

ANNUAL REPORT 2009  
年報



澳門博彩控股有限公司  
**SJM HOLDINGS LIMITED**

(incorporated in Hong Kong with limited liability)  
(在香港註冊成立的有限責任公司)

Stock Code 股份代號 : 880



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## ABOUT US

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

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

As at 31 December 2009, SJM operated 17 casinos and 4 slot machine lounges, comprising more than 1,700 gaming tables and over 4,500 slot machines.



# MACAU STARTS WITH US

In prominent and convenient locations, SJM beckons visitors to a world of excitement and luxury from the moment they enter Macau. Our 19,000 staff members are at home in welcoming to our facilities over 10 million patrons a year.





# DEEPLY ROOTED IN MACAU

As Macau's only locally-rooted casino gaming company, SJM continues a proud tradition of nearly half a century of development and service – for Macau and for its visitors. Like Macau itself, SJM bridges East and West to offer the best in ambience and hospitality.





# BLOOMING WITH MACAU'S FUTURE

SJM and Macau have come a long way together in developing a modern gaming and tourism destination; yet, Macau stands on the threshold of an even more exciting future. As our founder Dr. Stanley Ho has stated: "The best is yet to come."







## EVENT HIGHLIGHTS



◀ **SJM hosts traditional gala dinner on Lunar New Year's eve**  
25 JAN 2009

▶ **SJM Holdings holds first Annual General Meeting**  
13 MAY 2009



▶ **SJM team wins dragon boat race**  
24 MAY 2009



▶ **SJM Holdings Chairman Dr. Stanley Ho receives the G2E Asia Visionary Award for his contribution to the Asian gaming market and to the region's development and growth**  
3 JUN 2009

▶ **"Listening Journey" held by the SJM Staff Welfare Consultative Committee**  
JUL-AUG 2009



## EVENT HIGHLIGHTS (CONTINUED)

**SJM Holdings Chairman Dr. Stanley Ho  
elected President of the Chamber of  
Macau Casino Gaming Concessionaires  
and Sub-concessionaires**

28 JUL 2009



**2009-2010 SJM Scholarships  
Award Ceremony**

31 JUL 2009

**Grand Opening of Casino  
Lan Kwai Fong**

2 AUG 2009

**Issue of HK\$2,000 million convertible  
bonds by a group subsidiary**

28 OCT 2009

**Grand Opening of Casino L'Arc**  
21 SEP 2009

**SJM – exclusive sponsor of “FIA  
WTCC – Guia Race of Macau” of  
the Macau Grand Prix**  
19-22 NOV 2009



**SJM staff members participate  
in the “Walk for a Million”**

13 DEC 2009



**Grand Opening of Casino  
Oceanus at Jai Alai**

15 DEC 2009

## FINANCIAL HIGHLIGHTS AND DIVIDEND SCHEDULE

### Financial Highlights

	2009 HK\$ million (audited)	2008 HK\$ million (audited)	% Change
Gaming Revenue	<b>34,066</b>	27,992	+21.7%
Other Income <sup>Note a</sup>	<b>410</b>	304	+34.9%
Adjusted EBITDA <sup>Note b</sup>	<b>2,269</b>	1,600	+41.8%
Profit attributable to owners of the Company <sup>Note c</sup>	<b>907</b>	796	+13.9%
Earnings per share – basic	<b>HK18.1 cents</b>	HK18.4 cents	Note d
– diluted	<b>HK18.1 cents</b>	N/A	
Proposed final dividend per share	<b>HK9.0 cents</b>	HK6.0 cents	+50%

Notes:

a Includes hotel, catering and related services income

b Earnings after adjustment for minority interest and before interest income and expense, tax, depreciation and amortisation, and share-based payments

c After adjustment for share-based payments of HK\$174 million

d Weighted average number of shares applied: 5,000.0 million shares in 2009; 4,327.2 million shares in 2008

### Dividend Schedule

Events	Date / Period
Announcement of proposed final dividend	29 March 2010 (Monday)
Ex-dividend date	25 May 2010 (Tuesday)
Deadline for lodging of transfer documents with share registrar	4:30 p.m. on 26 May 2010 (Wednesday)
Closure of register of members	27 May 2010 (Thursday) to 31 May 2010 (Monday) (both dates inclusive)
Annual General Meeting	3:00 p.m. on 31 May 2010 (Monday)
Expected payment date of proposed final dividend (if approved at the Annual General Meeting)	23 June 2010 (Wednesday)

## OVERVIEW

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

For SJM Holdings, 2009 was a year of growth and building for the future. SJM's gaming revenue, which accounted for around 99% of the total revenue of the Company and its subsidiaries (collectively, the "Group"), grew by 21.7% in 2009 to \$34,066 million. At the same time, SJM's market share of casino gaming in Macau increased to 29.4% from 26.5%, retaining the number one position among the six competitors in Macau. The Group's Adjusted EBITDA (earnings after adjustment for minority interest and before interest income and expense, tax, depreciation and amortisation, and share-based payments) grew at an even more rapid rate of 41.8% during the year, reflecting greater efficiency in the Company's overall operations. Profit attributable to owners increased by 13.9% compared to the previous year.

The Group's growth took place during a period of varied market conditions, as the year began on a weak note with Macau's economy feeling the effects of the global financial crisis, tightened visa conditions for Mainland residents wishing to visit Macau and concern about H1N1 virus. During the second half of the year, the economies of China and the Asian region showed their resilience, resulting in a resumption of growth for Macau and its gaming industry, particularly in the fourth quarter.

For the full year 2009, Macau's casino gaming industry earned record revenue of \$115,892 million, up 9.7% from the previous year. Of the total for 2009, 30.3% was earned during the fourth quarter.

Macau's vitality was shown during the year by the election in August of a new Chief Executive for a five year term that began 20 December. On the same day Macau celebrated, in the presence of President Hu Jintao of the People's Republic of China, the tenth anniversary of the creation of the Macau Special Administrative Region.

The year also saw concrete evidence of Macau building for its future, as progress was made on transportation infrastructure projects, including the future light rail system and the future Hong Kong-Zhuhai-Macao Bridge, and cooperation between Macau and the Mainland on the development of Hengqin Island.

SJM opened four casinos in 2009: Casino Jimei in January, Casino Lan Kwai Fong Macau in August, Casino L'Arc Macau in September and Casino Oceanus at Jai Alai in December. SJM's number of gaming tables in operation expanded by 29.2% to 1,724 as at 31 December 2009 from 1,334 as at 31 December 2008. For all of Macau, the number of gaming tables in operation increased by 18.7% to 4,770 as at 31 December 2009 from 4,017 as at 31 December 2008.

In 2010, there will only be a small amount of new gaming capacity coming on stream in Macau. Later in 2011, two large projects are currently scheduled to open in Cotai. Therefore, for the next year or longer, the market will have time to absorb the capacity that SJM introduced in 2009. In March 2010, the Macau Government announced measures to limit the growth of Macau's gaming industry for the next three years. Although full details of the implementation of this policy have not been revealed, it is not expected to have a significant impact on the Group's operations or profitability.

The Group's strategy is to focus on the operation of casinos, to continue improving and enhancing the efficiency of existing properties in both the VIP and mass market segments of the gaming business, and to consider opportunities for future expansion, while maintaining a strong financial position.

The board of directors of the Company would like to express its appreciation to all levels of staff for their dedicated efforts over the past year, and to our shareholders and business partners for their support.

For and on behalf of the Board of Directors  
**SJM Holdings Limited**

**So Shu Fai**

Executive Director and Chief Executive Officer  
Hong Kong, 29 March 2010

## BUSINESS REVIEW

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

### GROUP OPERATING RESULTS

The Company and its subsidiaries (collectively, the “Group”) increased gaming revenue, Adjusted EBITDA (earnings after adjustment for minority interest and before interest income and expense, tax and depreciation and amortisation, and share-based payments) and profit attributable to owners of the Company by 21.7%, 41.8% and 13.9%, respectively, for the year ended 31 December 2009 as compared with the year ended 31 December 2008. Gaming revenue increased to \$34,066 million from \$27,992 million, Adjusted EBITDA increased to \$2,269 million from \$1,600 million and profit attributable to owners of the Company increased to \$907 million from \$796 million.

Growth in gaming revenue in 2009 comprised increases in VIP gaming revenue of 25.3%, mass market table gaming revenue of 17.9% and slot machine revenue of 5.3%, which reflected the rebound in overall economic conditions in China and the Asian region particularly in the second half of 2009. During 2009, the Group accounted for 29.4% of Macau’s record casino gaming revenue of \$115,892 million, the largest market share among the six

concessionaires and sub-concessionaires and an increase in market share from 26.5% for the full year 2008.

Besides growth of gaming revenue, other factors that contributed to higher Adjusted EBITDA in the year were improved operating results at Ponte 16 and Grand Lisboa Hotel. The Group’s Adjusted EBITDA margin for the year was 6.7%, an increase of 17.5% from 5.7% in 2008. If calculated under US GAAP, the Group’s Adjusted EBITDA margin would be approximately 10.8% for 2009, an increase from 8.9% in 2008 (see “Comparison with United States GAAP Accounting” below).

Net profit for the year was affected by increased depreciation charges of \$1,109 million, which increased from \$769 million from the previous year due to depreciation charges on the Grand Lisboa Hotel which opened in December 2008, as well as deductions of share-based payments of \$174 million and pre-opening costs of \$49 million. Interest expense in 2009 was \$198 million, compared with \$158 million in 2008.



## BUSINESS REVIEW (CONTINUED)

### VIP GAMING OPERATIONS

VIP gaming operations accounted for 58.8% of the Group's total gaming revenue in the year, as compared to 57.1% for the previous year. As at 31 December 2009, SJM had 320 VIP gaming tables with 30 VIP promoters, as compared with 180 VIP gaming tables and 40 VIP promoters as at 31 December 2008. As at 31 December 2009, SJM operated VIP gaming in 13 of its casinos.

The average number of VIP gaming tables during the year was 239 as compared with 234 in the previous year, while the average net-win per day per VIP gaming table increased to \$229,536 in 2009 from \$186,470 in 2008.

Gaming revenue from VIP gaming operations was \$20,017 million in 2009 which represented an increase of 25.3% from \$15,970 million in 2008, reflecting a 29.8% increase in VIP chips sales to \$718,849 million in 2009 from \$553,618 million in 2008. The hold rate for VIP operations decreased slightly in 2009 to 2.78% from 2.88% in 2008.

### MASS MARKET TABLE GAMING OPERATIONS

Gaming revenue from mass market table gaming operations comprised 38.3% of the Group's total gaming revenue in 2009, compared to 39.5% in 2008. SJM had 1,404 mass market tables as at 31 December 2009, including 249 new mass market tables at Casino Oceanus at Jai Alai, which opened in December 2009 and 99 mass market tables at Casino L'Arc Macau which opened in September 2009, as compared with 1,154 mass market gaming tables as at 31 December 2008.

Gaming revenue from mass market table gaming operations increased to \$13,039 million, representing growth of 17.9%, from \$11,064 million recorded in 2008.

The average number of mass market gaming tables was 1,192 in 2009 compared with 1,193 in 2008, while the average net-win per day per mass market gaming table increased to \$29,978 from \$25,338 for the previous year.



### SLOT MACHINE OPERATIONS

Gaming revenue from slot machine operations and other gaming operations (Tombola) comprised 3.0% of the Group's total gaming revenue in 2009, compared to 3.4% in 2008. SJM had 4,567 slot machines in service as at 31 December 2009 as compared with 3,867 slot machines as at 31 December 2008. The increase was mainly due to the opening of Casino Oceanus at Jai Alai and Casino L'Arc Macau, which operated 521 and 383 slot machines, respectively, as at 31 December 2009.

## BUSINESS REVIEW (CONTINUED)

As at 31 December 2009, SJM operated slot machines in 15 of its casinos and in four slot halls. Gaming revenue from slot machine operations and other gaming operations increased by 5.3%, to \$1,010 million in 2009 from \$959 million for the previous year.

The average number of slot machines in 2009 increased to 3,955, from 3,842 in 2008. The average net-win per slot machine increased to \$698 per day in 2009, from \$681 per day in 2008.



## CASINO GRAND LISBOA

Gaming revenue at the Company's flagship Casino Grand Lisboa, for the year ended 31 December 2009, increased by 9.7% to \$9,436 million from revenue of \$8,605 million for the year ended 31 December 2008.

For the year ended 31 December 2009, Adjusted Property EBITDA (EBITDA after adjustment for corporate expense) of Casino Grand Lisboa was \$1,654 million, an increase of 16.2% from \$1,424 million for the previous year. The Adjusted Property EBITDA margin of Casino Grand Lisboa in 2009 was 17.5% under HK GAAP, compared with 16.5% for the previous year. If calculated under US GAAP, the Adjusted Property EBITDA margin of Casino Grand Lisboa would be approximately 25.8% for 2009, an increase from 24.1% in 2008 (see "Comparison with United States GAAP Accounting" below).

VIP gaming operations at Casino Grand Lisboa contributed \$5,900 million in VIP gaming revenue and \$190,167 million in VIP chips sales during the year ended 31 December 2009, compared with \$5,775 million and \$193,824 million during the previous year. During the year two VIP promoters relocated from Casino Grand Lisboa to satellite casinos, and in October 2009, 16 new VIP gaming tables were added to the 36th floor of Grand Lisboa. After October 2009 the property's VIP gaming revenue increased, and Casino Grand Lisboa contributed \$22,974 million in VIP chips sales in the month of December 2009, or 32.9% of the Company's total VIP chips sales for that month. Average net-win per VIP gaming table for Casino Grand Lisboa was \$329,905 per day in 2009, compared with \$292,217 per day in 2008, an increase of 12.9%.

Mass market gaming operations at Casino Grand Lisboa contributed \$3,207 million in revenue in 2009 while slot machine operations contributed \$329 million. The average net-win per mass market table at Casino Grand Lisboa was



## BUSINESS REVIEW (CONTINUED)

\$35,908 per day in 2009, compared with \$29,044 per day in 2008, an increase of 23.6%, and the average net-win per slot machine was \$1,241 per day in 2009 compared with \$977 per day in 2008, an increase of 27.0%.

During 2009, Casino Grand Lisboa averaged 26,241 visitors per day, and the Casino Grand Lisboa bus program is estimated to have brought more than 1,395,000 visitors to the casino from the Macau Maritime Terminal and the Border Gate. To continue attracting gaming patrons, Casino Grand Lisboa frequently launches special promotions, such as "Double Chances," "Monthly Raffle" and "Win a Million Daily". Jackpots are paid regularly, with the total exceeding \$93 million for slot machines and over \$59 million for table games (Caribbean Stud Poker) in 2009. During the year 60,437 members joined the Casino Grand Lisboa loyalty card programme, bringing the total number of members to 246,025.

### CASINO LISBOA

Casino Lisboa contributed gaming revenue of \$9,418 million for the year ended 31 December 2009. VIP gaming operations at Casino Lisboa accounted for \$7,761 million in VIP gaming revenue and \$290,155 million in VIP chips sales during the year, while the average net-win per VIP gaming table was \$347,141 per day in 2009.

Mass market gaming operations at Casino Lisboa contributed \$1,630 million in revenue in 2009 while slot machine operations contributed \$27 million. The average net-win per mass market table at Casino Lisboa was \$30,942 per day in 2009.

The Lisboa Card programme, targeting mass market customers, was introduced in September 2008. During 2009, 165,076 new members were enrolled, increasing the total to 216,034.



### CASINO OCEANUS AT JAI ALAI

After a construction period of 15 months spent converting the site of the former New Yaohan Department Store, Casino Oceanus at Jai Alai held its grand opening on 15 December 2009. Connecting via overhead walkway to the Macau Maritime Terminal, the casino conveniently serves patrons who arrive in Macau by sea or through the northern Border Gate. Oriented towards the day-trip market, the casino project comprises a total of approximately 345,000 square feet of space, with interior designed by renowned casino architects Steelman Architecture Asia Limited.

## BUSINESS REVIEW (CONTINUED)

As at 31 December 2009, the casino, incorporating the former Casino Jai Alai, operated a total of 276 mass market gaming tables and 605 slot machines, of which 249 tables and 521 slot machines were at the new Casino Oceanus at Jai Alai premises. Casino Oceanus at Jai Alai recorded a total of approximately 170,000 visitors in its first half-month of operations, and during that time had enrolled approximately 21,700 members in its Oceanus Club loyalty card programme.

For the full year ended 31 December 2009, Casino Jai Alai plus Casino Oceanus at Jai Alai contributed gaming revenue of \$681 million. VIP gaming operations accounted for \$20 million in VIP gaming revenue and \$494 million in VIP chips sales during the year, while the average net-win per VIP gaming table was \$19,303 per day in 2009.

Mass market gaming operations at Casino Jai Alai plus Casino Oceanus at Jai Alai contributed \$627 million in revenue in 2009 while slot machine operations contributed \$34 million. The average net-win per mass market table was \$18,795 per day in 2009.

## SATELLITE CASINOS AND SLOT HALLS

As at 31 December 2009, the Company operated 14 satellite (third party-promoted) casinos, of which 12 are located on the Macau Peninsula and two are located on the island of Taipa, comprising a total of 748 mass market gaming tables, 192 VIP gaming tables and 2,448 slot machines. The four slot halls operated by the Company accounted for an additional 726 slot machines. The satellite casinos are operated subject to service agreements between the Company and third party promoters.

During 2009 the Company opened three satellite casinos – Casino L’Arc Macau, Casino Lan Kwai Fong Macau (at the site of the former Casino Kingsway, which had been closed since 30 June 2007) and Casino Jimei (at the site of the former Casino Oriental, which had been closed since 1 August 2008). Gaming facilities at these casinos as at 31 December 2009 totaled 151 mass market gaming tables, 105 VIP gaming tables and 520 slot machines.



## BUSINESS REVIEW (CONTINUED)

SJM's satellite casinos and slot halls contributed gaming revenue of \$14,529 million for the year ended 31 December 2009. VIP gaming operations at the satellite casinos accounted for \$6,336 million in VIP gaming revenue and \$238,032 million in VIP chips sales during the year, while the average net-win per VIP gaming table was \$137,590 per day in 2009.

Mass market gaming operations at the satellite casinos contributed \$7,575 million in revenue in 2009 while slot machine operations at the satellite casinos and slot halls contributed \$618 million. The average net-win per mass market table at the satellite casinos was \$29,180 per day in 2009.

### NON-GAMING OPERATIONS

Since its grand opening in December 2008, the Grand Lisboa Hotel has experienced steady growth in occupancy and revenue contribution, and has been widely recognised for its high quality dining and lodging. In 2009 the Grand Lisboa Hotel was awarded "Best City Landmark Hotel – 2009-2010 in Greater China" by the Organising Committee of Annual Meeting of China Hotel Industry. *Michelin Guide Hong Kong Macau 2010* awarded its coveted star rating to "The Eight" restaurant and its Bib Gourmand award to the hotel's "Noodle & Congee Corner," and *Wine Spectator* selected both "The Kitchen" and "Don Alfonso 1890" for their "Best Award of Excellence."

For the year ended 31 December 2009 the Grand Lisboa Hotel contributed \$328 million in revenue to the Group and Adjusted EBITDA of \$71 million. The occupancy rate of the 431-room hotel averaged 57.2% for the full year, and had increased to 79.6% for the month of December 2009. Average room rate for the full year 2009 was approximately \$1,990.

Operating results for the Sofitel at Ponte 16, of which SJM's interest is 51%, improved during 2009 and contributed \$94.3 million in revenue to the Group. The occupancy rate of the 408-room hotel averaged 47.5% for the full year, while increasing to 69.6% for the month of December



2009. In February 2009, 19 deluxe Mansion Suites were opened at the hotel.

Income from all hotel, catering and related services, after inter-company elimination, totaled \$287 million in 2009, an increase of 65.9% from \$173 million in 2008, due to the opening of the Grand Lisboa Hotel, and increased food and beverage revenue. Other income, primarily interest earned on bank deposits, finance leases interest received and income from amortisation of financial guarantee obligations, decreased to \$123 million from \$131 million during the year.

## CORPORATE SOCIAL RESPONSIBILITY

"From society, to society" is a core value of the Group. In 2009 we continued to support education, arts and culture, sports and other charitable activities to benefit the community and to encourage our employees to do likewise.

### EDUCATION

The SJM Scholarship programme provides scholarships for ten students who are each awarded MOP5,000 per year at University of Macau. For children of staff, the SJM Scholarship programme provides ten scholarships each year, to students who are each awarded MOP20,000 per year until they finished their studies (up to five years).

SJM also sponsors the full school fees of staff who further their studies at Macau Millennium College, and supports the educational activities of Millennium Secondary School.



### SPORTS

In November, SJM was the title sponsor of the Macau Grand Prix 2009: FIA World Touring Car Championship – Guia Race of Macau.

SJM also provides or subsidises Hong Kong/Macau ferry tickets for sports organisations such as the Macau Swimming Association, Special Olympics Macau and Macau Dance Sport Federation, for exchanges in Hong Kong.



### ARTS AND CULTURE

SJM regularly sponsors cultural events in Macau such as art exhibitions, and provides or subsidises Hong Kong/Macau ferry tickets for arts and culture groups. SJM also supports cultural activities at the Kam Pek Community Centre in Macau's Inner Harbour neighbourhood.

In November 2009 SJM was a sponsor of the 9th Macau Food Festival.



## CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)



## OTHER ACTIVITIES IN 2009

SJM was co-organiser of the Double Celebration for the 60th Anniversary of the People's Republic of China and the 10th Anniversary of the Macau SAR, held in June.

SJM contributed to the construction of a primary school in an earthquake-affected area of Sichuan province, China.

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

In December, SJM hosted the Italian Truffle Dinner and Auction which raised over HK\$2.2 million for charities. SJM was the successful bidder of the largest truffle in this event, and all money raised that evening was donated to local charities including Caritas de Macau, Tung Sin Tong Charitable Society, Kiang Wu Hospital Charitable



## RESPONSIBLE GAMING

As a responsible operator, we are committed to providing Responsible Gaming Awareness training for our new employees and making information available to patrons who seek assistance. SJM was a co-organiser in 2009 of the Responsible Gaming Awareness programme, held in Macau from October to December.



Association, Obra das Mães, Special Olympics Macau, Yat On Pathological Gambler's Counseling Centre, Macau Social Services Centre and the Dr. Stanley Ho Medical Development Foundation.

Other community service organisations and events that SJM supported during the past year include Centro Pastoral Discesano para a Juventude, The Cross Straits Youths Exchange Foundation, Macau Jockey Club Charity Day, Tung Sin Tong Charitable Society and União Geral das Associações dos Moradores de Macau.

In 2009, SJM staff members were frequent volunteers to help the needy in society, working with such organisations as the Macau Social Service Center and the Youth Volunteer Association of Macau ("AJVM"). In December, ten volunteers from SJM were selected as "Best Volunteer" by AJVM in recognition of their contributions to the community.

## PROSPECTS AND RECENT DEVELOPMENTS



### MARKET ENVIRONMENT

Growth of the Macau gaming industry was interrupted in the second half of 2008 and the first half of 2009 by the general weakening of the global economy and the tightening of visa conditions for Mainland residents wishing to visit Macau. According to the Macau Government Statistics and Census Service, the total number of visitors to Macau (not including arrivals of non-resident workers, students, etc.) was 21,752,751 in 2009 as compared with 22,933,185 in 2008. 10,989,533 visitors to Macau originated from Mainland China in 2009 as compared with 11,613,171 in 2008.

Competition in the Macau gaming industry continued to be intense, particularly in the VIP gaming segment. Responding to industry concerns by the concessionaires and sub-concessionaires about the sustainability of VIP gaming margins, the Macau Government instituted a cap on commissions paid to VIP gaming promoters, effective from December 2009. The institution of a cap on VIP promoter commissions is not expected to have a significant impact on the operations or profitability of the Company's VIP gaming business.

In March 2010, the Macau Government announced that the total number of gaming tables in Macau would be capped at 5,500 in the next three years. The Company does not expect this policy to have a significant impact on its gaming business during this period.

The Group expects that its prospects over the near to medium term are excellent, given the satisfactory performance of visitation and spending in Macau, the general prosperity of the Asian region, its strategically located network of casinos and its strong balance sheet. During 2010 the Group also expects to benefit from the increases in gaming capacity that it introduced during the second half of 2009 and from improvements in the efficiency of its operations.

### CURRENT INITIATIVES

In pursuit of the Group's strategy of growing its casino business and improving the efficiency of existing casinos, the Group is progressing on a number of initiatives in 2010, which are described below.

## PROSPECTS AND RECENT DEVELOPMENTS (CONTINUED)

### – at Casino Grand Lisboa

In October 2009 the Company opened the first of three high-vista floors for VIP gaming at the Grand Lisboa, and expects to open the final two floors by the fourth quarter of 2010. These spaces will provide luxurious sky-high accommodation for VIP gaming rooms, for VIP hotel suites and for the award-winning Robuchon a Galera Restaurant which will relocate from the Hotel Lisboa.

### – at Casino Lisboa

During 2010 the Company plans to install new IT and player-tracking systems into Casino Lisboa, as well as undertake renovation of certain of the mass market and VIP gaming areas.

### – at Casino Oceanus at Jai Alai

The Company expects in April 2010 to open a new set of escalators leading to the overhead walkway to Casino Oceanus at Jai Alai, in order to facilitate movement of patrons who arrive via the Macau Maritime Terminal. Later in the year, the Company plans to construct a second walkway that will lead from the Oceanus building to the Jai Alai building. Subject to relevant approvals, the Company also plans to commence work in 2010 on renovation of the former Casino Jai Alai premises.

### – at Satellite Casinos

As at early 2010, 12 of SJM's 14 satellite casinos were operating under new service agreements under which SJM accounted for all the gaming revenue and paid a certain amount of commission which is net of all operating costs. SJM is in negotiations with the remaining two casinos concerning the above formula. Under the new service agreements, the service providers, rather than the Company, bear the casino operating expenses. The new agreements will have a positive effect on the profitability of SJM, but as they mainly came into effect at different times during 2009, the positive effect will be realised in 2010 and thereafter.

### – at Ponte 16

During 2009, VIP gaming was inaugurated at Ponte 16 in August, which enhanced the Adjusted EBITDA contribution



of the casino, though the project continued to contribute a net loss to the Group in 2009. The Company expects that operating performance of Ponte 16 will improve further during 2010.

On 1 February 2010 a new attraction for visitors was opened at Ponte 16 – the MJ Gallery at Ponte 16, featuring authentic memorabilia and exhibits from the career of superstar Michael Jackson. Longer term plans for Ponte 16 call for the addition of further gaming space, dining and shopping facilities and a riverside plaza.

### FUTURE CASINO PROJECTS

The Company has longer term plans for additional new projects, including developments on two sites on Cotai, a site of approximately 10,000 square metres situated directly across from the convention centre and a site of approximately 73,856 square metres situated adjacent to the Macau East Asian Games Dome. The timetable for these projects is being reviewed and will be subject to market conditions and approval by the Macau Government authorities.

## FINANCIAL REVIEW

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

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group maintained a strong financial position, with bank balances and cash amounting to \$9,337 million (not including \$411 million pledged bank deposits) as at 31 December 2009. This represented an increase of 59.7% as compared with the position as at 31 December 2008 of \$5,847 million. The increase was mainly attributable to the convertible bond financing undertaken by the Company in 2009.

In October 2009 a wholly-owned subsidiary of the Company issued zero coupon convertible bonds at a principal amount of \$2,000 million maturing in 2015

which are traded on the Singapore Exchange Securities Trading Limited. The convertible bonds, which have a final maturity of six years, can be converted into shares of the Company at a conversion price of \$5.35. The net proceeds of the convertible bond issue of approximately \$1,959 million are to be used for capital expenditure related to the Group's developments in Macau and for general corporate purposes.

Total loan facilities available to the Group as at 31 December 2009, excluding the convertible bond issue, amounted to \$6,600 million, of which \$338 million was undrawn. The maturity profile of the Group's borrowings as at 31 December 2009 is set out below:

Maturity Profile				
Within 1 year	1–2 years	2–5 years	Over 5 years	Total
20.2%	20.2%	59.6%	0.0%	100.0%

### GEARING RATIO

The Group's gearing ratio (defined as the ratio of total outstanding bank loans less bank balances and cash to total assets (excluding bank balances and cash)) was nil at the end of 2009 (as at 31 December 2008: nil).

### CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure commitments by the Group amounted to \$663 million as at 31 December 2009 (as at 31 December 2008: \$1,402 million), which were primarily for construction works remaining on the Grand Lisboa, Ponte 16 and Oceanus at Jai Alai. Other projects in the future will be funded by a combination of internal resources and external financing. The exact investment plans for the Group's projects are subject to change based upon execution of the business plans, progress of the projects, market conditions and management's view of future business conditions.

### PLEDGE OF ASSETS

As at 31 December 2009, certain of the Group's property and equipment and land use rights with carrying values of \$6,127 million and \$797 million, respectively (as at 31 December 2008: \$6,062 million and \$837 million, respectively), were pledged with banks for loan facilities. In addition, the Group had pledged bank deposits of \$411 million as at 31 December 2009, as compared with \$414 million as at 31 December 2008.

### CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2009, the Group had total guarantees given to banks of \$244 million (as at 31 December 2008: \$334 million), which were guarantees in respect of credit facilities granted to an associate, an investee company and a related company. The Company has also agreed to guarantee payment of all sums payable in relation to the issue of convertible bonds made in October 2008. The Group had no significant contingent liabilities as at 31 December 2009.



## FINANCIAL REVIEW (CONTINUED)

### DEVELOPMENTS REGARDING LITIGATION

There has been no significant development in the litigation to which SJM or any of its subsidiaries or STDM are parties, as described in the Company's Prospectus for initial public offering dated 26 June 2008 (the "Prospectus"), save for the conclusion of the judicial review proceedings in Hong Kong relating to such offering, which was mentioned in last year's annual report. The directors of the Company maintain their opinion, as originally expressed in the Prospectus, that based on the information and advice provided by the Company's legal advisors in Macau, that, regardless of how such litigation will be adjudicated, none of the proceedings, together or alone, will have a material adverse impact on the business or assets of the Company, on its status as a listed company, or on the business or assets of SJM, or its Reorganisation (as such term was defined in the Prospectus), or any of its subsidiaries.

### FINANCIAL RISK

The Group follows a conservative policy in financial management with minimal exposure to currency and interest rate risks. Funds borrowed by the Group are on a floating rate basis. The Group does not currently hedge its interest rate exposure, although it may consider doing so in the future. None of the Group's outstanding borrowings was denominated in a foreign currency as at 31 December 2009. The Group's principal operations are primarily conducted and recorded in Hong Kong dollars resulting in minimal exposure to foreign exchange fluctuations. All of the Group's bank deposits are denominated in Hong Kong dollars, United States dollars or Macau patacas. It is the Group's policy not to engage in speculative trading activity.

### MATERIAL ACQUISITIONS AND DISPOSALS

The Group made no material acquisitions or material disposals of subsidiaries and associated companies during the year ended 31 December 2009.

### HUMAN RESOURCES

As at 31 December 2009, the Group had 19,936 full-time employees, which represented an increase of 601 employees since 31 December 2008. The increase in employees is mainly due to the addition of employees during the year at Casino Oceanus at Jai Alai and Casino L'Arc Macau. The Group's employee turnover rate was minimal in 2009.

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

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

### COMPARISON WITH UNITED STATES GAAP ACCOUNTING

The Group's results are prepared in compliance with generally accepted accounting principles in Hong Kong ("HK GAAP"). In comparing the Group's results to those of companies whose results are prepared under generally accepted accounting principles in the United States ("US GAAP"), it should be noted that gross gaming revenues, presented under US GAAP, are reduced by commissions and discounts paid to players, to arrive at net gaming revenues. An Adjusted EBITDA would then be calculated based on these reduced net gaming revenues, resulting in a significantly higher Adjusted EBITDA margin than that calculated under HK GAAP. If calculated under US GAAP, the Group's Adjusted EBITDA margin would be approximately 10.8% for the period, as compared to HK GAAP which gives an Adjusted EBITDA margin of 6.7% for the period.

## DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Dr. Ho Hung Sun, Stanley**, aged 88, was appointed a director of the Company in 2006 and is currently the Chairman and an Executive Director of the Company. Dr. Ho has been a member of the Executive Committee of the board of directors of the Company (the "Board") since 2009. He has been the Managing Director of Sociedade de Jogos de Macau, S.A. ("SJM") since 2001. Dr. Ho is also a director of a number of principal subsidiaries of the Company.

Dr. Ho is the founder of and has been the Managing Director of Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") since 1962. He is also the co-chairman of the Advisory Committee of Industrial and Commercial Bank of China (Macau) Limited and the chairman of the board of directors of the Macau Horse Racing Company, Limited. Dr. Ho is the group executive chairman of Shun Tak Holdings Limited, which is listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE Main Board"), and the chairman of the board of directors of the Euronext Lisbon listed Estoril Sol, SGPS, S.A. In the past three years, Dr. Ho was the chairman of Value Convergence Holdings Limited (listed on the HKSE Main Board) up to 29 April 2008.

Dr. Ho is a Standing Committee member of the 11th National Committee of the Chinese People's Political Consultative Conference.

Dr. Ho has been the president of The Real Estate Developers Association of Hong Kong since 1984. He is a member of the Court of The Hong Kong Polytechnic University, the honorary lifetime chairman of The University of Hong Kong Foundation for Educational Development and Research, as well as a vice-patron of The Community Chest of Hong Kong. In Macau, Dr. Ho is a member of the Economic Development

Council of the Macau Special Administrative Region ("Macau SAR") Government, a trustee of the Macau Foundation, a member of the University Assembly of the University of Macau, a founding member and the chair of the Trustees Committee of the University of Macau Development Foundation, and the president of the Chamber of Macau Casino Gaming Concessionaires and Sub-concessionaires. Dr. Ho was a vice-president of both the Preparatory Committee and the Basic Law Drafting Committee for the Macau SAR, as well as a member of the Consultative Committee for the Basic Law of the Hong Kong Special Administrative Region ("Hong Kong SAR").

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

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

Dr. Ho is an Honorary Fellow of The Hong Kong Academy for Performing Arts and a Fellow of The Royal Academy of Dance in the United Kingdom.

## DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

**Dr. So Shu Fai**, aged 58, was appointed a director of the Company in 2006 and is currently the Chief Executive Officer and an Executive Director of the Company. He is responsible for execution of the Company's strategy and the overall management of the Company's business. Dr. So has been the First Chairman of the Executive Committee of the Board since 2009 and the Chairman of each of the Remuneration Committee and the Nomination Committee of the Board since 2008. He has been a director of SJM and a member of the senior management of SJM since 2002. He is a director of a number of principal subsidiaries of the Company. He is also a director of Zhen Hwa Harbour Construction Company Limited, an associate of the Company, and a director of Chong Fung Real Estate Investment Limited, a jointly controlled entity of the Company. Dr. So joined STDM in 1976 and has over 30 years of experience in the casino business. He is an independent non-executive director of SHK Hong Kong Industries Limited (formerly known as Yu Ming Investments Limited), which is listed on the HKSE Main Board, a director of the Euronext Lisbon listed Estoril Sol, SGPS, S.A., and the chairman of the board of directors of MACAUPORT – Sociedade de Administração de Portos, S.A. Dr. So was an executive director of Shun Tak Holdings Limited (listed on the HKSE Main Board) from 1991 to 2009.

Dr. So is a member of the 11th National Committee of the Chinese People's Political Consultative Conference ("CPPCC"), a member of the Committee of Foreign Affairs of the National Committee of CPPCC, a consultant to the Committee for Liaison with Hong Kong, Macau, Taiwan and Overseas Chinese of the Beijing Municipal Committee of CPPCC, the honorary consul of the Republic of Portugal in the Hong Kong SAR, as well as a member of the Economic Development Council and of the Cultural Consultative Council of the Macau SAR Government. Dr. So is the president of Clube Militar de Macau, a member of the board of directors of The University of Hong Kong Foundation for Educational Development and Research, as well as a committee member of the 8th China Federation of Literary and Art Circles. He graduated with a Bachelor of Science degree from The University of Hong Kong in 1973, and received a doctoral degree in Management Studies from IMC/Southern Cross University in 2001.

Dr. So was awarded the Medal of Merit – Culture by the Macau SAR Government in 2009, and an Honorary University Fellowship by The University of Hong Kong in 2005.

**Mr. Ng Chi Sing**, aged 58, was appointed a director of the Company in 2006 and is currently the Chief Operating Officer and an Executive Director of the Company. Mr. Ng has been a member of the Executive Committee of the Board since 2009. He has been a director and the Chief Operating Officer of SJM since 2002. He is responsible for overseeing SJM's operations. He is also a director of a number of principal subsidiaries of the Company and a director of Chong Fung Real Estate Investment Limited, a jointly controlled entity of the Company.

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

**Mr. Rui José da Cunha**, aged 68, was appointed a director of the Company in 2006 and is currently an Executive Director of the Company. Mr. Cunha has been a director of SJM since 2001. He is also a director of a number of principal subsidiaries of the Company. Mr. Cunha is the company secretary and president of the general meeting of certain of principal subsidiaries of the Company. As the Company Secretary of SJM since 2003, he is responsible for overseeing the company secretarial and legal affairs of SJM.

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

## DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

**Ms. Leong On Kei, Angela**, aged 49, has been an Executive Director of the Company since 2007. Ms. Leong has been a member of the Executive Committee of the Board since 2009, and a member of each of the Remuneration Committee and the Nomination Committee of the Board since 2008. She has been a director of SJM since 2007, and of STDM since 2005. Ms. Leong is also the Chairman of the Staff Welfare Consultative Committee of SJM.

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

**Mr. Shum Hong Kuen, David**, aged 55, has been an Executive Director of the Company since 2007. He has been a member of each of the Executive Committee and the Nomination Committee of the Board since 2009 and 2008 respectively. Mr. Shum is also a director of a number of principal subsidiaries of the Company. He has been a director of SJM since 2007 and of Sociedade de Turismo e Desenvolvimento Insular S.A.R.L. since 1998. Mr. Shum is an executive director and a member of the executive committee of the board of directors of Shun Tak Holdings Limited (listed on the HKSE Main Board). He is also a director of a number of subsidiaries in the Shun Tak Group.

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

### NON-EXECUTIVE DIRECTOR

**Dato' Dr. Cheng Yu Tung**, aged 84, was appointed a director of the Company in 2006 and is currently a Non-executive Director of the Company. He has been a director and the President of the board of directors of SJM since 2001. Dato' Dr. Cheng's business activities are extensive and varied, ranging from jewellery, real estate, infrastructure and hotels to logistics. Dato' Dr. Cheng is the chairman of New World Development Company Limited and of Melbourne Enterprises Limited, the non-executive chairman of Lifestyle International Holdings Limited, a non-executive director of Shun Tak Holdings Limited (all these companies are listed on the HKSE Main Board), and the chairman of Chow Tai Fook Enterprises Limited.

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chau Tak Hay**, aged 67, has been an Independent Non-executive Director of the Company and a member of each of the Audit Committee and the Nomination Committee of the Board since 2008. He has been, since September 2009, an independent non-executive director of Tradelink Electronic Commerce Limited (listed on the HKSE Main Board). Mr. Chau was an independent non-executive director of China Life Insurance Company Limited (listed on the HKSE Main Board) from 2003 to 2009.

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

**DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)**

**Mr. Lan Hong Tsung, David**, aged 69, has been an Independent Non-executive Director of the Company and a member of each of the Remuneration Committee and the Nomination Committee of the Board since 2008. He is the Senior Advisor of Mitsui & Co (HK) Ltd. and is also an independent non-executive director of Nanyang Commercial Bank, Ltd., HKSE Main Board listed Cheung Kong Infrastructure Holdings Limited, Hutchison Harbour Ring Limited, Hutchison Telecommunications Hong Kong Holdings Limited, and ARA Asset Management (Prosperity) Limited, the manager of HKSE Main Board listed Prosperity Real Estate Investment Trust.

In 2000, Mr. Lan was awarded the Gold Bauhinia Star by the Hong Kong SAR Government for his 39 year-long civil service when he retired as the Secretary for Home Affairs. Since 2003, Mr. Lan has been appointed as National Committee Member of the Chinese People's Political Consultative Conference. He is also a Fellow member of the Institute of Chartered Secretaries and Administrators. Mr. Lan graduated from the University of London with a Bachelor of Arts degree and obtained AMP (Harvard) qualification from the Harvard Business School. He was also a Visiting Fellow of Queen Elizabeth House (Oxford).

**Mr. Shek Lai Him, Abraham**, aged 64, has been an Independent Non-executive Director of the Company and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board since 2008. He is also an independent non-executive director of the HKSE Main Board listed companies and investment trusts, namely, Chuang's China Investments Limited, Chuang's Consortium International Limited, Country Garden Holdings Company Limited, Hop Hing Group Holdings Limited, Hsin Chong Construction Group Ltd., ITC Corporation Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, MTR Corporation Limited, NWS Holdings Limited, Paliburg Holdings Limited, Titan Petrochemicals Group Limited, Eagle Asset Management (CP) Limited, the Manager of Champion Real Estate Investment Trust, and Regal Portfolio Management Limited, the Manager of Regal Real Estate Investment Trust.

Mr. Shek graduated from the University of Sydney with a Bachelor of Arts degree. Mr. Shek was an independent non-executive director of New World TMT Limited from 2004 to 2006, Hop Hing Holdings Limited from 2007 to 2008, and See Corporation Limited from 2005 to 2008, all of which are listed on the HKSE Main Board. He was also a member of the managing board of Kowloon-Canton Railway Corporation from 2004 to 2007. Mr. Shek is a member of the Legislative Council of Hong Kong and a director of the Hong Kong Mortgage Corporation Limited. Mr. Shek was appointed a Justice of the Peace in 1995. He is also a vice chairman of the Independent Police Complaints Council.

**Mr. Tse Hau Yin**, aged 62, has been an Independent Non-executive Director of the Company, the Chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Board since 2008. Mr. Tse is a member of the Supervisory Committee of SJM and of a number of its subsidiary companies. He is also an independent non-executive director of China Construction Bank Corporation, China Telecom Corporation Limited, CNOOC Limited, Sinofert Holdings Limited, Wing Hang Bank Limited and Linmark Group Limited, all of which are listed on the HKSE Main Board.

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

## REPORT OF THE DIRECTORS

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

The directors (the "Directors") of SJM Holdings Limited (the "Company") have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2009 (the "Financial Statements").

### PRINCIPAL ACTIVITIES

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

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

### PRINCIPAL SUBSIDIARIES

A list of principal subsidiaries, together with their places of incorporation/establishment and operations and particulars of their issued share capital/quota capital and principal activity, is set out in note 53 to the Financial Statements.

### FINANCIAL RESULTS

The profit of the Group for the year ended 31 December 2009, and the Statement of Financial Position of the Company and of the Group at that date are set out in the Financial Statements on pages 61 to 122.

### DIVIDENDS

No interim dividend was declared for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil). The board of Directors (the "Board") recommends a final dividend of HK9.0 cents per share in respect of the year ended 31 December 2009 (2008: HK6.0 cents per share).

The proposed final dividend, if approved by the shareholders at the annual general meeting scheduled on Monday, 31 May 2010 ("2010 AGM"), will be paid on Wednesday, 23 June 2010 to shareholders whose names appear on the register of members of the Company on Monday, 31 May 2010. For the purpose of determining the entitlements of the shareholders, the register of members of the Company will be closed from Thursday, 27 May 2010 to Monday, 31 May 2010, both dates inclusive, during which period no

transfer of shares of the Company ("Shares") will be registered.

### FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2009 is set out on page 123.

### MAJOR SUPPLIERS AND CUSTOMERS

#### Suppliers

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

During the year, 41.50% of the Group's purchases was attributable to the Group's five largest suppliers combined. (i) Zhen Hwa Harbour Construction Co. Ltd. (an associate of the Company that is 49% owned by SJM), which provides SJM with construction services, accounted for 19.02% of the Group's total purchases; (ii) Hip Hing Engineering (Macau) Co., Ltd., which provides SJM with construction services, accounted for 7.96% of the Group's total purchases; (iii) Far East Hydrofoil Co. Ltd., which supplies SJM with ferry tickets, accounted for 5.22% of the Group's total purchases; (iv) Sociedade de Turismo e Diversões de Macau, S.A. ("STDM"), which shares certain administrative costs with SJM and provides SJM with dredging and repair and maintenance services, accounted for 4.75% of the Group's total purchases; and (v) STDM through Hotel Lisboa Macau and Hotel Sintra, which provides SJM with casino and office leasing, hotel rooms and entertainment services, accounted for 4.55% of the Group's total purchases.

Far East Hydrofoil Co. Ltd. is approximately 42.6% owned indirectly by Shun Tak Holdings Limited (in which Dr. Ho Hung Sun, Stanley ("Dr. Ho") is a director and a shareholder and Mr. Shum Hong Kuen, David and Dato' Dr. Cheng Yu Tung are directors), approximately 28.4% owned indirectly by STDM and approximately 29% owned by an independent third party. The purchases from Far East Hydrofoil Co. Ltd. through STDM are undertaken pursuant to the Products and Services Master Agreement.

## REPORT OF THE DIRECTORS (CONTINUED)

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

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

### MAJOR GROUP PROPERTIES

Details of major properties of the Group as at 31 December 2009 are as follows:

Property	Location	Use	Site area (sq.m.)	Gross floor area/ saleable area (sq.m.)	Group interest
Grand Lisboa Hotel and Casino Complex	Avenida Doutor Oliveira Salazar No. S/N, Avenida Do Infante D. Henrique No. S/N, Macau	Gaming operation, hotel operation and commercial use	11,626	135,442	100%
Ponte 16	Em Macau, Rua Das Lorchas, Rua Visconde Paco de Arcos, Macau	Gaming operation, hotel operation and commercial use	23,066	126,500	51%
Centro International de Macau	Em Macau, Rua Do Terminal Maritimo, No. 93-103, Edificio I Bloco V	Staff quarters	—	5,582.72	100%
Portion of Casino Lisboa	Basement, G/F, 1/F, 2/F, 3/F of Hotel Lisboa, Praca Ferreira Do Amaral Nos 1-5, Macau	Gaming operation	—	7,585.72	100%

### Customers

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

### RESERVES AND DISTRIBUTABLE RESERVES

Movements in the reserves of the Company during the year and reserves available for distribution to shareholders are set out in note 43 to the Financial Statements. Movements in the reserves of the Group are reflected in the Financial Statements on the Consolidated Statement of Changes in Equity.

The Company's reserves available for distribution to shareholders as at 31 December 2009 amounted to approximately \$504.2 million (31 December 2008: \$332.0 million).

### DONATIONS

Donations made by the Group during the year amounted to \$4.9 million.

## REPORT OF THE DIRECTORS (CONTINUED)

### BANK LOANS

Particulars of bank loans of the Group as at 31 December 2009 are set out in note 38 to the Financial Statements.

### BORROWING COSTS CAPITALISATION

Borrowing costs capitalised by the Group during the year amounted to \$2.0 million.

### FIXED ASSETS

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

### SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 41 to the Financial Statements.

### ISSUE OF CONVERTIBLE BONDS BY A SUBSIDIARY

On 28 October 2009, Champion Path Holdings Limited ("Champion Path"), a wholly-owned subsidiary of the Company, issued an aggregate principal amount of \$2,000,000,000 in HK dollar denominated zero coupon guaranteed convertible bonds due 2015 convertible into Shares (the "Bonds"). The Company has agreed to guarantee payment of all sums payable in relation to such Bonds.

The principal terms of the Bonds are summarised as follows:

Issuer	:	Champion Path
Guarantor	:	the Company
Principal Amount	:	\$2,000,000,000
Issue Price	:	100% of the principal amount of the Bonds
Interest	:	No interest (save for default interest, if applicable) is payable under the Bonds

Conversion Period : Any time on or after 8 December 2009 up to the close of business on the 7th day prior to 28 October 2015 (both days inclusive)

If such Bonds shall have been called for redemption by Champion Path before 28 October 2015, then up to the close of business on a date no later than 7 days (both days inclusive) prior to the date fixed for redemption thereof or if notice requiring redemption has been given by the Bondholders, then up to the close of business on the day prior to the giving of such notice.

The proceeds from the issue of Bonds, after deduction of the commission and the estimated expenses relating to the Bond issue, amounted to \$1,958.5 million which will be used for capital expenditure related to the Company's developments in Macau and for general corporate purposes.

Assuming full conversion of the Bonds at the initial conversion price of \$5.35, the Bonds will be convertible into 373,831,776 Shares, representing approximately 7.5% of the issued share capital of the Company as at 31 December 2009 and approximately 7.0% of the issued share capital of the Company as enlarged by the conversion of all the Bonds into Shares. The Shares to be issued upon conversion of the Bonds will be issued under the general mandate approved at the annual general meeting of the Company held on 13 May 2009.

The Bonds may, under certain circumstances, be redeemed by Champion Path on, or at any time after, 28 April 2011 up to 28 October 2015 whilst each bondholder is entitled to redeem the Bonds held by him on 28 April 2011 at the applicable early redemption amount. Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 112.68% of their principal amount on 28 October 2015.

The Bonds are listed on the Singapore Exchange Securities Trading Limited. Up to 31 December 2009, there was no exercise of conversion rights or redemption rights under the Bonds.

Further details of the Bonds are set out in note 40 to the Financial Statements.



## REPORT OF THE DIRECTORS (CONTINUED)

**SHARE OPTION SCHEME**

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

The principal terms of the Scheme are summarised below:

<b>Purpose</b>	To provide incentives to participants to contribute to the Group and/or to enable the Group to retain and recruit high-calibre employees and/or attract human resources that are valuable to the Group
<b>Participants</b>	Any employee, officer, agent, consultant or representative of the Company or any subsidiary, including any executive or non-executive director of the Company or any subsidiary, who is regarded as a valuable human resource of the Group based on his work experience, knowledge of the industry and other relevant factors
<b>Total number of Shares available for issue</b>	The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 10% of the nominal amount of the issued share capital of the Company as at 13 May 2009 (that is, 500,000,000 Shares). As at the date of this annual report, the total number of Shares available for issue under the Scheme is 332,100,000 Shares, representing approximately 6.63% of the total number of Shares in issue.
<b>Maximum entitlement of each participant</b>	In any 12-month period (including the proposed grant date): (a) For participants excluding substantial shareholders, Independent Non-executive Director or their respective associates: 1% of the number of Shares in issue as at the proposed grant date (including the total number of Shares already issued and those which may fall to be issued upon exercise of Options granted and to be granted to him under the Scheme and any other share option scheme(s) of the Company and/or any subsidiary) (b) For substantial shareholders, Independent Non-executive Directors or their respective associates: (i) 0.1% of the number of Shares in issue as at the proposed grant date (including the total number of Shares already issued and those which may fall to be issued upon exercise of Options granted and to be granted to him under the Scheme and any other share option scheme(s) of the Company and/or any subsidiary); and (ii) not exceeding \$5 million in aggregate value based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on each relevant date on which the grant of Options is made.
<b>Period within which the Shares must be taken up under an Option</b>	The Board may in its absolute discretion determine, save that such period shall expire on the last day of nine years commencing on the date falling six months after the date of grant
<b>Minimum period for which an Option must be held before it can be exercised</b>	Such minimum period under the Scheme is six months from the date of grant. At the time of grant of Options, the Board may specify longer minimum period(s) for which Options must be held before they can be exercised.
<b>Amount payable on acceptance of the Option</b>	\$1.00
<b>Period within which payments or calls must or may be made or loans for such purposes must be repaid</b>	Payable within 28 days from the date of the letter containing the grant, provided that no such grant shall be open for acceptance after the expiry or termination of the Scheme
<b>Basis of determining the exercise price</b>	The exercise price shall be determined by the Board at the time the grant of the Options is made and shall not be less than the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the grant date, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date; and (c) if applicable, the nominal value of the Shares.
<b>Remaining life of the Scheme</b>	The Scheme will remain in force for a period of 10 years commencing on the adoption date.

## REPORT OF THE DIRECTORS (CONTINUED)

Details of the movement in Options granted under the Scheme during the year ended 31 December 2009 were as follows:

Name or category of participants	Date of grant	Exercise period	Exercise price per share	Number of Options					Balance as at 31 December 2009
				Outstanding as at 1 January 2009	Granted During the year	Exercised during the year	Cancelled during the year	Lapsed during the year	
Directors of the Company:									
Ho Hung Sun, Stanley	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	5,000,000	—	—	—	5,000,000
So Shu Fai	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	35,000,000	—	—	—	35,000,000
Ng Chi Sing	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	32,000,000	—	—	—	32,000,000
Rui José da Cunha	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	3,000,000	—	—	—	3,000,000
Leong On Kei, Angela	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	20,000,000	—	—	—	20,000,000
Shum Hong Kuen, David	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	3,000,000	—	—	—	3,000,000
Cheng Yu Tung	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	1,000,000	—	—	—	1,000,000
Chau Tak Hay	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	500,000	—	—	—	500,000
Lan Hong Tsung, David	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	500,000	—	—	—	500,000
Shek Lai Him, Abraham	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	500,000	—	—	—	500,000
Tse Hau Yin	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	500,000	—	—	—	500,000
Sub-total:				N/A	101,000,000	—	—	—	101,000,000
Employees	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	39,800,000	—	—	—	39,800,000
Employee	13 July 2009	13 January 2011 to 12 January 2019	\$2.82	N/A	10,000,000	—	—	—	10,000,000
Employee	13 July 2009	13 January 2012 to 12 January 2019	\$2.82	N/A	10,000,000	—	—	—	10,000,000
Sub-total:				N/A	59,800,000	—	—	—	59,800,000
Other participants	13 July 2009	13 January 2010 to 12 January 2019	\$2.82	N/A	5,900,000	—	—	—	5,900,000
Other participant	7 October 2009	7 April 2010 to 6 April 2019	\$4.48	N/A	1,200,000	—	—	—	1,200,000
Sub-total:				N/A	7,100,000	—	—	—	7,100,000
Total:				N/A	167,900,000	—	—	—	167,900,000

N/A: not applicable

Notes:

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

<u>Exercisable periods</u>	<u>Option unit value</u>
13 January 2010 to 12 January 2019	\$1.25819
13 January 2011 to 12 January 2019	\$1.28888
13 January 2012 to 12 January 2019	\$1.31545

- The vesting period for all of the Options granted on 7 October 2009 is six months from the date of grant. The estimated fair value of each Option granted on that date based on an independent valuation is \$2.28692.

Other details of the Options granted under the Scheme are set out in note 42 to the Financial Statements.

## REPORT OF THE DIRECTORS (CONTINUED)

### DIRECTORS

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

#### **Executive Directors:**

Dr. Ho Hung Sun, Stanley

Dr. So Shu Fai

Mr. Ng Chi Sing

Mr. Rui José da Cunha

Ms. Leong On Kei, Angela

Mr. Shum Hong Kuen, David

#### **Non-executive Director:**

Dato' Dr. Cheng Yu Tung

#### **Independent Non-executive Directors:**

Mr. Chau Tak Hay

Mr. Lan Hong Tsung, David

Mr. Shek Lai Him, Abraham

Mr. Tse Hau Yin

Brief biographical details of Directors are set out on pages 24 to 27 of this annual report. Details of their remuneration are set out in note 11 to the Financial Statements.

In accordance with the Company's Articles of Association, Mr. Ng Chi Sing, Mr. Shum Hong Kuen, David, each an Executive Director, and Mr. Chau Tak Hay and Mr. Lan Hong Tsung, David, each an Independent Non-executive Director, will retire from the Board by rotation at the 2010 AGM and, being eligible, offer themselves for re-election.

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

### DIRECTORS' SERVICE CONTRACTS

The appointments of Independent Non-executive Directors are for specific terms (not exceeding three years) subject to earlier retirement by rotation in accordance with the provisions of the Company's Articles of Association. The Independent Non-executive Director, Mr. Tse Hau Yin, has entered into a service contract with SJM on 25 November 2008, pursuant

to which he is appointed as a member of Supervisory Committee of SJM and on 11 January 2008, each of the Independent Non-executive Directors and the Non-executive Director has entered into a letter of appointment with the Company for a term of three years which shall end in any event on either: (i) the date of the third annual general meeting of the Company after the first election as a Non-executive Director or Independent Non-executive Director (as the case may be) by shareholders in the annual general meeting of the Company; or (ii) the date on which a Non-executive Director or Independent Non-executive Director (as the case may be) shall retire by rotation, whichever is the earlier. Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin, Independent Non-executive Directors, retired by rotation and were re-elected at the annual general meeting of the Company held on 13 May 2009 (the "Re-election Date"). Immediately after the said re-election, each of them entered into a letter of appointment with the Company for a term of three years commencing from the Re-election Date which shall end in any event on either (i) the date of the third annual general meeting of the Company after the Re-election Date; or (ii) the date on which he shall retire by rotation, whichever is the earlier.

Other than the foregoing, no Director has a service contract with the Company that is not determinable within one year without payment of compensation (other than statutory compensation).

### DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

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

#### **(I) Contracts with STDM**

STDM is a controlling shareholder and therefore a connected person of the Company as defined under the Listing Rules. Dr. Ho is a director of STDM and, as at 31 December 2009, approximately 31.66% of the equity share capital of STDM was owned by him directly and

## REPORT OF THE DIRECTORS (CONTINUED)

indirectly (through Lanceford Company Limited, ("Lanceford") a company wholly-owned by Dr. Ho). Ms. Leong On Kei, Angela is a director of STDM and she also has a beneficial interest in STDM. Dato' Dr. Cheng Yu Tung and Mr. Shum Hong Kuen, David also have beneficial interests in STDM. Many Town Company Limited is a corporate director of STDM and is owned as to 93.3% by United Worldwide Investment S.A. which is owned as to 50% by Dato' Dr. Cheng Yu Tung.

During the year, the Group had the following transactions with STDM and its associates (excluding the Group) ("STDM Group"):

**(1) Premises Leasing Master Agreement**

On 18 June 2008, the Company entered into a premises leasing master agreement with STDM which contains the terms and conditions for the leasing of premises by the STDM Group to the Company for use as casinos, offices, or for other business purposes (the "Premises Leasing Master Agreement"). Payments for the premises under the agreement comprised of rental, utility charges, air conditioning service charges and building management fees where the relevant rental must be fair and reasonable, and may not be higher than the rental for the same or comparable type of premises provided by independent third parties in the ordinary course of business; the utility charges payable are based on actual utility consumption; and the air conditioning expenses and building management fees are determined in accordance with and not exceeding the relevant market prices. The terms and conditions on which such premises are to be provided should be no less favourable to us than those offered by independent third parties. This agreement is for a term commencing on 18 June 2008 and ending on 31 March 2020 and the Company may terminate at any time during the term of the agreement by giving at least three months' prior written notice. Further details of the said transaction were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008.

On 15 June 2009, wholly-owned subsidiaries of STDM completed the acquisition of the entire interest of STDM-Investimentos Hoteleiros, Limitada (formerly known as Excelsior — Hoteis e Investimentos, Limitada) ("STDM-IL") which owns the hotel formerly known as 'Mandarin Oriental, Macau' and now named Grand Lapa Hotel (the "Hotel") together with the piece of land on which the Hotel is erected (the "Grand Lapa Hotel Acquisition"). After completion of the Grand Lapa Hotel Acquisition, the rental payments for the 2-storey separate premises at the entrance to the Hotel which houses 'Jimei Casino', operated by SJM, from STDM-IL under the terms of the lease agreements between STDM-IL and SJM dated 31 October 2007 and 23 June 2008 (the "Existing STDM-IL Casino Leases") became continuing connected transactions of the Company. Pursuant to an agreement dated 11 September 2009, STDM-IL and SJM agreed that the monthly rental on the Casino Jimei premises shall be reduced from approximately \$7.29 million to \$5 million with effect from 1 August 2009 until expiry of the Existing STDM-IL Casino Leases. Since these rental payments are in the same nature as the transactions covered by the Premises Leasing Master Agreement, the rental payable for the Casino Jimei premises has been aggregated with the rentals payable to STDM and its associates under the Premises Leasing Master Agreement and the Company revised the annual cap for this category of the continuing connected transactions for the year ending 31 December 2010 from \$206 million to \$266 million. Further details of the Grand Lapa Hotel Acquisition and the lease transactions relating to the Casino Jimei premises were set out in the announcements of the Company dated 16 June 2009 and 11 September 2009.

Approximately \$111.1 million was paid under the Premises Leasing Master Agreement and the Existing STDM-IL Casino Leases, as subsequently revised, during the year.

## REPORT OF THE DIRECTORS (CONTINUED)

### **(2) Products and Services Master Agreement**

On 18 June 2008, the Company entered into an agreement with STDM which contains the principles, guidelines, terms and conditions for the provision of products and services by the STDM Group to the Company (the "Products and Services Master Agreement"). The products and services can be categorised as (i) hotel accommodation, (ii) hotel management and operation, (iii) entertainment and staff messing, (iv) dredging services, (v) transportation (including jetfoil tickets supplied by Far East Hydrofoil Co. Ltd. through STDM), (vi) promotional and advertising services, (vii) travel agency services and (viii) maintenance services. The price for such products and services to be provided must be fair and reasonable and must be made in accordance with and not exceeding the relevant market price for such products and services, or where there is no relevant market price, then according to and not exceeding the contractual price. The terms and conditions on which such products and services are to be provided should be no less favourable to us than those offered to independent third parties. This agreement has a term of three years renewable by mutual agreement of the parties and the Company may terminate by giving at least three months' prior written notice. Further details of the said transaction were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008.

In addition to the lease transaction mentioned in paragraph (I)(1) above, STDM-IL through its ownership of the Hotel has been providing (i) accommodation services to the Group's gaming patrons (the "Accommodation Service") and (ii) entertainment services to the Group's staff (the "Entertainment Service"). After completion of the Grand Lapa Hotel Acquisition, the Accommodation Service and the Entertainment Service have become

continuing connected transactions for the Company. The Accommodation Service and the Entertainment Service are in the same nature as the services respectively covered by the Hotel Accommodation and Entertainment and Staff Messing under the existing Products and Services Master Agreement. Therefore, following completion of the Grand Lapa Hotel Acquisition, the Accommodation Service and the Entertainment Service are subject to the terms of the Products and Services Master Agreement and subject to the respective annual caps for Hotel Accommodation and Entertainment and Staff Messing. As set out in the announcement of the Company dated 25 March 2009, the Company has revised the annual caps for each of the two years ending 31 December 2009 and 2010 for Hotel Accommodation and Entertainment and Staff Messing, having taken into account the amounts of the Accommodation Service and the Entertainment Service following completion of the Grand Lapa Hotel Acquisition. Further details of the said transaction were set out in the announcement of the Company dated 16 June 2009.

The aggregate amount of transactions under this agreement for the year ended 31 December 2009 is shown on page 37 of this report.

### **(3) Administrative Cost Sharing Agreement**

On 18 June 2008, the Company entered into an agreement with STDM dated 18 June 2008 (the "Administrative Cost Sharing Agreement") whereby STDM has agreed to continue to share the administrative services including, among others, general public relations work, promotional functions, arranging ticketing and hotel accommodations, transportation and the provision of storage services with the Group and the Group has agreed to pay for the shared services on a cost basis. This agreement is for a term of three years commencing on 18 June 2008. The amount

## REPORT OF THE DIRECTORS (CONTINUED)

of administrative costs shared between the Group and the STDM Group is calculated based on an estimate of (i) the actual time spent by each department for providing services to the Group and the STDM Group respectively, recorded on time sheets during a trial period of three months and (ii) the floor area occupied, respectively, by the Group and the STDM Group for storage services. Further details of the said transaction were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008. The amount of transactions during the year was approximately \$42.7 million.

### (4) Chips Agreement

On 18 June 2008, SJM entered into an agreement with STDM to regulate the honouring, borrowing and use of the casino chips of STDM for the purposes of its gaming operations (the "Chips Agreement"). Since 1 April 2002, SJM has been borrowing casino chips from STDM for the purpose of its business operation. STDM has agreed to reimburse SJM for the aggregate face value of the chips honoured by SJM which were not sold by SJM. The Chips Agreement has no fixed term but may be terminated by mutual agreement or upon termination of SJM's Concession Contract, whichever is earlier. Further details of the said transaction were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008. During the year ended 31 December 2009, the net amount received and receivable on reimbursement of STDM chips in circulation amounted to \$24.3 million. These transactions were in accordance with the Chips Agreement dated 18 June 2008.

### (5) Purchase Option Agreements

STDM and SJM entered into purchase option agreements dated 17 October 2007 whereby STDM granted SJM the right to exercise an option to purchase from the

STDM Group the 15/16 portion of the Hotel Lisboa which was not already owned by SJM at a consideration of \$4,295 million and to purchase the development site at Nam Van Lake Lot 11-A at a consideration of \$360 million (collectively, the "Purchase Option Agreements"). On 17 April 2008, SJM exercised both options. Further details of the said transaction were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008.

On 20 March 2009, SJM and STDM executed deeds of settlement and variation by which the terms of the purchase option agreement for Nam Van Lake Lot 11-A were cancelled and the terms of the Purchase Option Agreement for Hotel Lisboa were replaced with an agreement that the Hotel Lisboa building would be jointly redeveloped by STDM and SJM. Further details of the said settlement and variation were set out in the announcement of the Company dated 20 March 2009.

### (6) Aircraft Sublease Agreements

Sky Reach Investments Limited ("Sky Reach"), a wholly-owned subsidiary of the Company has entered into six aircraft sublease agreements on various dates in 2007 and 2008 with Companhia de Aviação Jet Asia Limitada ("Jet Asia"), a wholly-owned subsidiary of STDM pursuant to which Sky Reach agreed to sublease six aircraft to Jet Asia (the "Aircraft Sublease Agreements"). Each of the Aircraft Sublease Agreements has an initial term of 10 years and may be extended by mutual consent of Sky Reach and Jet Asia on such terms as may be agreed between them. The terms of the Aircraft Sublease Agreements are in accordance with normal business practice. Further details of the said transactions were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008.

## REPORT OF THE DIRECTORS (CONTINUED)

On 20 January 2009, the Company announced that the proposed annual caps of the aggregate rental payable by Jet Asia to Sky Reach for the subleasing of all six aircraft for the year ended 31 December 2009 and the year ending 31 December 2010 would be \$55 million in each year. On 30 July 2009, the Company announced that Credit Suisse, the financier to Sky Reach, had invoked a clause in the first five aircraft lease agreements ("Aircraft Lease Agreements") requiring Sky Reach to make accelerated lease payments. To date, Jet Asia has not been informed by Credit Suisse that it has invoked a similar provision in respect of the sixth Aircraft Lease Agreement. Jet Asia has agreed to reimburse Sky Reach for such increased rental payments under the Aircraft Lease Agreements. In view of these accelerated

lease payments, the Company increased the annual caps for this category of the continuing connected transactions in each of the years 2009 and 2010 from \$55 million to \$150 million in each year.

Pursuant to the sublease agreements, the aggregate amount paid by Jet Asia for the leasing of the aircraft for the year ended 31 December 2009 was approximately \$115.9 million.

The aggregate amount paid by the Group during the year and the annual caps for the financial year ended 31 December 2009 and the annual caps for the year ending 31 December 2010 of the respective continuing connected transactions are set out as follows:

Continuing connected transactions	Aggregate amount for the year ended 31 December 2009 \$ million	Annual Cap for the year ended 31 December 2009 \$ million	Annual Cap for the year ending 31 December 2010 \$ million
		<i>(note c)</i>	<i>(note c)</i>
Products and Services Master Agreement			
— <i>Hotel accommodation</i>	76.9	139	187
— <i>Hotel management and operation</i>	6.4	38	42
— <i>Entertainment and staff messing</i>	76.0	113	115
— <i>Dredging services</i>	82.7	114	134
— <i>Transportation</i>	239.7	693	758
— <i>Promotional and advertising services</i>	23.3	29	35
— <i>Maintenance services</i>	67.5	89	98
Premises Leasing Master Agreement <i>(note c)</i>	111.1	205	266
Chips Agreement <i>(note a)</i>	231.1	917	917
Purchase Option Agreements <i>(note b)</i>	4,655	4,655	—
Aircraft Sublease Agreements <i>(note d)</i>	115.9	150	150

## REPORT OF THE DIRECTORS (CONTINUED)

Notes:

- a. The amount of STDM chips redeemed from patrons during the period from 1 January 2009 to 31 December 2009 was \$231.1 million.

<b>2009</b>	<b>\$ million</b>
1 January – 31 March	(51.4)
1 April – 30 June	207.8
1 July – 30 September	(155.4)
1 October – 31 December	23.3
<b>Total</b>	<b>24.3</b>

The amount for the fourth quarter will be settled before 31 March 2010 and all other amounts were received in 2009.

- b. The caps in relation to the Purchase Option Agreements are no longer relevant in view of the announcement of the Company dated 20 March 2009, which is described above under the section headed "Purchase Option Agreements".
- c. The caps for 2009 and 2010 for the categories "Hotel Accommodation", "Hotel Management and Operation" and "Entertainment and Staff Messing" were revised and details were included in the Company's announcement dated 25 March 2009. On 11 September 2009, the Company revised the cap for 2010 for the Premises Leasing Master Agreement from \$206 million to \$266 million.
- d. According to an announcement dated 20 January 2009, the Company had announced the annual caps for 2009 and 2010 for the Aircraft Sublease Agreements to be \$55 million in each year. On 30 July 2009, the Company announced the increase in the annual caps for 2009 and 2010 for the Aircraft Sublease Agreements from \$55 million to \$150 million in each year.

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

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the Joint Auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The Joint Auditors have reported their factual findings on these procedures to the Board and confirmed that for the year 2009, the continuing connected transactions (i) have received the approval of the Board; (ii) have been entered into in accordance with the pricing policies of the Company if the transactions involve provision of goods or services; (iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iv) have not exceeded the relevant cap amounts for the financial year ended 31 December 2009.

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

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

At a meeting on 29 March 2010, all four of the Independent Non-executive Directors reviewed and confirmed compliance with an agreement between SJM and STDM dated 18 June 2008 regarding the honouring and borrowing of STDM



## REPORT OF THE DIRECTORS (CONTINUED)

chips for the purpose of SJM's casino gaming operations. During the year ended 31 December 2009, the net amount received and receivable on reimbursement of STDM chips in circulation amounted to \$24.3 million.

### (II) Provision of Financial Assistance

On 22 October 2009, SJM – Investment Limited (“SJM-IL”), a wholly-owned subsidiary of the Company, as participant, and Kingston Finance Limited (“Kingston”), a third party independent of the Company, as grantor entered into an agreement (the “Funded Participation Agreement”) pursuant to which SJM-IL agreed to a one hundred percent (100%) sub-participation in a revolving loan facility of up to \$250 million (“Revolving Loan Facility”) to be available under the facility agreement entered into on the same date by Kingston as lender, Success Universe Group Limited (“Success Universe”) as borrower and New Shepherd Assets Limited (“New Shepherd”), a wholly-owned subsidiary of Success Universe, as security provider pursuant to which Kingston would provide Success Universe with the Revolving Loan Facility (the “Facility Agreement”).

The Revolving Loan Facility is available for a term of three years commencing from the date of the Facility Agreement and carries an interest rate per annum determined by Kingston to be the aggregate of HIBOR for that interest period and a margin of 2.6%. Success Universe will repay each principal amount advanced to Success Universe under the Revolving Loan Facility in full on the interest payment date or roll-over the same. It is intended that the proceeds of the Revolving Loan Facility be applied for on-lending by Success Universe to Pier 16 – Property Development Limited (“Pier 16 – Property Development”), in connection with the cashflow requirements of Pier 16 – Property Development and its subsidiaries.

As Pier 16 – Property Development is beneficially held as to 51% by SJM-IL and 49% by World Fortune Limited, an indirect subsidiary of Success Universe, Success Universe and World Fortune

Limited are both connected persons of the Company. As a result, the provision of financial assistance by SJM-IL by way of sub-participation in the Revolving Loan Facility constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting and announcement requirements but is exempted from the independent shareholders' approval requirements under the Listing Rules.

On 5 November 2009, Success Universe drew down \$132 million of the Revolving Loan Facility and applied this amount to lend the amount as a shareholder's loan to Pier 16 – Property Development, in connection with the cashflow requirements of Pier 16 – Property Development and its subsidiaries.

### (III) Other interests

Mr. Rui José da Cunha is the founder and senior partner in the Macau law firm, C & C Advogados, which provides legal services to the Group on normal commercial terms. The aggregate amount paid for the year ended 31 December 2009 was approximately \$4.1 million.

SJM has entered into an agreement with Elixir International Limited, an indirect wholly-owned subsidiary of Melco International Development Limited (“Melco”), dated 24 November 2008 regarding the provision of system integration services and maintenance services for surveillance camera systems, extra low voltage systems, computer facilities and equipment, gaming products and any other systems as may be mutually agreed between the parties. The aggregate amount paid for the year ended 31 December 2009 was approximately \$53.7 million. Each of STDM and Dr. Ho has beneficial interests in Melco, further details of which are set out in the section below.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## REPORT OF THE DIRECTORS (CONTINUED)

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

Dr. Ho has beneficial interests in Melco which, through its interest in Melco Crown Entertainment Limited, is also engaged in the casino gaming business in Macau. As at 31 December 2009, he held 18,587,789 shares in the capital of Melco ("Melco shares") (approximately 1.51% of its issued share capital) in person and 3,127,107 Melco shares (approximately 0.25% of its issued share capital) through a controlled corporation, Lanceford. In addition, as at 31 December 2009, he was one of the beneficiaries of a discretionary family trust which controls Great Respect Limited ("Great Respect") which has the right to convert convertible loan notes issued by Melco ("Melco CLNs") into an interest of approximately 9.58% in the issued share capital of Melco (or approximately 8.75% in the enlarged issued share capital of Melco). Dr. Ho is not a member of the board of directors of Melco, nor has he exercised, and is not able to exercise, any influence on the daily financial and operating policies of Melco or the sub-concessionaire, Melco Crown Gaming (Macau) Limited. STDM has an insignificant shareholding in Melco.

On 16 December, 2009, Melco announced the execution of a conditional Deed of Amendment ("Melco CLN Deed of Amendment") with Great Respect which, subject to the fulfillment of certain conditions, amended the terms of the Melco CLNs principally to extend the term of the Melco CLNs from five to eight years and to reduce the conversion price per Melco share from \$9.965 to \$3.93 which will have the effect of substantially increasing the number of Melco shares which would be issued to Great Respect upon full conversion of the Melco CLNs from 117,912,694 to 298,982,188, representing approximately 19.55% of the enlarged issued capital of Melco assuming full conversion. The Melco CLN Deed of Amendment became effective on 18 February 2010 and, thus from that date, Dr. Ho (as one of the beneficiaries of the discretionary trust which controls Great Respect) is treated as being beneficially interested in 298,982,188 Melco shares. Dr. Ho's direct interest and that of Lanceford in Melco shares has not changed as a result of the Melco CLN Deed of Amendment.

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

## REPORT OF THE DIRECTORS (CONTINUED)

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

As at 31 December 2009, interests and short positions of each Director and the Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, are as follows:

**I. Interests in ordinary shares, underlying shares and debentures of the Company**

Name of director	Capacity	Long/short position	No. of ordinary shares held	No. of underlying shares held	Approximate percentage of issued share capital
					<i>(note c)</i>
Ho Hung Sun, Stanley	Beneficial owner	Long position	381,262,500	—	7.63%
	Beneficial owner	Long position	—	5,000,000	0.10%
	Interest of controlled corporation(s) <i>(note a)</i>	Long position	3,049,987,500	—	61.00%
			3,431,250,000	5,000,000	68.73%
So Shu Fai	Beneficial owner	Long position	127,500,000	—	2.55%
	Beneficial owner	Long position	—	35,000,000	0.70%
			127,500,000	35,000,000	3.25%
Ng Chi Sing	Beneficial owner	Long position	95,625,000	—	1.91%
	Beneficial owner	Long position	—	32,000,000	0.64%
			95,625,000	32,000,000	2.55%
Rui José da Cunha	Beneficial owner	Long position	15,937,500	—	0.32%
	Beneficial owner	Long position	—	3,000,000	0.06%
			15,937,500	3,000,000	0.38%



## REPORT OF THE DIRECTORS (CONTINUED)

**STDM – Investments Limited (“STDM – Investments”)**

Name of director	Capacity	Long/short position	No. of shares held (Registered Capital (MOP))	Approximate percentage of issued share capital
Ho Hung Sun, Stanley	Beneficial owner	Long position	1,000	0.01% <i>(note a)</i>
	Interest of controlled corporation(s)	Long position	9,999,000	99.99% <i>(note a)</i>
			10,000,000	100.00%

**Sociedade de Jogos de Macau, S.A.**

Name of director	Capacity	Long/short position	No. of shares held (Type B Shares)	Approximate percentage of issued share capital
Ho Hung Sun, Stanley	Beneficial owner	Long position	300,000	10.00%

*Notes:*

- a. *Dr. Ho is taken to be interested in the 3,049,987,500 ordinary shares of the Company held by STDM – Investments which is owned as to 99.99% by STDM, with the remaining 0.01% interest held by Dr. Ho. As at 31 December 2009, approximately 31.66% of the equity share capital of STDM is owned by Dr. Ho, directly and indirectly (through Lanceford, a company wholly-owned by Dr. Ho).*
- b. *These represent the interests in underlying shares in respect of share options granted by the Company, the details of which are stated in section “Share Option Scheme” above.*
- c. *The percentage has been calculated based on 5,000,000,000 ordinary shares in issue as at 31 December 2009.*

**DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed above, so far as was known to any Director, as of 31 December 2009, none of the Directors or the Chief Executive Officer had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## REPORT OF THE DIRECTORS (CONTINUED)

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

As at 31 December 2009, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

Name of substantial shareholder	Capacity	Long/short position	No. of ordinary shares held	No. of underlying shares held	Approximate percentage of issued share capital
					<i>(note a)</i>
Ho Hung Sun, Stanley	Beneficial owner	Long position	381,262,500	—	7.63%
	Beneficial owner	Long position	—	5,000,000	0.10%
	Interest of controlled corporation(s)	Long position	3,049,987,500	—	61.00%
	<i>(note c)</i>				
			3,431,250,000	5,000,000	68.73%
Sociedade de Turismo e Diversões de Macau, S.A.	Interest of controlled corporation(s)	Long position	3,049,987,500	—	61.00%
STDM – Investments Limited	Beneficial owner	Long position	3,049,987,500	—	61.00%

## Notes:

- a. The percentage has been calculated based on 5,000,000,000 ordinary shares in issue as at 31 December 2009.
- b. See note b. under above section headed "Directors' and Chief Executive Officer's Interests and Short Positions in Shares, Underlying Shares and Debentures".
- c. See note a. under above section headed "Directors' and Chief Executive Officer's Interests and Short Positions in Shares, Underlying Shares and Debentures".

Save as disclosed above, as at 31 December 2009, the Company had not been notified by any persons (other than a Director or the Chief Executive Officer or their respective associate(s)) of any interest or short position in shares and underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

## REPORT OF THE DIRECTORS (CONTINUED)

### RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the usual course of business are set out in note 52 to the Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards. The related party transactions referred in note 52(b) to 52(f) constitute continuing connected transactions, as defined under the Listing Rules.

### NON-COMPETITION UNDERTAKINGS

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

At a meeting of the Independent Non-executive Directors held on 29 March 2010, all four of the Independent Non-executive Directors reviewed the confirmations received on behalf of STDM and Dr. Ho dated 26 March 2010 in respect of the Non-Competition Undertakings. In considering compliance

with Dr. Ho's Non-Competition Undertaking, the Independent Non-executive Directors reviewed, in particular, the Melco CLN Deed of Amendment which results in an increase in the number of Melco shares which would be issued upon full conversion of the Melco CLNs from 117,912,694 to 298,982,188, representing approximately 19.55% of the enlarged issued capital of Melco assuming full conversion. The Independent Non-executive Directors noted the following: (i) Dr. Ho had not increased his personal or that of Lanceford's shareholdings in Melco; (ii) that Dr. Ho is not a shareholder or director of Great Respect but was merely one of a number of beneficiaries under the discretionary family trust which controls Great Respect (the beneficiaries of which are members of Dr. Ho's family, including but not limited to Dr. Ho, Mr. Ho, Lawrence Yau Lung and Madam Lucina Laam King Ying); (iii) that Dr. Ho's interest as one of the beneficiaries will not vest until the trustee (which is a Singapore registered public trust company, wholly-owned by a large European financial institution) distributes (if at all) to him the Melco CLNs or the Melco shares (after conversion); (iv) that Dr. Ho had not been involved in any of the negotiations between Great Respect and Melco regarding the execution of the Melco CLN Deed of Amendment; (v) that the Melco CLN Deed of Amendment had been executed for reasons which are set out in Melco's announcement dated 16 December 2009 and relate principally to factors concerning Melco; and (vi) the provisions in the Gaming Law No. 16/2001 of Macau.

Based on the confirmations received on behalf of Dr. Ho and STDM and after review and having taken advice from outside counsel, the Independent Non-executive Directors confirmed compliance with the Non-Competition Undertaking provided by STDM. They also confirmed Dr. Ho had observed the provisions of his Non-Competition Undertaking but noted the involuntary increase in the number of Melco shares which would be issued to Great Respect upon full conversion of the Melco CLNs. They were of the view that such increase was not likely to cause any material adverse effect to the Company and they had thus recommended to the Board that the Company should not take any further action immediately other than to keep the matter under periodic review.

## REPORT OF THE DIRECTORS (CONTINUED)

The Independent Non-executive Directors also reviewed the position regarding the indemnity provided by STDM – Investments in respect of certain litigation ongoing at the time of the Company's global offering of Shares. Based on information provided by the law firms in Macau and Hong Kong who had conduct of the relevant legal proceedings, the Independent Non-executive Directors confirmed that there was currently no material claim against STDM – Investments in respect of the ongoing litigation.

### MANAGEMENT CONTRACTS

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

### PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the year ended 31 December 2009.

### SUFFICIENCY OF PUBLIC FLOAT

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

### CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 47 to 58 of this annual report.

### AUDITORS

A resolution for the re-appointment of Deloitte Touche Tohmatsu and H.C. Watt & Company Limited as joint auditors of the Company until the conclusion of the next annual general meeting is to be proposed at the 2010 AGM.

### REVIEW BY AUDIT COMMITTEE

The audited financial statements have been reviewed by the Audit Committee of the Company, which comprises three Independent Non-executive Directors: Mr. Tse Hau Yin, Mr. Chau Tak Hay and Mr. Shek Lai Him, Abraham. Mr. Tse is the Chairman of the Audit Committee.

By order of the Board of Directors

**SJM Holdings Limited**

**So Shu Fai**

Executive Director and Chief Executive Officer

Hong Kong, 29 March 2010



## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE PRACTICES

SJM Holdings Limited (the "Company") is committed to the establishment of good corporate governance practices and procedures. The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the year 2009, the Company has complied with the code provisions set out in Appendix 14 of the Listing Rules, except for the deviation from code provision A.1.8 that due to the limited notice for such meeting and directors' travel commitments at that time, the resolution relating to continuing connected transactions in relation to accommodation services and entertainment services with respect to the hotel previously known as "Mandarin Oriental Macau" were dealt with by way of circulation of written resolution of the board of directors of the Company (the "Board") on 15 June 2009. The Board ensures that any material transaction that involves a conflict of interests for a substantial shareholder or a director of the Company ("Director") will only be considered and dealt with by the Board at a duly convened Board meeting.

### MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry, the Company confirms that all Directors have complied with the required standards as stated in the Model Code for the year 2009. The Board has formalised in writing guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the Company. Relevant employees includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price-sensitive information in relation to the Company or its securities.

### BOARD COMPOSITION

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

The Board has a balance of skills and experience appropriate for the requirements of the business of the Group. During the year and up to the date of this report, the Board comprises six Executive Directors, one Non-executive Director and four Independent Non-executive Directors, they are:

#### **Executive Directors:**

Dr. Ho Hung Sun, Stanley (Chairman)  
 Dr. So Shu Fai (Chief Executive Officer)  
 Mr. Ng Chi Sing (Chief Operating Officer)  
 Mr. Rui José da Cunha  
 Ms. Leong On Kei, Angela  
 Mr. Shum Hong Kuen, David

#### **Non-executive Director:**

Dato' Dr. Cheng Yu Tung

#### **Independent Non-executive Directors:**

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

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

The Directors and their brief biographical details are set out on pages 24 to 27 of this annual report.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

### BUSINESS RELATIONSHIP BETWEEN DIRECTORS

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

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

The Company's Articles of Association specify that at each annual general meeting of the Company ("Annual General Meeting") one third of the Directors shall retire but shall be eligible for re-election. In determining which Directors shall retire, the Board will make sure that every Director, including those appointed for a specific term, should be subject to rotation at least once every three years. At the forthcoming Annual General Meeting, Mr. Ng Chi Sing and Mr. Shum Hong Kuen, David, both Executive Directors, and Mr. Chau Tak Hay and Mr. Lan Hong Tsung, David, both Independent Non-executive Directors, will retire and have offered themselves for re-election. Particulars of the said retiring Directors and the recommendation of the Board for their re-election are set out in a circular dated 27 April 2010 to be dispatched to shareholders of the Company.

### NON-EXECUTIVE DIRECTORS

Each of the Non-executive Directors (including Independent Non-executive Directors) has entered into a letter of appointment with the Company for a term of three years which shall end in any event on either: (i) the date of the third Annual General Meeting of the Company after the first election as a Non-executive Director or Independent Non-executive Director (as the case may be) by shareholders in the Annual General Meeting of the Company; or (ii) the date on which a Non-executive Director or Independent Non-executive Director (as the case may be) shall retire by rotation, whichever is the earlier. The Non-executive Directors (including Independent Non-executive Directors) are highly skilled professionals with expertise and experience in the field of financial management, business development or strategies related to the Group's business. They bring independent judgment to bear on issues of strategy, policy and performance, accountability, resources, key appointments and standards of conduct, and enable the Board to maintain high standards of compliance with financial and other mandatory reporting requirements and provide adequate checks and balances to safeguard the interests of shareholders and the Company.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

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

The Independent Non-executive Directors have been expressly identified as such in all corporate communications that disclose the names of Directors. The Company has been maintaining the number of Independent Non-executive Directors at not less than one-third of the number of the Board members and has ensured that the Board contains an Independent Non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise.

### RESPONSIBILITIES OF DIRECTORS

The management of the Company updates the Directors on their duties and responsibilities as well as the conduct, business activities and development of the Group. It supplies the Directors and Board Committees with adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The management should provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval. It also needs to supply more information than is volunteered by it upon any request by the Directors. Timely updates on changes in

laws and compliance issues relevant to the Group and appropriate information on the Group's business and activities are provided to our Directors. The Board and each Director has separate and independent access to the senior management, Group Legal Counsel and Company Secretary, whenever necessary, for any information relevant to the Group they require in discharging their duties.

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

The Company has arranged Directors' and Officers' liability insurance in respect of any legal action against Directors.

### TRAINING FOR DIRECTORS

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant legal and other regulatory requirements and the business and governance policies of the Company. The latest version of "A Guide on Directors' Duties" published by the Hong Kong Companies Registry in July 2009 has been circulated to all Directors for their information. Furthermore, all Directors are reminded of their disclosure obligations in respect of any change of their personal details as required under Rule 13.51B of the Listing Rules.

There are also arrangements in place for providing continuing briefing and professional development training to Directors whenever necessary.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### PRACTICES AND CONDUCT OF MEETINGS

Notices of Board meetings are usually served to all Directors before the meeting in accordance with the Company's Articles of Association. Notice of at least 14 days is given for regular Board meetings to give all Directors an opportunity to attend. Reasonable notice is given for all other Board meetings. Board meeting agenda and papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner and at least three days or such other period as agreed before the intended date of a Board or Board Committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All Directors are entitled to have access to Board papers and related materials, prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it. Queries raised by the Directors will be responded as promptly and fully as possible. All Directors have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

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

According to current Board practice, save for the deviation mentioned in the first paragraph of this report, any material transaction that involves a conflict of interests for a substantial shareholder or a Director will not be dealt with by way of circulation or by a committee (except an appropriate Board Committee set up for that purpose pursuant to a resolution passed in a Board meeting) but will be considered and dealt with by the Board at a duly convened Board meeting at which the Independent Non-executive Directors who, and whose associates, have no material interest in the transaction should be present. The interested Director is required to abstain from voting and will not be counted in the quorum, except as permitted under the Company's Articles of Association. In addition, he shall be physically absent from the venue of the meeting during the relevant contract, arrangement or matter is being discussed and voted on by the other Directors.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

**BOARD AND BOARD COMMITTEE MEETINGS**

The Board schedules regular Board meetings in advance, at least four times a year at approximately quarterly intervals to give Directors the opportunity to participate actively. Directors are consulted for including matters in the agenda for regular Board meetings and the draft agenda is circulated to Directors for their comments. Special Board meetings are convened as and when needed. All Directors are properly briefed on issues arising at Board meetings. Together with the Audit Committee, Nomination Committee and Remuneration Committee meetings as aforesaid, there is an effective framework for the Board and Board Committees to perform their work and discharge their duties. Minutes of Board and Board Committee meetings are kept by the Company Secretary and are made available to all Directors.

During the year ended 31 December 2009, seven Board meetings were held. Details of individual Directors' attendance at the Board meetings and Board Committee meetings held in the year are set out in the following table:

Name of Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meeting
<b>Executive Directors:</b>				
Ho Hung Sun, Stanley	1/7*	N/A	N/A	N/A
So Shu Fai	7/7	N/A	2/2	1/1
Ng Chi Sing	6/7	N/A	N/A	N/A
Rui José da Cunha	5/7	N/A	N/A	N/A
Leong On Kei, Angela	4/7*	N/A	1/2	0/1
Shum Hong Kuen, David	5/7*	N/A	N/A	1/1
<b>Non-executive Director:</b>				
Cheng Yu Tung	2/7*	N/A	N/A	N/A
<b>Independent Non-executive Directors:</b>				
Chau Tak Hay	6/7	4/4	N/A	1/1
Lan Hong Tsung, David	7/7	N/A	2/2	1/1
Shek Lai Him, Abraham	7/7	4/4	2/2	1/1
Tse Hau Yin	7/7	4/4	2/2	1/1
Number of meetings held	7	4	2	1

N/A: not applicable

\* According to Article 96(K) of the Company's Articles of Association, a Director who has a material interest in respect of certain types of contractual arrangements cannot vote or be counted in the quorum at the meeting and, he/she shall also be physically absent from the venue of the meeting during the time the relevant contract, arrangement or matter is being discussed and voted on by the other Directors. Dr. Ho Hung Sun, Stanley, Ms. Leong On Kei, Angela, Mr. Shum Hong Kuen, David and Dato' Dr. Cheng Yu Tung were interested in certain continuing connected transactions and had to physically absent themselves from two of the Board meetings held during the year. Dr. Ho Hung Sun, Stanley was unable to attend meetings in the second half of 2009 due to his hospitalisation.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### DELEGATION BY THE BOARD – BOARD COMMITTEES

The Board has proper delegation of its powers and has established three Board Committees in accordance with the requirements under Appendix 14 of the Listing Rules, with specific written terms of reference that deal clearly with their authority and duties, to oversee particular aspects of the Group's affairs. The Board may establish other Board Committee(s) when necessary in accordance with the Company's Articles of Association. Sufficient resources, including the advice of the external auditors and other independent professional advisers, are provided to the Board Committees to enable them to discharge their duties. The terms of reference of Board Committees require such committees to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

### AUDIT COMMITTEE

The Audit Committee of the Company was established in June 2008. During the year and up to the date of this report, it comprises three Independent Non-executive Directors: Mr. Tse Hau Yin as the Chairman and Mr. Chau Tak Hay and Mr. Shek Lai Him, Abraham as members. The Audit Committee is accountable to the Board and its primary role is to assist the Board to monitor the Company's financial reporting process, to consider the nature and scope of audit reviews, to ensure that effective internal control and risk management systems are in place and to review the Group's interim and annual financial statements. The Audit Committee has access to, and maintains an independent communication with, the external auditors and the management, including the Group's internal audit department, to ensure effective information exchange on all relevant financial and accounting matters. The Company Secretary shall be the secretary of the Audit Committee. Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee are sent to all members of the committee for their comments and records, within a reasonable time after the meeting.

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

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

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

The Audit Committee held four meetings in 2009. It has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including the review of the interim and annual results of the Company. Details of attendance of each Audit Committee member, on a named basis, at each Audit Committee meeting held during the year are set out in the table on page 51.

In discharging its duties, the principal work performed by the Audit Committee during the year included the following:

- (i) Review of annual financial statements of the Group for the year ended 31 December 2008 and interim financial statements of the Group for the six months ended 30 June 2009, with recommendations to the Board for approval;
- (ii) Review and approval of the engagement letters of the Joint Auditors, the nature and scope of the audit, their reporting obligations and their work plan;
- (iii) Review of internal controls and risk management systems of the Group and assessment of their effectiveness;

## CORPORATE GOVERNANCE REPORT (CONTINUED)

- (iv) Review of internal audit reports and major findings and recommendations from internal audit;
- (v) Report on connected transactions carried out during the year;
- (vi) Review of Joint Auditors' performance and recommendation to the Board for re-appointment of Joint Auditors; and
- (vii) Appointment of an independent audit firm to perform a physical count of chips and review the relevant report.

The terms of reference of the Audit Committee, which conform to the code provision requirements of the Corporate Governance Code, are available from the Company Secretary upon request from any shareholder of the Company and are posted on the Company's website.

The Audit Committee has been provided with sufficient resources to discharge its duties.

### REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established in June 2008 with the majority of its members being Independent Non-executive Directors. During the year and up to the date of this report, it comprises five members: Dr. So Shu Fai as the Chairman, one Executive Director, Ms. Leong On Kei, Angela, and three Independent Non-executive Directors, Mr. Lan Hong Tsung, David, Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin.

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

and authority delegated to it by the Board, conform to the code provision requirements of the Corporate Governance Code and are available from the Company Secretary upon request from any shareholder of the Company and are posted on the Company's website. Draft and final versions of minutes of the Remuneration Committee are sent to all members of the committee for their comments and records, within a reasonable time after the meeting.

The Remuneration Committee meets at least once a year, with the attendance of a representative from senior management and/or the Company Secretary. The Remuneration Committee reports to the Board the major items covered by the committee at each meeting, and makes recommendations on Director's fees (including Audit Committee, Nomination Committee and Remuneration Committee members' fees) and other remuneration related matters.

The Remuneration Committee has the duty to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

During the year ended 31 December 2009, the Remuneration Committee held two meetings at which the following major issues were reviewed:

- (i) the grant of share options to participants under the share option scheme of the Company adopted on 13 May 2009 (the "Share Option Scheme"), with recommendations to the Board for approval;
- (ii) the remuneration of Executive Directors and senior management and approval of the same; and
- (iii) the remuneration of Non-executive Directors including Independent Non-executive Directors, with recommendations to the Board for approval.

No individual Director has taken part in setting his or her own remuneration. Details of attendance of each Remuneration Committee member, on a named basis, at each Remuneration Committee meeting held during the year are set out in the table on page 51.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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

The emoluments of Directors, including basic salary and performance bonus, are based on each Director's individual skill, work performed and involvement in the Group's affairs, the Company's performance and profitability, remuneration benchmarking in the industry and prevailing market conditions. At the Annual General Meeting held on 13 May 2009, a resolution was passed to authorise the Board to fix the Directors' remuneration for the year 2009. A resolution will be proposed at the forthcoming Annual General Meeting to obtain shareholders' authorisation to the Board to fix Directors' remuneration.

Retirement benefits schemes of the Group are set out in note 51 to the Financial Statements.

The Remuneration Committee has been provided with sufficient resources to discharge its duties.

### NOMINATION COMMITTEE

The Nomination Committee of the Company was established in June 2008 with the majority of its members being Independent Non-executive Directors. During the year and up to the date of this report, it comprises seven members: Dr. So Shu Fai as the Chairman, two Executive Directors, Ms. Leong On Kei, Angela and Mr. Shum Hong Kuen, David, and four Independent Non-executive Directors, Mr. Chau Tak Hay, Mr. Lan Hong Tsung, David, Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin.

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

and commitment in respect of available time. The Nomination Committee meets at least once a year, with the attendance of representatives from senior management and/or the Company Secretary. The written terms of reference of the Nomination Committee, explaining its role and authority delegated to it by the Board, conform to the code provision requirements of the Corporate Governance Code and are available from the Company Secretary upon request from any shareholder of the Company. Draft and final versions of minutes of the Nomination Committee are sent to all members of the committee for their comments and records, within a reasonable time after the meeting.

The Nomination Committee held one meeting during the year. At that meeting, the Nomination Committee:

- (i) considered and recommended to the Board that Mr. Ng Chi Sing and Mr. Shum Hong Kuen, David, both Executive Directors, and Mr. Chau Tak Hay and Mr. Lan Hong Tsung, David, both Independent Non-executive Directors, shall retire and offer themselves for re-election at the forthcoming Annual General Meeting;
- (ii) reviewed the structure, size and composition of the Board; and
- (iii) assessed the independence of the Independent Non-executive Directors according to the criteria set out in Rule 3.13 of the Listing Rules.

The reasons why the Board believed the retiring Independent Non-executive Directors should be re-elected and why it considered those Directors to be independent are set out in the circular to shareholders accompanying the notice of the forthcoming Annual General Meeting.

Details of attendance of each Nomination Committee member, on a named basis, at Nomination Committee meetings held during the year are set out in the table on page 51.

The Nomination Committee has been provided with sufficient resources to discharge its duties.



## CORPORATE GOVERNANCE REPORT (CONTINUED)

### 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' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

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

The Board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

### AUDITORS' RESPONSIBILITIES

The external auditors of the Company are Deloitte Touche Tohmatsu and H.C. Watt & Company Limited, Certified Public Accountants (together, the "Joint Auditors"). A statement by the Joint Auditors about their reporting responsibilities is included in the Independent Joint Auditors' Report on the Company's Financial Statements on pages 61 to 122.

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

The Joint Auditors are available at the Annual General Meeting to answer questions which shareholders may have.

### AUDITORS' REMUNERATION

The remunerations paid and payable to the Joint Auditors and its associates in respect of statutory audit and non-audit services (with each significant non-audit service assignment listed out separately) provided to the Group in 2009 are set out below:

<b>Audit and non-audit services</b>	<b>2009 HK\$ million</b>
2009 Annual audit	8.6
2009 Interim review	3.8
Service relating to issuance of convertible bonds	1.8
Test counts of chips	0.1
Tax consultancy	0.3
<b>Total:</b>	<b>14.6</b>

### INTERNAL CONTROLS

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

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

## CORPORATE GOVERNANCE REPORT (CONTINUED)

ensure the recording of complete, accurate and timely accounting and management information; and (v) review work conducted by the Audit Committee.

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

The Internal Audit Department ("Internal Audit") of Sociedade de Jogos de Macau, S.A., a subsidiary of the Company, performs operational and financial audits on a regular basis.

The department head has over 30 years working experience in audit and financial management and is assisted by 15 internal auditors, who are university graduates with accounting degrees and on average have relevant internal audit experience of five years or more. The internal audit function provides independent assurance to the Board and executive management as to the adequacy and effectiveness of internal controls for the Group on an on-going basis. Internal Audit adopts a risk and control based audit methodology in designing the audit plan that is reviewed and approved by the Audit Committee.

During the year ended 31 December 2009, Internal Audit performed reviews of the effectiveness of the internal control system of the Group's businesses in respect to business processes, practices and procedures, which covered all material controls, including financial, operational and compliance controls and risk management functions. Internal Audit was not aware of any significant defect or weakness on the internal control system that would have an adverse impact on the financial position or operations of the Group. Internal Audit submits its report to the Audit Committee quarterly with findings and recommendations on improvements. The Audit Committee is satisfied with the internal audit works performed and with the adequacy of resources and qualifications of staff within Internal Audit.

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

### SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meeting are contained in the Company's Articles of Association. Details of such rights and procedures are included in all circulars to shareholders convening shareholders' meetings and will be explained at the commencement of meetings. Any questions from shareholders regarding voting by way of poll will be answered after explanation of the procedures. The Listing Rules require that voting is by way of poll at all general meetings of the Company.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

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

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, their duly appointed delegates are available to answer questions at the Annual General Meeting. A separate resolution is proposed at shareholders' meeting on each substantially separate issue, including the election of individual Directors.

The Company recognises the importance of maintaining on-going and timely communications with shareholders and the investment community to enable them to form their own judgment and to provide constructive feedback. The Company holds press conferences, analysts' briefings and investor meetings/calls after the announcement of its financial results, and regularly participates in investment forums and briefings hosted by investment banks. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development. Enquiries from investors are dealt with in an informative and timely manner. Enquiries and suggestions from shareholders or investors are welcomed by mail to the Company's head office at Suites 3201-3205, 32/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong or by email to [ir@sjmholdings.com](mailto:ir@sjmholdings.com) for the attention of the Department of Investor Relations.

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

There is no change in the Company's Articles of Association during the year. The last shareholders' meeting of the Company was an Annual General Meeting which was held at Golden Restaurant, Macau Jockey Club (HK) Club House, 1st Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Wednesday, 13 May 2009 at 3:00 p.m. at which resolutions were duly passed in respect of major items such as the adoption of the audited financial statements and the reports of the directors and the auditor of the Company for the year ended 31 December 2008, declaration of a final dividend, re-election of Directors and authorisation of the Board to fix the Directors' remuneration, re-appointment of Joint Auditors and authorisation of the Board to fix their remuneration and approval of the adoption of share option scheme of the Company.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

The important shareholders' dates in year 2010 are set out below:

29 March 2010 (Monday)	Announcement of proposed final dividend
27 April 2010 (Tuesday)	Despatch of 2009 Annual Report, Notice of 2010 Annual General Meeting and circular to shareholders relating to 2010 Annual General Meeting
25 May 2010 (Tuesday)	Ex-dividend date
4:30 p.m. on 26 May 2010 (Wednesday)	Deadline for lodging transfer documents with share registrar to qualify for the proposed final dividend and to attend the 2010 Annual General Meeting
27 May 2010 (Thursday) to 31 May 2010 (Monday) (both dates inclusive)	Closure of register of members
3:00 p.m. on 31 May 2010 (Monday)	2010 Annual General Meeting
23 June 2010 (Wednesday)	Expected payment date of proposed final dividend (if approved at the 2010 Annual General Meeting)

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

For and on behalf of the Board of Directors

**SJM Holdings Limited**

**So Shu Fai**

Executive Director and Chief Executive Officer

Hong Kong, 29 March 2010

## INDEPENDENT JOINT AUDITORS' REPORT

**Deloitte.**  
**德勤**

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

*H. C. Watt & Co. Ltd.*  
*Certified Public Accountants*  
*Chartered Secretaries*

H.C. Watt & Company Limited  
Room 1903, New World Tower  
18 Queen's Road Central  
Hong Kong

### **TO THE SHAREHOLDERS OF SJM HOLDINGS LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of SJM Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 61 to 122, which comprise the consolidated and the Company's statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **AUDITORS' 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 as to 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## INDEPENDENT JOINT AUDITORS' REPORT

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong

29 March 2010

H.C. Watt & Company Limited  
Certified Public Accountants  
Hong Kong  
Watt Hung Chow  
Practising Certificate No. P181

29 March 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK\$ million	2008 HK\$ million
Gaming, hotel, catering and related services revenues		<b>34,352.8</b>	28,165.0
Gaming revenue	8	<b>34,065.8</b>	27,992.4
Special gaming tax, special levy and gaming premium		<b>(13,219.5)</b>	(10,915.0)
		<b>20,846.3</b>	17,077.4
Hotel, catering and related services income		<b>287.0</b>	172.6
Cost of sales and services on hotel, catering and related service		<b>(164.8)</b>	(133.7)
Other income		<b>123.3</b>	131.2
Marketing and promotional expenses		<b>(13,318.1)</b>	(10,115.0)
Operating and administrative expenses		<b>(6,755.6)</b>	(6,307.2)
Finance costs	9	<b>(197.7)</b>	(158.2)
Share of losses of an associate		<b>(13.5)</b>	(1.5)
Share of profits of a jointly controlled entity		<b>5.4</b>	6.6
Profit before taxation	10	<b>812.3</b>	672.2
Taxation	12	<b>(17.5)</b>	(16.7)
Profit for the year and total comprehensive income for the year		<b>794.8</b>	655.5
Profit attributable to			
— owners of the Company		<b>906.7</b>	796.1
— minority interests		<b>(111.9)</b>	(140.6)
		<b>794.8</b>	655.5
Earnings per share			
— Basic	14	<b>HK18.1 cents</b>	HK18.4 cents
— Diluted	14	<b>HK18.1 cents</b>	N/A

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK\$ million	2008 HK\$ million
<b>Non-current assets</b>			
Property and equipment	15	10,139.6	9,535.9
Land use rights	17	845.8	886.5
Intangible assets	18	45.8	52.1
Art works and diamonds	19	289.2	281.7
Interest in an associate	20	67.4	64.6
Interest in a jointly controlled entity	21	67.7	62.3
Available-for-sale investments in equity securities	22	5.5	5.5
Deposits made on acquisitions	23	168.1	219.0
Amount due from a fellow subsidiary	24	329.2	365.4
Pledged bank deposits	25	145.6	145.6
Bank deposits	26	1,000.0	—
		<b>13,103.9</b>	<b>11,618.6</b>
<b>Current assets</b>			
Inventories		52.1	43.4
Trade and other receivables	27	1,233.3	930.0
Loan receivables	28	132.0	—
Amount due from ultimate holding company	29	23.3	4.6
Amount due from an associate	30	20.0	20.0
Amount due from a jointly controlled entity	31	14.3	14.3
Amounts due from investee companies	32	156.7	160.7
Investment in trading securities	33	28.4	13.1
Pledged bank deposits	25	265.4	268.8
Short-term bank deposits	26	400.0	—
Bank balances and cash		7,937.1	5,847.1
		<b>10,262.6</b>	<b>7,302.0</b>
<b>Current liabilities</b>			
Trade and other payables	34	6,895.0	4,582.8
Financial guarantee obligations	36	13.3	14.5
Obligations under finance leases	37	33.3	16.0
Taxation		38.8	38.1
Current portion of long-term bank loans	38	1,040.0	1,020.0
		<b>8,020.4</b>	<b>5,671.4</b>
Net current assets		<b>2,242.2</b>	<b>1,630.6</b>
Total assets less current liabilities		<b>15,346.1</b>	<b>13,249.2</b>



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION***At 31 December 2009*

	Notes	2009 HK\$ million	2008 HK\$ million
<b>Non-current liabilities</b>			
Financial guarantee obligations	36	—	13.3
Obligations under finance leases	37	<b>329.2</b>	365.4
Long-term bank loans	38	<b>4,102.0</b>	4,824.0
Amount due to a minority shareholder of a subsidiary	39	<b>807.3</b>	610.2
Convertible bonds	40	<b>1,588.2</b>	—
		<b>6,826.7</b>	5,812.9
<b>Net assets</b>			
		<b>8,519.4</b>	7,436.3
<b>Capital and reserves</b>			
Share capital	41	<b>5,000.0</b>	5,000.0
Reserves		<b>3,454.7</b>	2,287.1
<b>Equity attributable to owners of the Company</b>			
Minority interests		<b>64.7</b>	149.2
<b>Total equity</b>			
		<b>8,519.4</b>	7,436.3

The consolidated financial statements on pages 61 to 122 were approved and authorised for issue by the Board of Directors on 29 March 2010 and are signed on its behalf by:

**So Shu Fai**  
DIRECTOR

**Ng Chi Sing**  
DIRECTOR

## STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK\$ million	2008 HK\$ million
Non-current assets			
Property and equipment	15	4.2	0.4
Investments in subsidiaries	16	4,367.5	3,972.3
Bank deposits	26	1,000.0	—
		<u>5,371.7</u>	<u>3,972.7</u>
Current assets			
Deposits and prepayments		5.8	2.3
Amounts due from subsidiaries	35	2,980.3	2,316.8
Short-term bank deposits	26	400.0	—
Bank balances and cash		902.2	674.1
		<u>4,288.3</u>	<u>2,993.2</u>
Current liabilities			
Other payables and accruals		0.8	6.5
Amount due to a subsidiary	35	1,958.5	—
		<u>1,959.3</u>	<u>6.5</u>
Net current assets		<u>2,329.0</u>	<u>2,986.7</u>
Net assets		<u>7,700.7</u>	<u>6,959.4</u>
Capital and reserves			
Share capital	41	5,000.0	5,000.0
Reserves	43	2,700.7	1,959.4
Total equity		<u>7,700.7</u>	<u>6,959.4</u>

**So Shu Fai**  
DIRECTOR

**Ng Chi Sing**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital HK\$ million	Share premium HK\$ million	Share options reserve HK\$ million	Convertible bonds equity reserve HK\$ million	Legal reserve HK\$ million	Retained profits HK\$ million	Attributable to owners of the Company HK\$ million	Minority interests HK\$ million	Total HK\$ million
					(Note 1)	(Note 2)		(Note 3)	
At 1 January 2008	291.3	—	—	—	73.8	5,999.9	6,365.0	195.1	6,560.1
Total comprehensive income for the year	—	—	—	—	—	796.1	796.1	(140.6)	655.5
Arising on group reorganisation	(21.3)	2,731.4	—	—	(73.8)	(2,636.3)	—	—	—
Issue of shares	1,250.0	2,600.0	—	—	—	—	3,850.0	—	3,850.0
Capitalisation issue	3,480.0	(3,480.0)	—	—	—	—	—	—	—
Expenses incurred in connection with the issue of shares	—	(224.0)	—	—	—	—	(224.0)	—	(224.0)
Capital contribution arising from fair value adjustment on amount due to a minority shareholder of a subsidiary	—	—	—	—	—	—	—	94.7	94.7
Dividends paid	—	—	—	—	—	(3,500.0)	(3,500.0)	—	(3,500.0)
	<u>4,708.7</u>	<u>1,627.4</u>	<u>—</u>	<u>—</u>	<u>(73.8)</u>	<u>(6,136.3)</u>	<u>126.0</u>	<u>94.7</u>	<u>220.7</u>
At 31 December 2008	<b>5,000.0</b>	<b>1,627.4</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>659.7</b>	<b>7,287.1</b>	<b>149.2</b>	<b>7,436.3</b>
Total comprehensive income for the year	—	—	—	—	—	906.7	906.7	(111.9)	794.8
Recognition of equity settled share-based payments	—	—	173.9	—	—	—	173.9	—	173.9
Recognition of equity component of convertible bonds	—	—	—	395.2	—	—	395.2	—	395.2
Transaction costs attributable to the issue of convertible bonds	—	—	—	(8.2)	—	—	(8.2)	—	(8.2)
Capital contribution arising from fair value adjustment on amount due to a minority shareholder of a subsidiary	—	—	—	—	—	—	—	27.4	27.4
Dividends paid	—	—	—	—	—	(300.0)	(300.0)	—	(300.0)
	<u>—</u>	<u>—</u>	<u>173.9</u>	<u>387.0</u>	<u>—</u>	<u>(300.0)</u>	<u>260.9</u>	<u>27.4</u>	<u>288.3</u>
At 31 December 2009	<b>5,000.0</b>	<b>1,627.4</b>	<b>173.9</b>	<b>387.0</b>	<b>—</b>	<b>1,266.4</b>	<b>8,454.7</b>	<b>64.7</b>	<b>8,519.4</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2009*

Notes:

1. In accordance with the provisions of the Macau Commercial Code issued by the government of Macau Special Administrative Region, the People's Republic of China, certain subsidiaries of the Company are required to transfer from their annual net profit at a minimum rate of 10% or 25% to a legal reserve before the appropriation of profits to dividend until the legal reserve reaches 25% or 50% of the respective subsidiary's registered capital. The legal reserve is not distributable to shareholders.
2. An amount of HK\$2,636.3 million, which represented the retained profits of the subsidiaries acquired at the date of group reorganisation, was charged to the retained profits of the Group pursuant to the group reorganisation in 2008.
3. The minority shareholders have a binding obligation to share losses arising from the non wholly-owned subsidiaries up to the sum of share capital and shareholder loans contributed by them. Balance at the end of the reporting period includes accumulated losses attributable to the minority interests of HK\$292.7 million (2008: HK\$180.9 million).

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 HK\$ million	2008 HK\$ million
Operating activities		
Profit before taxation	<b>812.3</b>	672.2
Adjustments for:		
Interest income	<b>(36.0)</b>	(68.6)
Interest expenses	<b>145.0</b>	130.2
Imputed interest on amount due to a minority shareholder of a subsidiary	<b>36.0</b>	28.0
Imputed interest on convertible bonds	<b>16.7</b>	—
Dividend income	<b>(1.4)</b>	(1.3)
Income from amortisation of financial guarantee obligations	<b>(14.5)</b>	(14.5)
Share of losses of an associate	<b>13.5</b>	1.5
Share of profits of a jointly controlled entity	<b>(5.4)</b>	(6.6)
Amortisation of intangible assets	<b>6.3</b>	6.4
Depreciation of property and equipment	<b>1,109.0</b>	769.0
Loss on disposal of property and equipment	<b>6.1</b>	15.0
Operating lease rentals in respect of land use rights	<b>39.9</b>	11.3
Intangible assets written off	<b>—</b>	6.2
Allowance for doubtful debts	<b>—</b>	24.5
(Gain) loss on fair value changes on investment in trading securities	<b>(15.3)</b>	44.1
Share-based payments	<b>173.9</b>	—
Operating cash flows before movements in working capital	<b>2,286.1</b>	1,617.4
Increase in inventories	<b>(8.7)</b>	(22.4)
Increase in trade and other receivables	<b>(272.7)</b>	(161.0)
Increase (decrease) in trade and other payables	<b>2,074.8</b>	(811.1)
Cash from operations	<b>4,079.5</b>	622.9
Taxation paid	<b>(16.8)</b>	(0.2)
Net cash from operating activities	<b>4,062.7</b>	622.7
Investing activities		
Interest received	<b>36.4</b>	69.0
Dividends received from trading securities	<b>1.4</b>	1.3
Purchase of property and equipment	<b>(1,344.0)</b>	(1,978.1)
Proceeds from disposal of property and equipment	<b>0.3</b>	6.2
Deposits paid for acquisition of property and equipment	<b>(26.8)</b>	(74.1)
Purchase of land use rights	<b>—</b>	(110.5)
Purchase of art works and diamonds	<b>(7.5)</b>	(2.8)
Advances made to ultimate holding company	<b>(18.7)</b>	(4.6)
Repayment from fellow subsidiaries	<b>21.5</b>	218.0
Repayment from investee companies	<b>4.0</b>	14.0
Decrease (increase) in pledged bank deposits	<b>3.4</b>	(268.5)
Loan receivables advanced	<b>(132.0)</b>	—
Increase in bank deposits	<b>(1,400.0)</b>	—
Net cash used in investing activities	<b>(2,862.0)</b>	(2,130.1)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 HK\$ million	2008 HK\$ million
Financing activities		
Interest paid	<b>(162.7)</b>	(235.4)
Dividends paid	<b>(300.0)</b>	(3,500.0)
Proceeds from issue of shares	—	3,850.0
Transaction costs incurred in connection with the issue of shares	—	(224.0)
Proceeds from issue of convertible bonds	<b>2,000.0</b>	—
Transaction costs incurred in connection with the issue of convertible bonds	<b>(41.5)</b>	—
Repayment to ultimate holding company	—	(114.9)
Repayment to fellow subsidiaries	—	(201.7)
Repayment of obligations under finance leases	<b>(93.0)</b>	(12.4)
Bank loans raised	<b>318.0</b>	1,036.0
Repayment of bank loans	<b>(1,020.0)</b>	(100.0)
Borrowings from a minority shareholder of a subsidiary	<b>188.5</b>	346.0
	<u><b>889.3</b></u>	<u>843.6</u>
Net cash from financing activities		
	<b>889.3</b>	843.6
Net increase (decrease) in cash and cash equivalents	<b>2,090.0</b>	(663.8)
Cash and cash equivalents at 1 January	<b>5,847.1</b>	6,510.9
	<u><b>7,937.1</b></u>	<u>5,847.1</u>
Cash and cash equivalents at 31 December		
	<b>7,937.1</b>	5,847.1
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>7,937.1</b>	5,847.1

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company is a public limited company incorporated in Hong Kong and acts as an investment holding company. Its ultimate holding company is Sociedade de Turismo e Diversões de Macau, S.A. ("STDM"), a company established in Macau Special Administrative Region, the People's Republic of China ("MSAR"). The address of the registered office and principal place of business of the Company is Suites 3201-3205, 32nd Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the holding company of the Group on 17 January 2008. Details of the Group Reorganisation are more fully explained in the paragraph headed "Reorganisation" in the section headed "History and Reorganisation" of the prospectus of the Company dated 26 June 2008 (the "Prospectus"). The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting. The consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2008 have been prepared on the basis as if the current group structure had been in existence throughout the period.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 July 2008.

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

In the current year, the Group has applied the following new and revised Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("INT"s) (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC*) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) - INT 13	Customer loyalty programmes
HK(IFRIC) - INT 15	Agreements for the construction of real estate
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) - INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 and the amendment to HKAS 1

\* IFRIC represents the International Financial Reporting Interpretations Committee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

Except as described below, the adoption of those new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

#### New and revised HKFRSs affecting presentation and disclosure only

##### **HKAS 1 "Presentation of financial statements"**

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

In addition, the Group has early adopted amendment to HKAS 1 (as part of Improvements to HKFRSs 2009) regarding classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The amendment has resulted in the classification of the liability component of convertible bonds with carrying amount of HK\$1,588.2 million as non-current liability at 31 December 2009. The amendment has had no impact on the Group's results for the reported periods.

##### **HKFRS 8 "Operating segments"**

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments nor changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities (see note 7).

##### **Improving disclosures about financial instruments (amendments to HKFRS 7 Financial instruments: Disclosures)**

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

#### New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009, except for amendment to HKAS 1 <sup>2</sup>
HKAS 24 (Revised)	Related party disclosures <sup>6</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of rights issues <sup>4</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>1</sup>
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters <sup>3</sup>
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first time adopters <sup>5</sup>
HKFRS 2 (Amendment)	Group cash-settled share based payments transactions <sup>3</sup>
HKFRS 3 (Revised)	Business combinations <sup>1</sup>
HKFRS 9	Financial instruments <sup>7</sup>
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement <sup>6</sup>
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners <sup>1</sup>
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments <sup>5</sup>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2009*

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2009
- <sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2010
- <sup>4</sup> Effective for annual periods beginning on or after 1 February 2010
- <sup>5</sup> Effective for annual periods beginning on or after 1 July 2010
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2011
- <sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 “Financial instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Basis of consolidation

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group’s equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2009*

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.2 Common control combinations

The consolidated financial statements incorporate the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the end of the previous reporting period or when they first come under common control, whichever is the shorter.

#### 3.3 Investments in subsidiaries

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

#### 3.4 Interests in associates

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

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2009*

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.5 Interests in joint ventures

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the joint venture. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

#### 3.6 Revenue recognition

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

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

#### 3.7 Borrowing costs

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.8 Property and equipment

Property and equipment, including land and buildings held for use in the supply of goods or services, or for administrative purposes (other than construction in progress), are stated at cost less accumulated depreciation and any accumulated impairment loss at the end of the reporting period.

When the buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as land use right and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of construction in progress. Construction in progress is carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

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

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

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

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

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

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

#### 3.9 Land use rights

Land use rights represent prepaid lease rentals and are initially stated at cost. The cost of land use rights is charged to the profit or loss on a straight line basis over the lease term and for those which are directly attributable to construction in progress are capitalised to the cost of such projects, until such time as the construction works are completed and ready for intended use.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.10 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

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

#### 3.11 Art works and diamonds

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

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

#### 3.12 Inventories

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

#### 3.13 Financial instruments

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

##### (a) **Financial assets**

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

##### (i) **Effective interest method**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.13 Financial instruments (Continued)

##### (a) Financial assets (Continued)

##### (ii) Loans and receivables

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

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

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

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

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

##### (v) Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.13 Financial instruments (Continued)

##### (a) **Financial assets (Continued)**

##### (v) **Impairment of financial assets (Continued)**

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

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

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

##### (b) **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

##### (i) **Effective interest method**

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

Interest expense is recognised on an effective interest basis.

##### (ii) **Financial liabilities**

Financial liabilities including trade and other payables, amounts due to a subsidiary/a minority shareholder of a subsidiary, bank loans and liability component of convertible bonds are subsequently measured at amortised cost using the effective interest method.

##### (iii) **Equity instruments**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.13 Financial instruments (Continued)

##### (c) **Convertible bonds**

Convertible bonds issued by the Group that contain liability, conversion option and early redemption options are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. The values of embedded early redemption options which are considered as closely related to the host contract are included in the liability component. On initial recognition, the liability component is measured at fair value. The difference between the gross proceeds of the issue of the convertible bonds and the fair values assigned to the liability components, representing the conversion option for the holder to convert the liability into ordinary shares of the Company, is included in convertible bonds equity reserve.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component will remain in convertible bonds equity reserve until the embedded conversion option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

##### (d) **Embedded derivatives**

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

##### (e) **Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.13 Financial instruments (Continued)

##### (f) **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivables and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

#### 3.14 Impairment loss on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

#### 3.15 Taxation

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.15 Taxation (Continued)

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

#### 3.16 Foreign currencies

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

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

#### 3.17 Leases

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

##### (a) *The Group as lessor*

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

##### (b) *The Group as lessee*

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

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

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.18 Share-based payment transactions — equity-settled share based payment transactions

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

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

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

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

##### (b) *Share options granted to other participants*

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

#### 3.19 Retirement benefits costs

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

### 4. KEY SOURCES OF ESTIMATION

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

#### **Estimated impairment of interest in a jointly controlled entity**

In determining whether there is an impairment loss, the Group takes into consideration the estimation of future cash flows to be generated by the jointly controlled entity. The amount of the impairment loss is measured as the difference between the carrying amount of the interest in jointly controlled entity and the share of the present value of estimated future cash flows expected to be generated by the jointly controlled entity. As at 31 December 2009, the interest in a jointly controlled entity is HK\$67.7 million (2008: HK\$62.3 million), which included goodwill of HK\$34.3 million at 31 December 2009 (2008: HK\$34.3 million). Where the actual future cash flows are less than expected, a material impairment loss may arise.

### 5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of bank loans, liability component of convertible bonds, and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 5. CAPITAL RISK MANAGEMENT (Continued)

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

### 6. FINANCIAL INSTRUMENTS

#### (a) Financial risk management objectives

##### The Group

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

#### (b) Categories of financial instruments

	The Group		The Company	
	2009	2008	2009	2008
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	<b>11,570.6</b>	7,694.6	<b>5,285.3</b>	2,990.9
Financial assets at fair value through profit or loss	<b>28.4</b>	13.1	—	—
Available-for-sale financial assets	<b>5.5</b>	5.5	—	—
	<b>11,604.5</b>	7,713.2	<b>5,285.3</b>	2,990.9
<b>Financial liabilities</b>				
Amortised cost	<b>12,852.2</b>	9,857.5	<b>1,959.3</b>	6.5
Obligations under finance leases	<b>362.5</b>	381.4	—	—
Financial guarantee obligations	<b>13.3</b>	27.8	—	—
	<b>13,228.0</b>	10,266.7	<b>1,959.3</b>	6.5

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

#### (c) Credit risk management

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

- the carrying amount of the respective recognised financial assets as stated in the Group's and Company's statements of financial position; and
- the amount of financial guarantee obligations and contingent liabilities disclosed in note 36 and 50 respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2009*

### 6. FINANCIAL INSTRUMENTS (Continued)

#### (c) Credit risk management (Continued)

##### **The Group**

The Group has concentration of credit risk of 88% (2008: 82%) on the advances and receivables from the Group's five largest gaming promoters. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual advances and receivables from gaming promoters at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group also considers the relevant commissions accrued at the end of each of the reporting period to the relevant gaming promoters, the continuous profitable business relationship with and the potential commissions payable to the relevant gaming promoters subsequent to the end of the reporting period and the financial background of the relevant gaming promoters to ascertain the recoverability of the advances to and receivables from gaming promoters. As a result, the directors of the Company consider that the Group's exposure to credit risk on these advances and receivables is significantly reduced.

In addition, the management considers that there is no significant credit risk on the receivables from the fellow subsidiary, ultimate holding company, an associate, a jointly controlled entity, investee companies as well as those arising from financial guarantees given to banks in respect of credit facilities granted to the investee companies and an associate (note 50) given their strong financial background and good creditability.

Also, the management considers that the credit risk arising from financial guarantees given to banks in respect of credit facilities granted to the related companies (note 50) is insignificant as the default risk is low given its timely repayment of loans to bank.

The credit risk on receivable from the Finance Company (as defined in note 28) is not significant as it is secured by certain equity interests held by the Borrower.

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

Other than concentration of credit risk on loan receivable, amount due from a fellow subsidiary and liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

##### **The Company**

The management considers that there is no significant credit risk on receivables from subsidiaries given their strong financial background and good creditability. The Company has concentration of credit risk of 67% (2008: 86%) on the amounts due from subsidiaries from one subsidiary.

Also, the management considers that the credit risk arising from financial guarantees given to bondholders (note 40) is insignificant as the default risk is low.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 6. FINANCIAL INSTRUMENTS (Continued)

#### (d) Interest rate risk management

##### The Group

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

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

The sensitivity analyses below have been determined based on the exposure to interest rates for bank loans, bank balances, amount due from a fellow subsidiary, obligations under finance leases and loan receivables. The analyses were prepared assuming these balances outstanding at the end of the reporting period were outstanding for the whole year. 100 basis points (2008: 100 basis points) increase was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The management does not anticipate a decrease in interest rate in the next financial year having regard to the trends in HIBOR and global economic environment. Accordingly, sensitivity analysis on a decrease in interest rates is not presented.

If interest rates on bank loans, bank balances, amount due from a fellow subsidiary, obligations under finance leases and loan receivables had been 100 basis points (2008: 100 basis points) higher and all other variables were held constant, the potential effect on profit for the year (net of interest expenses capitalised in construction in progress) is as follows:

	2009 HK\$ million	2008 HK\$ million
Increase in profit for the year	<u>14.4</u>	<u>29.9</u>

##### The Company

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

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances. The analyses were prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. 100 basis points (2008: 100 basis points) increase was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Due to low prevailing interest rate in bank balances, the management does not anticipate a further decline in bank interest rate and therefore, sensitivity analysis on a decrease in interest rates is not presented.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 6. FINANCIAL INSTRUMENTS (Continued)

#### (d) Interest rate risk management (Continued)

##### The Company (Continued)

If interest rates on bank balances had been 100 basis points (2008: 100 basis points) higher and all other variables were held constant, the potential effect on profit for the year is as follows:

	2009 HK\$ million	2008 HK\$ million
Increase in profit for the year	<u>9.0</u>	<u>6.7</u>

#### (e) Price risk management

##### The Group

The Group is exposed to equity price risk on the investment in listed equity securities operating in the entertainment and hotel industry sector and quoted on the Stock Exchange. The Group currently does not have a policy to hedge such risk. However, the management monitors market price exposure and will consider hedging significant market price exposure should the need arise. The directors of the Company consider that the Group's price risk on available-for-sale investments in equity securities is not significant as the carrying amount of these investments is not material.

The sensitivity analyses below have been determined based on the exposure to equity price risk on the investment in trading securities at the end of the reporting period. If the market bid price of the investment in trading securities had been 10% (2008: 10%) higher, the potential effect on profit for the year is as follows. An opposite impact of the same magnitude would have resulted if it had been 10% (2008: 10%) lower:

	2009 HK\$ million	2008 HK\$ million
Increase in profit for the year	<u>2.8</u>	<u>1.3</u>

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

#### (f) Liquidity risk management

##### The Group and The Company

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS (Continued)

## (f) Liquidity risk management (Continued)

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

	Weighted average effective interest rate %	On demand HK\$ million	Not more than 3 months HK\$ million	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year HK\$ million	Total undiscounted cash flow HK\$ million	Carrying amount HK\$ million
				HK\$ million	HK\$ million			
<b>The Group</b>								
At 31 December 2009								
Trade payables	—	—	1,206.8	20.9	11.9	—	1,239.6	1,239.6
Chips liabilities	—	2,725.9	—	—	—	—	2,725.9	2,725.9
Other payables	—	—	972.1	306.3	70.8	—	1,349.2	1,349.2
Amount due to a minority shareholder of a subsidiary	5.08%	—	—	—	—	1,089.0	1,089.0	807.3
Obligations under finance leases	5.73%	—	19.4	10.0	20.2	417.4	467.0	362.5
Bank loans (note (i))	1.68%	—	270.4	280.3	557.8	4,204.0	5,312.5	5,142.0
Convertible bonds (note (ii))	5.82%	—	—	—	—	2,253.6	2,253.6	1,588.2
Financial guarantee obligations (note (iii))	—	243.7	—	—	—	—	243.7	13.3
Undrawn revolving loan facility (note 28)	—	118.0	—	—	—	—	118.0	—
		<u>3,087.6</u>	<u>2,468.7</u>	<u>617.5</u>	<u>660.7</u>	<u>7,964.0</u>	<u>14,798.5</u>	<u>13,228.0</u>
At 31 December 2008								
Trade payables	—	—	784.8	43.5	33.9	—	862.2	862.2
Chips liabilities	—	1,561.5	—	—	—	—	1,561.5	1,561.5
Other payables	—	—	661.9	203.9	113.8	—	979.6	979.6
Amount due to a minority shareholder of a subsidiary	5.62%	—	—	—	—	900.5	900.5	610.2
Obligations under finance leases	6.04%	—	6.6	10.0	19.9	503.3	539.8	381.4
Bank loans (note (i))	3.76%	—	303.1	295.4	594.3	5,143.0	6,335.8	5,844.0
		<u>1,561.5</u>	<u>1,756.4</u>	<u>552.8</u>	<u>761.9</u>	<u>6,546.8</u>	<u>11,179.4</u>	<u>10,238.9</u>
<b>The Company</b>								
At 31 December 2009								
Trade and other payables	—	—	0.7	0.1	—	—	0.8	0.8
Amount due to a subsidiary	—	1,958.5	—	—	—	—	1,958.5	1,958.5
Financial guarantee obligation (note (iii))	—	2,000.0	—	—	—	—	2,000.0	—
		<u>3,958.5</u>	<u>0.7</u>	<u>0.1</u>	<u>—</u>	<u>—</u>	<u>3,959.3</u>	<u>1,959.3</u>
At 31 December 2008								
Trade and other payables	—	—	5.5	1.0	—	—	6.5	6.5



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 6. FINANCIAL INSTRUMENTS (Continued)

#### (f) Liquidity risk management (Continued)

Notes:

- (i) The amounts included above for variable rate bank loans are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.
- (ii) The amount of undiscounted cash flow represents the redemption amount of the convertible bonds assuming that no early redemption has taken place before its maturity (details are set out in note 40).
- (iii) At 31 December 2008, it was not probable that the counterparty to the financial guarantee contracts will claim under the contract. Consequently, the carrying amount of financial guarantee contracts has not been presented above. Following the amendments to HKFRS 7 effective from 1 January 2009, the amounts included above for financial guarantee contracts are the maximum amounts the Group and the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. However, based on expectations at the end of the reporting period, the Group and the Company consider that it is more likely than not that no amount will be payable under the arrangement. This estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses. The Group and the Company have not provided comparative information for the maximum exposure resulting from these financial guarantee contracts in the above table in accordance with the transitional provision set out in the amendments to HKFRS 7.

#### (g) Fair value of financial instruments

##### **The Group and The Company**

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

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

Except for the convertible bonds as disclosed in note 40, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 6. FINANCIAL INSTRUMENTS (Continued)

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

##### The Group

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

	31 December 2009			Total HK\$ million
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	
Financial assets at fair value through profit or loss — Investment in trading securities	28.4	—	—	28.4

Notes:

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

### 7. OPERATING SEGMENTS

The Group has adopted HKFRS 8 "Operating segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), which is a group of executive directors of the Company, for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segment.

For gaming operations, the CODM regularly analyses gaming revenue in terms of VIP gaming operations, mass market table gaming operations, slot machine operations and others. No operating results nor discrete financial information is presented to the CODM in relation to the above analysis. The CODM reviews the revenues and operating results of gaming operations as a whole. For hotel and catering operations, the CODM regularly reviews the performance on the basis of individual hotel. For segment reporting under HKFRS 8, financial information of these hotels has been aggregated into a single operating segment named "hotel and catering operations". Accordingly, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 7. OPERATING SEGMENTS (Continued)

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

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

Segment information about these businesses is presented below:

#### (a) An analysis of the Group's revenue and results by operating segment

	Segment revenue		Segment results	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
Gaming operations	<u>34,065.8</u>	<u>27,992.4</u>	<b>1,509.2</b>	1,057.9
Hotel and catering operations				
— external sales	<b>287.0</b>	172.6		
— inter-segment sales	<u>125.6</u>	<u>58.0</u>		
	<b>412.6</b>	230.6	<b>(532.1)</b>	(295.9)
Eliminations	<u>(125.6)</u>	<u>(58.0)</u>		
	<u>287.0</u>	<u>172.6</u>		
	<u>34,352.8</u>	<u>28,165.0</u>		
Reconciliation from segment results to profit before taxation			<b>977.1</b>	762.0
Unallocated corporate expenses			<b>(172.0)</b>	(50.8)
Change on fair value of investment in trading securities			<b>15.3</b>	(44.1)
Share of losses of an associate			<b>(13.5)</b>	(1.5)
Share of profits of a jointly controlled entity			<u>5.4</u>	<u>6.6</u>
Profit before taxation			<u><b>812.3</b></u>	<u>672.2</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by each segment without allocation of corporate expenses, change on fair value of investment in trading securities, share of results of associate/jointly controlled entity and income tax expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. OPERATING SEGMENTS (Continued)

## (b) An analysis of the Group's financial position by operating segments

	2009 HK\$ million	2008 HK\$ million
<b>ASSETS</b>		
Segment assets		
— gaming operations	12,102.7	9,533.8
— hotel and catering operations	7,669.3	7,615.6
Total segment assets	19,772.0	17,149.4
Interest in an associate	67.4	64.6
Interest in a jointly controlled entity	67.7	62.3
Unallocated bank deposits, bank balances and cash	2,359.8	748.3
Unallocated assets (note 7(b)(i))	1,099.6	896.0
Group's total	<u>23,366.5</u>	<u>18,920.6</u>
<b>LIABILITIES</b>		
Bank loans		
— gaming operations	2,225.0	2,641.2
— hotel and catering operations	2,917.0	3,202.8
	<u>5,142.0</u>	<u>5,844.0</u>
Other segment liabilities		
— gaming operations	6,427.7	4,067.5
— hotel and catering operations	479.0	520.4
	<u>6,906.7</u>	<u>4,587.9</u>
Total segment liabilities	12,048.7	10,431.9
Convertible bonds	1,588.2	—
Unallocated liabilities (note 7(b)(ii))	1,210.2	1,052.4
Group's total	<u>14,847.1</u>	<u>11,484.3</u>

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

- (i) unallocated assets include mainly amounts due from a fellow subsidiary, an associate, a jointly controlled entity and investee companies, art works and diamonds, and investment in trading securities.
- (ii) unallocated liabilities include mainly amount due to a minority shareholder of a subsidiary and obligations under finance leases.
- (iii) all assets are allocated to reportable segments, other than interest in an associate and a jointly controlled entity, unallocated bank deposits, bank balances and cash and unallocated assets.
- (iv) all liabilities are allocated to reportable segments, other than convertible bonds and unallocated liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. OPERATING SEGMENTS (Continued)

## (c) Other segment information of the Group

	2009 HK\$ million	2008 HK\$ million
Additions to non-current assets (other than financial instruments)		
— gaming operations	1,068.4	261.7
— hotel and catering operations	653.6	1,765.4
— corporate level	4.9	0.5
	<u>1,726.9</u>	<u>2,027.6</u>
Depreciation and amortisation		
— gaming operations	627.2	615.2
— hotel and catering operations	486.4	158.6
— corporate level	1.7	1.6
	<u>1,115.3</u>	<u>775.4</u>
Loss on disposal of property and equipment		
— gaming operations	6.0	15.0
— hotel and catering operations	0.1	—
	<u>6.1</u>	<u>15.0</u>
Share-based payments		
— gaming operations	55.1	—
— corporate level	118.8	—
	<u>173.9</u>	<u>—</u>
Finance costs		
— gaming operations	56.2	90.1
— hotel and catering operations	65.5	22.1
— corporate level	76.0	46.0
	<u>197.7</u>	<u>158.2</u>
Interest income		
— gaming operations	5.9	34.6
— hotel and catering operations	1.5	7.0
— corporate level	28.6	27.0
	<u>36.0</u>	<u>68.6</u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 8. GAMING REVENUE

	2009 HK\$ million	2008 HK\$ million
Gaming revenue from		
— VIP gaming operations	<b>20,016.7</b>	15,970.0
— mass market table gaming operations	<b>13,039.1</b>	11,063.7
— slot machine operations	<b>1,008.3</b>	957.0
— others	<b>1.7</b>	1.7
	<b>34,065.8</b>	27,992.4

## 9. FINANCE COSTS

	2009 HK\$ million	2008 HK\$ million
Interest on		
— bank borrowings wholly repayable within five years	<b>(123.7)</b>	(225.3)
— finance leases	<b>(23.3)</b>	(18.0)
Imputed interest on amount due to a minority shareholder of a subsidiary	<b>(36.0)</b>	(28.0)
Imputed interest on convertible bonds	<b>(16.7)</b>	—
	<b>(199.7)</b>	(271.3)
Less: Amount capitalised in construction in progress	<b>2.0</b>	113.1
	<b>(197.7)</b>	(158.2)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 10. PROFIT BEFORE TAXATION

	2009 HK\$ million	2008 HK\$ million
<b>Profit before taxation has been arrived at after charging:</b>		
Directors' remuneration (note 11)	163.6	44.6
Retirement benefits scheme contributions to other staff	63.5	63.2
Less: Forfeited contributions	(14.4)	(19.4)
	49.1	43.8
Share-based payments to other staff	46.8	—
Other staff costs	3,174.5	3,288.8
	<u>3,221.3</u>	<u>3,288.8</u>
	----- 3,434.0	----- 3,377.2
Allowance for doubtful debts	—	24.5
Amortisation of intangible assets (included in operating and administrative expenses)	6.3	6.4
Auditors' remuneration		
— audit services	8.6	12.3
— non-audit services	6.0	23.3
	14.6	35.6
Depreciation of property and equipment	1,109.0	769.0
Loss on disposal of property and equipment	6.1	15.0
Loss on fair value changes on investment in trading securities	—	44.1
Operating lease rentals in respect of		
— land use rights	39.9	11.3
— rented premises	323.0	374.9
— slot machines under		
– contingent rentals	1.1	4.4
– fixed rentals	0.1	0.1
	364.1	390.7
Share-based payments to other participants (included in operating and administrative expenses)	8.3	—
<b>and after crediting:</b>		
Dividend income from trading securities	1.4	1.3
Gain on fair value changes on investment in trading securities	15.3	—
Income from amortisation of financial guarantee obligations	14.5	14.5
Interest income from		
— a fellow subsidiary	23.3	18.0
— bank deposits	12.1	50.6
— loan receivables	0.6	—
	<u>36.0</u>	<u>68.6</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2009				2008		
	Fees HK\$ million	Salaries and other benefits HK\$ million	Share-based payments HK\$ million	Total HK\$ million	Fees HK\$ million	Salaries and other benefits HK\$ million	Total HK\$ million
<b>Executive directors</b>							
Dr. Ho Hung Sun, Stanley ("Dr. Ho")	24.3	—	5.9	30.2	24.3	—	24.3
Dr. So Shu Fai	4.3	—	41.2	45.5	4.3	—	4.3
Mr. Ng Chi Sing	3.8	0.9	37.6	42.3	3.8	0.9	4.7
Mr. Rui José da Cunha	1.4	—	3.5	4.9	1.4	—	1.4
Ms. Leong On Kei, Angela	1.7	0.6	23.5	25.8	1.7	0.4	2.1
Mr. Shum Hong Kuen, David	0.4	—	3.5	3.9	0.4	—	0.4
<b>Non-executive director</b>							
Dato' Dr. Cheng Yu Tung	6.0	—	1.2	7.2	6.0	—	6.0
<b>Independent non-executive directors</b>							
Mr. Tse Hau Yin	0.3	0.5	0.6	1.4	0.3	0.5	0.8
Mr. Shek Lai Him, Abraham	0.2	—	0.6	0.8	0.2	—	0.2
Mr. Chau Tak Hay	0.2	—	0.6	0.8	0.2	—	0.2
Mr. Lan Hong Tsung, David	0.2	—	0.6	0.8	0.2	—	0.2
	<b>42.8</b>	<b>2.0</b>	<b>118.8</b>	<b>163.6</b>	<b>42.8</b>	<b>1.8</b>	<b>44.6</b>

The five highest paid individuals included four (2008: four) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining highest paid individual is as follows:

	2009 HK\$ million	2008 HK\$ million
Employee		
— salaries and allowances	10.6	8.6
— share-based payments	11.8	—
	<b>22.4</b>	<b>8.6</b>

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 12. TAXATION

The charge represents current year taxation detailed below:

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

In addition, pursuant to the approval letter dated 2 December 2008 issued by the Finance Services Bureau of the MSAR government, SJM's shareholders were obligated to pay a tax of MOP18.0 million (equivalent to HK\$17.5 million) (the "Special Tax") for each of the years 2007 to 2011. During the year, the Company, as a shareholder of SJM, was obligated to pay HK\$17.5 million (2008: HK\$16.7 million).

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

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

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

	2009		2008	
	HK\$ million	%	HK\$ million	%
Profit before taxation	<u>812.3</u>		<u>672.2</u>	
Tax at the applicable income tax rate	(97.5)	(12.0)	(80.7)	(12.0)
Effect of tax exemption granted to SJM	200.3	24.7	161.7	24.1
Effect of share of results of an associate and a jointly controlled entity	(1.0)	(0.1)	0.6	0.1
Effect of income that is not taxable in determining taxable profits	3.8	0.5	3.0	0.4
Effect of expenses that are not deductible in determining taxable profits	(33.7)	(4.2)	(26.5)	(3.9)
Effect of tax loss not recognised	(72.2)	(8.9)	(57.5)	(8.6)
Utilisation of tax losses previously not recognised	0.4	—	0.3	—
Special Tax	(17.5)	(2.2)	(16.7)	(2.5)
Others	<u>(0.1)</u>	<u>—</u>	<u>(0.9)</u>	<u>(0.1)</u>
Tax charge and effective tax rate for the year	<u>(17.5)</u>	<u>(2.2)</u>	<u>(16.7)</u>	<u>(2.5)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 13. DIVIDENDS

	2009 HK\$ million	2008 HK\$ million
Dividends paid by SJM to its former shareholders prior to the Group Reorganisation	—	3,500.0
2008 final dividends paid — HK6.0 cents per share	<u>300.0</u>	<u>—</u>
	<u><b>300.0</b></u>	<u>3,500.0</u>

The final dividend of HK9.0 cents per share, totalling HK\$450 million, is proposed by the directors of the Company at a board meeting held on 29 March 2010, which is subject to approval by the shareholders of the Company in the forthcoming annual general meeting and is calculated on the basis of 5,000,000,000 shares in issue at the end of the reporting period.

## 14. EARNINGS PER SHARE

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

## Earnings

	2009 HK\$ million	2008 HK\$ million
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>906.7</u>	<u>796.1</u>

## Number of shares

	2009 (in million)	2008 (in million)
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,000.0	<u>4,327.2</u>
Effect of dilutive potential ordinary shares on share options	<u>16.5</u>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>5,016.5</b></u>	

For the year ended 31 December 2009, the computation of diluted earnings per share does not assume the conversion of the Company's convertible bonds as the conversion would result in an increase in earnings per share.

There was no potential ordinary shares arising during the year ended 31 December 2008.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 15. PROPERTY AND EQUIPMENT

	Land and buildings HK\$ million	Chips HK\$ million	Furniture, fixtures and equipment HK\$ million	Gaming equipment HK\$ million	Leasehold improvements HK\$ million	Motor vehicles HK\$ million	Vessel HK\$ million	Construction in progress HK\$ million	Total HK\$ million
<b>The Group</b>									
<b>Cost</b>									
At 1 January 2008	1,170.8	316.3	2,015.4	443.1	564.4	6.5	13.7	5,061.0	9,591.2
Additions	—	9.9	166.1	87.9	44.1	2.6	—	1,603.7	1,914.3
Disposals	—	—	(22.5)	—	(26.1)	—	—	—	(48.6)
Transfers	2,884.5	—	1,483.5	—	1,789.5	—	—	(6,157.5)	—
At 31 December 2008	<b>4,055.3</b>	<b>326.2</b>	<b>3,642.5</b>	<b>531.0</b>	<b>2,371.9</b>	<b>9.1</b>	<b>13.7</b>	<b>507.2</b>	<b>11,456.9</b>
Additions	—	34.6	915.5	94.3	86.0	2.6	—	586.1	1,719.1
Disposals	—	—	(9.3)	—	(34.4)	(0.1)	—	—	(43.8)
Transfers	225.7	—	180.2	—	223.0	—	—	(628.9)	—
At 31 December 2009	<b>4,281.0</b>	<b>360.8</b>	<b>4,728.9</b>	<b>625.3</b>	<b>2,646.5</b>	<b>11.6</b>	<b>13.7</b>	<b>464.4</b>	<b>13,132.2</b>
<b>Depreciation</b>									
At 1 January 2008	71.2	218.5	386.0	171.2	323.2	2.4	6.9	—	1,179.4
Provided for the year	83.7	61.9	319.3	114.2	187.0	1.5	1.4	—	769.0
Eliminated on disposals	—	—	(10.2)	—	(17.2)	—	—	—	(27.4)
At 31 December 2008	<b>154.9</b>	<b>280.4</b>	<b>695.1</b>	<b>285.4</b>	<b>493.0</b>	<b>3.9</b>	<b>8.3</b>	<b>—</b>	<b>1,921.0</b>
Provided for the year	193.5	43.2	452.7	115.4	300.9	1.9	1.4	—	1,109.0
Eliminated on disposals	—	—	(5.2)	—	(32.2)	—	—	—	(37.4)
At 31 December 2009	<b>348.4</b>	<b>323.6</b>	<b>1,142.6</b>	<b>400.8</b>	<b>761.7</b>	<b>5.8</b>	<b>9.7</b>	<b>—</b>	<b>2,992.6</b>
<b>Carrying value</b>									
At 31 December 2009	<b>3,932.6</b>	<b>37.2</b>	<b>3,586.3</b>	<b>224.5</b>	<b>1,884.8</b>	<b>5.8</b>	<b>4.0</b>	<b>464.4</b>	<b>10,139.6</b>
At 31 December 2008	3,900.4	45.8	2,947.4	245.6	1,878.9	5.2	5.4	507.2	9,535.9

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

Included in construction in progress at 31 December 2009 was interest capitalised of HK\$4.9 million (2008: HK\$4.9 million).

Also, at 31 December 2009, pursuant to the gaming concession held by the Group, certain of the Group's property and equipment with an aggregate carrying value of HK\$3,363.3 million (2008: HK\$2,752.4 million) in respect of the Group's gaming business have to be returned to the MSAR government upon completion of the term of the concession in 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 15. PROPERTY AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment HK\$ million	Leasehold improvements HK\$ million	Total HK\$ million
<b>The Company</b>			
<b>Cost</b>			
Additions during the year and balance at 31 December 2008	0.3	0.2	0.5
Additions during the year	<u>0.8</u>	<u>3.4</u>	<u>4.2</u>
At 31 December 2009	<u>1.1</u>	<u>3.6</u>	<u>4.7</u>
<b>Depreciation</b>			
Provided for the year and balance at 31 December 2008	0.1	—	0.1
Provided for the year	<u>0.2</u>	<u>0.2</u>	<u>0.4</u>
At 31 December 2009	<u>0.3</u>	<u>0.2</u>	<u>0.5</u>
<b>Carrying value</b>			
At 31 December 2009	<u>0.8</u>	<u>3.4</u>	<u>4.2</u>
At 31 December 2008	<u>0.2</u>	<u>0.2</u>	<u>0.4</u>

## 16. INVESTMENTS IN SUBSIDIARIES

	The Company 2009 HK\$ million	2008 HK\$ million
Unlisted shares, at cost	3,972.3	3,972.3
Deemed capital contribution in relation to issue of convertible bonds by a subsidiary	<u>395.2</u>	—
	<u>4,367.5</u>	<u>3,972.3</u>

Details of the Company's principal subsidiaries at the end of the reporting period are set out in note 53.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 17. LAND USE RIGHTS

	2009 HK\$ million	2008 HK\$ million
<b>The Group</b>		
<b>Carrying value</b>		
At 1 January	886.5	815.0
Additions during the year	0.3	110.5
Released and capitalised to construction in progress during the year	(1.1)	(27.7)
Released to profit or loss during the year	(39.9)	(11.3)
At 31 December	<u>845.8</u>	<u>886.5</u>

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

## 18. INTANGIBLE ASSETS

	Casino game license HK\$ million	Restaurant license HK\$ million	Total HK\$ million
<b>The Group</b>			
<b>Cost</b>			
At 1 January 2008	63.2	6.2	69.4
Written-off during the year	—	(6.2)	(6.2)
At 31 December 2008 and 31 December 2009	<u>63.2</u>	<u>—</u>	<u>63.2</u>
<b>Amortisation</b>			
At 1 January 2008	4.7	—	4.7
Amortised for the year	6.4	—	6.4
At 31 December 2008	<u>11.1</u>	<u>—</u>	<u>11.1</u>
Amortised for the year	<u>6.3</u>	<u>—</u>	<u>6.3</u>
At 31 December 2009	<u>17.4</u>	<u>—</u>	<u>17.4</u>
<b>Carrying value</b>			
At 31 December 2009	<u>45.8</u>	<u>—</u>	<u>45.8</u>
At 31 December 2008	<u>52.1</u>	<u>—</u>	<u>52.1</u>

The cost of a license for operating a casino game is amortised on a straight line basis over the term of the license representing its useful life of 10 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 19. ART WORKS AND DIAMONDS

	HK\$ million
<b>The Group</b>	
<b>Cost and carrying value</b>	
At 1 January 2008	278.9
Additions during the year	<u>2.8</u>
At 31 December 2008	<b>281.7</b>
Additions during the year	<u>7.5</u>
At 31 December 2009	<b><u>289.2</u></b>

The amount represents the aggregate cost of art works and diamonds held by the Group. In the opinion of the directors, after referencing to professional valuation reports, the residual value of the art works and diamonds approximates its carrying amount at the end of both reporting periods. Therefore, no depreciation nor impairment is provided for the years ended 31 December 2009 and 31 December 2008.

## 20. INTEREST IN AN ASSOCIATE

	<b>The Group</b>	
	<b>2009</b>	2008
	HK\$ million	HK\$ million
Cost of investment	<b>25.0</b>	25.0
Discount on acquisition	<b>6.8</b>	6.8
Share of post-acquisition profits	<u>35.6</u>	<u>32.8</u>
	<b><u>67.4</u></b>	<u>64.6</u>

The cost of investment in an associate represents the Group's 49% equity interest in Zhen Hwa Harbour Construction Company Limited ("Zhen Hwa") which is established in MSAR and engaged in the provision of construction services and investment holding.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 20. INTEREST IN AN ASSOCIATE (Continued)

The summarised financial information in respect of the Group's associate is set out below:

	As at 31 December	
	2009 HK\$ million	2008 HK\$ million
Total assets	766.1	465.7
Total liabilities	<b>(628.5)</b>	(333.9)
Net assets	<b>137.6</b>	131.8
Group's share of associate's net assets	<b>67.4</b>	64.6

	For the year ended 31 December	
	2009 HK\$ million	2008 HK\$ million
Revenue	<b>982.6</b>	491.4
Profit for the year	<b>5.7</b>	8.1
Group's share of losses of an associate for the year*	<b>(13.5)</b>	(1.5)

\* The amounts have been adjusted for the unrealised profits of HK\$16.3 million for the year ended 31 December 2009 (2008: HK\$5.5 million).

## 21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2009 HK\$ million	2008 HK\$ million
Cost of investment	<b>39.7</b>	39.7
Share of post-acquisition profits	<b>28.0</b>	22.6
	<b>67.7</b>	62.3

The cost of investment in jointly controlled entity represents the Group's 49% equity interest in Chong Fung Real Estate Investment Limited ("Chong Fung") which is established in MSAR and engaged in property investment.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 21. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

At the end of the reporting period, included in the cost of investment is goodwill of HK\$34.3 million (2008: 34.3 million) arising on acquisition of the jointly controlled entity.

The summarised financial information in respect of the Group's interest in a jointly controlled entity which is accounted for using equity method is set out below:

	As at 31 December	
	2009 HK\$ million	2008 HK\$ million
Total assets	54.3	48.0
Total liabilities	(20.9)	(20.0)
Net assets	33.4	28.0

	For the year ended 31 December	
	2009 HK\$ million	2008 HK\$ million
Revenue	7.5	8.8
Profit for the year	5.4	6.6

### 22. AVAILABLE-FOR-SALE INVESTMENTS IN EQUITY SECURITIES

#### The Group

The balance represents investments in unlisted overseas equity securities. It is not practicable to estimate the fair values of these investments as there is no reliable fair value measurement. Hence, the carrying amounts are stated at cost less any identified impairment losses at the end of both reporting periods.

### 23. DEPOSITS MADE ON ACQUISITIONS

	The Group	
	2009 HK\$ million	2008 HK\$ million
Deposits made on acquisitions of		
— land use rights	65.5	65.8
— property and equipment	102.6	153.2
	168.1	219.0



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 24. AMOUNT DUE FROM A FELLOW SUBSIDIARY

#### The Group

Balance represents lease receivables (see note 37) that carry variable rate with effective interest ranging from 2.28% to 6.68% (2008: 5.86% to 6.18%) per annum.

### 25. PLEDGED BANK DEPOSITS

#### The Group

At 31 December 2009, deposits amounting to HK\$145.6 million (2008: HK\$145.6 million) have been pledged to secure the bank facilities granted to a subsidiary of the Company. The bank facilities represent a guarantee amounting to HK\$291.3 million from 11 February 2008 to the earlier of 180 days after the expiry of the gaming concession contract or 31 March 2020, which is in favour of the MSAR government against the legal and contractual financial obligations of SJM under the gaming concession contract. Given the nature of the facility, the pledged bank deposits are classified as non-current assets.

In addition, at 31 December 2009, deposits amounting to HK\$0.3 million (2008: HK\$0.3 million), has been pledged to a bank for provision of guarantee in favour of the MSAR government to demonstrate the financial ability of a wholly-owned subsidiary of the Company to send back their imported labour to their respective home countries.

As at 31 December 2009, the remaining deposits under current assets amounting to HK\$265.1 million (2008: HK\$268.5 million) have been pledged in favour of the MSAR government for the payment of land premium of a subsidiary which is expected to be settled in 2010.

At 31 December 2009, the pledged bank deposits carry fixed interest rates at 0.05% to 0.52% (2008: 0.26% to 3.94%) per annum.

### 26. BANK DEPOSITS/SHORT-TERM BANK DEPOSITS

#### The Group and The Company

At 31 December 2009, the bank deposits carry fixed interest rate at 1.25% per annum with original maturity of 18 months. The short-term bank deposits carry fixed interest rates ranging from 0.2% to 0.63% per annum with original maturity of 6 months.

### 27. TRADE AND OTHER RECEIVABLES

	The Group	
	2009 HK\$ million	2008 HK\$ million
Advances to gaming promoters	733.8	426.9
Other receivables from gaming promoters	113.9	215.5
Prepayments	86.3	61.9
Others	299.3	225.7
	<u>1,233.3</u>	<u>930.0</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 27. TRADE AND OTHER RECEIVABLES (Continued)

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

	The Group	
	2009 HK\$ million	2008 HK\$ million
Age		
0 to 90 days	626.6	107.1
91 to 180 days	5.1	102.7
181 to 365 days	33.3	120.6
Over 365 days	68.8	96.5
	<b>733.8</b>	426.9

In general, SJM provides temporary interest-free credit to gaming promoters which is repayable on demand in the month following the month in which the credit is granted. The relevant temporary credit is generally limited to the commissions accrued/payable to gaming promoters. SJM may also grant credit to gaming promoters that is repayable through instalments and revolving credit facilities with pre-approved credit lines, in which cheques or other forms of securities such as letters of credit is provided by gaming promoters to SJM.

The directors consider that this credit is only temporary credit provided against unpaid commissions to gaming promoters and is granted based on the performance and financial background of the relevant gaming promoters. In some cases, unsecured credit of not more than the equivalent of two to three months' commissions accrued/payable to the relevant gaming promoters may be granted to those gaming promoters with good credit histories and track records of large business volumes. In the event that a gaming promoter fails to repay credit granted by SJM, SJM has the right, pursuant to the relevant gaming promoter agreement, to withhold commissions payable to the gaming promoter to satisfy the credit granted until full repayment is made.

The advances to gaming promoters and other receivables from gaming promoters are interest-free, unsecured and repayable on demand.

## Movement in the allowance for doubtful debts

	The Group	
	2009 HK\$ million	2008 HK\$ million
At 1 January	24.5	—
Allowance for doubtful debts	—	24.5
At 31 December	<b>24.5</b>	24.5

Included in the allowance for doubtful debts are individually impaired receivables from gaming promoters with an aggregate balance of HK\$24.5 million (2008: HK\$24.5 million) since the management considered the prolonged outstanding balances from individual gaming promoters were uncollectible.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 27. TRADE AND OTHER RECEIVABLES (Continued)

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

	<b>The Group</b>	2008
	<b>2009</b>	2008
	<b>HK\$ million</b>	HK\$ million
STDM group and its associates	<b>126.7</b>	39.8
An associate	<b>9.5</b>	70.8
Entities in which certain directors of the Company and/or their close family members have beneficial interests	<b>40.8</b>	26.7
Entity in which a director of a subsidiary of the Company has a beneficial interest	<b>1.2</b>	2.6
	<b>178.2</b>	139.9

### 28. LOAN RECEIVABLES

#### The Group

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

A facility agreement was entered into on the same date by the Finance Company as lender; the ultimate holding company of the minority shareholder of a subsidiary, Pier 16–Property Development Limited ("Pier 16 – Property"), as a borrower (the "Borrower"); and an intermediate holding company of the minority shareholder of Pier 16 – Property as security provider (the "Chargor"), pursuant to which the Finance Company will provide the Borrower with the Revolving Loan Facility. If the Borrower fails to repay, the Finance Company can take those steps set out in the Revolving Loan Facility and the Chargor shall sell and transfer the relevant charged shares, being 51% equity interests in an intermediate holding company of the minority shareholder of Pier 16 – Property, to SJM – I together with all rights, benefits, title and interests.

The Revolving Loan Facility is available for a term of 3 years commencing from the date of the above facility agreement and is for an aggregate principal amount of HK\$250 million. The Revolving Loan Facility carries an interest rate at 2.6% over HIBOR. The Finance Company would charge SJM – I a fee calculated at the rate of 0.1% per annum of the principal borrowed. The proceeds of the Revolving Loan Facility were applied by the Borrower in connection with the cashflow requirements of Pier 16 – Property and its subsidiaries, being the obligations to provide shareholders loans to Pier 16 Property in respective ownership proportions.

As at 31 December 2009, HK\$132 million was utilised and revolving for a term of 3 months.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 29. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

**The Group**

The amount due from ultimate holding company arising from the Chips Agreement as defined in note 52(b) is unsecured, interest-free and is expected to realise within 12 months from the end of the reporting period.

## 30. AMOUNT DUE FROM AN ASSOCIATE

**The Group**

The amount is unsecured, interest-free and is expected to realise within 12 months from the end of the reporting period.

## 31. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

**The Group**

The amount is unsecured, interest-free and is expected to realise within 12 months from the end of the reporting period.

## 32. AMOUNTS DUE FROM INVESTEE COMPANIES

**The Group**

The amount represents loans to the investees which are unsecured, interest-free and are expected to realise within 12 months from the end of the reporting period.

## 33. INVESTMENT IN TRADING SECURITIES

**The Group**

The investment in trading securities comprised equity shares listed on the Stock Exchange and were carried at market bid price at the end of the reporting period.

## 34. TRADE AND OTHER PAYABLES

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$ million</b>	<b>HK\$ million</b>
Trade payables	<b>1,239.6</b>	862.2
Special gaming tax payable	<b>1,325.2</b>	844.2
Chips liabilities	<b>2,725.9</b>	1,561.5
Payables for acquisition of property and equipment	<b>78.3</b>	30.2
Construction payables	<b>562.3</b>	357.3
Deposits received from gaming patrons and gaming promoters	<b>237.5</b>	327.3
Accrued staff costs	<b>194.1</b>	184.8
Rentals payables	<b>106.7</b>	57.0
Withholding tax payable for gaming promoters	<b>7.0</b>	3.5
Withholding tax payable on employees' professional tax	<b>10.6</b>	4.5
Other payables	<b>407.8</b>	350.3
	<b>6,895.0</b>	4,582.8

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 34. TRADE AND OTHER PAYABLES (Continued)

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

	<b>The Group</b>	
	<b>2009</b>	2008
	<b>HK\$ million</b>	HK\$ million
Age		
0 to 90 days	<b>1,213.5</b>	704.9
91 to 180 days	<b>13.6</b>	64.8
181 to 365 days	<b>8.6</b>	92.5
Over 365 days	<b>3.9</b>	—
	<b>1,239.6</b>	862.2

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

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

	<b>The Group</b>	
	<b>2009</b>	2008
	<b>HK\$ million</b>	HK\$ million
STDM group and its associates	<b>95.1</b>	223.6
An associate	<b>341.1</b>	172.6
Entities in which certain directors of the Company and/or their close family members have beneficial interests	<b>262.5</b>	190.0
Entity in which a director of a subsidiary of the Company has a beneficial interest	<b>3.2</b>	3.1
	<b>701.9</b>	589.3

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

#### **The Company**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 36. FINANCIAL GUARANTEE OBLIGATIONS

#### The Group

At 31 December 2009, the financial guarantee obligations represent a financial guarantee contract issued by the Group, which will expire in the year 2010 with maximum guarantee amount of HK\$89.9 million (2008: HK\$179.8 million) provided by the Group, to a related company in which Dr. Ho has a beneficial interest. In addition, the fair value of financial guarantee obligations in respect of the investee companies and an associate (note 50) at initial recognition is insignificant. No provision for financial guarantee contracts have been made at 31 December 2009 and 2008 as the default risk is low.

#### The Company

At 31 December 2009, the Company guarantees payments of all sums payable in relation to the convertible bonds issued by a subsidiary (note 40). The directors of the Company consider the fair value of such financial guarantee is not significant taking into account, among others, the fact that all the proceeds arising from the convertible bonds have been lent to the Company and recognised in the amount due to a subsidiary under current liabilities in the Company's statement of financial position.

### 37. OBLIGATIONS UNDER FINANCE LEASES

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	2009	2008
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Amounts payable under finance leases				
— within one year	49.6	36.5	33.3	16.0
— between one to two years	40.3	39.8	23.6	18.5
— between two to five years	121.0	119.5	79.2	62.5
— after five years	256.1	344.0	226.4	284.4
	<u>467.0</u>	539.8	<u>362.5</u>	381.4
Less: Future finance charges	(104.5)	(158.4)		
Present value of lease obligations	<u>362.5</u>	<u>381.4</u>		
Less: Amounts due within one year shown under current liabilities			<u>(33.3)</u>	(16.0)
Amounts due after one year			<u>329.2</u>	<u>365.4</u>

As at 31 December 2009, Sky Reach Investments Limited ("Sky Reach"), a wholly-owned subsidiary of the Company, had entered into certain lease agreements each for a term of 10 years (the "Aircraft Agreements") with a finance company and Companhia de Aviação Jet Asia Limitada ("Jet Asia"), a subsidiary of STDM, to lease certain aircraft in MSAR in which the aircraft were then immediately sub-leased to Jet Asia. The Aircraft Agreements have terms of renewal and purchase option clauses. Pursuant to the Aircraft Agreements, the Group is entitled to recover any amounts and charges payable to the finance company under the Aircraft Agreements from Jet Asia. The amounts are denominated in United States Dollars and carry variable interest rates with an effective interest rate ranging from 2.28% to 6.68% per annum at 31 December 2009 (2008: from 5.86% to 6.18% per annum). The Group's obligations under finance leases are secured by the leased aircraft held by Jet Asia and the 100% shareholding of Sky Reach held by the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 37. OBLIGATIONS UNDER FINANCE LEASES (Continued)

In view of decline in resale value of certain aircraft during the year, the finance company revoked a clause in the Aircraft Agreements requiring the Group to make accelerated lease payments in an aggregate amount of HK\$84.5 million, of which HK\$71.5 million was settled by the Group in 2009 but not yet received from Jet Asia at the end of the reporting period. Such amount is included in trade and other receivables in the current assets.

At 31 December 2009, the relevant lease receivables from Jet Asia for the Aircraft Agreements which have equivalent repayment terms as the obligations under finance leases amounted to HK\$362.5 million (2008: HK\$381.4 million), out of which HK\$329.2 million (2008: HK\$365.4 million) is recorded as amount due from a fellow subsidiary in the non-current assets. The remaining amount of HK\$33.3 million at 31 December 2009 (2008: HK\$16.0 million) is included in trade and other receivables in current assets.

### 38. BANK LOANS

	<b>The Group</b>	
	<b>2009</b>	2008
	<b>HK\$ million</b>	HK\$ million
The syndicated secured bank loans are repayable		
— within one year	<b>1,040.0</b>	1,020.0
— between one to two years	<b>1,040.0</b>	1,040.0
— between two to five years	<b>3,062.0</b>	3,784.0
	<b>5,142.0</b>	5,844.0
Less: Amount due within one year shown under current liabilities	<b>(1,040.0)</b>	(1,020.0)
Amount due after one year	<b>4,102.0</b>	4,824.0

At 31 December 2009, the Group's syndicated secured bank loans carried interest ranging from 1.4% to 2.1% over 3-month HIBOR per annum with effective interest rates ranging from 1.5% to 5.9% (2008: 2.4% to 7.1%) per annum and are all denominated in Hong Kong dollars. The purpose of the loans is to finance certain construction projects in MSAR. At 31 December 2009, the loans are secured by certain of the Group's property and equipment, and land use right with carrying values of HK\$6,127.4 million (2008: HK\$6,062.3 million) and HK\$797.3 million (2008: HK\$836.7 million) respectively. In addition, the bank loans were secured by the following:

- (i) an assignment of all receivables and income from hotel operation of Ponte 16 property;
- (ii) an assignment of all receivables of Grand Lisboa – Property Investment Company Limited and SJM (limited to the income after taxes, levies, commission and allowance to junkets derived from the Grand Lisboa casino);
- (iii) floating charges over all assets (except immovable property) and legal charges over certain bank accounts of certain subsidiaries with an aggregate carrying value of HK\$5,411.1 million (2008: HK\$6,439.0 million); and
- (iv) share pledges over the shares of certain subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 39. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

#### The Group

Pursuant to the relevant agreement entered into between the Group and the minority shareholder of a subsidiary, the minority shareholder of the subsidiary agreed to subordinate the amount due from the subsidiary to the bank to secure the subsidiary's long-term bank loans and therefore is classified as a non-current liability.

At 31 December 2009, interest on the amount due to a minority shareholder of the subsidiary of HK\$807.3 million (2008: HK\$610.2 million) has been computed based on the principal amount of HK\$1,089.0 million (2008: HK\$900.5 million) at a weighted original effective interest rate of approximately 5.08% (2008: 5.62%) per annum, taking into account a projection on the timing of realisation of surplus funds representing the cash available in the relevant subsidiary of the Group after estimated payments of all operating expenses and payables including but not limited to bank loans and third party loans which are due for repayments together with the accrued interests.

### 40. CONVERTIBLE BONDS

#### The Group

On 28 October 2009, Champion Path Holdings Limited ("Champion Path"), a wholly-owned subsidiary of the Company, issued zero coupon convertible bonds, which are listed in Singapore Exchange Securities Trading Limited, at a principal amount of HK\$2,000 million (the "Bonds") maturing on 28 October 2015 (the "Maturity Date"). The Bonds are denominated in Hong Kong dollars and the Company agrees to guarantee payment of all sums payable in relation to such Bonds.

The principal terms of the Bonds are as follows:

- (a) The Bonds are convertible, at the option of the bondholders, into ordinary shares of HK\$1 each, by issuing new shares, of the Company at a conversion price of HK\$5.35 per share, subject to anti-dilutive adjustments, at any time on or after 8 December 2009 up to the close of business on the 7th day prior to the Maturity Date. Unless previously redeemed, converted or purchased and cancelled, the outstanding Bonds will be redeemed by Champion Path at 112.68% of its principal amount on the Maturity Date.
- (b) On or at any time after 28 April 2011 and prior to the Maturity Date, Champion Path may redeem all, but not some only, of the Bonds at a redemption price equal to the applicable early redemption amount predetermined in the convertible bonds agreement, which is an amount calculated with reference to the principal amount of the Bonds generally representing for the bondholders a gross yield of 2% per annum (calculated on a semi-annual basis).
- (c) Champion Path will, at the option of the bondholders, redeem all, or some only, of the Bonds on 28 April 2011 at the applicable early redemption amount predetermined in the convertible bonds agreement.

At initial recognition, the Bonds are split into an equity component of HK\$395.2 million and a liability component of HK\$1,604.8 million. The liability component is determined based on the present value of the estimated future cash flows discounted at an effective interest rate of 5.82% per annum, being the average yield of similar financial instruments with similar credit rating and structure which incorporated appropriate adjustments to reflect possible impact of country factors, firm specific risk and liquidity risk.

As the Company's and bondholders' early redemption options are considered as closely related to the host contracts, the fair values of these options, which are determined using Binomial Option Pricing Model at initial recognition, have not been separated from the host contracts, but included in the carrying amount of the liability component. The equity component is presented as convertible bonds equity reserve in equity, whereas the liability component is classified under non-current liabilities at 31 December 2009.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 40. CONVERTIBLE BONDS (Continued)

The movement of the liability component of the Bonds for the year is as follows:

	HK\$ million
Liability component at date of issue	1,604.8
Transaction cost attributable to the liability component of the Bonds	<u>(33.3)</u>
	1,571.5
Imputed interest expense for the year	<u>16.7</u>
At 31 December 2009	<u><u>1,588.2</u></u>

None of the Bonds had been converted into ordinary shares of the Company during the year.

Fair value of the entire Bonds as at 31 December 2009 is HK\$2,161.1 million based on the market bid price.

### 41. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount HK\$	Number of shares	Amount HK\$
Ordinary shares of HK\$1 each				
At 1 January 2008	10,000	10,000	1	1
Increase in authorised share capital	14,999,990,000	14,999,990,000	—	—
Issued pursuant to the Group Reorganisation	—	—	269,999,999	269,999,999
Capitalisation issue	—	—	3,480,000,000	3,480,000,000
Issue of shares	—	—	1,250,000,000	1,250,000,000
	<u>—</u>	<u>—</u>	<u>1,250,000,000</u>	<u>1,250,000,000</u>
At 31 December 2008 and 31 December 2009	<u><b>15,000,000,000</b></u>	<u><b>15,000,000,000</b></u>	<u><b>5,000,000,000</b></u>	<u><b>5,000,000,000</b></u>

### 42. SHARE OPTION SCHEME

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 42. SHARE OPTION SCHEME (Continued)

Options granted are exercisable for a period of 9 years commencing on the date falling 6 months after the date of grant and expiring on the last day of the said 9 years period; where the acceptance date should not be later than 28 days after the date of grant. A nominal consideration of HK\$1 is payable on acceptance of the grant of options. The subscription price of the option shares is not less than the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing prices of the shares on the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Option Scheme may not exceed in nominal amount of 10% of the issued share capital of the Company at the date of adoption of the Option Scheme. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. The maximum entitlement of each participant excluding substantial shareholders, and independent non-executive directors in any 12-month period (including the date of grant) is 1% of the number of shares in issue as at the date of grant. No grant may be made to substantial shareholders and independent non-executive directors of the Company or their respective associates if such grant would result in the shares issued and falling to be issued upon the exercise of such options proposed to be granted and all other options already granted and to be granted (a) representing in aggregate over 0.1% of the number of shares then in issue; and (b) having an aggregate value, based on the closing price of the shares on each relevant date on which the grant of such options is made, in excess of HK\$5 million, unless such grant has first been approved by the independent shareholders in general meeting.

On 13 July 2009, a total of 166.7 million share options were granted to 77 Participants, including all the directors of the Company, at an exercise price of HK\$2.82 per share option under the terms of the Option Scheme. On 7 October 2009, the Company further granted 1.2 million share options to a Participant at an exercise price of HK\$4.48 per share option under the terms of the Option Scheme. Total consideration received from the Participants for taking up the options granted amounted to HK\$78.

A summary of the movements of the outstanding options during the year ended 31 December 2009 under the Option Scheme is as follows:

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Number of share options		
					Outstanding at 1.1.2009	Granted during the year	Outstanding at 31.12.2009
Directors	13.7.2009	13.7.2009–12.1.2010	13.1.2010–12.1.2019	2.82	—	101,000,000	101,000,000
Employees	13.7.2009	13.7.2009–12.1.2010	13.1.2010–12.1.2019	2.82	—	39,800,000	39,800,000
	13.7.2009	13.7.2009–12.1.2011	13.1.2011–12.1.2019	2.82	—	10,000,000	10,000,000
	13.7.2009	13.7.2009–12.1.2012	13.1.2012–12.1.2019	2.82	—	10,000,000	10,000,000
Others (note)	13.7.2009	13.7.2009–12.1.2010	13.1.2010–12.1.2019	2.82	—	5,900,000	5,900,000
	7.10.2009	7.10.2009–6.4.2010	7.4.2010–6.4.2019	4.48	—	1,200,000	1,200,000
					—	167,900,000	167,900,000

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 42. SHARE OPTION SCHEME (Continued)

All share options at the end of the reporting period are yet to be exercisable.

The estimated fair values of share options granted on 13 July 2009 and 7 October 2009 were HK\$210.6 million and HK\$2.7 million respectively.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

Date of grant	13 July 2009	7 October 2009
Number of share options	166,700,000	1,200,000
Vesting period	Based on the terms stipulated in the Option Scheme	Based on the terms stipulated in the Option Scheme
Weighted average share price at date of grant	HK\$2.818	HK\$4.320
Expected life	5–6 years	5 years
Exercise price per share	HK\$2.82	HK\$4.48
Expected volatility	66.46%	65.07%
Risk-free interest rate	1.74%–1.94%	1.695%
Expected dividend yield	3.26%	1.12%

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, and changes in these subjective input assumptions can materially affect the fair value estimate.

Expected volatility was determined by using historical volatility of the Company's share price since the Company has been listed on the Stock Exchange since July 2008. The expected life used in the model has been estimated, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group and the Company recognised total expenses of HK\$173.9 million and HK\$118.8 million respectively during the year ended 31 December 2009 in relation to share options granted by the Company. The Company levied an inter-company charge of HK\$55.1 million on the subsidiaries in respect of share options granted to the staff providing services to these subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 43. RESERVES

	Share premium HK\$ million	Share options reserve HK\$ million	Convertible bonds equity reserve HK\$ million	Retained profits HK\$ million	Total HK\$ million
<b>The Company</b>					
At 1 January 2008	—	—	—	—	—
Arising on Group Reorganisation	2,731.4	—	—	—	2,731.4
Issue of shares	2,600.0	—	—	—	2,600.0
Capitalisation issue	(3,480.0)	—	—	—	(3,480.0)
Expenses incurred in connection with the issue of shares	(224.0)	—	—	—	(224.0)
Total comprehensive income for the year	—	—	—	332.0	332.0
At 31 December 2008	<b>1,627.4</b>	<b>—</b>	<b>—</b>	<b>332.0</b>	<b>1,959.4</b>
Recognition of equity settled share-based payments	—	173.9	—	—	173.9
Recognition of equity component of convertible bonds issued by a subsidiary	—	—	395.2	—	395.2
Dividends paid	—	—	—	(300.0)	(300.0)
Total comprehensive income for the year	—	—	—	472.2	472.2
At 31 December 2009	<b>1,627.4</b>	<b>173.9</b>	<b>395.2</b>	<b>504.2</b>	<b>2,700.7</b>

## 44. UNRECOGNISED DEFERRED TAXATION

At 31 December 2009, the Group has unutilised tax losses of HK\$1,222.7 million (2008: HK\$624.8 million) available for offset against future profits. No deferred tax assets has been recognised in respect of these losses due to the unpredictability of future profit streams. These unrecognised tax losses will expire as follows:

	The Group 2009 HK\$ million	2008 HK\$ million
Tax losses expire in		
2010	142.1	145.5
2011	479.3	479.3
2012	601.3	—
	<b>1,222.7</b>	<b>624.8</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 45. MAJOR NON-CASH TRANSACTIONS

In 2009, property and equipment totalling HK\$57.8 million and HK\$77.4 million were settled by utilising prepayments included in trade and other receivables and deposits made on acquisitions respectively.

During the year, the Group entered into an additional agreement (as defined in note 37) with present value of minimum lease payments of HK\$74.1 million (2008: HK\$222.3 million).

### 46. OPERATING LEASE COMMITMENTS

#### The Group

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

	Land use rights		Rented premises		Slot machines	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
Within one year	2.5	—	219.4	313.2	0.1	0.1
In the second to fifth year inclusive	10.0	—	647.4	1,174.2	0.4	0.4
After five years	46.7	—	469.7	1,280.3	—	0.1
	<u>59.2</u>	<u>—</u>	<u>1,336.5</u>	<u>2,767.7</u>	<u>0.5</u>	<u>0.6</u>

Leases of rented premises and slot machines are negotiated for terms ranging from 1 to 18 years and of 10 years respectively. The operating lease rentals of certain slot machines are based on the higher of a minimum guaranteed rental or a certain percentage of net gaming wins of slot machines. The minimum guaranteed rental has been used to arrive at the above commitments.

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

In November 2004, SJM issued a legally binding confirmation letter to a company in which STDM and a director of the Company have indirect beneficial interests (the "Lessor") pursuant to which SJM conditionally agreed to lease from the Lessor certain premises in MSAR for the operation of a casino. According to the confirmation letter, the term of the lease will be for a period from the commencement of business at the premises to the expiry of the gaming concession contract on 31 March 2020, subject to the terms of the proposed lease agreement. The monthly operating lease rentals of the premises are in an aggregate amount equivalent to (i) 40% of the gross monthly revenue of the casino in respect of the first 60 gaming tables and (ii) certain percentage, being not less than 30%, to be further agreed between SJM and the Lessor, of the gross monthly revenue in respect of the remaining gaming tables at the casino. Lease of premises for operation of this casino has not yet commenced as at the end of the reporting period.

At 31 December 2009, operating lease rentals committed to STDM group and its associates and companies in which certain directors of the Company have beneficial interests amounted to HK\$1,143.6 million (2008: HK\$1,439.8 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 46. OPERATING LEASE COMMITMENTS (Continued)

**The Company**

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

	2009 HK\$ million	2008 HK\$ million
Within one year	4.7	0.4
In the second to fifth year inclusive	6.6	—
	<u>11.3</u>	<u>0.4</u>

## 47. CAPITAL COMMITMENTS

	The Group 2009 HK\$ million	2008 HK\$ million
Capital expenditure in respect of property and equipment — authorised but not contracted for	<u>252.9</u>	<u>566.1</u>
— contracted for but not provided in the consolidated financial statements	<u>410.3</u>	<u>835.4</u>

At 31 December 2009, capital expenditure in respect of property and equipment committed to an associate and companies in which certain directors of the Company have beneficial interests was HK\$585.7 million (31 December 2008: HK\$1,274.0 million).

## 48. OTHER COMMITMENTS

**The Group**

In 2004, SJM entered into an agreement with a Portuguese school in Macau for the use of a piece of land currently occupied by the school. The consideration comprises the construction of a new school in Taipa Island in MSAR for an amount not exceeding HK\$97.1 million and a donation of HK\$184.5 million. At 31 December 2009, deposits of HK\$65.5 million (2008: HK\$65.5 million) were paid of which HK\$46.1 million (2008: HK\$46.1 million) is refundable if the agreement is void pursuant to its terms.

## 49. PLEDGE OF ASSET

**The Group**

On 26 April 2005, SJM and SJM-I entered into a subordination agreement to subordinate the amount receivable from its subsidiary of HK\$120 million to a bank to secure a term loan facility granted to a wholly-owned subsidiary of an investee company which is held by a subsidiary to the extent of HK\$120 million. Such loan was settled in 2009 and the subordination was released after the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 50. CONTINGENT LIABILITIES AND GUARANTEES

	The Group			
	2009	2009	2008	2008
	Maximum guarantees given HK\$ million	Credit facilities utilised HK\$ million	Maximum guarantees given HK\$ million	Credit facilities utilised HK\$ million
Guarantees given to banks in respect of credit facilities granted to				
— an associate	67.3	0.9	67.3	1.1
— investee companies	86.5	335.0	86.5	557.4
— a related company in which a director of the Company has a beneficial interest	89.9	89.9	179.8	179.8
	<u>243.7</u>	<u>425.8</u>	<u>333.6</u>	<u>738.3</u>

At the end of the reporting period, the Group was a guarantor in respect of a deed entered into between a shareholder of Zhen Hwa and an independent third party for a construction project in MSAR. Pursuant to the deed, the Group has guaranteed the performance of Zhen Hwa under the deed and agreed to indemnify the third party, against all liabilities, losses, damages, costs and expenses suffered or incurred by the third party by reason of any act, failure, default or omission on the part of Zhen Hwa in performing and observing its obligations under and in connection with the warranty. There is no claims from third party in both years.

Also, at the end of the reporting period, the Group and its shareholders and their affiliates are parties to various legal claims. In the opinion of the directors, regardless of how such cases are adjudicated by the courts, none of the proceedings, taken alone or together, will have a material adverse impact on the shares of the Company or assets of the Group, the validity or legality of its Group Reorganisation and/or the listing of the shares of the Company on the Stock Exchange or the interests of its shareholders.

#### The Company

On 28 October 2009, a subsidiary of the Company issued zero coupon convertible bonds at a principal amount of HK\$2,000 million maturing on 28 October 2015. The Company agrees to guarantee payment of all sums payable in relation to such bonds.

### 51. RETIREMENT BENEFITS SCHEMES

#### The Group

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

The Group and the Company operate a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group and the Company in funds under the control of a trustee. The Group and the Company contribute 5% of the relevant payroll costs to the Scheme, which contribution is matched by employees but subject to a maximum amount of HK\$1,000 per month for each employee.

SJM operates a defined contribution retirement scheme for all qualifying employees since 1 July 2003. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 51. RETIREMENT BENEFITS SCHEMES (Continued)

**The Group (Continued)**

The retirement scheme cost represents contributions payable to the funds by SJM at rates specified in the rules of the scheme. Where there are employees who leave the Scheme prior to vesting fully in the contributions, the contributions payable by SJM are reduced by the amount of forfeited contributions.

## 52. RELATED PARTY TRANSACTIONS

**The Group**

Other than the transactions and balances with related parties disclosed in respective notes in these consolidated financial statements, during the year, the Group had the following significant transactions with related parties:

(a) During the year, the Group had the following significant transactions with its related companies:

Relationship of related companies	Nature of transactions	2009 HK\$ million	2008 HK\$ million
STDM group and its associates (as defined under Chapter 14A of the Listing Rules)	Hotel accommodation (note 52(c))	76.9	83.0
	Hotel management and operation (note 52(c))	6.4	100.4
	Entertainment and staff messing (note 52(c))	76.0	78.8
	Dredging services (note 52(c))	82.7	43.7
	Transportation (note 52(c))	239.7	346.1
	Promotional and advertising services (note 52(c))	23.3	18.5
	Maintenance services (note 52(c))	67.5	59.5
	Property rentals (note 52(d))	111.1	73.1
	Share of administration expenses (note 52(e))	42.7	47.4
	Aircraft sublease rental receipts (note 52(f))	115.9	30.4
Entities other than the above in which STDM, certain directors of the Company and/or their close family members have beneficial interests	Entertainment	7.7	23.4
	Property rentals	49.3	78.3
	Purchase of property and equipment	52.6	33.3
	Promotion card commission expenses	—	25.4
	Insurance expenses	43.8	50.9
	Construction costs paid	313.8	823.1
	Service fees in relation to the promotion of a casino and a slot hall	118.3	12.6
	Hotel accommodation	24.7	31.0
	Promotion and advertising expenses	48.4	41.6
Maintenance services	10.4	11.9	
An associate	Construction costs paid	724.6	427.5
Entity in which a director of a subsidiary of the Company has a beneficial interest	Printing and stationery expenses	2.9	4.4



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2009*

### 52. RELATED PARTY TRANSACTIONS (Continued)

- (b) In 2002, SJM was granted a concession to operate casinos in MSAR. For this purpose, STDM transferred its gaming assets to SJM. SJM has been borrowing casino chips from STDM for the purpose of its business operation since SJM, as a new concessionaire from 2002, does not have sufficient casino chips to meet its business needs. According to the gaming concession contract, SJM is permitted to use STDM's casino chips, both in treasury and those put in circulation by STDM prior to 1 April 2002 and should honour such casino chips. In order to regulate the borrowing and use of STDM chips, the Group entered into a chips agreement with STDM dated 18 June 2008 (the "Chips Agreement") regarding the honouring and borrowing of STDM chips. Under the Chips Agreement, the Group has agreed to honour the STDM chips in circulation upon their redemption by patrons or clients. In addition, STDM has agreed to reimburse the STDM chips presented by the Group to STDM, by paying to the Group the aggregate face value of chips so presented in cheque within the same quarter when such presentation takes place. During the year ended 31 December 2009, the net amount received and receivable on reimbursement of STDM chips in circulation amounted to HK\$24.3 million (2008: HK\$368.1 million).
- (c) The Group entered into a products and services master agreement dated 18 June 2008 with STDM (the "Products and Services Master Agreement") for the provision of products and services by STDM. The types of products and services includes hotel accommodation, hotel management and operation, entertainment and staff messing, dredging services, transportation, promotional and advertising services, travel agency services and maintenance services. The Products and Services Master Agreement is for a term of three years, provided that the Group may at any time, by giving at least three months' prior written notice of termination to STDM, terminate the agreement earlier. The amount of transactions during the year were disclosed in note 52(a) above.
- (d) The Group entered into a premises leasing master agreement dated 18 June 2008 with STDM (the "Premises Leasing Master Agreement") for the leasing of properties by STDM or the members of the STDM group to the Group. The term of each implementing lease will be for a term commencing on a date specified in the relevant implementing lease and ending on a date not later than 31 March 2020. The amount of transactions during the year were disclosed in note 52(a) above.
- (e) The Group entered into an agreement with STDM dated 18 June 2008 (the "Administrative Cost Sharing Agreement") whereby STDM and its associates have agreed to continue to share certain administrative services including, among others, general public relations work, promotional functions, arranging ticketing and hotel accommodations, transportation and the provision of storage services with the Group and the Group has agreed to pay for the shared services on a cost basis. The amount of administrative costs shared between the Group and the STDM group is calculated based on an estimate of (i) the actual time spent by each department for providing services to the Group and the STDM group respectively recorded on time sheets and (ii) the floor area occupied, respectively, by the Group and the STDM group for storage services. The amount of transactions during the year was disclosed in note 52(a) above.
- (f) Regarding the aircraft lease arrangement disclosed in note 37, the Group charged minimum lease payments of HK\$115.9 million (2008: HK\$30.4 million) to the fellow subsidiary, and repaid the same amount of minimum lease payments to the finance company during the year ended 31 December 2009.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2009*

### 52. RELATED PARTY TRANSACTIONS (Continued)

- (g) Save as disclosed in note 38, in addition to the securities provided by the Group to the relevant bank, the syndicated secured bank loans are also secured by a minority shareholder of a subsidiary of the Group. For the year ended 31 December 2008 and 31 December 2009, the details of the securities are set out as follows:
- (i) a corporate guarantee up to a maximum amount of HK\$860 million;
  - (ii) an unconditional and irrevocable funding undertaking for the purpose of satisfying the construction costs of certain of the Ponte 16 property which include (i) the land premium and all other premiums and sums of money payable to the governmental bodies of MSAR in respect of Ponte 16 property; (ii) all construction costs and all operating costs to be incurred; and (iii) all financial costs and expenses, including interest payable in respect of the syndicated secured bank loans facility;
  - (iii) an unconditional and irrevocable undertaking for the purpose of ensuring the completion of the construction of Ponte 16 property; and
  - (iv) a share pledge over all shares in Pier 16 – Property Development Limited.

#### **The Company**

In November 2007, an immediate holding company, STDM – Investments Limited, has provided a surety in favour of the Company for the due and punctual payment of obligations the Company may incur in relation to:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

### 53. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ quota capital	Attributable proportion of nominal value of issued share capital/quota capital held by the Group		Principal activity
			2009	2008	
Brilliant Sky Investments Limited	British Virgin Islands/MSAR	Share – US\$1	100%	100%	Investment holding
Champion Path Holdings Limited	British Virgin Islands /Hong Kong	Share – US\$1	100%	N/A	Debt securities holding
Efort Limited	MSAR	Quota Capital – MOP25,000	100%	100%	Provision of entertainment services
Grand Lisboa – Hotel Administration Company Limited	MSAR	Ordinary shares – MOP1,000,000	100%	100%	Hotel operations
Grand Lisboa – Property Investment Company Limited	MSAR	Ordinary shares – MOP1,000,000	100%	100%	Property holding
Honour State International Limited	British Virgin Islands/MSAR	Share – US\$1	100%	100%	Securities holding
Nam Van Lake View Investment Limited	MSAR	Quota capital – MOP1,000,000	100%	100%	Property holding
Pier 16 – Entertainment Group Corporation Limited	MSAR	Quota capital – MOP25,000	51%	51%	Provision of management services for casino operations
Pier 16 – Management Limited	MSAR	Quota capital – MOP25,000	51%	51%	Hotel operations
Pier 16 – Property Development Limited	MSAR	Ordinary shares – MOP10,000,000	51%	51%	Property holding
Sky Reach Investments Limited	British Virgin Islands/MSAR	Share – US\$1	100%	100%	Provision of aircraft leasing services
Sociedade de Jogos de Macau, S.A. (“SJM”)	MSAR	Ordinary shares – Type A shares MOP270,000,000 – Type B shares MOP30,000,000	100%	100%	Casino operations and investment holding
SJM – F&B Services Limited	MSAR	Quota capital – MOP25,000	Note (a)	Note (a)	Provision of food and beverage services
SJM – Investment Limited	MSAR	Quota capital – MOP1,000,000	100%	100%	Investment holding

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2009*

### 53. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

- (a) SJM's shares are divided into two categories, namely, Type A shares and Type B shares representing 90% and 10% equity interests in SJM respectively. Holders of Type A shares have voting control of SJM in its shareholders' meeting. Except for one Type A share directly held by a wholly-owned subsidiary of the Company, the Company holds all the remaining Type A shares, whilst Type B shares are held by Dr. Ho, the managing director of SJM, pursuant to the relevant requirements under MSAR law. As Type B shares have restricted rights and only entitle the holder of Type B shares to an aggregate amount of MOP1 of dividend payable, the Company is effectively entitled to a 100% economic interest in SJM.
- (b) Except for Champion Path Holdings Limited and SJM as described in note 53(a), all other principal subsidiaries listed above are indirectly held by the Company.
- (c) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.
- (d) Except for Champion Path Holdings Limited which has issued HK\$2,000 million of convertible bond in 2009, none of the subsidiaries had any debt securities outstanding at the end of both reporting period.

## FINANCIAL SUMMARY

	For the year ended 31 December				
	2005 HK\$ million	2006 HK\$ million	2007 HK\$ million	2008 HK\$ million	2009 HK\$ million
<b>RESULTS</b>					
Gaming, hotel, catering and related services revenues	<u>33,406.3</u>	<u>34,196.3</u>	<u>32,227.1</u>	<u>28,165.0</u>	<u>34,352.8</u>
Gaming revenue	<u>33,406.3</u>	<u>34,196.3</u>	<u>32,146.6</u>	<u>27,992.4</u>	<u>34,065.8</u>
Profit before taxation	5,386.2	2,644.0	1,493.4	672.2	<b>812.3</b>
Taxation	<u>(12.7)</u>	<u>(220.1)</u>	<u>(0.2)</u>	<u>(16.7)</u>	<u>(17.5)</u>
Profit for the year and total comprehensive income for the year	<u>5,373.5</u>	<u>2,423.9</u>	<u>1,493.2</u>	<u>655.5</u>	<u>794.8</u>
Profit attributable to					
— owners of the Company	5,373.5	2,423.9	1,533.5	796.1	<b>906.7</b>
— minority interests	<u>—</u>	<u>—</u>	<u>(40.3)</u>	<u>(140.6)</u>	<u>(111.9)</u>
	<u>5,373.5</u>	<u>2,423.9</u>	<u>1,493.2</u>	<u>655.5</u>	<u>794.8</u>

	As at 31 December				
	2005 HK\$ million	2006 HK\$ million	2007 HK\$ million	2008 HK\$ million	2009 HK\$ million
<b>ASSETS AND LIABILITIES</b>					
Total assets	9,572.8	11,708.9	18,039.4	18,920.6	<b>23,366.5</b>
Total liabilities	<u>(4,927.5)</u>	<u>(6,872.7)</u>	<u>(11,479.3)</u>	<u>(11,484.3)</u>	<u>(14,847.1)</u>
Net assets	<u>4,645.3</u>	<u>4,836.2</u>	<u>6,560.1</u>	<u>7,436.3</u>	<u>8,519.4</u>

The results and summary of assets and liabilities for each of the three years ended 31 December 2007 which were extracted from the Company's prospectus dated 26 June 2008 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout those years.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Chairman and Executive Director

Dr. Ho Hung Sun, Stanley

#### Non-executive Director

Dato' Dr. Cheng Yu Tung

#### Independent Non-executive Directors

Mr. Chau Tak Hay

Mr. Lan Hong Tsung, David

Mr. Shek Lai Him, Abraham

Mr. Tse Hau Yin

#### Executive Director and Chief Executive Officer

Dr. So Shu Fai

#### Executive Director and Chief Operating Officer

Mr. Ng Chi Sing

#### Executive Directors

Mr. Rui José da Cunha

Ms. Leong On Kei, Angela

Mr. Shum Hong Kuen, David

### AUDIT COMMITTEE

Mr. Tse Hau Yin (*Committee Chairman*)

Mr. Chau Tak Hay

Mr. Shek Lai Him, Abraham

### NOMINATION COMMITTEE

Dr. So Shu Fai (*Committee Chairman*)

Mr. Chau Tak Hay

Mr. Lan Hong Tsung, David

Ms. Leong On Kei, Angela

Mr. Shek Lai Him, Abraham

Mr. Shum Hong Kuen, David

Mr. Tse Hau Yin

### REMUNERATION COMMITTEE

Dr. So Shu Fai (*Committee Chairman*)

Mr. Lan Hong Tsung, David

Ms. Leong On Kei, Angela

Mr. Shek Lai Him, Abraham

Mr. Tse Hau Yin

### CHIEF FINANCIAL OFFICER

Mr. Robert McBain

### GROUP LEGAL COUNSEL

Mr. Jonathan Pyne

### COMPANY SECRETARY

Ms. Kwok Shuk Chong

### REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Email (Investor Relations): [ir@sjmholdings.com](mailto:ir@sjmholdings.com)

### LISTING INFORMATION

Listed on the Hong Kong Stock Exchange (Main Board)

Listing date: 16 July 2008

Stock short name: SJM Holdings

Stock code: 880

Board lot: 1,000 shares

### LEGAL ADVISORS

*On Hong Kong Law:*

Baker & McKenzie

Herbert Smith

*On Macau Law:*

C&C Advogados

João Nuno Riquito & Associados Advogados

### JOINT AUDITORS

Deloitte Touche Tohmatsu

H.C. Watt & Company Limited

### COMPLIANCE ADVISOR

OSK Capital Hong Kong Limited

### PRINCIPAL BANKERS

Banco Weng Hang, S.A.

Bank of China Limited

The Bank of East Asia, Limited

BNP Paribas

Crédit Agricole Corporate and Investment Bank

Credit Suisse

Deutsche Bank AG

Industrial and Commercial Bank of China Limited

UBS AG

### SHARE REGISTRAR

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**SJM HOLDINGS LIMITED**  
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