



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

Annual Report 年報 2011

The Real Macau!





ABOUT US

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

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

As at 31 December 2011, SJM operated 17 casinos and 3 slot machine lounges, comprising more than 1,700 gaming tables and over 3,900 slot machines.



CONTENTS

- 8** Event Highlights
- 10** Financial Highlights and Dividend Schedule
- 11** Overview
- 12** Business Review
- 20** Corporate Social Responsibility
- 22** Prospects and Recent Developments
- 24** Financial Review
- 26** Directors and Senior Management
- 31** Report of the Directors
- 55** Corporate Governance Report
- 69** Independent Joint Auditors' Report
- 71** Consolidated Statement of Comprehensive Income
- 72** Consolidated Statement of Financial Position
- 74** Statement of Financial Position
- 75** Consolidated Statement of Changes in Equity
- 76** Consolidated Statement of Cash Flows
- 78** Notes to the Consolidated Financial Statements
- 139** Financial Summary
- 140** Corporate Information



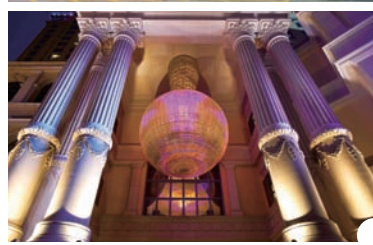
**GRAND
LISBOA
ROBUCHON
AU DÔME**





Real Luxury!

Real Enjoyment!



PONTE
16
RESORT



Real Excitement!



**CASINO
OCEANUS**



EVENT HIGHLIGHTS

Feb 2011

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

Apr 2011

- 2 SJM Holdings holds Annual General Meeting
- 3 Smiling Ambassadors selected at Casino Oceanus

May 2011

- 4 Aid to Sichuan with love and care

Jun 2011

- 5 SJM wins in the annual Macau dragon races
- 6 Director of the Hong Kong and Macao Affairs Office of the State Council Mr. Wang Guangya visits Grand Lisboa

Aug 2011

- 7 The 7th Annual SJM Scholarships Award Ceremony

Sep 2011

- 8 Grand Lisboa presents Premium Service Awards to distinguished staff

Nov 2011

- 9 SJM is the sole Official Sponsor of the 58th Macau Grand Prix
- 10 SJM brings to Macau the world renowned National Ballet of China

Dec 2011

- 11 SJM directors and staff members participate in Macau's Walk for a Million 2011
- 12 New Year's Eve countdown at Grand Lisboa



EVENT HIGHLIGHTS



FINANCIAL HIGHLIGHTS AND DIVIDEND SCHEDULE

FINANCIAL HIGHLIGHTS

| | Year Ended 31 December 2011 HK\$ million | Year Ended 31 December 2010 HK\$ million |
|--|---|--|
| Gaming revenue | 75,514 | 57,195 |
| Other income | 789 | 606 |
| Adjusted EBITDA* | 6,923 | 4,858 |
| Profit attributable to owners of the Company | 5,308 | 3,559 |
| Earnings per share – basic | HK96.4 cents | HK69.2 cents |
| – diluted | HK95.4 cents | HK66.2 cents |
| Proposed dividend per ordinary share | | |
| – final dividend | HK43 cents | HK30 cents |
| – special dividend | HK22 cents | – |

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

DIVIDEND SCHEDULE

| | Date and Time |
|--|------------------------------------|
| Announcement of proposed final dividend and special dividend | 29 February 2012 |
| 2012 Annual General Meeting | 2:30 p.m. on Thursday, 10 May 2012 |
| Ex-dividend date | 14 May 2012 |
| Record date for proposed final dividend and special dividend | 15 May 2012 |
| Latest time to lodge transfer documents with share registrar to qualify for proposed final dividend and special dividend | 4:30 p.m. on Tuesday, 15 May 2012 |
| Expected payment date of proposed final dividend and special dividend (if approved at the 2012 Annual General Meeting) | 30 May 2012 |

OVERVIEW

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

SJM's gaming business continued its robust growth in 2011, both in the VIP and mass market gaming sectors. Increased visitation to Macau and spending per visitor combined to boost SJM's gaming revenue by 32.0% to a record level for the year, whilst economies of scale resulted in greater growth in Adjusted EBITDA (earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortization, donations and share-based payments) of 42.5% and growth in profit attributable to owners of 49.1%.

SJM continued to hold the leading position among the six casino operators in Macau, with a market share of 29.0%.

The Group's flagship Casino Grand Lisboa continued to perform strongly in 2011, increasing its Adjusted Property EBITDA by 46.6% for the year. Casino Grand Lisboa's mass market table games revenue increased by 39.1% and VIP gaming revenue increased by 49.6%, whilst VIP chips sales increased by 57.7%. Occupancy at the Grand Lisboa Hotel was 92.6% for the full year, at an average room rate of \$2,055.

During 2011 the Group also maintained its financial strength, with total cash and bank balances increasing to \$20.7 billion as at the end of the year. Debt outstanding of the Group was \$3.1 billion as at 31 December 2011.

SJM is in an advanced stage of discussion with the Macau government regarding its application for a development site with approved development area of 70,468 square metres adjacent to the Macau East Asian Games Dome. Subject to final government approvals, the Company plans to develop an integrated gaming resort on this site over the next several years.

The Group's strategy is to focus on the development and operation of casinos and casino-related businesses in Macau, 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.

Subject to approval by shareholders at the 2012 annual general meeting, the Board of Directors has recommended a final dividend of HK43 cents per ordinary share and a special dividend of HK22 cents per ordinary share. In addition to the interim dividend of HK8 cents per ordinary share paid previously, total dividends for the year would amount to HK73 cents per ordinary share.

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

For and on behalf of the Board of Directors

SJM Holdings Limited

So Shu Fai

Executive Director and Chief Executive Officer

Hong Kong, 29 February 2012

BUSINESS REVIEW

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

GROUP OPERATING RESULTS

The Group's total revenue, gaming revenue, profit attributable to owners of the Company, Adjusted EBITDA and Adjusted EBITDA Margin for the year ended 31 December 2011 each increased substantially from last year:

| Group operating results | For the year ended 31 December | | Increase |
|--|--------------------------------|----------------------|--------------|
| | 2011 HK\$ million | 2010 HK\$ million | |
| Total revenue | 76,092 | 57,653 | 32.0% |
| Gaming revenue | 75,514 | 57,195 | 32.0% |
| Profit attributable to owners of the Company | 5,308 | 3,559 | 49.1% |
| Adjusted EBITDA ¹ | 6,923 | 4,858 | 42.5% |
| Adjusted EBITDA Margin ² | 9.1% | 8.4% | |

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

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

Growth in gaming revenue in 2011 comprised increases in VIP gaming revenue of 35.8%, mass market table gaming revenue of 24.1% and slot machine and other gaming revenue of 23.4%, which reflected increased visitation to Macau particularly from the China Mainland as well as increased spending per visitor. During 2011, the Group accounted for 29.0% of Macau's record casino gaming revenue of \$260,065 million, the largest market share among the six concessionaires and subconcessionaires. The Group's overall market share declined from 31.3% for the full year 2010 due primarily to new gaming capacity added by a competitor since May 2011.

Besides growth of gaming revenue, other factors that contributed to higher Adjusted EBITDA in the year were improved operating results at Ponte 16 and Grand Lisboa Hotel. The Group's Adjusted EBITDA margin for the year was 9.1%, an increase from 8.4% in 2010. If calculated under United States generally accepted accounting principles ("US GAAP"), the Group's Adjusted EBITDA margin would be 16.3% for 2011, as compared with 14.8% in 2010 (See "Comparison with United States GAAP Accounting" below).

Net profit for the year 2011 was affected by deductions of share-based payments of \$536 million, as compared with \$48 million in the previous year. Depreciation in 2011 was \$1,114 million compared with \$1,170 million in 2010, and interest expense was \$123 million, compared with \$215 million.



BUSINESS REVIEW

OPERATING RESULTS – VIP GAMING

| VIP operations | For the year ended 31 December | | Increase |
|---|--------------------------------|-----------|--------------|
| | 2011 | 2010 | |
| Gaming revenue (HK\$ million) | 52,779 | 38,862 | 35.8% |
| Average daily net-win per VIP gaming table (HK\$) | 243,024 | 229,958 | 5.7% |
| VIP chips sales (HK\$ million) | 1,830,047 | 1,334,035 | 37.2% |
| Average number of VIP gaming tables (Average of month-end numbers) | 595 | 463 | 28.5% |

VIP gaming operations accounted for 69.9% of the Group's total gaming revenue in 2011, as compared with 67.9% for the previous year. As at 31 December 2011, SJM had 609 VIP gaming tables in operation with 32 VIP promoters, as compared with 507 VIP gaming tables and 33 VIP promoters as at 31 December 2010. As at 31 December 2011, SJM operated VIP gaming in 14 of its casinos.

Increased VIP gaming revenue of 35.8% resulted from increased chips purchases by junket operators which in turn reflected the buoyant economy in the Mainland and the Asian region as well as increased liquidity available to junket operators. The hold rate for SJM's VIP operations decreased slightly in 2011 to 2.88% from 2.91% in 2010.



BUSINESS REVIEW

OPERATING RESULTS – MASS MARKET TABLE GAMING

| Mass market operations | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|--------|-------------------------|
| | 2011 | 2010 | |
| Gaming revenue (HK\$ million) | 21,281 | 17,154 | 24.1% |
| Average daily net-win per mass market gaming table (HK\$) | 50,218 | 36,460 | 37.7% |
| Average number of mass market gaming tables (Average of month-end numbers) | 1,161 | 1,289 | (9.9)% |

Gaming revenue from mass market table gaming operations comprised 28.2% of the Group's total gaming revenue in 2011, as compared with 30.0% in 2010. SJM had 1,166 mass market gaming tables in operation as at 31 December 2011, as compared with 1,183 mass market gaming tables as at 31 December 2010.

Increased mass market table gaming revenue of 24.1% resulted from increased visitation to Macau from the Mainland and the Asian region as well as increased spending per visitor.



OPERATING RESULTS – SLOT MACHINES AND OTHER GAMING OPERATIONS

| Slot machine operations | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|-------|-------------------------|
| | 2011 | 2010 | |
| Gaming revenue (HK\$ million) | 1,455 | 1,179 | 23.4% |
| Average daily net-win per slot machine (HK\$) | 1,009 | 732 | 37.8% |
| Average number of slot machines (Average of month-end numbers) | 3,947 | 4,407 | (10.4)% |

Gaming revenue from slot machine operations, which include other electronic gaming machines and the game of Tombola, comprised 1.9% of the Group's total gaming revenue in 2011, as compared with 2.1% in 2010. SJM had 3,910 slot machines in service as at 31 December 2011 as compared with 4,147 slot machines as at 31 December 2010.

As at 31 December 2011, SJM operated slot machines in 14 of its casinos and in three slot halls. In January 2011, SJM ceased operations at its only third party-promoted slot hall.

BUSINESS REVIEW

OPERATING RESULTS OF CASINO SEGMENTS – CASINO GRAND LISBOA

SJM's flagship Casino Grand Lisboa achieved substantial growth in revenue and profitability during the year.

| Casino Grand Lisboa | For the year ended 31 December | | Increase |
|--|--------------------------------|--------|----------|
| | 2011 | 2010 | |
| Revenue (HK\$ million) | 22,797 | 15,579 | 46.3% |
| Profit attributable to the Group (HK\$ million) | 3,232 | 2,293 | 40.9% |
| Adjusted Property EBITDA ³ (HK\$ million) | 3,756 | 2,562 | 46.6% |
| Adjusted Property EBITDA Margin ⁴ | 16.5% | 16.4% | |

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

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

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

| Casino Grand Lisboa | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|---------|-------------------------|
| | 2011 | 2010 | |
| <i>VIP operations</i> | | | |
| Gaming revenue (HK\$ million) | 16,896 | 11,295 | 49.6% |
| Average daily net-win per VIP gaming table (HK\$) | 364,482 | 355,691 | 2.5% |
| VIP chips sales (HK\$ million) | 653,533 | 414,316 | 57.7% |
| Average number of VIP gaming tables (Average of month-end numbers) | 127 | 87 | 46.0% |
| <i>Mass market operations</i> | | | |
| Gaming revenue (HK\$ million) | 5,449 | 3,917 | 39.1% |
| Average daily net-win per mass market gaming table (HK\$) | 61,940 | 44,348 | 39.7% |
| Average number of mass market gaming tables (Average of month-end numbers) | 241 | 242 | (0.4)% |
| <i>Slot machine operations</i> | | | |
| Gaming revenue (HK\$ million) | 453 | 367 | 23.5% |
| Average daily net-win per slot machine (HK\$) | 1,619 | 1,393 | 16.2% |
| Average number of slot machines (Average of month-end numbers) | 766 | 721 | 6.2% |

BUSINESS REVIEW



If calculated under US GAAP, the Adjusted Property EBITDA margin of Casino Grand Lisboa would be approximately 27.2% for 2011, an increase from 26.5% in 2010 (See “Comparison with United States GAAP Accounting” below).

During 2011, Casino Grand Lisboa attracted a total of 12,238,494 visitors, an average of 33,530 visitors per day. To continue attracting gaming patrons, Casino Grand Lisboa frequently launches special promotions, such as “Spin2Win”, “Spot the Jackpot”, “Royal Cards” and “Heir to the Throne.” Jackpots are paid frequently, with the total exceeding \$267 million for slot machines and over \$84 million for table games (Caribbean Stud Poker) in 2011. During the year, the number of active members of the Casino Grand Lisboa loyalty card programme increased by over 83,000 to 394,393.

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

Other self-promoted casinos are Casino Lisboa, Casino Oceanus at Jai Alai and Casino Jai Alai, all located on the Macau Peninsula. The latter two casinos operate under the same license. The Group also operates three self-promoted

slot halls, namely Macau Jockey Club Slot Lounge, Treasure Hunt Slot Lounge and Yat Yuen Canidrome Slot Lounge (collectively, “Other Self-promoted Casinos and Slot Halls”).

| Other self-promoted casinos and slot halls | For the year ended 31 December | | |
|---|--------------------------------|--------|--------------|
| | 2011 | 2010 | Increase |
| Revenue (HK\$ million) | 12,012 | 11,434 | 5.1% |
| Profit attributable to the Group (HK\$ million) | 929 | 643 | 44.3% |
| Adjusted Property EBITDA (HK\$ million) | 1,226 | 895 | 36.9% |
| Adjusted Property EBITDA Margin | 10.2% | 7.8% | |

BUSINESS REVIEW

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

| Other self-promoted casinos and slot halls | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|---------|-------------------------|
| | 2011 | 2010 | |
| VIP operations | | | |
| Gaming revenue (HK\$ million) | 7,449 | 7,660 | (2.8)% |
| Average daily net-win per VIP gaming table (HK\$) | 364,428 | 355,686 | 2.5% |
| VIP chips sales (HK\$ million) | 252,448 | 265,039 | (4.8)% |
| Average number of VIP gaming tables (Average of month-end numbers) | 56 | 59 | (5.1)% |
| Mass market operations | | | |
| Gaming revenue (HK\$ million) | 4,135 | 3,409 | 21.3% |
| Average daily net-win per mass market gaming table (HK\$) | 35,070 | 25,941 | 35.2% |
| Average number of mass market gaming tables (Average of month-end numbers) | 323 | 360 | (10.3)% |
| Slot machine operations | | | |
| Gaming revenue (HK\$ million) | 428 | 366 | 17.1% |
| Average daily net-win per slot machine (HK\$) | 921 | 773 | 19.2% |
| Average number of slot machines (Average of month-end numbers) | 1,271 | 1,291 | (1.5)% |

As at 31 December 2011, Casino Lisboa operated a total of 51 VIP gaming tables, 132 mass market gaming tables and 72 slot machines.

As at 31 December 2011, Casino Oceanus at Jai Alai and Casino Jai Alai operated a total of 188 mass market gaming tables, 6 VIP gaming tables and 667 slot machines.



BUSINESS REVIEW

OPERATING RESULTS OF CASINO SEGMENTS – SATELLITE CASINOS AND SLOT HALLS

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

Twelve of SJM's satellite casinos are located on the Macau Peninsula whilst two satellite casinos are located on the island of Taipa, comprising a total of 616 mass market gaming tables, 418 VIP gaming tables and 1,884 slot machines.

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

| Satellite casinos and slot halls | For the year ended 31 December | | Increase |
|---|--------------------------------|--------|--------------|
| | 2011 | 2010 | |
| Revenue (HK\$ million) | 40,706 | 30,182 | 34.9% |
| Profit attributable to the Group (HK\$ million) | 1,525 | 1,087 | 40.3% |
| Adjusted Property EBITDA (HK\$ million) | 1,658 | 1,176 | 41.0% |
| Adjusted Property EBITDA Margin | 4.1% | 3.9% | |

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

| Satellite casinos and slot halls | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|---------|-------------------------|
| | 2011 | 2010 | |
| <i>VIP operations</i> | | | |
| Gaming revenue (HK\$ million) | 28,434 | 19,907 | 42.8% |
| Average daily net-win per VIP gaming table (HK\$) | 189,083 | 172,051 | 9.9% |
| VIP chips sales (HK\$ million) | 924,066 | 654,681 | 41.1% |
| Average number of VIP gaming tables (Average of month-end numbers) | 412 | 317 | 30.0% |
| <i>Mass market operations</i> | | | |
| Gaming revenue (HK\$ million) | 11,698 | 9,828 | 19.0% |
| Average daily net-win per mass market gaming table (HK\$) | 53,682 | 39,194 | 37.0% |
| Average number of mass market gaming tables (Average of month-end numbers) | 597 | 687 | (13.1)% |
| <i>Slot machine operations</i> | | | |
| Gaming revenue (HK\$ million) | 574 | 447 | 28.4% |
| Average daily net-win per slot machine (HK\$) | 823 | 511 | 60.9% |
| Average number of slot machines (Average of month-end numbers) | 1,911 | 2,395 | (20.2)% |

BUSINESS REVIEW

NON-GAMING OPERATIONS

For the year ended 31 December 2011, the Grand Lisboa Hotel contributed \$586 million in revenue and \$203 million in Adjusted Property EBITDA to the Group as compared with \$430 million in revenue and \$131 million in Adjusted Property EBITDA for the previous year. The occupancy rate of the hotel, based on 402 average available rooms, averaged 92.6% for the full year, as compared with 77.9% for the previous year. Average room rate for the full year 2011 was approximately \$2,055 as compared with \$1,951 in 2010.

In December 2011 the Robuchon au Dôme restaurant opened on the top floor of the Grand Lisboa, bringing the total number of food and beverage units at Grand Lisboa to ten.

Operating results for the Sofitel at Ponte 16, in which SJM's interest is 51%, improved during 2011 and contributed \$162 million in revenue to the Group, compared with a contribution of \$136 million in 2010. The occupancy rate of the 408-room hotel averaged 72.8% for the full year 2011 as compared with 71.3% in 2010, and the average room rate increased by 20.5% to \$1,202.

Income from all hotel, catering and related services, after inter-company elimination, totaled \$578 million in 2011, an increase of 26.0% from \$458 million in 2010, due primarily to increased hotel room occupancy. Other income, primarily interest earned on bank deposits, finance leases interest received and dividend income from investment in financial assets at fair value, increased to \$212 million from \$148 million during the year.



CORPORATE SOCIAL RESPONSIBILITY

“From society, to society” is a core value of the SJM Group. In 2011 we continued to support education, arts and culture, sports and other charitable activities to benefit the residents of Macau and to encourage our employees to do likewise.

EDUCATION

The SJM Scholarship programme awards scholarships annually for 10 students at University of Macau.



For children of staff, the SJM Scholarship programme awards 10 scholarships each year, to students who are each awarded Macau Patacas (“MOP”) 20,000 per year until they finish their studies (up to five years). Since its establishment in 2005, the SJM Scholarship programme has awarded scholarships to 69 children of staff, of whom 28 have graduated. SJM also sponsors the full school fees of staff that further their studies at Macau Millennium College, and supports the educational activities of Millennium Secondary School.

ARTS AND CULTURE

SJM regularly sponsors cultural events in Macau such as art exhibitions, and provides or subsidises Hong Kong/Macau ferry tickets for arts and culture groups. SJM also supports cultural activities such as Chinese Opera at the Kam Pek Community Centre in Macau’s Inner Harbour neighbourhood and music performances at the Clube Militar de Macau. In November 2011 SJM organized and sponsored two performances by the world famous National Ballet of China at the Macau Cultural Centre in commemoration of the 12th anniversary of the establishment of Macau SAR and the 50th anniversary of the National Ballet. In November 2011 SJM was also a sponsor of the 11th Macau Food Festival.

SPORTS

In November SJM was the sole official sponsor of the 58th Macau Grand Prix, and also the title sponsor of two world-class races: the “SJM Formula 3 Macau Grand Prix” and the “FIA World Touring Car Championship (FIA WTCC) – Guia Race of Macau – Presented by SJM”, the latter for the tenth consecutive year. SJM also provides or subsidises Hong Kong/Macau ferry tickets for sports organisations such as the Swimming Association of Macao, China, Special Olympics Macau and Macau Dance Sport Federation, for exchanges in Hong Kong. SJM was also a sponsor of the 17th annual Macau Jockey Club Charity Day, held in January 2012.



In June 2011 SJM sponsored three teams composed of employees to compete in Macau’s annual Dragon Boat races. The SJM Golden Jubilee Team won the championship in the 2,000 metre open race.

CORPORATE SOCIAL RESPONSIBILITY

RESPONSIBLE GAMING

SJM participated in the Responsible Gambling Awareness Week 2011 organised by the University of Macau, the Gaming Inspection and Coordination Bureau, and the Social Welfare Bureau. SJM distributed promotional cards and leaflets and displays related posters in its casinos. During the year SJM, in conjunction with Yat On Pathological Gambler's Counselling Centre, held briefings on Responsible Gambling for 202 colleagues.

OTHER ACTIVITIES IN 2011

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

In December 2011 SJM hosted the Italian White Truffle Dinner and Charity Auction which raised over MOP4.4 million for charities. SJM was the successful bidder for the largest lot in this auction and all money raised was donated to local charities including Caritas de Macau, Tung Sin Tong Charitable Society, Kiang Wu Hospital Charitable Association, Obra das Mães, Special Olympics Macau, Yat On Pathological Gambler's Counselling Centre, Macau Social Services Centre, Macau Holy House of Mercy and Charity Fund From The Readers of Macao Daily News.



organisations as the Macau Social Services Centre, Special Olympics Macau, ORBIS 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.



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

In 2011 SJM staff members were frequent volunteers to help the needy in society, working with such

PROSPECTS AND RECENT DEVELOPMENTS

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

MARKET ENVIRONMENT

Growth of Macau's total gaming revenue by 42% in 2011 reflected the strength and financial liquidity of the regional economy, as well as Macau's growing appeal as a holiday destination particularly for visitors from the Mainland.

According to the Macau Government Statistics and Census Service, visitation to Macau increased by 12.2% to establish a new record of 28,002,279 in 2011, of which visitors from the Mainland increased by 22.2% to 16,162,747, or 57.7% of the total. During the eight-day Lunar New Year period in January 2012, visitation also achieved a record level, with the Macau government reporting 1,363,172 visitor arrivals, of which approximately 67% arrived via the Border Gate with the Mainland and 19% via the Macau Maritime Terminal.



The Group expects that its future prospects are excellent, given continued robust growth of visitation and spending in Macau, infrastructure developments that improve access to Macau, the general prosperity of the Asian region, the Group's strategically located network of casinos and its strong balance sheet. While some new capacity will be added to the supply of gaming and lodging facilities by one competitor in Cotai in 2012, this is not expected to have a significant effect on the Group's business which is largely concentrated on Macau Peninsula.

CURRENT AND RECENT INITIATIVES

In pursuit of the Group's strategy of growing its business through expansion of casino operations in Macau and improvement in the operating efficiency of existing casinos, the Group has been and is progressing on a number of initiatives in 2011 and 2012, which are described below.

- **at Casino Grand Lisboa**

In October 2011 new VIP gaming capacity was added on the second floor of Grand Lisboa with 12 tables. In the first half of 2012 additional capacity for VIP gaming will be added on the 31st floor of the building.

- **at Casino Oceanus At Jai Alai**

In October 2011 SJM completed enclosing and air-conditioning the walkway from the Macau Maritime Terminal to Casino Oceanus. Promotions such as "Scratch and Win" are held regularly and a number of special activities took place in November at the time of the Macau Grand Prix, of which SJM was the sole official sponsor. In the second quarter of 2012 the Oceanus Club is scheduled to open on the third floor where Oceanus membership card holders can relax and enjoy various club facilities. Also in 2012 the casino plans to open its third dining facility, a deluxe Cantonese restaurant located on the second floor.

PROSPECTS AND RECENT DEVELOPMENTS

• at Ponte 16 Resort

Adjusted Property EBITDA contribution of the resort increased to \$317 million in 2011 from \$207 million in 2010, and the project contributed positively to the Group's net profit. In October 2011, Ponte 16 hosted its second annual auction of memorabilia from Michael Jackson and other celebrities.

In December 2011 a group of banks led by Industrial and Commercial Bank of China (Macau) Limited began syndication of 5-year loan facilities for Ponte 16 in the amounts of \$1,900 million and RMB400 million. The proceeds will be used primarily to refinance existing credit facilities, to repay shareholders' loans and to fund the construction of Phase III development of the project. The financing is expected to be completed in the first half of 2012. Phase III will be a riverside commercial complex with total floor area of approximately 40,000 square metres. In addition to shopping and dining facilities the complex will encompass space for gaming expansion, car parks and the iconic Pier 16 clock tower, and is planned to be completed by 2014.



• at Hotel Grand Lisboa

Grand Lisboa Hotel also increased its Adjusted Property EBITDA contribution, and its hotel rooms operated at close to full occupancy during weekends throughout the year. In December 2011, the award-winning Robuchon a Galera Restaurant, Asia's first Michelin three-star restaurant, relocated from Hotel Lisboa to the top floor of the Grand Lisboa Hotel where it has been rechristened Robuchon au Dôme.

FUTURE PROJECTS

SJM is in an advanced stage of discussion with the Macau government regarding its application for a development site with approved development area of 70,468 square metres adjacent to the Macau East Asian Games Dome. Subject to final government approvals, the Company plans to develop an integrated gaming resort on this site over the next several years, with facilities encompassing mass market and VIP gaming, lodging, dining and entertainment.



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 \$20,571 million (not including \$172 million pledged bank deposits) as at 31 December 2011. This represented an increase of 35.6% as compared with the position as at 31 December 2010 of \$15,175 million. The increase was mainly attributable to the increase in EBITDA and working capital throughout the year.

During the year, all outstanding convertible bonds, with principal amount of \$259.4 million as at 1 January 2011, were converted into shares of the Company at a conversion price of \$5.24.

Total outstanding balances of bank loans drawn by the Group as at 31 December 2011 amounted to \$3,072 million (as at 31 December 2010: \$4,112 million, excluding outstanding convertible bonds). The maturity of the Group's borrowings as at 31 December 2011 is all within one year.

A syndicate of banks is currently finalizing 5-year loan facilities for Phase III of the Ponte 16 development in the total amounts of \$1,900 million and RMB400 million, of which the Company's share would be 51%. This financing is expected to be completed in the first half of 2012.

GEARING RATIO

The Group's gearing ratio (defined as the ratio of total outstanding bank loans less bank balances and cash to total assets (excluding bank balances and cash)) was zero at the end of 2011 (as at 31 December 2010: zero).

CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure commitments by the Group amounted to \$158 million as at 31 December 2011 (as at 31 December 2010: \$289 million).

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

PLEDGE OF ASSETS

As at 31 December 2011, certain of the Group's property and equipment and land use rights with carrying values of \$5,415 million and \$718 million, respectively (as at 31 December 2010: \$5,832 million and \$758 million, respectively), were pledged with banks for loan facilities. In addition, the Group had pledged bank deposits of \$172 million as at 31 December 2011, as compared with \$172 million as at 31 December 2010.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2011, the Group had total guarantees given to banks of \$93 million (as at 31 December 2010: \$93 million), which were guarantees in respect of credit facilities granted to an associate and investee companies. The Group had no significant contingent liabilities as at 31 December 2011.

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 2011. The Group's principal operations are primarily conducted and recorded in Hong Kong dollars resulting in minimal exposure to foreign exchange fluctuations. Over 99% of the Group's bank deposits are denominated in Hong Kong dollars, United States dollars or Macau patacas. It is the Group's policy to avoid speculative trading activity.

FINANCIAL REVIEW

MATERIAL ACQUISITIONS AND DISPOSALS

The Group made no material acquisitions or material disposals of subsidiaries and associated companies during the year ended 31 December 2011.

HUMAN RESOURCES

As at 31 December 2011, the Group had approximately 19,600 full-time employees. The Group's employee turnover rate was minimal in 2011.

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

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

COMPARISON WITH UNITED STATES GAAP ACCOUNTING

The Group's results are prepared in compliance with Hong Kong generally accepted accounting principles ("HK GAAP"). In comparing the Group's results to those of companies whose results are prepared under US GAAP, it should be noted that gross gaming revenues, presented under US GAAP, are reduced by commissions and discounts paid to players, to arrive at net gaming revenues. An adjusted EBITDA would then be calculated based on these reduced net gaming revenues, resulting in a significantly higher Adjusted EBITDA margin than that calculated under HK GAAP. If calculated under US GAAP, the Group's Adjusted EBITDA margin would be approximately 16.3% for the reporting period, as compared with HK GAAP which gives an Adjusted EBITDA margin of 9.1% for the period.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Ho Hung Sun, Stanley, aged 90, was appointed a director of the Company in 2006 and is currently the Chairman and an Executive Director of the Company. Dr. Ho has been a member of the Executive Committee of the board of directors of the Company (the "Board") since 2009. He is a director of Sociedade de Jogos de Macau, S.A. ("SJM") and was the Managing Director of SJM from 2001 to 2010. Dr. Ho is also a director of a number of principal subsidiaries of the Company.

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

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

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

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

Dr. So Shu Fai, aged 60, 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 35 years of experience in the casino business. He is the chairman and executive director of Tonic Industries Holdings Limited and an independent non-executive director of SHK Hong Kong Industries Limited, both companies are listed on the HKSE Main Board. He is also a director of Estoril Sol, SGPS, S.A. which is listed on Euronext Lisbon and the chairman of the board of directors of MACAUPORT–Sociedade de Administração de Portos, S.A. Dr. So 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 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 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 60, 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 the Shanghai Municipal Committee of CPPCC and a member of the Council of the Macau University of Science and Technology. Mr. Ng holds a Bachelor's degree from The University of Hong Kong and a Master of Management Studies degree from Asia International Open University (Macau).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Rui José da Cunha, aged 70, 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.

Ms. Leong On Kei, Angela, aged 50, 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 became Managing Director of SJM in December 2010. Ms. Leong is also the Chairman of the Staff Welfare Consultative Committee of SJM. She has been a director of STDM since 2005.

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

Mr. Shum Hong Kuen, David, aged 57, has been an Executive Director of the Company since 2007. He has been a member of each of the Executive Committee and the Nomination Committee of the Board since 2009 and 2008 respectively. Mr. Shum is also a director of a number of principal subsidiaries of the Company. He has been a director of SJM since 2007 and of Sociedade de Turismo e Desenvolvimento Insular S.A.R.L. since 1998. Mr. Shum is an executive director and a member of the executive committee of the board of directors of Shun Tak Holdings Limited (listed on the HKSE Main Board). He is also a director of a number of subsidiaries in the Shun Tak Group.

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

Mr. Fok Tsun Ting, Timothy, aged 66, was appointed an Executive Director of the Company in August 2010. He is a member of the Legislative Council of Hong Kong, representing the Sports, Performing Arts, Culture and Publication functional constituency, a member of the National Committee of CPPCC, a member of the International Olympic Committee, the president of the Sports Federation and Olympic Committee of Hong Kong, China, a vice-president of the Olympic Council of Asia and the president of the Hong Kong Football Association. Mr. Fok is currently a Justice of the Peace. He was educated at the University of Southern California, U.S.A.

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

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Dato' Dr. Cheng Yu Tung, aged 86, 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, the honorary chairman and non-executive director of Chow Tai Fook Jewellery Group Limited and a non-executive director of Shun Tak Holdings Limited (all of which are listed on the HKSE Main Board).

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 69, 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 and a member of the Remuneration Committee of the Board since November 2010. 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.

Mr. Lan Hong Tsung, David, aged 71, 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, and a member of the Audit Committee of the Board since November 2010. He is the Chairman of David H T Lan Consultants Ltd., the Senior Advisor of Mitsui & Co (HK) Ltd. and an independent non-executive director of Nanyang Commercial Bank, Ltd.. Mr. Lan is also an independent non-executive director of Cheung Kong Infrastructure Holdings Limited, Hutchison Harbour Ring Limited and Hutchison Telecommunications Hong Kong Holdings Limited, each of which is listed on the HKSE Main Board, as well as ARA Asset Management (Prosperity) Limited, the manager of HKSE Main Board listed Prosperity Real Estate Investment Trust. He is an independent non-executive director and a member of the audit committee of ARA Asset Management (Fortune) Limited, the manager of HKSE Main Board listed Fortune Real Estate Investment Trust.

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

DIRECTORS AND SENIOR MANAGEMENT

Mr. Shek Lai Him, Abraham, aged 66, has been an Independent Non-executive Director of the Company and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board since 2008. He is also an independent non-executive director of a number of companies listed on the HKSE Main Board, namely, China Resources Cement Holdings Limited, Chuang's China Investments Limited, Chuang's Consortium International Limited, Country Garden Holdings Company Limited, Hop Hing Group Holdings Limited, Hsin Chong Construction Group Ltd., ITC Corporation Limited, ITC Properties Group Limited, Kosmopolito Hotels International Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, MTR Corporation Limited, NWS Holdings Limited, Paliburg Holdings Limited and Titan Petrochemicals Group Limited. Mr. Shek is an independent non-executive director of Eagle Asset Management (CP) Limited, the Manager of Champion Real Estate Investment Trust, and Regal Portfolio Management Limited, the Manager of Regal Real Estate Investment Trust, both of the Trusts are listed on the HKSE Main Board.

Mr. Shek graduated from the University of Sydney with a Bachelor of Arts degree and a Diploma in Education. Mr. Shek was an independent non-executive director of Hop Hing Holdings Limited from 2007 to 2008, and See Corporation Limited from 2005 to 2008, both of which are listed on the HKSE Main Board. He is a member of the Legislative Council for the Hong Kong SAR representing the real estate and construction functional constituency since 2000. Mr. Shek was appointed a Justice of the Peace in 1995 and awarded the Silver Bauhinia Star in 2007. He is also a committee member of the 5th Shenzhen Municipal Committee of CPPCC, a director of the Hong Kong Mortgage Corporation Limited, the vice-chairman of the Independent Police Complaints Council in Hong Kong, and a court member of the Hong Kong University of Science and Technology and The University of Hong Kong.

Mr. Tse Hau Yin, aged 64, has been an Independent Non-executive Director of the Company, the Chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Board since 2008. Mr. Tse is a member of the Supervisory Committee of SJM and a number of its subsidiary companies. He is also an independent non-executive director of China Telecom Corporation Limited, CNOOC Limited, Sinofert Holdings Limited, Wing Hang Bank Limited and Linmark Group Limited, all of which are listed on the HKSE Main Board. He was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board, until 2010.

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

DIRECTORS' BIOGRAPHICAL DETAILS UPDATE

The Directors' biographical details update, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, since 1 July 2011 and up to 31 December 2011 has been reflected in the above section.

SENIOR MANAGEMENT

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

REPORT OF THE DIRECTORS

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

The directors (the “Directors”) of SJM Holdings Limited (the “Company”) have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2011 (the “Financial Statements”).

PRINCIPAL ACTIVITIES

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

An analysis of the revenues and the results of the Company and its subsidiaries (collectively the “Group”) by operating 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 52 to the Financial Statements.

FINANCIAL RESULTS

The profit of the Group for the year ended 31 December 2011, 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 71 to 138.

DIVIDENDS

An interim dividend of HK8 cents per ordinary share of the Company (the “Share”) for the six months ended 30 June 2011 was paid on 21 September 2011 (six months ended 30 June 2010: HK5 cents per Share).

The board of Directors of the Company (the “Board”) recommends a final dividend of HK43 cents per Share (2010: HK30 cents per Share) and a special dividend of HK22 cents per Share in respect of the year ended 31 December 2011, which is subject to approval at the forthcoming annual general meeting of the Company to be held on Thursday, 10 May 2012 (the “2012 AGM”).

RECORD DATE FOR PROPOSED FINAL DIVIDEND AND SPECIAL DIVIDEND

| | |
|--|--|
| Record date for proposed final dividend and special dividend | : 15 May 2012 |
| Latest time to lodge transfer documents with the Company’s share registrar | : 4:30 p.m. on Tuesday, 15 May 2012 |
| Name and address of the Company’s share registrar | : Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong |
| Expected payment date (if approved at the 2012 AGM) | : 30 May 2012 |

CLOSURE OF REGISTER OF MEMBERS FOR 2012 AGM

| | |
|--|--|
| Book close dates for 2012 AGM (both days inclusive) | : 8 May 2012 to 10 May 2012 |
| Latest time to lodge transfer documents with the Company’s share registrar | : 4:30 p.m. on Monday, 7 May 2012 |
| Name and address of the Company’s share registrar | : Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong |

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2011 is set out on page 139.

MAJOR SUPPLIERS AND CUSTOMERS

I. Suppliers

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

During the year, 37.1% of the Group's purchases was attributable to the Group's five largest suppliers combined as below:

- (i) Sociedade de Turismo e Diversões de Macau, S.A. ("STDM"), which shares certain administrative costs with SJM and provides SJM with dredging and repair and maintenance services, accounted for 9.5% of the Group's total purchases;
- (ii) Companhia de Electricidade de Macau – CEM, S.A., which provides SJM with electricity, accounted for 8.4% of the Group's total purchases;
- (iii) STDM through Hotel Lisboa Macau and Hotel Sintra, which provides SJM with casino and office leasing, hotel rooms and entertainment services, accounted for 8.0% of the Group's total purchases;
- (iv) Angel Playing Cards Co., Ltd., which supplies SJM with playing cards, accounted for 6.6% of the Group's total purchases; and
- (v) Far East Hydrofoil Company, Limited, which supplies SJM with ferry tickets, accounted for 4.6% of the Group's total purchases.

Hotel Lisboa Macau and Hotel Sintra are owned by STDM. Dr. Ho Hung Sun, Stanley ("Dr. Ho"), Dato' Dr. Cheng Yu Tung, Ms. Leong On Kei, Angela and Mr. Shum Hong Kuen, David have beneficial interests in STDM and Dr. Ho 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 (including its renewal agreement) and the Premises Leasing Master Agreement, further details of which are included in the section headed "Directors' Interests in Contracts and Connected Transactions".

Far East Hydrofoil Company, Limited is approximately 42.6% owned indirectly by Shun Tak Holdings Limited (in which Dr. Ho, 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 Company, Limited through STDM are undertaken pursuant to the Products and Services Master Agreement (including its renewal agreement), further details of which are included in the section headed "Directors' Interests in Contracts and Connected Transactions".

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

II. Customers

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

REPORT OF THE DIRECTORS

RESERVES AND DISTRIBUTABLE RESERVES

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

The Company's reserves available for distribution to Shareholders as at 31 December 2011 amounted to approximately \$6,083.7 million (31 December 2010: \$2,366.2 million).

DONATIONS

Donations made by the Group during the year amounted to \$81.8 million.

MAJOR GROUP PROPERTIES

Details of major properties of the Group as at 31 December 2011 are as follows:

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

REPORT OF THE DIRECTORS

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2011 are set out in note 39 to the Financial Statements.

BORROWING COSTS CAPITALISATION

The Group has not capitalised borrowing costs during the year (2010: \$1.0 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 42 to the Financial Statements.

CONVERTIBLE BONDS ISSUED 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 billion in Hong Kong dollar denominated zero coupon guaranteed convertible bonds due 2015 convertible into Shares (the "Bonds"). The Company agreed to guarantee payment of all sums payable in relation to such Bonds.

During the year 2010, approximately \$1.74 billion principal amount of the Bonds was converted into 332,175,488 Shares at the conversion price of \$5.24 per Share. The remaining approximately \$0.26 billion principal amount of the Bonds was converted into 49,503,805 Shares at the conversion price of \$5.24 per Share during the period from 1 January 2011 to 20 April 2011.

The Bonds were originally listed on the Singapore Exchange Securities Trading Limited ("SGX"). Subsequent to conversion of all of the Bonds, SGX approved the delisting of the Bonds on 29 April 2011.

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

The principal terms of the Scheme are summarised below:

| | |
|---|---|
| Purpose | To provide incentives to participants to contribute to the Group and/or to enable the Group to retain and recruit high-calibre employees and/or attract human resources that are valuable to the Group |
| Participants | Any employee, officer, agent, consultant or representative of the Company or any subsidiary, including any executive or non-executive director of the Company or any subsidiary, who is regarded as a valuable human resources of the Group based on his work experience, knowledge of the industry and other relevant factors |
| Total number of Shares available for issue | The total number of Shares which may be issued upon exercise of all Options must not in aggregate exceed 10% of the nominal amount of the issued share capital of the Company as at 13 May 2009 (that is, 500,000,000 Shares). As at the date of this annual report, the total number of Shares available for issue under the Scheme is 209,100,000 Shares, representing approximately 3.8% of the total number of Shares in issue. |
| Maximum entitlement of each participant | In any 12-month period (including the proposed grant date): <ul style="list-style-type: none">(a) For participants excluding substantial Shareholders, Independent Non-executive Directors 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:<ul style="list-style-type: none">(i) 0.1% of the number of Shares in issue as at the proposed grant date (including the total number of Shares already issued and those which may fall to be issued upon exercise of Options granted and to be granted to him under the Scheme and any other share option scheme(s) of the Company and/or any subsidiary); or(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 |

REPORT OF THE DIRECTORS

| | |
|--|---|
| Period within which the Shares must be taken up under an Option | The Board may in its absolute discretion determine, save that such period shall expire on the last day of nine years commencing on the date falling six months after the date of grant. |
| Minimum period for which an Option must be held before it can be exercised | Such minimum period under the Scheme is six months from the date of grant. At the time of grant of Options, the Board may specify longer minimum period(s) for which Options must be held before they can be exercised. |
| Amount payable on acceptance of the Option | \$1.00 |
| Period within which payments or calls must or may be made or loans for such purposes must be repaid | Payable within 28 days from the date of the letter containing the grant, provided that no such grant shall be open for acceptance after the expiry or termination of the Scheme |
| Basis of determining the exercise price | 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: <ul style="list-style-type: none"> (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the grant date, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date; and (c) if applicable, the nominal value of the Shares. |
| Remaining life of the Scheme | The Scheme will remain in force for a period of 10 years commencing on the adoption date. |

REPORT OF THE DIRECTORS

Details of the movement in Options granted under the Scheme during the year ended 31 December 2011 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 2011 |
|----------------------------------|----------------------------|---|--------------------------|----------------------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------------------------|
| | | | | Outstanding as at 1 January 2011 | 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 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 5,000,000 | — | (5,000,000) | — | — | — |
| | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 5,000,000 | (5,000,000) | — | — | — |
| So Shu Fai | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 35,000,000 | — | — | — | 35,000,000 |
| Ng Chi Sing | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 32,000,000 | — | — | — | 32,000,000 |
| Rui José da Cunha | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 3,000,000 | — | (3,000,000) | — | — | — |
| | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 3,000,000 | — | — | — | 3,000,000 |
| Leong On Kei, Angela | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 30,000,000 | — | — | — | 30,000,000 |
| Shum Hong Kuen, David | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 3,000,000 | — | — | — | — | 3,000,000 |
| | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 3,000,000 | — | — | — | 3,000,000 |
| Fok Tsun Ting, Timothy | 31 August 2010 (Note 4) | 28 February 2011 to 27 February 2020 | \$7.48 | 3,000,000 | — | — | — | — | 3,000,000 |
| | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 3,000,000 | — | — | — | 3,000,000 |
| Cheng Yu Tung | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 31 August 2010 (Note 4) | 28 February 2011 to 27 February 2020 | \$7.48 | 2,000,000 | — | — | — | — | 2,000,000 |
| | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 3,000,000 | — | — | — | 3,000,000 |
| Chau Tak Hay | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 500,000 | — | — | — | 500,000 |
| Lan Hong Tsung, David | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 500,000 | — | — | — | — | 500,000 |
| | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 500,000 | — | — | — | 500,000 |
| Shek Lai Him, Abraham | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 500,000 | — | — | — | — | 500,000 |
| | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 500,000 | — | — | — | 500,000 |
| Tse Hau Yin | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 500,000 | — | — | — | — | 500,000 |
| | 17 March 2011 (Note 5) | 17 September 2011 to 16 September 2020 | \$12.496 | N/A | 500,000 | — | — | — | 500,000 |
| Sub-total (Directors): | | | | 18,500,000 | 116,000,000 | (13,000,000) | — | — | 121,500,000 |

N/A: not applicable

REPORT OF THE DIRECTORS

| Name or category of participants | Date of grant | Exercise period | Exercise price per Share | Number of Options | | | | | Balance as at 31 December 2011 |
|----------------------------------|--------------------------|--------------------------------------|--------------------------|----------------------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------------------------|
| | | | | Outstanding as at 1 January 2011 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | |
| Employees | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 9,260,000 | — | (4,170,000) | — | — | 5,090,000 |
| Employee | 13 July 2009 (Note 1) | 13 January 2011 to 12 January 2019 | \$2.82 | 10,000,000 | — | — | — | — | 10,000,000 |
| Employee | 13 July 2009 (Note 1) | 13 January 2012 to 12 January 2019 | \$2.82 | 10,000,000 | — | — | — | — | 10,000,000 |
| Employee | 19 May 2010 (Note 2) | 19 November 2010 to 18 November 2019 | \$5.11 | 1,500,000 | — | (100,000) | — | — | 1,400,000 |
| Employees | 26 May 2010 (Note 3) | 26 November 2010 to 25 November 2019 | \$5.03 | 500,000 | — | (240,000) | — | — | 260,000 |
| Sub-total (Employees): | | | | 31,260,000 | — | (4,510,000) | — | — | 26,750,000 |
| Other participants | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 2,800,000 | — | (550,000) | — | — | 2,250,000 |
| Total: | | | | 52,560,000 | 116,000,000 | (18,060,000) | — | — | 150,500,000 |

Notes:

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

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

- The vesting period for all of the Options granted on 19 May 2010 is six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$4.81. The estimated fair value of each Option granted on that date based on an independent valuation is \$2.0728.
- The vesting period for all of the Options granted on 26 May 2010 is six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$4.83. The estimated fair value of each Option granted on that date based on an independent valuation is \$2.0178.
- The vesting period for all of the Options granted on 31 August 2010 is six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$7.49. The estimated fair value of each Option granted on that date based on an independent valuation is \$2.8926.
- The vesting period for all of the Options granted on 17 March 2011 is six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$12.58. The estimated fair value of each Option granted on that date based on an independent valuation is \$4.5320.
- The weighted average closing price of the Shares immediately before the dates on which the Options were exercised is \$16.49.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

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

Non-executive Director

Dato' Dr. Cheng Yu Tung

Independent Non-executive Directors

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

Brief biographical details of Directors are set out on pages 26 to 30 of this annual report. Details of their remuneration are set out in note 11 to the Financial Statements.

In accordance with Article 97 of the Company's articles of association, Dr. Ho Hung Sun, Stanley and Mr. Shum Hong Kuen, David, each an Executive Director and Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin, each an Independent Non-executive Director, will retire from the Board by rotation at the 2012 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

None of the Directors who are proposed for re-election at the 2012 AGM 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.

REPORT OF THE DIRECTORS

I. *Agreements with STDM or its subsidiaries*

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

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

Connected relationship:

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

A. Parties to the agreements:

STDM and the Company

1. *Premises Leasing Master Agreement*

| Agreement date | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transactions in 2011 |
|----------------|---|--|--|
| 18 June 2008 | 18 June 2008 to 31 March 2020 (the Company may terminate the agreement by giving at least three months' prior written notice) | <ul style="list-style-type: none"> For the leasing of premises by STDM and its associates (excluding the Group) (the "STDM Group") to the Group for use as casinos, offices, or for other business purposes Payments for the premises comprised rental, utility charges, air conditioning service charges and building management fees where the relevant rental must be fair and reasonable, and may not be higher than the rental for the same or comparable type of premises provided by independent third parties in the ordinary course of business; the utility charges payable are based on actual utility consumption; and the air conditioning expenses and building management fees are determined in accordance with and not exceeding the relevant market prices. The terms and conditions on which such premises are to be provided should be no less favourable to the Company than those offered by independent third parties. | See "Annual Caps and Aggregate Amount Table" on page 45 of this report |

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

REPORT OF THE DIRECTORS

2. *Products and Services Master Agreement*

| Agreement date | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transactions in 2011 |
|----------------|--|--|--|
| 18 June 2008 | 18 June 2008 to 17 June 2011 (the Company may terminate the agreement by giving at least three months' prior written notice) | <ul style="list-style-type: none"> • For the provision of the following categories of products and services by the STDM Group to the Group: <ul style="list-style-type: none"> (i) hotel accommodation (ii) hotel management and operation (iii) entertainment and staff messing (iv) dredging services (v) transportation (including jetfoil tickets supplied by Far East Hydrofoil Company, Limited through STDM) (vi) promotional and advertising services (vii) travel agency services (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 the Company than those offered to independent third parties. | See "Annual Caps and Aggregate Amount Table" on page 45 of this report |

REPORT OF THE DIRECTORS

2. *Products and Services Master Agreement (Continued)*

| Agreement date | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transactions in 2011 |
|--|----------------------------------|--|--|
| 19 June 2011 (Renewal of agreement dated 18 June 2008) | 18 June 2011 to 31 December 2013 | <ul style="list-style-type: none"> • For the provision of the following categories of products and services by the STDM Group to the Group: <ul style="list-style-type: none"> (i) hotel accommodation (ii) entertainment and staff messing (iii) dredging services (iv) transportation (including jetfoil tickets supplied by Far East Hydrofoil Company, Limited through STDM) (v) maintenance services • The provision of each relevant product or service by the STDM Group shall be on normal commercial terms and made with reference to the prevailing market price after arm's length negotiation between the relevant parties or, where there is no relevant market price, on terms negotiated between the relevant parties at arm's length. • The price of the products and services to be provided by the STDM Group including the basis of the calculation of the payments to be made shall be set out in the relevant implementation agreements and must be fair and reasonable. | See "Annual Caps and Aggregate Amount Table" on page 45 of this report |

Further details of the above transactions were set out in the section "Connected Transactions" in the Prospectus of the Company dated 26 June 2008 and the announcements of the Company dated 25 March 2009, 16 June 2009, 30 December 2010 and 19 June 2011.

REPORT OF THE DIRECTORS

B. Parties to the agreements:

STDM and SJM

1. Chips Agreement

| Agreement date | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transactions in 2011 |
|----------------|---|--|--|
| 18 June 2008 | No fixed term (may be terminated by mutual agreement or upon termination of SJM's gaming concession contract, whichever is earlier) | <ul style="list-style-type: none"> For regulating the honouring, borrowing and use of the casino chips of STDM for the purposes of its gaming operations Since 1 April 2002, SJM had been borrowing casino chips from STDM for the purpose of its business operation. STDM agreed to reimburse SJM for the aggregate face value of the chips honoured by SJM which were not sold by SJM. The arrangements are now being phased out as explained below. | See "Annual Caps and Aggregate Amount Table" on page 45 of this report |

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

Since SJM has secured its own supply of chips and is no longer borrowing any STDM chips, the overall value of STDM chips redeemed in 2011 has declined substantially from the historical levels seen in earlier years. Furthermore, all casino chips of STDM have been withdrawn from circulation though procedures were put in place for those holding such chips to redeem them for cash or for casino chips of SJM.

REPORT OF THE DIRECTORS

2. *Agreements for Transfer of Certain Departments from the STDM Group to the Group*

| Agreement date | Description of the transaction and its purpose |
|-----------------------|--|
| 20 November 2011 | <ul style="list-style-type: none">• For the transfer of the following seven departments of STDM in Macau to the Group:<ul style="list-style-type: none">(i) property and works department(ii) Macau service department(iii) public relations secretariat department(iv) public relations (wharf) department(v) electrical and mechanical engineering department(vi) warehouse department(vii) transportation service department• SJM will, or procure its subsidiary to, take over the operation of the above departments (save for public relations (wharf) department) on 1 January 2012. The takeover will involve, among other things:<ul style="list-style-type: none">(i) transfer of employment contracts of certain employees of the relevant departments to SJM or its subsidiary(ii) entering into or assignment of lease agreements between SJM or its subsidiary and STDM(iii) acquisition of certain assets of the departments from STDM(iv) assignment of certain business contracts to SJM or its subsidiary• Certain assets of the departments shall be transferred to SJM or its subsidiary for an agreed consideration with reference to net book value of the subject assets or at market valuation for vehicles held by the transportation service department.• Certain business contracts entered into by the departments shall be assigned to SJM or its subsidiary at no cost, subject to the consent to the relevant counterparty.• The above transfers were completed on 1 January 2012. |

Further details of the said transactions were set out in the announcement of the Company dated 20 November 2011.

REPORT OF THE DIRECTORS

C. Parties to the agreements:

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

Aircraft Sublease Agreements

| Agreement date | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transactions in 2011 |
|--------------------------------|--|--|--|
| Various dates in 2007 and 2008 | Each agreement has an initial term of 10 years | <ul style="list-style-type: none"> Sky Reach agreed to sublease six aircraft to Jet Asia. The terms of the aircraft sublease agreements are in accordance with normal business practice. | See “Annual Caps and Aggregate Amount Table” below |

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

Annual Caps and Aggregate Amount Table

| | Aggregate amount for the year ended 31 December 2011 \$ million | Annual Cap for the year ended 31 December 2011 \$ million | Annual Cap for the year ending 31 December 2012 \$ million | Annual Cap for the year ending 31 December 2013 \$ million |
|---|--|--|---|---|
| Non-exempt continuing connected transactions | | (Notes 1, 2, 3 & 4) | (Notes 1, 2, 3 & 4) | (Notes 1, 2, 3 & 4) |
| Products and Services Master Agreement | | | | |
| • Hotel accommodation (Note 1) | 81.9 | 109.0 | 131.0 | 157.0 |
| • Hotel management and operation (Note 1) | 7.1 | — | — | — |
| • Entertainment and staff messing (Note 1) | 67.8 | 100.0 | 110.0 | 121.0 |
| • Dredging services (Note 1) | 134.0 | 173.0 | 176.0 | 193.6 |
| • Transportation (Note 1) | 171.1 | 259.0 | 259.0 | 259.0 |
| • Promotional and advertising services (Note 1) | 9.0 | — | — | — |
| • Maintenance services (Note 1) | 50.8 | 82.0 | 82.0 | 82.0 |
| Premises Leasing Master Agreement (Note 2) | 218.4 | 300 | 315 | 331 |
| Chips Agreement (Note 3) | 6.6 | 400 | 200 | 100 |
| Aircraft Sublease Agreements (Note 4) | 44.0 | 150 | 150 | 150 |

REPORT OF THE DIRECTORS

Notes:

1. *In December 2010, the Board approved new caps for the seven categories of continuing connected transactions for the period from 1 January 2011 to 17 June 2011 so as to ensure the continuation of transactions under that agreement whilst at the same time allowing the Company to negotiate the renewal of that agreement with STDM. In June 2011, STDM and the Company renewed the Products and Services Master Agreement and approved new annual caps for the five categories of continuing connected transactions for the three financial years of 31 December 2011, 2012 and 2013. Those annual caps are determined by reference to a number of factors including (i) the historical consumption of the products and services by the Group; (ii) the business, marketing and promotion plans of the Group; (iii) the inflation rate in Macau; and (iv) the expected transaction volume and market prices of the products and services. However, no annual caps were proposed for the two categories, 'hotel management and operation' and 'promotional and advertising services', since the amounts were de minimis.*
2. *In December 2010, the Board approved new annual caps for this category of continuing connected transactions for the three financial years of 31 December 2011, 2012 and 2013 at \$300 million, \$315 million and \$331 million respectively. These annual caps have been determined by reference to (i) the existing leases between the Group and the STDM Group, (ii) the rentals which will be paid from 1 January 2011 on certain additional leased premises which the Group has already been using, and (iii) the estimated demand of the Group for the premises owned by the STDM Group for its business operations up to 31 December 2013 after taking into consideration the market condition and the anticipated market trend of rentals.*
3. *Since (i) the overall value of STDM chips to be redeemed in 2011 and the following two years is expected to decline substantially from the levels seen in earlier years, and (ii) as SJM has secured its own supply of chips, the STDM chips to be redeemed by SJM will refer to only those STDM chips already in circulation. As such, in December 2010, the Board set new annual caps for this category of continuing connected transactions for the three financial years of 31 December 2011, 2012 and 2013 at \$400 million, \$200 million and \$100 million respectively.*
4. *In December 2010, the Board approved new annual caps for this category of continuing connected transactions for the three financial years of 31 December 2011, 2012 and 2013 to be maintained at \$150 million for each year. These annual caps have been determined by reference to the contractual terms of the underlying agreements and reflect the aggregate rental payable for the private jets, an allowance for an increase in prevailing interest rates and the possibility of accelerated lease payments if conditions in the corporate jet market deteriorate substantially.*

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

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

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

Connected relationship:

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

Parties to the agreement:

ST-CITS and SJM

REPORT OF THE DIRECTORS

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

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

Annual Caps and Aggregate Amount Table

| | Aggregate amount for the year ended 31 December 2011 \$ million | Annual Cap for the year ended 31 December 2011 \$ million | Annual Cap for the year ended 31 December 2012 \$ million | Annual Cap for the year ended 31 December 2013 \$ million |
|---|--|--|--|--|
| Non-exempt continuing connected transaction | | | | |
| Transportation Services (Note) | 39.6 | 60 | 77 | 88 |

Note:

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

REPORT OF THE DIRECTORS

III. Agreement with Tin Hou Limited ("Tin Hou")

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

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

Connected relationship:

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

Parties to the agreement:

Tin Hou and SJM

| Agreement date | Term | Description of the transaction and its purpose | Aggregate amount of transactions in 2011 \$ million |
|------------------|--|--|---|
| 19 February 2010 | 1 October 2009 to 31 March 2020 (expiration date of SJM's gaming concession contract) or earlier termination (including winding up or cessation of business of either party) | <ul style="list-style-type: none">Tin Hou and SJM formalised their business arrangements in respect of the provision by Tin Hou to SJM of certain services in the gaming area located at the Grand Emperor Hotel in Macau (the "Gaming Area") which had commenced in October 2009.In consideration for the provision of related services to SJM, Tin Hou together with the nominated junket promoter, which is a fellow subsidiary of Tin Hou, is entitled to a share of the gross win and gross loss in respect of the monthly operating performance of the Gaming Area.The consideration for the provision of such services was determined after arm's length negotiation. | 1,442.4 |

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

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

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

The Joint Auditors have issued a review report to the Board and confirmed that for the year 2011:

- (1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;
- (2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

REPORT OF THE DIRECTORS

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

The Independent Non-executive Directors have reviewed these transactions and the report of the 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 governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

At a meeting of the Audit Committee held on 29 February 2012, all the Independent Non-executive Directors reviewed and confirmed compliance with an agreement between SJM and STDM dated 18 June 2008 regarding the honouring and borrowing of STDM chips for the purpose of SJM's casino gaming operations. During the year ended 31 December 2011, the net amount received and receivable on reimbursement of STDM chips in circulation amounted to \$6.6 million.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Dr. Ho has beneficial interests in Melco International Development Limited ("Melco") which, through its interest in Melco Crown Entertainment Limited, is also engaged in the casino gaming business in Macau. As at 31 December 2011, he was one of the beneficiaries of a discretionary trust which has a right to convert convertible loan notes issued by Melco into a total number of 298,982,188 new shares of Melco, representing approximately 24.28% in the issued share capital of Melco (or approximately 19.54% in the enlarged issued share capital of Melco). He is also a beneficial owner of 342 shares of Melco.

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

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

REPORT OF THE DIRECTORS

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

As at 31 December 2011, 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 Shares, underlying Shares and debentures of the Company

| Name of director | Capacity | Long/short position | No. of Shares held | No. of underlying Shares held | Approximate percentage of issued share capital |
|------------------------|------------------|---------------------|--------------------|-------------------------------|--|
| | | | | | (Note 2) |
| So Shu Fai | Beneficial owner | Long position | 128,327,922 | — | 2.32% |
| | Beneficial owner | Long position | — | 35,000,000 (Note 1) | 0.63% |
| | | | 128,327,922 | 35,000,000 | 2.95% |
| Ng Chi Sing | Beneficial owner | Long position | 96,452,922 | — | 1.75% |
| | Beneficial owner | Long position | — | 32,000,000 (Note 1) | 0.58% |
| | | | 96,452,922 | 32,000,000 | 2.33% |
| Rui José da Cunha | Beneficial owner | Long position | 19,000,500 | — | 0.34% |
| | Beneficial owner | Long position | — | 3,000,000 (Note 1) | 0.05% |
| | | | 19,000,500 | 3,000,000 | 0.39% |
| Leong On Kei, Angela | Beneficial owner | Long position | 427,950,000 | — | 7.75% |
| | Beneficial owner | Long position | — | 30,000,000 (Note 1) | 0.54% |
| | | | 427,950,000 | 30,000,000 | 8.29% |
| Shum Hong Kuen, David | Beneficial owner | Long position | — | 6,000,000 (Note 1) | 0.11% |
| Fok Tsun Ting, Timothy | Beneficial owner | Long position | — | 6,000,000 (Note 1) | 0.11% |
| Cheng Yu Tung | Beneficial owner | Long position | — | 6,000,000 (Note 1) | 0.11% |
| Chau Tak Hay | Beneficial owner | Long position | — | 500,000 (Note 1) | 0.01% |
| Lan Hong Tsung, David | Beneficial owner | Long position | — | 1,000,000 (Note 1) | 0.02% |
| Shek Lai Him, Abraham | Beneficial owner | Long position | — | 1,000,000 (Note 1) | 0.02% |
| Tse Hau Yin | Beneficial owner | Long position | — | 1,000,000 (Note 1) | 0.02% |

REPORT OF THE DIRECTORS

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

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

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

STDM – Investments Limited (Liquidated) (“STDM–I”)

(ceased to be an associated corporation of the Company with effect from 15 August 2011 (Note 3))

| Name of director | Capacity | Long/short position | No. of shares held (Registered Capital (MOP)) | Approximate percentage of issued share capital |
|------------------|----------|---------------------|---|--|
| | | | | |

Sociedade de Jogos de Macau, S.A.

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

Notes:

1. These represent the interests in underlying Shares in respect of share options granted by the Company, the details of which are stated in section “Share Option Scheme” above.
2. The percentage has been calculated based on 5,522,079,293 Shares in issue as at 31 December 2011.
3. During the year, the share registrar of the Company received documents for the transfer of 3,049,987,500 Shares from STDM–I to STDM because the shareholders of STDM–I resolved to liquidate STDM–I. STDM–I was subsequently liquidated on 15 August 2011 as per the search records of Businesses and Vehicles Registry in Macau.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, so far as was known to any Director, as of 31 December 2011, 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.

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

As at 31 December 2011, details of substantial Shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

| Name of substantial Shareholder | Capacity | Long/short position | No. of Shares held | No. of underlying Shares held | Approximate percentage of issued share capital |
|---|---------------------------------------|--------------------------------|--------------------|-------------------------------|--|
| Leong On Kei, Angela | Beneficial owner Beneficial owner | Long position Long position | 427,950,000 — | — 30,000,000 (Note 1) | (Note 2) 7.75% |
| | | | | | 0.54% |
| | | | | | 8.29% |
| Sociedade de Turismo e Diversões de Macau, S.A. | Interest of controlled corporation(s) | Long position | 3,049,987,500 | — | 55.23% |

Notes:

1. These represent the interests in underlying Shares in respect of share options granted by the Company, the details of which are stated in section "Share Option Scheme" above.
2. The percentage has been calculated based on 5,522,079,293 Shares in issue as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, 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.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the usual course of business are set out in note 51 to the Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards. The related party transactions referred in note 51(b) to 51(j) constitute continuing connected transactions, as defined under the Listing Rules.

REPORT OF THE DIRECTORS

NON-COMPETITION UNDERTAKINGS BY STDM AND DR. HO

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

At a meeting of the Audit Committee held on 29 February 2012, all the Independent Non-executive Directors reviewed the confirmations from Dr. Ho and STDM in respect of the Non-Competition Undertakings which were submitted to the Company in February 2012 and confirmed compliance with the Non-Competition Undertakings provided by Dr. Ho and STDM.

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

At the meeting of the Audit Committee held on 29 February 2012, all the Independent Non-executive Directors reviewed the position regarding the indemnity provided by STDM-I dated 20 November 2007 in respect of certain litigation ongoing at the time of the Company’s global offering of Shares (the “STDM-I Surety”).

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

Based on information provided by the law firms in Macau and Hong Kong who had conduct of the relevant legal proceedings, the Independent Non-executive Directors confirmed that there was currently no material claim against STDM in respect of the ongoing litigation.

MANAGEMENT CONTRACTS

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the year ended 31 December 2011.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 55 to 68 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 2012 AGM.

REVIEW BY AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2011 have been reviewed by the Audit Committee of the Company.

By order of the Board of Directors
SJM Holdings Limited

So Shu Fai
Executive Director and Chief Executive Officer

Hong Kong, 29 February 2012

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 2011, the Company has complied with the code provisions set out in Appendix 14 of the Listing Rules, except for the deviation from Code Provision E.1.2 that, due to health reasons, Dr. Ho Hung Sun, Stanley was absent from the annual general meeting of the Company held on 29 April 2011.

The board of directors of the Company (the “Board”) has reviewed the “Consultation Conclusions on Review of the Corporate Governance Code and Associated Listing Rules” issued by the Stock Exchange on 28 October 2011 and its impact to the Company. Relevant proposals and amendments to the Company have been approved by the Board and have been adopted in early 2012 or will be adopted in due course.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Model Code”) as its own code of conduct regarding securities transactions by directors of the Company (the “Directors”). Having made specific enquiry, the Company confirms that all Directors have complied with the required standards as stated in the Model Code for the year 2011. 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 business, strategic direction and performance of the Company and its subsidiaries (collectively the “Group”). Execution of the Board’s decisions and daily operations are delegated to the management. The functions reserved to the Board and those delegated to management have been formalised in writing. The Board reviews those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

CORPORATE GOVERNANCE REPORT

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

| The Board (Total number of directors: 12 (Note 1)) | | |
|---|---|--|
| Executive Directors | Non-executive Director | Independent Non-executive Directors |
| Dr. Ho Hung Sun, Stanley (Chairman) Dr. So Shu Fai (Chief Executive Officer) Mr. Ng Chi Sing (Chief Operating Officer) Mr. Rui José da Cunha Ms. Leong On Kei, Angela Mr. Shum Hong Kuen, David Mr. Fok Tsun Ting, Timothy | Dato' Dr. Cheng Yu Tung | Mr. Chau Tak Hay Mr. Lan Hong Tsung, David Mr. Shek Lai Him, Abraham Mr. Tse Hau Yin (Note 3) |
| Total number: 7 % to total directors: 58.3% | Total number: 1 % to total directors: 8.3% | Total number: 4 (Note 2) % to total directors: 33.4% (Note 4) |
| Notes: | | |
| 1. Maximum number of directors: 12 (Article 82 of the Company's articles of association (the "Articles")) | | |
| 2. Minimum number of Independent Non-executive Directors: 3 (Listing Rules 3.10(1)) | | |
| 3. Independent Non-executive Director having accounting expertise (Listing Rule 3.10(2)) | | |
| 4. Independent Non-executive Directors represent 1/3 of the Board (Recommended Best Practice A.3.2) | | |

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

The Directors and their brief biographical details are set out on pages 26 to 30 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

BUSINESS RELATIONSHIP BETWEEN DIRECTORS AND CONTROLLING SHAREHOLDER

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

- (i) he is recommended by the Board; or
- (ii) not earlier than the day after the dispatch of the notice of the general meeting and not later than seven days prior to the date appointed for the general meeting there has been left at the Company's registered office for the time being a letter, signed by at least two Shareholders (other than the person to be proposed) entitled to vote at the general meeting together holding not less than ten per cent. 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 Articles specify that at each annual general meeting of the Company one third of the Directors shall retire but shall be eligible for re-election. In determining which Directors shall retire, the Board will make sure that every Director, including those appointed for a specific term, should be subject to rotation at least once every three years. At the forthcoming annual general meeting of the Company to be held on Thursday, 10 May 2012 (the "2012 AGM"), the following Directors will retire and have offered themselves for re-election pursuant to Article 97:

| | | |
|-------------------------------------|---|---|
| Executive Directors | : | Dr. Ho Hung Sun, Stanley Mr. Shum Hong Kuen, David |
| Independent Non-executive Directors | : | Mr. Shek Lai Him, Abraham Mr. Tse Hau Yin |

Particulars of the said retiring Directors and the recommendation of the Board for their re-election are set out in a circular to be dated 29 March 2012 for despatch to Shareholders.

NON-EXECUTIVE DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

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.

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

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

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

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

RESPONSIBILITIES OF DIRECTORS

The management of the Company updates the Directors on their duties and responsibilities as well as the conduct, business activities and development of the Group. It supplies the Directors and Board Committees with adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The management provides 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 supplies additional 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 may require in discharging their duties.

Given the essential unitary nature of the Board, the Non-executive Directors have the same duties of care and skill and fiduciary duties as the Executive Directors. Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. The 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.

CORPORATE GOVERNANCE REPORT

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 and a handbook containing duties of Directors have been sent to all Directors for their information.

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

PRACTICE AND CONDUCT OF MEETINGS

Notices of Board meetings are usually served to all Directors before the meeting in accordance with the Articles. Notice of at least 14 days is given for regular Board meetings to give all Directors an opportunity to attend. Reasonable notice is given for all other Board meetings. Board meeting agenda and papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner and at least three days or such other 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 to 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/or is open for Directors' inspection.

According to current Board practice, any material transaction that involves a conflict of interests of 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 at 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 Articles. In addition, he shall be physically absent from the venue of the meeting during the time the relevant contract, arrangement or matter is being discussed and voted on by the other Directors.

BOARD AND BOARD COMMITTEE MEETINGS

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2011, six Board meetings were held. Details of individual Directors' attendance at the Board meetings and the 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 |
|--|----------------|--------------------------|---------------------------------|------------------------------|
| Executive Directors | | | | |
| Ho Hung Sun, Stanley | 1/6 (Note) | N/A | N/A | N/A |
| So Shu Fai | 6/6 | N/A | 3/3 | 1/1 |
| Ng Chi Sing | 6/6 | N/A | N/A | N/A |
| Rui José da Cunha | 6/6 | N/A | N/A | N/A |
| Leong On Kei, Angela | 5/6 (Note) | N/A | 3/3 | 1/1 |
| Shum Hong Kuen, David | 6/6 (Note) | N/A | N/A | 1/1 |
| Fok Tsun Ting, Timothy | 5/6 | N/A | N/A | N/A |
| Non-executive Director | | | | |
| Cheng Yu Tung | 4/6 (Note) | N/A | N/A | N/A |
| Independent Non-executive Directors | | | | |
| Chau Tak Hay | 5/6 | 5/6 | 3/3 | 1/1 |
| Lan Hong Tsung, David | 6/6 | 6/6 | 3/3 | 1/1 |
| Shek Lai Him, Abraham | 6/6 | 6/6 | 3/3 | 1/1 |
| Tse Hau Yin | 6/6 | 6/6 | 3/3 | 1/1 |

N/A: not applicable

Note:

According to Article 96(K), 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. Some of the Directors were interested in certain continuing connected transactions and had to physically absent themselves from voting on the related Board resolutions at certain or certain sessions of Board meetings held during the year.

Dr. Ho Hung Sun, Stanley was unable to attend most meetings due to health reasons.

DELEGATION BY THE BOARD – BOARD COMMITTEES

The Board has proper delegation of its powers and has established three Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee, in accordance with the requirements under 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 Articles. The Board has established an additional Board Committee, namely the Executive Committee. The primary purpose of the Executive Committee is to oversee the implementation of the Company's strategic objectives and the business operations of the Group.

CORPORATE GOVERNANCE REPORT

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 composition of the Audit Committee is as follows:

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

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 recommend the appointment of auditors, 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.

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 reports to the Board the major items covered by the committee at each meeting, draws the Board's attention to important issues that the Board should be aware of, identifies any matters in respect of which it considers that action or improvement is needed and makes appropriate recommendations.

CORPORATE GOVERNANCE REPORT

In 2011, the Audit Committee held six meetings and its principal work performed is set out below. In general, it has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including the review of the interim and annual results of the Company. Details of attendance of each Audit Committee member, on a named basis, at each Audit Committee meeting held during the year are set out in the table on page 60.

The principal work performed by the Audit Committee during 2011

Review of annual financial statements of the Group for the year ended 31 December 2010, interim financial statements of the Group for the six months ended 30 June 2011, and quarterly unaudited key performance indicators of the Group for the three months ended 31 March 2011 and 30 September 2011 respectively, with recommendations to the Board for approval

Review and approval of the engagement letters of Deloitte Touche Tohmatsu and H.C. Watt & Company Limited (collectively the "Joint Auditors"), the joint auditors of the Company, the nature and scope of the audit, their reporting obligations and their work plan

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

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

Review and approval of internal audit work plan for 2012

Review of connected transactions (including continuing connected transactions) carried out during the year

Review of Joint Auditors' performance and recommendation to the Board for re-appointment of Joint Auditors

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.

REMUNERATION COMMITTEE

The composition of the Remuneration Committee is as follows:

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

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 Remuneration Committee reports to the Board the major items covered by the committee at each meeting, and approves the remuneration packages of Executive Directors and senior management and makes recommendations on the remuneration packages of Non-executive Directors (including Independent Non-executive Directors) and Board Committee members (including Audit Committee, Nomination Committee and Remuneration Committee) and other remuneration related matters to the Board. The written terms of reference of the Remuneration 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 Remuneration Committee has the duty to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

In 2011, the Remuneration Committee held three meetings and its principal work performed is set out below:

| The principal work performed by the Remuneration Committee during 2011 |
|--|
| Review of the grant of share options to participants under the share option scheme of the Company adopted on 13 May 2009, with recommendations to the Board for approval |
| Review of the remuneration of Executive Directors and senior management and approval of the same |
| Review of the remuneration of Non-executive Directors (including Independent Non-executive Directors), with recommendations to the Board for approval |

CORPORATE GOVERNANCE REPORT

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

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

The emoluments of Directors, including basic salary and performance bonus, are based on each Director's individual skill, work performed and involvement in the Group's affairs, the Company's performance and profitability, remuneration benchmarking in the industry and prevailing market conditions. At the annual general meeting of the Company held on 29 April 2011, a resolution was passed to authorise the Board to fix the Directors' remuneration. A resolution will be proposed at the 2012 AGM to obtain Shareholders' authorisation for the Board to fix Directors' remuneration.

Retirement benefits schemes of the Group are set out in note 50 to the Financial Statements.

NOMINATION COMMITTEE

The composition of the Nomination Committee is as follows:

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

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 written terms of reference of the Nomination 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.

CORPORATE GOVERNANCE REPORT

In 2011, the Nomination Committee held one meeting and its principal work performed is set out below:

The principal work performed by the Nomination Committee during 2011

Recommendation to the Board that Dr. Ho Hung Sun, Stanley, Mr. Shum Hong Kuen, David, the Executive Directors, and Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin, the Independent Non-executive Directors, shall retire and offer themselves for re-election at 2012 AGM

Review of the structure, size and composition of the Board and the Board Committees

Assessment of 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 believes the retiring Directors should be re-elected are set out in the circular to Shareholders accompanying the notice of the 2012 AGM.

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

FINANCIAL REPORTING

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

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

DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

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

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

AUDITORS' RESPONSIBILITY

The Company engaged Deloitte Touche Tohmatsu and H.C. Watt & Company Limited, Certified Public Accountants as Independent 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 69 and 70.

In arriving at their opinion, the Joint Auditors conducted a 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 of the Company to answer questions which Shareholders may have.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

The remuneration paid and payable to the Joint Auditors and their respective associates in respect of statutory audit and non-audit services (with each significant non-audit service assignment listed out separately) provided to the Group in 2011 is set out below:

| 2011 Audit and Non-audit Services | 2011 HK\$ million |
|--|------------------------------|
| Annual audit | 8.7 |
| Interim review | 3.7 |
| Quarterly results review | 0.7 |
| Test counts of chips | 0.1 |
| Tax consultancy | 0.5 |
| Internal control assessment project | 4.3 |
| Total: | 18.0 |

INTERNAL CONTROLS

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

During the year ended 31 December 2011, Internal Audit performed a review 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 of the internal control system that would have an adverse impact on the financial position or operations of the Group. Internal Audit conducts internal control and AML reviews and submits its reports to the Audit Committee quarterly with findings and recommendations on improvements. The Audit Committee is satisfied with the internal audit work performed and with the adequacy of resources and qualifications of staff within Internal Audit.

In August 2011, Deloitte Touche Tohmatsu was engaged to assess whether internal controls and procedures in certain areas are properly designed and implemented so as to address the Company's key risks. The scope included (i) corporate and general; (ii) casino operations; (iii) hotel and food and beverage operations; and (iv) AML. The report's findings have been reviewed by the Board and appropriate measures for improvement will be adopted.

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

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 Articles. The Listing Rules require that voting is by way of poll at all general meetings of the Company. Any questions from Shareholders regarding voting by way of poll will be answered after explanation of the procedures.

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

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. Except that due to health reasons, Dr. Ho Hung Sun, Stanley was absent from the annual general meeting of the Company held on 29 April 2011, it is the Company's general practice that the Chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, their duly appointed delegates are available to answer questions at the annual general meeting of the Company. At Shareholders' meetings, individual resolutions are proposed 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 analysts' briefings and conferences and investor meetings/calls after the announcement of its financial results, and regularly participates in investment forums and briefings hosted by investment banks. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development. Enquiries from investors are dealt with in an informative and timely manner. Enquiries and suggestions from Shareholders or investors are welcomed by mail to the Company's registered office at Suites 3201–3205, 32nd Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong or by email to ir@sjmholdings.com for the attention of the Investor Relations Department.

CORPORATE GOVERNANCE REPORT

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 was no change in the Articles during the year. The last Shareholders' meeting of the Company was an annual general meeting which was held at Golden Restaurant, Macau Jockey Club (HK) Club House, 1st Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong on 29 April 2011 at which resolutions were duly passed in respect of major items such as the adoption of the audited financial statements and the reports of the Directors and the Joint Auditors of the Company for the year ended 31 December 2010, 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 repurchase mandate for shares of the Company.

The Company's website at <http://www.sjmholdings.com> posts information and updates on the Company's business, 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 February 2012

INDEPENDENT JOINT AUDITORS' REPORT

Deloitte.
德勤

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

TO THE SHAREHOLDERS OF SJM HOLDINGS LIMITED

澳門博彩控股有限公司

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of SJM Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 138, which comprise the consolidated and the Company's statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT 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 2011 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 February 2012

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

29 February 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | Notes | 2011 HK\$ million | 2010 HK\$ million |
|--|-------|----------------------|----------------------|
| Gaming, hotel, catering and related services revenues | | 76,092.0 | 57,653.3 |
| Gaming revenue | 8 | 75,514.4 | 57,195.0 |
| Special gaming tax, special levy and gaming premium | | (29,071.1) | (22,089.9) |
| | | 46,443.3 | 35,105.1 |
| Hotel, catering and related services income | | 577.6 | 458.3 |
| Cost of sales and services on hotel, catering and related services | | (246.0) | (216.4) |
| Other income | | 211.8 | 147.9 |
| Marketing and promotional expenses | | (34,090.7) | (25,130.4) |
| Operating and administrative expenses | | (7,389.4) | (6,627.1) |
| Finance costs | 9 | (123.0) | (215.4) |
| Share of (losses) profits of an associate | 20 | (45.1) | 4.9 |
| Share of profits of a jointly controlled entity | 21 | 7.3 | 5.5 |
| Profit before taxation | 10 | 5,345.8 | 3,532.4 |
| Taxation | 12 | (35.0) | (17.6) |
| Profit for the year and total comprehensive income for the year | | 5,310.8 | 3,514.8 |
| Profit for the year and total comprehensive income attributable to | | | |
| — owners of the Company | | 5,307.6 | 3,559.4 |
| — non-controlling interests | | 3.2 | (44.6) |
| | | 5,310.8 | 3,514.8 |
| Earnings per share | | | |
| — Basic | 14 | HK96.4 cents | HK69.2 cents |
| — Diluted | 14 | HK95.4 cents | HK66.2 cents |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011 HK\$ million | 2010 HK\$ million |
|---|-------|----------------------|----------------------|
| Non-current assets | | | |
| Property and equipment | 15 | 8,777.2 | 9,486.0 |
| Land use rights | 17 | 775.2 | 804.9 |
| Intangible asset | 18 | 33.2 | 39.5 |
| Art works and diamonds | 19 | 289.2 | 290.4 |
| Interest in an associate | 20 | 28.9 | 74.0 |
| Interest in a jointly controlled entity | 21 | 80.5 | 73.2 |
| Available-for-sale investments in equity securities | 22 | 5.5 | 5.5 |
| Deposits made on acquisitions | 23 | 153.0 | 122.6 |
| Amount due from a fellow subsidiary | 24 | 268.7 | 304.5 |
| Amount due from an associate | 25 | 40.8 | — |
| Amount due from a jointly controlled entity | 26 | 14.3 | — |
| Amounts due from investee companies | 27 | 128.9 | 144.2 |
| Pledged bank deposits | 28 | 145.6 | 145.6 |
| | | 10,741.0 | 11,490.4 |
| Current assets | | | |
| Inventories | | 68.5 | 55.9 |
| Trade and other receivables | 29 | 1,318.0 | 1,258.2 |
| Loan receivables | 30 | 246.0 | 246.0 |
| Amount due from ultimate holding company | 31 | 0.3 | 546.7 |
| Amount due from an associate | 25 | — | 20.0 |
| Amount due from a jointly controlled entity | 26 | — | 14.3 |
| Financial assets at fair value through profit or loss | 32 | 48.9 | 56.2 |
| Pledged bank deposits | 28 | 26.3 | 26.4 |
| Short-term bank deposits | 33 | 6,011.1 | 5,036.7 |
| Bank balances and cash | | 14,559.9 | 10,138.6 |
| | | 22,279.0 | 17,399.0 |
| Current liabilities | | | |
| Trade and other payables | 34 | 11,338.8 | 10,020.8 |
| Amount due to a director | 35 | — | 29.1 |
| Amount due to non-controlling interests of a subsidiary | 37 | 324.0 | — |
| Obligations under finance leases | 38 | 25.4 | 23.5 |
| Taxation | | 38.8 | 38.8 |
| Current portion of long-term bank loans | 39 | 3,072.0 | 1,040.0 |
| Convertible bonds | 40 | — | 218.7 |
| | | 14,799.0 | 11,370.9 |
| Net current assets | | 7,480.0 | 6,028.1 |
| Total assets less current liabilities | | 18,221.0 | 17,518.5 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011 HK\$ million | 2010 HK\$ million |
|---|-------|----------------------|----------------------|
| Non-current liabilities | | | |
| Obligations under finance leases | 38 | 268.7 | 304.5 |
| Long-term bank loans | 39 | — | 3,072.0 |
| Amount due to non-controlling interests of a subsidiary | 37 | 690.8 | 966.6 |
| Deferred taxation | 41 | 14.9 | — |
| | | <u>974.4</u> | <u>4,343.1</u> |
| Net assets | | <u>17,246.6</u> | <u>13,175.4</u> |
| Capital and reserves | | | |
| Share capital | 42 | 5,522.1 | 5,454.5 |
| Reserves | | 11,685.6 | 7,683.2 |
| Equity attributable to owners of the Company | | 17,207.7 | 13,137.7 |
| Non-controlling interests | | 38.9 | 37.7 |
| Total equity | | <u>17,246.6</u> | <u>13,175.4</u> |

The consolidated financial statements on pages 71 to 138 were approved and authorised for issue by the board of directors on 29 February 2012 and are signed on its behalf by:

So Shu Fai
Director

Ng Chi Sing
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | Notes | 2011 HK\$ million | 2010 HK\$ million |
|---|-------|----------------------|----------------------|
| Non-current assets | | | |
| Property and equipment | 15 | 1.5 | 3.2 |
| Investments in subsidiaries | 16 | 4,359.3 | 4,359.3 |
| Deposits made on acquisitions | 23 | 1.4 | — |
| | | 4,362.2 | 4,362.5 |
| Current assets | | | |
| Other receivables, deposits and prepayments | | 27.3 | 15.0 |
| Amounts due from subsidiaries | 35 | 512.0 | 1,093.2 |
| Dividends receivable | | 4,854.4 | 1,747.6 |
| Short-term bank deposits | 33 | 5,272.8 | 4,063.3 |
| Bank balances and cash | | 1,232.7 | 526.2 |
| | | 11,899.2 | 7,445.3 |
| Current liabilities | | | |
| Other payables and accruals | | 1.0 | 0.5 |
| Amount due to a subsidiary | 35 | 291.6 | 413.2 |
| | | 292.6 | 413.7 |
| Net current assets | | 11,606.6 | 7,031.6 |
| Net assets | | 15,968.8 | 11,394.1 |
| Capital and reserves | | | |
| Share capital | 42 | 5,522.1 | 5,454.5 |
| Reserves | 44 | 10,446.7 | 5,939.6 |
| Total equity | | 15,968.8 | 11,394.1 |

So Shu Fai
Director

Ng Chi Sing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

| | Share capital HK\$ million | Share premium HK\$ million | Share options reserve HK\$ million | Convertible bonds equity reserve HK\$ million | Retained profits HK\$ million | Attributable to owners of the Company HK\$ million | Non-controlling interests HK\$ million | Total HK\$ million |
|--|-------------------------------|-------------------------------|---------------------------------------|--|----------------------------------|---|---|-------------------------|
| At 1 January 2010 | 5,000.0 | 1,627.4 | 173.9 | 387.0 | 1,266.4 | 8,454.7 | 64.7 | 8,519.4 |
| Total comprehensive income for the year | — | — | — | — | 3,559.4 | 3,559.4 | (44.6) | 3,514.8 |
| Exercise of share options | 122.3 | 379.8 | (155.2) | — | — | 346.9 | — | 346.9 |
| Conversion of convertible bonds | 332.2 | 1,449.9 | — | (336.8) | — | 1,445.3 | — | 1,445.3 |
| Transaction costs incurred in connection with the issue of shares | — | (0.3) | — | — | — | (0.3) | — | (0.3) |
| Recognition of equity-settled share-based payments | — | — | 47.7 | — | — | 47.7 | — | 47.7 |
| Capital contribution arising from fair value adjustment on amount due to non-controlling interests of a subsidiary | — | — | — | — | — | — | 17.6 | 17.6 |
| Dividends paid (note 13) | — | — | — | — | (716.0) | (716.0) | — | (716.0) |
| | <u>454.5</u> | <u>1,829.4</u> | <u>(107.5)</u> | <u>(336.8)</u> | <u>(716.0)</u> | <u>1,123.6</u> | <u>17.6</u> | <u>1,141.2</u> |
| At 31 December 2010 | 5,454.5 | 3,456.8 | 66.4 | 50.2 | 4,109.8 | 13,137.7 | 37.7 | 13,175.4 |
| Total comprehensive income for the year | — | — | — | — | 5,307.6 | 5,307.6 | 3.2 | 5,310.8 |
| Exercise of share options | 18.1 | 121.4 | (39.4) | — | — | 100.1 | — | 100.1 |
| Conversion of convertible bonds | 49.5 | 222.1 | — | (50.2) | — | 221.4 | — | 221.4 |
| Transaction costs incurred in connection with the issue of shares | — | (0.2) | — | — | — | (0.2) | — | (0.2) |
| Recognition of equity-settled share-based payments | — | — | 535.9 | — | — | 535.9 | — | 535.9 |
| Arising from changes in cash flow estimates on amount due to non-controlling interests of a subsidiary | — | — | — | — | — | — | (2.0) | (2.0) |
| Dividends paid (note 13) | — | — | — | — | (2,094.8) | (2,094.8) | — | (2,094.8) |
| | <u>67.6</u> | <u>343.3</u> | <u>496.5</u> | <u>(50.2)</u> | <u>(2,094.8)</u> | <u>(1,237.6)</u> | <u>(2.0)</u> | <u>(1,239.6)</u> |
| At 31 December 2011 | <u>5,522.1</u> | <u>3,800.1</u> | <u>562.9</u> | <u>—</u> | <u>7,322.6</u> | <u>17,207.7</u> | <u>38.9</u> | <u>17,246.6</u> |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | 2011 HK\$ million | 2010 HK\$ million |
|---|----------------------|----------------------|
| Operating activities | | |
| Profit before taxation | 5,345.8 | 3,532.4 |
| Adjustments for: | | |
| Interest income | (170.4) | (73.5) |
| Interest expenses | 74.1 | 97.6 |
| Imputed interest on amount due to non-controlling interests of a subsidiary | 46.2 | 42.0 |
| Imputed interest on convertible bonds | 2.7 | 75.8 |
| Dividend income | (23.7) | (1.5) |
| Non-cash donation | 65.5 | — |
| Income from amortisation of financial guarantee obligations | — | (13.3) |
| Share of losses (profits) of an associate | 45.1 | (4.9) |
| Share of profits of a jointly controlled entity | (7.3) | (5.5) |
| Amortisation of intangible asset | 6.3 | 6.3 |
| Depreciation of property and equipment | 1,114.2 | 1,170.4 |
| Loss on disposal of property and equipment | 5.5 | 14.5 |
| Operating lease rentals in respect of land use rights | 41.0 | 40.2 |
| Write-off of art works | 1.2 | — |
| Allowance for doubtful debts | 10.0 | 53.6 |
| Change in fair value of financial assets at fair value through profit or loss | 25.7 | (27.8) |
| Share-based payments | 535.9 | 47.7 |
| Operating cash flows before movements in working capital | 7,117.8 | 4,954.0 |
| Increase in inventories | (12.6) | (3.8) |
| Increase in trade and other receivables | (46.0) | (143.5) |
| Increase in trade and other payables | 1,368.6 | 3,477.1 |
| Cash from operations | 8,427.8 | 8,283.8 |
| Taxation paid | (20.1) | (17.6) |
| Net cash from operating activities | 8,407.7 | 8,266.2 |
| Investing activities | | |
| Interest received | 148.3 | 57.2 |
| Dividends received from financial assets at fair value through profit or loss | 5.3 | 1.5 |
| Purchase of property and equipment | (421.1) | (811.6) |
| Proceeds from disposal of property and equipment | 3.9 | 3.2 |
| Purchase of land use rights | (11.3) | — |
| Purchase of art works and diamonds | — | (1.2) |
| Deposits paid for acquisition of property and equipment | (136.8) | (34.6) |
| Loan receivables advanced | — | (114.0) |
| Repayment from (net advances to) ultimate holding company | 546.4 | (523.4) |
| Advances to an associate | (20.8) | — |
| Repayment from a fellow subsidiary | 33.9 | 106.0 |
| Repayment from investee companies | 15.3 | 12.5 |
| Decrease in pledged bank deposits | 0.1 | 239.0 |
| Increase in bank deposits | (974.4) | (3,636.7) |
| Net cash used in investing activities | (811.2) | (4,702.1) |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

| | 2011 HK\$ million | 2010 HK\$ million |
|---|----------------------|----------------------|
| Financing activities | | |
| Interest paid | (77.3) | (92.7) |
| Dividends paid | (2,094.8) | (716.0) |
| Proceeds from issue of shares | 100.1 | 346.9 |
| Transaction costs incurred in connection with the issue of shares | (0.2) | (0.3) |
| (Repayment to) borrowings from a director | (29.1) | 29.1 |
| Repayment of obligations under finance leases | (33.9) | (34.5) |
| Bank loans raised | — | 10.0 |
| Repayment of bank loans | (1,040.0) | (1,040.0) |
| Borrowings from non-controlling interests of a subsidiary | — | 134.9 |
| Net cash used in financing activities | <u>(3,175.2)</u> | <u>(1,362.6)</u> |
| Net increase in cash and cash equivalents | 4,421.3 | 2,201.5 |
| Cash and cash equivalents at 1 January | <u>10,138.6</u> | <u>7,937.1</u> |
| Cash and cash equivalents at 31 December | <u>14,559.9</u> | <u>10,138.6</u> |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | <u>14,559.9</u> | <u>10,138.6</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL

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

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

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

In the current year, the Company and its subsidiaries (collectively referred as the “Group”) have applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 1 January 2011.

| | |
|----------------------------------|---|
| Amendments to HKFRSs | Improvements to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related party disclosures |
| Amendment to HKAS 32 | Classification of rights issues |
| Amendment to HK(IFRIC*) – INT 14 | Prepayments of a minimum funding requirement |
| HK(IFRIC*) – INT 19 | Extinguishing financial liabilities with equity instruments |

* IFRIC represents the IFRS Interpretations Committee

The application of the above new or revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

| | |
|-----------------------------------|---|
| Amendments to HKFRS 7 | Disclosures – Transfers of financial assets ¹ |
| Amendments to HKFRS 7 | Disclosures – Offsetting financial assets and financial liabilities ⁴ |
| Amendments to HKFRS 7 and HKFRS 9 | Mandatory effective date of HKFRS 9 and transition disclosures ⁶ |
| HKFRS 9 | Financial instruments ⁶ |
| HKFRS 10 | Consolidated financial statements ⁴ |
| HKFRS 11 | Joint arrangements ⁴ |
| HKFRS 12 | Disclosures of interests in other entities ⁴ |
| HKFRS 13 | Fair value measurements ⁴ |
| Amendments to HKAS 1 | Presentation of financial statements – Presentation of items of other comprehensive income ³ |
| Amendments to HKAS 12 | Deferred tax: Recovery of underlying assets ² |
| HKAS 19 (as revised in 2011) | Employee benefits ⁴ |
| HKAS 27 (as revised in 2011) | Separate financial statements ⁴ |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures ⁴ |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities ⁵ |
| HK(IFRIC) – INT 20 | Stripping costs in the production phase of a surface mine ⁴ |

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2014

⁶ Effective for annual periods beginning on or after 1 January 2015

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

HKFRS 9 Financial instruments

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

Key requirements of HKFRS 9 are described as follows:

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

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

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

Key requirements of these five standards are described below.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

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

HKFRS 13 Fair value measurement

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

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

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

Amendments to HKAS 1 Presentation of items of other comprehensive income

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

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

The management of the Company anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group and the Company. However, the application of HKFRS 12 and HKFRS 13 may result in more extensive disclosures in the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein. Effective from 1 January 2010 onwards, total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3.2 Investments in subsidiaries

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

3.3 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 profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 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 profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

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

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

3.5 Revenue recognition

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property and equipment

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

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 leasehold 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% to 50% |
| Gaming equipment | 25% |
| Motor vehicles | 20% |
| Vessel | 10% |

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Leasehold land and building

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

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

3.8 Land use rights

Land use rights represent prepaid lease rentals 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, they are capitalised to the cost of such projects, until such time as the construction works are completed and ready for intended use.

3.9 Borrowing costs

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

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

3.10 Intangible assets

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

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

3.11 Art works and diamonds

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments

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

(a) Financial assets

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

(i) *Effective interest method*

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

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

(ii) *Loans and receivables*

Loans and receivables (including bank deposits and balances, trade and other receivables, loan receivables, amounts due from subsidiaries / ultimate holding company / an associate / a jointly controlled entity / 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(a) Financial assets (Continued)

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

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

(v) *Impairment of financial assets*

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(b) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue cost. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(i) *Effective interest method*

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

Interest expense is recognised on an effective interest basis.

(ii) *Financial liabilities*

Financial liabilities including trade and other payables, amounts due to a subsidiary / non-controlling interests of a subsidiary / a director, 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.

(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 component, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(c) Convertible bonds (Continued)

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) Derecognition

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

3.16 Foreign currencies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Leases

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

(a) The Group as lessor

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

(b) The Group as lessee

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

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

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

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

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

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

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

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

(b) Share options granted to other participants

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Retirement benefits costs

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

4. KEY SOURCES OF ESTIMATION

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

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

The Group's carrying amount of the interest-free portion of the amount due to non-controlling interests of a subsidiary as at 31 December 2011 was HK\$1,014.8 million (2010: HK\$966.6 million).

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

Estimated impairment of interests in jointly controlled entity and associate

In determining whether there is an impairment loss, the Group takes into consideration the estimation of future cash flows to be generated by the jointly controlled entity and associate. The amount of the impairment loss is measured as the difference between the carrying amount of the interests in jointly controlled entity and associate and the share of the present value of estimated future cash flows expected to be generated by the jointly controlled entity and associate. As at 31 December 2011, the interest in a jointly controlled entity and interest in an associate is HK\$80.5 million (2010: HK\$73.2 million) and HK\$28.9 million (2010: HK\$74.0 million) respectively. Included in the cost of investment of interest in a jointly controlled entity is goodwill of HK\$34.3 million (2010: 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million | 2011 HK\$ million | 2010 HK\$ million |
| Financial assets | | | | |
| Loans and receivables (including cash and cash equivalents) | 22,665.9 | 17,778.5 | 11,897.6 | 7,443.9 |
| Financial assets at fair value through profit or loss | 48.9 | 56.2 | — | — |
| Available-for-sale financial assets | 5.5 | 5.5 | — | — |
| | <u>22,720.3</u> | <u>17,840.2</u> | <u>11,897.6</u> | <u>7,443.9</u> |
| Financial liabilities | | | | |
| Amortised cost | 12,363.7 | 12,884.5 | 292.6 | 413.7 |
| Obligations under finance leases | 294.1 | 328.0 | — | — |
| | <u>12,657.8</u> | <u>13,212.5</u> | <u>292.6</u> | <u>413.7</u> |

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

(c) Credit risk management

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

- the carrying amount of the respective recognised financial assets as stated in the Group's and Company's statements of financial position; and
- the amount of financial guarantee obligations and contingent liabilities disclosed in notes 36 and 49 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk management (Continued)

The Group

The Group has concentration of credit risk of 86% (2010: 84%) 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 49) given their strong financial background and good creditability.

The credit risk on receivable from the Finance Company (as defined in note 30) is not significant given its strong financial background.

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 having good reputation.

Other than concentration of credit risk on loan receivables, amounts due from ultimate holding company / a fellow subsidiary / an associate / a jointly controlled entity / investee companies 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 as 80% (2010: 73%) of the amounts due from subsidiaries is due from one subsidiary.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 and short-term bank deposits (2010: 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. 50 basis points (2010: 100 basis points) increase represents management's assessment of the reasonably possible change in interest rates. The management does not anticipate a decrease in interest rate in the next financial year having regard to the trends in HIBOR and global economic environment. Accordingly, sensitivity analysis on a decrease in interest rates is not presented.

If interest rates on bank loans, bank balances, amount due from a fellow subsidiary, obligations under finance leases and loan receivables had been 50 basis points (2010: 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:

| | 2011 HK\$ million | 2010 HK\$ million |
|---------------------------------|----------------------|----------------------|
| Increase in profit for the year | <u>50.2</u> | <u>45.7</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 analysis below has been determined based on the exposure to interest rates for bank balances. The analyses were prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. 50 basis points (2010: 100 basis points) increase represents management's assessment of the reasonably possible change in interest rates. Due to low prevailing interest rate in bank balances, the management does not anticipate a further decline in bank interest rate and, therefore, sensitivity analysis on a decrease in interest rates is not presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS (Continued)

(d) Interest rate risk management (Continued)

If interest rates on bank balances had been 50 basis points (2010: 100 basis points) higher and all other variables were held constant, the potential effect on the Company's profit for the year is as follows:

| | 2011 HK\$ million | 2010 HK\$ million |
|---------------------------------|----------------------|----------------------|
| Increase in profit for the year | <u>6.2</u> | <u>5.2</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 analysis below has been determined based on the exposure to equity price risk on the listed equity securities at the end of the reporting period. If the market bid price on the listed equity securities had been 10% (2010: 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% (2010: 10%) lower:

| | 2011 HK\$ million | 2010 HK\$ million |
|---------------------------------|----------------------|----------------------|
| Increase in profit for the year | <u>4.9</u> | <u>5.6</u> |

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

(f) Liquidity risk management

The Group and The Company

The directors of the Company consider that the Group's holding of bank balances and cash, bank deposits, together with net cash flow from operating activities and committed credit facilities, can provide adequate sources of funding to enable the Group to meet in full its financial obligations due for the foreseeable future and manage its liquidity position. In addition, the management of the Group expects to fund the remaining estimated construction costs and commitments of its development projects in 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 2011

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 HK\$ million | Over 6 months but not more than 1 year HK\$ million | Over 1 year HK\$ million | Total undiscounted cash flow HK\$ million | Carrying amount HK\$ million |
|--|---|------------------------------|--|--|--|--------------------------------|--|------------------------------------|
| The Group | | | | | | | | |
| At 31 December 2011 | | | | | | | | |
| Trade payables | — | — | 2,038.5 | 138.3 | 7.4 | — | 2,184.2 | 2,184.2 |
| Chips liabilities | — | 4,991.4 | — | — | — | — | 4,991.4 | 4,991.4 |
| Other payables | — | — | 582.7 | 417.4 | 101.2 | — | 1,101.3 | 1,101.3 |
| Amount due to non-controlling interests of a subsidiary | 4.8% | — | — | — | 343.0 | 880.9 | 1,223.9 | 1,014.8 |
| Obligations under finance leases | 2.63% | — | 6.7 | 8.5 | 17.2 | 295.9 | 328.3 | 294.1 |
| Bank loans (note 6(f)(i)) | 2.03% | — | 267.4 | 714.1 | 2,131.3 | — | 3,112.8 | 3,072.0 |
| Financial guarantee obligations (note 6(f)(iii)) | — | 92.6 | — | — | — | — | 92.6 | — |
| Undrawn revolving loan facility (note 30) | — | 4.0 | — | — | — | — | 4.0 | — |
| | | <u>5,088.0</u> | <u>2,895.3</u> | <u>1,278.3</u> | <u>2,600.1</u> | <u>1,176.8</u> | <u>13,038.5</u> | <u>12,657.8</u> |
| At 31 December 2010 | | | | | | | | |
| Trade payables | — | — | 1,890.7 | 41.9 | 19.2 | — | 1,951.8 | 1,951.8 |
| Chips liabilities | — | 4,325.1 | — | — | — | — | 4,325.1 | 4,325.1 |
| Other payables | — | — | 830.4 | 357.9 | 92.9 | — | 1,281.2 | 1,281.2 |
| Amount due to a director | — | 29.1 | — | — | — | — | 29.1 | 29.1 |
| Amount due to non-controlling interests of a subsidiary | 4.8% | — | — | — | — | 1,223.9 | 1,223.9 | 966.6 |
| Obligations under finance leases | 3.78% | — | 7.1 | 9.2 | 18.3 | 355.0 | 389.6 | 328.0 |
| Bank loans (note 6(f)(i)) | 2.04% | — | 269.8 | 279.4 | 555.3 | 3,121.0 | 4,225.5 | 4,112.0 |
| Convertible bonds (note 6(f)(ii)) | 5.82% | — | — | — | — | 292.3 | 292.3 | 218.7 |
| Financial guarantee obligations (note 6(f)(iii)) | — | 92.6 | — | — | — | — | 92.6 | — |
| Undrawn revolving loan facility (note 30) | — | 4.0 | — | — | — | — | 4.0 | — |
| | | <u>4,450.8</u> | <u>2,998.0</u> | <u>688.4</u> | <u>685.7</u> | <u>4,992.2</u> | <u>13,815.1</u> | <u>13,212.5</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS (Continued)

(f) Liquidity risk management (Continued)

| | Weighted average effective interest rate | On demand HK\$ million | Not more than 3 months HK\$ million | Over 3 months but not more than 6 months HK\$ million | Over 6 months but not more than 1 year HK\$ million | Over 1 year HK\$ million | Total undiscounted cash flow HK\$ million | Carrying amount HK\$ million |
|--|---|------------------------------|--|--|--|--------------------------------|--|------------------------------------|
| The Company | | | | | | | | |
| At 31 December 2011 | | | | | | | | |
| Trade and other payables | — | — | 1.0 | — | — | — | 1.0 | 1.0 |
| Amount due to a subsidiary | — | 291.6 | — | — | — | — | 291.6 | 291.6 |
| | | <u>291.6</u> | <u>1.0</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>292.6</u> | <u>292.6</u> |
| At 31 December 2010 | | | | | | | | |
| Trade and other payables | — | — | 0.5 | — | — | — | 0.5 | 0.5 |
| Amount due to a subsidiary | — | 413.2 | — | — | — | — | 413.2 | 413.2 |
| Financial guarantee obligation (note 6(f)(iii)) | — | 259.4 | — | — | — | — | 259.4 | — |
| | | <u>672.6</u> | <u>0.5</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>673.1</u> | <u>413.7</u> |

Notes:

- (i) The amounts included above for variable rate bank loans are subject to change if variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.
- (ii) The amount of undiscounted cash flow represents the redemption amount of the convertible bonds as at 31 December 2010 assuming that no early redemption has taken place before its maturity (details are set out in note 40).
- (iii) The amounts included in the undiscounted cash flow above for financial guarantee contracts are the maximum amounts the Group and the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. However, based on expectations at the end of the reporting period, the Group and the Company consider that it is likely that no amount will be payable under the arrangement. This estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS (Continued)

(g) Fair value of financial instruments

The Group and the Company

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

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

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.

(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.

| | Level 1 HK\$ million | Level 2 HK\$ million | Level 3 HK\$ million | Total HK\$ million |
|---|-------------------------|-------------------------|-------------------------|-----------------------|
| At 31 December 2011 Financial assets at fair value through profit or loss | <u>48.9</u> | <u>—</u> | <u>—</u> | <u>48.9</u> |
| At 31 December 2010 Financial assets at fair value through profit or loss | <u>56.2</u> | <u>—</u> | <u>—</u> | <u>56.2</u> |

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. OPERATING SEGMENTS

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

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

For gaming operations, the chief operating decision maker (the CODM), which is a group of executive directors of the Company, regularly analyses gaming revenue in terms of VIP gaming operations, mass market table gaming operations, slot machine and other gaming operations. The CODM reviews the 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 the Group's hotels has been aggregated into a single operating segment named "hotel and catering operations".

Segment information about these businesses is presented below:

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

| | Segment revenue | | Segment results | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million | 2011 HK\$ million | 2010 HK\$ million |
| Gaming operations | <u>75,514.4</u> | <u>57,195.0</u> | 5,795.9 | 4,088.0 |
| Hotel and catering operations | | | | |
| — external sales | 577.6 | 458.3 | | |
| — inter-segment sales | 239.5 | 149.0 | | |
| | 817.1 | 607.3 | (366.0) | (446.3) |
| Eliminations | (239.5) | (149.0) | | |
| | <u>577.6</u> | <u>458.3</u> | | |
| | 76,092.0 | 57,653.3 | | |
| | | | 5,429.9 | 3,641.7 |
| Reconciliation from segment results to profit before taxation: | | | | |
| Unallocated corporate expenses and income | | | (20.6) | (147.5) |
| Change in fair value of financial assets at fair value through profit or loss | | | (25.7) | 27.8 |
| Share of (losses) profits of an associate | | | (45.1) | 4.9 |
| Share of profits of a jointly controlled entity | | | 7.3 | 5.5 |
| Profit before taxation | | | 5,345.8 | 3,532.4 |

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

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. OPERATING SEGMENTS (Continued)

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

| | 2011 HK\$ million | 2010 HK\$ million |
|---|----------------------|----------------------|
| Assets | | |
| Segment assets | | |
| — gaming operations | 18,774.3 | 15,658.5 |
| — hotel and catering operations | 6,487.1 | 7,239.3 |
| | <u>25,261.4</u> | 22,897.8 |
| Interest in an associate | 28.9 | 74.0 |
| Interest in a jointly controlled entity | 80.5 | 73.2 |
| Unallocated bank deposits, bank balances and cash | 6,521.6 | 4,719.3 |
| Unallocated assets | 1,127.6 | 1,125.1 |
| Group's total | <u>33,020.0</u> | <u>28,889.4</u> |
| Liabilities | | |
| Bank loans | | |
| — gaming operations | 1,375.0 | 1,800.0 |
| — hotel and catering operations | 1,697.0 | 2,312.0 |
| | <u>3,072.0</u> | 4,112.0 |
| Other segment liabilities | | |
| — gaming operations | 11,142.9 | 9,821.6 |
| — hotel and catering operations | 220.3 | 238.5 |
| | <u>11,363.2</u> | 10,060.1 |
| Total segment liabilities | 14,435.2 | 14,172.1 |
| Convertible bonds | — | 218.7 |
| Unallocated liabilities | 1,338.2 | 1,323.2 |
| Group's total | <u>15,773.4</u> | <u>15,714.0</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/investee companies, art works and diamonds, loan receivables and financial assets at fair value through profit or loss.
- (ii) unallocated liabilities include mainly amount due to non-controlling interests of a subsidiary and obligations under finance leases.
- (iii) all assets are allocated to operating segments, other than interest in associate / jointly controlled entity, unallocated bank deposits, bank balances and cash and assets not attributable to respective segments.
- (iv) all liabilities are allocated to operating segments, other than convertible bonds and liabilities not attributable to respective segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. OPERATING SEGMENTS (Continued)

(c) Other segment information of the Group

| | 2011 HK\$ million | 2010 HK\$ million |
|---|----------------------|----------------------|
| Additions to non-current assets (other than financial instruments) | | |
| — gaming operations | 355.8 | 338.1 |
| — hotel and catering operations | 70.1 | 195.6 |
| — corporate level | 0.2 | 2.0 |
| | <u>426.1</u> | <u>535.7</u> |
| Depreciation and amortisation | | |
| — gaming operations | 601.8 | 667.3 |
| — hotel and catering operations | 516.5 | 506.9 |
| — corporate level | 2.2 | 2.5 |
| | <u>1,120.5</u> | <u>1,176.7</u> |
| Loss on disposal of property and equipment | | |
| — gaming operations | 4.7 | 2.2 |
| — hotel and catering operations | 0.8 | 12.3 |
| | <u>5.5</u> | <u>14.5</u> |
| Share-based payments | | |
| — gaming operations | 510.5 | 37.8 |
| — corporate level | 25.4 | 9.9 |
| | <u>535.9</u> | <u>47.7</u> |
| Finance costs | | |
| — gaming operations | 29.2 | 36.2 |
| — hotel and catering operations | 35.1 | 44.2 |
| — corporate level | 58.7 | 135.0 |
| | <u>123.0</u> | <u>215.4</u> |
| Interest income | | |
| — gaming operations | 87.0 | 25.7 |
| — hotel and catering operations | 0.4 | 0.3 |
| — corporate level | 83.0 | 47.5 |
| | <u>170.4</u> | <u>73.5</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. OPERATING SEGMENTS (Continued)

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

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

8. GAMING REVENUE

| | 2011 HK\$ million | 2010 HK\$ million |
|--|----------------------|----------------------|
| Gaming revenue from | | |
| — VIP gaming operations | 52,778.8 | 38,861.8 |
| — mass market table gaming operations | 21,280.7 | 17,153.9 |
| — slot machine and other gaming operations | 1,454.9 | 1,179.3 |
| | <u>75,514.4</u> | <u>57,195.0</u> |

9. FINANCE COSTS

| | 2011 HK\$ million | 2010 HK\$ million |
|---|----------------------|----------------------|
| Interest on | | |
| — bank borrowings wholly repayable within five years | (64.1) | (81.4) |
| — finance leases | (10.0) | (17.2) |
| Imputed interest on amount due to non-controlling interests of a subsidiary | (46.2) | (42.0) |
| Imputed interest on convertible bonds | (2.7) | (75.8) |
| | <u>(123.0)</u> | <u>(216.4)</u> |
| Less: Amount capitalised in construction in progress | — | 1.0 |
| | <u>(123.0)</u> | <u>(215.4)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. PROFIT BEFORE TAXATION

| | 2011 HK\$ million | 2010 HK\$ million |
|---|----------------------|----------------------|
| <i>Profit before taxation has been arrived at after charging:</i> | | |
| Directors' remuneration (note 11) | 590.5 | 74.3 |
| Retirement benefits scheme contributions to other staff | 74.1 | 73.4 |
| Less: Forfeited contributions | (28.3) | (19.8) |
| | 45.8 | 53.6 |
| Share-based payments to other staff | 5.6 | 27.7 |
| Other staff costs | 3,800.3 | 3,471.1 |
| | 3,805.9 | 3,498.8 |
| | 4,442.2 | 3,626.7 |
| Auditors' remuneration | | |
| — audit services | 8.7 | 7.8 |
| — non-audit services | 9.3 | 4.9 |
| | 18.0 | 12.7 |
| Allowance for doubtful debts | 10.0 | 53.6 |
| Amortisation of intangible asset (included in operating and administrative expenses) | 6.3 | 6.3 |
| Depreciation of property and equipment | 1,114.2 | 1,170.4 |
| Loss on disposal of property and equipment | 5.5 | 14.5 |
| Loss on fair value changes on financial assets at fair value through profit or loss | 25.7 | — |
| Write-off of art works | 1.2 | — |
| Operating lease rentals in respect of | | |
| — land use rights | 41.0 | 40.2 |
| — rented premises | 313.4 | 298.9 |
| | 354.4 | 339.1 |
| Share-based payments to other participants (included in operating and administrative expenses) | — | 1.9 |
| <i>and after crediting:</i> | | |
| Dividend income from financial assets at fair value through profit or loss | 23.7 | 1.5 |
| Gain on fair value changes on financial assets at fair value through profit or loss | — | 27.8 |
| Income from amortisation of financial guarantee obligations | — | 13.3 |
| Interest income from | | |
| — a fellow subsidiary | 9.8 | 17.2 |
| — bank deposits | 153.8 | 51.3 |
| — loan receivables | 6.8 | 5.0 |
| | 170.4 | 73.5 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

| | 2011 | | | | 2010 | | | |
|--|---------------------------|--------------|--------------|--------------|---------------------------|--------------|--------------|-------------|
| | Salaries, bonus and other | | Share-based | Total | Salaries, bonus and other | | Share-based | Total |
| | Fees | benefits | payments | | Fees | benefits | payments | |
| HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | |
| Executive directors | | | | | | | | |
| Dr. Ho Hung Sun, Stanley | 24.3 | — | 22.6 | 46.9 | 24.3 | — | 0.4 | 24.7 |
| Dr. So Shu Fai | 8.4 | 1.2 | 158.6 | 168.2 | 8.0 | 1.2 | 2.8 | 12.0 |
| Mr. Ng Chi Sing | 7.3 | 1.1 | 145.0 | 153.4 | 7.0 | 1.1 | 2.7 | 10.8 |
| Mr. Rui José da Cunha | 1.7 | 0.2 | 13.6 | 15.5 | 1.6 | 0.2 | 0.3 | 2.1 |
| Ms. Leong On Kei, Angela | 5.4 | 1.7 | 136.0 | 143.1 | 2.8 | 1.3 | 1.7 | 5.8 |
| Mr. Shum Hong Kuen, David | 0.9 | — | 13.6 | 14.5 | 0.9 | — | 0.3 | 1.2 |
| Mr. Fok Tsun Ting, Timothy | 0.3 | — | 16.3 | 16.6 | 0.1 | — | 5.9 | 6.0 |
| Non-executive director | | | | | | | | |
| Dato' Dr. Cheng Yu Tung | 6.0 | — | 15.4 | 21.4 | 6.0 | — | 4.0 | 10.0 |
| Independent non-executive directors | | | | | | | | |
| Mr. Tse Hau Yin | 0.3 | 0.5 | 2.3 | 3.1 | 0.3 | 0.5 | — | 0.8 |
| Mr. Shek Lai Him, Abraham | 0.3 | — | 2.3 | 2.6 | 0.3 | — | — | 0.3 |
| Mr. Chau Tak Hay | 0.3 | — | 2.3 | 2.6 | 0.3 | — | — | 0.3 |
| Mr. Lan Hong Tsung, David | 0.3 | — | 2.3 | 2.6 | 0.3 | — | — | 0.3 |
| | <u>55.5</u> | <u>4.7</u> | <u>530.3</u> | <u>590.5</u> | <u>51.9</u> | <u>4.3</u> | <u>18.1</u> | <u>74.3</u> |

Included in salaries, bonus and other benefits was provision for directors' bonus of HK\$3.4 million (2010: HK\$3.0 million).

The five highest paid individuals included five (2010: four) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining highest paid individual in 2010 were as follows:

| | 2011 HK\$ million | 2010 HK\$ million |
|---------------------------|----------------------|----------------------|
| Employee | | |
| — salaries and allowances | — | 10.5 |
| — share-based payments | — | 21.2 |
| | <u>—</u> | <u>31.7</u> |

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 2011

12. TAXATION

| | 2011 HK\$ million | 2010 HK\$ million |
|------------------------------|----------------------|----------------------|
| Current year taxation | (17.5) | (17.5) |
| Underprovision in prior year | (2.6) | (0.1) |
| | (20.1) | (17.6) |
| Deferred taxation | (14.9) | — |
| | (35.0) | (17.6) |

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. This exemption has been further extended for the years from 2012 to 2016 pursuant to an approval notice from MSAR government dated 23 November 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 (2010: HK\$17.5 million). Special Tax for the years from 2012 to 2016 is pending the approval by the MSAR government.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. TAXATION (Continued)

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

| | 2011 | | 2010 | |
|--|----------------|---------------|--------------|--------|
| | HK\$ million | % | HK\$ million | % |
| Profit before taxation | 5,345.8 | | 3,532.4 | |
| Tax at the applicable income tax rate | (641.5) | (12.0) | (423.9) | (12.0) |
| Effect of tax exemption granted to SJM | 687.9 | 12.9 | 482.5 | 13.7 |
| Effect of share of results of an associate and a jointly controlled entity | (4.5) | (0.1) | 1.2 | — |
| Effect of income that is not taxable in determining taxable profits | 4.1 | 0.1 | 5.1 | 0.1 |
| Effect of expenses that are not deductible in determining taxable profits | (25.4) | (0.5) | (18.1) | (0.5) |
| Effect of tax loss not recognised | (40.3) | (0.8) | (55.3) | (1.5) |
| Utilisation of tax losses previously not recognised | 4.8 | 0.1 | 8.5 | 0.2 |
| Special Tax | (17.5) | (0.3) | (17.5) | (0.5) |
| Underprovision in prior year | (2.6) | — | (0.1) | — |
| Tax charge and effective tax rate for the year | (35.0) | (0.6) | (17.6) | (0.5) |

13. DIVIDENDS

| | 2011 HK\$ million | 2010 HK\$ million |
|--|----------------------|----------------------|
| 2010 final dividend of HK30 cents per ordinary share paid | 1,653.4 | — |
| 2009 final dividend of HK9 cents per ordinary share paid | — | 453.8 |
| 2011 interim dividend of HK8 cents per ordinary share paid | 441.4 | — |
| 2010 interim dividend of HK5 cents per ordinary share paid | — | 262.2 |
| | 2,094.8 | 716.0 |

A final dividend of HK43 cents per ordinary share and a special dividend of HK22 cents per ordinary share, totalling HK\$3,589.7 million, are proposed by the directors of the Company at a board meeting held on 29 February 2012, which is subject to approval by the shareholders of the Company in the forthcoming annual general meeting and is calculated on the basis of 5,522,679,293 ordinary shares in issue at the date of these consolidated financial statements being approved by the board of directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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:

| | 2011 HK\$ million | 2010 HK\$ million |
|---|----------------------|----------------------|
| Earnings | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | 5,307.6 | 3,559.4 |
| Effect of dilutive potential ordinary shares | | |
| — imputed interest on convertible bonds | 2.7 | 75.8 |
| Earnings for the purpose of diluted earnings per share | 5,310.3 | 3,635.2 |

| | 2011 | 2010 |
|---|---------------|---------------|
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 5,505,065,288 | 5,145,389,186 |
| Effect of dilutive potential ordinary shares on | | |
| — share options | 53,335,481 | 68,643,549 |
| — conversion of convertible bonds | 8,240,144 | 277,503,528 |
| | 61,575,625 | 346,147,077 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 5,566,640,913 | 5,491,536,263 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. PROPERTY AND EQUIPMENT

| | Leasehold land and buildings HK\$ million | Chips HK\$ million | Furniture, fixtures and equipment HK\$ million | Gaming equipment HK\$ million | Leasehold improvements HK\$ million | Motor vehicles HK\$ million | Vessel HK\$ million | Construction in progress HK\$ million | Total HK\$ million |
|---------------------------------------|--|-----------------------|---|-------------------------------------|---|-----------------------------------|------------------------|---|-----------------------|
| The Group | | | | | | | | | |
| Cost | | | | | | | | | |
| At 1 January 2010 | 4,281.0 | 360.8 | 4,728.9 | 625.3 | 2,646.5 | 11.6 | 13.7 | 464.4 | 13,132.2 |
| Additions | 42.8 | 26.9 | 271.6 | 30.4 | 20.4 | 6.6 | — | 135.8 | 534.5 |
| Disposals / write-off | — | — | (11.6) | (17.3) | (19.3) | (2.7) | — | — | (50.9) |
| Transfers | 542.9 | — | 57.3 | — | — | — | — | (600.2) | — |
| At 31 December 2010 | 4,866.7 | 387.7 | 5,046.2 | 638.4 | 2,647.6 | 15.5 | 13.7 | — | 13,615.8 |
| Additions | 22.5 | 23.3 | 199.8 | 46.7 | 119.6 | 2.9 | — | — | 414.8 |
| Disposals | — | — | (31.6) | (12.7) | (30.1) | — | — | — | (74.4) |
| At 31 December 2011 | 4,889.2 | 411.0 | 5,214.4 | 672.4 | 2,737.1 | 18.4 | 13.7 | — | 13,956.2 |
| Depreciation | | | | | | | | | |
| At 1 January 2010 | 348.4 | 323.6 | 1,142.6 | 400.8 | 761.7 | 5.8 | 9.7 | — | 2,992.6 |
| Provided for the year | 213.3 | 21.1 | 548.5 | 111.9 | 271.8 | 2.5 | 1.3 | — | 1,170.4 |
| Eliminated on disposals/ write-off | — | — | (8.4) | (17.3) | (7.5) | — | — | — | (33.2) |
| At 31 December 2010 | 561.7 | 344.7 | 1,682.7 | 495.4 | 1,026.0 | 8.3 | 11.0 | — | 4,129.8 |
| Provided for the year | 234.1 | 25.5 | 516.7 | 80.6 | 253.0 | 2.9 | 1.4 | — | 1,114.2 |
| Eliminated on disposals | — | — | (24.6) | (12.7) | (27.7) | — | — | — | (65.0) |
| At 31 December 2011 | 795.8 | 370.2 | 2,174.8 | 563.3 | 1,251.3 | 11.2 | 12.4 | — | 5,179.0 |
| Carrying values | | | | | | | | | |
| At 31 December 2011 | 4,093.4 | 40.8 | 3,039.6 | 109.1 | 1,485.8 | 7.2 | 1.3 | — | 8,777.2 |
| At 31 December 2010 | 4,305.0 | 43.0 | 3,363.5 | 143.0 | 1,621.6 | 7.2 | 2.7 | — | 9,486.0 |

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.

Also, at 31 December 2011, pursuant to the gaming concession held by the Group, certain of the Group's property and equipment with an aggregate carrying value of HK\$2,926.7 million (2010: HK\$3,192.6 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 2011

15. PROPERTY AND EQUIPMENT (Continued)

| | Furniture, fixtures and equipment HK\$ million | Leasehold improvements HK\$ million | Total HK\$ million |
|---|---|---|-----------------------|
| The Company | | | |
| Cost | | | |
| At 1 January 2010 | 1.1 | 3.6 | 4.7 |
| Additions | 0.4 | — | 0.4 |
| Write-off | — | (0.1) | (0.1) |
| | <u>1.5</u> | <u>3.5</u> | <u>5.0</u> |
| At 31 December 2010 and 31 December 2011 | 1.5 | 3.5 | 5.0 |
| Depreciation | | | |
| At 1 January 2010 | 0.3 | 0.2 | 0.5 |
| Provided for the year | 0.2 | 1.2 | 1.4 |
| Eliminated on write-off | — | (0.1) | (0.1) |
| | <u>0.5</u> | <u>1.3</u> | <u>1.8</u> |
| At 31 December 2010 | 0.5 | 1.3 | 1.8 |
| Provided for the year | 0.4 | 1.3 | 1.7 |
| | <u>0.9</u> | <u>2.6</u> | <u>3.5</u> |
| At 31 December 2011 | 0.9 | 2.6 | 3.5 |
| Carrying values | | | |
| At 31 December 2011 | <u>0.6</u> | <u>0.9</u> | <u>1.5</u> |
| At 31 December 2010 | <u>1.0</u> | <u>2.2</u> | <u>3.2</u> |

16. INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|--|-----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| Unlisted shares, at cost | 3,972.3 | 3,972.3 |
| Deemed capital contribution in relation to issue of convertible bonds by a subsidiary | 387.0 | 387.0 |
| | <u>4,359.3</u> | <u>4,359.3</u> |

Details of the Company's principal subsidiaries at the end of the reporting period are set out in note 52.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. LAND USE RIGHTS

| | 2011 HK\$ million | 2010 HK\$ million |
|--|----------------------|----------------------|
| The Group | | |
| Carrying value | | |
| At 1 January | 804.9 | 845.8 |
| Additions | 11.3 | — |
| Released and capitalised to construction in progress during the year | — | (0.7) |
| Released to profit or loss during the year | (41.0) | (40.2) |
| At 31 December | <u>775.2</u> | <u>804.9</u> |

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

18. INTANGIBLE ASSET

| | HK\$ million |
|--|--------------|
| The Group | |
| Cost | |
| At 1 January 2010, 31 December 2010 and 31 December 2011 | <u>63.2</u> |
| Amortisation | |
| At 1 January 2010 | 17.4 |
| Amortised for the year | <u>6.3</u> |
| At 31 December 2010 | <u>23.7</u> |
| Amortised for the year | <u>6.3</u> |
| At 31 December 2011 | <u>30.0</u> |
| Carrying value | |
| At 31 December 2011 | <u>33.2</u> |
| At 31 December 2010 | <u>39.5</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. ART WORKS AND DIAMONDS

| | HK\$ million |
|--------------------------------|--------------|
| The Group | |
| Cost and carrying value | |
| At 1 January 2010 | 289.2 |
| Additions | 1.2 |
| At 31 December 2010 | 290.4 |
| Write-off | (1.2) |
| At 31 December 2011 | 289.2 |

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

20. INTEREST IN AN ASSOCIATE

| | The Group | |
|--|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| Cost of investment | 25.0 | 25.0 |
| Discount on acquisition | 6.8 | 6.8 |
| Share of post-acquisition (losses) profits | (2.9) | 42.2 |
| | 28.9 | 74.0 |

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 2011

20. INTEREST IN AN ASSOCIATE (Continued)

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

| | 2011 HK\$ million | 2010 HK\$ million |
|---|----------------------|----------------------|
| Total assets | 509.4 | 431.3 |
| Total liabilities | (450.4) | (280.2) |
| Net assets | 59.0 | 151.1 |
| Group's share of associate's net assets | 28.9 | 74.0 |
| Revenue | 322.8 | 348.6 |
| (Loss) profit for the year | (92.1) | 13.5 |
| Group's share of (losses) profits of an associate for the year* | (45.1) | 4.9 |

* Adjusted for the unrealised profits of HK\$1.7 million for the year ended 31 December 2010 (2011: Nil).

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | The Group | |
|-----------------------------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| Cost of investment | 39.7 | 39.7 |
| Share of post-acquisition profits | 40.8 | 33.5 |
| | 80.5 | 73.2 |

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.

At the end of the reporting period, included in the cost of investment is goodwill of HK\$34.3 million (2010: HK\$34.3 million) arising on acquisition of the jointly controlled entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

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

| | 2011 HK\$ million | 2010 HK\$ million |
|---------------------|----------------------|----------------------|
| Total assets | 66.4 | 60.2 |
| Total liabilities | (20.2) | (21.3) |
| Net assets | 46.2 | 38.9 |
| Revenue | 7.1 | 7.1 |
| Profit for the year | 7.3 | 5.5 |

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 | | The Company | |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million | 2011 HK\$ million | 2010 HK\$ million |
| Deposits made on acquisitions of | | | | |
| — land use rights (note 48) | — | 65.5 | — | — |
| — property and equipment | 153.0 | 57.1 | 1.4 | — |
| | 153.0 | 122.6 | 1.4 | — |

24. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The Group

The balance represents the non-current portion of lease receivables from Companhia de Aviação Jet Asia Limitada ("Jet Asia"), a subsidiary of STDM, under a back-to-back arrangement set out in note 38. The receivables carry a variable rate with effective interest ranging from 2.43% to 2.81% (2010: 2.29% to 6.10%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

25. AMOUNT DUE FROM AN ASSOCIATE

The Group

The amount is unsecured, interest-free and has no fixed repayment terms. At 31 December 2011, the management of the Group does not expect that the amount will be realised within 12 months from the end of the reporting period. Hence, the amount is classified as non-current assets.

26. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The Group

The amount is unsecured, interest-free and has no fixed repayment terms. At 31 December 2011, the management of the Group does not expect that the amount will be realised within 12 months from the end of the reporting period. Hence, the amount is classified as non-current assets.

27. AMOUNTS DUE FROM INVESTEE COMPANIES

The Group

The amounts represent loans to the investees which are unsecured, interest-free and have no fixed repayment terms. At 31 December 2011, the management of the Group does not expect that the amounts will be realised within 12 months from the end of the reporting period. Hence, the amounts are classified as non-current assets.

28. PLEDGED BANK DEPOSITS

The Group

At 31 December 2011, deposits amounting to HK\$145.6 million (2010: 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 1 April 2007 to the earlier of 180 days after the expiry of the gaming concession contract or 31 March 2020, which is in favour of the 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.

At 31 December 2011, a deposit amounting to HK\$1.0 million (2010: HK\$1.0 million) under current assets has been pledged in favour of the MSAR court against any future legal proceedings of labour disputes.

In addition, at 31 December 2011, a deposit amounting to HK\$0.3 million (2010: HK\$0.3 million) under current assets 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.

At 31 December 2011, the remaining deposits under current assets amounting to HK\$25.0 million (2010: HK\$25.1 million) have been pledged to a bank for provision of guarantee in favour of the MSAR government for the payment of land premium of a subsidiary which is expected to be released within 12 months from the end of the reporting period.

At 31 December 2011, the pledged bank deposits carried fixed interest rates ranging from 0.08% to 1.56% (2010: 0.08% to 1.11%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. TRADE AND OTHER RECEIVABLES

| | The Group | |
|---|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| Advances to gaming promoters | 915.7 | 744.9 |
| Other receivables from gaming promoters | 61.8 | 189.0 |
| Prepayments | 94.0 | 102.7 |
| Other receivables (note) | 246.5 | 221.6 |
| | 1,318.0 | 1,258.2 |

Note: Other receivables mainly represent deposits paid, interest receivable and current portion of lease receivable from a fellow subsidiary (note 38).

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 | |
|---------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| Age | | |
| 0 to 30 days | 905.7 | 670.9 |
| 61 to 90 days | — | 0.3 |
| Over 90 days | 10.0 | 73.7 |
| | 915.7 | 744.9 |

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 are provided by gaming promoters to SJM.

The directors of the Company generally consider that such credit is temporary credit provided against unpaid commissions to gaming promoters and is granted based on the performance and financial background of the relevant gaming promoter. Generally, unsecured credit by reference to commissions accrued / payable to the relevant gaming promoter 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 are repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts

| | The Group | |
|-----------------------------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| At 1 January | 78.1 | 24.5 |
| Allowance for doubtful debts | 13.0 | 53.6 |
| Amounts recovered during the year | (3.0) | — |
| At 31 December | 88.1 | 78.1 |

Allowance for doubtful debts mainly represent individually impaired receivables from gaming promoters with an aggregate balance of HK\$88.1 million (2010: HK\$78.1 million) since the management considered the prolonged outstanding balances from these gaming promoters were uncollectible.

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

| | The Group | |
|--|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| STDM and its associates, excluding the Group (as defined under Chapter 14A of the Listing Rules) | 45.6 | 56.4 |
| An associate of the Group | 1.2 | 4.4 |
| Entities in which STDM, certain directors of the Company and of its subsidiaries and / or their close family members have control / significant influence / beneficial interests | 70.0 | 68.0 |
| | 116.8 | 128.8 |

30. LOAN RECEIVABLES

The Group

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

30. LOAN RECEIVABLES (Continued)

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

The Revolving Loan Facility is available for a term of three years commencing from the date of the above facility agreement and will expire in October 2012, and is for an aggregate principal amount of HK\$250 million. The Revolving Loan Facility carries an interest rate at 2.6% over Hong Kong Interbank Offered Rate ("HIBOR") with effective interest rate from 2.7% to 2.9% (2010: from 2.8% to 2.9%) per annum.

As at 31 December 2011, HK\$246 million (2010: HK\$246 million) was utilised and revolving for a term of 3 months.

31. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The Group

The amount due from ultimate holding company arising from the Chips Agreement as defined in note 51(b) is unsecured, interest-free and is expected to realise within 12 months from the end of the reporting period.

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

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

33. SHORT-TERM BANK DEPOSITS

The Group

At 31 December 2011, the short-term bank deposits carried fixed interest rates ranging from 0.58% to 2.59% (2010: 0.44% to 1.47%) per annum with original maturity ranging from 4 months to 11 months (2010: 4 months to 18 months) and are classified as current assets since their remaining maturity is within 12 months from the end of the reporting period.

The Company

At 31 December 2011, the short-term bank deposits carried fixed interest rates ranging from 1.45% to 2.59% (2010: 0.45% to 1.47%) per annum with original maturity ranging from 4 months to 11 months (2010: 4 months to 18 months), and are classified as current assets since their remaining maturity is within 12 months from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. TRADE AND OTHER PAYABLES

| | The Group | |
|--|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| Trade payables | 2,184.2 | 1,951.8 |
| Special gaming tax payable | 2,329.6 | 2,117.9 |
| Chips liabilities | 4,991.4 | 4,325.1 |
| Payables for acquisition of property and equipment | 102.4 | 61.4 |
| Construction payables | 133.8 | 222.0 |
| Deposits received from gaming patrons and gaming promoters | 693.6 | 292.5 |
| Accrued staff costs | 332.9 | 484.5 |
| Rentals payables | 134.5 | 104.0 |
| Withholding tax payables | 38.7 | 52.3 |
| Other payables | 397.7 | 409.3 |
| | 11,338.8 | 10,020.8 |

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

| | The Group | |
|---------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| Age | | |
| 0 to 30 days | 2,159.1 | 1,925.2 |
| 31 to 60 days | 15.0 | 5.0 |
| 61 to 90 days | 1.9 | 1.0 |
| Over 90 days | 8.2 | 20.6 |
| | 2,184.2 | 1,951.8 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. TRADE AND OTHER PAYABLES (Continued)

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

| | The Group | |
|--|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| STDM and its associates , excluding the Group (as defined under Chapter 14A of the Listing Rules) | 178.9 | 161.0 |
| An associate of the Group | 17.6 | 55.5 |
| Entities in which STDM, certain directors of the Company and of its subsidiaries and / or their close family members have control / significant influence / beneficial interests | 374.9 | 317.7 |
| | <u>571.4</u> | <u>534.2</u> |

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

The Group

The amount due to a director was unsecured, interest-free and was fully settled by the Group during the year ended 31 December 2011.

The Company

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

36. FINANCIAL GUARANTEE OBLIGATIONS

The Group

The fair value of financial guarantee obligations in respect of the investee companies and an associate (note 49) at initial recognition is insignificant. No provision for financial guarantee contracts have been made at 31 December 2011 and 31 December 2010 as the default risk is low.

The Company

At 31 December 2010, 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. During the year ended 31 December 2011, all outstanding convertible bonds were converted to the Company's ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

The Group

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

Pursuant to the relevant agreement entered into between the Group and the non-controlling shareholders of a subsidiary, the non-controlling shareholders of the subsidiary agreed to subordinate the amount due from the subsidiary to the bank to secure the subsidiary's bank loans due in 2012 and therefore is classified as a non-current liability as at 31 December 2010.

As at 31 December 2011, the Group has been negotiating with banks for the refinancing of this subsidiary's bank loans. The Group further agreed with the non-controlling shareholders of that subsidiary on the amounts and timing of the repayment of the amount due to them (the "Repayment Schedule"), taking into account the estimate of amounts and timing of repayment of bank loans currently under negotiation. Based on the Repayment Schedule, the Group would repay a carrying amount of HK\$324.0 million in 2012. For the remaining balance of HK\$690.8 million, the non-controlling shareholders confirmed that they would not demand for repayment within the next twelve months from the end of the reporting period. Accordingly, carrying amounts of HK\$324.0 million and HK\$690.8 million were classified as current and non-current liabilities respectively at 31 December 2011. These carrying amounts have been adjusted upwards by HK\$2.0 million because of the Repayment Schedule, computed based on the present value of future cash outflows discounted at the original effective interest rate.

During the year, imputed interest of HK\$46.2 million (2010: HK\$42.0 million) on the amount due to the non-controlling interests of the subsidiary of HK\$1,014.8 million (2010: HK\$966.6 million) has been recognised based on the principal amount of HK\$1,223.9 million (2010: HK\$1,223.9 million) at a weighted average original interest rate of approximately 4.80% (2010: 4.80%) per annum.

38. OBLIGATIONS UNDER FINANCE LEASES

| | The Group | | | |
|---|------------------------|--------------|---|--------------|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | 2011 | 2010 | 2011 | 2010 |
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million |
| Amounts payable under finance leases | | | | |
| — within one year | 32.4 | 34.6 | 25.4 | 23.5 |
| — between one to two years | 34.2 | 36.6 | 27.5 | 25.7 |
| — between two to five years | 102.5 | 109.9 | 86.9 | 83.8 |
| — after five years | 159.2 | 208.5 | 154.3 | 195.0 |
| | 328.3 | 389.6 | 294.1 | 328.0 |
| Less: Future finance charges | (34.2) | (61.6) | | |
| Present value of lease obligations | 294.1 | 328.0 | | |
| Less: Amounts due within one year shown under current liabilities | | | (25.4) | (23.5) |
| Amounts due after one year | | | 268.7 | 304.5 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

38. OBLIGATIONS UNDER FINANCE LEASES (Continued)

In 2007 and 2008, Sky Reach Investments Limited (“Sky Reach”), a wholly-owned subsidiary of the Company, had entered into certain lease agreements each for a term of ten years (the “Aircraft Agreements”) with a finance company and Jet Asia, to lease certain aircraft in 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 carried variable interest rates with effective interest ranging from 2.43% to 2.81% per annum at 31 December 2011 (2010: 2.29% to 6.10% per annum). The Group’s obligations under finance leases are secured by (i) the leased aircraft held by Jet Asia, and (ii) the 100% shareholding of Sky Reach held by the Group.

At 31 December 2011, 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\$294.1 million (2010: HK\$328.0 million), out of which HK\$268.7 million (2010: HK\$304.5 million) is recorded as amount due from a fellow subsidiary in the non-current assets as shown in note 24. The remaining amount of HK\$25.4 million (2010: HK\$23.5 million) is included in trade and other receivables in current assets.

39. BANK LOANS

| | The Group | |
|--|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| The syndicated secured bank loans are repayable | | |
| — within one year | 3,072.0 | 1,040.0 |
| — between one to two years | — | 3,072.0 |
| | 3,072.0 | 4,112.0 |
| Less: Amount due within one year shown under current liabilities | (3,072.0) | (1,040.0) |
| Amount due after one year | — | 3,072.0 |

At 31 December 2011, 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 1.6% to 2.5% (2010: 1.7% to 2.4%) 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 2011, the loans were secured by certain of the Group’s property and equipment, and land use rights with carrying values of HK\$5,414.5 million (2010: HK\$5,832.3 million) and HK\$717.8 million (2010: HK\$757.6 million) respectively. In addition, the bank loans are secured by the following:

- (i) an assignment of all receivables and income from hotel operation in Ponte 16;
- (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 gaming promoters 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\$2,961.9 million (2010: HK\$3,845.9 million); and
- (iv) share pledges over the shares of certain subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

40. CONVERTIBLE BONDS

The Group

On 28 October 2009, Champion Path Holdings Limited ("Champion Path"), a wholly-owned subsidiary of the Company, issued zero coupon convertible bonds, which were listed on Singapore Exchange Securities Trading Limited, in a principal amount of HK\$2,000 million (the "Bonds") maturing on 28 October 2015 (the "Maturity Date"). The Bonds were denominated in Hong Kong dollars and the Company agreed 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 an initial 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 agreements, 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 agreements.

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 current liability at 31 December 2010 since the Group is required to redeem all, or some only, of the convertible bonds on 28 April 2011 at the option of the bondholders, at the applicable early redemption amount, in accordance with the terms and conditions set out in the trust deed relating to the convertible bonds issued on 28 October 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

40. CONVERTIBLE BONDS (Continued)

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

| | HK\$ million |
|---------------------------------------|-----------------------|
| At 1 January 2010 | 1,588.2 |
| Imputed interest expense for the year | 75.8 |
| Conversion during the year | <u>(1,445.3)</u> |
| At 31 December 2010 | 218.7 |
| Imputed interest expense for the year | 2.7 |
| Conversion during the year | <u>(221.4)</u> |
| At 31 December 2011 | <u>—</u> |

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

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

Fair value of the outstanding Bonds as at 31 December 2010 was HK\$597.9 million based on the market bid price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. DEFERRED TAXATION

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

| | 2011 HK\$ million | 2010 HK\$ million |
|--------------------------|----------------------|----------------------|
| Deferred tax assets | — | — |
| Deferred tax liabilities | <u>(14.9)</u> | — |
| | <u>(14.9)</u> | — |

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

| | Accelerated tax depreciation HK\$ million | Tax losses HK\$ million | Total HK\$ million |
|--|---|----------------------------|-----------------------|
| At 1 January 2010 and 31 December 2010 | — | — | — |
| (Charged) credited to profit or loss | <u>(34.8)</u> | <u>19.9</u> | <u>(14.9)</u> |
| At 31 December 2011 | <u>(34.8)</u> | <u>19.9</u> | <u>(14.9)</u> |

Also, at 31 December 2011, the Group has unutilised tax losses of HK\$1,357.9 million (2010: HK\$1,478.7 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams. These unrecognised tax losses will expire as follows:

| | The Group | |
|----------------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million |
| Tax losses expire in | | |
| — 2011 | — | 416.2 |
| — 2012 | 561.2 | 601.3 |
| — 2013 | 461.2 | 461.2 |
| — 2014 | <u>335.5</u> | — |
| | <u>1,357.9</u> | <u>1,478.7</u> |

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 2011

42. SHARE CAPITAL

| | Authorised | | Issued and fully paid | |
|--------------------------------------|-----------------------|---------------------|-----------------------|---------------------|
| | Number of shares | Amount HK\$ million | Number of shares | Amount HK\$ million |
| Ordinary shares of HK\$1 each | | | | |
| At 1 January 2010 | 15,000,000,000 | 15,000.0 | 5,000,000,000 | 5,000.0 |
| Exercise of share options | — | — | 122,340,000 | 122.3 |
| Conversion of convertible bonds | — | — | 332,175,488 | 332.2 |
| | <u>15,000,000,000</u> | <u>15,000.0</u> | <u>5,454,515,488</u> | <u>5,454.5</u> |
| At 31 December 2010 | 15,000,000,000 | 15,000.0 | 5,454,515,488 | 5,454.5 |
| Exercise of share options | — | — | 18,060,000 | 18.1 |
| Conversion of convertible bonds | — | — | 49,503,805 | 49.5 |
| | <u>15,000,000,000</u> | <u>15,000.0</u> | <u>5,522,079,293</u> | <u>5,522.1</u> |
| At 31 December 2011 | 15,000,000,000 | 15,000.0 | 5,522,079,293 | 5,522.1 |

During the year, 18,060,000 share options were exercised, resulting in the issue of 12,720,000, 100,000, 240,000 and 5,000,000 ordinary shares of HK\$1 each in the Company at a price of HK\$2.82, HK\$5.11, HK\$5.03 and HK\$12.496 per share respectively.

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

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

43. SHARE OPTION SCHEME

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

43. SHARE OPTION SCHEME (Continued)

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

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

A summary of the movements of the outstanding options during the year ended 31 December 2011 under the Option Scheme is as follows:

| Type of Participants | Date of grant | Vesting period | Exercise period | Exercise price per share HK\$ | Number of share options | | | | | | |
|---|---------------|-------------------------|--------------------------|-------------------------------|-------------------------|------------------|----------------------|---------------------------|--------------------|---------------------|---------------------------|
| | | | | | Outstanding at 1.1.2010 | Granted in 2010 | Exercised in 2010 | Outstanding at 31.12.2010 | Granted in 2011 | Exercised in 2011 | Outstanding at 31.12.2011 |
| Directors | 13.7.2009 | 13.7.2009 to 12.1.2010 | 13.1.2010 to 12.1.2019 | 2.82 | 101,000,000 | — | (87,500,000) | 13,500,000 | — | (8,000,000) | 5,500,000 |
| | 31.8.2010 | 31.8.2010 to 27.2.2011 | 28.2.2011 to 27.2.2020 | 7.48 | — | 5,000,000 | — | 5,000,000 | — | — | 5,000,000 |
| | 17.3.2011 | 17.3.2011 to 16.9.2011 | 17.9.2011 to 16.9.2020 | 12.496 | — | — | — | — | 116,000,000 | (5,000,000) | 111,000,000 |
| Employees | 13.7.2009 | 13.7.2009 to 12.1.2010 | 13.1.2010 to 12.1.2019 | 2.82 | 39,800,000 | — | (30,540,000) | 9,260,000 | — | (4,170,000) | 5,090,000 |
| | 13.7.2009 | 13.7.2009 to 12.1.2011 | 13.1.2011 to 12.1.2019 | 2.82 | 10,000,000 | — | — | 10,000,000 | — | — | 10,000,000 |
| | 13.7.2009 | 13.7.2009 to 12.1.2012 | 13.1.2012 to 12.1.2019 | 2.82 | 10,000,000 | — | — | 10,000,000 | — | — | 10,000,000 |
| | 19.5.2010 | 19.5.2010 to 18.11.2010 | 19.11.2010 to 18.11.2019 | 5.11 | — | 1,500,000 | — | 1,500,000 | — | (100,000) | 1,400,000 |
| | 26.5.2010 | 26.5.2010 to 25.11.2010 | 26.11.2010 to 25.11.2019 | 5.03 | — | 500,000 | — | 500,000 | — | (240,000) | 260,000 |
| Other Participants (note) | 13.7.2009 | 13.7.2009 to 12.1.2010 | 13.1.2010 to 12.1.2019 | 2.82 | 5,900,000 | — | (3,100,000) | 2,800,000 | — | (550,000) | 2,250,000 |
| | 7.10.2009 | 7.10.2009 to 6.4.2010 | 7.4.2010 to 6.4.2019 | 4.48 | 1,200,000 | — | (1,200,000) | — | — | — | — |
| | | | | | <u>167,900,000</u> | <u>7,000,000</u> | <u>(122,340,000)</u> | <u>52,560,000</u> | <u>116,000,000</u> | <u>(18,060,000)</u> | <u>150,500,000</u> |
| Weighted average exercise price per share | | | | | <u>HK\$2.83</u> | <u>HK\$6.80</u> | <u>HK\$2.84</u> | <u>HK\$3.35</u> | <u>HK\$12.496</u> | <u>HK\$5.54</u> | <u>HK\$10.14</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

43. SHARE OPTION SCHEME (Continued)

In respect of the above options exercised during the year, the weighted average closing price per share at the dates of exercise was HK\$16.06. At the end of the reporting period, 140,500,000 share options are exercisable (2010: 27,560,000).

The estimated fair value of share options granted on 17 March 2011 was HK\$525.7 million. The estimated fair values of share options granted on 19 May 2010, 26 May 2010 and 31 August 2010 were HK\$3.1 million, HK\$1.0 million and HK\$14.5 million respectively.

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

| | | | | | | |
|--------------------------------------|---------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Date of grant | 13 July 2009 | 7 October 2009 | 19 May 2010 | 26 May 2010 | 31 August 2010 | 17 March 2011 |
| Pricing model | Black-Scholes | Black-Scholes | Binomial | Binomial | Binomial | Black-Scholes |
| Number of share options | 166,700,000 | 1,200,000 | 1,500,000 | 500,000 | 5,000,000 | 116,000,000 |
| Vesting period | 6 to 30 months from the date of grant | 6 months from the date of grant | 6 months from the date of grant | 6 months from the date of grant | 6 months from the date of grant | 6 months from the date of grant |
| Closing share price at date of grant | HK\$2.82 | HK\$4.32 | HK\$5.11 | HK\$5.03 | HK\$7.48 | HK\$12.14 |
| Expected / contractual life | 5-6 years | 5 years | 9.5 years | 9.5 years | 9.5 years | 5 years |
| Exercise price per share | HK\$2.82 | HK\$4.48 | HK\$5.11 | HK\$5.03 | HK\$7.48 | HK\$12.496 |
| Exercise multiple | N/A | N/A | 1.79 times | 1.79 times | 1.81 times | N/A |
| Expected volatility | 66.46% | 65.07% | 56.77% | 56.16% | 49.56% | 54.83% |
| Risk-free interest rate | 1.74%-1.94% | 1.695% | 2.47% | 2.35% | 1.89% | 2.49% |
| Expected dividend yield | 3.26% | 1.12% | 1.76% | 1.79% | 1.87% | 3.33% |

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

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

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

In 2011, the Group and the Company recognised total expenses of HK\$535.9 million and HK\$25.4 million during the year (2010: HK\$47.7 million and HK\$9.6 million respectively) in relation to share options granted by the Company. The Company levied an inter-company charge of HK\$510.5 million (2010: HK\$38.1 million) on the subsidiaries in respect of share options granted to the Participants providing services to these subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

44. RESERVES

| | Share premium HK\$ million | Share options reserve HK\$ million | Convertible bonds equity reserve HK\$ million | Retained profits HK\$ million | Total HK\$ million |
|--|-------------------------------|--|---|-------------------------------------|-----------------------|
| The Company | | | | | |
| At 1 January 2010 | 1,627.4 | 173.9 | 395.2 | 504.2 | 2,700.7 |
| Transaction costs attributable to the issue of convertible bonds in 2009 charged by a subsidiary | — | — | (8.2) | — | (8.2) |
| Exercise of share options | 379.8 | (155.2) | — | — | 224.6 |
| Conversion of convertible bonds | 1,449.9 | — | (336.8) | — | 1,113.1 |
| Transaction costs incurred in connection with the issue of shares | (0.3) | — | — | — | (0.3) |
| Recognition of equity-settled share-based payments | — | 47.7 | — | — | 47.7 |
| Dividends paid (note 13) | — | — | — | (716.0) | (716.0) |
| Total comprehensive income for the year (note) | — | — | — | 2,578.0 | 2,578.0 |
| At 31 December 2010 | 3,456.8 | 66.4 | 50.2 | 2,366.2 | 5,939.6 |
| Exercise of share options | 121.4 | (39.4) | — | — | 82.0 |
| Conversion of convertible bonds | 222.1 | — | (50.2) | — | 171.9 |
| Transaction costs incurred in connection with the issue of shares | (0.2) | — | — | — | (0.2) |
| Recognition of equity-settled share-based payments | — | 535.9 | — | — | 535.9 |
| Dividends paid (note 13) | — | — | — | (2,094.8) | (2,094.8) |
| Total comprehensive income for the year (note) | — | — | — | 5,812.3 | 5,812.3 |
| At 31 December 2011 | 3,800.1 | 562.9 | — | 6,083.7 | 10,446.7 |

Note: Amount included dividend income from SJM of HK\$5,825.2 million (2010: HK\$2,524.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

45. MAJOR NON-CASH TRANSACTIONS

Other than the transactions disclosed in respective notes to the consolidated financial statements, the Group had the following significant non-cash transactions during the year ended 31 December 2011:

- (a) Property and equipment totalling HK\$40.9 million (2010: HK\$80.1 million) were settled by utilising deposits made on acquisitions.
- (b) The Group received dividends of HK\$18.4 million (2010: Nil) in form of listed securities from the financial assets at fair value through profit or loss.
- (c) A deposit of HK\$65.5 million (2010: Nil), which was included in deposits made on acquisitions as at 31 December 2010 and paid by a subsidiary of the Company, was charged to profit or loss as donation to an educational organisation (note 48).

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 | |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million | 2011 HK\$ million | 2010 HK\$ million |
| Within one year | 2.5 | 2.5 | 228.4 | 204.0 |
| In the second to fifth year inclusive | 10.0 | 10.0 | 529.4 | 595.4 |
| After five years | 41.6 | 44.1 | 189.3 | 261.7 |
| | <u>54.1</u> | <u>56.6</u> | <u>947.1</u> | <u>1,061.1</u> |

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

Lease payments 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 letter to a company in which a director of the Company has 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 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) a 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. The lease of premises for operation of this casino as mentioned has not yet commenced as at the end of the reporting period.

At 31 December 2011, operating lease rentals committed to STDM and its associates, a jointly controlled entity, and entities in which STDM, certain directors of the Company and their close family members have control / significant influence / beneficial interests amounted to HK\$750.2 million (2010: HK\$868.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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:

| | 2011 HK\$ million | 2010 HK\$ million |
|--|----------------------|----------------------|
| Within one year | 15.5 | 4.7 |
| In the second to fifth years inclusive | 28.1 | 1.9 |
| | <u>43.6</u> | <u>6.6</u> |

47. CAPITAL COMMITMENTS

| | The Group | | The Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2011 HK\$ million | 2010 HK\$ million | 2011 HK\$ million | 2010 HK\$ million |
| Capital expenditure in respect of property and equipment | | | | |
| — authorised but not contracted for | <u>92.9</u> | <u>118.7</u> | <u>—</u> | <u>—</u> |
| — contracted for but not provided in the consolidated financial statements | <u>64.8</u> | <u>170.0</u> | <u>3.4</u> | <u>—</u> |

At 31 December 2011, capital expenditure in respect of property and equipment committed to an associate and an entity in which a director of the Company has control was HK\$1.9 million (2010: HK\$22.2 million).

48. OTHER COMMITMENTS

The Group

In 2004, SJM entered into an agreement with an educational organisation in MSAR for the use of a piece of land currently occupied by a school. As formulated under such agreement, the consideration comprised the construction of a new school in Taipa in MSAR for an amount not exceeding HK\$97.1 million and a donation of HK\$184.5 million. During the year ended 31 December 2011, a deposit of HK\$65.5 million (2010: HK\$65.5 million), which was paid to the educational organisation and included in deposits made on acquisitions in prior years, was charged to profit or loss as donation (included in operating and administrative expenses) to the educational organisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

49. CONTINGENT LIABILITIES AND GUARANTEES

| | The Group | | | |
|--|--|--|--|--|
| | 2011 | | 2010 | |
| | 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 | 61.0 | 67.3 | 60.7 |
| — investee companies | 25.3 | 450.0 | 25.3 | 500.0 |
| | <u>92.6</u> | <u>511.0</u> | <u>92.6</u> | <u>560.7</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 claim from the third party in either year.

Also, at the end of the reporting period, certain subsidiaries are parties to various legal claims in their ordinary course of business. In the opinion of the directors of the Company, the ultimate resolution of these claims would not have a significant impact on the Group's results and financial position.

50. 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 is matched with both voluntary and mandatory contribution of each employee.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

51. RELATED PARTY TRANSACTIONS

The Group

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

| Relationship | Nature of transactions | 2011 HK\$ million | 2010 HK\$ million | |
|---|---|--|----------------------|-------|
| STDM and its associates, excluding the Group (as defined under Chapter 14A of the Listing Rules) | Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules | | | |
| | Property rentals (note 51(c)) | 218.4 | 184.2 | |
| | Transportation (note 51(d)) | 171.1 | 184.8 | |
| | Dredging services (note 51(d)) | 134.0 | 107.5 | |
| | Hotel accommodation (note 51(d)) | 81.9 | 77.9 | |
| | Entertainment and staff messing (note 51(d)) | 67.8 | 59.8 | |
| | Maintenance services (note 51(d)) | 50.8 | 58.5 | |
| | Aircraft sublease rental receipts (note 51(e)) | 44.0 | 51.7 | |
| | Promotional and advertising services (note 51(d)) | 9.0 | 16.8 | |
| | Hotel management and operation (note 51(d)) | 7.1 | 6.1 | |
| | Exempt continuing connected transactions under Chapter 14A of the Listing Rules | | | |
| | Share of administrative expenses (note 51(f)) | 77.5 | 40.7 | |
| | Cleaning services (note 51 (g)) | 20.3 | 17.8 | |
| | Hotel management and operation (note 51(d) and (g)) | 11.1 | — | |
| | Promotional and advertising services (note 51(d) and (g)) | 10.7 | — | |
| | Others (note 51 (g)) | 22.8 | 21.1 | |
| | Certain directors of the Company and of its subsidiaries and their associates (as defined under Chapter 14A of the Listing Rules) | Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules | | |
| | | Service fees in relation to the promotion of a casino (note 51(h)) | 1,422.4 | 575.2 |
| | | Transportation (note 51(i)) | 39.6 | — |
| Exempt continuing connected transactions under Chapter 14A of the Listing Rules | | | | |
| Entertainment and staff messing (note 51(g)) | | 61.0 | 33.9 | |
| Transportation (note 51(i)) | | — | 19.8 | |
| Others (note 51(g)) | | 41.2 | 32.1 | |
| Entities other than above in which STDM, certain directors of the Company and of its subsidiaries and / or their close family members have control / significant influence / beneficial interests | | Service fees in relation to the promotion of a casino | 1,503.5 | 993.3 |
| | | Insurance expenses | 43.4 | 42.2 |
| | | Promotion and advertising expenses | 15.7 | 19.9 |
| | Property rentals | 12.0 | 11.7 | |
| | Transportation (note 51(i)) | — | 18.8 | |
| | Purchase of property and equipment | — | 10.5 | |
| | Hotel accommodation | 0.8 | 1.5 | |
| | Construction costs paid | 0.4 | 119.6 | |
| | Others | 37.4 | 37.2 | |
| An associate | Construction costs paid | 34.2 | 150.9 | |
| | Others | 1.1 | 2.7 | |
| A jointly controlled entity | Property rentals | 14.4 | 14.4 | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

51. 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, did not have sufficient casino chips to meet its business needs. According to the gaming concession contract, SJM is permitted to use STDM's casino chips, both in treasury and those put in circulation by STDM prior to 1 April 2002 and should honour such casino chips. In order to regulate the borrowing and use of STDM chips, the Group entered into an agreement with STDM dated 18 June 2008 (the "Chips Agreement") regarding the honouring and borrowing of STDM chips. Under the Chips Agreement, the Group has agreed to honour the STDM chips in circulation upon their redemption by patrons or clients. In addition, STDM has agreed to reimburse the STDM chips presented by the Group to STDM, by paying to the Group in cheque the aggregate face value of chips so presented within the same quarter when such presentation takes place. During the year ended 31 December 2011, the net amount received and receivable on reimbursement of STDM chips in circulation amounted to HK\$6.6 million (2010: HK\$430.3 million).
- (c) The Group entered into an agreement dated 18 June 2008 with STDM for the leasing of properties by STDM or the members of the STDM group to the Group (the "Premises Leasing Master Agreement"). The term of each implementing lease will be for a term commencing on a date specified in the relevant implementing lease and ending on a date not later than 31 March 2020. The amounts of transactions during the year were disclosed in note 51(a) above.
- (d) The Group entered into an agreement dated 18 June 2008 with STDM for the provision of products and services by STDM and its associates (the "Products and Services Master Agreement"). The types of products and services includes hotel accommodation, hotel management and operation, entertainment and staff messing, dredging services, transportation, promotional and advertising services, travel agency services and maintenance services. On 19 June 2011, the Company entered into a renewed products and services master agreement with STDM ("Renewed Master Agreement") for the provision of products and services as described in the Products and Services Master Agreement, except for hotel management and operation, promotional and advertising services, and travel agency services, which are regarded as de minimis transactions as described in note 51(g). The Renewed Master Agreement will expire on 31 December 2013.
- (e) Regarding the aircraft lease arrangement disclosed in note 38, the Group charged minimum lease payments and related expenses of HK\$44.0 million (2010: HK\$51.7 million) to the fellow subsidiary, and repaid the same amount of minimum lease payments to the finance company during the year ended 31 December 2011.
- (f) The Group entered into an agreement with STDM dated 18 June 2008 (the "Administrative Cost Sharing Agreement") whereby STDM and its associates have agreed to continue to share certain administrative services including, among others, general public relations work, promotional functions, arranging ticketing and hotel accommodations, transportation and the provision of storage services with the Group and the Group has agreed to pay for the shared services on a cost basis. The amount of administrative costs shared between the Group and the STDM group is calculated based on an estimate of (i) the actual time spent by each department for providing services to the Group and the STDM group respectively recorded on time sheets and (ii) the floor area occupied, respectively, by the Group and the STDM group for storage services.

On 19 June 2011, the Company entered into an agreement with STDM to renew the Administrative Cost Sharing Agreement in sharing the cost of the above-mentioned administrative services. The renewed agreement will end on 31 December 2013. The amounts of transactions during the period were disclosed in note 51(a) above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

51. RELATED PARTY TRANSACTIONS (Continued)

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

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

Pursuant to Rule 14A.11(4)(b)(ii) of the Listing Rules which became effective on 3 June 2010, ST-CITS is a connected person of the Company by virtue of the family interests of Dr. Ho Hung Sun, Stanley, director of the Company, having control of more than 50% in the voting power of ST-CITS.

- (j) SJM and STDM have entered into an agreement on 20 November 2011 (the "Transfer Agreement") whereas SJM and STDM will procure the transfer of certain employees from STDM to SJM or its subsidiary subject to the terms and conditions as set out in the Transfer Agreements. The employees to be transferred are currently working at the departments of the STDM Group, namely (i) property and works department; (ii) Macau service department; (iii) public relations secretariat department; (iv) electrical and mechanical engineering department; (v) warehouse department; (vi) transportation service department; and (vii) public relations (wharf).

Pursuant to the Transfer Agreements, SJM will, or will procure its subsidiary to, take over the operation of the relevant departments on 1 January 2012. The takeover will involve, among other things, (i) transfer of employment contracts of certain employees of the relevant departments to SJM or its subsidiary; (ii) entering into or assignment of lease agreements between SJM or its subsidiary and STDM; (iii) acquisition of certain assets of the departments from STDM; and (iv) assignment of certain business contracts to SJM or its subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

51. RELATED PARTY TRANSACTIONS (Continued)

- (k) Save as disclosed in note 39, in addition to the securities provided by the Group to the relevant bank, the syndicated secured bank loans are also secured by non-controlling interests of a subsidiary of the Group. At the end of each reporting period, 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 properties in Ponte 16 which include (i) the land premium and all other premiums and sums of money payable to the Governmental Agency of MSAR in respect of properties in Ponte 16; (ii) all construction costs and all operating costs to be incurred; and (iii) all financial costs and expenses, including interest payable in respect of the syndicated secured bank loans facility;
 - (iii) an unconditional and irrevocable undertaking for the purpose of ensuring the completion of the construction of properties in Ponte 16; and
 - (iv) a share pledge over all shares in Pier 16–Property.

The Company

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

52. PRINCIPAL SUBSIDIARIES

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

| Name of subsidiary | Place of incorporation/ establishment/ operations | Nominal value of issued and fully paid share capital/ quota capital | Attributable proportion of nominal value of issued share capital/ quota capital held by the Group | | Principal activity |
|--|---|--|--|------|--|
| | | | 2011 | 2010 | |
| Brilliant Sky International Limited | MSAR | Quota capital: MOP25,000 | 100% | — | Provision of marketing and promotional services |
| 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% | 100% | Debt securities holding up to 28 April 2011 (note 40) |
| Cotai Magnific View-Property Development Company Limited | MSAR | Ordinary shares: MOP1,000,000 | 100% | 100% | Preparation for property development |
| 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 – Gaming Promotion, Limited | MSAR | Quota capital: MOP50,000 | 51% | 51% | Provision of gaming promotion services |
| 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 |
| SJM – Customer Services (HK) Limited | Hong Kong | Ordinary shares: HK\$1 | 100% | — | Preparation for provision of customer services |
| SJM – F&B Services Limited | MSAR | Quota capital: MOP25,000 | 100% | 100% | Provision of food and beverage services |
| SJM Holdings Management Services Limited | Hong Kong | Ordinary shares: HK\$2 | 100% | 100% | Provision of management services |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

52. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation/ establishment/ operations | Nominal value of issued and fully paid share capital/ quota capital | Attributable proportion of nominal value of issued share capital/ quota capital held by the Group | | Principal activity |
|--|---|---|--|----------------------|---|
| | | | 2011 | 2010 | |
| SJM – Investment Limited | MSAR | Quota capital: MOP1,000,000 | 100% | 100% | Investment 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% (note 52(a)) | 100% (note 52(a)) | Casino operations and investment holding |

Notes:

- (a) Pursuant to the relevant requirements under MSAR law, SJM's ordinary shares are divided into two categories, namely, Type A shares and Type B shares representing 90% and 10% equity interests in SJM respectively. Holders of Type A shares have voting control of SJM in its shareholders' meeting. Except for one Type A share directly held by a wholly-owned subsidiary of the Company, the Company holds all the remaining Type A shares, whilst Type B shares are held by the managing director of SJM, pursuant to the relevant requirements under 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, SJM Holdings Management Services Limited and SJM, 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 bonds in 2009 and has outstanding principal of HK\$259.4 million as at 31 December 2010, none of the subsidiaries had any debt securities outstanding at the end of both reporting periods.

FINANCIAL SUMMARY

| | For the year ended 31 December | | | | |
|---|--------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2007 HK\$ million | 2008 HK\$ million | 2009 HK\$ million | 2010 HK\$ million | 2011 HK\$ million |
| Results | | | | | |
| Gaming, hotel, catering and related services revenues | 32,227.1 | 28,165.0 | 34,352.8 | 57,653.3 | 76,092.0 |
| Gaming revenue | 32,146.6 | 27,992.4 | 34,065.8 | 57,195.0 | 75,514.4 |
| Profit before taxation | 1,493.4 | 672.2 | 812.3 | 3,532.4 | 5,345.8 |
| Taxation | (0.2) | (16.7) | (17.5) | (17.6) | (35.0) |
| Profit for the year and total comprehensive income for the year | 1,493.2 | 655.5 | 794.8 | 3,514.8 | 5,310.8 |
| Profit attributable to | | | | | |
| — owners of the Company | 1,533.5 | 796.1 | 906.7 | 3,559.4 | 5,307.6 |
| — non-controlling interests | (40.3) | (140.6) | (111.9) | (44.6) | 3.2 |
| | 1,493.2 | 655.5 | 794.8 | 3,514.8 | 5,310.8 |

| | As at 31 December | | | | |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2007 HK\$ million | 2008 HK\$ million | 2009 HK\$ million | 2010 HK\$ million | 2011 HK\$ million |
| Assets and liabilities | | | | | |
| Total assets | 18,039.4 | 18,920.6 | 23,366.5 | 28,889.4 | 33,020.0 |
| Total liabilities | (11,479.3) | (11,484.3) | (14,847.1) | (15,714.0) | (15,773.4) |
| Net assets | 6,560.1 | 7,436.3 | 8,519.4 | 13,175.4 | 17,246.6 |
| Equity attributable to | | | | | |
| owners of the Company | 6,365.0 | 7,287.1 | 8,454.7 | 13,137.7 | 17,207.7 |
| Non-controlling interests | 195.1 | 149.2 | 64.7 | 37.7 | 38.9 |
| | 6,560.1 | 7,436.3 | 8,519.4 | 13,175.4 | 17,246.6 |

The results and summary of assets and liabilities for the year 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 ordinary shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout that year.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Executive Director

Dr. Ho Hung Sun, Stanley

Non-executive Director

Dato' Dr. Cheng Yu Tung

Independent Non-executive Directors

Mr. Chau Tak Hay

Mr. Lan Hong Tsung, David

Mr. Shek Lai Him, Abraham

Mr. Tse Hau Yin

Executive Director and Chief Executive Officer

Dr. So Shu Fai

Executive Director and Chief Operating Officer

Mr. Ng Chi Sing

Executive Directors

Mr. Rui José da Cunha

Ms. Leong On Kei, Angela

Mr. Shum Hong Kuen, David

Mr. Fok Tsun Ting, Timothy

AUDIT COMMITTEE

Mr. Tse Hau Yin (*Committee Chairman*)

Mr. Chau Tak Hay

Mr. Shek Lai Him, Abraham

Mr. Lan Hong Tsung, David

NOMINATION COMMITTEE

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

Mr. Chau Tak Hay

CHIEF FINANCIAL OFFICER

Mr. Robert McBain

GROUP LEGAL COUNSEL

Mr. Jonathan Pyne

COMPANY SECRETARY

Ms. Kwok Shuk Chong

REGISTERED OFFICE AND

PRINCIPAL PLACE OF BUSINESS

Suites 3201–3205, 32nd Floor
One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Tel: (852) 3960 8000

Fax: (852) 3960 8111

Website: <http://www.sjmholdings.com>

Email (Investor Relations): ir@sjmholdings.com

LISTING INFORMATION

Share listing: Hong Kong Stock Exchange (Main Board)

Listing date: 16 July 2008

Stock short name: SJM Holdings

Stock code: 880

Board lot: 1,000 shares

LEGAL ADVISORS

On Hong Kong Law:

Baker & McKenzie

Herbert Smith

Linklaters

On Macau Law:

C&C Advogados

João Nuno Riquito & Associados Advogados

FINANCIAL ADVISOR

Somerley Limited

JOINT AUDITORS

Deloitte Touche Tohmatsu

H.C. Watt & Company Limited

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
(Macau) Limited

Bank of China Limited

Crédit Agricole Corporate and Investment Bank

BNP Paribas

Industrial and Commercial Bank of China (Asia) Limited

SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited

Shops 1712–1716, 17th Floor

Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

Tel: (852) 2862 8555

Fax: (852) 2865 0990

Website: <http://www.computershare.com.hk>

SJM HOLDINGS LIMITED
澳門博彩控股有限公司

Suites 3201 – 3205, 32nd Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
香港中環港景街1號國際金融中心一期32樓3201 – 3205室

<http://www.sjmholdings.com>