### 需求主導策略

密切注意市場發展並迅速作出謹慎的應變

# OUR VISION

## 願景

Galaxy's vision is to be: Globally recognized as Asia's leading gaming and entertainment corporation. This vision will be achieved through adhering to our proven business philosophy.

銀娛的願景是：成為亞洲首屈一指的博彩及娛樂企業。通過實踐我們的經營理念，我們將可以達成我們所訂下的願景。



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# CORPORATE INFORMATION

## CHAIRMAN

Dr. Lui Che Woo, *GBM, MBE, JP, LLD, DSSc, DBA*

## DEPUTY CHAIRMAN

Mr. Francis Lui Yiu Tung

## EXECUTIVE DIRECTORS

Mr. Joseph Chee Ying Keung

Ms. Paddy Tang Lui Wai Yu, *BBS, JP*

## NON-EXECUTIVE DIRECTOR

Mr. Anthony Thomas Christopher Carter

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. James Ross Ancell

Dr. William Yip Shue Lam, *LLD*

Professor Patrick Wong Lung Tak, *BBS, JP*

## EXECUTIVE BOARD

Dr. Lui Che Woo, *GBM, MBE, JP, LLD, DSSc, DBA*

Mr. Francis Lui Yiu Tung

Mr. Joseph Chee Ying Keung

Ms. Paddy Tang Lui Wai Yu, *BBS, JP*

## AUDIT COMMITTEE

Mr. James Ross Ancell (*Chairman*)

Dr. William Yip Shue Lam, *LLD*

Professor Patrick Wong Lung Tak, *BBS, JP*

## REMUNERATION COMMITTEE

Dr. William Yip Shue Lam, *LLD (Chairman)*

Mr. Francis Lui Yiu Tung

Professor Patrick Wong Lung Tak, *BBS, JP*

## NOMINATION COMMITTEE

Dr. William Yip Shue Lam, *LLD (Chairman)*

Mr. Francis Lui Yiu Tung

Professor Patrick Wong Lung Tak, *BBS, JP*

## CORPORATE GOVERNANCE COMMITTEE

Mr. Francis Lui Yiu Tung (*Chairman*)

Mr. James Ross Ancell

Professor Patrick Wong Lung Tak, *BBS, JP*

## COMPANY SECRETARY

Mrs. Jenifer Sin Li Mei Wah

## INDEPENDENT AUDITOR

PricewaterhouseCoopers

## REGISTERED OFFICE

Room 1606, 16th Floor

Hutchison House

10 Harcourt Road

Central, Hong Kong

## SHARE REGISTRARS

Computershare Hong Kong Investor Services Limited

Shops 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

## PRINCIPAL BANKERS<sup>#</sup>

Bank of China Limited, Macau Branch

DBS Bank (Hong Kong) Limited

Industrial and Commercial Bank of China (Macau) Limited

The Hongkong and Shanghai Banking Corporation Limited

<sup>#</sup> listed in alphabetical order

## SOLICITORS\*

Jorge Neto Valente, Escritório de Advogados e Notários

Linklaters

\* listed in alphabetical order

## SHARE LISTING

The Stock Exchange of Hong Kong Limited ("SEHK")

## STOCK CODE

SEHK : 27 (Share)

86002 (RMB Bond)

Bloomberg : 27 HK

Reuters : 0027.HK

ADR : GXYEY

## AMERICAN DEPOSITARY RECEIPTS ("ADR") DEPOSITARY

BNY Mellon Depository Receipts

PO Box 43006

Providence, RI 02940-3006, USA

Tel : 1-201-680-6825

1-888-BNY-ADRS (Toll free)

Email : [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)

## INVESTOR RELATIONS CONTACT

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## WEBSITE ADDRESS

<http://www.galaxyentertainment.com>

## CORPORATE PROFILE

Galaxy Entertainment Group Limited (“GEG”, “the Company” or “the Group”), through its subsidiary, Galaxy Casino S.A., is one of Asia’s leading gaming and entertainment companies. The Group develops and operates hotels, gaming and integrated entertainment facilities in the Macau SAR. In addition, GEG manufactures, sells and distributes construction materials through its Construction Materials Division across Mainland China, Hong Kong and Macau.

Since being granted one of the original three gaming concessions by the Macau Government in 2002, GEG has carefully correlated its growth with Macau’s rapidly growing market. GEG’s great success in delivering its unique vision in Macau’s gaming and entertainment industry is underpinned by a deep understanding of the Asian market, and its ability to deliver new and truly innovative products that enhance Macau’s position as one of Asia’s most attractive leisure and tourist destinations.

In 2004, the Group successfully entered Macau through city clubs casinos. This provided the Group with the opportunity to establish a presence in the Macau gaming market and build relationships with key stakeholders, such as VIP promoters. Equipped with a strong sense of the future strategic direction of the Group and leveraging the city clubs experience, GEG opened StarWorld, its stunning and highly successful flagship property in the heart of the Macau Peninsula, in 2006. StarWorld, which has received more than 30 awards including the highly prestigious Five-Star Diamond Award for five consecutive years, provides world class entertainment, dining and lavishly designed 5-star luxury accommodation. It is a market leader and one of the most successful casinos in the world, with strong VIP gaming, a successful mass gaming operation and near capacity hotel occupancy.

In May 2011, GEG successfully introduced a new game changing integrated destination resort to the market – Galaxy Macau™. This unique property was Macau’s first Asian centric destination resort and is one of the largest leisure complexes in Asia. It has been conceived in the spirit of our “World Class, Asian Heart” philosophy and offers the most diverse range of World Class Asian themed entertainment, accommodation and dining in Macau.

In April 2012, GEG announced the launch of Phase 2 of Galaxy Macau™. Expected to complete in mid-2015, it will almost double the existing Galaxy Macau™ resort to one million square metres and comprise 3,600 rooms across five luxury hotels; over 100,000 square metres of retail space with nearly 200 high end retail outlets; approximately 100 food & beverage outlets; and an expanded meeting, event and banquet space with total capacity for 3,000 guests.

Plans for Phases 3 & 4 of GEG’s remaining one million square metres of landbank in Cotai are well advanced. We expect to commence construction by the end of 2013/in early 2014. Expanding GEG’s entire building area on Cotai to two million square metres, Phases 3 & 4 will significantly diversify GEG’s product and service offering to include a multitude of new cultural and entertainment elements predominantly targeting premium mass guests.

The ambitious HK\$50 – HK\$60 billion project will provide 5,500 additional hotel rooms and suites; a state of the art multi-purpose 10,000 seat arena for world class entertainment and sporting events, as well as a 1,500 seat multi-purpose showroom; a 50,000 square metre convention centre with a capacity up to 5,000 guests; and, gaming capacity of up to 1,000 tables and 3,000 slots. The Group expects that these revolutionary and captivating developments will set a new benchmark for the global leisure and tourism industry, and enhance Macau’s position as a world class tourism destination.





# FINANCIAL & OPERATIONAL HIGHLIGHTS

## HIGHLIGHTS FOR 2012

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



### Galaxy Entertainment Group:

- Revenue grew 38% year-on-year to \$56.7 billion
- Adjusted EBITDA increased 71% year-on-year to \$9.8 billion
- Net profit attributable to shareholders grew 146% to \$7.4 billion
- Strong balance sheet with cash on hand of \$15.6 billion and a net cash position of \$4.6 billion
- Received global recognition for achievements and success by winning Casino Operator of the Year Australia/Asia at the prestigious International Gaming Awards



### Galaxy Macau™:

- Revenue doubled year-on-year<sup>^</sup> to \$33 billion
- Adjusted EBITDA grew 152% year-on-year to \$6.5 billion and achieved the sixth consecutive quarter of Adjusted EBITDA growth
- Recorded the latest twelve months Return on Investment (ROI<sup>\*</sup>) of 38%
- Achieved high hotel occupancy of 95%
- Announced the development plan of Phase 2, and the concept plans of Phases 3 & 4



### StarWorld Hotel & Casino:

- Adjusted EBITDA grew 10% year-on-year to \$3.2 billion and achieved the fourth consecutive year of Adjusted EBITDA growth
- Remains one of the world's highest returning casinos, generating the latest twelve months ROI of 94%
- Hotel occupancy remained at near capacity throughout the year at 99%
- Received numerous awards at the Asia Hotel Golden-Olive Awards, the Golden Horse Award of China Hotel, China Hotel Starlight Awards and the Asia Hotel Awards among others



K. WAH CONSTRUCTION MATERIALS  
嘉華建材

### Construction Materials:

- Achieved year-on-year revenue growth of 30% to \$2 billion and year-on-year Adjusted EBITDA growth of 6% to \$459 million

<sup>^</sup> Galaxy Macau™ opened on 15 May 2011. Its results for 2011 reflect the seven and a half months of operation.

<sup>\*</sup> ROI calculated based on the total Adjusted EBITDA for the latest twelve months divided by gross book value through 31 December 2012 including allocated land cost.



## PART I: GROUP FINANCIAL HIGHLIGHTS

**Revenue**

(HK\$'m)	2011	<b>2012</b>	% change
Gaming and Entertainment	39,612	<b>54,696</b>	38%
Construction Materials	1,574	<b>2,050</b>	30%
<b>Group Total</b>	41,186	<b>56,746</b>	38%

**Adjusted EBITDA**

(HK\$'m)	2011	<b>2012</b>	% change
Gaming and Entertainment	5,409	<b>9,534</b>	76%
Construction Materials	433	<b>459</b>	6%
Corporate	(93)	<b>(146)</b>	-57%
<b>Group Total</b>	5,749	<b>9,847</b>	71%

**Key Financial Metrics**

	2011	<b>2012</b>	% change
Net Profit Attributable to Shareholders (HK\$'m)	3,004	<b>7,378</b>	146%
Earnings per Share (HK cents)	72.80	<b>176.20</b>	142%
Total Assets (HK\$'m)	35,764	<b>44,389</b>	24%
Gearing Ratio (%) (note)	19	<b>n/a</b>	n/a
Share Price on 31 December (HK\$)	14.24	<b>30.35</b>	113%

Note: The Group was in a net cash position as at 31 December 2012.

## FINANCIAL & OPERATIONAL HIGHLIGHTS

### PART II: GALAXY MACAU™

#### Financials

(HK\$m)	2011 <sup>^</sup>	<b>2012</b>	% change
Revenue	16,375	<b>33,048</b>	102%
Adjusted EBITDA	2,581	<b>6,496</b>	152%
Adjusted EBITDA Margin (HK GAAP)	16%	<b>20%</b>	–
Adjusted EBITDA Margin (US GAAP)	23%	<b>28%</b>	–
ROI	29% <sup>#</sup>	<b>38%*</b>	–



#### 2012 Selected Gaming Statistics

(HK\$m)	<b>Turnover/ Table Drop/ Slots Handle</b>	<b>Net Win</b>	<b>Win/Hold %</b>
VIP Gaming	<b>698,720</b>	<b>23,083</b>	<b>3.3%</b>
Mass Gaming	<b>24,706</b>	<b>7,291</b>	<b>29.5%</b>
Electronic Gaming	<b>19,560</b>	<b>1,210</b>	<b>6.2%</b>

#### 2011<sup>^</sup> Selected Gaming Statistics

(HK\$m)	Turnover/ Table Drop/ Slots Handle	Net Win	Win/Hold %
VIP Gaming	379,671	12,193	3.2%
Mass Gaming	13,092	2,840	21.7%
Electronic Gaming	10,129	645	6.4%

<sup>^</sup> Galaxy Macau™ opened on 15 May 2011. Its results for 2011 reflect the seven and a half months of operation.

<sup>#</sup> ROI calculated based on the annualised Q4 2011 Adjusted EBITDA divided by gross investment including allocated land cost.

<sup>\*</sup> ROI calculated based on the total Adjusted EBITDA for the latest twelve months divided by gross book value through 31 December 2012 including allocated land cost.

## FINANCIAL & OPERATIONAL HIGHLIGHTS

### PART III: STARWORLD HOTEL & CASINO

#### Financials

(HK\$'m)	2011	2012	% change
Revenue	22,514	<b>21,485</b>	-5%
Adjusted EBITDA	2,955	<b>3,247</b>	10%
Adjusted EBITDA Margin (HK GAAP)	13%	<b>15%</b>	—
Adjusted EBITDA Margin (US GAAP)	23%	<b>25%</b>	—
ROI	86%*	<b>94%*</b>	—



#### 2012 Selected Gaming Statistics

(HK\$'m)	Turnover/ Table Drop/ Slots Handle	Net Win	Win/Hold %
VIP Gaming	<b>633,067</b>	<b>18,383</b>	<b>2.9%</b>
Mass Gaming	<b>9,978</b>	<b>2,433</b>	<b>23.9%</b>
Electronic Gaming	<b>3,545</b>	<b>247</b>	<b>7.0%</b>

#### 2011 Selected Gaming Statistics

(HK\$'m)	Turnover/ Table Drop/ Slots Handle	Net Win	Win/Hold %
VIP Gaming	663,886	20,252	3.1%
Mass Gaming	8,616	1,661	18.9%
Electronic Gaming	4,025	241	6.0%

\* ROI calculated based on the total Adjusted EBITDA for the latest twelve months divided by gross book value through 31 December 2012 including allocated land cost.





# CHAIRMAN'S STATEMENT



*Chairman*  
**Dr. Lui Che Woo**  
*GBM, MBE, JP, LLD, DSSc, DBA*

## DEAR SHAREHOLDERS,

It gives me great pleasure to report that 2012 was another memorable year for Galaxy Entertainment Group. The Company once again delivered record highs in revenue, Adjusted EBITDA and net profit attributable to shareholders, buoyed by strong performances from Galaxy Macau™ and StarWorld. GEG's well-balanced portfolio of complementary properties set in the gaming hub of the Macau Peninsula and in the fast growing Cotai area has enabled us to effectively cater to a broader customer base that is focused on tourism, leisure and travel.

Group revenue and earnings registered significant gains in 2012, up 38% and 71% respectively. A very strong performance in the mass segment and solid VIP win, coupled with Galaxy Macau™'s first full year of operation, were instrumental in the Group delivering Adjusted EBITDA of just under HK\$10 billion.

The Group's continued success derives from being a local operator with an intrinsic understanding of Asian customer tastes and preferences. Our 'World Class, Asian Heart'

## CHAIRMAN'S STATEMENT

philosophy permeates all aspects of the business, from our spectacular properties, to our innovative products, services and people. It is especially pleasing that our peers have recognised our many achievements, included awarding us numerous prestigious industry accolades, including at the recent International Gaming Awards held in London where we were named Casino Operator of the Year Australia/Asia, for the second year running. We appreciate the recognition for the hard work and dedication of our staff and it is a ringing endorsement of the progress we are making in realising our vision to be 'globally recognised as Asia's leading gaming and entertainment corporation'.

As we look ahead, GEG has a clear roadmap for short, medium and long-term growth. In the short term we will continue to build upon Galaxy Macau™'s success. Turning to the medium term, we are reinvesting some of the significant returns we have achieved over the years in the accelerated launch of Phase 2 of Galaxy Macau™. Targeted to complete in mid-2015 as the next major project to open in Macau, it will provide an incomparable selection of accommodation, dining, retail and entertainment options, increasing the attractiveness of Galaxy Macau™ and Macau itself. And finally, we will shortly submit development plans for Phases 3 and 4 in Cotai that will provide enormous potential for growth in the longer term. Together, these initiatives leave us well positioned to continue to create substantial value for our shareholders in the coming years and assist Macau as it looks to enhance its standing as one of the world's must visit destinations.

## MACAU MARKET REVIEW

Macau continues to move forward in establishing itself as one of the world's premier tourism destinations, continually enhancing its incredible selection of hotel, dining and entertainment options. While total visitor numbers were only marginally up on the previous year, visits from Mainland China increased more strongly. Mainland Chinese visitors now account for more than 60% of total visitors. Total gaming revenue for the year increased by 14% to HK\$295 billion, with the mass segment posting growth of almost 33%. Comparing this level of mass growth against the increase in visitor numbers indicates that Macau is succeeding in attracting leisure travellers.

Historically, Macau's growth has been constrained by infrastructure that is now being addressed. The much

anticipated Guangzhou-Zhuhai Intercity Mass Rapid Transit, connecting Guangzhou South Station and Zhuhai's Gongbei, became operational on 31 December 2012. As Guangzhou is one of the key hubs on the high speed railway network in China, we believe this completed railway line will play an important role in enabling Macau to deepen its penetration into China. The border gate expansion at Gongbei, expected to complete in the near future and should also facilitate greater ease of access to Macau, and in turn, encourage increased visitations.

## GALAXY MACAU™

Our flagship property in Cotai has become one of Macau's premier destinations. Its reputation for providing customers with a unique, high quality Asian experience has grown quarter on quarter, translating to an excellent financial performance generating a latest twelve months ROI of 38%. Galaxy Macau™ ended its first full year of operation with its best ever quarter.

During the year, Galaxy Macau™ strengthened its gaming and entertainment offering by opening two new luxurious Sky Casinos, the Pavilion High Limit Slots, an additional VIP room and its private members club China Rouge. The Sky Casinos provide discretion and privacy to Asia's most discerning customers. At the recent International Gaming Awards it was named Casino VIP Room of the Year, underscoring the quality and appeal of the product.

There is further scope for improvement at Galaxy Macau™ as it looks to build its brand, increase customer loyalty, drive higher value visitations and also maximise returns from its existing extensive amenities.

## STARWORLD HOTEL & CASINO

StarWorld again delivered solid growth in earnings, a considerable feat given the well-publicised moderation in industry VIP revenues in 2012. It is one of the highest returning casinos in the world, delivering the latest twelve months ROI of 94%. Hotel occupancy remained at near capacity throughout the year at 99%.

To ensure its enduring appeal and popularity, the management team is currently implementing new growth initiatives to further improve the product and service experience. We expect to complete a majority of these enhancements in mid-2013.

## CHAIRMAN'S STATEMENT

### TRANSFORMING COTAI

#### Galaxy Macau™ Phase 2 and Phases 3 & 4

In 2012, GEG set out its medium and longer term plans for Macau's largest casino designated landbank in Macau, beginning with the accelerated launch of Phase 2 of Galaxy Macau™. Building on the overwhelming success of Phase 1 and the healthy prospects for Macau, it will virtually double the existing footprint of the property. Its completion is on schedule for mid-2015.

Highlights of Phase 2 of Galaxy Macau™ include:

- Two new luxurious hotels including The Ritz Carlton's first ever all-suite hotel and the world's largest JW Marriott, bringing the grand total to 3,600 rooms, suites and villas across five luxury hotels
- Expanded retail space to over 100,000 square metres, comprising nearly 200 high end retail stores
- Significantly increased meeting, event and banquet space with total capacity of 3,000 guests
- An enhanced must see skytop wave pool resort deck, with additional leisure amenities and landscaped tropical gardens

These wide reaching improvements to what is already a compelling offer, will provide customers with a fresh and exciting experience.

Turning to the longer term, we are well advanced in drawing up exciting plans for Phases 3 & 4 that will span one million square metres. The project will focus on providing an unprecedented range of innovative entertainment, cultural and MICE facilities, and will be principally targeted at premium mass guests. We expect to add a further 5,500 hotel rooms and suites, a state of the art multi-purpose 10,000 seat arena for world class entertainment and sporting events as well as a 1,500 seat multi-purpose showroom, and a 50,000 square metre convention centre that can seat up to 5,000 guests among other things.

### DIVIDEND

With the substantial development growth pipeline, the Board of Directors has decided to reinvest all surplus funds into the development of the Company. As a result, the Board of Directors does not recommend the payment of a full year dividend for the year ended 31 December 2012.

### BOARD UPDATE

Following a further reduction in Permira's investment in GEG, Mr. Henry Chen, a Non-executive Director nominated by Permira, resigned from the Board on 3 September 2012. The Board would like to express its gratitude to Mr. Chen for his support and invaluable contribution to the business during the term of his appointment.

### MACAU MARKET OUTLOOK

Macau's prospects remain good. While the spectacular growth achieved in the early years in Macau has started to moderate as expected, an exciting evolution of the market is taking place with growth in the mass segment gathering pace. Mass now accounts for 26% of total gaming revenue, but virtually half of profits. We believe GEG's high quality portfolio of properties, equipped with diverse leisure and entertainment options that appeal to a broad cross section of guests, leave it extremely well positioned to take advantage of the growing proportion of travel and leisure-seeking guests from Mainland China. The construction of major infrastructure projects such as the construction of the Guangzhou-Zhuhai Intercity Mass Rapid Transit extension line and the Guangzhou-Zhuhai Super Highway ending at Hengqin Island, the Hong Kong-Zhuhai-Macau Bridge and the Light Rail Transit connecting Macau, Taipa and Cotai, are expected to play a crucial role in improving access and driving new visitors to Macau. In addition, Hengqin Island, which is located adjacent to Macau and with a total area of over three times of Macau, has all the benefits required for developing a truly resort destination to offer low rise low density non-gaming leisure and entertainment amenities, which we strongly believe will be complementary to Macau and help develop Macau into the world centre of tourism and leisure.



## CHAIRMAN'S STATEMENT

### CONSTRUCTION MATERIALS DIVISION

GEG's Construction Materials Division posted another solid set of results, achieving year-on-year revenue growth of 30% to HK\$2 billion and Adjusted EBITDA growth of 6% to HK\$459 million.

### CORPORATE SOCIAL RESPONSIBILITY

GEG has enjoyed a decade of strong partnership with the Macau Government, contributing to Macau's transformation into one of the world's most vibrant and dynamic tourism and leisure destinations. As a leading employer and a proud member of the Macau community, we take seriously our role in supporting the growth, prosperity and sustainable development of Macau.

As an active member of the Responsible Gaming Working Committee, GEG joins the related local parties in Macau in developing initiatives aimed at enhancing the responsible gaming culture. Additionally, GEG believes in a healthy and safe working environment for our team members and customers and therefore, we support the new era of a smoke-free Macau and act in compliance of the Macau Government to clearly split smoker friendly areas and other necessary measures.

During the year we made great strides in becoming a greener business by reducing our energy consumption and the amount of water used. We also participated in and sponsored a number of sporting, educational and community services initiatives, including organising through the "GEG Volunteer Team" a total of 26 volunteering activities for 24 different charitable associations and hosting the Macau Galaxy Entertainment International Marathon 2012 for the 9th consecutive year. We remain firmly committed to helping create a better future for Macau and its citizens.

### CLOSING REMARKS

GEG achieved excellent results in 2012, with Galaxy Macau™ contributing an impressive first full year of revenues and earnings and StarWorld delivering another solid full year performance. Galaxy Macau™ continues to improve each quarter, and we believe there is further potential to drive visitation and optimise utilisation and returns from the property in the short and medium term.

As the owner of the largest casino designated landbank in Macau, we are now well advanced in mapping out the Company's longer term growth with Phases 3 and 4 in Cotai. We believe these properties will set a new benchmark for the leisure and entertainment industry in Asia, and we expect them to provide a platform for growth for many years to come.

In this new financial year, GEG's management will remain focused on extracting synergies across our complementary portfolio of properties. Further out, GEG's track record in building and operating some of the largest and most innovative leisure and entertainment properties in the world, give us confidence that we can successfully execute our medium and longer term development plans, and in turn, generate substantial value for shareholders in future.

I would like to take this opportunity to extend a warm and sincere thank you to our management team and each and every team member at GEG who have played a crucial role in achieving the Group's success. I would also like to express our gratitude to the Macau SAR Government for its continued support to the industry and to GEG's growth and diversification plans. GEG remains fully committed to support the Macau Government in leveraging on its advantages to diversify Macau and enhance its position as a world class tourism destination, and lay a solid foundation for Macau's future development.

#### **Dr. Lui Che Woo**

*GBM, MBE, JP, LLD, DSSc, DBA  
Chairman*

Hong Kong, 26 March 2013

# SELECTED MAJOR AWARDS IN 2012

## GEG

***Casino Operator of the Year Australia/Asia***

International Gaming Awards (IGA)

***Corporate Governance – Titanium Award***

The Asset Magazine – Corporate Awards 2012

***World's Distinguished and Leisure Hotel Group Award***

Capital CEO Magazine & Capital Entrepreneur Magazine

***Best Investor Relations***

FinanceAsia Magazine

***Best Investor Relations 3rd Place (voted by the buy-side)***

Institutional Investor Magazine – All Asia Executive Team Survey

***Top 100 Overall Strength Award***

***Top 10 Revenue Growth Award***

***Top 10 Net Profit Growth Award***

***Top 10 The Most Promising Award***

QQ.com & Finet – Top 100 HK-Listed Companies 2012

## GALAXY MACAU™

***Casino VIP Room of the Year***

International Gaming Awards (IGA)

***The Best New Hotel (Macau)***

TTG China Travel Awards

***Macau Elite Service Resort Award***

Exmoo

***Best Resort Hotels***

Travel & Leisure China

***Best Integrated Resort of Asia***

Asia Hotel Awards

***High Flyers – Leading Integrated Resort in Asia***

Hong Kong Business

***Top Ten Resort Hotels of China***

China Hotel Starlight Awards

***Best Service Award – UA Galaxy Cinemas***

CineAsia

***Metro Creative Award – The Best Creative Ad***

Metro Daily

## **STARWORLD HOTEL**

***Macau Elite Service Hotel Award***

Exmoo

***CMN Most Popular Brand in Hong Kong & Macau***

China Media Network

***Annual Best Hotel Service of Asia***

Asia Hotel Awards

***Top Ten Influential Hotel of Asia***

Asia Hotel Golden-Olive Awards

***The Best Excellent Service Quality Hotel of China***

Asia Hotel Golden-Olive Awards

***The Best Guest Experience Hotel of China***

Asia Hotel Golden-Olive Awards

***Top Ten Most Charming Hotel in Asia***

Golden Horse Award of China Hotel

***Best Service Hotel***

Golden Horse Award of China Hotel

***Top Ten Glamorous Hotels of China***

China Hotel Starlight Awards

***The Most Popular Macau Hotel***

TVB Weekly

## **CONSTRUCTION MATERIALS DIVISION**

***10 Consecutive Years Caring Company Logo***

The Hong Kong Council of Social Service

***Hong Kong Awards for Environmental Excellence – Wastewi\$e Label – Class of Excellence***

Environmental Campaign Committee

***11th Hong Kong Occupational Safety & Health Award – Safety Performance Award***

Labour Department/Occupational Safety & Health Council

***HSBC Living Business Awards 2012 – Green Achievement Award – Certificate of Excellence***

Business Environmental Council

***Outstanding Employee in Health & Safety Performance Award – Small and Medium Enterprises Gold Award***

Labour Department/Occupational Safety & Health Council





# MANAGEMENT DISCUSSION AND ANALYSIS

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

## OVERVIEW

2012 was characterised by an ongoing shift in the market to the higher margin mass segment, Galaxy Macau™ going from strength to strength each quarter as it strove to fulfil its maximum potential, a solid performance at StarWorld, and the Group as a whole operating more efficiently than ever before. This resulted in Galaxy Entertainment Group delivering another excellent set of results, with revenues growing substantially by 38% to \$56.7 billion and Group Adjusted EBITDA up 71% to \$9.8 billion.

GEG's unique products and services, underpinned by its 'World Class, Asian Heart' philosophy, ensured the Group's continuing success and further supported its ambition to be 'globally recognised as Asia's leading gaming and entertainment corporation'.

Galaxy Macau™'s performance in its first full financial year of operation was strong. Adjusted EBITDA climbed from \$2.6 billion in 2011 to \$6.5 billion for the full year in 2012, revenue doubled to \$33 billion and the latest twelve months ROI was 38%, reflecting the property's strong performances in all segments. GEG is confident that Phase 2 of Galaxy Macau™, targeted to be completed in mid-2015, will attract a range of new leisure and tourism visitors and maximise returns from the existing broad range of amenities. Additionally, GEG is well advanced in drawing up groundbreaking plans for Phases 3 and 4 of Galaxy Macau™ that will set a new benchmark for the global leisure and entertainment industry and assist Macau in developing into a world centre of tourism and leisure.

Against impressive historical comparisons, StarWorld delivered a solid set of results, achieving a 10% uplift in Adjusted EBITDA to \$3.2 billion, its fourth consecutive year of growth. The mass segment was the property's star performer, with net win increasing by 47% year-on-year to \$2.4 billion. StarWorld is one of the best returning casinos in the world as evidenced by the latest twelve months ROI rising from 86% in 2011 to 94% in 2012.

Macau's potential for growth remains very healthy. A number of large scale infrastructure projects in Macau and in Mainland China, such as the construction of the Guangzhou-Zhuhai Intercity Mass Rapid Transit extension line and the Guangzhou-Zhuhai Super Highway which links

Hengqin Island, the Hong Kong-Zhuhai-Macau Bridge, the Light Rail Transit (connecting Macau, Taipa and Cotai) and the build out of the second ferry terminal at Taipa, are expected to complete over the next few years which will dramatically improve access to Macau from Mainland China and connectivity within Macau. GEG expects that its properties will benefit from the rise in visitor numbers arising from the completion of these infrastructure works, driving substantial top and bottom line growth in the medium and long term. In the more immediate future, GEG is focused on optimising the potential of Galaxy Macau™ by increasing its brand awareness amongst higher value customers and achieving ever better operating efficiency across the property, as well as refreshing StarWorld's product and service experience. Management is confident that this short, medium and longer term blueprint for success will enable it to build a more profitable business, diversify its other income streams and generate substantial value for all its stakeholders.

## REVIEW OF OPERATIONS

### Group Financial Results

The Group delivered a strong set of results in 2012, with revenue increasing by 38% to \$56.7 billion, Group Adjusted EBITDA rising by 71% to \$9.8 billion and net profit attributable to shareholders increasing 146% to \$7.4 billion. This tremendous growth was due largely to the first full year contribution from Galaxy Macau™, StarWorld also achieved double digit growth in earnings despite a more challenging VIP gaming environment. GEG's Construction Materials Division and City Clubs also made solid contributions, delivering Adjusted EBITDA of \$459 million and \$163 million, respectively.

In terms of gaming revenue, the mass segment achieved the strongest growth with Galaxy Macau™ driving the net win from \$2.8 billion in 2011 to \$7.3 billion in 2012, and StarWorld achieving growth of 47% to \$2.4 billion.

GEG's highly cash generative business model resulted in cash on hand more than doubling to \$15.6 billion (2011: \$7.7 billion) as of 31 December 2012, including restricted cash of \$2.1 billion. The Group is in a net cash position of \$4.6 billion as at 31 December 2012 where the gearing ratio reduced to zero from 19% in 2011.

## MANAGEMENT DISCUSSION AND ANALYSIS

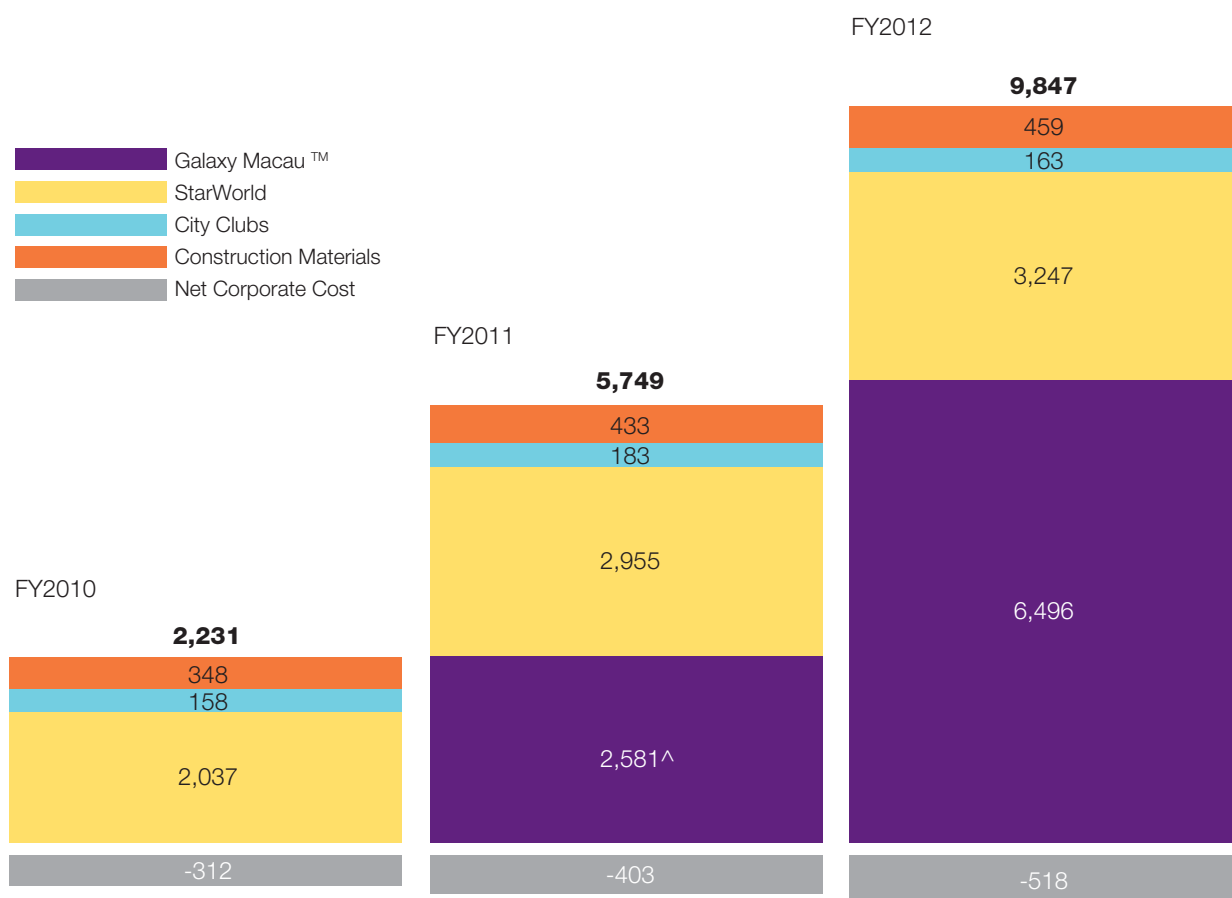
(All amounts are expressed in Hong Kong dollars unless otherwise stated)

Set out below is the segmental analysis of the Group's operating results for the year ended 31 December 2012:

2012 (HK\$'m)	Gaming and Entertainment	Construction Materials	Corporate	Total
Revenue	54,696	2,050	–	56,746
Adjusted EBITDA	9,534	459	(146)	9,847

2011 (HK\$'m)	Gaming and Entertainment	Construction Materials	Corporate	Total
Revenue	39,612	1,574	–	41,186
Adjusted EBITDA	5,409	433	(93)	5,749

### Group Adjusted EBITDA (HK\$'m)



<sup>^</sup> Galaxy Macau™ opened on 15 May 2011. Its results reflect the seven and a half months of operation.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### GAMING AND ENTERTAINMENT DIVISION

#### Overview of the Macau Gaming Market

2012 was another important year for Macau as it sought to diversify its leisure offerings and enhance its appeal to residents and higher value visitors. Cotai continued to be Macau's growth engine, with three new hotels opening during the year.

Total gaming revenue reached \$295 billion in 2012, a year-on-year increase of 14% from \$260 billion in 2011. Visitor numbers rose marginally to almost 28.1 million. Visitation from Mainland China increased at a faster rate, with Mainlanders now accounting for more than 60% of total visitor numbers in 2012 (2011: 58%).

VIP remains the largest segment of the market, accounting for more than 69% of total gaming revenue. VIP revenue increased by 8% to just under \$205 billion.

Higher margin mass segment revenue grew by 33% to \$77.7 billion (2011: \$58.6 billion) and now represents over 26% of Macau's total gaming revenue. This significant increase when factored against a marginal rise in visitor numbers, strongly indicates that Macau is succeeding in attracting higher value guests. GEG believes that the current Galaxy Macau™ and StarWorld offerings and the exciting development plans for Phases 2, 3 and 4 on Cotai, position it well to benefit from this evolution in the market.

Efforts to dramatically improve accessibility to Macau from Mainland China are extensive and ongoing. The completion of the Guangzhou-Zhuhai Intercity Mass Rapid Transit in late December 2012 has already had an immediate positive impact with a noticeable increase in

visitors utilising the railway link, and airlines responding by offering very competitive packages. Macau should also benefit from the nearly completed expansion of the immigration gate at Gongbei. This coupled with other important projects including the Super Highway between Guangzhou and Zhuhai should provide a major boost to the Macau economy by driving visitation in the years to come.

Electronic gaming now accounts for more than 4% of Macau's overall gaming revenue. It achieved year-on-year growth of 16% to \$12.9 billion.

#### Galaxy Macau™

##### Financial and Operational Performance

Galaxy Macau™ recorded an excellent financial performance in 2012, delivering full year revenue of \$33 billion and Adjusted EBITDA of \$6.5 billion, increases of 102% and 152% respectively when compared to the seven and a half months of operation in 2011. In the twelve months period, Adjusted EBITDA margin under HK GAAP rose from 16% to 20% and from 23% to 28% under US GAAP, driven by continuously improving mass revenues and increased efficiency. The property ended the year with fourth quarter Adjusted EBITDA of \$1.9 billion, an increase of 6% on the previous quarter and its sixth consecutive quarter of EBITDA growth. The latest twelve months ROI climbed to 38%.

##### VIP Gaming Performance

Total VIP rolling chip volume for the year was \$699 billion, up from \$380 billion in 2011, which translated into revenue of \$23.1 billion. In the early part of the year management enhanced Galaxy Macau™'s VIP offer by opening two new luxurious Sky Casinos, the Pavilion High Limit Slots and an additional VIP room.

VIP Gaming	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2011	FY 2012	YoY%
HK\$m							
Turnover	171,393	186,442	173,295	167,590	379,671	<b>698,720</b>	84.0%
Net Win	5,120	6,287	5,720	5,956	12,193	<b>23,083</b>	89.3%
Win %	3.0%	3.4%	3.3%	3.6%	3.2%	<b>3.3%</b>	n/a



## MANAGEMENT DISCUSSION AND ANALYSIS

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



Sky 32

### Mass Gaming Performance

Revenue in the mass segment was \$7.3 billion (2011: \$2.8 billion), with growth accelerating in the second half of the year. Fourth quarter revenue increased by 52% year-on-year to \$2.1 billion, and sequentially by 11%.

<b>Mass Gaming</b>							
HK\$m	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2011	FY 2012	YoY%
Table Drop	5,871	6,041	6,297	6,497	13,092	<b>24,706</b>	88.7%
Net Win	1,593	1,717	1,885	2,096	2,840	<b>7,291</b>	156.7%
Hold %	27.1%	28.4%	29.9%	32.3%	21.7%	<b>29.5%</b>	n/a

### Electronic Gaming Performance

Electronic gaming revenue was \$1.2 billion, up considerably from \$645 million in the previous year.

<b>Electronic Gaming</b>							
HK\$m	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2011	FY 2012	YoY%
Slots Handle	4,346	4,385	5,345	5,484	10,129	<b>19,560</b>	93.1%
Net Win	298	271	313	328	645	<b>1,210</b>	87.6%
Hold %	6.9%	6.2%	5.8%	6.0%	6.4%	<b>6.2%</b>	n/a

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### Non-Gaming Performance

Non-gaming revenue more than doubled to \$1.5 billion in the year when compared to the seven and a half months of operation in 2011. Galaxy Macau™ has been very successful in attracting a broader cross section of new customers, including families that aspire for a truly unique resort experience in Macau. Guests continue to be impressed by the resort's splendor and lavish architecture, vast array of retail, food and beverage outlets, the world's largest skytop wave pool, a modern 3D Cineplex and private members club China Rouge. The distinctive layout of the property has been instrumental in growing revenue, as it facilitates a seamless navigation between the gaming areas and entertainment, retail, and food and beverage outlets.

Hotel occupancy on a combined basis at the resort's three luxury hotels stood at 95% for the full year.

### Major Awards

Galaxy Macau™ has built an excellent reputation for providing customers with a unique, high quality Asia centric experience. In 2012 it received numerous accolades, including its new luxurious Sky Casinos being named Casino VIP Room of the Year at the prestigious International Gaming Awards, and the resort as a whole being awarded Best Resort Hotels by Travel & Leisure China and Best Integrated Resort of Asia by Asia Hotel Awards, among others.



*Galaxy Macau™ at night*

### Developing our landbank in Cotai – Phase 2 and Phases 3 & 4

Galaxy Macau™ has been critical to the success for GEG and contributed to the diversification of Macau. However, it is only the first stage of a multi-stage resort destination development covering a total of two million square metres.

During the first half of 2012, GEG announced the fast tracking of Phase 2 of Galaxy Macau™. Targeted for completion in mid-2015, it is expected to be the next major project to open in Macau. Extending the existing footprint of the resort to cover one million square metres, it will provide:

- 3,600 rooms, suites and villas across five luxury hotels, including The Ritz Carlton's first ever all-suite hotel and the world's largest JW Marriott
- Two world-class, award-winning spas
- Largest pan-Asian cuisine selection under one roof, with approximately 100 restaurants, cafes, bars and lounges
- Over 100,000 square metres retail area with nearly 200 luxury and lifestyles outlets
- Expansion of the Grand Resort Deck including the world's largest skytop wave pool and lush tropical gardens covering 80,000 square metres
- Meeting, events and banquet capacity for a total of 3,000 guests
- Expanded gaming capacity by up to 500 tables and over 1,000 slot machines



*Galaxy Macau™ Phase 2 on schedule to complete in mid-2015*

The planning for Phases 3 and 4 of the development is nearing conclusion. GEG intends to submit planning proposals to the government this year and targets to

## MANAGEMENT DISCUSSION AND ANALYSIS

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

commence construction by the end of 2013/early 2014. Spanning one million square metres, Phases 3 and 4 on Cotai will significantly diversify GEG's product and service offering to include a multitude of new non-gaming elements including entertainment.

The ambitious \$50 – \$60 billion project will target premium mass guests, with non-gaming amenities representing approximately 95% of the total floor area, providing approximately 5,500 additional five-star hotel rooms, a state of the art multi-purpose 10,000 seat arena for world class entertainment and sporting events, a 50,000 square metre convention centre with a capacity up to 5,000 people, as well as a 1,500 seat multi-purpose showroom. Gaming capacity will be up to 1,000 tables and 3,000 slots.

### StarWorld Hotel & Casino

#### Financial and Operational Performance

StarWorld performed solidly in 2012, with Adjusted EBITDA increasing by 10% to \$3.2 billion and revenue

broadly in line with the previous year at \$21.5 billion. Adjusted EBITDA margin improved from 13% to 15% under HK GAAP. StarWorld continues to be one of the highest returning casinos in the world, generating the latest twelve months ROI of 94% (2011: 86%).

Fourth quarter Adjusted EBITDA was down by 22% to \$646 million against prior year, reflecting the fact the property played unlucky in VIP and experienced a softer overall market. The growing mass segment performed extremely well delivering 47% growth in revenue to \$2.4 billion.

#### VIP Gaming Performance

VIP rolling chip volume in 2012 was \$633 billion. This generated revenue of \$18.4 billion, reflecting softer overall market conditions. StarWorld played less lucky by 0.2 percentage points against the previous year. A number of new growth initiatives to reenergise the property are expected to be completed in mid-2013.

<b>VIP Gaming</b>							
HK\$m	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2011	FY 2012	YoY%
Turnover	176,117	162,971	147,064	146,915	663,886	<b>633,067</b>	-4.6%
Net Win	4,754	5,115	4,416	4,098	20,252	<b>18,383</b>	-9.2%
Win %	2.7%	3.1%	3.0%	2.8%	3.1%	<b>2.9%</b>	n/a

#### Mass Gaming Performance

Mass revenue for the year increased by 47% to \$2.4 billion (2011: \$1.7 billion), with fourth quarter revenue on a sequential basis increasing by 14% to \$706 million. GEG expects its sharpened focus on targeting higher value customers by promoting the collective strength of its property portfolio will continue to benefit StarWorld.

<b>Mass Gaming</b>							
HK\$m	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2011	FY 2012	YoY%
Table Drop	2,392	2,374	2,627	2,585	8,616	<b>9,978</b>	15.8%
Net Win	564	545	618	706	1,661	<b>2,433</b>	46.5%
Hold %	23.2%	22.5%	23.1%	26.7%	18.9%	<b>23.9%</b>	n/a

#### Electronic Gaming Performance

StarWorld's electronic gaming generated revenue of \$247 million, marginally up on last year.

<b>Electronic Gaming</b>							
HK\$m	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2011	FY 2012	YoY%
Slots Handle	927	835	882	901	4,025	<b>3,545</b>	-11.9%
Net Win	62	60	59	66	241	<b>247</b>	2.5%
Hold %	6.6%	7.2%	6.7%	7.3%	6.0%	<b>7.0%</b>	n/a

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### Non-Gaming Performance

Non-gaming revenue increased by 20% to \$416 million in 2012 compared to the previous year. Room occupancy remained at near capacity throughout the year at 99%, underlining StarWorld's status as one of Macau's preeminent 5 star luxury hotels.

### Major Awards

Since opening in 2006, StarWorld has garnered more than 30 awards from the industry. Its exemplary service standards and unique products were recognised once again in 2012, with the property receiving a whole host of awards including Annual Best Hotel Service of Asia by Asia Hotel Awards, CMN Most Popular Brand in Hong Kong & Macau by China Media Network, and Top Ten Influential Hotel of Asia and The Best Guest Experience Hotel of China from Asia Hotel Golden-Olive Awards.



*Infinity Swimming Pool*

### City Clubs

City Clubs contributed \$163 million of Adjusted EBITDA to the Group.

## CONSTRUCTION MATERIALS DIVISION

The Construction Materials Division ("CMD") delivered a solid performance in 2012. Revenue grew by 30% over the previous year to \$2 billion and Adjusted EBITDA increased by 6% year-on-year to \$459 million.

### Hong Kong and Macau

The demand for construction materials in Hong Kong continued to increase in 2012, which benefited the sales volumes of CMD's aggregates, ready-mixed concrete and asphalt operations, and contributed significantly to the Division's full year profits.



*StarWorld Hotel & Casino*



*The new quarry in Huidong of Guangdong Province*

## MANAGEMENT DISCUSSION AND ANALYSIS

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

In Macau, CMD's ready-mixed concrete operations achieved an improved performance following the commencement of construction of new major projects and an increase in public housing works.

### Mainland China

In 2012, CMD further strengthened its position as a market leader in granulated blast-furnace slag ("slag") in the Mainland by expanding the production capacity of slag despite weaker market conditions during the year.

Unlike other areas in Mainland China, market demand for cement in Yunnan Province remained strong. This is due to its geographical location and the Central Government's policy to accelerate the western region's economic growth through infrastructure construction and developing Yunnan Province into a bridgehead. CMD will continue to expand its cement production capacity in the Province given the promising outlook.



Cement production plant in Yunnan Province

## GROUP OUTLOOK

2012 was another very successful year for GEG, with the Group posting strong growth in earnings and revenues. GEG believes there is still upside as the management team strives to drive visitation and optimise utilisation and returns from the property, particularly once Phase 2 of Galaxy Macau™ commences operations in mid-2015.

As expected, 2012 saw a more challenging economic environment. However, GEG has every confidence in the excellent prospects for the industry and Macau as a whole in the years to come. Key infrastructure developments such as the extension of the high speed railway network, and major new road infrastructure connecting Macau to Hong Kong and cities in Southern China, will measurably improve access to and from Macau, driving visitation. GEG is confident that its portfolio approach, which enables it to market a compelling all round offer catering for a range of tastes, will hold it in good stead to capture a strong share of this new influx of Mainland visitors.

Furthermore, with the evolution in the market toward the mass segment gathering pace, GEG believes its medium and longer term development plans for Phases 2, 3 and 4 of Cotai, will provide an unforgettable customer experience for higher value guests looking for a rich and varied holiday getaway.

GEG will continue to drive the growth and synergies at Galaxy Macau™ and StarWorld, and pursue the next phases of its Cotai development plans. The Group has total confidence that its plans for Phases 2, 3 and 4 will not only transform its financial profile and create substantial value for shareholders, but also elevate Macau's standing in the global tourism and leisure community.

## LIQUIDITY AND FINANCIAL RESOURCES

The shareholders' funds as at 31 December 2012 was \$21,853 million, an increase of approximately 54% over that as at 31 December 2011 of \$14,222 million, while the Group's total assets employed increased to \$44,389 million as at 31 December 2012 as compared to \$35,764 million as at 31 December 2011.

The Group continues to maintain a strong cash position. As at 31 December 2012, total cash and bank balances were \$15,609 million, as compared to \$7,715 million (includes \$1,702 million long-term pledged bank deposits classified as non-current assets) as at 31 December 2011. The Group's total indebtedness was \$11,257 million as at 31 December 2012 as compared to \$11,672 million as at 31 December 2011. The Group was in a net cash position as at 31 December 2012 where the gearing ratio reduced to zero from 19% in 2011.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

The total indebtedness of the Group mainly comprises bank loans, Renminbi bond and other obligations which are largely denominated in Hong Kong Dollar and Renminbi. The Group's borrowings are closely monitored to ensure a smooth repayment schedule to maturity.

The Group's liquidity position remains strong and the Group is confident that sufficient resources could be secured to meet its commitments, working capital requirements and future assets acquisitions.

### TREASURY POLICY

The Group continues to adopt a conservative treasury policy with all bank deposits primarily in Hong Kong Dollar, United States Dollar, Renminbi or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks. All of the Group's borrowings are in Hong Kong Dollar or Renminbi. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure, which are considered necessary for the Group's treasury management activities.

### CHARGES ON GROUP ASSETS

Property, plant and equipment with net book value of \$15,377 million (2011: \$16,349 million), leasehold land and land use rights with net book value of \$2,584 million (2011: \$2,828 million), other assets with net book value of \$300 million (2011: \$235 million), bank deposits of \$1,892 million (2011: \$1,802 million) and shares of certain subsidiaries have been pledged to secure banking facilities.

### GUARANTEES

GEG has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to \$7,552 million (2011: \$10,057 million), of which \$7,314 million (2011: \$7,543 million) have been utilised.

The Group has executed guarantees in favour of a bank in respect of facilities granted to an associated company amounting to \$9 million (2011: \$9 million). At 31 December 2012, facilities utilised amounted to \$9 million (2011: \$9 million).

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group, excluding associated companies and jointly controlled entities, employed approximately 15,000 employees in Hong Kong, Macau and Mainland China. Employee costs, excluding Directors' emoluments, amounted to \$3,973 million.

### Remuneration Policy

The objective of the Group's remuneration policy is to attract, motivate and retain talented employees to achieve the Group's long-term corporate goals and objectives. To this end, the Group is committed to remunerating its employees in a manner that is market competitive, consistent with good industry practices as well as meeting the interests of shareholders.

The Group's remuneration structure for its employees comprises fixed compensation, performance-based variable incentive and long-term incentives. The overall remuneration arrangements are fair and justified, prudent and subject to regular review.

### Share Option Scheme

The Group operates a share option scheme for its employees. It serves to attract, motivate and retain employees to work for the Group long term and to better align the interests of the employees with the shareholders' interests. The number of share options granted to the eligible employees is determined with reference to the value of share options, market positioning, job seniority and the individual contribution to the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### Organisation Development and Training

Our employees are the most valuable asset of the Group and the talents and contributions of each individual are critical to our continuing success and achievement of our Mission, Vision and Values. We are committed to the development and growth of all employees and promote training and development as a life-long process. We offer ongoing personal and professional development opportunities to all employees beginning with our new hire orientation program and progressing to the delivery of technical, guest service and leadership skills training. Our training assists employees in achieving competency and professionalism in their jobs while instilling a culture of continuous improvement.

Our organisation development and training programs focus on the key elements that are critical to long term success of the Group:

1. **Internal Capacity Building** – building on well-defined career progression pathways in both Casino and Hotel Operations. Our corporate-wide organisation development and training programs provide employees with the technical expertise, management and leadership skills required for advancement and promotion within the Group.
2. **Corporate Culture** – communication, reinforcement and integration of our Mission, Vision and Values to establish a corporate culture that clearly differentiates the Group as a leading Asian gaming and entertainment company. Actively engaging with the Macau community through partnerships with local post-secondary institutes and establishment of our GEG Youth Achievement Program in cooperation with the Macau Management Association.
3. **Program Development and Customisation** – four primary areas of focus:
  - A. **Core Programs** with a focus on our World Class, Asian Heart Service; Mission, Vision and Values; new hire Orientation; identification and prioritisation of training on core competencies that drive Team Member performance.
  - B. **Leadership Development** with a focus on the development and delivery of programs to support our Core Competencies: delivery of our GEG Leaders Program I and II; GEG Leaders Program I – Executive Workshop; Management Best Practices Program and implementation of talent management programs aligned with our Values and organisational goals.
  - C. **Service Excellence** with a focus on the delivery of customised training programs that support and drive our “World Class, Asian Heart” Culture; design of quality assurance initiatives to measure and drive continuous service improvement and partnering with Operations to implement performance effectiveness programs for achieving business results.
  - D. **Organisational Effectiveness** with a focus on continuous enhancement of our performance management initiatives; use of technology to enhance the design and delivery of participant-centered learning programs; ongoing refinement of our business processes and procedures and implementation of local Talent Development programs.

Our organisation development and training programs establish direction for the Group with respect to investment in and utilisation of our human resource capital. We are excited about continuing our success as one of the leading destinations for entertainment and hospitality in Macau. In our ever increasing competitive environment, we are committed to building on the talent and expertise of our employees to ensure our continued growth and development as a leading Asian gaming and entertainment company providing exceptional experiences to our guests.

# CORPORATE GOVERNANCE REPORT

The Company is committed to high standards of corporate governance. We have a well-balanced corporate governance system which sets out the framework for the Board of Directors (“Board”) to manage the Company efficiently, to enhance shareholders’ value and to care for the community as a good corporate citizen, with a high level of transparency and accountability to shareholders. The Board has applied the code provisions in the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 (“Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

## THE BOARD

The Company is headed by the Board, which is responsible to lead and control the Company and its subsidiaries (“Group”) and promote the success of the Group by directing and supervising the Group’s affairs in an effective manner. The Board sets strategies and priorities for the Company, approves annual budgets and performance targets, determines the appropriate management structure, and monitors the performance of the management. The names and biographical details of the Directors and their relationships are set out in Further Corporate Information on pages 51 to 53 as well as the Company’s website at [www.galaxyentertainment.com](http://www.galaxyentertainment.com). The list of Directors and their roles and function is also disclosed in the websites of the Company and The Hong Kong Exchanges and Clearing Limited (“HKEx”).

### **Chairman, Deputy Chairman and Managing Director of Business Division**

The roles of the Chairman of the Board, the Deputy Chairman of the Board and the Managing Director of the Construction Materials Division are separately played by Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Mr. Joseph Chee Ying Keung respectively.

The Chairman provides leadership for the Board and ensures that the Board works effectively in discharging its responsibilities, and that all key issues are discussed and addressed to in a timely manner. The Deputy Chairman supports and assists the Chairman in performing the above works and, together with the Managing Director of the Construction Materials Division, develop strategic operation plans to implement the Company’s set strategies and priorities, and lead and oversee the day-to-day management of the Group’s business.

### **Board Composition**

The Board has a balanced composition of four executive and four (five up to 3 September 2012) non-executive Directors (including three independent non-executive Directors). The skill-sets of the Board are determined and regularly reviewed on the basis that members of the Board as a whole possess all-rounded business and professional skills essential to manage a successful sizeable enterprise and to support continuous growth. Added to our executive Directors’ substantial experience in the Company’s business, our Directors have brought in a mix of experience and qualifications in corporate management and strategic planning, investment, finance, legal and corporate governance practices. In fulfilling their roles and duties, our Directors provide balanced and independent views to the Board, exercise independent judgment and play a check and balance role on the Board’s decisions, particularly on matters that may involve conflict of interest.

Non-executive Directors are appointed for a specific term. Mr. James Ross Ancell, Dr. William Yip Shue Lam, Mr. Anthony Thomas Christopher Carter and Professor Patrick Wong Lung Tak were appointed for a fixed term of three years pursuant to their service contracts. Mr. Henry Lin Chen was appointed pursuant to an Investors’ Rights Agreement dated 8 October 2007, and he resigned as a non-executive Director of the Company on 3 September 2012 pursuant to the said Investors’ Rights Agreement.

During the year under review, Mr. Francis Lui Yiu Tung has been re-designated as a member of the Remuneration Committee and appointed as the chairman of the Corporate Governance Committee, Dr. William Yip Shue Lam has been re-designated as the chairman of the Remuneration Committee and appointed as the chairman of Nomination Committee and Professor Patrick Wong Lung Tak was appointed as a member of each of the Nomination Committee and Corporate Governance Committee, all with effect from 15 March 2012.

Changes in the Board composition during the year are set out in the Report of the Directors on page 55.



### **Appointment and Re-election of Directors**

A formal, considered and transparent procedure is in place for the appointment of new Directors to the Board. Candidates to be recommended and selected are those who are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence to a standard required of for listed companies' directors. In addition, the ability to provide balanced and independent views and exercise independent judgment and to devote sufficient time and attention to the Company's affairs is an additional criterion for selecting non-executive directors. The responsibility in reviewing the size, structure and composition of the Board and proposed re-election of retiring Directors was delegated to the Nomination Committee upon its establishment.

Pursuant to the Code A.4.3 of Appendix 14 of the Listing Rules, any re-appointment of independent non-executive director who served more than 9 years shall be subject to a separate resolution to be approved by the shareholders. Mr. James Ross Ancell, an Independent non-executive Director, is due to retire at the annual general meeting to be held on 3 June 2013 and has served the Company for more than 9 years at the time of retirement. During his years of appointment, Mr. Ancell has demonstrated his ability to provide an independent view to the Company's matters. Mr. Ancell had made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied that Mr. Ancell remains independent, and there is no evidence that his tenure has had an impact on his independence. Separate resolution will be proposed for his re-election at the forthcoming annual general meeting.

### **Confirmation of Independence**

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.

### **Responsibilities of Directors**

Each Director has a duty to act in good faith in the interests of the Company. The Company believes that to enable our Directors to provide their maximum contributions, it is essential to keep them updated on their duties and responsibilities as well as the conduct, business activities and development of the Group. To this end, the Company has from time to time arranged site visit to important operations of the Group. Starting from April 2012, monthly updates on the market trend and Company's development, financial and operation information were provided to Directors as soon as practicable.

The Company received notification from each Director on an annual basis a list showing the nature of offices he holds in other public companies and organisations and the estimated time involved. All Directors have access to the management and Company Secretary for any information relevant to the Group they require in discharging their duties. Reports on the Company's performance and comparison with budget together with the necessary commentary and explanation on any deviation from budget are provided to our Directors at regular Board meetings.

The Company has in place directors' and officers' liabilities insurance cover to indemnify our Directors against claims and liabilities arising out of the Group's business and activities.

## CORPORATE GOVERNANCE REPORT

### Directors' Induction and Continuous Professional Development

All Directors have participated in continuous professional development, including seminars provided by the Company and/or external qualified professionals on corporate governance, updates on laws, rules and regulations to further strengthen their knowledge and skills on the roles, functions and duties. Timely updates on legislative and regulatory changes and corporate governance development relevant to the Group and relevant information on the Group's business and activities are provided to our Directors on a regular basis. The Company keeps a records of training provided by each Director, summarised as follows:

Directors	Corporate Governance/ Updates on Laws, Rules & Regulations	Accounting/Financial/ Management/ Other Professional Skills
	Read materials/ Attend seminars	Read materials/ Attend seminars
<b>Executive Directors</b>		
Dr. Lui Che Woo	✓	✓
Mr. Francis Lui Yiu Tung	✓	✓
Mr. Joseph Chee Ying Keung	✓	✓
Ms. Paddy Tang Lui Wai Yu	✓	✓
<b>Non-executive Director</b>		
Mr. Anthony Thomas Christopher Carter	✓	✓
<b>Independent non-executive Directors</b>		
Mr. James Ross Ancell	✓	✓
Dr. William Yip Shue Lam	✓	✓
Professor Patrick Wong Lung Tak	✓	✓

### Code of Conduct for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by Directors. The Company, having made specific enquiry of all Directors, confirms that our Directors have complied with the required standard set out in the Model Code.

The Board has also established written guidelines on no less exacting terms than the Model Code to be observed by relevant employees of the Group who, because of their offices or employments, are likely to possess inside information in relation to the Group or the securities of the Company in respect of their dealings in the securities of the Company.

### DELEGATION BY THE BOARD AND BOARD COMMITTEES

The Board has proper delegation of its powers and has established appropriate Board Committees, with specific written terms of reference which deal clearly with their authority and duties, to oversee particular aspects of the Group's affairs. Sufficient resources, including the advice of the external Auditor and independent professional advisers, are provided to the Board Committees to enable them to discharge their duties.

#### **Executive Board**

The Board has delegated the power, authorities and discretions for the management of the Group's operations and activities to a formally established Executive Board comprising all executive Directors of the Company. The Executive Board reports to the Board and circulates its resolutions and minutes of the Board or committees or general meetings to all Directors on a quarterly basis. Certain matters including annual budgets and financial statements, dividends and distribution to shareholders, increase of share capital and allotment of new shares except pursuant to exercise of share options, derivative tradings, connected transactions which are subject to disclosure and/or shareholders approval requirements, and acquisitions, disposals, investments, financing and charging of assets above certain predetermined thresholds are specifically reserved for approval by the Board.

In respect of the decision making process, management, pursuant to the levels of authority formally approved by the Executive Board, submits written proposals with detailed analysis (on financial and commercial aspects) and recommendations to the Executive Board for consideration and approval. Where the subject matter exceeds the authority of the Executive Board or relates to any matters specifically reserved to the Board as aforesaid, it would be submitted to the Board for approval.

The Executive Board sub-delegates the day-to-day management, administration and operations functions to executive committees of the gaming and entertainment division and the construction materials division and where appropriate, special task forces with specified duties to oversee particular business activities or corporate transactions.

#### **Audit Committee**

The Audit Committee of the Company has been in place since 1999. It comprises three members who are all Independent non-executive Directors. Mr. James Ross Ancell is the Chairman and Dr. William Yip Shue Lam and Professor Patrick Wong Lung Tak are members.

The Audit Committee is accountable to the Board and assists the Board to oversee the Company's financial reporting process and internal control and risk management systems and to review the Group's interim and annual consolidated financial statements. The Audit Committee has access to and maintains an independent communication with the external Auditor and management. The role and function of the Audit Committee are set out in its revised written terms of reference which are posted on the websites of the Company and the HKEx.

The Audit Committee met twice a year with all the members present and with the attendance of the Group Chief Financial Officer, the Financial Controller of the respective business division, the Company Secretary, the Internal Auditor and the external Auditor. The Audit Committee submitted its written report to the Board after each Audit Committee meeting, drawing the Board's attention to important issues that the Board should be aware of, identifying any matters which it considered action or improvement was needed and making appropriate recommendations.

The principal work performed by the Audit Committee during the year included review of interim and annual consolidated financial statements, management representation letter, audit fee, audit strategy, significant accounting and tax matters, internal audit annual plan and report, independence of external auditors, other financial and internal control matters, and certain operational activities.

### **Remuneration Committee**

The Remuneration Committee of the Company has been in place since early 2006. It comprises three members with a majority of Independent non-executive Directors. Dr. William Yip Shue Lam is the Chairman, Mr. Francis Lui Yiu Tung and Professor Patrick Wong Lung Tak are members.

The Remuneration Committee is accountable to the Board and with delegated responsibility, regularly reviews, formulates and determines fair and competitive remuneration packages in order to attract, retain and motivate Directors of the quality required to run the Company successfully. The role and function of the Remuneration Committee are set out in its revised written terms of reference which are posted on the websites of the Company and the HKEx.

The Remuneration Committee met twice in 2012 with all its members present and with the attendance of representatives from the human resources department and the Company Secretary. The Remuneration Committee submitted its written report and/or recommendation to the Board after the Remuneration Committee meeting.

The principal work performed by the Remuneration Committee during the year included recommendation of Directors' fee subject to approval of shareholders at the annual general meeting, review and approval of remuneration structure and packages to executive Directors, recommendation of amendments on terms of reference and grant of share options to executive Directors. No Director was involved in deciding his own remuneration at the Remuneration Committee meeting.

### **Nomination Committee**

The Nomination Committee of the Company was set up on 15 March 2012. It comprises three members of which a majority is Independent non-executive Directors. Dr. William Yip Shue Lam is the Chairman of the Nomination Committee and Mr. Francis Lui Yiu Tung and Professor Patrick Wong Lung Tak are the members. Its major responsibilities are to formulate and implement the policy for nominating candidates for election to the Board, assess the independence of non-executive Directors and propose re-election of retiring Directors. The Company has adopted a nomination policy in March 2012 and the policy was revised in March 2013 to take into consideration Board diversity from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and other qualities of Directors. Any Director (after consultation with the Chairman of the Board) may nominate a suitably qualified candidate to serve as a Director of the Company for consideration of the Nomination Committee. The Nomination Committee shall review the candidate profile and then submit a recommendation to the Board for consideration after taking into account all the requirements set out. The Board then considers the recommendation and forms its opinion as to whether the proposed candidate shall be appointed as a Director. The terms of reference of the Nomination Committee are posted on the websites of the Company and the HKEx.

The Nomination Committee met once with all the members present. The Nomination Committee submitted its written report and/or recommendations to the Board after the Nomination Committee meeting.

The principal work performed by the Nomination Committee since its establishment included reviewing the structure, size and composition of the Board, assessing of the independence of Independent non-executive Directors, recommending the re-appointment of retiring directors, and proposing amendment to the policy for nomination of directors for the Board's approval.

## CORPORATE GOVERNANCE REPORT

### Corporate Governance Committee

The Corporate Governance Committee of the Company was set up on 15 March 2012. It comprises three members of which a majority is Independent non-executive Directors. Mr. Francis Lui Yiu Tung is the Chairman of the Corporate Governance Committee and Mr. James Ross Ancell and Professor Patrick Wong Lung Tak are the members. Its main responsibilities are to review the Company's policies and practices on corporate governance, training and continuous professional development of Directors and senior management, and compliance with the Code and disclosure in this Corporate Governance Report. A policy on corporate governance was adopted with the aim to enhance shareholders' value, to achieve high level of transparency, integrity and accountability.

The Corporate Governance Committee met once with all its members present. The Corporate Governance Committee submitted its written report and/or recommendation to the Board after the Corporate Governance Committee meeting.

The principal work performed by the Corporate Governance Committee since its establishment included review of the policy on corporate governance relating to disclosure obligations under Listing Rules requirement, compliance manual on code of conduct on securities transactions by Directors and employees, training and continuous professional development of Directors and compliance of the Code and disclosure in this corporate governance report.

## BOARD, BOARD COMMITTEES AND GENERAL MEETINGS

The Board schedules regular Board meetings in advance to give Directors the opportunity to participate actively. Directors are consulted for matters to be included in the agenda for regular Board meetings. Special Board meetings are convened as and when needed. Minutes of the Board, Board Committee and General Meetings are kept by the Company Secretary and are made available and circulated to all Directors periodically.

Directors' attendance at the Board, Board Committees and General Meetings are set out in the following table:

<b>Number of Meetings</b>	<b>Board (4)</b>	<b>Audit Committee (2)</b>	<b>Remuneration Committee (2)</b>	<b>Nomination Committee (1)</b>	<b>Corporate Governance Committee (1)</b>	<b>Annual General Meeting (1)</b>
<b>Executive Directors</b>						
Dr. Lui Che Woo	3/4	–	–	–	–	0/1
Mr. Francis Lui Yiu Tung	4/4	–	2/2	1/1	1/1	1/1
Mr. Joseph Chee Ying Keung	4/4	–	–	–	–	1/1
Ms. Paddy Tang Lui Wai Yu	4/4	–	–	–	–	1/1
<b>Non-executive Directors</b>						
Mr. Anthony Thomas Christopher Carter	3/4	–	–	–	–	0/1
Mr. Henry Lin Chen #	2/2	–	–	–	–	1/1
<b>Independent non-executive Directors</b>						
Mr. James Ross Ancell	4/4	2/2	–	–	1/1	0/1
Dr. William Yip Shue Lam	4/4	2/2	2/2	1/1	–	1/1
Professor Patrick Wong Lung Tak	4/4	2/2	2/2	1/1	1/1	1/1

# resigned on 3 September 2012

## CORPORATE GOVERNANCE REPORT

### COMPANY SECRETARY

The Company Secretary of the Company is responsible for facilitating the Board process, as well as ensuring good information flow among Board members with management and shareholders. The Company Secretary had complied with Rule 3.29 of the Listing Rules during the year under review.

### FINANCIAL REPORTING

The Board is accountable to the shareholders and is committed to presenting comprehensive and timely information to the shareholders on assessment of the Company's performance, financial position and prospects.

#### **Directors' Responsibility**

The Directors acknowledge their responsibilities for preparing the financial statements of the Company are to give a true and fair view and comply with all applicable regulatory requirements and accounting standards. In preparing the consolidated financial statements for the year ended 31 December 2012, the Directors have selected appropriate accounting policies and applied them consistently, and made judgments and estimates that are prudent and reasonable. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as at 31 December 2012. Accordingly, the Directors have prepared the consolidated financial statements for the year ended 31 December 2012 on a going concern basis.

Throughout the year, the Company has devoted sufficient resources and maintained adequate qualified and experienced staff responsible for the accounting and financial reporting function.

#### **Independent Auditor's Responsibility**

The external Auditor of the Company is PricewaterhouseCoopers, Certified Public Accountants. A statement by the Independent Auditor about their reporting responsibilities is included in the Report of Independent Auditor on the Company's financial statements on page 65.

In arriving at their opinion, the external Auditor conducts full scope audit without any restrictions and has access to individual Directors (including Audit Committee members) and management of the Company.

#### **Independent Auditor's Remuneration**

Fees for auditing services and non-auditing services provided by the external Auditor for the year ended 31 December 2012 are included in note 8 to the consolidated financial statements.

Fees for non-auditing services include HK\$860,000 for the services provided in respect of taxation and advisory services.

### INTERNAL CONTROLS

The Board is responsible for maintaining a sound and effective internal control system for the Group to achieve its business objectives and manage business risks to safeguard the interest of the shareholders and its assets. To help successfully achieve the business objectives with a good internal control system in place, there is a well defined organisational structure providing limit of authority, clear and written policies, standards and procedures, and risk control self-assessment conducted for all major operating entities of the Group. Regular review of the management structure is carried out to swiftly adapt to the ever changing market conditions. Under the sound internal control system, unauthorised use or disposition of assets is effectively prevented, proper maintenance of accounting records and provision of reliable financial information are ascertained, and strict compliance with relevant statutory rules and regulations is warranted.

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. Using a risk based methodology audit approach, Internal Audit prepares annual internal audit plan in consultation with, but independent of management. The plan is approved by the Audit Committee before execution. During the period, Internal Audit has performed operational and financial reviews with objectives to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively. Upon completion of an audit, Internal Audit will discuss the audit findings and recommendations made with the member of management responsible for the audited area and perform follow-up procedures to appraise the management of the post audit actions and provide assurance that implemented changes adequately resolved audit findings. Significant internal control weaknesses are brought to the attention of senior management.

Internal Audit reports to the Audit Committee on a semi-annual basis whether a sound internal control system is maintained and operated by management in compliance with policies and procedures of the Group and requirements that are laid down by external regulators. For the financial year ended 31 December 2012, Internal Audit was not aware of any significant internal control issues that would have an adverse impact on the financial position or operations of the Group. The Board, through the review of the Audit Committee, considered the internal control systems of the Group were effective and adequate.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTMENT COMMUNITY

The Company places a great deal of importance on timely, accurate and transparent communication with shareholders and the investment community. The Board has adopted a shareholders communication policy in March 2012 which provides a framework to maintain direct, open and timely communication with shareholders. The Company shall ensure effective and timely dissemination of relevant information at all times.

In addition to publishing interim and annual results in accordance with the Listing Rules requirements, the Company is one of the few Hong Kong listed companies to voluntarily release unaudited key financial information on a quarterly basis to enable stakeholders to better assess the performance of the Group.

An Investor Relations Team has been designated to maintain purposeful dialogue and ongoing relationships with investors, analysts and media. Quality information will be provided to shareholders and the investment community.

The Company's website [www.galaxyentertainment.com](http://www.galaxyentertainment.com) is also a valuable platform for investors and contains a dedicated investor relations section offering timely and direct access to our financial reports, corporate announcements, press releases and other business information.

### SHAREHOLDERS' RIGHTS

#### **Convening Extraordinary General Meeting**

Pursuant to Article 67 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on requisition, as provided by the Companies Ordinance, or, in default, may be convened by the requisitionists.

In accordance with Section 113 of the Companies Ordinance, shareholders holding at the date of the deposit of the requisition not less than 5% of the paid-up capital of the Company may request the Company to convene an extraordinary general meeting. The requisition stating the objects of the meeting must be signed by the requisitionists and deposited at the registered office of the Company at Room 1606, 16th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for the attention of the Company Secretary.

#### **Putting Forward Proposals at General Meeting**

Pursuant to Section 115A of the Companies Ordinance, shareholders representing not less than 2.5% of the total voting rights of all shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates, or not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK\$2,000, may put forward proposals for consideration at a general meeting of the Company by sending to the Company Secretary at the registered office address a written request for such proposal, provided that the requisition is signed by the requisitionists and deposited at the registered office of the Company not less than 6 weeks (in the case of a requisition requiring notice of a resolution) or not less than 1 week (for other requisitions) before the meeting. Shareholders may contact the Company Secretary for more details but should also take independent legal advice.

If a shareholder intends to propose a person other than a retiring Director of the Company for election as a Director, the procedures have been set out in the Company's website.

#### **Enquiries to the Board**

Shareholders may send their enquiries and concerns to the Board by sending to the registered office address or by email for the attention of the Company Secretary. The Company Secretary will forward communications to the appropriate persons for reply.

### CONSTITUTIONAL DOCUMENTS

The Company's Memorandum and Articles of Association has been published on the websites of the Company and HKEx. There have been no changes during the year ended 31 December 2012.



## CORPORATE GOVERNANCE REPORT

### COMPLIANCE WITH THE CODE

Throughout the year under review, the Company has complied with the code provisions in the Code, except code provisions A.4.2, A.6.7 and E.1.2.

A.4.2 – Given that the other Directors do retire by rotation in accordance with the Articles of Association of the Company, the Board considers that the Group is best served by not requiring the Chairman to retire by rotation as his continuity in office is of considerable benefit to and his leadership, vision and profound knowledge in the widespread geographical business of the Group is an asset of the Company.

A.6.7 – Two non-executive Directors, Mr. Anthony Thomas Christopher Carter and Mr. James Ross Ancell were unable to attend the annual general meeting of the Company held on 22 May 2012 due to other commitment.

E.1.2 – The Chairman of the Board was unable to attend the annual general meeting held on 22 May 2012 and the Deputy Chairman took the chair and together with the other directors answered questions from the floor. The Board considered that the purpose to achieve an effective communication with the shareholders was not compromised.

## GAMING AND HOSPITALITY EXPERTISE

GEG is committed to recruiting and retaining the very best management and employees and will continue to strengthen our gaming and hospitality executive team as we move forward and continue to build GEG to be a leading Asian gaming and entertainment company.

An indicative profile of the depth of our executive talent in our gaming and hospitality team is detailed below:

**Michael Mecca**, President and Chief Operating Officer. He has a long and distinguished career in leadership roles with a number of globally recognised gaming and hospitality brands. He was the former President and Chief Executive Officer of Planet Hollywood, Las Vegas. He also held senior executive roles with Station Casinos Inc., Las Vegas, Mandalay Resorts Group, Las Vegas, Crown Limited, Melbourne and Caesars World, Inc., Las Vegas.

**Robert Drake**, Group Chief Financial Officer. He was the former Vice President, Finance for the Western Division of Harrah's Entertainment Inc., Las Vegas, primarily responsible for the financial reporting of 13 properties in Nevada including Caesars Palace, Paris and Flamingo in Las Vegas. He has extensive experience in corporate finance, investment banking activities such as mergers and acquisitions, financial management, as well as domestic and international business development activities within the gaming industry.

**Heinz Roelz**, Director, Hotels & Hospitality. He was formerly Executive Vice President, Stanford Hotels International and graduated from hotel management schools in Germany and in the USA, accumulated more than 49 years experience in hotel development and operations in Germany, Switzerland, Indonesia, Mainland China, Bermuda, the USA and Hong Kong.

**Baschar Hraki**, Director, Project Development. He was the former Executive Vice President with a large company in charge of a mega project development in Macau. He is a qualified architect with extensive international experience in design, and construction management of large and complex projects including hotels, resorts, theme parks, entertainment centers, residential developments, shopping centers and sports stadiums in Asia, Europe, Middle East and the USA.

**John Au**, Director, Business Development. He has been with the Group for over 19 years and he was one of the key members in the Galaxy pre-opening management team to establish the Human Resources & Administration Department. Prior to taking up his current role, he held senior executive positions in human resources, public relations and government relations in the Group and had worked with major companies and organisations such as Hong Kong & China Gas and Hong Kong Productivity Council.

**Raymond Yap**, Director, International Premium Market Development. He has more than 26 years experience in hotel operations, resort planning, theme park and plaza development, corporate planning and business development. He has held various executive positions with the Genting Group and his last position was the Senior Vice President, Theme Park and First World Plaza.

**Gabriel Hunterton**, Deputy Chief Operating Officer, Galaxy Macau™. He has an intense and diverse gaming career spanning 15 years in Las Vegas and Macau. He was the former Senior Vice President of Business Development of a major gaming company in Macau. He also held management roles with various major gaming companies in Las Vegas.

**Charles So**, Deputy Chief Operating Officer, StarWorld. He has over 32 years experience in hotel operations and food and beverage services. Before he joined the Company in 2005, he held various management positions with a number of prestigious hotels across Beijing, Hong Kong, the Philippines, Vietnam and Australia. He was the former General Manager of The Marco Polo Beijing, China.

## GAMING AND HOSPITALITY EXPERTISE

**Gillian Murphy**, Senior Vice President, Hospitality, Galaxy Macau™. She has over 31 years of experience in hotel and resort operations. She held senior executive positions with a number of prestigious gaming and hotel companies in the USA including Harrah's Entertainment Inc., Las Vegas, Ameristar, Colorado, and MGM Grand at Foxwoods, Connecticut. She was the former Senior Vice President of Resort Operations, Foxwoods Resort Casino in Mashantucket, Connecticut.

**Joe Malnerich**, Senior Vice President, Corporate Casino Marketing. He has over 20 years experience in casino marketing gained from the hotel and gaming industry in the USA and Asia. Previously, he held senior marketing executive positions with a number of hotels and casinos in establishing CRM infrastructure, developing loyalty programs and leading customer database management. He was the former Vice President of Casino Marketing of a major gaming company in Singapore.

This list is by no means exhaustive. With the continued development of our management competence resulting in highly efficient casino and entertainment operations, we believe that it will drive the growth and success of GEG for the years to come.

# CORPORATE SOCIAL RESPONSIBILITY

As one of Asia's leading entertainment gaming operators, GEG is committed to supporting the growth, prosperity and sustainable development of Macau. Reflecting our priority to become a role model in corporate social responsibility, GEG participated in a wide range of activities that contributed to the betterment of the Macau community in 2012.

## RESPONSIBLE GAMING

As an active member of the Responsible Gaming Working Committee, GEG works closely with local gaming operators, the Social Welfare Bureau of Macau SAR Government, the Gaming Inspection and Coordination Bureau of Macau SAR Government and the Institute for the Study of Commercial Gaming, University of Macau in developing different initiatives aimed at enhancing Macau's responsible gaming culture.

- Advertising the responsible gaming information to team members and patrons
- Posting signage at all casino entry points to reinforce the message that minors under the age of 21 are strictly prohibited from entering the casino floor
- Installing a responsible gaming kiosk on the casino floor at Galaxy Macau™
- Supporting Sheng Kung Hui Macau Social Services Coordination Office to promote their "Rainbow Life Gaming Industry Employees Service Scheme" to all our team members
- Enhancing the responsible gaming awareness to all new recruits by providing mandatory courses
- Providing around-the-clock telephone counseling, individual face-to-face counseling and online counseling options for team members to receive responsible gaming support

## SMOKE-FREE AREAS

Supporting the new era of a smoke-free Macau, GEG abides fully to the new Regime of Tobacco Prevention and Control and beginning 1 January 2012, GEG launched the following campaigns:

- Offering team members with briefing sessions to ensure that they understand the new Regime of Tobacco Prevention and Control and statutory no smoking areas
- Posting signage inside our properties so that team members and patrons can better identify the smoking and non-smoking zones and understand the penalties for violations
- Removing all ash trays within the statutory no smoking areas so as to discourage patrons from lighting any cigars or cigarettes while within those areas
- Removing all back-of-house indoor smoking areas to demonstrate GEG's commitment towards protecting the health of its team members

## ENVIRONMENTAL PROTECTION AND SUSTAINABILITY

GEG plays its part in promoting environmental sustainability for the benefit of future generations.

- GEG became a Pearl Member of WWF-Hong Kong's 2012/2013 Corporate Membership Programme and honoured our commitment to act green by taking part in WWF's Earth Hour Event for the fourth consecutive year

## CORPORATE SOCIAL RESPONSIBILITY

- Reducing our energy consumption:

### **Galaxy Macau™**

- Saved 730,000 kWh of energy through the implementation of various energy savings initiatives including installing a large number of motion sensors throughout the property; reviewing and reprogramming the property's lighting profiles regularly, and analyzing the optimal load demand and profile of the property's central chiller system, which achieved a 9% reduction in electricity used in the second half of 2012 when compared to the same period in 2011
- Saved 75,000 liters of diesel oil from the boilers during the year

### **StarWorld Hotel**

- Saved 1.29 million kWh of electricity by replacing 3,000 pieces of 50W Tungsten Halogen Lights with 5W LED Lamps; and replacing 1,500 pieces of the 28W Fluorescent Lights of its advertising light boxes with 1,850 pieces of long LED Light Strips

- Enhancing our water savings:

### **Galaxy Macau™**

- Replaced the water taps and upgraded the water flow restrictors used in its guest rooms and facilities
- Collected condensate water for recycling and irrigation
- Reduced 16% of water used in the second half of 2012 when compared to the same period in 2011

### **StarWorld Hotel**

- Extending the use of water savings faucets, showerheads and dual flush water closets to its guest rooms and facilities and reduced 30% of the usage of relevant water in 2012

- Continued to recycle and reduce our waste:

### **Galaxy Macau™**

- Collected over 500 tons of cardboards, plastic bottles, metals and cooked oil for recycling, and reused 9,900 pieces of wooden pallets collected from suppliers and vendors

### **StarWorld Hotel**

- Collected 108.5 tons of cardboards and paper material, 7.6 tons of plastic and 0.1 tons of metals for recycle

- Further improving the air quality:

- Galaxy Macau™ received the "Indoor Environmental Quality" Certificate for its gaming halls and guest common areas from the leading certification company, SGS Hong Kong Limited
- Installed UV light in primary air unit
- Encouraged our contractors to switch off their engines when shuttle buses were idled
- Increased indoor planting within the property

## CORPORATE SOCIAL RESPONSIBILITY

### COMMUNITY ACTIVITIES

GEG is attentive to the needs of its community and committed to sharing its success. The Group's 'Asian Heart' culture and service philosophy not only permeates its business operations, but also shapes the way in which it engages with the Macau community. In the year GEG implemented a high number of diverse community and volunteering initiatives.

- Through the "GEG Volunteer Team", GEG organised a total of 26 volunteering activities for 24 different charitable associations and contributed a total of 1,558 hours of services to the Macau community in 2012
- Promoted social inclusion by inviting our team members and members of the Macau Deaf Association in delivering a sign-language performance at the 2012 Galaxy Got Talent Grand Finals



*Members of Macau Deaf Association performed a song in sign language with the GEG volunteer team*

- Received a First Runner-Up Award for "Team Recognition for Top Number of Blood Donors" at the "Annual Blood Donors Award Ceremony" organised by the Macau Blood Transfusion Center
- Recognised the achievements of ten GEG team members who received a "Best Volunteer Award" from the Youth Volunteers Association of Macao for their proactive contributions to the Macau community; among the ten award recipients, three team members also received a "Top 10 Best Rainbow Life Volunteer Award" for putting in hundreds of hours of voluntary services

### CHARITABLE ACTIVITIES

GEG strongly believes that as it grows and achieves success it should reciprocate in turn to the community. To this end, GEG made donations to 30 organisations that provide valuable services to people in need including:

- Asia Pacific Association for Gambling Studies
- Associação de Moradores da Taipa
- Association of Rehabilitation of Drug Abusers of Macau
- Care Action Macau

## CORPORATE SOCIAL RESPONSIBILITY

- Caritas Macau
- Centro de Maria
- Charity Fund from the Readers of Macao Daily News
- Coloane Son I Association
- France Macau Business Association
- FuHong Society of Macau
- Hou Kong Junior Chamber
- International Ladies Club of Macau
- Kiang Wu Hospital Charitable Association
- Macau Child Development Association
- Macau Deaf Association
- Macau Gaming Industry Laborers' Association
- Macau Inspirational Youth Association
- Macau Special Olympics
- Macau Tung Sin Tong Charitable Society
- ORBIS Macau
- "Peng On Tung" Tele-Assistance Service of the General Union of Neighbourhood Associations of Macau
- Macau Industrial Evangelistic Fellowship
- Richmond Fellowship of Macau
- Rotary Club of Macau
- Sheng Kung Hui Macau Social Services Coordination Office
- Society for the Protection of Animals Macau
- The American Chamber of Commerce in Macau
- The Charity Association of Macau Business Readers
- University of Macau Development Foundation
- World Wide Fund For Nature Hong Kong

SPORTS DEVELOPMENT

Living out GEG’s commitment to making Macau a more culturally diverse and attractive international tourism destination, the Group contributes enormously towards enhancing the attractiveness, scale and quality of Macau’s various sports and community initiatives:

- Title sponsored the “FIVB Volleyball World Grand Prix™ Macau 2012 presented by Galaxy Entertainment Group” for the eighth consecutive year
- Title sponsored the “Macau Galaxy Entertainment International Marathon 2012” for the ninth consecutive year and with a record-breaking 500 GEG team members running the event. GEG was awarded the Group Trophy for the eighth consecutive year
- Following the Beijing 2008 Olympic Games, GEG was given the honor again to provide our warm hospitality to the delegation of Chinese London Olympics’ gold medalists during their stay at Galaxy Macau™
- Title sponsored the “2012 Galaxy Entertainment Special Olympics Table Tennis Competition” for the second consecutive year for the purpose of encouraging the community’s mentally disabled to take part in sports and create a platform for our team members to better understand the athletic potential of people with disabilities
- Sponsored the Associação de Vela de Macau in sending their young sailors to compete in the “Hebe Haven Yacht Club 24 hour Dinghy Charity Regatta 2012” in Hong Kong for the fourth consecutive year
- Sponsored the Macau Football Veterans Association in organising the “12th Sovereignty Tournament”, an annual sports tournament that held between international teams in celebration of Macau’s handover to China



Mr. Francis Lui, Deputy Chairman of GEG, Mr. Cheong U, Secretary for Social Affairs and Culture of Macau SAR Government, and Mr. Jiaming Zhu, FIVB Control Committee President, presented the US\$35,000 cheque and trophy to the winning China Women’s National Volleyball Team



Mr. Francis Lui, Deputy Chairman of GEG, Mr. Cheong U, Secretary for Social Affairs and Culture of Macau SAR Government, and Mr. Ma Iao Hang, President of the Association of Athletics of Macau, presented awards to the first 10 male athletes of the Full Marathon



After the Beijing 2008 Olympic Games, GEG is once again given the great honor to provide warm hospitality to the Chinese London Olympics’ gold medalists throughout their stay in Macau



## CORPORATE SOCIAL RESPONSIBILITY

### EDUCATION & CULTURE

With the goal to develop the skills and expertise of young people and to enhance the overall competitiveness of Macau, GEG collaborates with various educational and professional training institutes in developing different programs that can help young people explore their career opportunities and build a more solid foundation for their future careers.

- Offered a 6-week internship for four special education students from the Escola Luso-Chinesa Tecnico-Profissional
- Organised an “Internship Program Appreciation Ceremony” for 48 students and special education students that successfully completed their GEG internships in the first half of 2012
- Offered a 5-day Singapore Study Tour to five exceptional youngsters at the first “GEG Youth Achievement Program” closing ceremony in August 2012. Launched by GEG and the Macau Management Association in October 2011, the first “GEG Youth Achievement Program” attracted the participation of over 500 local youths



*Final winners of “GEG Youth Achievement Program” received an opportunity to a Singapore Study Tour*

- Title sponsored the “GEG Macau Cup – Teenager National Conditions Knowledge Competition” for the fourth consecutive year
- Sponsored the student scholarship program offered by the Macao Polytechnic Institute and the University of Saint Joseph
- Donated to the University of Macau’s Institute for the Study of Commercial Gaming to support continued research and training

### EMPLOYEE ENGAGEMENT

GEG’s team members are its most valuable asset. Therefore, it provides team members with the highest quality professional and personal development training that enables them to fulfill their potential. Additionally, GEG provides team members with opportunities to initiate, organise and participate in activities that promote work-life balance through its “GEG Staff Social Club” and “GEG Volunteer Team” programmes.

- Organised 14 monthly sports and recreational activities that attracted the participation of over 1,580 team members and their family members
- Provided training to 93% of GEG team members
- Sponsored 24 team members for participation in a 12-month “University of Macau Advanced Diploma in Gaming Management” and “Diploma in Casino Management” Programs

**CORPORATE SOCIAL RESPONSIBILITY**

- Launched a “GEG Leaders Program” to assist senior team members with their leadership development and 90 middle management team members have completed a nine month inaugural program



*At the “GEG Leaders Program I Graduation Ceremony”*

- The first gaming operator to join the Macau Productivity and Technology Transfer Center in offering professional training to GEG team members
- Acknowledged the outstanding performance of 13 team members at the annual “Star of the Year Award Presentation”
- Garnered six awards at the “Macau Occupational Skills Recognition System Gold Pin Competition 2012” organised by the Institute for Tourism Studies
- Succeeded in attaining close to 40 awards in various industry and sports competitions through the exceptional skills, team work and sportsmanship of GEG team members



*The GEG Table Tennis Team was crowned Champion in the “2nd Macau Gaming Industry Labourers Association Table Tennis Competition”*



*The GEG Basketball Team claimed Championship for the second time at the “6th Macau Gaming Industry Labourers Association Basketball Cup”*

## CORPORATE SOCIAL RESPONSIBILITY

### CONSTRUCTION MATERIALS DIVISION

Corporate Social Responsibility is an integral part of the CMD's sustainable value, and CMD is committed to be a caring and responsible corporate citizen and continued to embrace our corporate philosophy "Contributing to our society where one benefits" by caring for our employees, the community and the environment.



*Huidong Quarry Tree Planting Day 2012*

#### Recognition

In 2012, CMD was awarded the "10 Consecutive Years Caring Company Logo" by the Hong Kong Council of Social Service, recognising its continual support to the Caring Company Scheme and its commitment to serve the community of Hong Kong.

#### Charity

CMD participated in numerous charity events including the Blood Donation Day organised by the Hong Kong Red Cross; Challenging 12 Hours organised by Sowers Action; Dress Casual Day organised by The Community Chest, and Christmas visit organised by Hong Chi Association among others.

#### Employee Friendly

CMD organised numerous leisure activities for team members including the K. Wah People Fun Day, day tour, movie sharing, interests and skills workshops, as well as sports day.

#### Environmental Protection

CMD continued to embrace the Company's Sustainable Recycling Programme with the philosophy of "Support Green, Create Value from Waste" and recycled waste including waste glass, reclaimed asphalt pavement, concrete waste, rubber waste and oil waste generated from our daily operations. We organised a Tree Planting Day at the Huidong Quarry in Guangdong Province. We also supported the Caritas Computer Refurbish Project by donating old computers and computer accessories.



*"10 Consecutive Years Caring Company Logo" awarded by Hong Kong Council of Social Service*

## FIVE-YEAR SUMMARY

	Year ended 31 December 2008 HK\$'000	Year ended 31 December 2009 HK\$'000	Year ended 31 December 2010 HK\$'000	Year ended 31 December 2011 HK\$'000	Year ended 31 December 2012 HK\$'000
<b>CONSOLIDATED INCOME STATEMENT</b>					
Revenue	10,520,120	12,232,679	19,262,133	41,186,446	<b>56,746,423</b>
Profit/(loss) attributable to equity holders of the Company	(11,390,368)	1,149,113	898,455	3,003,908	<b>7,377,839</b>
Dividends	-	-	-	-	-
Earnings/(loss) per share (cents)	(289.3)	29.2	22.8	72.8	<b>176.2</b>
Dividend per share (cents)	-	-	-	-	-
<b>CONSOLIDATED BALANCE SHEET</b>					
Property, plant and equipment, investment properties and leasehold land and land use rights	8,085,812	11,589,392	16,801,790	21,990,582	<b>22,736,878</b>
Intangible assets	1,488,039	1,391,322	1,320,129	1,270,424	<b>1,103,508</b>
Jointly controlled entities and associated companies	833,359	1,003,918	1,042,147	1,169,613	<b>1,351,792</b>
Long-term pledged bank deposits	-	-	-	1,702,230	-
Other non-current assets	291,733	352,660	486,307	348,179	<b>373,340</b>
Net current assets/(liabilities)	3,251,497	(939,749)	(2,471,963)	(710,166)	<b>3,489,100</b>
Employment of capital	13,950,440	13,397,543	17,178,410	25,770,862	<b>29,054,618</b>
Represented by:					
Share capital	393,817	394,159	395,440	417,421	<b>419,958</b>
Reserves	6,617,467	7,774,378	8,801,497	13,804,605	<b>21,433,430</b>
Shareholders' funds	7,011,284	8,168,537	9,196,937	14,222,026	<b>21,853,388</b>
Non-controlling interests	262,616	266,597	377,614	421,201	<b>440,992</b>
Long term borrowings	6,275,958	4,459,703	7,143,507	10,530,722	<b>6,291,171</b>
Other non-current liabilities	285,029	372,928	345,202	495,679	<b>390,280</b>
Provisions	115,553	129,778	115,150	101,234	<b>78,787</b>
Capital employed	13,950,440	13,397,543	17,178,410	25,770,862	<b>29,054,618</b>
Net assets per share (dollars)	1.78	2.07	2.33	3.41	<b>5.20</b>

# FURTHER CORPORATE INFORMATION

## BIOGRAPHICAL INFORMATION OF DIRECTORS

### Executive Directors

**Dr. Lui Che Woo**, *GBM, MBE, JP, LLD, DSSc, DBA*, aged 83, the founder of the Group, has been a Director of the Company since August 1991 and is the Chairman and a member of the Executive Board of the Company. Dr. Lui is also the Chairman and the Managing Director of K. Wah International Holdings Limited. He has over 50 years' experience in quarrying, construction materials and property development. He was the Founding Chairman of the Institute of Quarrying in the UK (Hong Kong Branch) and the Chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the Founding Chairman of The Federation of Hong Kong Hotel Owners, the President of Tsim Sha Tsui East Property Developers Association, the Founding President of Hong Kong – Guangdong Economic Development Association and an Honorary President of Hong Kong – Shanghai Economic Development Association. Dr. Lui has been appointed as a Member of Steering Committee on MICE (Meetings, Incentives, Conventions and Exhibitions) since 2007. Further, Dr. Lui was a Committee Member of the 9th Chinese People's Political Consultative Conference, a member of the Selection Committee for the First Government of the HKSAR and a member of the Election Committee of the HKSAR. In 1995, an asteroid discovered by the Purple Mountain Observatory in Nanjing was named "Lui Che Woo Star". Dr. Lui was presented the Outstanding Contribution Award in Guangzhou in 1996. Dr. Lui was awarded the Gold Bauhinia Star by the Government of the HKSAR in July 2005. Dr. Lui was also awarded the Grand Bauhinia Medal by the Government of the HKSAR in 2012. Dr. Lui has been again elected as a member of the Election Committee of the HKSAR in December 2006. Dr. Lui was awarded Business Person of the Year 2007 by DHL/SCMP Hong Kong Business Awards and the Lifetime Achievement Award by American Academy of Hospitality Sciences of 2007 respectively. Dr. Lui was presented the Diamond Award by Macau Tatler and the Lifetime Achievement Award by All Leaders Publication Group Limited, both in 2011. Dr. Lui is the father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

**Mr. Francis Lui Yiu Tung**, aged 57, joined the Group in 1979. He has been an executive Director of the Company since June 1987 and is the Deputy Chairman and a member of each of the Executive Board, Nomination Committee and Remuneration Committee as well as the Chairman of Corporate Governance Committee of the Company. Mr. Lui is also an executive director of K. Wah International Holdings Limited. He holds a bachelor of science degree in civil engineering and a master of science degree in structural engineering from the University of California at Berkeley, USA. Mr. Lui is a member of the National Committee of the Chinese People's Political Consultative Conference and a member of the Election Committee of the HKSAR. He is also a director of the 68th Term of Macao Chamber of Commerce and an Honorary Chairman of the 18th Term of Kiang Wu Hospital Charitable Association. In 2012, Mr. Lui was awarded the Medal of Merit – Tourism by Macau SAR. Mr. Lui is a son of Dr. Lui Che Woo and a younger brother of Ms. Paddy Tang Lui Wai Yu.

**Mr. Joseph Chee Ying Keung**, aged 55, joined the Group in 1982. He has been an executive Director of the Company since April 2004 and is the Managing Director of the Construction Materials Division as well as a member of the Executive Board of the Company. Mr. Chee holds a Master degree in Business Administration from the University of South Australia and a Bachelor degree in Mechanical Engineering from the University of Western Ontario in Canada. He is a fellow member of The Institute of Quarrying in the UK and has 30 years of broad experience in the construction materials industry including operations and management, technical and quality assurance, environmental protection, commercial and strategic planning. He is currently a member of Standing Committee on Concrete Technology organised by Civil Engineering and Development Department, HKSAR and a member of Pneumoconiosis Compensation Fund Board. He served as a member of the Working Group on Construction Waste of the Provisional Construction Industry Co-ordination Board from 2004 to 2006. He was also the Chairman of The Institute of Quarrying in the UK (Hong Kong Branch) from 1998 to 2000 and the Chairman of Hong Kong Contract Quarry Association from 2002 to 2008. He was re-elected as the Chairman of Hong Kong Contract Quarry Association in 2011. Mr. Chee was elected as a member of the 11th Yunnan Provincial Committee of the Chinese People's Political Consultative Conference in December 2012.

## FURTHER CORPORATE INFORMATION

**Ms. Paddy Tang Lui Wai Yu**, *BBS, JP*, aged 59, joined the Group in 1980 and has been an executive Director of the Company since August 1991 as well as a member of the Executive Board of the Company. She is also an executive director of K. Wah International Holdings Limited. She holds a bachelor of commerce degree from McGill University, Canada and is a member of The Institute of Chartered Accountants in England and Wales. She was appointed as a non-executive director of the Mandatory Provident Fund Schemes Authority on 17 March 2011. She is also a member of various public and social service organisations, including the General Committee of The Chamber of Hong Kong Listed Companies. Ms. Lui was appointed as a member of the Standing Committee on Company Law Reform, the Tourism Strategy Group, the Statistic Advisory Board, the Hong Kong Arts Development Council and the Board of Ocean Park Corporation. Ms. Lui was elected as a member of the Shanghai Committee of the Chinese People's Political Consultative Conference in December 2012 and is a member of the Election Committee of the HKSAR since 1998. Ms. Lui is a daughter of Dr. Lui Che Woo and the elder sister of Mr. Francis Lui Yiu Tung.

### Non-executive Directors

**Mr. Anthony Thomas Christopher Carter**, aged 67, joined the Group in 2003 and has been a non-executive Director of the Company since April 2007. Mr. Carter holds a LLB (Hons) from the University of Leeds in England. He has extensive experience in strategic planning and business management as well as in corporate finance and development. Prior to his retirement from the Group in March 2007, he was the Chief Executive Officer of Galaxy Casino, S.A.

### Independent Non-executive Directors

**Mr. James Ross Ancell**, aged 59, has been an independent non-executive Director of the Company since April 2004. Mr. Ancell is the Chairman of the Audit Committee and a member of the Corporate Governance Committee of the Company. He holds a Bachelor's degree in Management Studies from University of Waikato in New Zealand. He is a member of the Institute of Chartered Accountants of New Zealand and has over 30 years of broad experience in building materials and construction sectors, waste management and recycling business gained from multinational corporations. He is currently the Chairman of Churngold Construction Holdings Limited in the UK, a leading specialist groundworks subcontractor carrying out groundworks and road surfacing, with a separate remediation business, cleaning up sites contaminated by previous industrial activity. He is also a non-executive director of MJ Gleeson Group PLC, a housebuilder and regeneration company listed on the London Stock Exchange.

**Dr. William Yip Shue Lam**, *LLD*, aged 75, has been an independent non-executive Director of the Company since December 2004. Dr. Yip is a member of the Audit Committee as well as the Chairman of each of the Nomination Committee and the Remuneration Committee of the Company. He holds a Bachelor of Arts degree and an honorary Doctor of Laws degree from the Concordia University, Canada and is a fellow member of The Hong Kong Institute of Directors. He is the founder and the Chairman of Canada Land Limited, a company listed on the Australian Stock Exchange and engaged in real estate development and tourist attraction business. He is also the Chairman of Cantravel Limited, Guangzhou. Dr. Yip is an independent non-executive director of K. Wah International Holdings Limited. Dr. Yip has been active in public services and is presently a Honorary Standing Committee Member of The Chinese General Chamber of Commerce and the President of Concordia University Hong Kong Foundation Limited. He also serves on the Board of Governors of The Canadian Chamber of Commerce in Hong Kong. In addition, Dr. Yip has been elected a Guangzhou Municipal Honorable Citizen.

## FURTHER CORPORATE INFORMATION

**Professor Patrick Wong Lung Tak**, *BBS, JP*, aged 65, has been an independent non-executive Director of the Company since August 2008. Professor Wong is a member of each of the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of the Company. He is a Certified Public Accountant (Practising) in Hong Kong and the Managing Practising Director of Patrick Wong CPA Limited. He has over 30 years experience in the accountancy profession. Professor Wong holds a Doctor of Philosophy in Business degree, was awarded a Badge of Honour by the Queen of England in 1993 and was appointed a Justice of the Peace in 1998. He was also awarded a Bronze Bauhinia Star by the Government of the HKSAR in 2010. He has been appointed Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University since 2002. Professor Wong participates in many types of community services and is holding posts in various organisations and committees in government and voluntary agencies. Professor Wong is an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., C C Land Holdings Limited, Water Oasis Group Limited, Sino Oil and Gas Holdings Limited, Real Nutraceutical Group Limited, Guangzhou Pharmaceutical Company Limited and Winox Holdings Limited, all of which are listed on the Main Board of the Stock Exchange. Professor Wong is also an independent non-executive director of National Arts Holdings Limited (listed on the Growth Enterprise Market of the Stock Exchange).

## SENIOR MANAGEMENT

The businesses of the Group are under the direct responsibilities of the executive Directors of the Company who are regarded as senior management of the Group.

## DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Pursuant to the terms of a secured six-year HK\$9 billion club loan entered in June 2010, and made available by a consortium of several banks to Galaxy Entertainment Finance (Galaxy Macau) Limited, a subsidiary of the Company, there is a requirement that the Lui Family is the single largest shareholder of the Company and maintains a minimum 35% interest in the Company during the term of the facility. Failure to comply with this obligation will result in the facility becoming mandatorily repayable and all commitments under the facility will be cancelled. For this purpose, the Lui Family includes Dr. Lui Che Woo and any heir, estate, lineal descendent, spouse or parent of him; and any trust, corporation, partnership or other entity in which Dr. Lui Che Woo and/or any of the said persons beneficially holds, directly or indirectly, a 100% controlling interest.

# REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to the shareholders their annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal subsidiaries, jointly controlled entities and associated companies of the Company are primarily engaged in operation in casino games of chance or games of other forms, provision of hospitality and related services in Macau, and the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China, and their principal activities and other particulars are set out in note 43 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 66 of this annual report.

No interim dividend (2011: nil) was paid during the year. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: nil).

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

During the year, 25,375,968 new shares of HK\$0.10 each were issued pursuant to the share option scheme of the Company as a result of the exercise of share options by option holders.

## DEBT SECURITIES

The Company issued fixed rate senior unsecured bonds in the aggregate principal amount of RMB1.38 billion (HK\$1.7 billion) with fixed rate of 4.625% per year due in December 2013 ("RMB Bonds"). The RMB Bonds are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") with Stock Code No. 86002.

## DEALINGS IN LISTED SECURITIES

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares or listed debt securities during the year ended 31 December 2012.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 31 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.



## REPORT OF THE DIRECTORS

### DIRECTORS

The Directors of the Company who served during the year were:

Dr. Lui Che Woo, *Chairman*

Mr. Francis Lui Yiu Tung, *Deputy Chairman*

Mr. Joseph Chee Ying Keung, *executive Director*

Ms. Paddy Tang Lui Wai Yu, *executive Director*

Mr. Anthony Thomas Christopher Carter, *non-executive Director*

Mr. Henry Lin Chen, *non-executive Director (resigned on 3 September 2012)*

Mr. James Ross Ancell, *Independent non-executive Director*

Dr. William Yip Shue Lam, *Independent non-executive Director*

Professor Patrick Wong Lung Tak, *Independent non-executive Director*

The biographical details of the existing Directors are set out on pages 51 to 53 of this annual report.

In accordance with Article 106(A) of the Articles of Association of the Company, Mr. Joseph Chee Ying Keung and Mr. James Ross Ancell will retire from office by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Subject to the approval of shareholders at the forthcoming annual general meeting, the following directors' fees in respect of the year ended 31 December 2012 will be payable to the Directors:

	<b>Chairman</b>	<b>Member</b>
	(HK\$)	(HK\$)
The Board	210,000	180,000
Audit Committee	160,000	130,000
Corporate Governance Committee	80,000	60,000
Nomination Committee	80,000	60,000
Remuneration Committee	80,000	60,000

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this Report of the Directors, no contracts of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a Director has or had a material beneficial interest, whether directly or indirectly, subsisted at 31 December 2012 or at any time during the year.

## DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS

At 31 December 2012, the interests of each Director in the shares, underlying shares and debentures of the Company, and the details of any right to subscribe for shares of the Company and of the exercise of such rights, as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

### (a) Shares (including underlying shares)

Name	Number of shares (including underlying shares)				Total	Percentage of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	30,237,632	2,181,518	305,401 <sup>(1)</sup>	1,708,944,231 <sup>(2)</sup>	1,741,668,782	41.47
Francis Lui Yiu Tung	41,806,896	–	407,558,099 <sup>(3)</sup>	1,708,944,231 <sup>(2)</sup>	2,158,309,226	51.39
Joseph Chee Ying Keung	2,587,000	–	–	–	2,587,000	0.06
Paddy Tang Lui Wai Yu	14,969,722	–	–	1,708,944,231 <sup>(2)</sup>	1,723,913,953	41.04
James Ross Ancell	250,000	–	–	–	250,000	0.00
William Yip Shue Lam	250,000	–	–	–	250,000	0.00
Anthony Thomas	2,800,000	–	–	–	2,800,000	0.06
Christopher Carter	–	–	–	–	–	–
Patrick Wong Lung Tak	–	–	–	–	–	–

Notes:

- (1) 305,401 shares of the Company were held by Po Kay Securities & Shares Company Limited which is controlled by Dr. Lui Che Woo.
- (2) A discretionary family trust established by Dr. Lui Che Woo as founder was interested in 1,708,944,231 shares of the Company. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the discretionary family trust, are deemed to have an interest in those shares in which the trust has an interest.
- (3) 114,504,039 shares of the Company were held by Recurrent Profits Limited which is controlled by Mr. Francis Lui Yiu Tung. Top Notch Opportunities Limited ("Top Notch") was interested in 171,916,021 underlying shares of the Company. Kentlake International Investments Limited ("Kentlake") was interested in 60,000,000 shares of the Company and 61,138,039 underlying shares of the Company. Both Top Notch and Kentlake are controlled by Mr. Francis Lui Yiu Tung. The aforesaid underlying shares had not been delivered to Top Notch and Kentlake and are still counted towards the public float.

### (b) Underlying shares – Share Options

Details are set out in the Share Option Scheme section below.

All the interests stated above represent long positions.

Save as disclosed above, as at 31 December 2012, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 31 December 2012, the interests of every person (not being a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

<b>Name</b>	<b>Number of shares (Long Position)</b>	<b>Percentage of Issued Share Capital</b>
City Lion Profits Corp.	1,313,887,206	31.28
CWL Assets (PTC) Limited	1,708,944,231	40.69
HSBC International Trustee Limited	1,709,062,231 <sup>(1)</sup>	40.69
Super Focus Company Limited	269,200,154	6.41
Waddell & Reed Financial, Inc.	312,289,000	7.43

Notes:

- (1) HSBC International Trustee Limited, the trustee of a discretionary family trust established by Dr. Lui Che Woo as founder, was interested in 1,708,944,231 shares of the Company.

There was duplication of interests of:

- (i) 1,708,944,231 shares of the Company between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, CWL Assets (PTC) Limited and HSBC International Trustee Limited;
- (ii) 1,313,887,206 shares of the Company between City Lion Profits Corp. and CWL Assets (PTC) Limited;

Save as disclosed above, as at 31 December 2012, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of the SFO.

### SHARE OPTION SCHEME

The existing share option scheme was adopted on 22 June 2011 ("Share Option Scheme") and the options granted under the previous scheme adopted on 30 May 2002 remain effective. A summary of the Share Option Scheme is set out below:

#### (1) Purpose

To attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of option holders to shareholders.

## REPORT OF THE DIRECTORS

### (2) Participants

- (i) any employee of the Company or any affiliate and any senior executive or director of the Company or any affiliate; or
- (ii) any consultant, agent, representative or adviser of the Company or any affiliate; or
- (iii) any person who provides goods or services to the Company or any affiliate; or
- (iv) any customer or contractor of the Company or any affiliate; or
- (v) any business ally or joint venture partner of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

“Affiliate” means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

### (3) Total number of shares available for issue

Mandate Limit – Subject to the paragraph below, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 413,678,806 shares, being 10% of the shares in issue as at 22 June 2011, the date of passing of an ordinary resolution of the shareholders.

Overriding Limit – The Company may by ordinary resolution of the shareholders refresh the Mandate Limit as referred to in the above paragraph provided that the Company shall issue a circular to its shareholders before such approval is sought. The overriding limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme was 371,438,141 shares, which represented approximately 8.83% of the issued share capital of the Company on that date.

### (4) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the shares in issue.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting and provided the Company shall issue a circular to shareholders before such approval is sought, the Company may grant options to a participant which would exceed this limit.

## REPORT OF THE DIRECTORS

### (5) Option period

The period within which the shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

### (6) Minimum period for which an option must be held before it can vest

The minimum period, if any, for which an option must be held before it can vest shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

### (7) Payment on acceptance of the option

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of grant (or such longer period as the Board may specify in writing).

### (8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

- (i) the closing price of the shares on the date of grant;
- (ii) the average closing prices of the shares for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

### (9) The remaining life of the Share Option Scheme

The life of the Share Option Scheme is 10 years commencing on its adoption date, being 22 June 2011 and will expire on 21 June 2021.

The particulars of the movements in the options held by each of the Directors of the Company, the employees of the Company in aggregate and other participants granted under the Share Option Scheme or under any other share option schemes of the Company during the year ended 31 December 2012 were as follows:

Name	Date of grant	Number of Options					Held at 31 December 2012	Exercise price (HK\$)	Exercise period
		Held at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year			
Lui Che Woo	28 Feb 2003	2,000,000	-	-	-	-	2,000,000	0.514	1 Mar 2004 - 28 Feb 2013
	17 Jan 2008	862,500	-	-	-	-	862,500	6.972	17 Jan 2010 - 16 Jan 2014
	17 Jan 2008	862,500	-	-	-	-	862,500	6.972	17 Jan 2011 - 16 Jan 2014
	17 Jan 2008	1,725,000	-	-	-	-	1,725,000	6.972	17 Jan 2012 - 16 Jan 2014
	8 May 2009	1,150,000	-	-	-	-	1,150,000	2.160	8 May 2010 - 7 May 2015
	8 May 2009	1,150,000	-	-	-	-	1,150,000	2.160	8 May 2011 - 7 May 2015
	8 May 2009	1,150,000	-	-	-	-	1,150,000	2.160	8 May 2012 - 7 May 2015
	11 Oct 2010	1,150,000	-	-	-	-	1,150,000	6.810	11 Oct 2011 - 10 Oct 2016
	11 Oct 2010	1,150,000	-	-	-	-	1,150,000	6.810	11 Oct 2012 - 10 Oct 2016
	11 Oct 2010	1,150,000	-	-	-	-	1,150,000	6.810	11 Oct 2013 - 10 Oct 2016
	16 Mar 2012	-	900,000	-	-	-	900,000	20.100	16 Mar 2013 - 15 Mar 2018
	16 Mar 2012	-	900,000	-	-	-	900,000	20.100	16 Mar 2014 - 15 Mar 2018
	16 Mar 2012	-	900,000	-	-	-	900,000	20.100	16 Mar 2015 - 15 Mar 2018

## REPORT OF THE DIRECTORS

Name	Date of grant	Number of Options					Held at 31 December 2012	Exercise price (HK\$)	Exercise period
		Held at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year			
Francis Lui	17 Jan 2008	1,250,000	-	-	-	-	1,250,000	6.972	17 Jan 2010 - 16 Jan 2014
Yu Tung	17 Jan 2008	1,250,000	-	-	-	-	1,250,000	6.972	17 Jan 2011 - 16 Jan 2014
	17 Jan 2008	2,500,000	-	-	-	-	2,500,000	6.972	17 Jan 2012 - 16 Jan 2014
	8 May 2009	1,666,668	-	-	-	-	1,666,668	2.160	8 May 2012 - 7 May 2015
	11 Oct 2010	1,666,666	-	-	-	-	1,666,666	6.810	11 Oct 2011 - 10 Oct 2016
	11 Oct 2010	1,666,666	-	-	-	-	1,666,666	6.810	11 Oct 2012 - 10 Oct 2016
	11 Oct 2010	1,666,668	-	-	-	-	1,666,668	6.810	11 Oct 2013 - 10 Oct 2016
	16 Mar 2012	-	1,300,000	-	-	-	1,300,000	20.100	16 Mar 2013 - 15 Mar 2018
	16 Mar 2012	-	1,300,000	-	-	-	1,300,000	20.100	16 Mar 2014 - 15 Mar 2018
	16 Mar 2012	-	1,300,000	-	-	-	1,300,000	20.100	16 Mar 2015 - 15 Mar 2018
Joseph Chee	21 Oct 2009	642,000	-	-	-	-	642,000	3.600	21 Oct 2010 - 20 Oct 2015
Ying Keung	20 Apr 2011	642,000	-	-	-	-	642,000	13.820	20 Apr 2012 - 19 Apr 2017
Paddy Tang	17 Jan 2008	500,000	-	-	-	-	500,000	6.972	17 Jan 2010 - 16 Jan 2014
Lui Wai Yu	17 Jan 2008	500,000	-	-	-	-	500,000	6.972	17 Jan 2011 - 16 Jan 2014
	17 Jan 2008	1,000,000	-	-	-	-	1,000,000	6.972	17 Jan 2012 - 16 Jan 2014
	8 May 2009	666,666	-	-	-	-	666,666	2.160	8 May 2010 - 7 May 2015
	8 May 2009	666,666	-	-	-	-	666,666	2.160	8 May 2011 - 7 May 2015
	8 May 2009	666,668	-	-	-	-	666,668	2.160	8 May 2012 - 7 May 2015
	11 Oct 2010	666,666	-	-	-	-	666,666	6.810	11 Oct 2011 - 10 Oct 2016
	11 Oct 2010	666,666	-	-	-	-	666,666	6.810	11 Oct 2012 - 10 Oct 2016
	11 Oct 2010	666,668	-	-	-	-	666,668	6.810	11 Oct 2013 - 10 Oct 2016
	16 Mar 2012	-	243,333	-	-	-	243,333	20.100	16 Mar 2013 - 15 Mar 2018
	16 Mar 2012	-	243,333	-	-	-	243,333	20.100	16 Mar 2014 - 15 Mar 2018
	16 Mar 2012	-	243,334	-	-	-	243,334	20.100	16 Mar 2015 - 15 Mar 2018
James Ross Ancell	-	-	-	-	-	-	-	-	-
William Yip Shue Lam	-	-	-	-	-	-	-	-	-
Anthony Thomas Christopher Carter	-	-	-	-	-	-	-	-	-
Patrick Wong Lung Tak	-	-	-	-	-	-	-	-	-

## REPORT OF THE DIRECTORS

Name	Date of grant	Number of Options					Held at 31 December 2012	Exercise price (HK\$)	Exercise period
		Held at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year			
Employees	28 Feb 2003	110,000	-	110,000 <sup>(a)</sup>	-	-	-	0.514	1 Mar 2004 - 28 Feb 2013
(in aggregate)	17 Jan 2008	625,000	-	-	-	-	625,000	6.972	17 Jan 2010 - 16 Jan 2014
	17 Jan 2008	625,000	-	-	-	-	625,000	6.972	17 Jan 2011 - 16 Jan 2014
	17 Jan 2008	1,250,000	-	-	-	-	1,250,000	6.972	17 Jan 2012 - 16 Jan 2014
	18 Aug 2008	452,000	-	189,000 <sup>(b)</sup>	-	-	263,000	3.320	18 Aug 2009 - 17 Aug 2014
	8 May 2009	3,109,331	-	2,391,999 <sup>(c)</sup>	-	-	717,332	2.160	8 May 2010 - 7 May 2015
	8 May 2009	4,357,326	-	2,619,995 <sup>(d)</sup>	-	-	1,737,331	2.160	8 May 2011 - 7 May 2015
	8 May 2009	11,931,690	-	8,586,352 <sup>(e)</sup>	-	333,334 <sup>(f)</sup>	3,012,004	2.160	8 May 2012 - 7 May 2015
	21 Oct 2009	777,000	-	380,000 <sup>(g)</sup>	-	-	397,000	3.600	21 Oct 2010 - 20 Oct 2015
	11 Feb 2010	227,032	-	227,032 <sup>(g)</sup>	-	-	-	2.910	11 Feb 2011 - 10 Feb 2016
	11 Feb 2010	1,650,330	-	1,650,264 <sup>(h)</sup>	-	-	66	2.910	11 Feb 2012 - 10 Feb 2016
	11 Feb 2010	1,650,340	-	-	166,668	-	1,483,672	2.910	11 Feb 2013 - 10 Feb 2016
	23 Jul 2010	6,241,664	-	2,741,332 <sup>(i)</sup>	-	-	3,500,332	4.670	23 Jul 2011 - 22 Jul 2016
	23 Jul 2010	9,259,660	-	3,084,663 <sup>(j)</sup>	-	-	6,174,997	4.670	23 Jul 2012 - 22 Jul 2016
	23 Jul 2010	9,259,680	-	-	166,668	-	9,093,012	4.670	23 Jul 2013 - 22 Jul 2016
	11 Oct 2010	666,666	-	-	-	-	666,666	6.810	11 Oct 2011 - 10 Oct 2016
	11 Oct 2010	666,666	-	-	-	-	666,666	6.810	11 Oct 2012 - 10 Oct 2016
	11 Oct 2010	666,668	-	-	-	-	666,668	6.810	11 Oct 2013 - 10 Oct 2016
	20 Apr 2011	5,297,995	-	2,727,331 <sup>(k)</sup>	-	200,000 <sup>(l)</sup>	2,370,664	13.820	20 Apr 2012 - 19 Apr 2017
	20 Apr 2011	1,540,995	-	-	166,666	200,000 <sup>(l)</sup>	1,174,329	13.820	20 Apr 2013 - 19 Apr 2017
	20 Apr 2011	1,541,010	-	-	166,668	200,000 <sup>(l)</sup>	1,174,342	13.820	20 Apr 2014 - 19 Apr 2017
	9 Jan 2012	-	5,008,646	-	190,666	11,000 <sup>(m)</sup>	4,806,980	14.220	9 Jan 2013 - 8 Jan 2018
	9 Jan 2012	-	5,008,646	-	190,666	11,000 <sup>(m)</sup>	4,806,980	14.220	9 Jan 2014 - 8 Jan 2018
	9 Jan 2012	-	5,008,708	-	190,668	11,000 <sup>(m)</sup>	4,807,040	14.220	9 Jan 2015 - 8 Jan 2018
	16 Mar 2012	-	1,510,998	-	-	-	1,510,998	20.100	16 Mar 2013 - 15 Mar 2018
	16 Mar 2012	-	1,510,998	-	-	-	1,510,998	20.100	16 Mar 2014 - 15 Mar 2018
	16 Mar 2012	-	1,511,004	-	-	-	1,511,004	20.100	16 Mar 2015 - 15 Mar 2018
Others	8 May 2009	568,000	-	568,000 <sup>(n)</sup>	-	333,334 <sup>(n)</sup>	333,334	2.160	8 May 2012 - 7 May 2015
	20 Apr 2011	-	-	100,000 <sup>(m)</sup>	-	200,000 <sup>(n)</sup>	100,000	13.820	20 Apr 2012 - 19 Apr 2017
	20 Apr 2011	-	-	-	-	200,000 <sup>(n)</sup>	200,000	13.820	20 Apr 2013 - 19 Apr 2017
	20 Apr 2011	-	-	-	-	200,000 <sup>(n)</sup>	200,000	13.820	20 Apr 2014 - 19 Apr 2017
	9 Jan 2012	-	-	-	-	11,000 <sup>(m)</sup>	11,000	14.220	9 Jan 2013 - 8 Jan 2018
	9 Jan 2012	-	-	-	-	11,000 <sup>(m)</sup>	11,000	14.220	9 Jan 2014 - 8 Jan 2018
	9 Jan 2012	-	-	-	-	11,000 <sup>(m)</sup>	11,000	14.220	9 Jan 2015 - 8 Jan 2018

## REPORT OF THE DIRECTORS

### Notes:

- a. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$27.60.
- b. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$23.53.
- c. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$19.89.
- d. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$21.89.
- e. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$22.34.
- f. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$23.40.
- g. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$20.47.
- h. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$20.14.
- i. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$21.80.
- j. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$20.61.
- k. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$23.94.
- l. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$25.05.
- m. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$29.03.
- n. A total number of 966,334 options held by employees were re-classified during the year from Employees to Others.

The vesting periods for the above options are the periods from the respective dates of grant to the respective commencement dates of the exercise periods of the options as disclosed above. The consideration paid by each grantee for each grant of options was HK\$1.00.

Details of the options granted or lapsed during the year are set out above. No options were cancelled during the year.



## REPORT OF THE DIRECTORS

The fair values of the options granted during the year are estimated based on the Black-Scholes valuation model, and such fair values and significant inputs into the model are as follows:

	<b>Fair value per option (HK\$)</b>	<b>Share price at date of grant (HK\$)</b>	<b>Exercise price (HK\$)</b>	<b>Standard deviation of expected share price return</b>	<b>Expected life of options</b>	<b>Expected dividend paid out rate</b>	<b>Annual risk-free interest rate</b>
Granted on 9 January 2012 – 14,454,000 options outstanding as at 31 December 2012	\$6.37	\$14.08	\$14.22	65% to 70%	3.5 to 4.5 years	2%	0.741% to 0.852%
Granted on 16 March 2012 – 11,863,000 options outstanding as at 31 December 2012	\$8.47	\$20.10	\$20.10	60% to 65%	3.5 to 4.5 years	2%	0.390% to 0.648%

The volatility measured at the standard deviation of expected share price return is based on the historical share price movement of the Company in the relevant periods matching expected time to exercise prior to the date of grant. Changes in the subjective input assumptions could materially affect the fair value estimate.

The closing price of the Company's shares immediately before the date on which the share options were granted on 9 January 2012 and 16 March 2012 were HK\$13.86 and HK\$18.86 respectively.

Except for the Share Option Scheme, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and adjusted as appropriate, is shown on page 50 of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the five largest customers or suppliers (not including of a capital nature).

## REPORT OF THE DIRECTORS

### MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the year.

### DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$32,400,000 (2011: HK\$34,980,000).

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company at the date of this annual report, there was a sufficient public float of the Company as required under the Listing Rules.

### AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2012 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Dr. Lui Che Woo**

*Chairman*

Hong Kong, 26 March 2013

# REPORT OF INDEPENDENT AUDITOR



羅兵咸永道

## To the shareholders of Galaxy Entertainment Group Limited

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Galaxy Entertainment Group Limited (the “Company”) and its subsidiaries (together the “Group”) set out on pages 66 to 140, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity 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 consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 26 March 2013

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*PricewaterhouseCoopers, 22/F, Prince’s Building, Central, Hong Kong*

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# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
Revenue	6	<b>56,746,423</b>	41,186,446
Other income/gains, net	8(a)	<b>246,471</b>	130,209
Special gaming tax and other related taxes to the Macau Government		<b>(20,702,234)</b>	(15,116,844)
Commission and allowances to gaming counterparties		<b>(18,431,589)</b>	(14,993,995)
Raw materials and consumables used		<b>(1,016,874)</b>	(750,250)
Amortisation and depreciation		<b>(1,835,355)</b>	(1,247,898)
Employee benefit expenses		<b>(4,071,959)</b>	(3,275,854)
Other operating expenses		<b>(3,105,763)</b>	(2,476,195)
Finance costs	10	<b>(512,699)</b>	(399,597)
Change in fair value of derivative under the convertible notes		–	(164,718)
Share of profits less losses of:			
Jointly controlled entities	20(a)	<b>109,100</b>	169,468
Associated companies	21(a)	<b>173</b>	456
Profit before taxation	8(b)	<b>7,425,694</b>	3,061,228
Taxation charge	11	<b>(45,268)</b>	(31,612)
Profit for the year		<b>7,380,426</b>	3,029,616
Attributable to:			
Equity holders of the Company	31	<b>7,377,839</b>	3,003,908
Non-controlling interests		<b>2,587</b>	25,708
		<b>7,380,426</b>	3,029,616
		<b>HK cents</b>	HK cents
Earnings per share	13		
Basic		<b>176.2</b>	72.8
Diluted		<b>173.4</b>	71.4

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
Profit for the year	<b>7,380,426</b>	3,029,616
Other comprehensive income		
Change in fair value of non-current investments	<b>44,262</b>	36,422
Currency translation differences	<b>(20,191)</b>	69,168
Change in fair value of cash flow hedges	<b>(17,236)</b>	(63,475)
Other comprehensive income for the year, net of tax	<b>6,835</b>	42,115
Total comprehensive income for the year	<b>7,387,261</b>	3,071,731
Total comprehensive income attributable to:		
Equity holders of the Company	<b>7,385,048</b>	3,032,474
Non-controlling interests	<b>2,213</b>	39,257
	<b>7,387,261</b>	3,071,731

# CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	18,263,567	17,469,329
Investment properties	16	82,000	77,000
Leasehold land and land use rights	17	4,391,311	4,444,253
Intangible assets	18	1,103,508	1,270,424
Jointly controlled entities	20	1,351,161	1,169,155
Associated companies	21	631	458
Long-term pledged bank deposits	28	–	1,702,230
Other non-current assets	23	373,340	348,179
		<b>25,565,518</b>	26,481,028
<b>Current assets</b>			
Inventories	24	138,611	138,471
Debtors and prepayments	25	1,971,183	1,578,636
Amounts due from jointly controlled entities	26	399,219	298,194
Taxation recoverable		6,146	8,379
Other investments	27	8,149	8,330
Other cash equivalents	28	691,136	1,238,562
Cash and bank balances	28	15,608,604	6,012,706
		<b>18,823,048</b>	9,283,278
<b>Total assets</b>		<b>44,388,566</b>	35,764,306

**CONSOLIDATED BALANCE SHEET**

As at 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>EQUITY</b>			
Share capital	29	419,958	417,421
Reserves	31	21,433,430	13,804,605
Shareholders' funds		21,853,388	14,222,026
Non-controlling interests		440,992	421,201
<b>Total equity</b>		<b>22,294,380</b>	14,643,227
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	32	6,291,171	10,530,722
Deferred taxation liabilities	33	279,059	276,220
Derivative financial instruments	22	80,711	63,475
Provisions	34	78,787	101,234
Retention payable		30,510	155,984
		6,760,238	11,127,635
<b>Current liabilities</b>			
Creditors and accruals	35	10,326,519	8,829,439
Amounts due to jointly controlled entities	26	21,259	14,875
Current portion of borrowings	32	4,966,279	1,141,862
Provision for tax		19,891	7,268
		15,333,948	9,993,444
<b>Total liabilities</b>		<b>22,094,186</b>	21,121,079
<b>Total equity and liabilities</b>		<b>44,388,566</b>	35,764,306
<b>Net current assets/(liabilities)</b>		<b>3,489,100</b>	(710,166)
<b>Total assets less current liabilities</b>		<b>29,054,618</b>	25,770,862

Francis Lui Yiu Tung  
Director

Joseph Chee Ying Keung  
Director

# COMPANY BALANCE SHEET

As at 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Subsidiaries	19	3,830,001	3,830,001
Amounts due from subsidiaries	19	15,842,396	15,978,217
Long-term pledged bank deposits	28	–	1,702,230
		<b>19,672,397</b>	21,510,448
<b>Current assets</b>			
Debtors and prepayments	25	5,948	2,582
Cash and bank balances	28	2,765,487	381,512
		<b>2,771,435</b>	384,094
<b>Total assets</b>		<b>22,443,832</b>	21,894,542
<b>EQUITY</b>			
Share capital	29	419,958	417,421
Reserves	31	19,009,990	18,891,087
<b>Shareholders' funds</b>		<b>19,429,948</b>	19,308,508
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	32	–	1,667,990
		–	1,667,990
<b>Current liabilities</b>			
Creditors and accruals	35	24,903	27,064
Amount due to a subsidiary	19	1,104,214	710,980
Current portion of borrowings	32	1,684,767	–
Short-term borrowings	32	200,000	180,000
		<b>3,013,884</b>	918,044
<b>Total liabilities</b>		<b>3,013,884</b>	2,586,034
<b>Total equity and liabilities</b>		<b>22,443,832</b>	21,894,542
<b>Net current liabilities</b>		<b>(242,449)</b>	(533,950)
<b>Total assets less current liabilities</b>		<b>19,429,948</b>	20,976,498

Francis Lui Yiu Tung  
Director

Joseph Chee Ying Keung  
Director



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	36	10,508,063	6,295,897
Hong Kong profits tax paid		(17,411)	(88,413)
Mainland China income tax and Macau complementary tax paid		(10,162)	(14,502)
Interest paid		(424,065)	(494,541)
Net cash from operating activities		10,056,425	5,698,441
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,224,505)	(4,510,327)
Purchase of intangible assets		(21,088)	(90,801)
Proceeds from sale of property, plant and equipment		398	21,931
Investments in jointly controlled entities		(151,856)	(28,295)
Increase in advances to jointly controlled entities		(125,467)	(127,780)
Proceeds from sale of non-current investments		12,279	–
Deferred expenditure		(73)	(426)
Increase in deferred receivable		(5,984)	(2,072)
Decrease in finance lease receivable		11,892	10,428
Decrease in non-current investments		4,964	2,107
Increase in deposits paid for purchase of property, plant and equipment		(2,504)	(11,900)
Interest received		115,849	59,762
Increase in short-term pledged deposits and short-term bank deposits with maturity over three months		(5,231,988)	(358,503)
Dividends received from jointly controlled entities		74,054	122,704
Dividends received from unlisted/listed investments		28,000	181
Net cash used in investing activities		(7,516,029)	(4,912,991)
<b>Cash flows from financing activities</b>			
Issue of new shares		104,459	162,405
New bank loans		509,058	3,954,094
Repayment of bank loans		(648,934)	(454,965)
Increase in pledged bank deposits		–	(1,659,274)
Capital element of finance lease payments		(415,128)	(409,512)
Increase in loan from non-controlling interests		7,422	19,097
Dividends paid to non-controlling interests		(5,843)	(17,417)
Injection of capital from non-controlling interests		23,421	21,747
Net cash (used in)/from financing activities		(425,545)	1,616,175
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		6,793,088	4,369,255
Changes in exchange rates		(597)	22,208
<b>Cash and cash equivalents at end of year</b>	28	<b>8,907,342</b>	6,793,088

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital HK\$'000	Reserves HK\$'000	Shareholders' funds HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2011	395,440	8,801,497	9,196,937	377,614	9,574,551
Comprehensive income					
Profit for the year	–	3,003,908	3,003,908	25,708	3,029,616
Other comprehensive income					
Change in fair value of non-current investments	–	36,422	36,422	–	36,422
Currency translation differences	–	55,619	55,619	13,549	69,168
Change in fair value of cash flow hedges	–	(63,475)	(63,475)	–	(63,475)
Total other comprehensive income, net of tax	–	28,566	28,566	13,549	42,115
Total comprehensive income for the year	–	3,032,474	3,032,474	39,257	3,071,731
Transactions with equity holders					
Injection of capital from non-controlling interests	–	–	–	21,747	21,747
Dividend paid to non-controlling interests	–	–	–	(17,417)	(17,417)
Issue of shares upon exercise of share options	4,683	157,722	162,405	–	162,405
Issue of shares upon conversion of convertible notes	17,298	1,728,296	1,745,594	–	1,745,594
Fair value of share options granted	–	84,616	84,616	–	84,616
At 31 December 2011	417,421	13,804,605	14,222,026	421,201	14,643,227
Comprehensive income					
Profit for the year	–	7,377,839	7,377,839	2,587	7,380,426
Other comprehensive income					
Change in fair value of non-current investments	–	44,262	44,262	–	44,262
Currency translation differences	–	(19,817)	(19,817)	(374)	(20,191)
Change in fair value of cash flow hedges	–	(17,236)	(17,236)	–	(17,236)
Total other comprehensive income, net of tax	–	7,209	7,209	(374)	6,835
Total comprehensive income for the year	–	7,385,048	7,385,048	2,213	7,387,261
Transactions with equity holders					
Injection of capital from non-controlling interests	–	–	–	23,421	23,421
Dividend paid to non-controlling interests	–	–	–	(5,843)	(5,843)
Issue of shares upon exercise of share options	2,537	101,922	104,459	–	104,459
Fair value of share options granted	–	141,855	141,855	–	141,855
<b>At 31 December 2012</b>	<b>419,958</b>	<b>21,433,430</b>	<b>21,853,388</b>	<b>440,992</b>	<b>22,294,380</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Galaxy Entertainment Group Limited (“GEG” or the “Company”) is a limited liability company incorporated in Hong Kong and has its listing on the Main Board of The Stock Exchange of Hong Kong Limited (“SEHK”). The address of its registered office and principal place of business is Room 1606, 16th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

The principal activities of the Company and its subsidiaries (together the “Group”) are operation in casino games of chance or games of other forms, provision of hospitality and related services in Macau, and the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China.

These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2013.

## 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) under the historical cost convention as modified by the revaluation of investment properties, non-current investments, financial assets and financial liabilities (including derivative financial instruments), which are carried at fair values.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5 below.

### (a) The adoption of new/revised HKFRS

In 2012, the Group adopted the following new/revised HKFRS which are relevant to its operations.

HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transfers of Financial Assets
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets

The Group has assessed the impact of the adoption of these new/revised HKFRS and considered that there was no significant impact on the Group’s results and financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. BASIS OF PREPARATION (Continued)

#### (b) Standards and amendments to existing standards that are not yet effective

<b>New standards and amendments</b>		<b>Effective for accounting periods beginning on or after</b>
HKAS 1 (Amendment)	Presentation of Financial Statements	1 July 2012
HKAS 19 (2011)	Employee Benefits	1 January 2013
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013
HKFRS 7 (Amendments)	Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities	1 January 2013
HK(IFRIC) – Int 20	Stripping costs in the Production Phase of a Surface Mine	1 January 2013
HKFRS 1 (Amendments)	First Time Adoption of Government Loans	1 January 2013
HKFRSs 10, 11 and 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Fourth Annual Improvements Project (2011)	Improvements to HKFRS published in 2012	1 January 2013
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 7 (Amendments)	Financial Instruments: Disclosure – Mandatory Effective Date of HKFRS 9 and Transitional Disclosure	1 January 2015
HKFRS 9	Financial Instruments	1 January 2015

The Group has not early adopted the above standards and amendments and is in the process of assessing the impact on the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 3.1 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December and the share of post acquisition results and reserves of its jointly controlled entities and associated companies attributable to the Group.

Results attributable to subsidiaries, jointly controlled entities and associated companies acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or to the date of disposal as applicable.

The profit or loss on disposal of subsidiaries, jointly controlled entities or associated companies is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill not yet written off.

#### 3.2 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a direct or indirect shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the aggregate of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.2 Subsidiaries (Continued)

Inter-company transactions, balances and income and expenses on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, investments in subsidiaries are carried at cost together with advances by the Company which are neither planned nor likely to be settled in the foreseeable future, less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

#### 3.3 Non-controlling interests

##### Change in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

##### Disposal of subsidiaries

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### 3.4 Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the venturer undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity.

The share of post-acquisition profits or losses of jointly controlled entities attributable to the Group is recognised in the consolidated income statement, and the share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the share of losses of the Group in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the interest in the jointly controlled entities held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the jointly controlled entities have been changed where necessary to ensure consistency with the policies of the Group.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.5 Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence but no control is exercised in its management, generally accompanying a shareholding of between 20% to 50% of the voting rights.

Investments in associated companies are accounted for under the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investments in associated companies of the Group include goodwill, net of any accumulated impairment loss, identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

The share of post-acquisition profits or losses of associated companies attributable to the Group is recognised in the consolidated income statement, and the share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the share of losses of the Group in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the interest in the associated companies held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies of the Group.

#### 3.6 Goodwill

Goodwill arises on the acquisition of subsidiaries, jointly controlled entities and associated companies and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of jointly controlled entities and associated companies is included in investments in jointly controlled entities and associated companies.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

No depreciation is provided on assets under construction until it is completed and is ready in use. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Leasehold improvement	Over the remaining period of the lease
Buildings	20 to 50 years
Plant and machinery	3 to 20 years
Gaming equipment	3 to 5 years
Other assets	2 to 10 years

The residual values and useful lives of the assets are reviewed and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its recoverable amount, it is written down immediately to its estimated recoverable amount.

Gains and losses on disposal is determined as the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

#### 3.8 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out annually by external valuers. Changes in fair values are recognised in the consolidated income statement.

Subsequent expenditure is charged to the carrying amount of the asset only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as revaluation of property, plant and equipment. However, if the fair value gives rise to a reversal of the previous impairment loss, this write-back is recognised in the consolidated income statement.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.9 Gaming licence

Gaming licence is carried at cost less accumulated amortisation and impairment losses. It has a finite useful life and is amortised over its estimated useful life of 17 years on a straight-line basis.

#### 3.10 Computer software

Costs incurred to acquire and bring to use the specific computer software licences are capitalised and are amortised over their estimated useful lives of three years on a straight line basis. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

#### 3.11 Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The Group assesses at the end of reporting period whether there is any indication that an impairment loss recognised in prior periods for a non-financial asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of that asset. A reversal of an impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase. The increased carrying amount attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation).

#### 3.12 Deferred expenditure

Quarry site development represents costs of constructing infrastructure at the quarry site to facilitate excavation. Overburden removal costs are incurred to bring the quarry site into a condition ready for excavation. Quarry site improvements represent estimated costs for environmental restoration and any changes in the estimates are adjusted in the carrying value of the quarry site improvements. These costs are amortised over the estimated useful lives of the quarries and sites concerned using the straight-line method.

Pre-operating costs are expensed as they are incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.13 Financial assets

The Group classifies its financial assets in the categories of financial assets at fair value through profit or loss (including other investments), loans and receivable, and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the investments were acquired.

##### (a) Financial assets at fair value through profit or loss (including other investments)

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current. Financial assets carried at fair value through profit or loss are initially recognised at fair value and subsequently carried at fair value. Transaction costs are expensed in the consolidated income statement.

##### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment terms that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method. Loans and receivables of the Group include trade and other receivables, balances with group companies and cash and cash equivalents.

##### (c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in the balance sheet under non-current investments unless management intends to dispose of the investment within twelve months of the balance sheet date. Available-for-sale financial assets are initially recognised at fair value plus transaction cost and subsequently carried at fair value.

Regular way purchases and sales of investments are recognised on trade-date, which is the date on which the Group commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Realised and unrealised gains and losses arising from changes in fair value of the financial assets at fair value through profit or loss are included in the consolidated income statement. Unrealised gains and losses arising from changes in fair value available-for-sale investments are recognised in other comprehensive income. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments are included in the consolidated income statement as gains or losses from investments.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.13 Financial assets (Continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, refined to reflect the specific circumstances of the issuer. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the investment is measured at cost less impairment losses.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale investments, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator in determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on available-for-sale investments are not reversed through the consolidated income statement.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

#### 3.14 Derivative financial instruments and hedging activities

Derivative financial instruments, including put option of shares and embedded derivative liability of convertible notes, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of hedging derivative is classified as a non-current asset or liability where the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability, where the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current asset or liability.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.14 Derivative financial instruments and hedging activities (Continued)

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

#### 3.15 Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of debtors is reduced through the use of an allowance account and the amount of the provision is recognised in the consolidated income statement within other operating expenses. When a debtor is uncollectible, it is written off against the allowance account for debtors. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement against other operating expenses.

#### 3.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of construction materials is calculated on the weighted average basis, comprising materials, direct labour and an appropriate proportion of production overhead expenditure. Cost of playing cards is determined using the first-in, first-out method and food and beverages using the weighted average method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### 3.17 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, deposits with banks, financial institutions repayable within three months from the date of placement and cash chips of other casinos less bank overdrafts. Cash chips of other casinos include those that form part of the Group's overall cash management and are readily convertible to known amount of cash and subject to an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### 3.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When the Company re-purchases its equity share capital, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the equity holders and the shares are cancelled.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

#### 3.20 Convertible notes

##### (a) Convertible notes with equity component

Convertible notes that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible notes is determined using a market interest rate for an equivalent non-convertible note. The remainder of the proceeds is allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

When the note is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the note is redeemed, the relevant equity component is transferred to retained profit.

##### (b) Convertible notes without equity component

All other convertible notes which do not exhibit the characteristics mentioned in (a) above are accounted for as hybrid instruments consisting of an embedded derivative and a host debt contract.

At initial recognition, the embedded derivative of the convertible notes is accounted for as derivative financial instruments and is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as a liability under the contract. Transaction costs that relate to the issue of the convertible notes are allocated to the liability under the contract.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.20 Convertible notes (Continued)

##### (b) Convertible notes without equity component (Continued)

The derivative component is subsequently carried at fair value and changes in fair value are recognised in the consolidated income statement. The liability under the contract is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

When the note is converted, the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the note is redeemed, any difference between the redemption amount and the carrying amounts of both components is recognised in the consolidated income statement.

#### 3.21 Leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the remaining lease liability. The corresponding lease obligations, net of finance charges, are included under current and non-current liabilities. The finance charges are charged to the consolidated income statement over the lease periods. Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

Assets leased to third parties under agreements that transfer substantially all the risk and rewards incident to ownership of the relevant assets to the lessees are classified as investments in finance leases. The present value of the lease payments is recognised as a receivable in the balance sheet. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Gross earnings under finance leases are recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return on the net investment in the leases.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases, net of any incentives received from the lessors, are charged to the consolidated income statement on a straight line basis over the period of the leases. The up-front prepayments made for leasehold land and land use rights are amortised on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated income statement. The amortisation of the leasehold land and land use rights is capitalised under the relevant assets when the property on the leasehold land is under construction.

#### 3.22 Creditors and accruals

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.23 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, before any tax effects, that reflect current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

#### 3.24 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries, jointly controlled entities and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.25 Special gaming tax and other related taxes to the Macau Government

According to the gaming concession granted by the Macau Government and the relevant legislation, the Group is required to pay 35% gaming tax and 4% public development and social related contributions on the net gaming wins from gaming operations. In addition, the Group is also required to make certain variable and fixed payments to the Macau Government based on the number of tables and slot machines in its possession. These expenses are reported as “special gaming tax and other related taxes to the Macau Government” in the consolidated income statement and are charged to the consolidated income statement as incurred.

#### 3.26 Commission and allowances to gaming counterparties

Commission and allowances to gaming counterparties is calculated based on certain percentages of net gaming wins or rolling amount and is recognised when the relevant services have been rendered by gaming counterparties.

#### 3.27 Contributions from the operations of the City Club Casinos

Contributions from the operations of the City Club Casinos are recognised based on the established rates for the net gaming wins which reflect the gross inflow of economic benefits to the Group. In addition, all relevant operating and administrative expenses relating to the operations of the City Club Casinos are not recognised as expenses of the Group in the financial statements.

#### 3.28 Employee benefits

##### (a) Employees entitlement, benefits and bonus

Contributions to publicly or privately administered defined contribution retirement or pension plans on a mandatory, contractual or voluntary basis are recognised as employee benefit expense in the financial period when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

##### (b) Share-based compensation

The fair value of the employee services received in exchange for the grant of the options under the equity-settled, share-based compensation plan is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, estimates of the number of options that are expected to become exercisable are revised. The impact of the revision of original estimates, if any, is recognised in the profit and loss statement over the remaining vesting period with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.28 Employee benefits (Continued)

##### (b) Share-based compensation (Continued)

The grant by the Company of options over its equity instruments to the employees of subsidiary in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

#### 3.29 Borrowing costs

Interest and related costs on borrowings directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to complete and prepare the assets for its intended use or sale are capitalised as part of the cost of that asset until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the profit and loss statement in the financial period in which they are incurred.

#### 3.30 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, net of value-added tax, returns, rebates and discounts and allowance for credit.

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities have been met. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

##### (a) Gaming operations

Revenue from gaming operations, representing the net gaming wins, is recognised when the relevant services have been rendered and is measured at the entitlement of economic inflows of the Group from the business. Contributions from the operations of the City Club Casinos are recognised in the consolidated income statement as set out in note 3.27 above.

##### (b) Hotel operations

Revenue from hotel room rental and food and beverages sales is recognised when the relevant services have been rendered.

##### (c) Construction materials

Sales of construction materials are recognised when the goods are delivered and legal title is transferred to customers.

##### (d) Rental income

Rental income, net of any incentives given to the lessee, is recognised over the periods of the respective leases on a straight-line basis.

##### (e) Administrative fee

Administrative fee is recognised when the services have been rendered.

##### (f) Interest income

Interest income is recognised on a time proportion basis using the effective interest method, taking into account the principal amounts outstanding and the interest rates applicable.

##### (g) Dividend income

Dividend income is recognised when the right to receive payment is established.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.31 Foreign currency translation

Items included in the consolidated financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the Group operates (the “functional currency”). The consolidated financial statements are presented in Hong Kong dollar, which is the functional and presentation currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates ruling at the balance sheet date are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary financial assets held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation difference on non-monetary available-for-sale investments is included in other comprehensive income.

The results and financial position of all the entities in the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the exchange rate ruling at the date of that balance sheet;
- (ii) income and expenses for each consolidated income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the Group’s entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group’s ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rates ruling at the balance sheet date. Exchange differences arising are recognised in equity.

#### 3.32 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.33 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

#### 3.34 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### 3.35 Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries, associates, jointly controlled entities and related companies to secure loans, overdrafts and other banking facilities.

The Group regards its financial guarantees provided to its subsidiaries, jointly controlled entities and associated companies as insurance contracts. The Group assesses at each balance sheet date the liabilities under its insurance contracts using current estimates of future cash flows. Changes in carrying amount of these insurance liabilities are recognised in the consolidated income statement.

### 4. FINANCIAL RISK MANAGEMENT

The major financial instruments of the Group include trade and other receivables, amounts due from related parties, cash and bank balances, restricted bank deposits, cash chips of other casinos, non-current and other investments, trade and other creditors, amounts due to related parties and borrowings. Details of these financial instruments are disclosed in respective notes. The activities of the Group expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and other price risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group seeks to minimise the effects of certain of these risks by using derivative financial instruments to hedge the risk exposures. It does not enter into or trade derivative financial instruments for speculative purpose. The management of the Group identifies, evaluates and manages significant financial risks in the individual operating units of the Group.

#### 4.1 Financial risk factors

##### (a) Market risk

##### (i) Foreign exchange risk

The Group operates in Hong Kong, Macau and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Macau Patacas and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the Group.

Foreign currency exposures are covered by forward contracts and cross-currency interest rate swap contracts whenever appropriate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (a) Market risk (Continued)

###### (i) Foreign exchange risk (Continued)

There is no forward foreign exchange contract as at 31 December 2012.

The Group is not exposed to foreign exchange risk in respect of Hong Kong dollar against the United States dollar and Macau Patacas as long as these currencies are pegged. The Group has no significant foreign exchange risk in respect of Renminbi.

###### (ii) Price risk

The Group is exposed to equity price changes arising from equity investments held by the Group classified on the consolidated balance sheet either as other investments (note 27) or non-current investments (see note 23(a)). Other than unquoted securities held for strategic purposes, all of these investments are listed. The Group is not exposed to commodity price risk.

All of the Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

###### (iii) Interest rate risk

The Group is exposed to interest rate risk through the impact of changes in the rates on interest bearing liabilities and assets. The Group follows a policy of developing long-term banking facilities to match its long-term investments in Hong Kong, Macau and Mainland China. The policy also involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favourable pricing opportunities arise.

Interest rate exposures are covered by interest rate swap contracts whenever appropriate.

As the Group has no significant interest bearing assets, other than deposits and cash at banks and loan receivables, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rate risk of the Group arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Certain of the Company's long-term borrowings were issued at fixed rates, and expose the Company to fair value interest rate risk.

At 31 December 2012, if interest rates on borrowings at variable rates at that date had been 0.5% higher or lower with all other variables held constant, profit after tax for the year would have been HK\$44,883,000 (2011: HK\$45,037,000) lower or higher, mainly as a result of higher or lower interest expense on floating rate borrowings.

At 31 December 2012, if interest rates on deposits and cash at banks at that date had been 0.5% higher or lower with all other variables held constant, profit after tax for the year would have been HK\$41,046,000 (2011: HK\$25,401,000) higher or lower.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (b) Credit risk

Credit risk arises from derivative financial instruments and deposits with banks and financial institutions, cash chips of other casinos and loan receivables, as well as credit exposures to customers, including outstanding receivables and committed transactions, and the gaming counterparties and premium players of gaming. Cash and bank balances are deposited in bank and financial institutions with sound credit ratings to mitigate the risk. The issuance and redemption of cash chips are heavily regulated by the rules and regulation of the Macau Government. Cash chips of other casinos can be redeemed for cash at casinos with sound credit quality to mitigate the risk. Management assesses the credit quality of the casinos taking into account their financial position, past experience and other factors.

The Group has policies and guidelines in place to assess the credit worthiness of customers and gaming counterparties to ensure that credits are made to parties with an appropriate credit history and a good history of performance records. As at 31 December 2012, approximately 76% (2011: 75%) of the other debtors and deposits paid represent advances to customers and gaming counterparties. The Group monitors the issuance of credit on an ongoing basis to minimise the exposure to credit risk. There is a concentration of credit risk relating to advances to certain gaming counterparties. The activities of individual credit account are monitored regularly for management to decide if the credit facility should be continued, changed or cancelled. Management regularly evaluates the allowance for doubtful receivables by reviewing the collectability of each balance based upon the age of the balance, the customer's financial condition, collection history and any other known information. See note 25 for details of debtors and further disclosure on credit risks.

The maximum exposure at 31 December 2012 to financial assets represents the unimpaired carrying amounts of respective financial assets.

##### (c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due. The Group measures and monitors its liquidity through the maintenance of prudent ratios regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Group.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group Treasury. Group Treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements (for example, currency restrictions).

Group Treasury invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (c) Liquidity risk (Continued)

The contractual maturity of the Group and the Company for its financial liabilities, drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company is required to pay and include both interest and principal, is set out below.

##### Group

	Within one year HK\$'000	Between one to two years HK\$'000	Between two to five years HK\$'000	Over five years HK\$'000	Total HK\$'000
<b>At 31 December 2012</b>					
Bank loans	3,199,206	1,525,366	5,194,327	–	9,918,899
Fixed rate bonds	1,780,669	–	–	–	1,780,669
Obligations under finance leases	465,539	7,295	192	591,234	1,064,260
Derivative financial instruments	24,518	24,518	36,777	–	85,813
Provisions	34,252	34,445	44,342	–	113,039
Creditors and accruals (including non-current retention payable)	10,292,267	–	30,510	–	10,322,777
Amounts due to jointly controlled entities	21,259	–	–	–	21,259
<b>At 31 December 2011</b>					
Bank loans	998,898	2,666,094	6,722,092	–	10,387,084
Fixed rate bonds	78,728	1,780,958	–	–	1,859,686
Obligations under finance leases	463,130	463,130	4,853	591,234	1,522,347
Derivative financial instruments	12,650	25,300	63,250	–	101,200
Provisions	34,345	34,252	66,982	–	135,579
Creditors and accruals (including non-current retention payable)	8,795,094	155,364	620	–	8,951,078
Amounts due to jointly controlled entities	14,875	–	–	–	14,875

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (c) Liquidity risk (Continued)

###### Company

	Within one year HK\$'000	Between one to two years HK\$'000	Between two to five years HK\$'000	Total HK\$'000
<b>At 31 December 2012</b>				
Bank loans	200,237	–	–	200,237
Fixed rate bonds	1,780,669	–	–	1,780,669
Creditors and accruals	24,903	–	–	24,903
<b>At 31 December 2011</b>				
Bank loans	180,060	–	–	180,060
Fixed rate bonds	78,728	1,780,958	–	1,859,686
Creditors and accruals	27,064	–	–	27,064

#### 4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group will consider the macro economic conditions, prevailing borrowing rate in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank borrowings as necessary. The Group may also adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total assets less cash and bank balances. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and bank balances. The Group intends to make use of excess funds to improve its capital structure through early repayment of borrowings to achieve finance cost saving in the future.

The gearing ratios at 31 December 2012 and 2011 were as follows.

	2012 HK\$'000	2011 HK\$'000
Total borrowings (note 32)	(11,257,450)	(11,672,584)
Less: cash and bank balances (note 28)	15,608,604	6,012,706
Net cash/(net debt)	4,351,154	(5,659,878)
Total assets less cash and bank balances	28,779,962	29,751,600
Gearing ratio (note)	n/a	19%

Note: The Group was in a net cash position as at 31 December 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. FINANCIAL RISK MANAGEMENT (Continued)

#### 4.3 Fair value estimation

The table below analyses financial instruments that are measured in the balance sheet at fair value, by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012 and 2011.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>At 31 December 2012</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
– Equity securities	8,149	–	–	8,149
Available-for-sale financial assets				
– Equity securities	27	–	117,033	117,060
<b>Total</b>	<b>8,176</b>	<b>–</b>	<b>117,033</b>	<b>125,209</b>
<b>Liabilities</b>				
Derivative financial instruments	–	80,711	–	80,711
<b>Total</b>	<b>–</b>	<b>80,711</b>	<b>–</b>	<b>80,711</b>

At 31 December 2011

#### Assets

Financial assets at fair value through profit or loss				
– Equity securities	8,330	–	–	8,330
Available-for-sale financial assets				
– Equity securities	22	–	84,477	84,499
<b>Total</b>	<b>8,352</b>	<b>–</b>	<b>84,477</b>	<b>92,829</b>

#### Liabilities

Derivative financial instruments	–	63,475	–	63,475
<b>Total</b>	<b>–</b>	<b>63,475</b>	<b>–</b>	<b>63,475</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. FINANCIAL RISK MANAGEMENT (Continued)

#### 4.3 Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as other investments.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swap is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012 and 2011.

	<b>Available- for-sale financial assets HK\$'000</b>	<b>Derivative financial instruments HK\$'000</b>
Opening balance as of 1 January 2012	84,477	–
Gains recognised in profit or loss	5,542	–
Gains recognised in equity	44,257	–
Return of capital	(17,243)	–
Closing balance as of 31 December 2012	117,033	–
Total gains for the year included in profit or loss for assets held at the end of the year	5,542	–
Opening balance as of 1 January 2011	50,128	(387,242)
Losses recognised in profit or loss	–	(164,718)
Converted into ordinary shares during the year	–	551,960
Gains recognised in equity	36,456	–
Return of capital	(2,107)	–
Closing balance as of 31 December 2011	84,477	–
Total losses for the year included in profit or loss for assets held at the end of the year	–	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the consolidated financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

**(a) Carrying amount of non-financial assets other than goodwill**

The Group tests for possible impairment or reversal of impairment for non-financial assets other than goodwill. The recoverable amount has been determined based on the higher of fair value less cost to sell and value-in-use. The methodologies are based upon estimates of future results, assumptions as to income and expenses of the business, future economic conditions on growth rates and estimation of the future returns.

**(b) Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3.6. The recoverable amounts of cash generating units in the construction materials division have been determined based on value-in-use calculations. These calculations require the use of estimates, details of which are disclosed in note 18.

**(c) Useful lives of property, plant and equipment**

The management determines the estimated useful lives and residual values for its property, plant and equipment. Management will revise the depreciation charge where useful lives are different from previous estimates, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

**(d) Impairment of available-for-sale financial assets**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The fair value also reflects the discounted cash flows that could be expected from the ultimate sale after deducting the estimated expenses directly associated with the sale. The Group determines whether an investment is impaired by evaluating the duration and extent to which the fair value of an investment is less than its cost.

**(e) Fair value of derivative financial instruments**

The fair value of derivative financial instruments is with reference to the valuation performed by an independent valuer by reference to the Binomial model. In making the judgment, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date.

**(f) Provisions**

The Group carries out environmental restoration for its quarry sites. Management estimates the related provision for future environmental restoration based on an estimate of future expenditure for the restoration. These provisions require the use of different assumptions, such as discount rates for the discounting of non-current provision due to time value of money, the timing and extents of cash outflows.

**(g) Share-based payments**

The fair value of option granted is estimated by independent professional valuers based on the various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the share options at the date of granting the options.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

#### (h) Taxation

The Group is subject to taxation in Hong Kong, Macau and Mainland China. Significant judgment is required in determining the provision for taxation for each entity in the Group. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred taxation provisions in the financial period in which such determination is made.

#### (i) Provision for doubtful debts

The policy of provision for doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts receivable and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each counterparty. The amount of provision made as at 31 December 2012 was HK\$79,505,000 (2011: HK\$77,473,000). If the financial conditions of counterparty were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

#### (j) Other cash equivalents

The policy of including cash chips of other casinos as cash equivalent was based on management's judgment to consider these cash chips form part of the Group's overall cash management, are highly liquid investments that are readily convertible to cash, and are not subject to significant risk of change in value. Management's consideration includes its assessment and understanding of the rules and regulations governing the issuance and redemption of cash chips by the Macau Government.

### 6. REVENUE

Revenue comprises turnover from gaming operations, hotel operations, administrative fees from gaming operations and sales of construction materials.

	2012 HK\$'000	2011 HK\$'000
Gaming operations		
Net gaming wins	52,647,123	38,432,664
Contributions from City Club Casinos (note)	151,142	118,167
Tips received	18,862	18,385
Hotel operations	1,866,910	1,034,318
Administrative fees from gaming operations	12,300	8,900
Sales of construction materials	2,050,086	1,574,012
	<b>56,746,423</b>	41,186,446

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. REVENUE (Continued)

Note: In respect of the operations of city club casinos (the "City Club Casinos"), the Group entered into agreements (the "Agreements") with third parties for a term equal to the life of the concession agreement with the Government of the Macau Special Administrative Region (the "Macau Government") up to June 2022.

Under the Agreements, the service providers (the "Service Providers") undertake for the provision of a steady flow of customers to the City Club Casinos and for procuring and/or introducing customers to these casinos. The Service Providers also agree to indemnify the Group against substantially all risks arising under the leases of the premises used by these casinos; and to guarantee payments to the Group of certain operating and administrative expenses. Revenue attributable to the Group is determined by reference to various rates on the net gaming wins.

After analysing the risks and rewards attributable to the Group, and the Service Providers under the Agreements, revenue from the City Club Casinos is recognised based on the established rates for the net gaming wins which reflect the gross inflow of economic benefits to the Group. In addition, all relevant operating and administrative expenses relating to the operations of the City Club Casinos are not recognised as expenses of the Group in the consolidated financial statements.

During the year ended 31 December 2012, the Group is entitled to HK\$151,142,000 (2011: HK\$118,167,000), which is calculated by reference to various rates on the net gaming wins. Special gaming tax and other related taxes to the Macau Government, and all relevant operating and administrative expenses relating to the operations of the City Club Casinos are not recognised as expenses of the Group in the consolidated financial statements.

### 7. SEGMENT INFORMATION

The Board of Directors is responsible for allocating resources, assessing performance of the operating segment and making strategic decisions, based on a measurement of adjusted earnings before interest, tax, depreciation, amortisation and certain items (the "Adjusted EBITDA"). This measurement basis of Adjusted EBITDA excludes the effects of non-recurring income and expenditure from the operating segments, such as pre-opening expenses, sponsorship, gain on unlisted investments, loss on disposal of certain property, plant and equipment and impairment charge when the impairment is the result of an isolated, non-recurring event. The Adjusted EBITDA also excludes the effects of forfeiture of equity-settled share-based payments, share option expenses, donation expenses, and unrealised gains or losses on financial instruments.

In accordance with the internal financial reporting and operating activities of the Group, the reportable segments are the gaming and entertainment segment and the construction materials segment. Corporate and treasury management represents corporate level activities including central treasury management and administrative function.

The reportable segments derive their revenue from the operation in casino games of chance or games of other forms, provision of hospitality and related services in Macau, and the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China.

There are no sales or trading transaction between the operating segments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. SEGMENT INFORMATION (Continued)

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Corporate and treasury management HK\$'000	Total HK\$'000
<b>Year ended 31 December 2012</b>				
Reportable segment revenue	58,204,763	2,050,086	–	60,254,849
Adjusted for:				
City Club Casinos arrangement set out in note 6				
Revenue not recognised	(3,671,868)	–	–	(3,671,868)
Contributions	151,142	–	–	151,142
Others	12,300	–	–	12,300
Revenue recognised under HKFRS	54,696,337	2,050,086	–	56,746,423
Adjusted EBITDA	9,534,878	458,641	(146,191)	9,847,328
Interest income and gross earnings on finance lease				153,962
Amortisation and depreciation				(1,835,355)
Finance costs				(512,699)
Taxation charge				(45,268)
Taxation of jointly controlled entities				(28,738)
Adjusted items:				
Pre-opening expenses of Galaxy Macau™				
Phase 2 at Cotai				(14,401)
Unrealised loss on listed investments				(181)
Share option expenses				(141,855)
Donation and sponsorship				(32,400)
Loss on disposal of certain property, plant and equipment				(14,849)
Impairment of goodwill				(33,014)
Gain on unlisted investment and related income				45,487
Other losses				(7,591)
Profit for the year				7,380,426

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. SEGMENT INFORMATION (Continued)

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Corporate and treasury management HK\$'000	Total HK\$'000
Year ended 31 December 2011				
Reportable segment revenue	42,742,777	1,574,012	–	44,316,789
Adjusted for:				
City Club Casinos arrangement set out in note 6				
Revenue not recognised	(3,250,162)	–	–	(3,250,162)
Contributions	118,167	–	–	118,167
Others	1,652	–	–	1,652
Revenue recognised under HKFRS	39,612,434	1,574,012	–	41,186,446
Adjusted EBITDA	5,408,471	433,306	(93,108)	5,748,669
Interest income and gross earnings on finance lease				61,838
Amortisation and depreciation				(1,247,898)
Finance costs				(399,597)
Change in fair value of derivative under the convertible notes				(164,718)
Taxation charge				(31,612)
Taxation of jointly controlled entities				(25,933)
Adjusted items:				
Pre-opening expenses of Galaxy Macau™				
Phase 1 at Cotai				(786,133)
Unrealised loss on listed investments				(12,133)
Share option expenses				(84,616)
Donation and sponsorship				(34,980)
Impairment of property, plant and equipment				(10,809)
Other compensation income				17,538
Profit for the year				3,029,616

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION (Continued)

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Corporate and treasury management HK\$'000	Total HK\$'000
<b>As at 31 December 2012</b>				
Total assets	37,141,474	4,456,697	2,790,395	44,388,566
Total assets include:				
Jointly controlled entities	31,116	1,320,045	–	1,351,161
Associated companies	–	631	–	631
Total liabilities	17,049,263	1,542,133	3,502,790	22,094,186

As at 31 December 2011

Total assets	29,892,938	3,754,280	2,117,088	35,764,306
Total assets include:				
Jointly controlled entities	12,391	1,156,764	–	1,169,155
Associated companies	–	458	–	458
Total liabilities	16,108,124	1,540,599	3,472,356	21,121,079

**Year ended 31 December 2012**

Additions to non-current assets	2,268,793	214,916	29	2,483,738
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Year ended 31 December 2011

Additions to non-current assets	6,198,636	180,985	5,679	6,385,300
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. SEGMENT INFORMATION (Continued)

#### Geographical analysis

Year ended 31 December	2012 HK\$'000	2011 HK\$'000
<b>Revenue</b>		
Macau	54,997,845	39,695,133
Hong Kong	1,189,162	927,753
Mainland China	559,416	563,560
	<b>56,746,423</b>	41,186,446
	<b>As at 31 December 2012 HK\$'000</b>	As at 31 December 2011 HK\$'000
<b>Non-current assets, other than financial instruments</b>		
Macau	23,044,941	22,499,814
Hong Kong	480,537	463,998
Mainland China	2,040,040	1,814,986
	<b>25,565,518</b>	24,778,798



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. OTHER INCOME/GAINS, NET AND PROFIT BEFORE TAXATION

	2012 HK\$'000	2011 HK\$'000
(a) Other income/gains, net		
Rental income from investment properties	5,210	6,246
Interest income		
Bank deposits	138,423	53,272
Loans to jointly controlled entities (note 26(a))	12,829	5,815
Deferred receivables (note 23(c))	1,528	1,175
Dividend income from listed investments	-	181
Dividend income from unlisted investments	28,000	-
Gross earnings on finance lease	1,182	1,576
Change in fair value of forward contracts	-	1,058
Reversal of provision for other liabilities	2,674	6,514
Other compensation income	-	17,538
Unrealised loss on listed investments	(181)	(12,133)
Change in fair value of investment properties	5,000	-
(Loss)/gain on disposal of property, plant and equipment	(29,051)	2,158
Impairment of property, plant and equipment	-	(10,809)
Impairment of goodwill	(33,014)	-
Foreign exchange gain	27,391	27,004
Gain on unlisted investment and related income	45,487	-
Others	40,993	30,614
	<b>246,471</b>	<b>130,209</b>
(b) Profit before taxation is stated after charging		
Depreciation	1,602,529	1,037,689
Amortisation		
Gaming licence	106,629	106,337
Computer software	48,361	33,607
Quarry site improvements	16,216	16,216
Overburden removal costs	8,385	8,385
Quarry site development	316	316
Leasehold land and land use rights	52,919	45,348
Operating lease rental		
Land and buildings	28,978	30,674
Royalty	12,840	11,902
Staff costs, including Directors' remuneration (Note)	4,071,959	3,275,854
Outgoing in respect of investment properties	492	486
Auditor's remuneration		
Audit services		
Provision for the year	13,417	10,102
Under-provision in prior year	-	37
Non-audit services		
Provision for the year	805	2,521
Under-provision in prior year	55	96

Note: Staff costs is stated after amount capitalised in assets under construction in the aggregate of HK\$123,205,000 (2011: HK\$109,676,000), and include share option expenses of HK\$141,855,000 (2011: HK\$84,616,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9. MANAGEMENT REMUNERATION

#### (a) Directors' remuneration

	Fees HK\$'000	Salary, allowance and benefit in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Share options (note d) HK\$'000	2012 Total HK\$'000	2011 Total HK\$'000
<b>Executive Directors</b>							
Dr. Lui Che Woo	190	7,704	13,997	385	12,954	35,230	14,311
Mr. Francis Lui Yiu Tung	240	10,900	19,867	545	18,723	50,275	20,444
Mr. Joseph Chee Ying Keung	160	3,474	965	312	1,243	6,154	7,566
Ms. Paddy Tang Lui Wai Yu	160	2,092	–	104	4,267	6,623	6,057
	750	24,170	34,829	1,346	37,187	98,282	48,378
<b>Non-executive Directors</b>							
Mr. James Ross Ancell	300	–	–	–	–	300	270
Dr. William Yip Shue Lam	330	–	–	–	–	330	300
Mr. Anthony Thomas Christopher Carter	160	–	–	–	–	160	150
Professor Patrick Wong Lung Tak	330	–	–	–	–	330	300
	1,120	–	–	–	–	1,120	1,020
<b>Total 2012</b>	<b>1,870</b>	<b>24,170</b>	<b>34,829</b>	<b>1,346</b>	<b>37,187</b>	<b>99,402</b>	
Total 2011	1,700	22,650	1,367	1,260	22,421		49,398

- (i) The directors' fees paid in 2012 were in relation to performance and services for 2011.
- (ii) The discretionary bonuses paid in 2012 were in relation to performance and services for 2011 and 2010.
- (iii) Mr. Henry Lin Chen resigned as a Non-executive Director on 3 September 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9. MANAGEMENT REMUNERATION (Continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2011: two) Directors whose emoluments are reflected in note (a) above. The emoluments of the remaining three individuals (2011: three) are as follows:

	2012 HK\$'000	2011 HK\$'000
Salaries and other emoluments	15,169	15,803
Discretionary bonuses	9,941	3,602
Retirement benefits	401	425
Share options (note d)	20,163	10,498
	<b>45,674</b>	<b>30,328</b>

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	2012	2011
HK\$8,500,001 – HK\$9,000,000	–	1
HK\$10,000,001 – HK\$10,500,000	–	1
HK\$11,000,001 – HK\$11,500,000	–	1
HK\$11,500,001 – HK\$12,000,000	1	–
HK\$12,000,001 – HK\$12,500,000	1	–
HK\$21,500,001 – HK\$22,000,000	1	–
	<b>3</b>	<b>3</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9. MANAGEMENT REMUNERATION (Continued)

#### (c) Retirement benefit schemes

In Hong Kong, the Group makes monthly contributions to the Mandatory Provident Fund (MPF) Scheme equal to 5% of the relevant income of the employees in compliance with the legislative requirement. In addition, the Group also makes defined top-up contributions to the same scheme or the Occupational Retirement Scheme Ordinance (ORSO) Scheme for employees depending on circumstance. For the top-up schemes, the Group's contributions to the schemes may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the Schemes are held separately from those of the Group in independently administered funds.

The Group also operates a defined contribution scheme which is a unitised scheme, for eligible employees in Macau. The Galaxy Staff Pension Fund Scheme is established and managed by an independent management company appointed by the Group. Both the Group and the employees make equal share of monthly contributions to the scheme.

Employees in Mainland China participate in various pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 10% to 22%, dependent upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

The costs of the retirement benefit schemes charged to the consolidated income statement during the year comprise contributions to the schemes of HK\$110,589,000 (2011: HK\$78,326,000), after deducting forfeitures of HK\$22,076,000 (2011: HK\$8,038,000), leaving HK\$95,093 (2011: HK\$50,000) available to reduce future contributions.

#### (d) Share options

The value of the share options granted to the Directors and employees under the share option scheme of the Company represents the fair value of these options charged to the income statement for the year according to their vesting periods.

### 10. FINANCE COSTS

	2012 HK\$'000	2011 HK\$'000
Interest expenses		
Fixed rate bonds wholly repayable within five years	95,775	91,773
Bank loans and overdrafts wholly repayable within five years	405,555	437,347
Obligations under finance leases	57,483	57,080
Convertible notes wholly repayable within five years	–	12,766
Fair value losses on financial instruments		
Interest rate swaps: cash flow hedges	12,274	–
Other borrowing costs	3,705	1,770
	<b>574,792</b>	600,736
Amount capitalised in assets under construction	<b>(62,093)</b>	(201,139)
	<b>512,699</b>	399,597

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11. TAXATION CHARGE

	2012 HK\$'000	2011 HK\$'000
Current taxation		
Hong Kong profits tax	29,828	18,325
Mainland China income tax	12,845	15,250
Macau complementary tax	637	413
Net over-provision in prior years	(881)	(1,041)
Deferred taxation (note 33)	2,839	(1,335)
<b>Taxation charge</b>	<b>45,268</b>	<b>31,612</b>

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year after setting off available taxation losses brought forward. Taxation assessable on profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the areas in which those profits arose, these rates range from 12% to 25% (2011: 12% to 25%).

The taxation on the profit before taxation of the Group differs from the theoretical amount that would arise using the applicable taxation rate being the weighted average of rates prevailing in the countries in which the Group operates, is as follows:

	2012 HK\$'000	2011 HK\$'000
Profit before taxation	7,425,694	3,061,228
Share of profits less losses of		
Jointly controlled entities	(109,100)	(169,468)
Associated companies	(173)	(456)
	<b>7,316,421</b>	<b>2,891,304</b>
Tax calculated at applicable tax rate	870,987	339,640
Income not subject to tax	(18,041)	(11,579)
Profit exempted from Macau Complementary Tax (Note)	(1,138,021)	(651,850)
Expenses not deductible for tax purpose	63,597	75,831
Utilisation of previously unrecognised tax losses	(4,315)	(7,291)
Tax losses not recognised	264,632	275,873
Net over-provision in prior years	(881)	(1,041)
Mainland China withholding tax on undistributed profit	7,310	12,029
<b>Taxation charge</b>	<b>45,268</b>	<b>31,612</b>

The weighted average applicable tax rate was 12% (2011: 12%).

Note: Pursuant to the Despatch No. 249/2004 issued by the Chief Executive of the Macau Government on 30 September 2004, the Group is exempted from Macau Complementary Tax on its gaming activities for five years effective from the 2004 year of assessment till year 2008. Pursuant to the Despatch No. 326/2008 issued by the Chief Executive of the Macau Government on 20 November 2008, the Group is exempted from Macau Complementary Tax on its gaming activities for five years effective from the 2009 year of assessment till year 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company includes the Company's loss of HK\$124,874,000 (2011: profit of HK\$10,248,424,000).

### 13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one (2011: two) category of dilutive potential ordinary shares: share options (2011: convertible notes and share options). Diluted earnings per share for the year ended 31 December 2011 did not assume the conversion of the convertible notes at the beginning of period and to the date of conversion since the conversion would have an anti-dilutive effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The calculation of basic and diluted earnings per share for the year is based on the following:

	<b>2012</b> HK\$'000	2011 HK\$'000
Profit attributable to equity holders of the Company	<b>7,377,839</b>	3,003,908

	<b>Number of shares</b>	
	<b>2012</b>	2011
Weighted average number of shares for calculating basic earnings per share	<b>4,187,301,189</b>	4,124,565,318
Effect of dilutive potential ordinary shares		
Share options	<b>67,245,243</b>	82,454,717
Weighted average number of shares for calculating diluted earnings per share	<b>4,254,546,432</b>	4,207,020,035

### 14. DIVIDENDS

The Board of Directors does not declare any dividend for the year ended 31 December 2012 (2011: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Gaming equipment and other assets HK\$'000	Assets under construction HK\$'000	Total HK\$'000
Cost						
At 31 December 2011	9,910,661	229,762	3,996,841	5,718,531	444,205	20,300,000
Exchange differences	(4)	–	(125)	–	–	(129)
Additions	300,727	15,881	70,025	435,361	1,604,222	2,426,216
Transfer	56,212	–	190,538	39,241	(285,991)	–
Disposals	(17,699)	–	(19,121)	(30,335)	–	(67,155)
At 31 December 2012	10,249,897	245,643	4,238,158	6,162,798	1,762,436	22,658,932
Accumulated depreciation and impairment						
At 31 December 2011	340,162	104,739	1,083,297	1,302,473	–	2,830,671
Exchange differences	(4)	–	(125)	–	–	(129)
Charge for the year	330,202	36,966	343,680	891,681	–	1,602,529
Transfer	(56)	–	(2,379)	2,435	–	–
Disposals	(2,565)	–	(18,951)	(16,190)	–	(37,706)
At 31 December 2012	667,739	141,705	1,405,522	2,180,399	–	4,395,365
Net book value						
<b>At 31 December 2012</b>	<b>9,582,158</b>	<b>103,938</b>	<b>2,832,636</b>	<b>3,982,399</b>	<b>1,762,436</b>	<b>18,263,567</b>
Cost						
At 31 December 2010	1,581,966	100,844	1,348,879	1,063,432	10,165,552	14,260,673
Exchange differences	1,340	20	8,378	8,500	13,489	31,727
Additions	2,065,129	10,670	517,178	1,343,160	2,188,562	6,124,699
Transfer	6,262,226	121,363	2,139,971	3,399,675	(11,923,235)	–
Disposals	–	(3,135)	(17,565)	(96,236)	(163)	(117,099)
At 31 December 2011	9,910,661	229,762	3,996,841	5,718,531	444,205	20,300,000
Accumulated depreciation and impairment						
At 31 December 2010	151,827	76,997	829,579	807,831	–	1,866,234
Exchange differences	590	3	5,588	7,084	–	13,265
Charge for the year	187,745	30,952	255,955	563,037	–	1,037,689
Disposals	–	(3,213)	(18,393)	(75,720)	–	(97,326)
Impairment charge	–	–	10,568	241	–	10,809
At 31 December 2011	340,162	104,739	1,083,297	1,302,473	–	2,830,671
Net book value						
At 31 December 2011	9,570,499	125,023	2,913,544	4,416,058	444,205	17,469,329

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

#### Group (Continued)

- (a) Other assets comprise barges, furniture and equipment, operating equipment and motor vehicles.
- (b) During the year, borrowing costs of HK\$62,093,000 (2011: HK\$201,139,000) were capitalised and included in assets under construction. A capitalisation rate of 4.65% (2011: 5.88%) was used, representing the effective finance costs of the loans used to finance the assets under construction.
- (c) During the year, staff costs of HK\$123,205,000 (2011: HK\$109,676,000) were capitalised and included in assets under construction.

### 16. INVESTMENT PROPERTIES

	Group	
	2012 HK\$'000	2011 HK\$'000
At fair value		
Beginning of the year	77,000	77,000
Change in fair value	5,000	–
End of the year	<b>82,000</b>	77,000

Investment properties are held under leases of 10 to 50 years in Hong Kong and were valued on an open market value basis by Vigers Appraisal & Consulting Limited, independent professional valuers.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2012 HK\$'000	2011 HK\$'000
Net book value at beginning of the year	4,444,253	4,330,351
Exchange differences	(23)	1,350
Additions	–	157,900
Amortisation	(52,919)	(45,348)
Net book value at end of the year	<b>4,391,311</b>	4,444,253
Cost	<b>4,812,402</b>	4,812,425
Accumulated amortisation	<b>(421,091)</b>	(368,172)
Net book value	<b>4,391,311</b>	4,444,253
Represented by		
Finance lease of between 10 to 50 years		
Macau	<b>4,160,197</b>	4,206,393
Hong Kong	<b>203,838</b>	209,772
	<b>4,364,035</b>	4,416,165
Operating lease of between 10 to 50 years		
Mainland China	<b>27,276</b>	28,088
	<b>4,391,311</b>	4,444,253

Leasehold land held under finance lease in Macau included a piece of land in Cotai, Macau amounting to HK\$2,952 million (2011: HK\$2,970 million), for which net book value of HK\$766 million (2011: HK\$784 million) is developed, HK\$756 million (2011: HK\$586 million) is under development and HK\$1,430 million (2011: HK\$1,600 million) is held for development for specific uses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. INTANGIBLE ASSETS

#### Group

	<b>Goodwill</b> <b>(note a)</b> HK\$'000	<b>Gaming</b> <b>licence</b> <b>(note b)</b> HK\$'000	<b>Computer</b> <b>software</b> HK\$'000	<b>Total</b> HK\$'000
<b>Cost</b>				
At 31 December 2010	33,014	16,887,329	104,908	17,025,251
Additions	–	–	90,801	90,801
Disposals	–	–	(1,952)	(1,952)
At 31 December 2011	33,014	16,887,329	193,757	17,114,100
Additions	–	–	21,088	21,088
At 31 December 2012	33,014	16,887,329	214,845	17,135,188
<b>Accumulated amortisation and impairment</b>				
At 31 December 2010	–	15,665,177	39,945	15,705,122
Charge for the year	–	106,337	33,607	139,944
Disposals	–	–	(1,390)	(1,390)
At 31 December 2011	–	15,771,514	72,162	15,843,676
Charge for the year	–	106,629	48,361	154,990
Impairment charge	33,014	–	–	33,014
At 31 December 2012	33,014	15,878,143	120,523	16,031,680
<b>Net book value</b>				
<b>At 31 December 2012</b>	<b>–</b>	<b>1,009,186</b>	<b>94,322</b>	<b>1,103,508</b>
At 31 December 2011	33,014	1,115,815	121,595	1,270,424

- (a) Goodwill is allocated to the Group's cash-generating units identified according to country of operation and business segment. As at 31 December 2011, goodwill with carrying amount of HK\$28,524,000 and HK\$4,490,000 was allocated to the construction materials segment in Macau and Hong Kong respectively. The recoverable amount of the business unit is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions used in the value-in-use calculations are based on the best estimates of growth rates and discount rates of the respective segments. During the year, the Group has recognised an impairment loss of HK\$33,014,000 for the goodwill.
- (b) Gaming licence represents the fair value of licence acquired on the acquisition of Galaxy Casino, S.A. in 2005 and has been amortised on a straight line basis over the remaining term of the gaming licence which will expire in June 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. SUBSIDIARIES

	Company	
	2012 HK\$'000	2011 HK\$'000
Unlisted shares, at cost	1	1
Loans receivable from a subsidiary	3,830,000	3,830,000
	<b>3,830,001</b>	3,830,001
Amounts due from subsidiaries	15,842,396	15,978,217
	<b>19,672,397</b>	19,808,218
Amount due to a subsidiary	1,104,214	710,980

The loans receivable are unsecured, interest free and are repayable at the subsidiary's discretion.

The amounts receivable are denominated in Hong Kong dollar, unsecured, interest free and are regarded as equity loans.

The amount payable is denominated in Hong Kong dollar, unsecured, interest free and is repayable on demand.

Details of the subsidiaries which, in the opinion of the Directors, materially affect the results and/or net assets of the Group are given in note 43(a).

### 20. JOINTLY CONTROLLED ENTITIES

	Group	
	2012 HK\$'000	2011 HK\$'000
Share of net assets	1,351,161	1,169,155

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. JOINTLY CONTROLLED ENTITIES (Continued)

- (a) The share of assets, liabilities and results of the jointly controlled entities attributable to the Group is summarised below:

	<b>2012</b> <b>HK\$'000</b>	2011 HK\$'000
Non-current assets	<b>1,396,848</b>	1,193,945
Current assets	<b>766,705</b>	679,870
Current liabilities	<b>(581,019)</b>	(502,851)
Non-current liabilities	<b>(231,373)</b>	(201,809)
	<b>1,351,161</b>	1,169,155
Income	<b>1,322,909</b>	1,416,445
Expenses	<b>(1,213,809)</b>	(1,246,977)
Share of results for the year	<b>109,100</b>	169,468

- (b) Details of the jointly controlled entities which, in the opinion of the Directors, materially affect the results and/or net assets of the Group are given in note 43(b).

### 21. ASSOCIATED COMPANIES

	<b>Group</b>	
	<b>2012</b> <b>HK\$'000</b>	2011 HK\$'000
Share of net assets	<b>631</b>	458

- (a) The share of assets, liabilities and results of the associated companies attributable to the Group is summarised as follows:

	<b>2012</b> <b>HK\$'000</b>	2011 HK\$'000
Non-current assets	<b>22,198</b>	15,371
Current assets	<b>32,467</b>	33,093
Current liabilities	<b>(25,182)</b>	(19,023)
Non-current liabilities	<b>(28,852)</b>	(28,983)
	<b>631</b>	458
Income	<b>36,636</b>	30,702
Expenses	<b>(36,463)</b>	(30,246)
Share of results for the year	<b>173</b>	456

- (b) Details of the associated companies are given in note 43(c).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Non-current liabilities				
Interest rate swap contracts (note a)	(80,711)	(63,475)	-	-

- (a) The notional principal amounts of the outstanding interest rate swap contracts were HK\$1 billion as at 31 December 2012 (2011: HK\$1 billion). Gains and losses recognised in the hedging reserve in equity (note 31) on interest rate swap contracts as of 31 December 2012 will be continuously released to the income statement starting from the effective date of the interest rate swap contract in June 2012 until June 2016. There was no ineffective portion during the year.

### 23. OTHER NON-CURRENT ASSETS

#### Group

	2012 HK\$'000	2011 HK\$'000
Non-current investments (note a)	117,060	84,499
Finance lease receivable (note b)	23,725	34,126
Deferred expenditure		
Overburden removal costs	12,574	20,959
Quarry site development	546	791
Quarry site improvements	24,112	40,365
Deferred receivable (note c)	89,297	100,050
Deposits paid for property, plant and equipment	92,646	48,650
Other	13,380	18,739
	<b>373,340</b>	348,179

#### (a) Non-current investments

	Group	
	2012 HK\$'000	2011 HK\$'000
Unlisted investments in overseas, at fair value (note 4.3)	117,033	84,477
Listed investments in Hong Kong, at fair value	27	22
Advances to investee companies	23,010	23,010
Less: Provision for impairment	(23,010)	(23,010)
	<b>117,060</b>	84,499

The unlisted investments are mainly denominated in Macau Patacas and US dollar.

Advances to investee companies are denominated in Hong Kong dollar, unsecured, interest free and have no fixed terms of repayment. They are considered equity in nature.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. OTHER NON-CURRENT ASSETS (Continued)

#### (b) Finance lease receivable

	Group	
	2012 HK\$'000	2011 HK\$'000
Gross receivable	38,089	50,896
Unearned finance income	(1,521)	(2,436)
	<b>36,568</b>	48,460
Current portion included in current assets (note 25)	<b>(12,843)</b>	(14,334)
	<b>23,725</b>	34,126

Finance lease receivable represents reimbursement of gaming equipment from the Service Providers. There are no unguaranteed residual values accrued to the Group and no contingent income was recognised during the year.

The finance lease is receivable in the following years:

	Minimum receipts		Present value	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Within one year	13,681	15,507	12,843	14,334
Between one to five years	24,408	35,389	23,725	34,126
	<b>38,089</b>	50,896	<b>36,568</b>	48,460

- (c) Deferred receivable includes consideration and interest receivable in respect of the partial disposal of a subsidiary in 2009 amounting to HK\$75,986,000 (2011: HK\$91,201,000) and advances to various contractors amounting to HK\$13,311,000 (2011: HK\$8,849,000).

The consideration receivable is unsecured, interest free, payable in seven annual instalments and the current portion of this receivable of HK\$31,430,000 is included in other debtors.

The advances to various contractors are secured by assets provided by the contractors, carry interest at prevailing market rate and are repayable by monthly instalments up to 2018 (2011: up to 2017). The current portion of the receivable is included under other debtors.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24. INVENTORIES

	Group	
	2012 HK\$'000	2011 HK\$'000
Gaming and entertainment		
Playing cards	7,835	6,137
Food and beverages	32,114	32,479
Consumables	21,808	20,962
	<b>61,757</b>	59,578
Construction materials		
Aggregates and sand	26,341	25,609
Concrete pipes and blocks	14,597	13,580
Slag	6,716	8,485
Cement	7,410	7,644
Spare parts	13,653	12,076
Consumables	8,137	11,499
	<b>76,854</b>	78,893
	<b>138,611</b>	138,471

### 25. DEBTORS AND PREPAYMENTS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade debtors, net of provision (note a)	628,983	594,833	-	-
Other debtors and deposit paid, net of provision (note b)	1,253,587	901,611	5,282	2,383
Prepayments	63,596	50,438	666	199
Amounts due from associated companies (note c)	12,174	17,420	-	-
Current portion of finance lease receivable (note 23(b))	12,843	14,334	-	-
	<b>1,971,183</b>	1,578,636	<b>5,948</b>	2,582

- (a) Trade debtors mainly arise from the sales of construction materials. The Group has established credit policies which follow local industry standards. The Group normally allows an approved credit period ranging from 30 to 60 days (2011: 30 to 60 days) for customers in Hong Kong and Macau and 120 to 210 days (2011: 120 to 210 days) for customers in Mainland China. These are subject to periodic reviews by management. There is no concentration of credit risk with respect to trade debtors as the Group has a large number of customers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25. DEBTORS AND PREPAYMENTS (Continued)

(a) (Continued)

The ageing analysis of trade debtors of the Group based on the invoice dates and net of provision for bad and doubtful debts is as follows:

	2012 HK\$'000	2011 HK\$'000
Within one month	229,972	240,364
Two to three months	206,051	211,222
Four to six months	97,227	98,280
Over six months	95,733	44,967
	<b>628,983</b>	594,833

The carrying amounts of trade debtors of the Group are denominated in the following currencies:

	2012 HK\$'000	2011 HK\$'000
Hong Kong dollar	229,538	231,486
Macau Patacas	115,500	100,463
Renminbi	283,945	262,884
	<b>628,983</b>	594,833

Included in the Group's trade debtors were debtors with a carrying amount of HK\$491,143,000 (2011: HK\$420,720,000) which were not yet due. Debtors with a carrying amount of HK\$137,840,000 (2011: HK\$174,113,000) were past due over their credit terms for which the Group has not provided for impairment loss. The ageing analysis of these trade debtors based on due dates is as follows:

	2012 HK\$'000	2011 HK\$'000
Overdue:		
Within one month	52,712	60,997
Two to three months	37,939	61,574
Four to six months	36,554	40,506
Over six months	10,635	11,036
	<b>137,840</b>	174,113

Trade debtors that were not yet due or overdue but not provided for impairment loss relate to a number of customers that have a good repayment track record with the Group. Based on past experience, management believes that no impairment provision is necessary for these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25. DEBTORS AND PREPAYMENTS (Continued)

(a) (Continued)

As at 31 December 2012, trade debtors of the Group amounting to HK\$35,515,000 (2011: HK\$40,494,000) were impaired and fully provided for. The factors the Group considered in determining whether the trade debtors were impaired are disclosed in note 3.15.

Movements in the provision for impairment of trade debtors are as follows:

	2012 HK\$'000	2011 HK\$'000
Balance at 1 January	40,494	39,367
Receivables written off during the year as uncollectible	(4,983)	(1,315)
Exchange differences	4	2,442
Balance at 31 December	<b>35,515</b>	40,494

(b) Other debtors and deposit paid include advances denominated in Hong Kong dollar to customers and gaming counterparties which are repayable on demand. These advances are granted with reference to their credit history and business volumes. Such advances are interest free and the Group has the right, pursuant to the relevant credit agreements, to set off the overdue advances with payables due from the Group to these counterparties.

As of 31 December 2012, other debtors of the Group amounting to HK\$43,990,000 (2011: HK\$36,979,000) were impaired and fully provided for.

Other debtors mainly relate to customers and gaming counterparties that have a good repayment track record with the Group. Based on past experience, management believes that no impairment provision is necessary for other debtors balance not provided for as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(c) Amount receivables are unsecured, interest free and repayable in accordance with agreed terms. The amounts are denominated in Hong Kong dollar.

### 26. AMOUNTS DUE FROM/(TO) JOINTLY CONTROLLED ENTITIES

	Group	
	2012 HK\$'000	2011 HK\$'000
Amounts due from jointly controlled entities (note a)	<b>399,219</b>	298,194
Amounts due to jointly controlled entities (note b)	<b>(21,259)</b>	(14,875)

(a) Amounts receivable of HK\$174,173,000 (2011: HK\$154,489,000), carry interest at prevailing market rate and are repayable within one year, all of which are unsecured. Amounts receivable of HK\$40,410,000 (2011: nil) carry interest at prevailing market rate, unsecured and are repayable in November 2015. The Directors intend to demand repayment of this loan within the next twelve months, accordingly, the receivable was classified as current. The remaining amounts receivable of HK\$184,636,000 (2011: HK\$143,705,000) are unsecured, interest free and have no fixed terms of repayment. The amounts receivable are mainly denominated in US dollar and HK dollar.

(b) Amounts payable are unsecured, interest free and have no fixed terms of repayment. The amounts payable are mainly denominated in Renminbi.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. OTHER INVESTMENTS

	Group	
	2012 HK\$'000	2011 HK\$'000
Equity securities listed in Hong Kong, at fair value	8,149	8,330

### 28. CASH AND CASH EQUIVALENTS AND OTHER BANK DEPOSITS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Cash at bank and on hand	3,833,562	2,976,240	5,287	15,139
Short-term bank deposits	11,775,042	3,036,466	2,760,200	366,373
Cash and bank balances	15,608,604	6,012,706	2,765,487	381,512
Less: short-term bank deposits	(7,392,398)	(458,180)	(1,701,954)	(358,503)
Other cash equivalents – cash chips of other casinos	691,136	1,238,562	–	–
Cash and cash equivalents	8,907,342	6,793,088	1,063,533	23,009
Short-term pledged bank deposits	1,891,954	99,677	1,701,954	358,503
Short-term bank deposits with maturity over three months	5,500,444	358,503	–	–
Long-term pledged bank deposits	–	1,702,230	–	1,702,230
	16,299,740	8,953,498	2,765,487	2,083,742

The carrying amounts of cash and cash equivalents and other bank deposits are denominated in the following currencies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong dollar	13,086,421	5,356,804	122,739	11,432
Macau Patacas	270,736	1,123,716	–	–
Renminbi	2,917,358	2,465,778	2,642,746	2,072,308
US dollar	22,365	7,106	2	–
UK pound	2,860	94	–	2
	16,299,740	8,953,498	2,765,487	2,083,742

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 28. CASH AND CASH EQUIVALENTS AND OTHER BANK DEPOSITS (Continued)

The credit quality of cash and cash equivalents and other bank deposits of the Group can be assessed by reference to external credit ratings (if available) as follows:

	2012 HK\$'000	2011 HK\$'000
Counterparties with external credit rating (Standard & Poor's or Moody's)		
AA- to AA+	20,307	317
A- to A+	13,770,583	6,085,179
BBB	74,047	119,147
Unrated and cash on hand	1,743,667	1,510,293
Other cash equivalents – cash chips of other casinos (Note)	691,136	1,238,562
	<b>16,299,740</b>	<b>8,953,498</b>

Note: Included cash chips of other casinos listed on either the SEHK or New York Stock Exchange, with no defaults in the past.

### 29. SHARE CAPITAL

	Ordinary shares of HK\$0.10 each	HK\$'000
Authorised:		
At 31 December 2011 and at 31 December 2012	<b>9,000,000,000</b>	<b>900,000</b>
Issued and fully paid:		
At 31 December 2010	3,954,398,244	395,440
Issue of shares upon exercise of share options	46,826,616	4,683
Issue of shares upon conversion of convertible notes	172,983,862	17,298
At 31 December 2011	4,174,208,722	417,421
Issue of shares upon exercise of share options	25,375,968	2,537
<b>At 31 December 2012</b>	<b>4,199,584,690</b>	<b>419,958</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30. SHARE OPTION SCHEME

The Company operates a share option scheme under which options to subscribe for ordinary shares in the Company are granted to selected qualifying grantees.

The existing share option scheme was adopted on 22 June 2011 and the options granted under the previous scheme adopted on 30 May 2002 remain effective.

Movements in the number of share options outstanding and their related weighted average exercise price during the year are as follows:

	2012		2011	
	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$	Number of share options
At beginning of year	5.24	93,774,721	4.03	133,246,004
Granted	16.81	26,889,000	13.82	9,767,000
Exercised	4.11	(25,375,968)	3.47	(46,826,616)
Lapsed	11.31	(1,238,670)	7.46	(2,411,667)
At end of year	8.78	94,049,083	5.24	93,774,721
Vested at end of year	5.34	50,256,724	4.19	32,174,683

The weighted average share price at the date of exercise for share options exercised during the year was HK\$21.74 (2011: HK\$13.78).

The options outstanding at 31 December 2012 have exercise prices ranging from HK\$0.514 to HK\$20.10 (2011: HK\$0.514 to HK\$13.82) with weighted average remaining contractual life of 3.46 years (2011: 3.85 years).

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Exercise period	Exercise price per share HK\$	Number of share options	
		2012	2011
<b>Directors</b>			
1 March 2004 to 28 February 2013	0.514	2,000,000	2,000,000
17 January 2010 to 16 January 2014	6.972	2,612,500	2,612,500
17 January 2011 to 16 January 2014	6.972	2,612,500	2,612,500
17 January 2012 to 16 January 2014	6.972	5,225,000	5,225,000
8 May 2010 to 7 May 2015	2.160	1,816,666	1,816,666
8 May 2011 to 7 May 2015	2.160	1,816,666	1,816,666
8 May 2012 to 7 May 2015	2.160	3,483,336	3,483,336
21 October 2010 to 20 October 2015	3.600	642,000	642,000
11 October 2011 to 10 October 2016	6.810	3,483,332	3,483,332
11 October 2012 to 10 October 2016	6.810	3,483,332	3,483,332
11 October 2013 to 10 October 2016	6.810	3,483,336	3,483,336
20 April 2012 to 19 April 2017	13.820	642,000	642,000
16 March 2013 to 15 March 2018	20.100	2,443,333	–
16 March 2014 to 15 March 2018	20.100	2,443,333	–
16 March 2015 to 15 March 2018	20.100	2,443,334	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. SHARE OPTION SCHEME (Continued)

Exercise period	Exercise price per share HK\$	Number of share options	
		2012	2011
<b>Employees and others</b>			
1 March 2004 to 28 February 2013	0.514	–	110,000
18 August 2009 to 17 August 2014	3.320	<b>263,000</b>	452,000
17 January 2010 to 16 January 2014	6.972	<b>625,000</b>	625,000
17 January 2011 to 16 January 2014	6.972	<b>625,000</b>	625,000
17 January 2012 to 16 January 2014	6.972	<b>1,250,000</b>	1,250,000
8 May 2010 to 7 May 2015	2.160	<b>717,332</b>	3,109,331
8 May 2011 to 7 May 2015	2.160	<b>1,737,331</b>	4,357,326
8 May 2012 to 7 May 2015	2.160	<b>3,345,338</b>	12,499,690
21 October 2010 to 20 October 2015	3.600	<b>397,000</b>	777,000
11 February 2011 to 10 February 2016	2.910	–	227,032
11 February 2012 to 10 February 2016	2.910	<b>66</b>	1,650,330
11 February 2013 to 10 February 2016	2.910	<b>1,483,672</b>	1,650,340
23 July 2011 to 22 July 2016	4.670	<b>3,500,332</b>	6,241,664
23 July 2012 to 22 July 2016	4.670	<b>6,174,997</b>	9,259,660
23 July 2013 to 22 July 2016	4.670	<b>9,093,012</b>	9,259,680
11 October 2011 to 10 October 2016	6.810	<b>666,666</b>	666,666
11 October 2012 to 10 October 2016	6.810	<b>666,666</b>	666,666
11 October 2013 to 10 October 2016	6.810	<b>666,668</b>	666,668
20 April 2012 to 19 April 2017	13.820	<b>2,470,664</b>	5,297,995
20 April 2013 to 19 April 2017	13.820	<b>1,374,329</b>	1,540,995
20 April 2014 to 19 April 2017	13.820	<b>1,374,342</b>	1,541,010
9 January 2013 to 8 January 2018	14.220	<b>4,817,980</b>	–
9 January 2014 to 8 January 2018	14.220	<b>4,817,980</b>	–
9 January 2015 to 8 January 2018	14.220	<b>4,818,040</b>	–
16 March 2013 to 15 March 2018	20.100	<b>1,510,998</b>	–
16 March 2014 to 15 March 2018	20.100	<b>1,510,998</b>	–
16 March 2015 to 15 March 2018	20.100	<b>1,511,004</b>	–
		<b>94,049,083</b>	93,774,721

The fair values of the options granted during the year on 9 January 2012 and 16 March 2012 are estimated at HK\$6.37 and HK\$8.47 per option respectively based on the Black-Scholes valuation model. The significant inputs into the model were share prices of HK\$14.08 and HK\$20.10 at the respective dates of grant, respective exercise prices of HK\$14.22 and HK\$20.10, standard deviation of expected share price returns of 60% to 70%, expected life of options of 3.5 to 4.5 years, expected dividend paid out rate of 2% and annual risk-free interest rate of 0.39% to 0.852%. The volatility measured at the standard deviation of expected share price returns is based on the historical share price movement of the Company in the relevant periods matching expected time to exercise prior to the dates of grant. Changes in the subjective input assumptions could materially affect the fair value estimate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 31. RESERVES

#### Group

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Hedging reserve HK\$'000	Legal reserve (Note) HK\$'000	Investment reserve HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2012	18,652,921	4,395	70	(63,475)	231,044	67,142	138,079	215,951	(5,441,522)	13,804,605
Profit for the year	-	-	-	-	-	-	-	-	7,377,839	7,377,839
Other comprehensive income										
Change in fair value of non current investments	-	-	-	-	-	44,262	-	-	-	44,262
Currency translation differences	-	-	-	-	-	-	-	(19,817)	-	(19,817)
Change in fair value of cash flow hedges	-	-	-	(17,236)	-	-	-	-	-	(17,236)
Other comprehensive income for the year, net of tax	-	-	-	(17,236)	-	44,262	-	(19,817)	-	7,209
Total comprehensive income for the year	-	-	-	(17,236)	-	44,262	-	(19,817)	7,377,839	7,385,048
Transactions with equity holders										
Issue of shares upon exercise of share options	145,169	-	-	-	-	-	(43,247)	-	-	101,922
Fair value of share options granted	-	-	-	-	-	-	141,855	-	-	141,855
<b>At 31 December 2012</b>	<b>18,798,090</b>	<b>4,395</b>	<b>70</b>	<b>(80,711)</b>	<b>231,044</b>	<b>111,404</b>	<b>236,687</b>	<b>196,134</b>	<b>1,936,317</b>	<b>21,433,430</b>
At 1 January 2011	16,719,408	4,395	70	-	123,022	30,720	100,987	160,332	(8,337,437)	8,801,497
Profit for the year	-	-	-	-	-	-	-	-	3,003,908	3,003,908
Other comprehensive income										
Change in fair value of non current investments	-	-	-	-	-	36,422	-	-	-	36,422
Currency translation differences	-	-	-	-	-	-	-	55,619	-	55,619
Change in fair value of cash flow hedges	-	-	-	(63,475)	-	-	-	-	-	(63,475)
Other comprehensive income for the year, net of tax	-	-	-	(63,475)	-	36,422	-	55,619	-	28,566
Total comprehensive income for the year	-	-	-	(63,475)	-	36,422	-	55,619	3,003,908	3,032,474
Transactions with equity holders										
Issue of shares upon exercise of share options	205,217	-	-	-	-	-	(47,495)	-	-	157,722
Issue of shares upon conversion of convertible notes	1,728,296	-	-	-	-	-	-	-	-	1,728,296
Fair value of share options granted	-	-	-	-	-	-	84,616	-	-	84,616
Share options lapsed	-	-	-	-	-	-	(29)	-	29	-
Transfer to legal reserve	-	-	-	-	108,022	-	-	-	(108,022)	-
<b>At 31 December 2011</b>	<b>18,652,921</b>	<b>4,395</b>	<b>70</b>	<b>(63,475)</b>	<b>231,044</b>	<b>67,142</b>	<b>138,079</b>	<b>215,951</b>	<b>(5,441,522)</b>	<b>13,804,605</b>

Note: A subsidiary of the Group, incorporated in Macau and limited by shares, is required under the Macau Commercial Code No. 432 to set aside a minimum of 10% of this subsidiary's profit after taxation to the legal reserve until the balance of the reserve reaches a level equivalent to 25% of the subsidiary's capital. At 31 December 2012 and 2011, the legal reserve reached 25% of the subsidiary's share capital. Legal reserve is not distributable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. RESERVES (Continued)

Company

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2012	18,652,921	235,239	70	138,079	(135,222)	18,891,087
Loss for the year	-	-	-	-	(124,874)	(124,874)
Transactions with equity holders						
Issue of shares upon exercise of share options	145,169	-	-	(43,247)	-	101,922
Fair value of share options granted	-	-	-	141,855	-	141,855
<b>At 31 December 2012</b>	<b>18,798,090</b>	<b>235,239</b>	<b>70</b>	<b>236,687</b>	<b>(260,096)</b>	<b>19,009,990</b>
At 1 January 2011	16,719,408	235,239	70	100,987	(10,383,675)	6,672,029
Profit for the year	-	-	-	-	10,248,424	10,248,424
Transactions with equity holders						
Issue of shares upon exercise of share options	205,217	-	-	(47,495)	-	157,722
Issue of shares upon conversion of convertible notes	1,728,296	-	-	-	-	1,728,296
Fair value of share options granted	-	-	-	84,616	-	84,616
Share options lapsed	-	-	-	(29)	29	-
At 31 December 2011	18,652,921	235,239	70	138,079	(135,222)	18,891,087

As at 31 December 2012, no reserves of the Company were available for distribution to shareholders (2011: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32. BORROWINGS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Bank loans				
Secured (note a)	<b>8,392,808</b>	8,638,117	–	–
Unsecured	<b>583,811</b>	369,320	<b>200,000</b>	180,000
	<b>8,976,619</b>	9,007,437	<b>200,000</b>	180,000
Other borrowings				
Fixed rate bonds – unsecured (note b)	<b>1,684,767</b>	1,667,990	<b>1,684,767</b>	1,667,990
Bank loans and other borrowings	<b>10,661,386</b>	10,675,427	<b>1,884,767</b>	1,847,990
Obligations under finance leases (note c)	<b>596,064</b>	997,157	–	–
Total borrowings	<b>11,257,450</b>	11,672,584	<b>1,884,767</b>	1,847,990
Current portion included in current liabilities	<b>(4,572,098)</b>	(851,599)	<b>(1,684,767)</b>	–
Short-term bank loans	<b>(394,181)</b>	(290,263)	<b>(200,000)</b>	(180,000)
	<b>(4,966,279)</b>	(1,141,862)	<b>(1,884,767)</b>	(180,000)
	<b>6,291,171</b>	10,530,722	–	1,667,990

(a) The bank loans of HK\$8,203 million (2011: HK\$8,638 million) are secured by:

- (i) property, plant and equipment with net book value of HK\$15,377 million (2011: HK\$16,349 million);
- (ii) leasehold land and land use rights with net book value of HK\$2,584 million (2011: HK\$2,828 million);
- (iii) other assets with net book value of HK\$300 million (2011: HK\$235 million);
- (iv) bank deposits of HK\$1,892 million (2011: HK\$1,802 million) (note 28); and
- (v) shares of certain subsidiaries of the Group (note 43(a)).

In addition, cash and bank balances of the Group of approximately HK\$9,626 million (2011: HK\$3,198 million) are designated to be used for the servicing of a specific bank loan, operating costs and expenses, financing the construction and development of Galaxy Macau™ resort at Cotai and StarWorld Hotel and other specified purposes in accordance with the loan agreements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32. BORROWINGS (Continued)

(b) Fixed rate bonds – unsecured

In December 2010, the Company issued fixed rate senior unsecured bonds in an aggregate amount of RMB1.38 billion. The senior unsecured bonds bear fixed interest at 4.625% per annum and will be fully repayable in December 2013. The fixed rate bonds are listed on the SEHK.

(c) Obligations under finance leases

The finance lease obligations are payable in the following years:

	Minimum payments		Present value	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Within one year	465,538	463,130	415,813	413,454
Between one to two years	7,295	463,130	6,003	413,922
Between two to five years	192	4,853	164	3,986
Over five years	591,234	591,234	174,084	165,795
	<b>1,064,259</b>	1,522,347	<b>596,064</b>	997,157

The future finance charges on finance lease liabilities amounted to HK\$468 million (2011: HK\$525 million).

(d) The borrowings are repayable as follows:

	Group			
	Bank loans		Fixed rate bonds	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Within one year	2,865,699	728,408	1,684,767	–
Between one to two years	1,252,770	2,377,803	–	1,667,990
Between two to five years	4,858,150	5,901,226	–	–
	<b>8,976,619</b>	9,007,437	<b>1,684,767</b>	1,667,990

	Company			
	Bank loans		Fixed rate bonds	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Within one year	200,000	180,000	1,684,767	–
Between one to two years	–	–	–	1,667,990
	<b>200,000</b>	180,000	<b>1,684,767</b>	1,667,990

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32. BORROWINGS (Continued)

(e) Effective interest rates:

	2012				2011			
	HK\$	RMB	US\$	MOP	HK\$	RMB	US\$	MOP
Bank loans	4.1%	6.7%	-	-	4.6%	6.9%	-	-
Convertible Notes	-	-	-	-	-	-	9.2%	-
Fixed rate bonds	-	5.7%	-	-	-	5.7%	-	-
Obligations under finance leases	-	-	5%	5%	-	-	5%	5%

(f) The exposure of the Group's bank loans to interest rate changes and the contractual repricing dates or maturity (whichever is earlier) are as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Six months or less	8,786,619	8,907,759	200,000	180,000

(g) The carrying amounts and fair value of the borrowings are as follows:

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Bank loans	8,976,619	9,007,437	8,976,619	9,007,437	200,000	180,000	200,000	180,000
Fixed rate bonds	1,684,767	1,667,990	1,712,869	1,709,890	1,684,767	1,667,990	1,712,869	1,709,890
Obligations under finance leases	596,064	997,157	631,017	1,045,897	-	-	-	-
	11,257,450	11,672,584	11,320,505	11,763,224	1,884,767	1,847,990	1,912,869	1,889,890

The fair value of the borrowings is calculated using cash flows discounted at prevailing borrowing rates or based on quoted market price. The carrying amounts of other current borrowings approximate their fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32. BORROWINGS (Continued)

(h) The carrying amounts of borrowings are denominated in the following currencies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong dollar	8,634,443	8,731,108	200,000	180,000
Macau Patacas	578,395	974,417	–	–
Renminbi	2,022,763	1,940,357	1,684,767	1,667,990
US dollar	21,849	26,702	–	–
	<b>11,257,450</b>	11,672,584	<b>1,884,767</b>	1,847,990

### 33. DEFERRED TAXATION LIABILITIES

	Group	
	2012 HK\$'000	2011 HK\$'000
At beginning of the year	276,220	277,555
Charged/(credited) to income statement	2,839	(1,335)
At end of the year	<b>279,059</b>	276,220

Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation assets with current taxation liabilities and when the deferred taxation relates to the same authority. The above liabilities shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts.

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the Group operates. Movements on the deferred taxation liabilities/(assets) are as follows:

	Depreciation allowance HK\$'000	Withholding tax on undistributed profit and others HK\$'000	Fair value adjustments HK\$'000	Total HK\$'000
At 31 December 2010	24,856	10,595	242,104	277,555
Charged/(credited) to income statement	(3,575)	5,716	(3,476)	(1,335)
At 31 December 2011	21,281	16,311	238,628	276,220
Charged/(credited) to income statement	2,399	3,916	(3,476)	2,839
<b>At 31 December 2012</b>	<b>23,680</b>	<b>20,227</b>	<b>235,152</b>	<b>279,059</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 33. DEFERRED TAXATION LIABILITIES (Continued)

Deferred taxation assets of HK\$595,303,000 (2011: HK\$386,155,000) arising from unused tax losses and other temporary differences totalling of HK\$4,816,904,000 (2011: HK\$3,073,129,000) have not been recognised in the consolidated financial statements. Unused tax losses of HK\$108,855,000 (2011: HK\$111,187,000) have no expiry date and the remaining balance will expire at various dates up to and including 2017 (2011: 2016).

### 34. PROVISIONS

Group	Environment		Total
	restoration	Quarrying right	
	HK\$'000	HK\$'000	HK\$'000
At 31 December 2010	92,305	57,500	149,805
Reversal of provision	(97)	–	(97)
Charged to the income statement	1,108	17,740	18,848
Applied during the year	(11,177)	(21,800)	(32,977)
At 31 December 2011	82,139	53,440	135,579
Reversal of provision	(36)	–	(36)
Charged to the income statement	985	10,058	11,043
Applied during the year	(11,747)	(21,800)	(33,547)
<b>At 31 December 2012</b>	<b>71,341</b>	<b>41,698</b>	<b>113,039</b>

	Group	
	2012	2011
	HK\$'000	HK\$'000
Current portion	34,252	34,345
Non-current portion	78,787	101,234
	<b>113,039</b>	135,579

The current portion of the provisions amounting to HK\$34,252,000 (2011: HK\$34,345,000) is included under other creditors.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 35. CREDITORS AND ACCRUALS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade creditors (note a)	1,499,732	943,626	–	–
Other creditors	5,041,421	4,408,892	–	–
Chips issued	2,300,394	2,042,824	–	–
Loans from non-controlling interests (note b)	75,638	68,216	–	–
Accruals and provision	1,390,923	1,304,342	24,903	27,064
Deposits received	18,411	61,539	–	–
	<b>10,326,519</b>	8,829,439	<b>24,903</b>	27,064

(a) The ageing analysis of trade creditors of the Group based on the invoice dates is as follows:

	2012 HK\$'000	2011 HK\$'000
Within one month	1,122,119	724,053
Two to three months	256,401	99,550
Four to six months	64,974	35,457
Over six months	56,238	84,566
	<b>1,499,732</b>	943,626

The carrying amounts of trade creditors of the Group are denominated in the following currencies:

	2012 HK\$'000	2011 HK\$'000
Hong Kong dollar	1,028,009	688,436
Macau Patacas	249,591	83,434
Renminbi	207,233	154,430
Other	14,899	17,326
	<b>1,499,732</b>	943,626

(b) The loans payable of HK\$38,384,000 (2011: HK\$30,016,000) are unsecured, carrying interest at prevailing market rate and have no fixed terms of repayment. The remaining are unsecured, interest free and have no fixed terms of repayment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

#### Reconciliation of profit before taxation to cash generated from operations

	2012 HK\$'000	2011 HK\$'000
Profit before taxation	7,425,694	3,061,228
Finance costs	512,699	399,597
Change in fair value of derivative under the convertible notes	–	164,718
Share of profits less losses of jointly controlled entities and associated companies	(109,273)	(169,924)
Depreciation and amortisation	1,835,355	1,247,898
Change in fair value of investment properties	(5,000)	–
Loss/(gain) on disposal of property, plant and equipment	29,051	(2,158)
Loss on disposal of intangible assets	–	562
Unrealised loss on listed investments	181	12,133
Gain on disposal of unlisted investment	(5,542)	–
Impairment of goodwill	33,014	–
Impairment of property, plant and equipment	–	10,809
Interest income	(152,780)	(60,262)
Gross earnings on finance lease	(1,182)	(1,576)
Dividend income from unlisted/listed investments	(28,000)	(181)
Fair value of share options granted	141,855	84,616
Reversal of provision for other liabilities	(2,674)	(6,514)
Operating profit before working capital changes	9,673,398	4,740,946
Increase in inventories	(140)	(51,358)
Increase in debtors and prepayments	(343,473)	(716,924)
Increase in creditors and accruals	1,139,293	2,364,483
Increase/(decrease) in amounts due to jointly controlled entities	6,384	(8,888)
Decrease/(increase) in amounts due from jointly controlled entities	27,355	(27,355)
Decrease/(increase) in amounts due from associated companies	5,246	(5,007)
Cash generated from operations	10,508,063	6,295,897

### 37. CAPITAL COMMITMENTS

	Group	
	2012 HK\$'000	2011 HK\$'000
Contracted but not provided for	11,971,291	365,489
Authorised but not contracted for	6,096,906	890,694

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 37. CAPITAL COMMITMENTS (Continued)

The Group's share of capital commitment in jointly controlled entities is as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Contracted but not provided for	62,404	41,589
Authorised but not contracted for	-	-

The Group had capital commitments to invest in an entity in Mainland China of RMB170 million.

### 38. OPERATING LEASE COMMITMENTS

The future aggregate minimum lease rental expense in respect of land and buildings and equipment under non-cancellable operating leases is payable in the following periods:

	Group	
	2012 HK\$'000	2011 HK\$'000
First year	54,863	56,049
Second to fifth years inclusive	56,722	57,219
After the fifth year	99,404	102,262
	<b>210,989</b>	215,530

### 39. OPERATING LEASE RENTAL RECEIVABLES

The future aggregate minimum lease rental income in respect of land and buildings and equipments under non-cancellable operating leases is receivable in the following periods:

	Group	
	2012 HK\$'000	2011 HK\$'000
First year	61,882	44,014
Second to fifth years inclusive	154,191	102,190
After the fifth year	46,841	47,460
	<b>262,914</b>	193,664

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 40. RELATED PARTY TRANSACTIONS

In addition to the transactions or balances disclosed elsewhere in the financial statements, the significant related party transactions carried out in the normal course of the Group's business activities during the year are as follows:

- (a) Interest income from jointly controlled entities amounting to HK\$12,829,000 (2011: HK\$5,815,000) are charged at prevailing market rate (note 26(a)).
- (b) Management fee received from jointly controlled entities and an associated company amounted to HK\$5,188,000 (2011: HK\$4,185,000) and HK\$120,000 (2011: HK\$70,000) respectively are charged at terms agreed among the parties.
- (c) Rental expenses of HK\$1,435,000 (2011: HK\$2,139,000) were paid to a subsidiary of K. Wah International Holdings Limited, a shareholder of the Company, based on the terms of the rental agreement between the parties. This is a continuing connected transaction which is fully exempted from reporting and disclosure requirements under rule 14A.33(3) of the Rules Governing the Listing of Securities on SEHK.
- (d) The balances with jointly controlled entities and associated companies are disclosed in notes 26 and 25(c).
- (e) Key management personnel comprise the Chairman, Deputy Chairman and other Executive Directors. Key management compensation amounted to HK\$98,282,000 for the year ended 31 December 2012 (2011: HK\$48,378,000).

### 41. GUARANTEES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$7,552 million (2011: HK\$10,057 million), of which HK\$7,314 million (2011: HK\$7,543 million) have been utilised.

The Company has executed an indemnity in favour of K. Wah International Holdings Limited ("KWIH"), a shareholder of the Company, in respect of a performance guarantees executed by KWIH to a subsidiary of the Company.

A subsidiary of the Group has executed guarantees in favour of a bank in respect of facilities granted to an associated company amounting to HK\$9 million (2011: HK\$9 million). At 31 December 2012, facilities utilised amounted to HK\$9 million (2011: HK\$9 million).

The banking facilities extended to a subsidiary of the Group represent a guarantee amounting to HK\$291 million for the period from 1 April 2007 to the earlier of 90 days after the expiry of the Concession Agreement or 31 March 2022 which is in favour of the Macau Government against the legal and contractual liabilities of the subsidiary of the Group under the Concession Agreement.

### 42. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 26 March 2013.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

(a) Subsidiaries

Name of company	Principal place of operation	Issued share capital			Percentage of equity held by the Group	Principal activities
		Number of issued ordinary shares	Number of non-voting deferred shares	Par value per share		
<b>Incorporated in Hong Kong</b>						
Bright Advice Limited	Hong Kong	10,000	–	HK\$1	100	Investment holding
Doran (Hong Kong) Limited	Hong Kong	1,000	–	HK\$10	100	Sale and distribution of concrete pipes
Earnmark Limited	Hong Kong	1	–	HK\$1	100	Investment holding
Forcecharm (Hong Kong) Enterprises Limited	Hong Kong	10,000	–	HK\$1	80	Provision of management services and investment holding
Forcecharm (Yunnan) Enterprises Limited	Hong Kong	10,000	–	HK\$1	80	Investment holding
Galaxy Entertainment Management Services Limited	Hong Kong	1	–	HK\$1	100	Provision of management services
K. Wah Asphalt Limited	Hong Kong	1,100,000	–	HK\$10	100	Manufacture, sale, distribution and laying of asphalt
K. Wah Concrete Company Limited	Hong Kong	2	1,000	HK\$100	100	Manufacture, sale and distribution of ready-mixed concrete
K. Wah Construction Materials (Hong Kong Region) Limited	Hong Kong	1	–	HK\$1	100	Investment holding
K. Wah Construction Materials (Hong Kong) Limited	Hong Kong	2	2	HK\$10	100	Provision of management services
K. Wah Construction Materials (Shaoguan) Investment Company Limited	Hong Kong	2	–	HK\$1	100	Trading of construction materials products, provision of management services and investment holding
K. Wah Construction Products Limited	Hong Kong	2	1,000	HK\$100	100	Manufacture, sale and distribution of concrete products
K. Wah Materials Limited	Hong Kong	28,080,002	–	HK\$1	100	Trading
K. Wah Quarry Company Limited	Hong Kong	200,002	100,000	HK\$100	100	Sale of aggregates
K. Wah Trading and Development Limited	Hong Kong	2	2	HK\$10	100	Investment holding
KWP Quarry Co. Limited	Hong Kong	9,000,000	–	HK\$1	63.5	Quarrying
Lightway Limited	Hong Kong	2	2	HK\$1	100	Property investment
Master Target Limited	Hong Kong	2	–	HK\$1	100	Investment holding
Quantum Limited	Hong Kong	2	–	HK\$1	100	Equipment leasing
Rainbow Country Limited	Hong Kong	2	–	HK\$1	100	Investment holding
Starflow Enterprises Limited	Hong Kong	1	–	HK\$1	100	Investment holding
Supreme World Investments Limited	Hong Kong	1	–	HK\$1	100	Investment holding
View Faith Limited	Hong Kong	10	–	HK\$1	100	Investment holding
Wealth Build Limited	Hong Kong	10	–	HK\$1	100	Investment holding

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

#### (a) Subsidiaries (Continued)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
<b>Incorporated in Mainland China</b>				
<b>Wholly-owned foreign enterprise</b>				
Doran Construction Products (Shenzhen) Co., Ltd.	Shenzhen	HK\$10,000,000	100	Manufacture, sale and distribution of concrete pipes
K. Wah Consultancy (Guangzhou) Co., Ltd.	Guangzhou	HK\$1,560,000	100	Provision of management services
嘉華諮詢(上海)有限公司 (K. Wah Consultancy (Shanghai) Co., Ltd.)	Shanghai	US\$350,000	100	Provision of management services
上海嘉華青松混凝土有限公司 (Shanghai K. Wah Qingsong Concrete Co., Ltd.)	Shanghai	US\$2,420,000	100	Manufacture, sale and distribution of ready-mixed concrete
深圳嘉華混凝土管樁有限公司	Shenzhen	US\$2,100,000	100	Manufacture, sale and distribution of concrete piles
京港嘉華諮詢(北京)有限公司 (Jing Gang K. Wah Consultancy (Beijing) Co., Limited)	Beijing	HK\$1,500,000	100	Provision of management services
<b>Cooperative joint venture</b>				
Nanjing K. Wah Concrete Co., Ltd.	Nanjing	US\$2,800,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shanghai K. Wah Concrete Co., Ltd.	Shanghai	RMB10,000,000	100	Manufacture, sale and distribution of ready-mixed concrete and provision of quality assurance service
<b>Equity joint venture</b>				
六盤水首嘉博宏建材有限公司 (Liupanshui Shougang K. Wah Bohong Construction Materials Company Limited)	Liupanshui	RMB22,600,000	27.5 <sup>^</sup>	Manufacture, sale and distribution of slag
遷安首嘉建材有限公司 (Qianan Shougang K. Wah Construction Materials Company Limited)	Qianan	RMB152,442,500	55	Manufacture, sale and distribution of slag
三河首嘉建材有限公司 (Sanhe Shougang K. Wah Construction Materials Company Limited)	Sanhe	RMB92,190,000	41.25 <sup>^</sup>	Manufacture, sale and distribution of slag
Shanghai Ganghui Concrete Co., Ltd.	Shanghai	US\$4,000,000	60	Manufacture, sale and distribution of ready-mixed concrete

<sup>^</sup> The Group can exercise control over companies' financial and operating policy through its representation of the board.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

#### (a) Subsidiaries (Continued)

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share	Percentage of equity held by the Group	Principal activities
<b>Incorporated in the Bermuda</b>					
Galaxy Entertainment Aviation CL2012 Limited	Macau	1	US\$1	100	Aircraft holding
<b>Incorporated in the British Virgin Islands</b>					
Canton Treasure Group Ltd.	Macau	10	US\$1	100*	Investment holding
Cheer Profit International Limited	Macau	10	US\$1	100	Property investment
Eternal Profits International Limited	Hong Kong	10	US\$1	100	Property investment
Forcecharm Investments Limited	Hong Kong	10	US\$1	80	Investment holding
Galaxy Entertainment Aviation CL2010 Limited	Macau	10	US\$1	Equity: 90 Profit sharing:100	Aircraft operation
Galaxy Entertainment Finance Company Limited	Macau	10	US\$1	Equity: 90 Profit sharing:100	Financing
Galaxy Entertainment Finance (Galaxy Macau) Limited	Macau	10 <sup>#</sup>	US\$1	Equity: 90 Profit sharing:100	Financing
GCSA Finance (2010) Company Limited	Macau	10	US\$1	Equity: 90 Profit sharing:100	Financing
GEG Finance (2010) Company Limited	Hong Kong	10	US\$1	100	Financing
High Regard Investments Limited	Hong Kong	20	US\$1	100	Investment holding
K. Wah Construction Materials Limited	Hong Kong	10	US\$1	100*	Investment holding
Profit Access Investments Limited	Hong Kong	10	US\$1	100	Investment holding
Prosperous Fields Limited	Hong Kong	10	US\$1	100	Investment holding
Right Grand Investments Limited	Hong Kong	100	US\$1	80	Investment holding
Taksin Profits Limited	Hong Kong	17	US\$1	100	Investment holding
Wilfred International Limited	Hong Kong	10	US\$1	100	Investment holding
<b>Incorporated in Macau</b>					
Galaxy Casino, S.A.	Macau	951,900	MOP1,000	Equity: 90 Profit sharing:100	Casino games of chance

\* Wholly owned and directly held by the Company

# The shares have been pledged to secure the Group's banking facilities (note 32(a)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

#### (a) Subsidiaries (Continued)

Name of company	Principal place of operation	Number of quota	Registered share capital	Percentage of equity held by the Group	Principal activities
<b>Incorporated in Macau</b>					
Galaxy A Hotel Macau Limited	Macau	2 <sup>#</sup>	MOP25,000	Equity: 90 Profit sharing: 100	Hospitality
Galaxy C Hotel Limited	Macau	2	MOP25,000	Equity: 90 Profit sharing: 100	Provision of hotel management services
Galaxy Cotai Project Management Limited	Macau	2 <sup>#</sup>	MOP25,000	Equity: 90 Profit sharing: 100	Provision of project management services
GC Security Services Limited	Macau	2	MOP1,000,000	Equity: 90 Profit sharing: 100	Provision of security services
GM Hotel Management Limited	Macau	2 <sup>#</sup>	MOP25,000	Equity: 90 Profit sharing: 100	Provision of hotel management services
K. Wah Construction Materials (Macau) Company Limited	Macau	3	MOP30,000	100	Trading
K. Wah (Macao Commercial Offshore) Company Limited	Macau	1	MOP100,000	100	Trading
New Galaxy Entertainment Company Limited	Macau	2 <sup>#</sup>	MOP25,000	Equity: 90 Profit Sharing: 100	Property holding
StarWorld Hotel Company Limited	Macau	2 <sup>#</sup>	MOP100,000	Equity: 90 Profit Sharing: 100	Property holding and hospitality

# The quotas have been pledged to secure the Group's banking facilities (note 32(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

(b) Jointly controlled entities

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share	Percentage of equity held by the Group	Principal activities
<b>Incorporated in Hong Kong</b>					
AHK Concrete Limited	Hong Kong	1,000,000	HK\$1	50	Manufacture, sale and distribution of ready-mixed concrete
AK Asphalt Limited	Hong Kong	1,000	HK\$1	30	Manufacture, sale and laying of asphalt and road marking services

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
<b>Incorporated in Mainland China</b>				
Anhui Masteel K. Wah New Building Materials Co., Ltd.	Maanshan	US\$8,389,000	30	Manufacture, sale and distribution of slag
Baoshan Kungang & K. Wah Cement Construction Materials Co., Ltd.	Baoshan	RMB316,250,000	25.6	Manufacture, sale and distribution of cement
Beijing Shougang K. Wah Construction Materials Co., Ltd	Beijing	RMB50,000,000	40	Manufacture, sale and distribution of slag
廣東韶鋼嘉羊新型材料有限公司 (Guangdong Shaogang Jia Yang New Materials Co., Ltd.)	Shaoguan	US\$6,000,000	35	Manufacture, sale and distribution of slag
湖北鄂鋼嘉華新型建材有限公司 (Hubei Egang K. Wah New Materials Company Limited)	Hubei	RMB48,000,000	49	Manufacture, sale and distribution of slag
K. Wah Materials (Huidong) Limited	Huidong	US\$12,000,000	50	Quarrying
Maanshan Masteel K. Wah Concrete Co., Ltd.	Maanshan	US\$2,450,000	30	Manufacture, sale and distribution of ready-mixed concrete
Nanjing Nangang K. Wah High Tech Materials Co., Ltd.	Nanjing	RMB176,000,000	40	Manufacture, sale and distribution of slag

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Continued)

#### (b) Jointly controlled entities (Continued)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
<b>Incorporated in Mainland China</b>				
Qinhuangdao Shouqin K. Wah Construction Materials Co., Ltd.	Qinhuangdao	RMB60,000,000	50	Manufacture, sale and distribution of slag
Qujin Kungang & K. Wah Cement Construction Materials Co., Ltd.	Qujin	RMB374,520,000	32	Manufacture, sale and distribution of cement
Shanghai Baojia Concrete Co., Ltd.	Shanghai	US\$4,000,000	50	Manufacture, sale and distribution of ready-mixed concrete
韶關市新韶鋼嘉羊新型材料有限公司 (Shaoguan City New Shaogang Jia Yang New Materials Co., Ltd.)	Shaoguan	US\$5,000,000	35	Manufacture, sale and distribution of slag
雲南昆鋼嘉華水泥建材有限公司 (Yunnan Kungang & K. Wah Cement Construction Materials Co., Ltd.)	Kunming	RMB825,000,000	25.6	Manufacture, sale and distribution of cement
昭通昆鋼嘉華水泥建材有限公司 (Zhaotong Kungang & K. Wah Cement Construction Materials Co., Ltd.)	Zhaotong	RMB250,000,000	32	Manufacture, sale and distribution of cement

#### (c) Associated Companies

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share	Percentage of equity held by the Group	Principal activities
<b>Incorporated in Hong Kong</b>					
AHK Aggregates Limited	Hong Kong	2,000,000	HK\$1	36.5	Quarrying





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