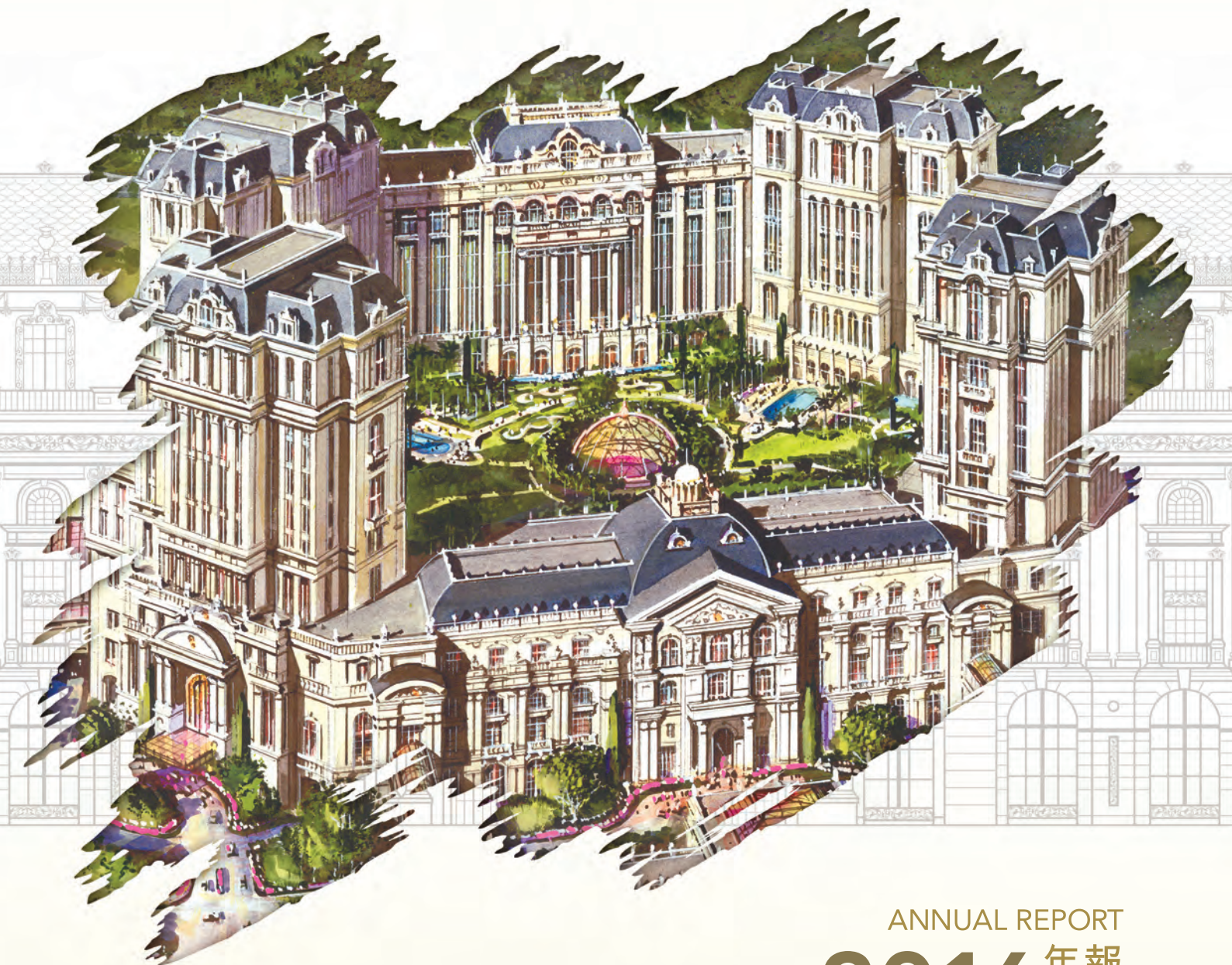




澳門博彩控股有限公司
SJM HOLDINGS LIMITED

於香港註冊成立的有限責任公司 股份代號：880
incorporated in Hong Kong with limited liability Stock Code : 880



ANNUAL REPORT
2016 年報



ABOUT US

SJM Holdings Limited (the “Company”) 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, and the only casino gaming concessionaire with its roots in Macau.

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.

The Grand Lisboa Palace, SJM’s integrated resort on Cotai, is currently under construction. The Grand Lisboa Palace will feature a total of approximately 2,000 hotel rooms and suites, facilities for meetings and conferences, shopping, dining and entertainment, and a casino.

As at 31 December 2016, SJM operated 18 casinos, comprising more than 1,600 gaming tables and over 2,100 slot machines.



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EVENT HIGHLIGHTS



SJM hosts traditional Gala Dinner on Lunar New Year's Eve



12th Annual SJM Scholarship Awards



Launch of "Macau SME Procurement Partnership Programme"

FEBRUARY

APRIL

JUNE

AUGUST



SJM participates in the Chinese New Year Float Parade organised by Macao Government Tourism Office

Opening of the SJM Excellence Staff Center



SJM Holdings Annual General Meeting



SJM is the title sponsor of the SJM Macau Derby 2016



EVENT HIGHLIGHTS



SJM is the title sponsor of SJM Theodore Racing for the 63rd Macau Grand Prix Formula 3 Race



New Year's countdown at Grand Lisboa



10th SJM Charity Auction and Dinner

OCTOBER

NOVEMBER

DECEMBER

SJM is the title sponsor of the SJM Macau GT Cup – FIA GT World Cup



New Year's countdown at Ponte 16 Resort



SJM celebrates China's National Day with staff



SJM directors and staff members participate in Macau's Walk for a Million 2016



AWARDS

The group received numerous awards in 2016, including those listed below:

✦ SJM Holdings was presented the **“Global Chinese Business 1000 - Outstanding Performance Award (Hong Kong)”** by *Yazhou Zhoukan*.

✦ SJM Holdings was presented the **“Top 100 Hong Kong Listed Company Award”** by Finet Holdings Limited and Tencent QQ.com.



✦ Mr. Robert McBain, Chief Financial Officer of SJM Holdings, was named **“The Best Investor Relations by Chief Financial Officer - Mid Cap”** by the Hong Kong Investor Relations Association.



✦ SJM was presented the **“Leading by Example Excellence Award”** by the 2016 Business Awards of Macau.



✦ Ten SJM staff members were awarded at the 8th International Volunteer Recognition Ceremony organised by the Macao Youth Volunteers Association, including one ranked Number One among the Ten Best Volunteers in the Gaming Industry.



✦ SJM’s internship programme received recognition from the Youth Committee of Macao Chamber of Commerce at Caridade Social 2015–16.



AWARDS

Robuchon au Dôme, Grand Lisboa

3 Michelin Stars by Michelin Guide Hong Kong Macau 2017



Wine Spectator Grand Award 2016



Hong Kong Tatler Top 20 Best Restaurants 2017

The Eight, Grand Lisboa

3 Michelin Stars by Michelin Guide Hong Kong Macau 2017



The Most Valuable Brand Gold Award by 2016 Business Awards of Macau



The Kitchen, Grand Lisboa

1 Michelin Star by Michelin Guide Hong Kong Macau 2017



Wine Spectator Best of Award of Excellence 2016

Don Alfonso 1890, Grand Lisboa

Wine Spectator Grand Award 2016



Sofitel Macau at Ponte 16

2016 Luxury Romantic Hotel by World Luxury Hotel Awards

2016 Certificate of Excellence by Tripadvisor

2016 Luxury Urban Escape by World Luxury Spa Awards

2016 French Cuisine by World Luxury Restaurant Awards

2016 Modern Luxury Hotel of the Year by Luxury Travel Guide Awards



FINANCIAL HIGHLIGHTS AND DIVIDEND SCHEDULE

FINANCIAL HIGHLIGHTS

| | Year Ended 31 December 2016 (HK\$ million) | Year Ended 31 December 2015 (HK\$ million) |
|--|--|--|
| Gaming Revenue | 41,272 | 48,282 |
| Hotel, Catering and Other Income | 765 | 601 |
| Adjusted EBITDA* | 3,417 | 3,862 |
| Profit attributable to owners of the Company | 2,327 | 2,465 |
| Earnings per share | | |
| — basic | HK41.1 cents | HK43.6 cents |
| — diluted | HK41.1 cents | HK43.5 cents |
| Dividend per ordinary share | | |
| — proposed final dividend | HK18 cents | HK15 cents |
| — interim dividend paid | HK6 cents | HK10 cents |

* Adjusted EBITDA is earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, premium on acquisition written off, loss on disposal/write-off of property and equipment, share-based payments, and impairment loss on available-for-sale investment in equity securities and assets of a subsidiary.

DIVIDEND SCHEDULE

| Events | Date and Time |
|---|---------------------------------------|
| Announcement of proposed final dividend | 28 February 2017 |
| 2017 Annual General Meeting (to approve the proposed final dividend) | 2:30 p.m. on Tuesday, 13 June 2017 |
| Ex-dividend date | 15 June 2017 |
| Record date for proposed final dividend | 16 June 2017 |
| Latest time to lodge transfer documents with the Company's share registrar to qualify for proposed final dividend | 4:30 p.m. on Friday, 16 June 2017 |
| Expected payment date of proposed final dividend (if approved at the 2017 Annual General Meeting) | 28 June 2017 |

CHIEF EXECUTIVE OFFICER'S STATEMENT

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

Macau experienced the third consecutive year of declining gaming revenue, due to a combination of economic conditions and policy measures, which continued to affect discretionary and luxury spending across-the-board. According to the Macau Government, total casino gaming revenue in 2016 declined by 3.3% from the previous year in spite of the opening of new projects in Cotai. The decline was manifest most strongly in the VIP segment of the market, as many high-rollers continued to stay away from Macau or reduced their gaming budgets.

SJM's VIP gaming revenue declined by 20.5% in 2016 compared with the previous year, whilst the declines in mass market table gaming and slot machine revenues were 8.2% and 6.4%, respectively. As a result, the Group's adjusted EBITDA (earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, premium on acquisition written off, loss on disposal/write-off of property and equipment, share-based payments and impairment loss on available-for-sale investment in equity securities and assets of a subsidiary) fell by 11.5% whilst profit attributable to owners of the Company declined by 5.6%. SJM's market share of Macau gaming revenue was 19.1% in 2016.

The Group's flagship Casino Grand Lisboa showed a decline in Adjusted Grand Lisboa EBITDA by 18.2% for the year. Casino Grand Lisboa's VIP gaming revenue decreased by 16.9%, mass market table gaming revenue and slot machine revenue decreased by 8.6% and 3.7%, respectively. Occupancy at the Grand Lisboa Hotel was 91.7% for the full year, at an average room rate of \$1,581.

During 2016, the Group maintained a strong financial position, whilst returning \$1.2 billion to shareholders as dividends. Total cash and bank balances stood at \$13.6 billion as at 31 December 2016, and debt outstanding of the Group was \$0.5 billion.

The Group's Grand Lisboa Palace project on Cotai, which embodies our long-term confidence in Macau and in China as well as our commitment to the solid diversification of our tourism business, made substantial progress in 2016, and we anticipate opening the resort in the first half of 2018. The Grand Lisboa Palace will increase our hotel room capacity by almost five times and provide best-in-category shopping, dining, entertainment and events facilities that will enhance Macau's position as a world centre of tourism and leisure.

Also during 2016 we reopened the casino facilities at the Jai Alai building, and we anticipate opening the Jai Alai Hotel soon, to complete our entertainment complex at Oceanus at Jai Alai.

SJM is always committed to the support of the local community, through donations and sponsorship of worthy activities in Macau, covering charities, welfare groups, education, culture, sports and major tourist events. In addition, to support the Macau SAR Government's policy on prioritising purchases from local SMEs, SJM jointly launched the "SJM and Macau SME Procurement Partnership Programme" with the Macao Chamber of Commerce in August, and up until 31 December 2016, 776 local suppliers have enrolled in the Programme. Following the successful launch, SJM has held two Business Matching Sessions, offering MOP280 million worth of business opportunities, of which MOP37 million is allocated to "Micro Enterprise", "Made in Macau" and "Young Entrepreneur" businesses.

On behalf of the Board of Directors, I would like to express our appreciation to all of our employees for their loyalty and diligent work during the past year, and to our shareholders and business partners for their support.

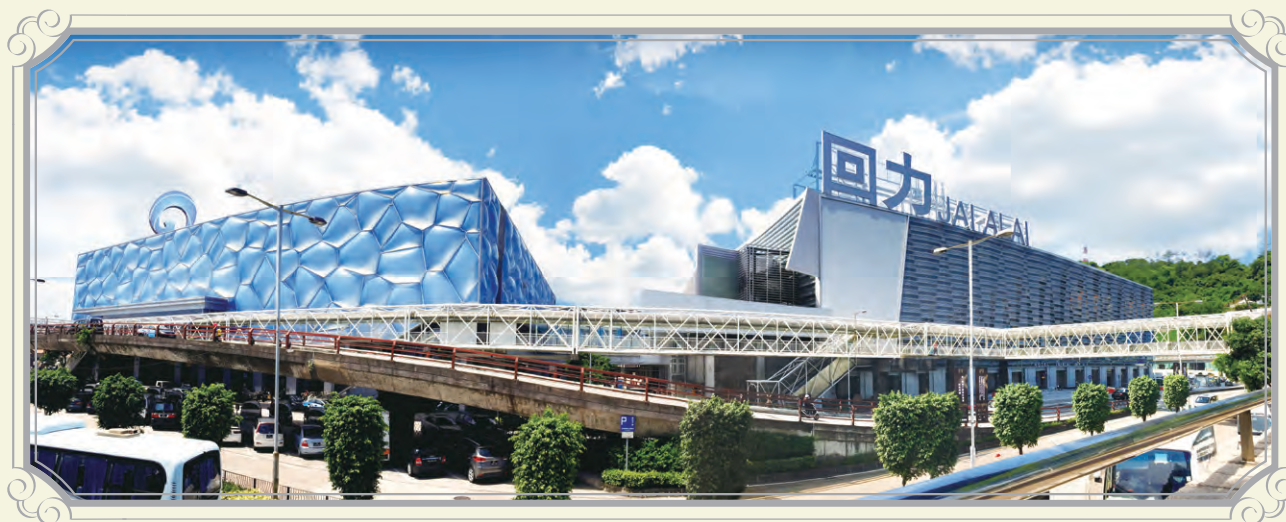
So Shu Fai

Chief Executive Officer

Hong Kong, 28 February 2017

BUSINESS REVIEW

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



MARKET ENVIRONMENT

Macau's casino gaming revenue declined in 2016 for the third straight year. The 3.3% decline resulted from multiple factors, including changes in administrative policies in Mainland China, and weakness in some sectors of the Chinese economy. The effects of these conditions were felt mainly in upper-end play in each sector of Macau's gaming market: VIP, mass market and slot machines.

Visitation to Macau increased moderately by 0.8% to 31 million in 2016, according to the Macau Government Statistics and Census Service. Visitors from the Mainland increased by 0.2% to 20.5 million.

BUSINESS MODEL AND KEY STRATEGIES

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

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

BUSINESS REVIEW

GROUP OPERATING RESULTS

The Group's total revenue, gaming revenue, profit attributable to owners of the Company and Adjusted EBITDA for the year ended 31 December 2016 each declined from last year, whilst Adjusted EBITDA Margin increased:

| Group operating results | For the year ended 31 December | | Increase/ (Decrease) |
|--|--------------------------------|----------------------|-------------------------|
| | 2016 HK\$ million | 2015 HK\$ million | |
| Total revenue | 41,798 | 48,864 | (14.5%) |
| Gaming revenue | 41,272 | 48,282 | (14.5%) |
| Profit attributable to owners of the Company | 2,327 | 2,465 | (5.6%) |
| Adjusted EBITDA ¹ | 3,417 | 3,862 | (11.5%) |
| Adjusted EBITDA Margin ² | 8.2% | 7.9% | 0.3% |

¹ Adjusted EBITDA is earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, premium on acquisition written off, loss on disposal/write-off of property and equipment, share-based payments, and impairment loss on available-for-sale investment in equity securities and assets of a subsidiary.

² Adjusted EBITDA Margin is Adjusted EBITDA divided by total revenue.

VIP gaming revenue of the Group declined by 20.5% in 2016 and mass market table gaming revenue decreased by 8.2%. According to statistics from the MSAR government, gaming revenue of Macau declined by 3.3% in 2016, comprising a 6.9% decline in VIP gaming revenue, a 1.8% increase in mass market table gaming revenue and a 3.1% decrease in slot machine gaming revenue.

During 2016, the Group accounted for 19.1% of Macau's casino gaming revenue of \$216,709 million. The Group's overall market share declined from 21.7% for the full year 2015.

The Group's Adjusted EBITDA Margin for the year was 8.2%, an increase from 7.9% in 2015. If calculated under United States generally accepted accounting principles ("US GAAP"), the Group's Adjusted EBITDA Margin would be 12.6% for 2016, as compared with 12.4% in 2015 (See "Comparison with United States GAAP Accounting" below).

Net profit for the year 2016 included \$241 million received as a one-time refund of excess dredging expenses by the Group's harbour dredging unit in previous years. Net profit for the year 2015 was affected by a one-off impairment loss on available-for-sale investment in equity securities of \$250 million and the impact on profit of suspension of a satellite casino of \$143 million. Deductions of share-based payments were \$170 million in 2016, as compared with \$314 million in the previous year. Depreciation in 2016 was \$1,065 million compared with \$1,095 million in 2015, and interest expense was \$45 million, compared with \$52 million in 2015.

BUSINESS REVIEW

OPERATING RESULTS — VIP GAMING

| VIP operations | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|---------|-------------------------|
| | 2016 | 2015 | |
| Gaming revenue (HK\$ million) | 19,934 | 25,064 | (20.5%) |
| Average daily net-win per VIP gaming table (HK\$) | 160,188 | 144,261 | 11.0% |
| VIP chips sales (HK\$ million) | 657,849 | 773,445 | (14.9%) |
| Average number of VIP gaming tables (Average of month-end numbers) | 340 | 476 | (28.6%) |

VIP gaming operations accounted for 48.3% of the Group's total gaming revenue in 2016, as compared with 51.9% for the previous year. As at 31 December 2016, SJM had 315 VIP gaming tables in operation with 20 VIP promoters, as compared with 386 VIP gaming tables and 19 VIP promoters as at 31 December 2015. As at 31 December 2016, SJM operated VIP gaming in 13 of its casinos.

The Group's gaming revenue from VIP gaming operations amounted to approximately 17.3% of total VIP gaming revenue in Macau, compared to 20.2% in the previous year, according to figures from the Gaming Inspection and Coordination Bureau in Macau. The hold rate for SJM's VIP operations decreased in 2016 to 3.03% from 3.22% in 2015.

OPERATING RESULTS — MASS MARKET TABLE GAMING

| Mass market operations | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|--------|-------------------------|
| | 2016 | 2015 | |
| Gaming revenue (HK\$ million) | 20,272 | 22,078 | (8.2%) |
| Average daily net-win per mass market gaming table (HK\$) | 42,888 | 49,380 | (13.1%) |
| Average number of mass market gaming tables (Average of month-end numbers) | 1,302 | 1,242 | 4.8% |

Gaming revenue from mass market table gaming operations comprised 49.1% of the Group's total gaming revenue in 2016, as compared with 45.7% in 2015. SJM had 1,301 mass market gaming tables in operation as at 31 December 2016, as compared with 1,247 mass market gaming tables as at 31 December 2015.



BUSINESS REVIEW

OPERATING RESULTS — SLOT MACHINES AND OTHER GAMING OPERATIONS

| Slot machine operations | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|-------|-------------------------|
| | 2016 | 2015 | |
| Gaming revenue (HK\$ million) | 1,067 | 1,140 | (6.4%) |
| Average daily net-win per slot machine (HK\$) | 1,071 | 1,151 | (6.9%) |
| Average number of slot machines (Average of month-end numbers) | 2,717 | 2,711 | 0.2% |

Gaming revenue from slot machine operations, which includes other electronic gaming machines and the game of Tombola, comprised 2.6% of the Group's total gaming revenue in 2016, compared with 2.4% in 2015. SJM had 2,132 slot machines in service as at 31 December 2016 as compared with 2,645 slot machines as at 31 December 2015.

As at 31 December 2016, SJM operated slot machines in 12 of its casinos.

OPERATING RESULTS — CASINO GRAND LISBOA

SJM's flagship Casino Grand Lisboa showed a decline in revenue and profitability during the year. Visitation to Grand Lisboa decreased during the course of year from an average of 30,118 visitors per day in the first quarter, to an average of 29,215 visitors per day in the fourth quarter.

| Casino Grand Lisboa | For the year ended 31 December | | (Decrease) |
|--|--------------------------------|--------|------------|
| | 2016 | 2015 | |
| Revenue (HK\$ million) | 14,056 | 16,345 | (14.0%) |
| Profit attributable to the Group (HK\$ million) | 1,424 | 1,692 | (15.8%) |
| Adjusted Grand Lisboa EBITDA ³ (HK\$ million) | 1,764 | 2,157 | (18.2%) |
| Adjusted Grand Lisboa EBITDA Margin ⁴ | 12.6% | 13.2% | (0.6%) |

³ Adjusted Grand Lisboa EBITDA is earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, premium on acquisition written off, loss on disposal/write-off of property and equipment, share-based payments, impairment loss on available-for-sale investment in equity securities and assets of a subsidiary, and before elimination of inter-company consumption.

⁴ Adjusted Grand Lisboa EBITDA Margin is Adjusted Grand Lisboa EBITDA divided by revenue.



BUSINESS REVIEW

Operating results of Casino Grand Lisboa are as follows:

| Casino Grand Lisboa | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|---------|-------------------------|
| | 2016 | 2015 | |
| VIP operations | | | |
| Gaming revenue (HK\$ million) | 9,097 | 10,943 | (16.9%) |
| Average daily net-win per VIP gaming table (HK\$) | 198,848 | 199,878 | (0.5%) |
| VIP chips sales (HK\$ million) | 330,274 | 343,670 | (3.9%) |
| Average number of VIP gaming tables (Average of month-end numbers) | 125 | 150 | (16.7%) |
| Mass market operations | | | |
| Gaming revenue (HK\$ million) | 4,570 | 4,998 | (8.6%) |
| Average daily net-win per mass market gaming table (HK\$) | 46,330 | 52,455 | (11.7%) |
| Average number of mass market gaming tables (Average of month-end numbers) | 275 | 271 | 1.5% |
| Slot machine operations | | | |
| Gaming revenue (HK\$ million) | 389 | 404 | (3.7%) |
| Average daily net-win per slot machine (HK\$) | 1,347 | 1,458 | (7.6%) |
| Average number of slot machines (Average of month-end numbers) | 789 | 759 | 4.0% |

Mass market gaming tables operated at Casino Grand Lisboa were 268 tables as at 31 December 2016, the same as 268 tables as at 1 January 2016, whilst VIP tables were reduced from 136 to 124 during the same period.

If calculated under US GAAP, the Adjusted Grand Lisboa EBITDA Margin of Casino Grand Lisboa would be approximately 19.3% for 2016, as compared with 20.3% in 2015 (See "Comparison with United States GAAP Accounting" below).

During 2016, Casino Grand Lisboa attracted a total of over 10.5 million visitors, an average of 28,938 visitors per day, a decrease of 3.5% over the previous year.

As at 31 December 2016, Casino Grand Lisboa operated a total of 692 slot machines. Jackpots are paid frequently, with the total exceeding \$242 million for slot machines and over \$38 million for table games (Caribbean Stud Poker) in 2016.



BUSINESS REVIEW

OPERATING RESULTS — OTHER SELF-PROMOTED CASINOS

Other self-promoted casinos are Casino Lisboa, Casino Oceanus at Jai Alai (including casino area in the Jai Alai building) and Casino Taipa (collectively, "Other Self-promoted Casinos").

| Other self-promoted casinos | For the year ended 31 December | | (Decrease) |
|---|--------------------------------|-------|------------|
| | 2016 | 2015 | |
| Revenue (HK\$ million) | 5,824 | 6,478 | (10.1%) |
| Profit attributable to the Group (HK\$ million) | 414 | 530 | (21.9%) |
| Adjusted EBITDA (HK\$ million) | 618 | 749 | (17.6%) |
| Adjusted EBITDA Margin | 10.6% | 11.6% | (1.0%) |

Operating results of other self-promoted casinos are as follows:

| Other self-promoted casinos | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|---------|-------------------------|
| | 2016 | 2015 | |
| VIP operations | | | |
| Gaming revenue (HK\$ million) | 1,981 | 2,476 | (20.0%) |
| Average daily net-win per VIP gaming table (HK\$) | 186,598 | 165,437 | 12.8% |
| VIP chips sales (HK\$ million) | 57,320 | 66,502 | (13.8%) |
| Average number of VIP gaming tables (Average of month-end numbers) | 29 | 41 | (29.3%) |
| Mass market operations | | | |
| Gaming revenue (HK\$ million) | 3,643 | 3,781 | (3.7%) |
| Average daily net-win per mass market gaming table (HK\$) | 27,882 | 34,059 | (18.1%) |
| Average number of mass market gaming tables (Average of month-end numbers) | 362 | 311 | 16.4% |
| Slot machine operations | | | |
| Gaming revenue (HK\$ million) | 200 | 221 | (9.4%) |
| Average daily net-win per slot machine (HK\$) | 921 | 911 | 1.1% |
| Average number of slot machines (Average of month-end numbers) | 590 | 660 | (10.6%) |

As at 31 December 2016, Casino Lisboa operated a total of 28 VIP gaming tables, 132 mass market gaming tables and 107 slot machines, and Casino Oceanus at Jai Alai operated a total of 200 mass market gaming tables and 338 slot machines. Casino Taipa, which opened in November 2016, operated 5 mass market gaming tables and 109 slot machines. Casino area in the Jai Alai building reopened in December 2016 with 35 mass market gaming tables.

BUSINESS REVIEW

OPERATING RESULTS — SATELLITE CASINOS

As at 31 December 2016, 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 Grandview, Casino Jimei, Casino Kam Pek Paradise, Casino Lan Kwai Fong, Casino L'Arc Macau, Casino Macau Jockey Club, Casino Ponte 16 and Casino Club VIP Legend. (Operations at Casino Greek Mythology have been suspended since 31 December 2015.)

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 163 VIP gaming tables, 661 mass market gaming tables and 886 slot machines, as at 31 December 2016.

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

| Satellite casinos | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|--------|-------------------------|
| | 2016 | 2015 | |
| Revenue (HK\$ million) | 21,393 | 25,459 | (16.0%) |
| Profit attributable to the Group (HK\$ million) | 757 | 640 | 18.3% |
| Adjusted EBITDA (HK\$ million) | 810 | 722 | 12.1% |
| Adjusted EBITDA Margin | 3.8% | 2.8% | 1.0% |

Operating results of satellite casinos in 2015 were materially affected by the suspension of operations of Casino Greek Mythology on 31 December 2015. Excluding the impact of Casino Greek Mythology's suspension, the Adjusted EBITDA Margin of satellite casinos would have been 3.4% for the year ended 31 December 2015.

Operating results of satellite casinos are as follows:

| Satellite casinos | For the year ended 31 December | | Increase/ (Decrease) |
|---|--------------------------------|---------|-------------------------|
| | 2016 | 2015 | |
| VIP operations | | | |
| Gaming revenue (HK\$ million) | 8,856 | 11,645 | (23.9%) |
| Average daily net-win per VIP gaming table (HK\$) | 130,089 | 111,551 | 16.6% |
| VIP chips sales (HK\$ million) | 270,254 | 363,273 | (25.6%) |
| Average number of VIP gaming tables (Average of month-end numbers) | 186 | 286 | (35.0%) |
| Mass market operations | | | |
| Gaming revenue (HK\$ million) | 12,060 | 13,299 | (9.3%) |
| Average daily net-win per mass market gaming table (HK\$) | 49,633 | 55,253 | (10.2%) |
| Average number of mass market gaming tables (Average of month-end numbers) | 665 | 661 | 0.6% |
| Slot machine operations | | | |
| Gaming revenue (HK\$ million) | 477 | 515 | (7.3%) |
| Average daily net-win per slot machine (HK\$) | 974 | 1,092 | (10.8%) |
| Average number of slot machines (Average of month-end numbers) | 1,339 | 1,292 | 3.6% |

BUSINESS REVIEW

NON-GAMING OPERATIONS

For the year ended 31 December 2016, the Grand Lisboa Hotel contributed \$515 million in revenue and \$84 million in Adjusted Grand Lisboa EBITDA to the Group as compared with \$551 million in revenue and \$95 million in Adjusted Grand Lisboa EBITDA for the previous year. The occupancy rate of the hotel, based on 413 average available rooms, averaged 91.7% for the full year, as compared with 83.0% for the previous year, and the average room rate for the full year 2016 was approximately \$1,581 as compared with \$2,030 in 2015. During most of the year, the hotel's room renovation programme was ongoing, resulting in approximately 5% of rooms being out of service. Room renovation was completed in September 2016.



Food and beverage units at the Grand Lisboa Hotel continued to earn international recognition. Amongst numerous awards, French restaurant "Robuchon au Dôme" and Cantonese restaurant "The Eight" were the only restaurants in Macau to receive three stars in the 2017 Michelin Guide. Modern steakhouse "The Kitchen" was also awarded one star. The wine cellars of "Robuchon au Dôme" and "Don Alfonso 1890" received the Grand Award and "The Kitchen" received the Best of Award of Excellence from *Wine Spectator*. "Robuchon au Dôme" was also among the Top 20 Restaurants of 2017 selected by *Hong Kong Tatler*.

Operating results for the Sofitel at Ponte 16, in which SJM's interest is 51%, contributed \$192 million in revenue to the Group in 2016, compared with a contribution of \$214 million in 2015. The occupancy rate of the 408-room hotel averaged 87.6% for the full year 2016 as compared with 89.1% in 2015, whilst average room rate decreased by 12.1% to \$1,059. The Sofitel at Ponte 16 received numerous travel industry awards in 2016, in both business and luxury categories.



Income from all hotel, catering and related services, after inter-company elimination, totaled \$526 million in 2016, a decrease of 9.5% from \$581 million in 2015, due primarily to lower hotel room occupancy and average room rates. Other income, increased to \$239 million from \$19 million during the year, primarily affected by the refund of excess dredging expenses received from Macau SAR Government in 2016 and impairment loss on available-for-sale investment in equity securities incurred in 2015.

CORPORATE SOCIAL RESPONSIBILITY

“From society, to society” is a core value of the SJM Group. In 2016 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.

In November 2016 SJM was awarded the “Leading by Example Excellence Award” for the company’s contributions to the local economy and community by the Business Awards of Macau.

EDUCATION

The SJM Scholarship Programme awards scholarships annually at University of Macau for 10 outstanding students selected by the faculties. SJM also provides four scholarships totaling MOP400,000 for two-year study at University of Macau by postgraduate students from the Mainland.

For children of staff, the SJM Scholarship Programme awards 10 scholarships annually to students, who are each awarded MOP20,000 per year until they finish their studies (up to five years). Ten outstanding students were selected for Year 2016 by the SJM Scholarship Selection Committee. Since its establishment in 2005, the SJM Scholarship Programme has awarded scholarships to 119 children of staff, of whom 76 have graduated.



In addition to offering scholarships to children of staff, SJM also sponsors the full school fees of staff to further their studies at Macau Millennium College, and encourages employees to return to school by completing secondary school education at Millennium Secondary School. Moreover, SJM awards scholarships at local educational institutions and sponsors their activities. In May and December 2016 the SJM Staff Welfare Consultative Committee organised staff participation in patriotic education programmes in Jinggangshan, Jiangxi.

CORPORATE SOCIAL RESPONSIBILITY

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 March 2016 SJM was Platinum Sponsor of the 5th Macau Literary Festival. In November 2016 SJM was a sponsor of the 16th Macau Food Festival, and also of the "Macanese Community Encounter Macau 2016".



SPORTS

In November 2016 SJM continued to be the title sponsor of the Formula 3 racing team, "SJM Theodore Racing", at the 63rd Macau Grand Prix. Driving for SJM Theodore Racing, Felix Rosenqvist scored second place in the 2016 race. SJM also was the title sponsor of the "SJM Macau GT Cup — FIA GT World Cup" for the second consecutive year.



In April 2016 SJM sponsored for the fourteenth consecutive year the SJM Macau Derby at Macau Jockey Club. SJM was also the sponsor of the Grand Lisboa Cup, the Oceanus Cup and the SJM ec card Cup.

SJM provides or subsidises Hong Kong/Macau ferry tickets for sports organisations in Macau such as Macau Special Olympics, Associação de Taekwondo de Macau and Macau Dance Sport Federation for exchanges in Hong Kong. SJM was also a sponsor of the 21st annual Macau Jockey Club Charity Day, held in March 2016. In August 2016 SJM was the title sponsor of the SJM Dragon and Lion Dance Championship of the Wushu Masters Challenge organised by the Sports Bureau of the Macao SAR Government. SJM also sponsored the Macau International Dragon Boat races held in June 2016.



CORPORATE SOCIAL RESPONSIBILITY

RESPONSIBLE GAMING

SJM launched a series of Responsible Gaming (“RG”) promotions in 2016, including RG myth story writing competition, lucky draw, and RG Team Member Awards Ceremony, activities aiming to enhance staff members’ awareness of problem gambling.

In conjunction with Yat On Responsible Gambling Counselling Centre, SJM provided RG training for 156 RG Team Members and over 15,000 frontline Operations, Marketing and Security Department personnel in 2016. In addition, all new frontline hires receive RG training as part of their orientation. Also in 2016, 17 RG Team Members completed and received their certificates for the Macau Responsible Gambling Advisor course, and two Trainers completed and received the certificates for the Advanced Macau Responsible Gambling Advisor course. The SJM team was the second runner-up of the Third Responsible Gaming Quiz Competition organised by DICJ, Social Welfare Bureau of the Macao SAR Government, and the Institute for the Study of Commercial Gaming at the University of Macau.



OTHER COMMUNITY ACTIVITIES IN 2016



In November 2016 SJM hosted the 10th Charity Auction and Dinner at Grand Lisboa, which raised funds for charities in Macau. SJM was the successful bidder for the featured item of the auction, with all money raised donated to local charities including Tung Sin Tong Charitable Society, Kiang Wu Hospital Charitable Association, Obra das Mães, Macau Special Olympics, Macau Holy House of Mercy, Charity Fund From The Readers of Macao Daily News (2016 Walk for a Million in Macau), Caritas de Macau (2017 Caritas Macau Charity Bazaar), Yat On Responsible Gambling Counselling Centre, Macau Social Services Centre and Macau Association of the Hearing Impaired.

Also in December 2016 SJM donated to the annual “Walk for a Million in Macau” charity event, and over 4,000 SJM staff and directors participated in the Walk.

Other community events sponsored by SJM in 2016 include the Global Tourism Economy Forum • Macau 2016, and participation in the Float Parade of the Year of the Monkey, hosted by the Macao Government Tourism Office.



CORPORATE SOCIAL RESPONSIBILITY

OTHER COMMUNITY ACTIVITIES IN 2016 (Continued)

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 and Associação dos Macaenses.

In August 2015, SJM established the SJM Volunteer Team to encourage and organise volunteer activities by employees. During the year, more than 500 SJM staff members were frequent volunteers to help the needy in society, working with such organisations as the Social Welfare Bureau of the Macau SAR Government, the Social Work Department of the Liaison Office of the Central People's Government in the Macau SAR, the Macau Social Services Centre, Macau Special Olympics, Macau Association of the Hearing Impaired, the Youth Volunteer Association of Macau and SJM Theodore Racing.

In December 2016 ten SJM staff members received recognition for their contributions to the community at the 8th International Volunteer Recognition Ceremony hosted by the Macao Youth Volunteers Association and one ranked Number One among the 10 Best Volunteers in the Gaming Industry.



SUPPORT FOR MACAU'S SMEs

SJM is a long-term supporter of local SMEs. In 2016, 92% of the total procurement amount of SJM is from local SMEs. To support the Macau SAR Government's policy on prioritising purchases from local SMEs, SJM jointly launched the "SJM and Macau SME Procurement Partnership Programme" with the Macao Chamber of Commerce in August 2016. The first Business Matching Session was held on 19 September, offering MOP80 million worth of business opportunities in two categories of products and services, namely "Hotel Operating Supplies" and "Food and Beverage", of which MOP9 million was allocated to "Micro Enterprise", "Made in Macau" and "Young Entrepreneur" business. The second Business Matching Session was held on 1 December, offering MOP200 million worth of business opportunities in seven categories, namely "Gaming Operations", "Information Technology", "Marketing", "Services", "Maintenance and Renovation", "Hotel Operating Supplies" and "Food and Beverage", of which MOP28 million was reserved for "Micro Enterprise", "Made in Macau" and "Young Entrepreneur" business. Since the programme was launched and up to 31 December 2016, 776 newly-enrolled SMEs indicated interest in collaborating with SJM, and SJM completed transactions with 361 of them. Total procurement amount was MOP120 million.



PROSPECTS AND RECENT DEVELOPMENTS

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

OUTLOOK

The Group's performance in 2017 and over the medium term is susceptible to the overall economic performance of the surrounding region, government regulatory policies, and the level of visitation to Macau, as well as to the competitive situation among the casino operators in Macau. During this period, the Group is committed to maintaining its strength in both the mass market and VIP gaming sectors while striving to improve its operating efficiency.

Whilst it is not clear how long the conditions which inhibited gaming revenue growth during the past three years will continue, the Group remains optimistic about its future prospects, given the potential for 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.

RECENT EVENTS AND CURRENT INITIATIVES

In pursuit of the Group's strategy of growing its business through expansion of casino and casino-related operations in Macau and improvement in the operating efficiency of existing business units, the Group has been and is progressing on a number of initiatives in 2016 and 2017, which are described below.

Grand Lisboa Palace

Construction of the Grand Lisboa Palace, SJM's future integrated resort on Cotai, which began on 13 February 2014, made good progress in 2016, and the Group anticipates opening the project in the first half of 2018.

Upon completion, the Grand Lisboa Palace will comprise total gross floor area of 521,435 square metres plus 77,158 square metres of parking area. More than 90% of the total area will be devoted to a full range of non-gaming facilities, including hotel towers bearing the insignia "Grand Lisboa Palace", "Palazzo Versace" and "Karl Lagerfeld", totaling approximately 2,000 rooms, plus facilities for meetings and conferences, shopping, dining and entertainment, and a casino, at an estimated total project cost of approximately \$36 billion.

During the year ended 31 December 2016, certain banks had offered syndicated bank facilities of \$25 billion to the Group primary to finance the construction costs of the Grand Lisboa Palace. The Group is currently seeking the required approval by the Macau SAR Government and expects to conclude the arrangements in early 2017.

As at 31 December 2016, SJM had entered into capital commitments in connection with the Grand Lisboa Palace project with a total value of approximately \$21.2 billion.

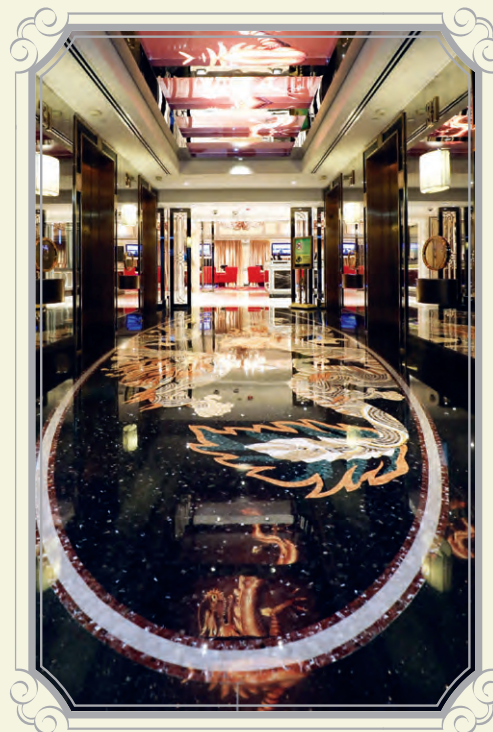


Construction in progress (photo taken in April 2017)

PROSPECTS AND RECENT DEVELOPMENTS

Casino Grand Lisboa

In August 2016, renovation work on the ground floor of Casino Grand Lisboa was completed. The renovated area now comprises a more inviting entrance, new retailing space and space for additional gaming tables. In March 2017, a new dragon-themed VIP Premium area will be opened on the 31st floor of Grand Lisboa. A high-end gaming experience for our Dragon Club card members, the area will have 7 gaming tables, 12 slot machines, 10 hotel rooms, a club lounge and outdoor terraces for guests.



Hotel Grand Lisboa

Hotel Grand Lisboa completed a room renovation programme which was the first major overhaul and updating of accommodation since the opening of the hotel in 2009. The programme, which began in the summer of 2014, kept approximately 5% of rooms out of services until September 2016.

Jai Alai Renovation

SJM reopened the casino area in the Jai Alai building in December 2016 and later in 2017 will open the Hotel Jai Alai, with 132 rooms, plus restaurants and retail shops, which will enhance the business of Casino Oceanus at Jai Alai, which include the casino areas in Oceanus and Jai Alai building.



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 \$13,161 million (not including \$408 million pledged bank deposits) as at 31 December 2016. This represented a decrease of 21.7% as compared with the position as at 31 December 2015 of \$16,814 million. The decrease was mainly attributable to cash outflows for dividends and capital expenditure during the year.

Total outstanding balances of bank loans drawn by the Group as at 31 December 2016 amounted to \$539 million (as at 31 December 2015: \$713 million). The maturity of the Group's borrowings as at 31 December 2016 is as follows:

| Within 1 year | Maturity Profile 1–2 years | Total |
|----------------------|---------------------------------------|--------------|
| 100% | Not applicable | 100% |

GEARING RATIO

The Group's gearing ratio (defined as the ratio of total outstanding bank loans less bank balances and cash to total assets (excluding bank balances and cash)) was zero at the end of 2016 (as at 31 December 2015: zero).

CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure commitments by the Group amounted to \$21.4 billion as at 31 December 2016 (as at 31 December 2015: \$25.2 billion), of which \$21.2 billion were for the Grand Lisboa Palace project. As at 31 December 2016, the Group was in construction of the Grand Lisboa Palace, with an estimated total project cost of approximately \$36 billion, including capital expenditure commitments to date.

The Grand Lisboa Palace project and future projects 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 2016, certain of the Group's property and equipment and land use rights with carrying values of \$753 million and \$63 million, respectively (as at 31 December 2015: \$883 million and \$68 million, respectively), were pledged to banks for loan facilities. In addition, the Group had pledged bank deposits of \$408 million as at 31 December 2016 (2015: \$505 million).

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2016, the total amount of guarantees of the Group given to banks of \$87 million (2015: \$87 million), which were guarantees in respect of credit facilities granted to an associate and an investee company. The Group had no significant contingent liabilities as at 31 December 2016.

FINANCIAL REVIEW

FINANCIAL RISK

The Group follows a conservative policy in financial management with minimal exposure to the risks of currency and interest rate. The Group does not currently hedge its interest rate exposure, although it may consider doing so in the future. As at 31 December 2016, the equivalent of approximately \$260 million of the Group's outstanding borrowings were denominated in Chinese Yuan, of which the foreign exchange risk has been fully set off with a matching amount of deposits. The Group's principal operations are primarily conducted and recorded in Hong Kong dollars resulting in minimal exposure to foreign exchange fluctuations. Over 98% of the Group's bank deposits are denominated in Hong Kong dollars, United States dollars or Macau patacas. It is the Group's policy to avoid speculative trading activity.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group made no material acquisitions or material disposals of subsidiaries and associated companies during the year ended 31 December 2016.

HUMAN RESOURCES

As at 31 December 2016, the Group had approximately 20,600 full-time employees. The Group's employee turnover rate was minimal in 2016.

Staff remuneration of the Group is determined by reference to their working performance, professional qualification, relevant working experience and 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 12.6% for the year ended 31 December 2016, as compared with HK GAAP which gives an Adjusted EBITDA Margin of 8.2% for the same period.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Ho Hung Sun, Stanley, aged 95, was appointed a director of the Company in 2006 and is currently the Chairman and an Executive Director of the Company. Dr. Ho has been a member of the Executive Committee of the board of directors of the Company (the "Board") since 2009. He is a director of Sociedade de Jogos de Macau, S.A. ("SJM") and was the Managing Director of SJM from 2001 to 2010. Dr. Ho is also a director of a number of principal subsidiaries of the Company.

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

Dr. Ho was a Standing Committee member of the 9th, 10th and 11th National Committee of the Chinese People's Political Consultative Conference.

Dr. Ho is the honorary life president of The Real Estate Developers Association of Hong Kong, an honorary member of The Hong Kong Polytechnic University Court, 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 consultant to 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

EXECUTIVE DIRECTORS (Continued)

Dr. So Shu Fai, aged 65, 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 Chairman of the Executive Committee of the Board since 2009. He was the Chairman of each of the Remuneration Committee and the Nomination Committee of the Board from 2008 to 2012 and thereafter a member of the said committees. Dr. So has been a director of SJM and a member of the senior management of SJM since 2002, and was elected as the chairman of the board of directors of SJM in 2013. He is a director of a number of principal subsidiaries, an associate and a joint venture of the Company. Dr. So joined STDM in 1976 and has over 40 years of experience in the casino business.

Dr. So is an executive director of China Merchants Land Limited, a company listed on the HKSE Main Board. He was an independent non-executive director of SHK Hong Kong Industries Limited, a company listed on HKSE Main Board until June 2015. Dr. So is also a director of Estoril-Sol, SGPS, S.A. which is listed on Euronext Lisbon and the chairman of the board of directors of MACAUPORT — Sociedade de Administração de Portos, S.A.

Dr. So is a member of the 12th National Committee of the Chinese People's Political Consultative Conference ("CPPCC"), a member of the Committee of Foreign Affairs of the National Committee of CPPCC, the honorary consul of the Republic of Portugal in Hong Kong SAR, as well as a consultant of the Economic Development Council and a member of the Cultural Consultative Council of the Macau SAR Government. He 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 10th National Committee of the China Federation of Literary and Art Circles.

Dr. So was awarded the Honorary University Fellowship by The University of Hong Kong in 2005, the Medal of Merit — Culture by the Macau SAR Government in 2009 and the Doctor of Social Sciences *honoris causa* by the University of Macau in 2012. He was conferred as Comendador da Ordem do Mérito by the Portuguese Government in 2014.

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (Continued)

Mr. Ng Chi Sing, aged 65, was appointed a director of the Company in 2006 and is currently the Chief Operating Officer and an Executive Director of the Company. He has been a member of the Executive Committee of the Board since 2009. Mr. Ng has been a director and the Chief Operating Officer of SJM since 2002. He is responsible for overseeing SJM's operations. He is also a director of a number of principal subsidiaries of the Company and a director of a joint venture of the Company.

Mr. Ng joined STDM in 1978 and has more than 39 years of experience in the casino business. He served as the deputy general manager for Casino Administration and Operations of STDM from 1999 to 2002. He is a Standing Committee member of the 12th Shanghai Municipal Committee of CPPCC.

Mr. Ng was awarded as Chevalier dans l'Ordre National du Mérite by the French Government in 2015.

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). He is a fellow member of The Hong Kong Institute of Directors.

Dr. Rui José da Cunha, aged 75, was appointed a director of the Company in 2006 and is currently an Executive Director of the Company. He has been a director of SJM since 2001 and is also a director of a number of principal subsidiaries of the Company. He is the company secretary and secretary of the general meeting of certain of principal subsidiaries of the Company. As the Company Secretary of SJM since 2003, Dr. Cunha is responsible for overseeing the company secretarial and legal affairs of SJM.

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

Dr. Cunha was conferred as Comendador da Ordem do Mérito by the Portuguese Government in 2014.

Dr. Cunha graduated in 1964 from the University of Lisbon, Portugal. He is a fellow member of The Hong Kong Institute of Directors.

Mr. Fok Tsun Ting, Timothy, aged 71, was appointed an Executive Director of the Company in 2010. He has been a director of SJM since 2014.

Mr. Fok is the chairman of Fok Ying Tung Group and the chairman of Fok Ying Tung Foundation. He is a member of the National Committee of CPPCC, a vice-chairman of the Committee of Education, Science, Culture, Health and Sports 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 - East Asia of the Olympic Council of Asia and the president of the Hong Kong Football Association.

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. He is currently a Justice of the Peace in Hong Kong.

Mr. Fok was educated at the University of Southern California, U.S.A. He is a fellow member of The Hong Kong Institute of Directors.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (Continued)

Deputada Leong On Kei, Angela, aged 55, has been an Executive Director of the Company since 2007. She has been a member of each of the Remuneration Committee and the Nomination Committee of the Board since 2008 and a member of the Executive Committee of the Board since 2009. Deputada Leong has been the Chairman of the Staff Welfare Consultative Committee of SJM since 2005, a director of SJM since 2007, the Managing Director of SJM since 2010, and Chief Administrative Officer of SJM since 2014. She has been a director of STDM since 2005.

Deputada Leong is actively involved in public and community services in China, Hong Kong and Macau. She is a Standing Committee member of the Jiangxi Provincial Committee of CPPCC, and a vice-chairman of Jiangxi Federation of Returned Overseas Chinese. In 2005, 2009 and 2013, respectively, Deputada Leong was elected a member of the 3rd, 4th and 5th Legislative Assemblies of the Macau SAR. She is currently the president of the General Association of Administrators and Promoters for Macau Gaming Industry. Deputada Leong was a Standing Committee member of Zhuhai Municipal Committee of CPPCC until December 2016. She was a director of Po Leung Kuk from 2005 to 2015, a vice-chairman of Po Leung Kuk from 2011 to 2014, the chairman of Po Leung Kuk from 2014 to 2015 and a member of Advisory Board of Po Leung Kuk from 2015 to 2016.

Deputada Leong was awarded the Medal of Merit — Industry and Commerce by the Macau SAR Government in 2009. She was awarded the Bronze Bauhinia Star by the Hong Kong SAR Government in 2015.

Deputada Leong is a fellow member of The Hong Kong Institute of Directors.

Mr. Shum Hong Kuen, David, aged 62, has been an Executive Director of the Company since 2007. He has been a member of each of the Nomination Committee and the Executive Committee of the Board since 2008 and 2009 respectively. He is also a director of a subsidiary of the Company. Mr. Shum has been a director of SJM since 2007 and of Sociedade de Turismo e Desenvolvimento Insular S.A.R.L. since 1998. He 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. He is a fellow member of the Hong Kong Institute of Directors.

NON-EXECUTIVE DIRECTOR

Dr. Cheng Kar Shun, aged 70, has been a Non-executive Director of the Company since 2013. He has been a director of SJM since 2013.

Dr. Cheng is the chairman and executive director of New World Development Company Limited, Chow Tai Fook Jewellery Group Limited, NWS Holdings Limited and International Entertainment Corporation, the chairman and non-executive director of New World Department Store China Limited, Newton Resources Ltd and FSE Engineering Holdings Limited, and an independent non-executive director of Hang Seng Bank Limited and HKR International Limited, all of them are companies listed on the HKSE Main Board.

Dr. Cheng is the chairman and managing director of New World China Land Limited, which was listed on the HKSE Main Board and has been withdrawn from listing since August 2016. He was a non-executive director of Lifestyle International Holdings Limited (listed on HKSE Main Board) until May 2015.

Dr. Cheng is the chairman of the Advisory Council for The Better Hong Kong Foundation and a standing committee member of the 12th National Committee of CPPCC. In 2001, he was awarded the Gold Bauhinia Star by the Hong Kong SAR Government.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Tak Hay, aged 74, has been an Independent Non-executive Director of the Company since 2007 and a member of the Audit Committee of the Board since 2008, a member of the Remuneration Committee of the Board since 2010, and a member of the Nomination Committee of the Board since 2008 and thereafter appointed as the Chairman of the said committee in 2012.

Mr. Chau has been an independent non-executive director of Tradelink Electronic Commerce Limited (listed on the HKSE Main Board) since 2009 and an independent non-executive director of Wheelock and Company Limited (listed on HKSE Main Board) since 2012.

Mr. Chau graduated from The University of Hong Kong in 1967.

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. He was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2002.

Dr. Lan Hong Tsung, David, aged 76, has been an Independent Non-executive Director of the Company since 2007, and a member of the Nomination Committee of the Board since 2008, a member of the Audit Committee of the Board since 2010, and a member of the Remuneration Committee of the Board since 2008 and thereafter appointed as the Chairman of the said committee in 2012.

Dr. Lan is the Chairman of David H T Lan Consultants Ltd., the Senior Advisor of Mitsui & Co (HK) Ltd., an independent non-executive director of Nanyang Commercial Bank, Ltd., a supervisor of Nanyang Commercial Bank (China), Limited and the President of The International Institute of Management. He is also an independent non-executive director of Cheung Kong Infrastructure Holdings Limited and Hutchison Telecommunications Hong Kong Holdings Limited, each of which is listed on the HKSE Main Board, as well as an independent non-executive director and Chairman of Audit Committee of ARA Asset Management (Prosperity) Limited, the manager of HKSE Main Board listed Prosperity Real Estate Investment Trust. Dr. Lan was an independent non-executive director of Hutchison Harbour Ring Limited (now known as "China Oceanwide Holdings Limited") listed on the HKSE Main Board, until December 2014 and was the non-executive director and the co-chairman of Aurum Pacific (China) Group Limited, listed on the HKSE Growth Enterprise Market, for the period from March 2015 to October 2015. He has been 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 until 1 January 2017.

In 2000, Dr. Lan was awarded the Gold Bauhinia Star by the Hong Kong SAR Government for his 39 year-long civil service when he retired as the Secretary for Home Affairs. He was appointed to the 10th and 11th sessions of the National Committee Member of the Chinese People's Political Consultative Conference.

Dr. 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). Dr. Lan was conferred with Doctor of Humanities (Honoris Causa) by Don Honorio Ventura Technological State University and Visiting Professorship awarded by Bulacan State University and Tarlac State University.

Dr. Lan is a Chartered Secretary and a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He is also a fellow member of The Hong Kong Institute of Directors.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Hon. Shek Lai Him, Abraham, aged 71, has been an Independent Non-executive Director of the Company since 2007, and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board since 2008.

Hon. Shek is the chairman and an independent non-executive director of Chuang's China Investments Limited and the vice-chairman and an independent non-executive director of ITC Properties Group Limited, both companies are listed on the HKSE Main Board. 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 Consortium International Limited, Cosmopolitan International Holdings Limited, Country Garden Holdings Company Limited, Goldin Financial Holdings Limited, Hop Hing Group Holdings Limited, ITC Corporation Limited, Lai Fung Holdings Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, MTR Corporation Limited, NWS Holdings Limited and Paliburg Holdings Limited. Hon. 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.

Hon. Shek was an independent non-executive director of Hsin Chong Construction Group Ltd., Titan Petrochemicals Group Limited and TUS International Limited, all of which are listed on the HKSE Main Board, until May 2014, February 2014 and January 2017 respectively. He is an independent non-executive director of Dorsett Hospitality International Limited, which was listed on the HKSE Main Board and has been withdrawn from listing since October 2015.

Hon. Shek graduated from the University of Sydney with a Bachelor of Arts degree and a Diploma in Education.

Hon. Shek is a member of the Legislative Council of the Hong Kong SAR representing the real estate and construction functional constituency since 2000. He was appointed a Justice of the Peace in 1995, was awarded Silver Bauhinia Star and Gold Bauhinia Star by Hong Kong SAR Government in 2007 and 2013 respectively, and was awarded the Honorary University Fellowship by The University of Hong Kong in 2016. He is also the chairman and an independent member of English Schools Foundation, a court member of the Hong Kong University of Science and Technology, a non-executive director of the Mandatory Provident Fund Schemes Authority, a court and council member of The University of Hong Kong and a member of the advisory committee on Corruption of the Independent Commission Against Corruption. He was a director of The Hong Kong Mortgage Corporation Limited up to April 2016.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. Tse Hau Yin, aged 69, has been an Independent Non-executive Director of the Company since 2007, the Chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Board since 2008. He is the chairman of the Supervisory Committee of SJM and a number of its subsidiary companies.

Mr. Tse is an independent non-executive director of China Huarong Asset Management Company, Limited, China Telecom Corporation Limited, CNOOC Limited and Sinofert Holdings Limited, all of which are listed on the HKSE Main Board. Mr. Tse is also an independent non-executive director of OCBC Wing Hang Bank Limited, which was listed on the HKSE Main Board until October 2014. He was an independent non-executive director of Daohe Global Group Limited (listed on the HKSE Main Board) from May 2005 to December 2016.

Mr. Tse joined KPMG in 1976, became a partner in 1984 and retired in 2003. Between 1997 and 2000, he served as the non-executive chairman of KPMG's operations in China and was a member of the KPMG China Advisory Board. Mr. Tse 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. He is a fellow of the Institute of Chartered Accountants in England and Wales, and a fellow member, past president and a former member of the Audit Committee of the Hong Kong Institute of Certified Public Accountants. Mr. Tse is also a registered auditor in Macau. He is a fellow member of The Hong Kong Institute of Directors.

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 2016 and up to 31 December 2016 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.

DIRECTORS' REPORT

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

The Directors of the Company have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2016 (the "Financial Statements").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, whilst its operating subsidiary, SJM conducts casino gaming operations and gaming-related activities in Macau.

An analysis of the revenues and the results of the Group by operating segment during the financial year is set out in note 5 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 44 to the Financial Statements.

FINANCIAL RESULTS

The profit of the Group for the year ended 31 December 2016 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 103 to 179.

DIVIDENDS

An interim dividend of HK6 cents per Share for the six months ended 30 June 2016 (six months ended 30 June 2015: HK10 cents per Share) was paid on 14 September 2016.

The Board recommends a final dividend of HK18 cents per Share (2015: HK15 cents per Share) in respect of the year ended 31 December 2016, which is subject to approval at the forthcoming annual general meeting of the Company to be held on 13 June 2017 (the "2017 AGM").

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 33 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 2016 amounted to \$6,846.3 million (31 December 2015: \$6,331.8 million).

DONATIONS

Donations made by the Group during the year amounted to \$3.4 million (31 December 2015: \$1.6 million).

DIRECTORS' REPORT

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the sections headed "Business Review" and "Prospects and Recent Developments" on pages 8 to 15 and pages 20 and 21 of this Annual Report, respectively.

The financial risk management objectives and policies of the Group are shown in the section headed "Financial Review" on pages 22 and 23 and note 39 to the Financial Statements.

The environmental policies and performance of the Group and its compliance with relevant laws and regulations are set out in the "Environmental, Social and Governance Report" on pages 87 to 96 of this Annual Report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the "Corporate Governance Report" on pages 65 to 86 of this Annual Report.

FIVE-YEAR 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 2016 is set out on page 180 of this Annual Report.

CLOSURE OF REGISTER OF MEMBERS FOR 2017 AGM

| | |
|---|--|
| Book close dates for 2017 AGM | : 9 June 2017 to 13 June 2017 (both days inclusive) |
| Last share registration date for 2017 AGM | : 8 June 2017 |
| Latest time to lodge transfer documents with the Company's share registrar | : 4:30 p.m. on Thursday, 8 June 2017 |
| Name and address of the Company's share registrar | : Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17 th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong |
| Date and time of 2017 AGM | : 2:30 p.m. on Tuesday, 13 June 2017 |
| Deadline and address for submission of proxy form for 2017 AGM | : 2:30 p.m. on Saturday, 10 June 2017 Suites 3001–3006, 30 th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong or via email at comsec@sjmholdings.com |

DIRECTORS' REPORT

RECORD DATE FOR PROPOSED FINAL DIVIDEND

| | |
|---|--|
| Record date for proposed final dividend | : 16 June 2017 |
| Latest time to lodge transfer documents with the Company's share registrar | : 4:30 p.m. on Friday, 16 June 2017 |
| Name and address of the Company's share registrar | : Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17 th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong |
| Expected payment date | : 28 June 2017 (if approved at the 2017 AGM) |

MAJOR SUPPLIERS AND CUSTOMERS

Major 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, 39.92% of the Group's purchases was attributable to the Group's five largest suppliers combined as below:

- (i) Zhen Hwa Harbour Construction Company Limited (an associate of the Company that is 49% owned by SJM), which provides SJM with construction services, accounted for 19.60% of the Group's total purchases;
- (ii) Jebsen Consultants & Engineering Company Limited which provides SJM with construction services, accounted for 6.86% of the Group's total purchases;
- (iii) Iao Lek Engineering Company Limited which provides SJM with construction services, accounted for 5.42% of the Group's total purchases;
- (iv) Wah Shing Engineering (Macau) Limited which provides SJM with construction services, accounted for 4.56% of the Group's total purchases; and
- (v) Tsinghua CH Consortium which provides SJM with construction services, accounted for 3.48% of the Group's total purchases.

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

Major Customers

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

DIRECTORS' REPORT

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 13 and 14, respectively, to the Financial Statements.

MAJOR PROPERTIES

Details of major properties of the Group as at 31 December 2016 are as follows:

| Property | Location | Use | Site area (sq.m.) | Gross floor area/saleable area (sq.m.) | Group interest |
|--|--|--|-------------------|--|----------------|
| Grand Lisboa Palace (under development with expected completion in 2017) | A plot of land located in the Cotai area of Macau, adjacent to Avenida do Aeroporto and Rua de Ténis | A complex containing hotel with gaming area | 70,468 | 521,435 | 100% |
| Grand Lisboa Hotel and Casino Complex | Avenida do Infante D. Henrique, N° S/N, Macau | Gaming operation, hotel operation and commercial use | 11,626 | 135,442 | 100% |
| Ponte 16 | Rua das Lorchas, N° S/N ; Rua do Visconde Paço de Arcos, N° S/N, Macau | Gaming operation, hotel operation and commercial use | 23,066 | 126,500 | 51% |
| Centro Internacional de Macau | Rua do Terminal Marítimo, N°s 93-103, Edifício I – Bloco V, Macau | Staff quarters | — | 5,582.72 | 100% |
| Portion of Casino Lisboa | Basement, G/F, 1/F, 2/F, 3/F of Hotel Lisboa, Praça Ferreira do Amaral, N°s 1-5, Macau | Gaming operation | — | 7,585.72 | 100% |

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 28 to the Financial Statements.

CAPITALISATION OF BORROWING COSTS

Borrowing costs capitalised by the Group during the year amounted to \$19.7 million (2015: \$36.4 million).

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 31 to the Financial Statements.

DIRECTORS' REPORT

SHARE OPTION SCHEME

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

Principal terms of the Scheme

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 32,299,000 Shares, representing approximately 0.57% of the total number of Shares in issue. |
| Maximum entitlement of each participant | : | <p>In any 12-month period (including the proposed grant date):</p> <p>(a) For participants excluding substantial Shareholders, Independent Non-executive Directors or their respective associates:</p> <p>1% of the number of Shares in issue as at the proposed grant date (including the total number of Shares already issued and those which may fall to be issued upon exercise of Options granted and to be granted to him under the Scheme and any other share option scheme(s) of the Company and/or any subsidiary)</p> <p>(b) For substantial Shareholders, Independent Non-executive Directors or their respective associates:</p> <p>(i) 0.1% of the number of Shares in issue as at the proposed grant date (including the total number of Shares already issued and those which may fall to be issued upon exercise of Options granted and to be granted to him under the Scheme and any other share option scheme(s) of the Company and/or any subsidiary); or</p> <p>(ii) not exceeding \$5 million in aggregate value based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on each relevant date on which the grant of Options is made.</p> |

DIRECTORS' REPORT

SHARE OPTION SCHEME (Continued)

Principal terms of the Scheme (Continued)

| | | |
|--|---|--|
| Period within which the Shares must be taken up under an Option | : | The Board may in its absolute discretion determine, save that such period shall expire on the last day of nine years commencing on the date falling six months after the date of grant. |
| Minimum period for which an Option must be held before it can be exercised | : | Such minimum period under the Scheme is six months from the date of grant. At the time of grant of Options, the Board may specify longer minimum period(s) for which Options must be held before they can be exercised. |
| Amount payable on acceptance of the Option | : | \$1 |
| Period within which payments or calls must or may be made or loans for such purposes must be repaid | : | Payable within 28 days from the date of the letter containing the grant, provided that no such grant shall be open for acceptance after the expiry or termination of the Scheme |
| Basis of determining the exercise price | : | 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 higher of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the grant date, which must be a business day; and (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. |
| Remaining life of the Scheme | : | The Scheme will remain in force for a period of 10 years commencing on the adoption date. |

Number of Shares issued or to be issued and consideration received or to be received under the Scheme

During the year, 450,000 Options were exercised, and a total of \$1,269,000 were received by the Company as the proceeds for allotment and issue of 450,000 Shares.

As at 31 December 2016, 471,085,000 Options were granted under the Scheme with 275,500,000 Options were exercised, and a total of \$1,846,871,400 were received by the Company as the proceeds for the allotment and issue of 275,500,000 Shares.

Excluding 3,384,000 Options lapsed, there were 192,201,000 Options outstanding as at 31 December 2016 (including 45,004,000 Options not yet vested on that date). If all those outstanding share options were exercised, a total of \$2,426,588,662 would be received by the Company as the proceeds for the allotment and issue of 192,201,000 Shares.

DIRECTORS' REPORT

SHARE OPTION SCHEME (Continued)

Movement of Options granted

Details of the movement in Options granted under the Scheme during the year ended 31 December 2016 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 2016 |
|----------------------------------|----------------------------|---|-------------------------------|----------------------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------------------------|
| | | | | Outstanding as at 1 January 2016 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | |
| Directors: | | | | | | | | | |
| Ho Hung Sun, Stanley | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 1,667,000 | — | — | — | — | 1,667,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 1,667,000 | — | — | — | — | 1,667,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 1,666,000 | — | — | — | — | 1,666,000 |
| Cheng Kar Shun | 8 October 2013 (Note 5) | 8 April 2014 to 7 April 2023 | \$22 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 8 October 2013 (Note 5) | 8 April 2015 to 7 April 2023 | \$22 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 8 October 2013 (Note 5) | 8 April 2016 to 7 April 2023 | \$22 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| Chau Tak Hay | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 167,000 | — | — | — | — | 167,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 167,000 | — | — | — | — | 167,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 166,000 | — | — | — | — | 166,000 |
| Lan Hong Tsung, David | 17 March 2011 (Note 4) | 17 September 2011 to 16 September 2020 | \$12.496 | 500,000 | — | — | — | — | 500,000 |
| | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 167,000 | — | — | — | — | 167,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 167,000 | — | — | — | — | 167,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 166,000 | — | — | — | — | 166,000 |
| Shek Lai Him, Abraham | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 167,000 | — | — | — | — | 167,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 167,000 | — | — | — | — | 167,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 166,000 | — | — | — | — | 166,000 |

DIRECTORS' REPORT

SHARE OPTION SCHEME (Continued)

Movement of Options granted (Continued)

| Name or category of participants | Date of grant | Exercise period | Exercise price per Share (\$) | Number of Options | | | | | Balance as at 31 December 2016 |
|----------------------------------|----------------------------|---|-------------------------------|----------------------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------------------------|
| | | | | Outstanding as at 1 January 2016 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | |
| Tse Hau Yin | 17 March 2011 (Note 4) | 17 September 2011 to 16 September 2020 | \$12.496 | 500,000 | — | — | — | — | 500,000 |
| | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 167,000 | — | — | — | — | 167,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 167,000 | — | — | — | — | 167,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 166,000 | — | — | — | — | 166,000 |
| So Shu Fai | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 11,667,000 | — | — | — | — | 11,667,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 11,667,000 | — | — | — | — | 11,667,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 11,666,000 | — | — | — | — | 11,666,000 |
| Ng Chi Sing | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 10,667,000 | — | — | — | — | 10,667,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 10,667,000 | — | — | — | — | 10,667,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 10,666,000 | — | — | — | — | 10,666,000 |
| Rui José da Cunha | 17 March 2011 (Note 4) | 17 September 2011 to 16 February 2020 | \$12.496 | 3,000,000 | — | — | — | — | 3,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| Fok Tsun Ting, Timothy | 31 August 2010 (Note 3) | 28 February 2011 to 16 February 2020 | \$7.48 | 3,000,000 | — | — | — | — | 3,000,000 |
| | 17 March 2011 (Note 4) | 17 September 2011 to 16 February 2020 | \$12.496 | 3,000,000 | — | — | — | — | 3,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |

DIRECTORS' REPORT

SHARE OPTION SCHEME (Continued)

Movement of Options granted (Continued)

| Name or category of participants | Date of grant | Exercise period | Exercise price per Share (\$) | Number of Options | | | | | Balance as at 31 December 2016 |
|---|----------------------------|--------------------------------------|-------------------------------|----------------------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------------------------|
| | | | | Outstanding as at 1 January 2016 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | |
| Leong On Kei, Angela | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 10,000,000 | — | — | — | — | 10,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 10,000,000 | — | — | — | — | 10,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 10,000,000 | — | — | — | — | 10,000,000 |
| Shum Hong Kuen, David | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 3,000,000 | — | — | — | — | 3,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 1,000,000 | — | — | — | — | 1,000,000 |
| Sub-total (Directors): | | | | 132,000,000 | — | — | — | — | 132,000,000 |
| Associates (as defined in the Listing Rules) of Directors (who are also Employees): | | | | | | | | | |
| Fung Ho Yuen Hung, Nanette | 8 October 2013 (Note 5) | 8 April 2014 to 7 April 2023 | \$22 | 67,000 | — | — | — | — | 67,000 |
| | 8 October 2013 (Note 5) | 8 April 2015 to 7 April 2023 | \$22 | 67,000 | — | — | — | — | 67,000 |
| | 8 October 2013 (Note 5) | 8 April 2016 to 7 April 2023 | \$22 | 66,000 | — | — | — | — | 66,000 |
| | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 20,000 | — | — | — | — | 20,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 20,000 | — | — | — | — | 20,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 20,000 | — | — | — | — | 20,000 |
| Huen Wai Kei | 8 October 2013 (Note 5) | 8 April 2014 to 7 April 2023 | \$22 | 67,000 | — | — | — | — | 67,000 |
| | 8 October 2013 (Note 5) | 8 April 2015 to 7 April 2023 | \$22 | 67,000 | — | — | — | — | 67,000 |
| | 8 October 2013 (Note 5) | 8 April 2016 to 7 April 2023 | \$22 | 66,000 | — | — | — | — | 66,000 |
| | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 20,000 | — | — | — | — | 20,000 |
| | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 20,000 | — | — | — | — | 20,000 |
| | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 20,000 | — | — | — | — | 20,000 |
| Sub-total (Associates of Directors (who are also Employees)): | | | | 520,000 | — | — | — | — | 520,000 |

DIRECTORS' REPORT

SHARE OPTION SCHEME (Continued)

Movement of Options granted (Continued)

| Name or category of participants | Date of grant | Exercise period | Exercise price per Share (\$) | Number of Options | | | | | Balance as at 31 December 2016 |
|----------------------------------|----------------------------|---|-------------------------------|----------------------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------------------------|
| | | | | Outstanding as at 1 January 2016 | 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 | 2,290,000 | — | (450,000) | — | — | 1,840,000 |
| Employees | 26 May 2010 (Note 2) | 26 November 2010 to 25 November 2019 | \$5.03 | 260,000 | — | — | — | — | 260,000 |
| Employees* | 8 October 2013 (Note 5) | 8 April 2014 to 7 April 2023 | \$22 | 13,661,000 | — | — | — | (285,000) | 13,376,000 |
| Employee | 8 October 2013 (Note 5) | 8 October 2014 to 7 April 2023 | \$22 | 1,000,000 | — | — | — | — | 1,000,000 |
| Employees* | 8 October 2013 (Note 5) | 8 April 2015 to 7 April 2023 | \$22 | 13,608,000 | — | — | — | (282,000) | 13,326,000 |
| Employee | 8 October 2013 (Note 5) | 8 October 2015 to 7 April 2023 | \$22 | 500,000 | — | — | — | — | 500,000 |
| Employees* | 8 October 2013 (Note 5) | 8 April 2016 to 7 April 2023 | \$22 | 13,585,000 | — | — | — | (273,000) | 13,312,000 |
| Employee | 8 October 2013 (Note 5) | 8 October 2016 to 7 April 2023 | \$22 | 500,000 | — | — | — | — | 500,000 |
| Employee | 8 October 2013 (Note 5) | 8 October 2017 to 7 April 2023 | \$22 | 500,000 | — | — | — | — | 500,000 |
| Employee | 8 October 2013 (Note 5) | 8 October 2018 to 7 April 2023 | \$22 | 500,000 | — | — | — | — | 500,000 |
| Employees* | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 3,268,000 | — | — | — | (109,000) | 3,159,000 |
| Employees* | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 3,248,000 | — | — | — | (96,000) | 3,152,000 |
| Employees* | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 3,119,000 | — | — | — | (93,000) | 3,026,000 |
| Employee | 11 May 2016 (Note 7) | 11 November 2016 to 10 November 2025 | \$4.89 | — | 1,000,000 | — | — | — | 1,000,000 |
| Employee | 11 May 2016 (Note 7) | 11 November 2017 to 10 November 2025 | \$4.89 | — | 1,000,000 | — | — | — | 1,000,000 |
| Employee | 11 May 2016 (Note 7) | 11 November 2018 to 10 November 2025 | \$4.89 | — | 1,000,000 | — | — | — | 1,000,000 |
| Sub-total (Employees): | | | | 56,039,000 | 3,000,000 | (450,000) | — | (1,138,000) | 57,451,000 |

* excluding associates (as defined in the Listing Rules) of Directors who are also Employees

DIRECTORS' REPORT

SHARE OPTION SCHEME (Continued)

Movement of Options granted (Continued)

| Name or category of participants | Date of grant | Exercise period | Exercise price per Share (\$) | Number of Options | | | | | Balance as at 31 December 2016 |
|------------------------------------|----------------------------|--------------------------------------|-------------------------------|----------------------------------|-------------------------|---------------------------|---------------------------|------------------------|--------------------------------|
| | | | | Outstanding as at 1 January 2016 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | |
| Other participants | 13 July 2009 (Note 1) | 13 January 2010 to 12 January 2019 | \$2.82 | 300,000 | — | — | — | — | 300,000 |
| Other participants | 8 October 2013 (Note 5) | 8 April 2014 to 7 April 2023 | \$22 | 567,000 | — | — | — | (200,000) | 367,000 |
| Other participants | 8 October 2013 (Note 5) | 8 April 2015 to 7 April 2023 | \$22 | 567,000 | — | — | — | (200,000) | 367,000 |
| Other participants | 8 October 2013 (Note 5) | 8 April 2016 to 7 April 2023 | \$22 | 566,000 | — | — | — | (200,000) | 366,000 |
| Other participants | 15 June 2015 (Note 6) | 15 December 2015 to 14 December 2024 | \$9.826 | 277,000 | — | — | — | — | 277,000 |
| Other participants | 15 June 2015 (Note 6) | 15 December 2016 to 14 December 2024 | \$9.826 | 277,000 | — | — | — | — | 277,000 |
| Other participants | 15 June 2015 (Note 6) | 15 December 2017 to 14 December 2024 | \$9.826 | 276,000 | — | — | — | — | 276,000 |
| Sub-total (Other participants): | | | | 2,830,000 | — | — | — | (600,000) | 2,230,000 |
| Total: | | | | 191,389,000 | 3,000,000 | (450,000) | — | (1,738,000) | 192,201,000 |

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 | Exercise period | 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 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.

DIRECTORS' REPORT

SHARE OPTION SCHEME (Continued)

Movement of Options granted (Continued)

4. 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.

5. The vesting period for 47,460,000 Options granted on 8 October 2013 is approximately 34% vesting on six months from the date of grant, then approximately 33% vesting on each of the first and second anniversaries of such date. The vesting period for 3,000,000 Options granted on 8 October 2013 is approximately 34% vesting on one year from the date of grant, then approximately 16.5% vesting on two, three, four and five years from the date of grant respectively. The closing price of the Shares immediately before the date of grant was \$21.95. The estimated fair value of each Option granted on that date based on an independent valuation is as follows:

| 50,460,000 Options granted on 8 October 2013 | Exercise period | Option unit value |
|--|--------------------------------|-------------------|
| 15,863,000 | 8 April 2014 to 7 April 2023 | \$8.4299 |
| 1,000,000 | 8 October 2014 to 7 April 2023 | \$8.5172 |
| 15,808,000 | 8 April 2015 to 7 April 2023 | \$8.6397 |
| 500,000 | 8 October 2015 to 7 April 2023 | \$8.7396 |
| 15,789,000 | 8 April 2016 to 7 April 2023 | \$8.8327 |
| 500,000 | 8 October 2016 to 7 April 2023 | \$8.8954 |
| 500,000 | 8 October 2017 to 7 April 2023 | \$8.9801 |
| 500,000 | 8 October 2018 to 7 April 2023 | \$8.9928 |

6. The vesting period for 126,725,000 Options granted on 15 June 2015 is approximately 33.37% vesting on six months from the date of grant, then approximately 33.37% vesting on one year and six months from the date of grant, and the remaining 33.26% vesting on two years and six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$9.96. The estimated fair value of each Option granted on that date based on an independent valuation is as follows:

| Category of Participants | Number of Options | Exercise period | Option unit value |
|--------------------------|-------------------|--------------------------------------|-------------------|
| Directors | 38,669,000 | 15 December 2015 to 14 December 2024 | \$3.4670 |
| Directors | 38,669,000 | 15 December 2016 to 14 December 2024 | \$3.4584 |
| Directors | 38,662,000 | 15 December 2017 to 14 December 2024 | \$3.4210 |
| Employees | 3,342,000 | 15 December 2015 to 14 December 2024 | \$3.3966 |
| Employees | 3,342,000 | 15 December 2016 to 14 December 2024 | \$3.4052 |
| Employees | 3,211,000 | 15 December 2017 to 14 December 2024 | \$3.3865 |
| Other participants | 277,000 | 15 December 2015 to 14 December 2024 | \$3.3966 |
| Other participants | 277,000 | 15 December 2016 to 14 December 2024 | \$3.4052 |
| Other participants | 276,000 | 15 December 2017 to 14 December 2024 | \$3.3865 |

7. The vesting period for 3,000,000 Options granted on 11 May 2016 is approximately 33.34% vesting on six months from the date of grant, then approximately 33.33% vesting on one year and six months from the date of grant, and the remaining 33.33% vesting on two years and six months from the date of grant. The closing price of the Shares immediately before the date of grant was \$4.85. The estimated fair value of each Option granted on that date based on an independent valuation is as follows:

| 3,000,000 Options granted on 11 May 2016 | Exercisable period | Option unit value |
|--|--------------------------------------|-------------------|
| 1,000,000 | 11 November 2016 to 10 November 2025 | \$1.6434 |
| 1,000,000 | 11 November 2017 to 10 November 2025 | \$1.6497 |
| 1,000,000 | 11 November 2018 to 10 November 2025 | \$1.6439 |

8. The weighted average closing price of the Shares immediately before the dates on which the Options were exercised is \$4.72.

DIRECTORS' REPORT

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

Non-executive Director:

Dr. Cheng Kar Shun

Independent Non-executive Directors:

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

Brief biographical details of Directors are set out on pages 24 to 30 of this Annual Report. Details of their remuneration are set out in note 9 to the Financial Statements.

In accordance with Article 95 of the Company's articles of association, Dr. So Shu Fai, Dr. Rui José da Cunha, Deputada Leong On Kei, Angela and Mr. Fok Tsun Ting, Timothy (all of them are executive Directors) will retire from the Board by rotation at the 2017 AGM. Except Dr. Rui José da Cunha, who for the reason of change of his responsibility focus as a result of the Group's business growth and diversification, does not offer himself for re-election, Dr. So Shu Fai, Deputada Leong On Kei, Angela and Mr. Fok Tsun Ting, Timothy, all being eligible, offer themselves for re-election as Directors at the 2017 AGM.

In addition, pursuant to Article 96(a) of the Company's articles of association, the Board recommends that Ms. Ho Chiu Fung, Daisy, be elected as an Executive Director of the Company, subject to the approval of the Shareholders at the 2017 AGM. The biographical details of Ms. Ho Chiu Fung, Daisy are set out in Appendix II of the Company's circular to be despatched on or around 25 April 2017 together with this Annual Report.

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

DIRECTORS' REPORT

DIRECTORS (Continued)

Save for certain Directors mentioned above, the following persons were directors of subsidiaries of the Company during the year and up to the date of this report:

Dr. Chan Un Chan
Mr. Chan Wai Lun
Mr. Cheung Chung Sing
Mr. Chow Kwok Chung, Peter
Mr. Chung Kin Pong
Ms. Ho Chiu Ha, Maisy
Ms. Kong leong
Ms. Kwok Shuk Chong
Mr. Law Man Hing, Zaccheus
Mr. Lo Chun Ming
Dr. Ma Ho Man, Hoffman
Mr. McBain, Robert Earle
Mrs. Mok Ho Yuen Wing (Deceased)
Mr. Pyne, Jonathan Charles
Mr. Taing Kykhieng
Mr. Tam Chan Sing, Joseph
Mr. Yeung Hoi Sing, Sonny
Mr. Yip Cheuk Yuen, Bernard

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the 2017 AGM has a service contract with the Company that is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REPORT

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.

Agreements with STDM or its subsidiaries

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

Both Dr. Ho Hung Sun, Stanley and Deputada Leong On Kei, Angela have beneficial interests in STDM and are directors of STDM. Dr. Cheng Kar Shun has beneficial interests in STDM via Many Town Company Limited, a corporate director of STDM, and he is the representative of Many Town Company Limited to act as a director of STDM. Mr. Shum Hong Kuen, David also has beneficial interests in STDM and he is the representative of Shun Tak Holdings Limited (a corporate director of STDM) to act as a director of STDM.

Connected relationship:

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

Premises Leasing Master Agreement

Parties to the agreement:

STDM and the Company

Details of the transaction:

| Date of agreement | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transactions in 2016 |
|--------------------------|---|--|---|
| 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 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 48 of this Annual 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, 30 December 2010, 6 January 2014 and 26 January 2017.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

Agreements with STDM or its subsidiaries (Continued)

Products and Services Master Agreements

Parties to the agreements:

STDM and the Company

Details of the transaction:

| Date of agreement | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transactions in 2016 |
|-------------------|------------------------------------|---|---|
| 6 January 2014 | 1 January 2014 to 31 December 2016 | <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) transportation (including jetfoil tickets supplied by Far East Hydrofoil Company, Limited through STDM) (iv) hotel management and operation (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 48 of this Annual Report |
| 26 January 2017 | 1 January 2017 to 31 December 2019 | <ul style="list-style-type: none"> • Renewal of Products and Services Master Agreement dated 6 January 2014 with the same kind of transactions and purpose (save for staff messing which is not applicable since 1 January 2017) | Annual caps for 2017 to 2019 are set out on page 48 of this Annual Report |

Further details of the above transactions were set out in the announcements of the Company dated 6 January 2014 and 26 January 2017.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

Agreements with STDM or its subsidiaries (Continued)

Chips Agreement

Parties to the agreement:

STDM and SJM

Details of the transaction:

| Date of agreement | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transactions in 2016 |
|--------------------------|---|--|---|
| 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 48 of this Annual 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 30 December 2010, 6 January 2014 and 26 January 2017.

Since SJM has secured its own supply of chips and is no longer borrowing any STDM chips starting from 2011, the overall value of STDM chips redeemed in 2016 has declined substantially from the historical levels seen in earlier years. Furthermore, all casino chips of STDM have been withdrawn from circulation and procedures were put in place for those holding such chips to redeem them for cash or for casino chips of SJM.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued) Agreements with STDM or its subsidiaries (Continued)

Annual Caps and Aggregate Amount Table:

| | Aggregate amount for the year ended 31 December 2016 \$ million (audited) | Annual cap for the year ended 31 December 2016 \$ million | Annual cap for the year ending 31 December 2017 \$ million | Annual cap for the year ending 31 December 2018 \$ million | Annual cap for the year ending 31 December 2019 \$ million |
|---|---|---|--|--|--|
| Premises Leasing Master Agreement (Note 1) | 274.7 | 327 | 307 | 307 | 307 |
| Products and Services Master Agreement (Note 2) | | | | | |
| (i) Hotel accommodation | 32.3 | 203 | 80 | 92 | 106 |
| (ii) Entertainment and staff messing (Note: staff messing is not applicable since 1 January 2017) | 27.0 | 121 | 60 | 69 | 79 |
| (iii) Transportation | 137.6 | 257 | 170 | 206 | 236 |
| (iv) Maintenance services | N/A | N/A | N/A | N/A | N/A |
| (v) Hotel management and operation | N/A | N/A | N/A | N/A | N/A |
| Chips Agreement (Note 3) | 1.2 | 85 | 79 | 79 | 79 |

Notes:

- In November 2013, the Board approved the annual caps for this category of continuing connected transactions for the three financial years of 31 December 2014, 2015 and 2016 at \$307 million, \$327 million and \$327 million respectively. These annual caps have been determined by reference to (i) the existing leases between the Group and the STDM Group; (ii) the expected renewal of certain existing leases during the three years ending 31 December 2016; (iii) the estimated rental adjustments to be made to the renewed leases; and (iv) a buffer for additional and unexpected demand of the Group for the premises owned by the STDM Group for its business operations up to 31 December 2016.

In January 2017, the Board approved new annual caps for this category of continuing connected transactions for the three financial years of 31 December 2017, 2018 and 2019 at \$307 million each year. These annual caps have been determined by reference to (i) the existing leases between the Group and the STDM Group; (ii) the expected renewal of certain existing leases during the three years ending 31 December 2019; (iii) the estimated rental adjustments to be made to the renewed leases; and (iv) a buffer for additional and unexpected demand of the Group for the premises owned by the STDM Group for its business operations up to 31 December 2019.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued) Agreements with STDM or its subsidiaries (Continued)

Notes: (Continued)

- In January 2014, STDM and the Company renewed the Products and Services Master Agreement and approved the annual caps for the three categories of continuing connected transactions (i.e., hotel accommodation, entertainment and staff messing and transportation) for the three financial years of 31 December 2014, 2015 and 2016. 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. The other two categories of continuing connected transactions (i.e., maintenance services, and hotel management and operation) under the Products and Services Master Agreement are de minimis transactions under the Listing Rules and no annual cap has been set.

In January 2017, STDM and the Company renewed the Products and Services Master Agreement and approved new annual caps for the three categories of continuing connected transactions (i.e., hotel accommodation, entertainment, and transportation) for the three financial years of 31 December 2017, 2018 and 2019. 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. The other two categories of continuing connected transactions (i.e., maintenance services, and hotel management and operation) under the Products and Services Master Agreement are de minimis transactions under the Listing Rules and no annual cap has been set.

- In November 2013, the Board set the annual caps for this category of continuing connected transactions for the three financial years of 31 December 2014, 2015 and 2016 at \$85 million each year. These annual caps for the STDM chips to be redeemed have been determined by reference to the outstanding amount of STDM chips in circulation.

In January 2017, the Board set new annual caps for this category of continuing connected transactions for the three financial years of 31 December 2017, 2018 and 2019 at \$79 million each year. These annual caps for the STDM chips to be redeemed have been determined by reference to the outstanding amount of STDM chips in circulation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

Master Service Agreement with 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 Hung Sun, Stanley's associates as defined under the Listing Rules.

Connected relationship:

Family interests of Dr. Ho Hung Sun, Stanley 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

Details of the transaction:

| Date of agreement | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transactions in 2016 |
|--------------------------|---|--|---|
| 6 December 2013 | 1 January 2014 to 31 December 2016 (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" on page 51 of this Annual Report |

Further details of the said transaction were set out in the announcement of the Company dated 6 December 2013.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

Master Service Agreement with ST-CITS (Continued)

Annual Caps and Aggregate Amount Table:

| | Aggregate amount for the year ended 31 December 2016 \$ million (audited) | Annual Cap for the year ended 31 December 2016 \$ million |
|--------------------------------|--|---|
| Transportation Services (Note) | 37.8 | 70.0 |

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) the increasing costs of the provision of the Transportation Services including labour, fuel and other overhead expenses; and (iv) buffers to accommodate possible additional demand for the Transportation Services required by the Group.

In December 2016, ST-CITS and SJM renewed the Master Service Agreement for the Transportation Services for three years from 1 January 2017 to 31 December 2019. Since it has become de minimis transactions under Chapter 14A of the Listing Rules, no annual cap has been set.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

Agreement for Provision of Service and Licensing for Occupation and Use of Space

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 of the Company pursuant to Rule 14A.12(1)(c) of the Listing Rules.

Parties to the agreement:

Tin Hou and SJM

Details of the transaction:

| Date of agreement | Term | Description of the transaction and its purpose | Aggregate amount of transactions in 2016 \$ million (audited) |
|--------------------------|--|--|--|
| 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. | 1,184.4 |

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

Lease Agreement for Jai Alai building

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

Deputada Leong On Kei, Angela owns approximately 97.3% indirect interests in Netlink Capital Limited ("Netlink").

Connected relationship:

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

Parties to the agreement:

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

Details of the transaction:

| Date of agreement | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transaction in 2016 |
|-------------------|---|---|---|
| 18 November 2012 | 1 January 2014 to 31 December 2016 (may be renewed for further three years at the open market prices at the sole discretion of Efort) | <ul style="list-style-type: none">• Netlink leased the Jai Alai building located in Macau to Efort for the operations of Casino Jai Alai and additional facilities by the Group.• The monthly rental (including management fee) of the Jai Alai building is MOP10.3 million (equivalent to approximately \$10 million).• Efort shall pay to Netlink a refundable sum of MOP82.4 million (equivalent to approximately \$80 million), being the aggregate of a deposit equivalent to two-month rental (including management fee) and a decoration deposit equivalent to six-month rental (including management fee).• The monthly rental (including management fee) and payment terms of the lease agreement have been negotiated on an arm's length basis between the parties to the lease agreement with reference to prevailing market rents as appraised by an independent property valuer.• Efort may sub-lease any space located in the Jai Alai building to third parties, with Netlink's prior written consent on the selected third party as the sub-lessee, which consent shall not be unreasonably withheld. | See "Annual Caps and Aggregate Amount Table" on page 54 of this Annual Report |

Further details of the said transaction were set out in the announcement of the Company dated 18 November 2012.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

Lease Agreement for Jai Alai building (Continued)

Annual Caps and Aggregate Amount Table:

| | Aggregate amount for the year ended 31 December 2016 \$ million (audited) | Annual cap for the year ended 31 December 2016 \$ million |
|---|---|--|
| Annual rental (including management fee) (Note) | See section headed "Premises Leasing Master Agreement with Deputada Leong On Kei, Angela and/or her associates" below | 126 |

Note:

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

Netlink and SJM will enter into a sub-lease agreement for Jai Alai building for three years from 1 January 2017 to 31 December 2019. The transactions under this agreement will be covered under the Premises Leasing Master Agreement between the Company and Deputada Leong On Kei, Angela dated 14 December 2016.

Premises Leasing Master Agreements with Deputada Leong On Kei, Angela and/or her associates

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

Deputada Leong On Kei, Angela and/or her associates lease certain premises to members of the Group at rental fixed between the parties.

Connected relationship:

Deputada Leong On Kei, Angela, a Director, and/or her associates are connected persons of the Company under the Listing Rules.

Parties to the agreements:

Deputada Leong On Kei, Angela and the Company

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued) Premises Leasing Master Agreement with Deputada Leong On Kei, Angela and/or her associates (Continued)

Details of the transaction:

| Date of agreement | Term | Description of the transaction and its purpose | Annual caps and aggregate amount of transaction in 2016 |
|-------------------|---|--|---|
| 22 November 2013 | 1 January 2014 to 31 December 2016 (the "Relevant Period") (the Company shall have the right in its sole discretion to renew the agreement for further three years) | <ul style="list-style-type: none"> Deputada Leong On Kei, Angela agrees to lease and procure her associates to lease certain premises to members of the Group subject to the terms and conditions of the Premises Leasing Master Agreement and the relevant lease implementation agreements. The relevant rental of each premises shall 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 terms and conditions on which such premises are to be provided should be no less favourable to the Group than those offered by independent third parties. The costs of maintenance and repair of the premises shall be borne, as set out in the lease implementation agreements, by the relevant member of the Group as tenant/lessee in the case of regular maintenance and repair of usage deterioration and by Deputada Leong On Kei, Angela and/or her relevant associate as landlord/lessor in the case of structural repair required to maintain the integrity of the premises. | See "Annual Caps and Aggregate Amount Table" on page 56 of this Annual Report |
| 14 December 2016 | 1 January 2017 to 31 December 2019 (the "New Relevant Period") (the Company shall have the right in its sole discretion to renew the agreement for further three years) | <ul style="list-style-type: none"> Renewal of Premises Leasing Master Agreement dated 22 November 2013 with same kind of transaction and purpose. | Annual caps for 2017 to 2019 are set out on page 56 of this Annual Report |

Further details of the said transaction were set out in the announcement of the Company dated 22 November 2013 and 14 December 2016.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (Continued)

Annual Caps and Aggregate Amount Table:

| | Aggregate amount for the year ended 31 December 2016 \$ million (audited) | Annual cap for the year ended 31 December 2016 \$ million | Annual cap for the year ending 31 December 2017 \$ million | Annual cap for the year ending 31 December 2018 \$ million | Annual cap for the year ending 31 December 2019 \$ million |
|-----------------------|---|---|--|--|--|
| Annual rentals (Note) | 162.8 | 180 | 184 | 184 | 150 |

Note:

The annual caps for 2014 to 2016 are determined by reference to (i) the existing leases (including the lease of the Jai Alai building) entered between the Group and Deputada Leong On Kei, Angela and/or her associates; (ii) the expected renewal of certain existing leases during the Relevant Period; (iii) the estimated rental adjustments to be made to the renewed leases; and (iv) a buffer of 10% for any unanticipated fluctuations of market rental (including property management fee, if applicable) and any unexpected charges incidental to the transactions contemplated under the Premises Leasing Master Agreement as well as additional leases to be entered in the Relevant Period.

The annual caps for 2017 to 2019 are determined by reference to (i) the existing leases entered between the Group and Deputada Leong On Kei, Angela and/or her associates under the Premises Leasing Master Agreement dated 22 November 2013; (ii) the expected renewals of the existing leases under the Premises Leasing Master Agreement dated 22 November 2013 during the New Relevant Period; (iii) the estimated rental adjustments to be made to the renewed leases; (iv) the estimated premises related fees and charges payable to Deputada Leong On Kei, Angela and/or associates; and (v) a buffer of 10% for any unanticipated fluctuations of market rental (including property management fee, if applicable) and any unexpected fees and charges incidental to the transactions contemplated under the Premises Leasing Master Agreement dated 14 December 2016 as well as any additional leases to be entered pursuant to the said Premises Leasing Master Agreement in the New Relevant Period.

DIRECTORS' REPORT

REVIEW BY THE AUDITOR

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

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged Deloitte Touche Tohmatsu (the "Auditor"), the auditor of the Company, to review the Group's continuing connected transactions in accordance with Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants.

The Auditor has issued a review report to the Board and confirmed that for the year 2016:

- (1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;
- (2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
- (3) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (4) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 22 November 2013, 6 December 2013 and 6 January 2014 made by the Company in respect of each of the disclosed continuing connected transactions.

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

- (1) in the ordinary and usual course of business of the Company;
- (2) 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
- (3) 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 28 February 2017, 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 2016, the net amount received and receivable on reimbursement of STDM chips in circulation amounted to \$1.2 million.

DIRECTORS' REPORT

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the usual course of business are set out in note 40 to the Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards. The related party transactions referred in notes 40(b) to 40(i) constitute continuing connected transactions as defined under Chapter 14A of the Listing Rules, and all such related party transactions comply with the requirement under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Dr. Ho Hung Sun, Stanley has beneficial interests in Melco International Development Limited ("Melco") which, through its interest in Melco Resorts & Entertainment Limited (formerly known as "Melco Crown Entertainment Limited"), is also engaged in the casino gaming business in Macau. As at 31 December 2016, he was one of the beneficiaries of a discretionary trust which, via a company controlled by it, is interested in 306,382,187 shares of Melco, representing approximately 19.85% of the issued share capital of Melco. Dr. Ho Hung Sun, Stanley is also a beneficial owner of 342 shares of Melco.

Dr. Ho Hung Sun, Stanley 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 (Macau) Limited.

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

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, interests and short positions of each Director and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), 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 contained in the Listing Rules, are as follows:

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 shares |
|-----------------------|------------------|---------------------|--------------------|-------------------------------|---|
| | | | | | (Note 2) |
| Ho Hung Sun, Stanley | Beneficial owner | Long position | — | 5,000,000 (Note 1) | 0.09% |
| Cheng Kar Shun | Beneficial owner | Long position | — | 6,000,000 | 0.11% |
| Chau Tak Hay | Beneficial owner | Long position | 500,000 | — | 0.01% |
| | Beneficial owner | Long position | — | 500,000 (Note 1) | 0.01% |
| | | | 500,000 | 500,000 | 0.02% |
| Lan Hong Tsung, David | Beneficial owner | Long position | 100,000 | — | 0.002% |
| | Beneficial owner | Long position | — | 1,000,000 (Note 1) | 0.02% |
| | | | 100,000 | 1,000,000 | 0.022% |
| Shek Lai Him, Abraham | Beneficial owner | Long position | 200,000 | — | 0.004% |
| | Beneficial owner | Long position | — | 500,000 (Note 1) | 0.01% |
| | | | 200,000 | 500,000 | 0.014% |
| Tse Hau Yin | Beneficial owner | Long position | 500,000 | — | 0.01% |
| | Beneficial owner | Long position | — | 1,000,000 (Note 1) | 0.02% |
| | | | 500,000 | 1,000,000 | 0.03% |
| So Shu Fai | Beneficial owner | Long position | 153,327,922 | — | 2.71% |
| | Beneficial owner | Long position | — | 35,000,000 (Note 1) | 0.62% |
| | | | 153,327,922 | 35,000,000 | 3.33% |

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Interests in Shares, underlying Shares and debentures of the Company (Continued)

| Name of Director | Capacity | Long/short position | No. of Shares held | No. of underlying Shares held | Approximate percentage of issued shares |
|------------------------|------------------|---------------------|--------------------|-------------------------------|---|
| | | | | | (Note 2) |
| Ng Chi Sing | Beneficial owner | Long position | 118,452,922 | — | 2.09% |
| | Beneficial owner | Long position | — | 32,000,000 | 0.57% |
| | | | | (Note 1) | |
| | | | 118,452,922 | 32,000,000 | 2.66% |
| Rui José da Cunha | Beneficial owner | Long position | 18,107,500 | — | 0.32% |
| | Beneficial owner | Long position | — | 6,000,000 | 0.11% |
| | | | | (Note 1) | |
| | | | 18,107,500 | 6,000,000 | 0.43% |
| Fok Tsun Ting, Timothy | Beneficial owner | Long position | — | 9,000,000 | 0.16% |
| | | | | (Note 1) | |
| Leong On Kei, Angela | Beneficial owner | Long position | 457,950,000 | — | 8.10% |
| | Beneficial owner | Long position | — | 30,000,000 | 0.53% |
| | | | | | |
| | | | 457,950,000 | 30,000,000 | 8.63% |
| Shum Hong Kuen, David | Beneficial owner | Long position | 3,000,000 | — | 0.05% |
| | Beneficial owner | Long position | — | 6,000,000 | 0.11% |
| | | | | (Note 1) | |
| | | | 3,000,000 | 6,000,000 | 0.16% |

Notes:

- 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.
- The percentage has been calculated based on 5,657,179,293 Shares in issue as at 31 December 2016.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Interests in shares, underlying shares and debentures of associated corporations

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

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

Sociedade de Jogos de Macau, S.A.

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

DIRECTORS' REPORT

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, so far as was known to any Director, as of 31 December 2016, none of the Directors or the chief executives of the Company 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 2016, 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 Shares |
|---|--|---------------------|--------------------|-------------------------------|---|
| | | | | | (Note 2) |
| Sociedade de Turismo e Diversões de Macau, S.A. | Beneficial owner and its controlled corporation (Note 1) | Long position | 3,062,059,500 | — | 54.13% |
| Leong On Kei, Angela | Beneficial owner | Long position | 457,950,000 | 30,000,000 | 8.63% |

Notes:

- 12,072,000 Shares are directly held by Konrad Investments Limited, an indirect wholly-owned subsidiary of STDM through Bounty Rich Holdings Limited.
- The percentage has been calculated based on 5,657,179,293 Shares in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any persons (other than a Director or the chief executives of the Company) of any interest or short position in Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

PERMITTED INDEMNITY PROVISION

The articles of association of the Company contain a permitted provision which is in force for the benefit of all Directors and directors of associated companies (as defined in the Companies Ordinance (Cap. 622)) of the Company.

DIRECTORS' REPORT

NON-COMPETITION UNDERTAKINGS BY STDM AND DR. HO HUNG SUN, STANLEY

Pursuant to deeds of Non-Competition Undertakings dated 18 June 2008, STDM and Dr. Ho Hung Sun, Stanley have respectively undertaken with the Company that (i) for the period in which the Shares are listed on the Stock Exchange and, variously, STDM remains the controlling Shareholder and Dr. Ho Hung Sun, Stanley remains as a Director, that neither STDM nor Dr. Ho Hung Sun, Stanley will compete with the operation of casino gaming businesses of SJM in Macau (apart from maintaining their interests in Melco) and (ii) they will not increase respective interests in Melco.

Furthermore, 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. Dr. Ho Hung Sun, Stanley 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 the Non-Competition Undertaking of Dr. Ho Hung Sun, Stanley that if there is any disagreement between Dr. Ho Hung Sun, Stanley and the Company as to whether any activity or business or proposed activity or business of Dr. Ho Hung Sun, Stanley 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 28 February 2017, all the Independent Non-executive Directors reviewed the confirmations from Dr. Ho Hung Sun, Stanley and STDM in respect of the Non-Competition Undertakings, and confirmed compliance with the Non-Competition Undertakings provided by Dr. Ho Hung Sun, Stanley 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 28 February 2017, all the Independent Non-executive Directors reviewed the position regarding the indemnity provided by STDM-I (liquidated on 15 August 2011) dated 20 November 2007 in respect of certain litigation ongoing at the time of the Company's global offering of Shares (the "STDM-I Surety").

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

Based on information provided by the law firms in Macau and Hong Kong who had 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.

DIRECTORS' REPORT

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 2016.

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.

AUDITOR

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company until the conclusion of the next annual general meeting is to be proposed at the 2017 AGM.

REVIEW BY AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2016 have been reviewed by the Audit Committee of the Company.

By order of the Board of Directors
SJM Holdings Limited

So Shu Fai
Director

Hong Kong, 28 February 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and its management team has strived to uphold the highest standards of corporate governance and transparency.

The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the CG Code set out in Appendix 14 to the Listing Rules on the Stock Exchange.

During the year ended 31 December 2016, the Company has complied with code provisions of the CG Code except for the deviation of code provisions A.2.7 and E.1.2 that due to health reasons, Dr. Ho Hung Sun, Stanley did not meet the non-executive directors of the Company in 2016 and was absent from the annual general meeting of the Company held on 16 June 2016 (the "2016 AGM").

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS

Directors of the Company

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules as its own code of conduct regarding securities transactions by 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 ended 31 December 2016.

Relevant employees of the Company

The Board has formalised in writing guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the Company.

Relevant employees include any employee of the Company or a director or employee of a subsidiary or holding company of the Company and, because of such office or employment, possess inside information in relation to the Company or its securities.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

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

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

| The Board (including corporate governance functions) (Total no. of directors: 12 <i>(Note 1)</i>) | | |
|--|---|--|
| Executive Directors (also being the senior management of the Company) | 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) Dr. Rui José da Cunha Mr. Fok Tsun Ting, Timothy Deputada Leong On Kei, Angela Mr. Shum Hong Kuen, David | Dr. Cheng Kar Shun | Mr. Chau Tak Hay Dr. Lan Hong Tsung, David Hon. Shek Lai Him, Abraham Mr. Tse Hau Yin <i>(Note 3)</i> |
| Total number: 7 % to total Directors: 58.3% | Total number: 1 % to total Directors: 8.3% | Total number: 4 <i>(Note 2)</i> % to total Directors: 33.4% <i>(Note 4)</i> |
| Notes: | | |
| 1. Maximum number of Directors: 12 (Article 80 of the articles of association of the Company (the "Articles")) | | |
| 2. Minimum number of Independent Non-executive Directors: 3 (Listing Rule 3.10(1)) | | |
| 3. One Independent Non-executive Director having accounting expertise (Listing Rule 3.10(2)) | | |
| 4. Independent Non-executive Directors represent 1/3 of the Board (Listing Rule 3.10A) | | |

The Board includes a balance 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 judgement.

CORPORATE GOVERNANCE REPORT

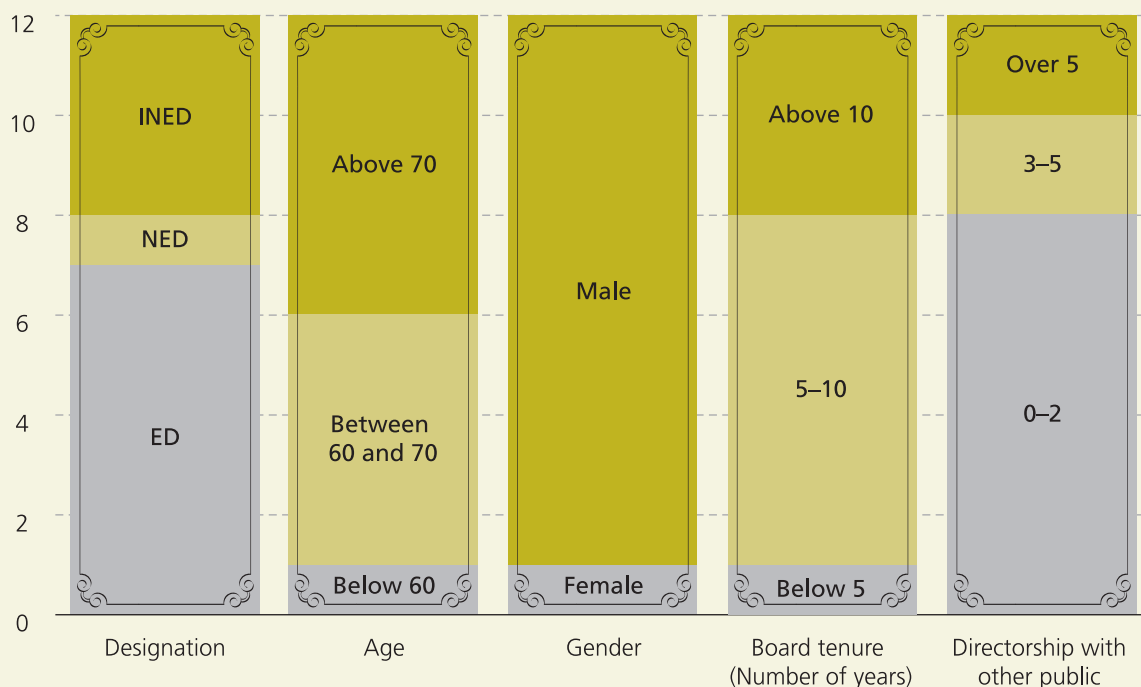
BOARD DIVERSITY

The Board adopted a board diversity policy for the Company in 2013 which stipulates that for identifying individuals suitably qualified to become Directors, the Nomination Committee should consider the benefits of all aspects of diversity including, but not limited to, a number of factors, such as gender, age, race, cultural and educational background, professional experience and industry and business-related experience, in order to maintain an appropriate range of balance of skills, experience and background on the Board. All appointments of Directors should have taken into account the aforesaid factors as a whole for the benefits of the Company. The Nomination Committee will regularly discuss and, if appropriate, agree on any measurable objective for achieving diversity on the Board.

The Board diversity mix is shown below while their biographical details are set out on pages 24 to 30 of this Annual Report.

Board Diversity Mix

Number of Directors



Remarks:

ED: Executive Director

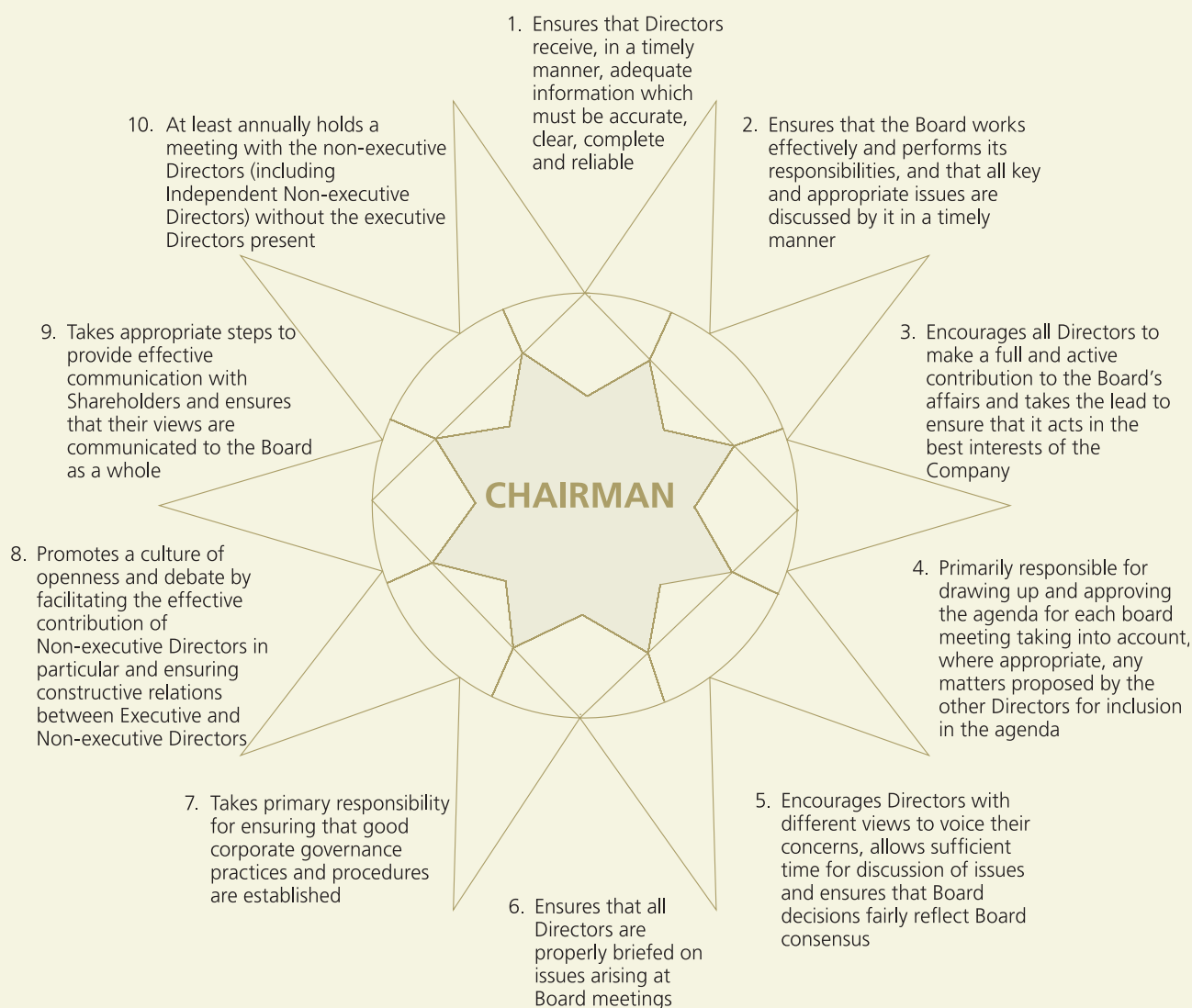
NED: Non-executive Director

INED: Independent non-executive Director

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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



Dr. Ho Hung Sun, Stanley, the Chairman, has delegated his responsibility for items 1 to 9 above to Dr. So Shu Fai, Executive Director and Chief Executive Officer, and Dr. So Shu Fai is a principal contact person for the Company's investor relations functions. For item 10, due to health reasons, Dr. Ho Hung Sun, Stanley as the Chairman did not meet the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present during the year.

CORPORATE GOVERNANCE REPORT

BUSINESS RELATIONSHIP BETWEEN DIRECTORS AND CONTROLLING SHAREHOLDER

Dr. 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, 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 casual vacancy or as an addition to the Board. The power to appoint any person as a Director is subject to election by Shareholders at the first general meeting after 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 despatch 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 shares 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 Tuesday, 13 June 2017 (the "2017 AGM"), the following Directors will retire from the Board by rotation pursuant to Article 95:

Executive Directors : Dr. So Shu Fai
Dr. Rui José da Cunha
Deputada Leong On Kei, Angela
Mr. Fok Tsun Ting, Timothy

Except Dr. Rui José da Cunha, who for the reason of change of his responsibility focus as a result of the Group's business growth and diversification, does not offer himself for re-election, Dr. So Shu Fai, Deputada Leong On Kei, Angela and Mr. Fok Tsun Ting, Timothy all being eligible, offer themselves for re-election at the 2017 AGM.

In addition, pursuant to Article 96(a), the Board recommends that Ms. Ho Chiu Fung, Daisy be elected as an Executive Director of the Company, subject to the approval of the Shareholders at the 2017 AGM.

The biographical details of the retiring Directors who offered themselves for re-election and the recommendation of the Board for their re-election are set out in a circular of the Company to be despatched on or around 25 April 2017 to Shareholders.

CORPORATE GOVERNANCE REPORT

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

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

Independent Non-executive Directors and other Non-executive Directors have given a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They have given the Board and any Board committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. All Independent Non-executive Directors have attended the 2016 AGM.

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 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.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES OF DIRECTORS

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

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

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

PRACTICE AND CONDUCT OF MEETINGS

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

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

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

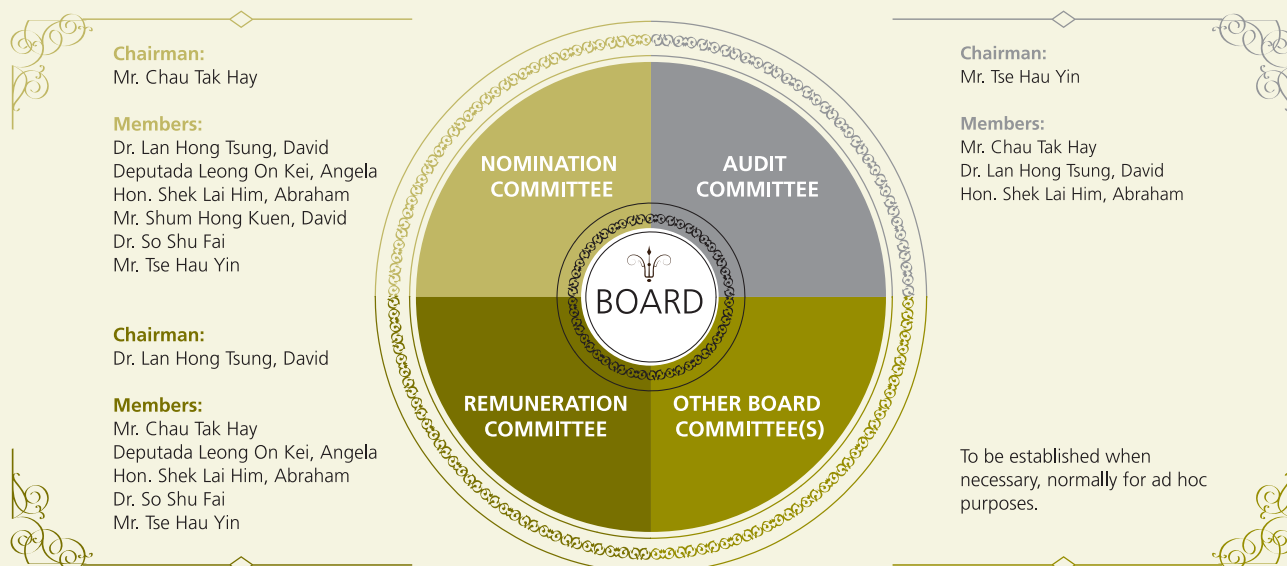
CORPORATE GOVERNANCE REPORT

PRACTICE AND CONDUCT OF MEETINGS (Continued)

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

BOARD AND BOARD COMMITTEE MEETINGS

The following sections explain the responsibilities and the work that each Board committee undertook in 2016 up to the date of this Report. The terms of reference and membership of Audit Committee, Remuneration Committee and Nomination Committee are disclosed in full on the websites of the Company and the Stock Exchange.



CORPORATE GOVERNANCE REPORT

BOARD AND BOARD COMMITTEE MEETINGS (Continued)

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

During the year ended 31 December 2016, four Board meetings were held. Details of individual Directors' attendance at the Board meetings, the Board committee meetings and the 2016 AGM held in the year are set out in the following table:

| Name of Directors | Board Meetings (including corporate governance functions) | Audit Committee Meetings | Remuneration Committee Meeting | Nomination Committee Meeting | 2016 AGM |
|---|---|--------------------------|--------------------------------|------------------------------|----------|
| <i>Executive Directors:</i> | | | | | |
| Dr. Ho Hung Sun, Stanley | 0/4 (Note) | N/A | N/A | N/A | 0/1 |
| Dr. So Shu Fai | 4/4 | N/A | 1/1 | 1/1 | 1/1 |
| Mr. Ng Chi Sing | 4/4 | N/A | N/A | N/A | 1/1 |
| Dr. Rui José da Cunha | 4/4 | N/A | N/A | N/A | 1/1 |
| Mr. Fok Tsun Ting, Timothy | 1/4 | N/A | N/A | N/A | 1/1 |
| Deputada Leong On Kei, Angela | 4/4 (Note) | N/A | 1/1 | 1/1 | 1/1 |
| Mr. Shum Hong Kuen, David | 4/4 (Note) | N/A | N/A | 1/1 | 1/1 |
| <i>Non-executive Director:</i> | | | | | |
| Dr. Cheng Kar Shun | 3/4 (Note) | N/A | N/A | N/A | 0/1 |
| <i>Independent Non-executive Directors:</i> | | | | | |
| Mr. Chau Tak Hay | 4/4 | 6/6 | 1/1 | 1/1 | 1/1 |
| Dr. Lan Hong Tsung, David | 4/4 | 6/6 | 1/1 | 1/1 | 1/1 |
| Hon. Shek Lai Him, Abraham | 4/4 | 6/6 | 1/1 | 1/1 | 1/1 |
| Mr. Tse Hau Yin | 4/4 | 6/6 | 1/1 | 1/1 | 1/1 |

Note:

According to Article 94(L), a Director who has a material interest in respect of certain types of contractual arrangements cannot vote or be counted in the quorum at the meeting and, he/she shall also be physically absent from the venue of the meeting during the time the relevant contract, arrangement or matter is being discussed and voted on by the other Directors.

Dr. Ho Hung Sun, Stanley, Dr. Cheng Kar Shun, Deputada Leong On Kei, Angela and Mr. Shum Hong Kuen, David were interested in certain continuing connected transactions. All of them had to physically absent and abstained themselves from voting on the related Board resolutions at two of the Board meetings held during the year.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD — BOARD COMMITTEES

The Board has proper delegation of its powers and has established three Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee in accordance with the requirements under the Listing Rules, with specific written terms of reference that deal clearly with their authority and duties, to oversee particular aspects of the Group's affairs. The Board may establish other Board committee(s) when necessary in accordance with the Articles. The Board has established an additional standing Board Committee, namely the Executive Committee, whose primary purpose is to oversee the implementation of the Company's strategic objectives and the business operations of the Group. In addition, the Board has established ad hoc Board committees with specific terms of reference during the year for the purpose of dealing with transactions of the Company.

The terms of references of all Board committees have required them to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so. Sufficient resources, including the advice of the external auditors and other independent professional advisers, are provided to the Board committees to enable them to discharge their duties.

AUDIT COMMITTEE

The composition of the Audit Committee is as follows:

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

The Audit Committee is accountable to the Board and its primary role and function is to assist the Board to monitor the Company's financial reporting process, to recommend the appointment of the Auditor, to consider the nature and scope of audit reviews, to ensure that effective internal control and risk management systems are in place and to review the Group's interim and annual financial statements. The Audit Committee has access to, and maintains an independent communication with, the external auditor 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: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (Continued)

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.

In 2016, the Audit Committee held six meetings and its principal work performed is set out in the table below. In general, it has reviewed the accounting principles and practices adopted by the Company and discussed auditing, risk management and 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 73.

Principal work performed by the Audit Committee during 2016

Review of annual financial statements of the Group for the year ended 31 December 2015, interim financial statements of the Group for the six months ended 30 June 2016, and quarterly unaudited key performance indicators of the Group for the three months ended 31 March 2016 and 30 September 2016 respectively, with recommendations to the Board for approval

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

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

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

Review of risk management and internal control 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 2017

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The composition of the Remuneration Committee is as follows:

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

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

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

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (Continued)

In 2016, the Remuneration Committee held one meeting and its principal work performed is set out in the table below:

Principal work performed by the Remuneration Committee during 2016

| |
|--|
| Review of the remuneration of Executive Directors and senior management for 2016 and the special fees for 2015 based on their performances and the Company's policy and approval in relation to the same |
| Review of the remuneration of Non-executive Directors including Independent Non-executive Directors for 2016 and the special fees for 2015, with recommendations to the Board for approval |
| Review of the share option grant policy of the Company, with recommendation to the Board for approval |
| Review of the Options granted and exercise position |
| Review of the Terms of Reference of the Remuneration Committee, with recommendation to the Board for approval |

In February 2017, the Remuneration Committee reviewed and made recommendation to the Board on the remuneration of Ms. Ho Chiu Fung, Daisy, who is recommended by the Board for election as an Executive Director at the 2017 AGM.

No individual Director has taken part in setting his or her own remuneration. Details of attendance of each Remuneration Committee member, on a named basis, at the Remuneration Committee meeting held during the year are set out in the table on page 73.

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

The emoluments of Directors, including basic fee and special fee, 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 16 June 2016, a resolution was passed to authorise the Board to fix the Directors' remuneration. A resolution will be proposed at the 2017 AGM to obtain Shareholders' authorisation for the Board to fix Directors' remuneration.

The Executive Directors are also the senior management of the Company and their remuneration is disclosed in note 9 to the Financial Statements. Retirement benefits schemes of the Group are set out in note 37 to the Financial Statements.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The composition of the Nomination Committee is as follows:

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

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE (Continued)

In 2016, the Nomination Committee held one meeting and its principal work performed is set out in the table below:

Principal work performed by the Nomination Committee during 2016

| |
|--|
| Review of the structure, size and composition of the Board and various Board committees, with recommendations to the Board regarding any proposed changes |
| Review of the policy concerning diversity of Board members of the Company, with recommendations to the Board |
| Review of the qualifications and suitability of retiring Directors who would offer themselves for re-election at the forthcoming annual general meeting, with recommendations to the Board |
| Review of the Terms of Reference of the Nomination Committee, and submission of proposed amendments to the Board |

The reasons why the Board believes the retiring Directors should be re-elected are set out in the circular of the Company to be despatched on or around 25 April 2017 accompanying the notice of the 2017 AGM.

In February 2017, the Nomination Committee reviewed the biography of Ms. Ho Chiu Fung, Daisy and made recommendation to the Board for her election as an Executive Director at the 2017 AGM in view of her extensive knowledge and experience in financial functions of a publicly-listed conglomerate, property and hotel development, and travel and hospitality in the Greater China and South East Asian region. The Nomination Committee believes that she will provide valuable contributions to the businesses of the Group and her joining will enhance the board diversity of the Company. Ms. Ho meets the qualification requirements to serve as director as stipulated in relevant laws, regulations and the Articles. The biographical details of Ms. Ho are set out in Appendix II to the circular of the Company to be despatched on or around 25 April 2017 together with this Annual Report.

Details of attendance of each Nomination Committee member, on a named basis, at the Nomination Committee meeting held during the year are set out in the table on page 73.

CORPORATE GOVERNANCE FUNCTIONS

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

In 2012, the Board adopted a code of conduct applicable to Directors and employees of the Company. The said code of conduct covers the areas of, amongst other things, ethical commitment, prevention of bribery, offer and acceptance of advantage, entertainment, conflict of interest, relationship with Directors and employees, suppliers, contractors and customers, keeping of records, accounts and other documents.

In addition to the latest terms of reference of each of the Audit Committee, the Remuneration Committee and the Nomination Committee, the Articles and the updated list of the Company's directors identifying their role and functions have been posted on the Stock Exchange's website and the Company's website, whilst procedures for Shareholders to propose a person for election as a Director has been posted on the Company's website.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS (Continued)

In 2016, the principal work performed by the Board in relation to corporate governance functions is set out in the table below:

Principal work performed by the Board in relation to corporate governance functions during 2016

Review of existing policies and issues relating to corporate governance, including but not limited to the Corporate Governance Policy, Legal and Regulatory Compliance Policy and Code of Conduct applicable to Directors and employees of the Company

Review and monitoring of the training and continuous professional development of Directors and senior management and the number and nature of offices held by the Directors in other public companies or organisations and other significant commitments

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

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

DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Receiving Director's Induction

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment. The Director's induction is 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.

Attending Briefing and Professional Development Training

Arrangements are in place for providing continuing briefing and professional development training to Directors whenever necessary. During the year, the Company has organised a Macau Cotai site visit for the Directors.

Continuous Professional/Business Development Plan for Directors

The Board has adopted a Continuous Professional/Business Development Plan for Directors. The purpose of this plan is to provide flexibility for the Directors to choose training methods which are most suitable to them and to encourage the Directors to enhance their knowledge and skills by joining professional bodies and attending the courses/seminars/programs/functions offered by such bodies.

CORPORATE GOVERNANCE REPORT

DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT (Continued)

The Directors informed the Company that they had received the following training and continuous professional development during the year from 1 January 2016 to 31 December 2016:

| Name of Directors | Type of training | |
|---|----------------------------|---------------------------|
| | Reading regulatory updates | Attend seminars/briefings |
| <i>Executive Directors:</i> | | |
| Dr. Ho Hung Sun, Stanley | ✓ | — |
| Dr. So Shu Fai | ✓ | ✓ |
| Mr. Ng Chi Sing | ✓ | ✓ |
| Dr. Rui José da Cunha | ✓ | ✓ |
| Mr. Fok Tsun Ting, Timothy | ✓ | ✓ |
| Deputada Leong On Kei, Angela | ✓ | ✓ |
| Mr. Shum Hong Kuen, David | ✓ | ✓ |
| <i>Non-executive Director:</i> | | |
| Dr. Cheng Kar Shun | ✓ | ✓ |
| <i>Independent Non-executive Directors:</i> | | |
| Mr. Chau Tak Hay | ✓ | ✓ |
| Dr. Lan Hong Tsung, David | ✓ | ✓ |
| Mr. Shek Lai Him, Abraham | ✓ | ✓ |
| Mr. Tse Hau Yin | ✓ | ✓ |

FINANCIAL REPORTING

The Board is accountable to the Shareholders and is committed to presenting comprehensive and timely information to the Shareholders on an assessment of the Company's performance, financial position and prospects. A separate statement containing a discussion and analysis of the Group's performance is included on pages 8 to 15 of this Annual Report.

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

DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

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

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

CORPORATE GOVERNANCE REPORT

AUDITOR'S RESPONSIBILITY

The Auditor of the Company is Deloitte Touche Tohmatsu. A statement by the Auditor about its reporting responsibilities is included in the Independent Auditor's Report on the Company's Financial Statements on pages 97 and 102.

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

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

AUDITOR'S REMUNERATION

The remunerations paid and payable to Deloitte Touche Tohmatsu, the Auditor of the Company and their respective associates in respect of statutory audit and non-audit services (with each significant non-audit service assignment listed out separately) provided to the Group in 2016 and 2015 is set out below:

| Audit and Non-audit Services | 2016 HK\$ million | 2015 HK\$ million |
|-------------------------------------|------------------------------|------------------------------|
| Annual audit | 9.2 | 9.2 |
| Interim review | 3.5 | 3.5 |
| Quarterly results review | 0.6 | 0.6 |
| Test counts of chips | 0.1 | 0.1 |
| Tax consultancy and advisory | 1.2 | 0.7 |
| Consultancy for Cotai Project | 5.2 | 4.7 |
| Reporting services | 0.1 | 0.2 |
| Provision of training | — | 0.1 |
| Total: | 19.9 | 19.1 |

RISK MANAGEMENT AND INTERNAL CONTROLS

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

The key procedures established by the Board to provide effective risk management and internal controls include (i) a defined management structure and a risk management framework with clear strategy, lines of responsibility and limits of authority; (ii) an appropriate organisational structure which adequately provides the necessary information flow for risk analysis and 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 and risk; (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 oversee on an on-going basis, through the Audit Committee, the effectiveness of the systems of risk management and internal control that includes finance, operations, compliance and internal audit. The review process consists of (i) assessment of risks and internal controls by the Internal Audit Department; (ii) compliance review of gaming regulations by the 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, or if required, 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 are reported to the Audit Committee.

The head of the Internal Audit Department of SJM, a subsidiary of the Company, performs operational and compliance audits on a regular basis. The department head has many years of working experience in audit and financial management, and is assisted by a team of internal auditors, who are either university graduates with accounting degrees or audit professionals and on average have relevant internal audit experience of five years or more. The Internal Audit Department carries out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems, and provides assurance to the Board and executive management on an on-going basis. Internal Audit Department 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 2016, Internal Audit Department performed reviews of the effectiveness of the internal control system of the Group's businesses in respect to business processes, practices and procedures, which covered all material controls, including financial, operational, compliance and risk management functions. In addition, Internal Audit Department conducted AML reviews and submitted its reports to the Audit Committee quarterly with findings and recommendations for improvements. All in all, Internal Audit Department 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. The Audit Committee is satisfied with the internal audit work performed and the adequacy of resources and qualifications of the staff within Internal Audit Department.

The DICJ also conducts compliance audits on AML and gaming related procedures on an annual basis whilst inspectors from the DICJ are involved inspecting and monitoring key processes in the Group's casinos on a daily basis.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

SJM has established the Risk Management Committee to implement a framework for assessing and monitoring risks faced by the Group. In 2016 a consulting firm was retained to assist in designing a risk management process for the Group, to map out the Group's current risk universe and assist on compiling a risk register. The terms of reference of the Risk Management Committee requires the Committee to meet at least quarterly to update the risk register based on inputs from risk owners and classifies and prioritises risks. On a semi-annual basis the Committee reports to the Audit Committee of the Board on the status of risk management controls including an evaluation of the major risks identified by the Group. During each semi-annual period the Risk Management Committee reviews specific areas of risk that are of concern to the Audit Committee or management, meeting with the relevant risk owners, and reporting to the Audit Committee.

For the year under review, the Board considers that the risk management and internal control systems of the Group are adequate and effective and the Company has complied with the relevant code provisions in the CG Code.

COMPANY SECRETARY

Ms. Kwok Shuk Chong is a full-time employee of the Company with professional qualifications and extensive experience to discharge the functions of Company Secretary of the Company. She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She has more than 20 years of experience in company secretarial practices in professional firms, private and listed groups of companies. Ms. Kwok has taken no less than 15 hours of relevant professional training in 2016.

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

SHAREHOLDERS' RIGHTS

Procedures for convening a general meeting

Pursuant to Article 49 of the Articles, the Board may, whenever it thinks fit, convene a general meeting. General meetings shall also be convened by the Directors on the requisition of Shareholders pursuant to section 566 of the Hong Kong Companies Ordinance.

According to section 566 of the Hong Kong Companies Ordinance, the Shareholders may request the Directors to call a general meeting of the Company. The Directors are required to call a general meeting if the Company has received requests to do so from Shareholders representing at least 5% of the total voting rights of all the Shareholders having a right to vote at general meetings. A request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Requests may consist of several documents in like form. A request may be sent to the Company in hard copy form or in electronic form and must be authenticated by the person or persons making it.

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (Continued)

Procedures for putting forward proposals at an annual general meeting

The rights of Shareholders and the procedures for demanding a poll on resolutions at a 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 except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Any questions from Shareholders regarding voting by way of poll will be answered after explanation of the procedures.

Poll results will be posted on the websites of the Company and of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. It is the Company's general practice that the Chairman of the Board as well as Chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, their duly appointed delegates, who are members of the relevant committees, are available to answer questions at the annual general meeting of the Company. At general meeting, individual resolutions are proposed on each substantially separate issue, including the election of individual Directors.

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

INVESTOR RELATIONS

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

The last general meeting of the Company was an annual general meeting which was held at Golden Restaurant, Macau Jockey Club (HK) Club House, 1st Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong on Thursday, 16 June 2016 at 2:30 p.m. at which resolutions were duly passed in respect of major items such as (i) the adoption of the audited financial statements and the reports of the Directors and the Auditor for the year ended 31 December 2015, (ii) declaration of a final dividend, (iii) re-election of Directors and authorisation of the Board to fix the Directors' remuneration, (iv) re-appointment of the Auditor and authorisation of the Board to fix their remuneration, (v) approval of the repurchase mandate of the Company, and (vi) approval of the grant of Options under the Scheme of the Company and issue and allotment of Shares arising from exercising the Options.

The important dates for the 2017 AGM and the proposed final dividend are set out on page 6 of this Annual Report.

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

CORPORATE GOVERNANCE REPORT

LOOKING FORWARD

We will continue to review and enhance our corporate governance practices taking into account of the internal environment of the Group as well as the external regulatory requirements, practices and developments.

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

So Shu Fai
Executive Director and Chief Executive Officer

Hong Kong, 28 February 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company believes that sound environmental, social and governance (“ESG”) performance is critically important to the sustainable development of our business and of our community. The Company is committed, not only to achieving strong financial results, but also to promoting environmental protection, social responsibility and effective corporate governance.

The Board is responsible for our ESG strategy and reporting. We have established an ESG working team to engage our management and employees across all functions in order to identify relevant ESG issues and to assess their materiality to our business as well as our stakeholders, through reviewing our operations and internal discussions. Disclosures relating to the material ESG issues identified have been included in this ESG Report pursuant to the requirements of Appendix 27 of the Listing Rules (the “ESG Guide”).

The table below shows the ESG issues which were determined to be material to the Group, together with the aspects on the ESG Guide to which they relate, based on the assessment performed by the ESG working team. This ESG Report mainly covers the policies, initiatives and performance of the Company’s major hotel and casino operations, the Casino Grand Lisboa and the Grand Lisboa Hotel, as well as its Hong Kong office, unless specified, in relation to these issues, for the period from 1 January to 31 December 2016 (the “Reporting Period”):

| ESG Aspects as set forth in ESG Guide | Material ESG issues for the Group |
|--|--|
| <i>A. Environmental</i> | |
| A1 Emissions | Carbon emissions, waste management |
| A2 Use of resources | Use of energy and water |
| A3 The environment and natural resources | Air quality |
| <i>B. Social</i> | |
| B1 Employment | Labour practices |
| B2 Health & safety | Workplace health and safety |
| B3 Development and training | Employee development and training |
| B4 Labour standards | Anti-child and forced labour |
| B5 Supply chain management | Green procurement |
| B6 Product responsibility | Food safety, responsible gaming and data privacy |
| B7 Anti-corruption | Anti-corruption and money laundering |
| B8 Community investment | Community programs, employee volunteering and donation |

Note: Since the Group is principally engaged in the gaming and hotel business, no significant levels of pollutants were discharged into the air or water and no substantial amounts of packaging materials were used in the Reporting Period. Therefore, disclosures relating to these aspects, as set forth in the ESG Guide, are not applicable to the Group and so have not been made.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

We have established environmental policies and have communicated measurable environmental objectives to our employees. We proactively encourage our staff to protect the environment through training, education and communication. Our ultimate goal is to have all employees adopting environmentally-responsible behavior in both the workplace and their daily lives.

The Company always keeps itself up-to-date on developments in local legislation and standards for environmental protection and is committed to achieving a level of environmental performance that goes beyond compliance. During the Reporting Period, the Group did not experience any cases of non-compliance relating to environmental laws and regulations in Macau and Hong Kong.

A1 Emissions

Carbon Emissions

The major source of our carbon emissions is the use of energy. We have deployed various energy-saving initiatives to help reduce our carbon footprint (please refer to the "Use of Energy" section below). For several years, the Company has supported the Carbon Footprint Repository for Hong Kong-listed companies initiated by the Environment Protection Department of the Hong Kong Government (the "EPD"). We submitted a carbon emissions report for our Hong Kong head office for such purpose in 2015, which is available on the EPD's website (<http://www.carbon-footprint.hk>).

Waste Management

During the Reporting Period, waste generated from our business activities in Casino Grand Lisboa and Grand Lisboa Hotel mainly consists of paper (e.g. office paper and marketing materials) and plastic bottles for water provided to our guests:

| Type of waste | Amount |
|-----------------|-------------------|
| Paper | 18,523.61 Kg |
| Plastic bottles | 562,403.84 Litres |

No substantial hazardous waste was produced by the Group during the Reporting Period.

The Group has launched a number of waste management programs, including:

- Recycling of glass, cardboard, paper materials, metal, waste oil, soap bars, printing cartridges and batteries, with collection facilities placed across our properties;
- Paperless approval processes and paperless meetings to reduce the use of hardcopy documents;
- Installation of food waste decomposing machines; and
- Use of environmental friendly chemicals for laundry and cleaning.

We are now considering making use of recycled materials, from both internal and external sources, to produce corporate stationery for internal use and documents published for external consumption, as well as items from non-paper sources, where feasible.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (Continued)

A2 Use of Resources

With the vision of helping to protect the planet and of incorporating environmental sustainability into its business functions and processes, SJM proactively seeks opportunities for increasing operating efficiency in order to reduce the use of resources. SJM also closely monitors the utilization of resources and reports to senior management on this aspect of performance. Appropriate remedial actions to improve our efficiency in the use of resources are taken, whenever necessary.

Use of Energy

The energy consumed by Casino Grand Lisboa and Grand Lisboa Hotel during the Reporting Period is summarized as follows:

| Type | Amount | Carbon emission |
|-----------------------|-------------------|------------------------------------|
| Gasoline | 26,677.39 Litres | 72.24 Tonnes CO ₂ e |
| Diesel | 24,371.00 Litres | 64.57 Tonnes CO ₂ e |
| LPG | 1,162,421.00 Kg | 3,507.02 Tonnes CO ₂ e |
| Purchased Electricity | 83,177,880.00 Kwh | 62,542.00 Tonnes CO ₂ e |

Note: The above statistics represent the major direct and indirect amounts of energy consumed by the Casino Grand Lisboa and Grand Lisboa Hotel, and the corresponding carbon emissions during the Reporting Period. Carbon emissions are calculated with reference to the Greenhouse Gas Protocol using carbon conversion factors published by the EPD. A unit of tonne in the above statistics equals to 1,000 Kg.

To achieve higher energy efficiency, Casino Grand Lisboa and Grand Lisboa Hotel adopted an energy saving plan and implemented the following key initiatives during the Reporting Period:

- Connection to the intelligent building management system to ensure better temperature control for the air conditioning units in back-of-house common areas;
- Blinds for windows in the highest floors to reduce solar heat in air-conditioned areas and hence the energy for air-conditioning required will be reduced accordingly;
- Heat recovery chiller is adopted to recover the heat generated for the chilled water system and redirected for various heating application, such as pool preheating and preheating hot water system;
- An optimal air-conditioning control program to select the best configuration for the chiller plant automatically, based on the in-door requirement and out-door condition;
- An indoor air quality monitoring system that conserves energy by reducing the need for energy to be expended pumping outdoor fresh air through the Company's buildings;
- Heat pumps with energy efficiency that is 60% higher than traditional electric heaters for water heating; and
- LED lights in most parts of the Company's properties which save up to 25% in energy usage, compared with fluorescent lights.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

For awareness-building, various workshops have been held to facilitate our employees with brainstorming and sharing ideas on resolving specific environmental issues including energy usage. We also promote the idea of energy conservation with our guests and staff through use of posters, stickers or emails that have relevant slogans. Our guests have been provided with different green options such as reducing the frequency of changing bed linen, towels and bathrobes to help us further save energy and water.

In 2016, SJM participated in various activities during the “Macau Energy Saving Week”, including the One-hour Lights Off and Dress Casual Summer campaigns.

Use of Water

During the Reporting Period, water consumed by Casino Grand Lisboa and Grand Lisboa Hotel was 775,168 cubic meters. We have established a water management platform and reduction plan, and managed to use water in a more efficient way through the following measures:

- Utilizing a sophisticated filtration system enabling the use and reuse of water in swimming pools; and
- Deploying water saving devices, including automatic sensors in faucets, water saving shower heads and dual flush water closets.

A3 The Environment and Natural Resources

Air quality

In order to help improve air quality, the Group aims to reduce air emissions generated from its properties and vehicles in Macau by regular examination and green initiatives. Hydro vent and electro-static precipitators have been installed to remove the grease content in the kitchen exhaust and reduce its temperature before discharging outside, in order to minimize pollution.

SJM is committed to fulfilling and complying with the Regime of Tobacco Prevention and Control requirements in Macau law. To protect non-smoking guests, SJM has separate smoking and non-smoking areas, and has built 42 smoking lounges for indoor air quality management (27 of which for self-promoted casinos (7 at Casino Grand Lisboa) and 15 of which for third-party promoted casinos).

We actively seek new ways of improving the indoor air quality of our properties in Macau for the health of our guests and staff, such as deploying electrostatic and ultra-violet/mobile air purifiers and duct type ionizers. Indoor environmental quality audits are conducted annually for certain of our facilities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (Continued)

A3 The Environment and Natural Resources (Continued)

Air quality (Continued)

The Group supports organizations and activities which promote environmental protection. Dr. So Shu Fai (“Dr. So”), Executive Director and Chief Executive Officer of the Company, is the Director-General of the International Forum for Clean Energy (Macau) (“IFCE”). IFCE is an international non-profit organization based in Macau which aims to be the global clean-energy, multi-stakeholder network that connects a wide range of key actors from government, industry, science and academia, to facilitate knowledge exchange, technical cooperation, and joint action towards a rapid global transition to the low-carbon society of sustainable energy for all. It is dedicated to enhancing both the innovative power of clean energy technology and industry competitiveness.

SJM is a supporting organization for the Fifth IFCE held in Macau on 29 and 30 November 2016, the theme of which is “Clean and Low-carbon Efficient and Energy-saving”. It focuses on four reforming and development action roadmaps for pragmatic discussion including energy production and consumption, technological innovation, institutional mechanisms and international cooperation. Dr. So officiated the opening ceremony, made an opening speech and received the Certificate of “Carbon Neutral Conference” awarded by the China Green Carbon Foundation on behalf of all attendees at the Fifth IFCE. A number of SJM’s senior executives joined the Fifth IFCE and attended the programmes and activities it had organised.

B. SOCIAL

B1 Employment

Labour Practices

To ensure that the Group is able to operate according to professional and ethical labour practices, the Group has developed clear work processes with robust control mechanisms, which have been clearly communicated to all employees. Employee handbooks have been established in Hong Kong and Macau, with sets of policies to govern employees’ affairs such as payroll, attendance, termination, transfer and promotion and rules of conduct. Our Hong Kong offices and Macau offices are in compliance with the relevant labour laws and regulations in Hong Kong and Macau respectively.

We also aim to promote the diversity of our workforce, including in terms of age, gender and nationality, as well as a culture of equal opportunity. Our management regularly reviews the Company’s remuneration policy in relation to relevant market standards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

B1 Employment (Continued)

Labour Practices (Continued)

The total workforce of SJM (including Casino Grand Lisboa and Grand Lisboa Hotel) and of the Group's offices in Hong Kong as at 31 December 2016 is summarized as follows:

| Gender | No. of employees | Employment Type | No. of employees |
|---------------|-------------------------|------------------------|-------------------------|
| Male | 9,050 | Full-time (Permanent) | 17,121 |
| Female | 10,676 | Full-time (Contract) | 2,605 |
| Total | 19,726 | Total | 19,726 |

| Age | No. of employees | Geographical Region (by work location) | No. of employees |
|--------------|-------------------------|---|-------------------------|
| 18-30 | 3,101 | | |
| 31-40 | 5,669 | Hong Kong | 67 |
| 41-50 | 5,754 | Macau | 19,659 |
| 51-60 | 4,767 | Overseas | 0 |
| >=61 | 435 | | |
| Total | 19,726 | Total | 19,726 |

B2 Health and Safety

Workplace health and safety

The Group has established a set of policies which is focused on maintaining a healthy and safe working environment, and which includes the following requirements:

- The facilities operated by employees should meet safety and health standards;
- Expert advice should be obtained to identify health and safety risk in our operations and the corresponding mitigating actions that should be taken; and
- Relevant information and training should be provided to employees in respect of risks to their health and safety which may arise out of their work.

The Group did not violate any health and safety laws and regulations of Macau and Hong Kong, where applicable, during the Reporting Period.

The Company has established a mechanism for monitoring occupational health and safety, as well as procedures for dealing with related risks. We engage our employees in the determination of appropriate occupational health and safety precautionary measures. Accident reporting and investigation procedures have also been adopted for the follow-up of any health and safety incidents.

Regular inspections and management review of health and safety have been performed to ensure the effectiveness of the policies and measures.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

B3 Development and Training

Employee development and training

The Group strives to promote the long-term development of its employees by providing learning opportunities that broaden their skills and make them valuable assets to the Group.

Various in-house staff training programs are offered to staff including in the areas of human resources, marketing, finance, governance, lifestyle and life skills, supervisory and managerial skills, as well as various technical training courses relating to their respective job duties. Employees are also welcome to participate in any training courses of interest to them. We also provide scholarships to support employees enroll in degree-bearing programs offered by educational institutions and development courses offered by external training companies.

SJM also provides on-boarding training for each employee, covering various topics such as occupational safety, industry knowledge (for those without gaming or hospitality backgrounds), know-how required to build a prestige integrated resort, as well as corporate governance and responsible gaming.

The percentage of employees of SJM (including Casino Grand Lisboa and Grand Lisboa Hotel) receiving training and the average training hours per employee during the Reporting Period are summarized as follows:

| Gender/Employee Category | % of employee trained | Average training hours per employee |
|---------------------------------|------------------------------|--|
| Male | 18.28% | 31.63 |
| Female | 27.49% | 18.31 |
| General employees | 24.22% | 24.31 |
| Middle management | 13.54% | 1.32 |

Note: The percentage of employees trained is calculated as the total number of trained employees in the category over the total no. of employees in that category during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

B4 Labour Standards

Anti-child and forced labour

The Company strictly prohibits the use of child and forced labour in the Group, and is totally committed to creating a work environment which respects human rights. We do not allow people aged under 21 to enter or work in our casinos, in compliance with Macau law.

In addition to having well-established recruitment processes requiring background checks on candidates (including examining identity cards to ensure applicants are aged 21 or over) and formalised reporting procedures to address any exceptions found, the Group also performs regular reviews and inspections to detect the existence of any child or forced labour in our operations.

B5 Supply Chain Management

Green procurement

We promote green and environmentally friendly procurement in our casinos, hotels and offices, and encourage our third party-promoted casinos to adopt environmental protection measures such as reducing their carbon footprint and complying with the Regime of Tobacco Prevention and Control. Suppliers with certificates and proofs on their products that are under the green category will be considered for our future purchase. Third party-promoted casinos are also required to report the extent of their compliance with the Regime of Tobacco Prevention and Control and we also encourage them to do this.

The geographical distribution of our suppliers is as follows:

| Geographical region | No. of Suppliers |
|----------------------------|-------------------------|
| Hong Kong | 1,346 |
| Macau | 3,185 |
| Other | 363 |
| Total | 4,894 |

Note: The above statistics cover our suppliers of goods and services in SJM and certain subsidiaries in Macau during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

B6 Product Responsibility

Food safety

Since SJM provides food and beverages in its casino and hotel operations, it has established a well-structured policy to ensure food safety and in compliance with relevant laws and regulations in Macau. There were no incidents regarding food safety during the Reporting Period.

Regular inspections of kitchens, to ensure the safety of the food and beverages we provide, complies with laws and regulations.

Responsible gaming

As a casino operator, we are committed to promoting responsible gaming, Please refer to the “Corporate Social Responsibility” section in this Annual Report for details.

Intellectual property rights

Relevant departments of the Group are responsible to ensure the protection of intellectual property rights for all licenses and copyrights.

Data privacy

Each of our casinos and restaurants has adopted its own policies on consumer data protection which comply with relevant laws and regulations in Macau. Workshops on the awareness of data privacy and protection have been conducted for relevant staff.

B7 Anti-corruption

Anti-corruption and money laundering

The code of conduct adopted by the Company sets out procedures for preventing corruption. We have in place a number of policies addressing anti-corruption, such as acceptance of gifts, and conflicts of interest, which provide guidance to employees in these areas. SJM has also set up a special team and has established policies and procedures to deal with money laundering in gaming operations.

Training on anti-money laundering has been provided to employees of all operations levels, in order to raise their awareness of the code of conduct as well as related procedures and guidelines. Those procedures and guidelines have been duly communicated to employees by making available to them the policies and operation manuals.

We established and adopted a whistle-blowing system for reporting by employees any improprieties in financial reporting, internal control or other matters. Our anti-money Laundering Compliance team and Internal Audit Department are responsible for dealing with reported cases according to their nature. Both these teams seek the assistance of the Group’s Legal Departments, if necessary. Reports are made on a periodical and quarterly basis to the Audit Committee.

During the Reporting Period, no legal case regarding corruption was brought against the Company or its employees. Also, there were no material cases of non-compliance with laws and regulations on anti-money laundering in Macau.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

B8 Community Investment

Community programs, employee volunteering and donation

“From society, to society” is a core value of the Company. We have been supporting education, arts and culture, sports and other charitable activities for the benefit of the Macau community for many years. Please refer to the “Corporate Social Responsibility” section of this Annual Report for the details of our community programs, employee volunteering and donations.

For and on behalf of the Board of Directors

SJM Holdings Limited

So Shu Fai

Executive Director and Chief Executive Officer

Hong Kong, 28 February 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

**TO THE MEMBERS OF
SJM HOLDINGS LIMITED**

澳門博彩控股有限公司

(incorporated in Hong Kong with limited liability)

OPINION

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 103 to 179, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Valuation of advances to gaming promoters and other receivables from gaming promoters and service providers

We identified the valuation of advances to gaming promoters and other receivables from gaming promoters and service providers as a key audit matter due to the estimation uncertainty inherent in the Group management's credit risk assessment process in respect of the collectability of those advances and other receivables according to the recent financial performance and repayment history of those gaming promoters and service providers.

As disclosed in notes 4 and 22 to the consolidated financial statements, the Group's advances to gaming promoters and other receivables from gaming promoters and service providers, net of an allowance for doubtful debts, amounted to HK\$1,026.7 million as at 31 December 2016. Any adverse changes in the business environment and financial performance of those gaming promoters and service providers may impact the recoverability of those advances and other receivables.

Our procedures in relation to the valuation of advances to gaming promoters and other receivables from gaming promoters and service providers included:

- Obtaining an understanding from and testing the control over the management's process in respect of reviewing the financial performance of gaming promoters and service providers;
- Evaluating the appropriateness of the credit assessment policy and sufficiency of the allowance for doubtful debts by reviewing information in respect of the financial performance of gaming promoters and service providers and checking the repayment history and the subsequent settlements in respect of those advances and other receivables on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Capitalisation of additions to construction in progress

We identified the capitalisation of additions to construction in progress ("CIP") as a key audit matter due to the significance of the Group's properties under construction.

As disclosed in note 13 to the consolidated financial statements, additions to CIP amounted to HK\$6,505.7 million during the year ended 31 December 2016 and accounted for 17% of the Group's total assets as at 31 December 2016. The relevant accounting policies are set out in note 3.6 "Property and equipment" to the consolidated financial statements.

Our procedures in relation to the capitalisation of additions to construction in progress included:

- Obtaining an understanding of the progress of the construction of the Group's CIP by interviewing the Group's external quantity surveyors and architects;
- Evaluating the appropriateness of the Group's construction costs capitalisation policy by comparing the nature of those costs capitalised against the requirements of HKAS 16 "Property, Plant and Equipment"; and
- Checking, on a sample basis, the amount of additions capitalised with reference to the contractors' invoices, and quantity surveyors' and architects' certificates in respect of the CIP.

Disclosure of related party transactions

We identified the accuracy and completeness of disclosure of related party transactions as set out in respective notes to the consolidated financial statements as a key audit matter due to the high volume of business transactions with related parties during the year ended 31 December 2016.

Our procedures in relation to the accuracy and completeness of disclosure of related parties transactions included:

- Obtaining an understanding of the Group's policies and procedures in respect of the capturing of related party transactions and how management ensures all transactions and balances with related parties have been accurately disclosed in the consolidated financial statement;
- Agreeing the amounts disclosed to underlying documentation and reviewing relevant agreements, on a sample basis, as part of our evaluation of the disclosure; and
- Evaluating the completeness of the disclosures through review of statutory information, books and records and other documents obtained during the course of our audit.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Kwok Lai Sheung.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 February 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | Notes | 2016 HK\$ million | 2015 HK\$ million |
|--|-------|----------------------|----------------------|
| Gaming, hotel, catering and related services revenues | 5(a) | 41,798.4 | 48,863.7 |
| Gaming revenue | 6 | 41,272.5 | 48,282.3 |
| Special gaming tax, special levy and gaming premium | | (16,068.5) | (18,819.9) |
| | | 25,204.0 | 29,462.4 |
| Hotel, catering and related services income | | 525.9 | 581.4 |
| Cost of sales and services on hotel, catering and related services | | (241.4) | (249.0) |
| Other income, gains and losses | | 239.0 | 19.4 |
| Marketing and promotional expenses | | (15,022.7) | (18,147.8) |
| Operating and administrative expenses | | (8,367.6) | (9,196.0) |
| Finance costs | 7 | (44.9) | (51.9) |
| Share of profits of an associate | 17 | 49.1 | 64.7 |
| Share of profits of a joint venture | 18 | 6.9 | 7.0 |
| Profit before taxation | 8 | 2,348.3 | 2,490.2 |
| Taxation | 10 | (33.8) | (38.3) |
| Profit for the year | | 2,314.5 | 2,451.9 |
| Other comprehensive income (expense): | | | |
| Item that may be subsequently reclassified to profit or loss: | | | |
| Available-for-sale investment in equity securities: | | | |
| Gains (losses) arising during the year | | 117.1 | (397.2) |
| Reclassification adjustment upon impairment | | — | 250.0 |
| Other comprehensive income (expense) for the year | | 117.1 | (147.2) |
| Total comprehensive income for the year | | 2,431.6 | 2,304.7 |
| Profit for the year attributable to: | | | |
| owners of the Company | | 2,326.5 | 2,465.0 |
| non-controlling interests | | (12.0) | (13.1) |
| | | 2,314.5 | 2,451.9 |
| Total comprehensive income for the year attributable to: | | | |
| owners of the Company | | 2,443.6 | 2,317.8 |
| non-controlling interests | | (12.0) | (13.1) |
| | | 2,431.6 | 2,304.7 |
| Earnings per share: | | | |
| Basic | 12 | HK41.1 cents | HK43.6 cents |
| Diluted | 12 | HK41.1 cents | HK43.5 cents |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

| | <i>Notes</i> | 2016 HK\$ million | 2015 HK\$ million |
|--|--------------|-----------------------------|----------------------|
| Non-current assets | | | |
| Property and equipment | 13 | 19,851.4 | 14,054.4 |
| Land use rights | 14 | 2,522.2 | 2,634.5 |
| Intangible asset | 15 | 1.6 | 7.9 |
| Art works and diamonds | 16 | 281.6 | 281.3 |
| Interest in an associate | 17 | 172.8 | 109.8 |
| Interest in a joint venture | 18 | 115.1 | 108.2 |
| Available-for-sale investment in equity securities | 19 | 328.3 | 211.2 |
| Other assets | 20 | 286.3 | 346.2 |
| Pledged bank deposits | 21 | 145.6 | 424.1 |
| | | 23,704.9 | 18,177.6 |
| Current assets | | | |
| Inventories | | 68.5 | 63.0 |
| Trade and other receivables | 22 | 1,480.7 | 1,658.2 |
| Financial assets at fair value through profit or loss | 23 | 78.1 | 61.4 |
| Pledged bank deposits | 21 | 262.2 | 80.9 |
| Short-term bank deposits | 24 | 3,650.2 | 6,441.7 |
| Bank balances and cash | 24 | 9,510.4 | 10,371.9 |
| | | 15,050.1 | 18,677.1 |
| Current liabilities | | | |
| Trade and other payables | 25 | 11,633.4 | 10,730.3 |
| Payable for acquisition of land use rights | 27 | 178.4 | 343.9 |
| Taxation payable | | 83.0 | 59.7 |
| Long-term bank loans | 28 | 539.1 | 158.4 |
| Amounts due to non-controlling interests of subsidiaries | 29 | 293.3 | 5.0 |
| | | 12,727.2 | 11,297.3 |
| Net current assets | | 2,322.9 | 7,379.8 |
| Total assets less current liabilities | | 26,027.8 | 25,557.4 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

| | <i>Notes</i> | 2016 HK\$ million | 2015 HK\$ million |
|--|--------------|------------------------------------|----------------------|
| Non-current liabilities | | | |
| Other payables | 25 | 832.5 | 603.6 |
| Payable for acquisition of land use rights | 27 | — | 178.4 |
| Long-term bank loans | 28 | — | 554.4 |
| Amounts due to non-controlling interests of subsidiaries | 29 | 273.1 | 630.0 |
| Deferred taxation | 30 | 81.0 | 111.6 |
| | | 1,186.6 | 2,078.0 |
| Net assets | | 24,841.2 | 23,479.4 |
| Capital and reserves | | | |
| Share capital | 31 | 11,237.6 | 11,235.7 |
| Reserves | | 13,515.2 | 12,090.2 |
| Equity attributable to owners of the Company | | 24,752.8 | 23,325.9 |
| Non-controlling interests | | 88.4 | 153.5 |
| Total equity | | 24,841.2 | 23,479.4 |

The consolidated financial statements on pages 103 to 179 were approved and authorised for issue by the Board of Directors on 28 February 2017 and are signed on its behalf by:

So Shu Fai
Director

Ng Chi Sing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

| | Share capital HK\$ million | Share options reserve HK\$ million | Investment revaluation 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 2015 | 11,231.9 | 376.5 | 128.4 | 13,027.2 | 24,764.0 | 98.3 | 24,862.3 |
| Profit for the year | — | — | — | 2,465.0 | 2,465.0 | (13.1) | 2,451.9 |
| Other comprehensive expense for the year | — | — | (147.2) | — | (147.2) | — | (147.2) |
| Total comprehensive income for the year | — | — | (147.2) | 2,465.0 | 2,317.8 | (13.1) | 2,304.7 |
| Exercise of share options | 3.8 | (1.2) | — | — | 2.6 | — | 2.6 |
| Recognition of equity-settled share-based payments | — | 314.3 | — | — | 314.3 | — | 314.3 |
| Release of lapsed equity-settled share-based payments | — | (7.8) | — | 7.8 | — | — | — |
| Arising from changes in cash flow estimates on amount due to non-controlling interests of a subsidiary | — | — | — | — | — | 68.3 | 68.3 |
| Dividends paid (note 11) | — | — | — | (4,072.8) | (4,072.8) | — | (4,072.8) |
| | 3.8 | 305.3 | — | (4,065.0) | (3,755.9) | 68.3 | (3,687.6) |
| At 31 December 2015 | 11,235.7 | 681.8 | (18.8) | 11,427.2 | 23,325.9 | 153.5 | 23,479.4 |
| Profit for the year | — | — | — | 2,326.5 | 2,326.5 | (12.0) | 2,314.5 |
| Other comprehensive income for the year | — | — | 117.1 | — | 117.1 | — | 117.1 |
| Total comprehensive income for the year | — | — | 117.1 | 2,326.5 | 2,443.6 | (12.0) | 2,431.6 |
| Exercise of share options | 1.9 | (0.6) | — | — | 1.3 | — | 1.3 |
| Recognition of equity-settled share-based payments | — | 170.0 | — | — | 170.0 | — | 170.0 |
| Release of lapsed equity-settled share-based payments | — | (12.5) | — | 12.5 | — | — | — |
| Arising from changes in cash flow estimates on amount due to non-controlling interests of a subsidiary | — | — | — | — | — | (53.1) | (53.1) |
| Dividends paid (note 11) | — | — | — | (1,188.0) | (1,188.0) | — | (1,188.0) |
| | 1.9 | 156.9 | — | (1,175.5) | (1,016.7) | (53.1) | (1,069.8) |
| At 31 December 2016 | 11,237.6 | 838.7 | 98.3 | 12,578.2 | 24,752.8 | 88.4 | 24,841.2 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| Operating activities | | |
| Profit before taxation | 2,348.3 | 2,490.2 |
| Adjustments for: | | |
| Interest income | (140.8) | (254.1) |
| Interest expenses | 20.6 | 26.8 |
| Imputed interest on amount due to non-controlling interests of a subsidiary | 24.3 | 25.1 |
| Dividend income | (3.6) | (4.0) |
| Share of profits of an associate | (49.1) | (64.7) |
| Share of profits of a joint venture | (6.9) | (7.0) |
| Depreciation of property and equipment | 1,064.7 | 1,094.7 |
| Loss on disposal/write-off of property and equipment | 0.7 | 3.6 |
| Operating lease rentals in respect of land use rights | 42.5 | 42.5 |
| Amortisation of intangible asset | 6.3 | 6.3 |
| Impairment loss on available-for-sale investment in equity securities | — | 250.0 |
| Allowance for doubtful debts | 2.8 | 49.7 |
| Change in fair value of financial assets at fair value through profit or loss | (16.7) | 17.2 |
| Share-based payments | 169.9 | 314.1 |
| Impairment loss on property and equipment | 12.6 | — |
| Impairment loss on deposits made on acquisitions of property and equipment | 22.8 | — |
| Operating cash flows before movements in working capital | 3,498.4 | 3,990.4 |
| Increase in inventories | (5.5) | — |
| Decrease in trade and other receivables | 163.3 | 346.1 |
| Increase (decrease) in trade and other payables | 358.6 | (3,886.8) |
| Cash from operations | 4,014.8 | 449.7 |
| Income tax paid | (41.1) | (41.1) |
| Net cash from operating activities | 3,973.7 | 408.6 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| Investing activities | | |
| Interest received | 152.2 | 294.0 |
| Dividends received | 3.6 | 4.0 |
| Purchase of property and equipment | (5,964.9) | (3,024.8) |
| Proceeds from disposal of property and equipment | 6.3 | 10.9 |
| Additions of land use rights | (343.9) | (327.3) |
| Deposits paid for acquisitions of property and equipment | (31.0) | (65.4) |
| Advance to ultimate holding company | — | (0.8) |
| Repayment from ultimate holding company | — | 0.9 |
| Advances to a joint venture | — | (0.1) |
| Repayment from an investee company | 3.0 | 9.0 |
| Withdrawal of short-term bank deposits | 14,955.5 | 24,966.8 |
| Placement of short-term bank deposits | (12,164.0) | (17,148.7) |
| Withdrawal of pledged bank deposits | 86.4 | 94.3 |
| Placement of pledged bank deposits | (9.0) | (11.8) |
| Purchase of art works | (0.3) | — |
| Net cash (used in) from investing activities | (3,306.1) | 4,801.0 |
| Financing activities | | |
| Interest paid | (42.4) | (65.4) |
| Dividends paid | (1,188.0) | (4,072.8) |
| Proceeds from issue of shares | 1.3 | 2.6 |
| Repayment of long-term bank loans | (154.0) | (253.9) |
| (Repayment to) advances from non-controlling interests of a subsidiary | (146.0) | 5.0 |
| Net cash used in financing activities | (1,529.1) | (4,384.5) |
| Net (decrease) increase in cash and cash equivalents | (861.5) | 825.1 |
| Cash and cash equivalents at 1 January | 10,371.9 | 9,546.8 |
| Cash and cash equivalents at 31 December | 9,510.4 | 10,371.9 |
| Analysis of the balances of cash and cash equivalents, representing bank balances and cash | 9,510.4 | 10,371.9 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

SECTION A

THE COMPANY'S STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

| | <i>Notes</i> | 2016 HK\$ million | 2015 HK\$ million |
|---|--------------|------------------------------|----------------------|
| Non-current assets | | | |
| Property and equipment | | 0.5 | 0.9 |
| Investments in subsidiaries | 42 | 4,359.3 | 4,359.3 |
| | | 4,359.8 | 4,360.2 |
| Current assets | | | |
| Other receivables, deposits and prepayments | | 8.9 | 18.8 |
| Amounts due from subsidiaries | 43 | 10,903.1 | 7,086.9 |
| Short-term bank deposits | | 1,915.4 | 4,398.4 |
| Bank balances and cash | | 2,035.8 | 2,682.5 |
| | | 14,863.2 | 14,186.6 |
| Current liabilities | | | |
| Other payables and accruals | | 8.8 | 5.9 |
| Amount due to a subsidiary | 43 | 291.6 | 291.6 |
| | | 300.4 | 297.5 |
| Net current assets | | 14,562.8 | 13,889.1 |
| Net assets | | 18,922.6 | 18,249.3 |
| Capital and reserves | | | |
| Share capital | 31 | 11,237.6 | 11,235.7 |
| Reserves | 33 | 7,685.0 | 7,013.6 |
| Total equity | | 18,922.6 | 18,249.3 |

The Company's statement of financial position was approved and authorised for issue by the Board of directors on 28 February 2017 and is signed on its behalf by:

So Shu Fai
Director

Ng Chi Sing
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

SECTION B

1. GENERAL

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

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

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

Amendments to HKFRSs that are mandatory effective for the current year

The Group has applied the following amendments to HKFRSs and the Hong Kong Accounting Standards (“HKASs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

| | |
|--|--|
| Amendments to HKFRS 11 | Accounting for acquisitions of interests in joint operations |
| Amendments to HKAS 1 | Disclosure initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer plants |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012 – 2014 cycle |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|------------------------------------|--|
| HKFRS 9 | Financial instruments ¹ |
| HKFRS 15 | Revenue from contracts with customers and the related amendments ¹ |
| HKFRS 16 | Leases ² |
| Amendments to HKFRS 2 | Classification and measurement of share-based payment transactions ¹ |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts ¹ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture ³ |
| Amendments to HKAS 7 | Disclosure initiative ⁴ |
| Amendments to HKAS 12 | Recognition of deferred tax assets for unrealised losses ⁴ |

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 9 Financial instruments (Continued)

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKFRS 9 are required 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured generally at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective qualitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have an impact on the measurement of the Group's financial assets. In particular, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may enhance the disclosures and has no material impact on the amounts reported in the Group’s consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 16 Leases (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront land use rights as investing cash flows in relation to leasehold lands for owned use, while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under HKAS 17, the Group has already recognised land use rights for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK\$813.0 million (2015: HK\$702.2 million) as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the management complete a detailed review.

Amendments to HKFRS 2 Classification and measurement of share-based payment transactions

The amendments clarify the following:

- (a) In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
- (b) Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee’s tax obligation to meet the employee’s tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a “net settlement feature”, such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKFRS 2 Classification and measurement of share-based payment transactions (Continued)

- (c) A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
- (i) the original liability is derecognised;
 - (ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - (iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The directors of the Company do not anticipate that the application of the amendments to HKFRS 2 will have a material effect on the Group’s financial performance and positions and/or the disclosures set out in these consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 Sale or contribution of assets between an investor and its associate or joint venture

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of the amendments to HKFRS 10 and HKAS 28 will have a material effect on the Group’s financial performance and positions and/or the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKAS 7 Disclosure initiative (Continued)

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The directors of the Company do not anticipate that the application of the amendments to HKFRS 7 will have a material effect on the Group’s financial performance and positions and/or the disclosures set out in these consolidated financial statements.

The directors of the Company do not anticipate that the application of the other amendments to HKFRSs will have a material effect on the Group’s financial performance and positions and/or the disclosures set out in these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of assets.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- (a) has power over the investee;
- (b) is exposed, or has rights, to variable returns from its involvement with the investee; and
- (c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Interest in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments are made to conform the associate's accounting policies to those of the Group. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise 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 exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 of disposal) 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 resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Interest in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 joint venture. 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 of disposal) 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 joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Gaming revenue represents the aggregate of gaming wins and losses and is recognised in the profit or loss less accruals for the anticipated payouts of progressive slot jackpots. Gaming revenue is recognised net of direct sales incentives to patrons including customer relationship programs.

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.

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 properties under construction as described below), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment loss, if any.

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

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

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective tenancy leases or 3 years, whichever is shorter or the remaining terms of the gaming concession or 12 years, whichever is applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property and equipment (Continued)

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

| | |
|-----------------------------------|------------|
| Chips | 25% |
| Furniture, fixtures and equipment | 7.6%–50% |
| Gaming equipment | 25% |
| Motor vehicles | 20% |
| Vessels | 3.3%–16.7% |

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.

3.7 Leasehold land and buildings

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

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

3.8 Land use rights

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

3.9 Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Intangible asset

Intangible asset acquired separately and with finite useful life is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible asset with finite useful life is provided on a straight line basis over its estimated useful life. 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 mainly represent food and beverage held for sale, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3.13 Financial instruments

Financial assets and financial liabilities are recognised in the Group's and the Company's statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or 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 the following specified categories: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(a) Financial assets (Continued)

(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, amounts due from subsidiaries/an associate/a joint venture/an investee company) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each of the reporting period subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any identified impairment losses.

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

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

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(a) Financial assets (Continued)

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

Equity securities are held by the Group that are reclassified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to dividends on available-for-sale equity investments are recognised in profit or loss. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

(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 affected.

For available-for-sale equity investment, a significant or prolonged decline in fair value of the security below its cost is considered to be objective evidence of impairment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(a) *Financial assets (Continued)*

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

For financial assets carried at 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 financial asset's original effective interest rate.

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

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

(b) *Financial liabilities and equity instruments*

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

(i) **Effective interest method**

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

Interest expense is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

(b) *Financial liabilities and equity instruments (Continued)*

(ii) **Financial liabilities**

Financial liabilities including trade and other payables, payable for acquisition of land use rights, amount due to a subsidiary, amounts due to non-controlling interests of subsidiaries and long-term bank loans are subsequently measured at amortised cost using the effective interest method.

(iii) **Equity instruments**

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

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

(iv) **Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

(c) *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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 expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Impairment losses on tangible and intangible assets

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

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

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

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

3.15 Taxation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Taxation (Continued)

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

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

3.16 Foreign currencies

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

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

3.17 Leases

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

The Group as lessee

Assets held under finance leases are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the 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 capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

(b) *Share options granted to other participants*

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

3.19 Retirement benefits costs

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

3.20 Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services.

All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 and liabilities within the next financial year, are discussed below.

Allowance for doubtful debts

The Group grants pre-approved revolving credit lines and short-term temporary advances to its gaming promoters (2015: gaming promoters and patrons) and service providers of satellite casinos with good credit histories and financial track records. For the outstanding balances from inactive gaming promoters (2015: gaming promoters and patrons) and service providers of satellite casinos, an estimated allowance for doubtful accounts is maintained to reduce the Group's receivables to their recoverable amounts. The allowances are estimated based on credit reviews of the outstanding balances from gaming promoters (2015: gaming promoters and patrons) and service providers of satellite casinos and an evaluation of the amounts expected to be recovered with reference to relevant commissions accrued to, and deposits received from, the relevant gaming promoters (2015: gaming promoters and patrons) or service providers of satellite casinos at the end of the reporting period, the continuous business relationship, the commissions payable to the relevant gaming promoters (2015: gaming promoters and patrons) or service providers of satellite casinos subsequent to the end of the reporting period, the cheques, and guarantees obtained and the financial background of the relevant gaming promoters (2015: gaming promoters and patrons) or service providers of satellite casinos. When the actual future cash flows from the settlement of the outstanding balances from gaming promoters (2015: gaming promoters and patrons) or service providers of satellite casinos are less than expected, a material impairment loss may arise and affect profit or loss in the period of change. As at 31 December 2016, the carrying amount of advances to and other receivables from gaming promoters (2015: gaming promoters and patrons) and service providers of satellite casinos are HK\$1,026.7 million (2015: HK\$1,175.0 million), net of allowance for doubtful debts of HK\$132.5 million (2015: HK\$132.5 million).

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

Save as disclosed in note 29(i), a portion of the Group's carrying amount of the amount due to non-controlling interests of a subsidiary as at 31 December 2016 was HK\$560.4 million (2015: HK\$630.0 million).

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

Estimated impairment of interests in an associate and a joint venture

In determining whether there is an impairment loss, the Group takes into consideration the estimation of future cash flows to be generated by the associate and joint venture. The amount of the impairment loss is measured as the difference between the carrying amount of the interests in associate and joint venture and the share of the present value of estimated future cash flows expected to be generated by the associate and joint venture. As at 31 December 2016, the interest in an associate and interest in a joint venture is HK\$172.8 million (2015: HK\$109.8 million) and HK\$115.1 million (2015: HK\$108.2 million) respectively. Included in the cost of investment in a joint venture is goodwill of HK\$34.3 million (2015: HK\$34.3 million). Where the actual future cash flows are less than expected, a material impairment loss may arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. 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 revenue and operating results of gaming operations as a whole for resources allocation and performance assessment. For hotel and catering operations, the CODM regularly reviews the performance on the basis of individual hotel. For segment reporting under HKFRS 8, financial information of the Group’s hotels with similar economic characteristics has been aggregated into a single operating segment named “hotel and catering operations”.

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 | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2016 HK\$ million | 2015 HK\$ million | 2016 HK\$ million | 2015 HK\$ million |
| Gaming operations | 41,272.5 | 48,282.3 | 2,626.7 | 2,924.4 |
| Hotel and catering operations: | | | | |
| external sales | 525.9 | 581.4 | | |
| inter-segment sales | 261.7 | 260.0 | | |
| Eliminations | 787.6 (261.7) | 841.4 (260.0) | (305.4) | (294.0) |
| | 525.9 | 581.4 | | |
| | 41,798.4 | 48,863.7 | | |
| | | | 2,321.3 | 2,630.4 |
| Reconciliation from segment results to profit before taxation: | | | | |
| Unallocated corporate income | | | 79.9 | 174.9 |
| Unallocated corporate expenses | | | (125.6) | (119.6) |
| Impairment loss on available-for-sale investment in equity securities | | | — | (250.0) |
| Change in fair value of financial assets at fair value through profit or loss | | | 16.7 | (17.2) |
| Share of profits of an associate | | | 49.1 | 64.7 |
| Share of profits of a joint venture | | | 6.9 | 7.0 |
| Profit before taxation | | | 2,348.3 | 2,490.2 |

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 before taxation earned by each segment without allocation of corporate income and expenses, impairment loss on available-for-sale investment in equity securities, change in fair value of financial assets at fair value through profit or loss and share of results of an associate/a joint venture. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. OPERATING SEGMENTS (Continued)

(b) An analysis of the Group's assets and liabilities by operating segments is as follows:

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| ASSETS | | |
| Segment assets: | | |
| gaming operations | 14,804.5 | 14,542.1 |
| hotel and catering operations | 4,507.6 | 5,188.3 |
| | 19,312.1 | 19,730.4 |
| Interest in an associate | 172.8 | 109.8 |
| Interest in a joint venture | 115.1 | 108.2 |
| Unallocated bank deposits, bank balances and cash | 4,001.3 | 7,152.0 |
| Other unallocated assets | 15,153.7 | 9,754.3 |
| Group's total | 38,755.0 | 36,854.7 |
| LIABILITIES | | |
| Long term bank loans: | | |
| gaming operations | 238.7 | 315.6 |
| hotel and catering operations | 300.4 | 397.2 |
| | 539.1 | 712.8 |
| Other segment liabilities: | | |
| gaming operations | 10,727.4 | 10,486.4 |
| hotel and catering operations | 279.2 | 320.5 |
| | 11,006.6 | 10,806.9 |
| Total segment liabilities | 11,545.7 | 11,519.7 |
| Unallocated liabilities | 2,368.1 | 1,855.6 |
| Group's total | 13,913.8 | 13,375.3 |

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

- (i) other unallocated assets include mainly certain property and equipment, certain land use rights, art works and diamonds, amounts due from an associate/a joint venture/an investee company, available-for-sale investment in equity securities and financial assets at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. OPERATING SEGMENTS (Continued)

(b) An analysis of the Group's assets and liabilities by operating segments is as follows (Continued):

- (ii) unallocated liabilities include mainly payable for acquisition of land use rights and amounts due to non-controlling interests of subsidiaries.
- (iii) all assets are allocated to operating segments, other than interest in an associate/a joint venture, unallocated bank deposits, bank balances and cash and those mentioned in (i).
- (iv) all liabilities are allocated to operating segments, other than liabilities not attributable to respective segments as mentioned in (ii).

(c) Other segment information of the Group

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| Additions to non-current assets (other than financial instruments): | | |
| gaming operations | 1,396.6 | 573.1 |
| hotel and catering operations | 46.7 | 142.2 |
| corporate level* | 5,423.9 | 3,057.7 |
| | 6,867.2 | 3,773.0 |
| Depreciation and amortisation: | | |
| gaming operations | 593.1 | 639.0 |
| hotel and catering operations | 464.2 | 455.5 |
| corporate level | 13.7 | 6.5 |
| | 1,071.0 | 1,101.0 |
| Loss (gain) on disposal/write-off of property and equipment: | | |
| gaming operations | 0.9 | (3.8) |
| hotel and catering operations | — | 7.4 |
| corporate level | (0.2) | — |
| | 0.7 | 3.6 |
| Share-based payments: | | |
| gaming operations | 154.0 | 298.4 |
| corporate level | 15.9 | 15.7 |
| | 169.9 | 314.1 |

* Amount includes certain land use rights, property and equipment and art works and diamonds where the directors of the Company consider it impracticable to divide into individual segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. OPERATING SEGMENTS (Continued)

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

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| Finance costs: | | |
| gaming operations | 11.1 | 11.9 |
| hotel and catering operations | 9.5 | 15.0 |
| corporate level | 24.3 | 25.0 |
| | 44.9 | 51.9 |
| Interest income: | | |
| gaming operations | 63.1 | 77.4 |
| hotel and catering operations | 11.5 | 15.0 |
| corporate level | 66.2 | 161.7 |
| | 140.8 | 254.1 |
| Allowance for doubtful debts: | | |
| gaming operations | 2.8 | 49.7 |
| Impairment loss on property and equipment: | | |
| gaming operations | 12.6 | — |
| Impairment loss on deposits made on acquisitions: | | |
| gaming operations | 22.8 | — |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. GAMING REVENUE

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Gaming revenue from: | | |
| VIP gaming operations | 19,933.8 | 25,063.9 |
| mass market table gaming operations | 20,437.5 | 22,385.4 |
| slot machine and other gaming operations | 1,066.7 | 1,140.2 |
| | 41,438.0 | 48,589.5 |
| Less: direct sales incentives including customer relationship programs | (165.5) | (307.2) |
| | 41,272.5 | 48,282.3 |

The comparative figures were reclassified to conform with current year's presentation.

7. FINANCE COSTS

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| Interest on: | | |
| bank borrowings | 20.6 | 26.8 |
| acquisition of land use rights | 19.7 | 36.4 |
| Imputed interest on amount due to non-controlling interests of a subsidiary | 24.3 | 25.1 |
| | 64.6 | 88.3 |
| Less: Amount capitalised | (19.7) | (36.4) |
| | 44.9 | 51.9 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. PROFIT BEFORE TAXATION

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| <i>Profit before taxation has been arrived at after charging:</i> | | |
| Directors' remuneration (note 9) | 238.3 | 311.9 |
| Less: Amount capitalised | (7.8) | — |
| | 230.5 | 311.9 |
| Retirement benefits scheme contributions for other staff | 206.3 | 215.5 |
| Less: Forfeited contributions | (27.0) | (21.7) |
| | 179.3 | 193.8 |
| Share-based payments to other staff | 29.7 | 95.6 |
| Other staff costs | 5,657.4 | 5,926.8 |
| | 5,687.1 | 6,022.4 |
| Total employee benefit expenses | 6,096.9 | 6,528.1 |
| Operating lease rentals in respect of: | | |
| land use rights | 45.0 | 45.0 |
| rented premises | 360.2 | 374.4 |
| | 405.2 | 419.4 |
| Allowance for doubtful debts (Note) | 2.8 | 49.7 |
| Amortisation of intangible asset (included in operating and administrative expenses) | 6.3 | 6.3 |
| Auditor's remuneration | 13.4 | 13.4 |
| Depreciation of property and equipment | 1,064.7 | 1,094.7 |
| Impairment loss on available-for-sale investment in equity securities | — | 250.0 |
| Impairment loss on property and equipment | 12.6 | — |
| Impairment loss on deposits made on acquisitions of property and equipment | 22.8 | — |
| Loss on disposal/write-off of property and equipment | 0.7 | 3.6 |
| Loss on change in fair value of financial assets at fair value through profit or loss | — | 17.2 |
| Share-based payments to other participants (included in operating and administrative expenses) | 1.3 | 1.7 |
| <i>and after crediting:</i> | | |
| Interest income from: | | |
| bank deposits | 139.6 | 254.1 |
| others | 1.2 | — |
| | 140.8 | 254.1 |
| Dividend income | 3.6 | 4.0 |
| Gain on change in fair value of financial assets at fair value through profit or loss | 16.7 | — |

Note: During the year ended 31 December 2015, there was a charge of HK\$142.5 million relating to the suspension of a satellite casino, comprising an allowance for doubtful debts of HK\$49.7 million and certain marketing and promotional expenses to be reimbursed by the service provider of HK\$92.8 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

| | 2016 | | | | | 2015 | | | | |
|---|----------------------------|----------------------------|----------------------------|----------------------|--------------|----------------------------|----------------------------|----------------------------|----------------------|--------------|
| | Base fees | Special fees | Other fees | Share-based payments | Total | Base fees | Special fees | Other fees | Share-based payments | Total |
| | HK\$ million (Note (a)) | HK\$ million (Note (b)) | HK\$ million (Note (c)) | HK\$ million | HK\$ million | HK\$ million (Note (a)) | HK\$ million (Note (b)) | HK\$ million (Note (c)) | HK\$ million | HK\$ million |
| THE COMPANY | | | | | | | | | | |
| Executive directors: | | | | | | | | | | |
| Dr. Ho Hung Sun, Stanley | 1.0 | 0.3 | — | — | 1.3 | 1.0 | 0.3 | — | — | 1.3 |
| Dr. So Shu Fai (Chief Executive Officer) | 2.1 | 0.5 | — | — | 2.6 | 1.6 | 0.4 | — | — | 2.0 |
| Mr. Ng Chi Sing | 0.5 | 0.1 | — | — | 0.6 | 0.5 | 0.1 | — | — | 0.6 |
| Dr. Rui José da Cunha | 0.5 | 0.1 | — | — | 0.6 | 0.5 | 0.1 | — | — | 0.6 |
| Mr. Fok Tsun Ting, Timothy | 1.5 | 0.4 | — | — | 1.9 | 1.0 | 0.2 | — | — | 1.2 |
| Deputada Leong On Kei, Angela | 1.6 | 0.4 | — | — | 2.0 | 1.1 | 0.2 | — | — | 1.3 |
| Mr. Shum Hong Kuen, David | 1.5 | 0.4 | — | — | 1.9 | 1.0 | 0.2 | — | — | 1.2 |
| Non-executive director: | | | | | | | | | | |
| Dr. Cheng Kar Shun | 0.5 | 0.1 | — | — | 0.6 | 0.5 | 0.1 | — | — | 0.6 |
| Independent non-executive directors: | | | | | | | | | | |
| Mr. Chau Tak Hay | 0.7 | 0.2 | — | 0.6 | 1.5 | 0.6 | 0.2 | — | 0.9 | 1.7 |
| Dr. Lan Hong Tsung, David | 0.7 | 0.2 | — | 0.6 | 1.5 | 0.6 | 0.2 | — | 0.9 | 1.7 |
| Hon. Shek Lai Him, Abraham | 1.9 | 0.5 | — | 0.6 | 3.0 | 1.3 | 0.3 | — | 0.9 | 2.5 |
| Mr. Tse Hau Yin | 1.8 | 0.5 | — | — | 2.3 | 1.2 | 0.3 | — | — | 1.5 |
| | 14.3 | 3.7 | — | 1.8 | 19.8 | 10.9 | 2.6 | — | 2.7 | 16.2 |
| SUBSIDIARIES | | | | | | | | | | |
| Executive directors: | | | | | | | | | | |
| Dr. Ho Hung Sun, Stanley | 23.3 | 5.8 | 2.4 | 5.9 | 37.4 | 23.3 | 5.8 | 2.4 | 9.1 | 40.6 |
| Dr. So Shu Fai (Chief Executive Officer) | 11.4 | 2.9 | 1.2 | 41.6 | 57.1 | 11.4 | 2.8 | 1.2 | 63.9 | 79.3 |
| Mr. Ng Chi Sing | 10.4 | 2.6 | 1.2 | 38.0 | 52.2 | 10.4 | 2.7 | 1.2 | 58.4 | 72.7 |
| Dr. Rui José da Cunha | 2.5 | 0.7 | 0.3 | 3.6 | 7.1 | 2.5 | 0.6 | 0.4 | 5.5 | 9.0 |
| Mr. Fok Tsun Ting, Timothy | 0.4 | 0.1 | 0.3 | 3.6 | 4.4 | 0.4 | 0.1 | 0.4 | 5.5 | 6.4 |
| Deputada Leong On Kei, Angela | 8.6 | 2.3 | 2.2 | 35.7 | 48.8 | 8.6 | 2.2 | 2.4 | 54.8 | 68.0 |
| Mr. Shum Hong Kuen, David | 0.4 | 0.1 | 0.4 | 3.6 | 4.5 | 0.4 | 0.1 | 0.4 | 5.5 | 6.4 |
| Non-executive director: | | | | | | | | | | |
| Dr. Cheng Kar Shun | 0.4 | 0.1 | 0.4 | 4.5 | 5.4 | 0.4 | 0.1 | 0.4 | 10.5 | 11.4 |
| Independent non-executive directors: | | | | | | | | | | |
| Mr. Chau Tak Hay | — | — | — | — | — | — | — | — | — | — |
| Dr. Lan Hong Tsung, David | — | — | — | — | — | — | — | — | — | — |
| Hon. Shek Lai Him, Abraham | — | — | — | — | — | — | — | — | — | — |
| Mr. Tse Hau Yin | — | — | 1.0 | 0.6 | 1.6 | — | — | 1.0 | 0.9 | 1.9 |
| | 57.4 | 14.6 | 9.4 | 137.1 | 218.5 | 57.4 | 14.4 | 9.8 | 214.1 | 295.7 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

| | 2016 | | | | | 2015 | | | | |
|---|--|--|---|--|--------------------------|--|--|---|--|--------------------------|
| | Base fees HK\$ million (Note (a)) | Special fees HK\$ million (Note (b)) | Other fees HK\$ million (Note (c)) | Share- based payments HK\$ million | Total HK\$ million | Base fees HK\$ million (Note (a)) | Special fees HK\$ million (Note (b)) | Other fees HK\$ million (Note (c)) | Share- based payments HK\$ million | Total HK\$ million |
| THE GROUP | | | | | | | | | | |
| Executive directors: | | | | | | | | | | |
| Dr. Ho Hung Sun, Stanley | 24.3 | 6.1 | 2.4 | 5.9 | 38.7 | 24.3 | 6.1 | 2.4 | 9.1 | 41.9 |
| Dr. So Shu Fai (Chief Executive Officer) | 13.5 | 3.4 | 1.2 | 41.6 | 59.7 | 13.0 | 3.2 | 1.2 | 63.9 | 81.3 |
| Mr. Ng Chi Sing | 10.9 | 2.7 | 1.2 | 38.0 | 52.8 | 10.9 | 2.8 | 1.2 | 58.4 | 73.3 |
| Dr. Rui José da Cunha | 3.0 | 0.8 | 0.3 | 3.6 | 7.7 | 3.0 | 0.7 | 0.4 | 5.5 | 9.6 |
| Mr. Fok Tsun Ting, Timothy | 1.9 | 0.5 | 0.3 | 3.6 | 6.3 | 1.4 | 0.3 | 0.4 | 5.5 | 7.6 |
| Deputada Leong On Kei, Angela | 10.2 | 2.7 | 2.2 | 35.7 | 50.6 | 9.7 | 2.4 | 2.4 | 54.8 | 69.3 |
| Mr. Shum Hong Kuen, David | 1.9 | 0.5 | 0.4 | 3.6 | 6.4 | 1.4 | 0.3 | 0.4 | 5.5 | 7.6 |
| Non-executive director: | | | | | | | | | | |
| Dr. Cheng Kar Shun | 0.9 | 0.2 | 0.4 | 4.5 | 6.0 | 0.9 | 0.2 | 0.4 | 10.5 | 12.0 |
| Independent non-executive directors: | | | | | | | | | | |
| Mr. Chau Tak Hay | 0.7 | 0.2 | — | 0.6 | 1.5 | 0.6 | 0.2 | — | 0.9 | 1.7 |
| Dr. Lan Hong Tsung, David | 0.7 | 0.2 | — | 0.6 | 1.5 | 0.6 | 0.2 | — | 0.9 | 1.7 |
| Hon. Shek Lai Him, Abraham | 1.9 | 0.5 | — | 0.6 | 3.0 | 1.3 | 0.3 | — | 0.9 | 2.5 |
| Mr. Tse Hau Yin | 1.8 | 0.5 | 1.0 | 0.6 | 3.9 | 1.2 | 0.3 | 1.0 | 0.9 | 3.4 |
| | 71.7 | 18.3 | 9.4 | 138.9 | 238.3 | 68.3 | 17.0 | 9.8 | 216.8 | 311.9 |

Notes:

- (a) Base fee represents a fixed fee paid for the holding of an office as a director and, where appropriate, a board committee member.
- (b) Special fee represents a performance-based discretionary payment.
- (c) Other fee paid to Deputada Leong On Kei, Angela represents the fee (including performance-based discretionary payment) acting as the chairman of the Staff Welfare Consultative Committee of Sociedade de Jogos de Macau, S.A. ("SJM"), a subsidiary of the Company and special allowance. Other fee paid to Mr. Tse Hau Yin represents the fee (including performance-based discretionary payment) acting as supervisory committee chairman of SJM and its certain subsidiaries. Other fee paid to other directors represent special allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Executive directors are also senior management of the Group.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which any directors waived or agreed to waive any remuneration during the year.

The five highest paid individuals included four (2015: four) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining highest paid individual for the year were as follows:

| | 2016 HK\$ million | 2015 HK\$ million |
|-------------------------|----------------------|----------------------|
| Employee: | | |
| salaries and allowances | 6.3 | 6.3 |
| share-based payments | 4.7 | 25.3 |
| | 11.0 | 31.6 |

No emoluments were paid by the Group to the five highest paid individuals (including directors and employee) as an inducement to join or upon joining the Group or as compensation for loss of office in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. TAXATION

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| Current tax — Macau SAR Complementary Tax | 64.4 | 59.7 |
| Deferred taxation | (30.6) | (21.4) |
| | 33.8 | 38.3 |

No provision for Macau SAR Complementary Tax ("CT") on gaming related income is made for a subsidiary, SJM. Pursuant to the approval notice issued by the Macau SAR government dated 23 November 2011 and 27 September 2016, SJM has been exempted from CT for income generated from gaming operations for the years from 2012 to 2016 and 2017 to 2020, respectively.

In addition, pursuant to the approval letter dated 10 August 2012 issued by the Financial Services Bureau of the Macau SAR government, SJM's shareholders were obligated to pay the dividend tax of MOP42.3 million (equivalent to HK\$41.1 million) for dividend distributed by SJM (the "Special Complementary Tax") for each of the years from 2012 to 2016. During the year, the Company, as a shareholder of SJM, was obligated to pay HK\$41.1 million (2015: HK\$41.1 million). During the year, SJM has applied for extension of approval from Financial Services Bureau of the Macau SAR government. The application has not been approved up to date of this report.

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

No provision for taxation in other jurisdictions (including Hong Kong) is made as the Group's operations outside Macau SAR have no assessable taxable profits arising from the respective jurisdictions.

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

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Profit before taxation | 2,348.3 | 2,490.2 |
| Tax at the applicable income tax rate of 12% | 281.8 | 298.8 |
| Effect of tax exemption granted to the Group | (329.4) | (370.6) |
| Effect of share of results of an associate and a joint venture | (6.7) | (8.6) |
| Effect of income that is not taxable for tax purpose | (2.8) | (12.0) |
| Effect of expenses that are not deductible for tax purpose | 22.2 | 53.0 |
| Effect of tax loss not recognised | 27.6 | 36.8 |
| Utilisation of tax losses previously not recognised | — | (0.2) |
| Special Complementary Tax | 41.1 | 41.1 |
| Tax charge for the year | 33.8 | 38.3 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DIVIDENDS

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Interim dividend per ordinary share paid | | |
| — HK6 cents for 2016 | 339.5 | — |
| — HK10 cents for 2015 | — | 565.6 |
| Final dividend per ordinary share paid | | |
| — HK15 cents for 2015 | 848.5 | — |
| — HK62 cents for 2014 | — | 3,507.2 |
| | 1,188.0 | 4,072.8 |

A final dividend of HK18 cents per ordinary share, totalling HK\$1,018.3 million, is proposed by the directors of the Company at a board meeting held on 28 February 2017, which is subject to approval by the shareholders of the Company in the forthcoming annual general meeting and is calculated on the basis of 5,657,179,293 ordinary shares in issue at the date of this report.

12. EARNINGS PER SHARE

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

Earnings

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company) | 2,326.5 | 2,465.0 |

Number of shares

| | 2016 | 2015 |
|---|---------------|---------------|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 5,656,977,654 | 5,656,504,361 |
| Effect of dilutive potential ordinary shares on share options | 2,526,118 | 4,455,733 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 5,659,503,772 | 5,660,960,094 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. PROPERTY AND EQUIPMENT

| | Leasehold land and buildings | Chips | Furniture, fixtures and equipment | Gaming equipment | Leasehold improvements | Motor vehicles | Vessels | Construction in progress | Total |
|------------------------------------|------------------------------------|--------------|---|---------------------|---------------------------|-------------------|--------------|-----------------------------|-----------------|
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million |
| The Group | | | | | | | | | |
| COST | | | | | | | | | |
| At 1 January 2015 | 4,929.3 | 455.6 | 5,611.0 | 654.5 | 2,929.5 | 40.7 | 289.4 | 4,540.7 | 19,450.7 |
| Additions | 7.0 | 5.6 | 257.7 | 60.1 | 65.2 | 6.3 | — | 3,330.3 | 3,732.2 |
| Disposals/write-off | — | — | (38.4) | (56.3) | (51.3) | (3.3) | (3.3) | — | (152.6) |
| At 31 December 2015 | 4,936.3 | 461.2 | 5,830.3 | 658.3 | 2,943.4 | 43.7 | 286.1 | 7,871.0 | 23,030.3 |
| Additions | 5.4 | — | 175.8 | 104.9 | 87.5 | 2.0 | — | 6,505.7 | 6,881.3 |
| Disposals/write-off | — | (2.1) | (45.5) | (35.6) | (43.0) | (1.4) | — | — | (127.6) |
| Transfers | — | — | 293.7 | — | 746.4 | — | — | (1,040.1) | — |
| At 31 December 2016 | 4,941.7 | 459.1 | 6,254.3 | 727.6 | 3,734.3 | 44.3 | 286.1 | 13,336.6 | 29,784.0 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | | |
| At 1 January 2015 | 1,502.3 | 435.0 | 3,486.4 | 525.2 | 2,019.9 | 23.3 | 27.2 | — | 8,019.3 |
| Provided for the year | 237.3 | 12.8 | 479.2 | 48.5 | 297.6 | 5.9 | 13.4 | — | 1,094.7 |
| Eliminated on disposals/write-off | — | — | (33.6) | (56.2) | (46.2) | (1.4) | (0.7) | — | (138.1) |
| At 31 December 2015 | 1,739.6 | 447.8 | 3,932.0 | 517.5 | 2,271.3 | 27.8 | 39.9 | — | 8,975.9 |
| Provided for the year | 237.3 | 9.0 | 490.0 | 61.3 | 248.5 | 5.5 | 13.1 | — | 1,064.7 |
| Eliminated on disposals/write-off | — | (2.1) | (40.6) | (35.6) | (40.9) | (1.4) | — | — | (120.6) |
| Impairment loss recognised | — | — | 11.3 | — | 1.2 | 0.1 | — | — | 12.6 |
| At 31 December 2016 | 1,976.9 | 454.7 | 4,392.7 | 543.2 | 2,480.1 | 32.0 | 53.0 | — | 9,932.6 |
| CARRYING VALUES | | | | | | | | | |
| At 31 December 2016 | 2,964.8 | 4.4 | 1,861.6 | 184.4 | 1,254.2 | 12.3 | 233.1 | 13,336.6 | 19,851.4 |
| At 31 December 2015 | 3,196.7 | 13.4 | 1,898.3 | 140.8 | 672.1 | 15.9 | 246.2 | 7,871.0 | 14,054.4 |

At 31 December 2016, pursuant to the gaming concession held by the Group, certain of the Group's property and equipment with an aggregate carrying value of HK\$2,603.9 million (2015: HK\$1,805.9 million) in respect of the Group's gaming business have to be returned to the Macau SAR government at nil consideration upon completion of the term of the concession in 2020.

Other staff costs of HK\$239.2 million (2015: HK\$204.1 million) (including share-based payments to other staff of HK\$0.1 million (2015: HK\$0.2 million)), operating lease rental in respect of rented premises of HK\$142.0 million (2015: HK\$144.3 million) and operating lease rental in respect of land use rights of HK\$91.6 million (note 14) (2015: HK\$90.3 million) have been capitalised in construction in progress for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. LAND USE RIGHTS

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| CARRYING VALUE | | |
| At 1 January | 2,634.5 | 2,728.9 |
| Interest capitalised (note 7) | 19.7 | 36.4 |
| Released to profit or loss during the year | (42.5) | (42.5) |
| Released and capitalised to construction in progress during the year | (89.5) | (88.3) |
| At 31 December | 2,522.2 | 2,634.5 |

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

In 2012, the Group accepted a land concession contract with Macau SAR government in respect of the lease of a parcel of land in Macau SAR for the development and operation of a casino, hotels and entertainment complex for 25 years (the "Grand Lisboa Palace Project"). Pursuant to the land concession contract, the total land premium is HK\$2,087.9 million. The land concession contract was approved and the grant of land use rights was finalised by Macau SAR government in 2013. The remaining land premium payable to Macau SAR government would be paid by 8 semi-annual instalments together with a fixed interest of 5% per annum. Details are set out in the Company's announcements dated 19 October 2012 and 15 May 2013.

15. INTANGIBLE ASSET

The cost of a license for operation of a casino table game of HK\$63.2 million (2015: HK\$63.2 million) is amortised on a straight line basis over the term of the license representing its useful life of 10 years to 2017.

16. ART WORKS AND DIAMONDS

The amounts represent the aggregate cost of art works and diamonds held by the Group. In the opinion of the directors of the Company, the recoverable amounts of the art works and diamonds are at least their carrying amounts at the end of both reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INTEREST IN AN ASSOCIATE

| | 2016 HK\$ million | 2015 HK\$ million |
|-----------------------------------|----------------------|----------------------|
| Cost of unlisted investment | 25.0 | 25.0 |
| Discount on acquisition | 6.8 | 6.8 |
| Share of post-acquisition profits | 141.0 | 78.0 |
| | 172.8 | 109.8 |

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

The associate is accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

| | 2016 HK\$ million | 2015 HK\$ million |
|----------------------------|----------------------|----------------------|
| Current assets | 1,199.8 | 1,485.3 |
| Non-current assets | 90.9 | 84.2 |
| Current liabilities | (1,655.3) | (1,647.5) |
| Revenue | 2,024.6 | 1,593.7 |
| (Loss) profit for the year | (287.2) | 26.6 |

The unrecognised share of loss of an associate*:

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| At 1 January | 291.2 | 185.8 |
| Unrecognised share of loss for the year | 415.9 | 105.4 |
| At 31 December | 707.1 | 291.2 |

* The Group's share of loss of a construction project is limited to a fixed amount as agreed with the holding company of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INTEREST IN AN ASSOCIATE (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate and share of profits recognised in the consolidated financial statements:

Reconciliation of interest in an associate

| | 2016 HK\$ million | 2015 HK\$ million |
|---|-----------------------------|----------------------|
| Net liabilities of associate | (364.6) | (78.0) |
| Unrecognised share of loss of associate | 707.1 | 291.2 |
| Adjusted net assets of associate | 342.5 | 213.2 |
| Proportion of the Group's ownership interest in associate | 49% | 49% |
| Effect of fair value adjustments at acquisition | 167.8 5.0 | 104.5 5.3 |
| Carrying amount of the Group's interest in associate | 172.8 | 109.8 |

Reconciliation of share of profits of associate

| | 2016 HK\$ million | 2015 HK\$ million |
|---|-----------------------------|----------------------|
| (Loss) profit for the year of associate | (287.2) | 26.6 |
| Unrecognised share of loss for the year | 415.9 | 105.4 |
| Unrealised profits for the year | (28.4) | — |
| Adjusted profits for the year of associate | 100.3 | 132.0 |
| Proportion of the Group's ownership interest in associate | 49% | 49% |
| Share of profits of associate | 49.1 | 64.7 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. INTEREST IN A JOINT VENTURE

| | 2016 HK\$ million | 2015 HK\$ million |
|-----------------------------------|----------------------|----------------------|
| Cost of unlisted investment | 39.7 | 39.7 |
| Share of post-acquisition profits | 75.4 | 68.5 |
| | 115.1 | 108.2 |

The cost of investment in a joint venture represents the Group's 49% quota capital in an entity which is established in Macau SAR and engaged in property investment in Macau SAR.

According to the legal form and terms of the contractual arrangements, each of the two joint venturers that have joint control of the arrangement have rights to the net assets of the arrangement, hence it is regarded as a joint venture.

At the end of the reporting period, included in the cost of investment is goodwill of HK\$34.3 million (2015: HK\$34.3 million) arising on acquisition of the joint venture.

The joint venture is accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Current assets | 173.3 | 158.5 |
| Non-current assets | 28.8 | 29.7 |
| Current liabilities | (37.3) | (37.4) |
| Revenue | 14.4 | 14.4 |
| Profit for the year | 14.0 | 14.3 |
| The above profit for the year including the following: | | |
| Depreciation | 0.9 | 0.9 |
| Interest income | 1.9 | 2.0 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. INTEREST IN A JOINT VENTURE (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in a joint venture recognised in the consolidated financial statements:

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| Net assets of a joint venture | 164.8 | 150.8 |
| Proportion of the Group's ownership interest in a joint venture | 49% | 49% |
| | 80.8 | 73.9 |
| Goodwill | 34.3 | 34.3 |
| | 115.1 | 108.2 |
| Carrying amount of the Group's interest in a joint venture | | |

19. AVAILABLE-FOR-SALE INVESTMENT IN EQUITY SECURITIES

The amount comprises equity shares listed in Hong Kong that are carried at fair value. The management estimated the fair value of the available-for-sale investment in equity securities with reference to the quoted bid price in an active market and the market condition at the end of the reporting period. A significant decline in fair value was noted during the year ended 31 December 2015 and the cumulative losses of HK\$250.0 million previously recognised in other comprehensive income was reclassified to profit or loss in the year ended 31 December 2015.

20. OTHER ASSETS

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| Deposits made on acquisitions of property and equipment | 120.5 | 177.4 |
| Amount due from an associate | 88.4 | 88.4 |
| Amount due from a joint venture | 14.4 | 14.4 |
| Amount due from an investee company | 63.0 | 66.0 |
| | 286.3 | 346.2 |

The amounts due from an associate/a joint venture/an investee company are unsecured, interest-free and have no fixed repayment terms. At 31 December 2016, the management of the Group expects that these amounts will not be realised within 12 months from the end of the reporting period, hence, these amounts are classified as non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. PLEDGED BANK DEPOSITS

| | 2016 HK\$ million | 2015 HK\$ million |
|--------------------------------------|----------------------|----------------------|
| Bank deposits pledged to secure: | | |
| bank facilities (Note (a)) | 145.6 | 145.6 |
| bank facilities (Note (b)) | — | 278.5 |
| Non-current portion | 145.6 | 424.1 |
| Bank deposits pledged: | | |
| to secure bank facilities (Note (b)) | 260.9 | 79.6 |
| others | 1.3 | 1.3 |
| Current portion | 262.2 | 80.9 |
| | 407.8 | 505.0 |

Notes:

- (a) Amount represents deposits pledged to secure the bank facilities granted to a subsidiary of the Company. The bank facilities represent a guarantee amounting to HK\$291.3 million from 1 April 2007 to the earlier of 180 days after the expiry of the gaming concession contract or 31 March 2020, which is in favour of the Macau SAR government against the legal and contractual financial obligations of SJM under the gaming concession contract.
- (b) Amount represents deposits pledged to secure the bank facilities granted to a subsidiary of the Company of which HK\$260.9 million (2015: HK\$79.6 million) would be released within 12 months from the end of the reporting period. Such deposits are denominated in Renminbi.

At 31 December 2016, the pledged bank deposits carry fixed interest rates ranging from 0.90% to 2.75% (2015: 1.20% to 2.75%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. TRADE AND OTHER RECEIVABLES

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Advances to gaming promoters (2015: gaming promoters and patrons), net | 425.3 | 646.9 |
| Other receivables from gaming promoters and service providers, net | 601.4 | 528.1 |
| Prepayments | 164.5 | 183.9 |
| Other sundry receivables | 289.5 | 299.3 |
| | 1,480.7 | 1,658.2 |

Advances to gaming promoters (2015: gaming promoters and patrons) mainly include pre-approved interest-free revolving credit lines and short-term temporary interest-free advances. All advances to gaming promoters are unsecured, repayable on demand at discretion of the Group and generally require cheques and guarantees. For advances to gaming patrons, the credit period granted to pre-approved gaming patrons with good financial track records was generally 15 days. At 31 December 2016, all of the advances to gaming promoters (2015: gaming promoters and patrons) (net of allowances) are neither past due nor impaired.

Advances are only granted to gaming promoters (2015: gaming promoters and patrons) with good credit histories and financial track records. With the consent of gaming promoters, the Group can offset the advances against commission payables to or deposits from relevant gaming promoters. In the event that a gaming promoter fails to repay, the Group has the right, pursuant to the relevant gaming promoter agreement, to offset or withhold the commission payable and other payables to that gaming promoter, realise cheques and execute guarantees.

Other receivables from gaming promoters and service providers represent certain costs to be reimbursed from gaming promoters and service providers.

The following is the aged analysis of advances to gaming promoters (2015: gaming promoters and patrons) at the end of the reporting period based on the date of credit granted:

| | 2016 HK\$ million | 2015 HK\$ million |
|--------------|----------------------|----------------------|
| Age | | |
| 0 to 30 days | 425.3 | 646.9 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts

| | 2016 HK\$ million | 2015 HK\$ million |
|------------------------------|----------------------|----------------------|
| At 1 January | 132.5 | 82.8 |
| Allowance for doubtful debts | 2.8 | 49.7 |
| Written-off | (2.8) | — |
| At 31 December | 132.5 | 132.5 |

Allowance for doubtful debts with an aggregate balance of HK\$132.5 million (2015: HK\$132.5 million) represents individually impaired advances to gaming promoters (2015: gaming promoters and patrons), and other receivables from gaming promoters and service providers as the management considered the outstanding balances from these gaming promoters and service providers were uncollectible.

Other sundry receivables mainly include deposits paid for rentals and operating supplies, interest receivable and credit card receivables.

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

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| STDM and its associates (as defined under Chapter 14A of the Listing Rules), excluding the Group | 48.6 | 24.3 |
| An associate of the Group | 2.8 | 1.4 |
| 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 | 174.4 | 209.7 |
| | 225.8 | 235.4 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The amount comprises equity shares listed in Hong Kong that are carried at fair value which is the quoted bid price in an active market at the end of the reporting period.

24. SHORT-TERM BANK DEPOSITS/BANK BALANCES AND CASH

At 31 December 2016, the short-term bank deposits carried fixed interest rates ranging from 0.75% to 1.75% (2015: 0.53% to 2.00%) per annum with original maturity ranging from 3 months to 6 months (2015: 3 months to 6 months) and are classified as current assets since their remaining maturity is within 12 months from the end of the reporting period.

At 31 December 2016, bank balances carried effective interest rates ranging from 0.01% to 1.55% (2015: 0.01% to 1.45%) per annum.

25. TRADE AND OTHER PAYABLES

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Trade payables | 1,239.1 | 1,309.5 |
| Special gaming tax payable | 1,282.0 | 1,402.8 |
| Chips in circulation | 4,419.1 | 4,403.4 |
| Chips in custody and deposits received from gaming patrons and gaming promoters | 1,457.8 | 1,280.9 |
| Payables for acquisition of property and equipment | 96.7 | 86.6 |
| Construction payables | 1,975.6 | 1,210.1 |
| Accrued staff costs | 1,319.2 | 1,045.6 |
| Rentals payables | 247.3 | 187.7 |
| Withholding tax payable for gaming promoters and employees | 17.0 | 17.1 |
| Other sundry payables and accruals | 412.1 | 390.2 |
| | 12,465.9 | 11,333.9 |
| Less: Non-current portion | (832.5) | (603.6) |
| Current portion | 11,633.4 | 10,730.3 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. TRADE AND OTHER PAYABLES (Continued)

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

| | 2016 HK\$ million | 2015 HK\$ million |
|---------------|----------------------|----------------------|
| Age | | |
| 0 to 30 days | 1,213.4 | 1,298.7 |
| 31 to 60 days | 16.9 | 7.0 |
| 61 to 90 days | 4.4 | 1.9 |
| Over 90 days | 4.4 | 1.9 |
| | 1,239.1 | 1,309.5 |

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

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

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| STDM and its associates (as defined under Chapter 14A of the Listing Rules), excluding the Group | 179.8 | 173.1 |
| An associate of the Group | 333.0 | 297.7 |
| 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 | 310.3 | 396.8 |
| | 823.1 | 867.6 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. FINANCIAL GUARANTEE OBLIGATIONS

The fair value of financial guarantee obligations set out in note 41 in respect of an investee company and an associate at initial recognition is insignificant. No provision for financial guarantee contracts has been made at 31 December 2016 and 31 December 2015 as the default risk is low.

27. PAYABLE FOR ACQUISITION OF LAND USE RIGHTS

As at 31 December 2016, total payable for acquisition of land use right amounted to HK\$178.4 million which is classified as current liabilities. As at 31 December 2015, total payable for acquisition of land use rights amounted to HK\$522.3 million, of which HK\$343.9 million was included in current liabilities, and the remaining balance of HK\$178.4 million was included in non-current liabilities, which would be payable after 12 months from the end of the reporting period according to the land concession contract for Grand Lisboa Palace Project set out in note 14.

28. LONG-TERM BANK LOANS

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| The syndicated secured long-term bank loans are repayable: | | |
| within one year | 539.1 | 158.4 |
| between one to two years | — | 554.4 |
| Less: Current portion | 539.1 (539.1) | 712.8 (158.4) |
| Non-current portion | — | 554.4 |

At 31 December 2016, the Group's syndicated secured bank loans carry interest rate at 2.75% (2015: 2.75%) over 3-month Hong Kong Interbank Offered Rate ("HIBOR") per annum with effective interest rate at 3.77% (2015: 3.14%) per annum and are all denominated in Hong Kong dollars, except for a loan amounting to HK\$259.5 million denominated in Renminbi (2015: HK\$353.9 million) which carried fixed interest rate of 3.0% per annum. The purpose of the loans is to finance the phase 3 development project in Ponte 16 and settle certain loans from non-controlling shareholders. At 31 December 2016, the loans were secured by certain of the Group's property and equipment and land use rights with carrying values of HK\$753.5 million (2015: HK\$883.2 million) and HK\$62.7 million (2015: HK\$67.5 million) respectively. In addition, the other key terms and securities for such bank loans pledged are set out as follows:

- (i) a pledged bank deposit amounting to HK\$260.9 million (2015: HK\$358.1 million);
- (ii) financial guarantees with promissory notes given by certain subsidiaries and the non-controlling shareholders amounting to approximately HK\$2,400 million (2015: HK\$2,400 million) and HK\$1,176 million (2015: HK\$1,176 million) respectively;
- (iii) an assignment of all receivables and income from gaming and hotel operation of Pier 16 – Property Development Limited ("Pier 16 – Property") and its subsidiaries, if default;

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For the year ended 31 December 2016

28. LONG-TERM BANK LOANS (Continued)

- (iv) floating charges over all assets (except immovable property) and legal charges over certain bank accounts of certain subsidiaries;
- (v) an unconditional and irrevocable funding and completion undertaking for phase 3 development project in Ponte 16;
- (vi) assignments of all the rights and benefits of insurance policies and construction contracts relating to certain properties held by the Group, if default; and
- (vii) share pledges over the shares of certain subsidiaries.

During the year ended 31 December 2016, certain banks had offered syndicated bank facilities of HK\$25 billion to the Group primarily to finance the construction costs of the Grand Lisboa Palace Project. The Group is currently seeking the required approval by the Macau SAR government and expects to conclude the arrangements in early 2017.

29. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

At the end of reporting period, the amounts comprise:

- (i) HK\$560.4 million (2015: HK\$630.0 million) which is unsecured, interest-free and to be repaid from surplus funds. The surplus funds 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.

During the year ended 31 December 2016, imputed interest of HK\$24.3 million (2015: HK\$25.1 million) on the amount due to the non-controlling interests of the subsidiary of HK\$560.4 million (2015: HK\$630.0 million) has been recognised at a weighted average original interest rate of approximately 3.51% (2015: 4.1%) per annum. At 31 December 2016, the principal amount was HK\$611.4 million (2015: HK\$758.4 million).

The relevant bank facility allows the subsidiary to repay shareholders' loan, subject to certain terms and conditions, including certain leverage ratio requirements. On this basis, the Group agreed with the non-controlling shareholders of that subsidiary on the amounts and timing of the repayment of the amount due to them, taking into account the estimate of amounts and timing of repayment of bank loans pursuant to the bank facility agreement. At 31 December 2016, total carrying amounts of HK\$287.3 million (2015: nil) and HK\$273.1 million (2015: HK\$630.0 million) were classified as current and non-current liabilities respectively. During the year ended 31 December 2016, these carrying amounts have been adjusted by HK\$53.1 million (2015: HK\$68.3 million) because of changes in cash flow estimates, computed based on the present value of future cash outflows discounted at the original effective interest rate.

- (ii) HK\$6.0 million (2015: HK\$5.0 million) which is unsecured, interest-free and repayable on demand.

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30. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities need to be offset for both years.

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

| | Accelerated tax depreciation HK\$ million | Tax losses HK\$ million | Total HK\$ million |
|------------------------------------|---|-----------------------------------|------------------------------|
| At 1 January 2015 | (140.3) | 7.3 | (133.0) |
| Credit (charged) to profit or loss | 25.9 | (4.5) | 21.4 |
| At 31 December 2015 | (114.4) | 2.8 | (111.6) |
| Credit to profit or loss | 22.5 | 8.1 | 30.6 |
| At 31 December 2016 | (91.9) | 10.9 | (81.0) |

Also, at 31 December 2016, the Group has unutilised tax losses of HK\$849.4 million (2015: HK\$779.0 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams. These unrecognised tax losses will expire in three years from the year of assessment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. SHARE CAPITAL

| | Issued and fully paid | |
|--|-----------------------|------------------------|
| | Number of shares | Amount HK\$ million |
| Ordinary shares with no par value | | |
| At 1 January 2015 | 5,655,929,293 | 11,231.9 |
| Exercise of share options | 800,000 | 3.8 |
| At 31 December 2015 | 5,656,729,293 | 11,235.7 |
| Exercise of share options | 450,000 | 1.9 |
| At 31 December 2016 | 5,657,179,293 | 11,237.6 |

During the year ended 31 December 2016, 450,000 (2015: 800,000) share options were exercised, resulting in the issue of 450,000 (2015: 600,000 and 200,000) ordinary shares in the Company at a price of HK\$2.82 (2015: HK\$2.82 and HK\$5.11) per share.

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

32. 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 "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 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 shares. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed in nominal amount of 10% of the issued share capital of the Company at the date of adoption of the 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.

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32. 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 15 June 2015, a total of approximately 126.7 million share options with the estimated fair value of approximately HK\$436.5 million at the date of grant to directors of the Company, employees and other participants, were granted at an exercise price of HK\$9.826 per share under the terms of the Scheme. Total consideration received from the Participants for taking up the options granted amounted to approximately HK\$280.

On 11 May 2016, a total of 3.0 million share options with the estimated fair value of approximately HK\$4.9 million at the date of grant to employee, were granted at an exercise price of HK\$4.89 per share under the terms of the Scheme. Total consideration received from the Participant for taking up the options granted amounted to HK\$1.

A summary of the movements of the outstanding options during the year ended 31 December 2016 under the 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 1.1.2015 | Granted in 2015 | Exercised in 2015 | Lapsed in 2015 | Outstanding at 31.12.2015 | Granted in 2016 | Exercised in 2016 | Lapsed in 2016 | Outstanding at 31.12.2016 |
| Directors | 13.7.2009 | 13.7.2009 to 12.1.2010 | 13.1.2010 to 12.1.2019 | 2.82 | 3,000,000 | — | — | — | 3,000,000 | — | — | — | 3,000,000 |
| | 31.8.2010 | 31.8.2010 to 27.2.2011 | 28.2.2011 to 27.2.2020 | 7.48 | 3,000,000 | — | — | — | 3,000,000 | — | — | — | 3,000,000 |
| | 17.3.2011 | 17.3.2011 to 16.9.2011 | 17.9.2011 to 16.9.2020 | 12.496 | 7,000,000 | — | — | — | 7,000,000 | — | — | — | 7,000,000 |
| | 8.10.2013 | 8.10.2013 to 7.4.2014 | 8.4.2014 to 7.4.2023 | 22 | 1,000,000 | — | — | — | 1,000,000 | — | — | — | 1,000,000 |
| | 8.10.2013 | 8.10.2013 to 7.4.2015 | 8.4.2015 to 7.4.2023 | 22 | 1,000,000 | — | — | — | 1,000,000 | — | — | — | 1,000,000 |
| | 8.10.2013 | 8.10.2013 to 7.4.2016 | 8.4.2016 to 7.4.2023 | 22 | 1,000,000 | — | — | — | 1,000,000 | — | — | — | 1,000,000 |
| | 15.6.2015 | 15.6.2015 to 14.12.2015 | 15.12.2015 to 14.12.2024 | 9.826 | — | 38,669,000 | — | — | 38,669,000 | — | — | — | 38,669,000 |
| | 15.6.2015 | 15.6.2015 to 14.12.2016 | 15.12.2016 to 14.12.2024 | 9.826 | — | 38,669,000 | — | — | 38,669,000 | — | — | — | 38,669,000 |
| | 15.6.2015 | 15.6.2015 to 14.12.2017 | 15.12.2017 to 14.12.2024 | 9.826 | — | 38,662,000 | — | — | 38,662,000 | — | — | — | 38,662,000 |

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32. SHARE OPTION SCHEME (Continued)

| Type of participants | Date of grant | Vesting period | Exercise period | Exercise price per share HK\$ | Number of share options | | | | | | | | |
|---|---------------|-------------------------|--------------------------|----------------------------------|-------------------------|-----------------|-------------------|----------------|---------------------------|-----------------|-------------------|----------------|---------------------------|
| | | | | | Outstanding at 1.1.2015 | Granted in 2015 | Exercised in 2015 | Lapsed in 2015 | Outstanding at 31.12.2015 | Granted in 2016 | Exercised in 2016 | Lapsed in 2016 | Outstanding at 31.12.2016 |
| Employees | 13.7.2009 | 13.7.2009 to 12.1.2010 | 13.1.2010 to 12.1.2019 | 2.82 | 2,890,000 | — | (600,000) | — | 2,290,000 | — | (450,000) | — | 1,840,000 |
| | 19.5.2010 | 19.5.2010 to 18.11.2010 | 19.11.2010 to 18.11.2019 | 5.11 | 200,000 | — | (200,000) | — | — | — | — | — | — |
| | 26.5.2010 | 26.5.2010 to 25.11.2010 | 26.11.2010 to 25.11.2019 | 5.03 | 260,000 | — | — | — | 260,000 | — | — | — | 260,000 |
| | 8.10.2013 | 8.10.2013 to 7.4.2014 | 8.4.2014 to 7.4.2023 | 22 | 14,045,000 | — | — | (250,000) | 13,795,000 | — | — | (285,000) | 13,510,000 |
| | 8.10.2013 | 8.10.2013 to 7.10.2014 | 8.10.2014 to 7.4.2023 | 22 | 1,000,000 | — | — | — | 1,000,000 | — | — | — | 1,000,000 |
| | 8.10.2013 | 8.10.2013 to 7.4.2015 | 8.4.2015 to 7.4.2023 | 22 | 13,942,000 | — | — | (200,000) | 13,742,000 | — | — | (282,000) | 13,460,000 |
| | 8.10.2013 | 8.10.2013 to 7.10.2015 | 8.10.2015 to 7.4.2023 | 22 | 500,000 | — | — | — | 500,000 | — | — | — | 500,000 |
| | 8.10.2013 | 8.10.2013 to 7.4.2016 | 8.4.2016 to 7.4.2023 | 22 | 13,925,000 | — | — | (208,000) | 13,717,000 | — | — | (273,000) | 13,444,000 |
| | 8.10.2013 | 8.10.2013 to 7.10.2016 | 8.10.2016 to 7.4.2023 | 22 | 500,000 | — | — | — | 500,000 | — | — | — | 500,000 |
| | 8.10.2013 | 8.10.2013 to 7.10.2017 | 8.10.2017 to 7.4.2023 | 22 | 500,000 | — | — | — | 500,000 | — | — | — | 500,000 |
| | 8.10.2013 | 8.10.2013 to 7.10.2018 | 8.10.2018 to 7.4.2023 | 22 | 500,000 | — | — | — | 500,000 | — | — | — | 500,000 |
| | 15.6.2015 | 15.6.2015 to 14.12.2015 | 15.12.2015 to 14.12.2024 | 9.826 | — | 3,342,000 | — | (34,000) | 3,308,000 | — | — | (109,000) | 3,199,000 |
| | 15.6.2015 | 15.6.2015 to 14.12.2016 | 15.12.2016 to 14.12.2024 | 9.826 | — | 3,342,000 | — | (54,000) | 3,288,000 | — | — | (96,000) | 3,192,000 |
| | 15.6.2015 | 15.6.2015 to 14.12.2017 | 15.12.2017 to 14.12.2024 | 9.826 | — | 3,211,000 | — | (52,000) | 3,159,000 | — | — | (93,000) | 3,066,000 |
| | 11.5.2016 | 11.5.2016 to 10.11.2016 | 11.11.2016 to 10.11.2025 | 4.89 | — | — | — | — | — | 1,000,000 | — | — | 1,000,000 |
| | 11.5.2016 | 11.5.2016 to 10.11.2017 | 11.11.2017 to 10.11.2025 | 4.89 | — | — | — | — | — | 1,000,000 | — | — | 1,000,000 |
| | 11.5.2016 | 11.5.2016 to 10.11.2018 | 11.11.2018 to 10.11.2025 | 4.89 | — | — | — | — | — | 1,000,000 | — | — | 1,000,000 |
| Other participants | 13.7.2009 | 13.7.2009 to 12.1.2010 | 13.1.2010 to 12.1.2019 | 2.82 | 300,000 | — | — | — | 300,000 | — | — | — | 300,000 |
| | 8.10.2013 | 8.10.2013 to 7.4.2014 | 8.4.2014 to 7.4.2023 | 22 | 734,000 | — | — | (167,000) | 567,000 | — | — | (200,000) | 367,000 |
| | 8.10.2013 | 8.10.2013 to 7.4.2015 | 8.4.2015 to 7.4.2023 | 22 | 734,000 | — | — | (167,000) | 567,000 | — | — | (200,000) | 367,000 |
| | 8.10.2013 | 8.10.2013 to 7.4.2016 | 8.4.2016 to 7.4.2023 | 22 | 566,000 | — | — | — | 566,000 | — | — | (200,000) | 366,000 |
| | 15.6.2015 | 15.6.2015 to 14.12.2015 | 15.12.2015 to 14.12.2024 | 9.826 | — | 277,000 | — | — | 277,000 | — | — | — | 277,000 |
| | 15.6.2015 | 15.6.2015 to 14.12.2016 | 15.12.2016 to 14.12.2024 | 9.826 | — | 277,000 | — | — | 277,000 | — | — | — | 277,000 |
| | 15.6.2015 | 15.6.2015 to 14.12.2017 | 15.12.2017 to 14.12.2024 | 9.826 | — | 276,000 | — | — | 276,000 | — | — | — | 276,000 |
| | | | | | 66,596,000 | 126,725,000 | (800,000) | (1,132,000) | 191,389,000 | 3,000,000 | (450,000) | (1,738,000) | 192,201,000 |
| Weighted average exercise price per share | | | | | HK\$18.45 | HK\$9.826 | HK\$3.39 | HK\$20.49 | HK\$12.79 | HK\$4.89 | HK\$2.82 | HK\$19.91 | HK\$12.63 |

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32. 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\$4.78 (2015: HK\$9.95). At the end of the reporting period, 147,197,000 share options are exercisable (2015: 90,275,000).

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

| Date of grant | 13 July 2009 | 19 May 2010 | 26 May 2010 | 31 August 2010 | 17 March 2011 | 8 October 2013 | 15 June 2015 | 11 May 2016 |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Model | Black-Scholes | Binomial | Binomial | Binomial | Black-Scholes | Binomial | Binomial | Binomial |
| Number of share options | 166,700,000 | 1,500,000 | 500,000 | 5,000,000 | 116,000,000 | 50,460,000 | 126,725,000 | 3,000,000 |
| Vesting period | 6 to 30 months | 6 months | 6 months | 6 months | 6 months | 6 to 60 months | 6 to 30 months | 6 to 30 months |
| | from the date of grant | from the date of grant | from the date of grant | from the date of grant | from the date of grant | from the date of grant | from the date of grant | from the date of grant |
| Closing share price at date of grant | HK\$2.82 | HK\$5.11 | HK\$5.03 | HK\$7.48 | HK\$12.14 | HK\$22 | HK\$9.83 | HK\$4.76 |
| Expected/contractual life | 5–6 years | 9.5 years | 9.5 years | 9.5 years | 5 years | 9.5 years | 9.5 years | 9.5 years |
| Exercise price per share | HK\$2.82 | HK\$5.11 | HK\$5.03 | HK\$7.48 | HK\$12.496 | HK\$22 | HK\$9.826 | HK\$4.89 |
| Exercise multiple (Directors) | N/A | 1.79 times | 1.79 times | 1.81 times | N/A | 2 times | 2.8 times | N/A |
| Exercise multiple (Employees and other participants) | N/A | 1.79 times | 1.79 times | 1.81 times | N/A | 2 times | 2.2 times | 2.2 times |
| Expected volatility | 66.46% | 56.77% | 56.16% | 49.56% | 54.83% | 47.55% | 47.00% | 47.13% |
| Risk-free interest rate | 1.74–1.94% | 2.47% | 2.35% | 1.89% | 2.49% | 2.03% | 1.74% | 1.67% |
| Expected dividend yield | 3.26% | 1.76% | 1.79% | 1.87% | 3.33% | 3.182% | 5.5% | 5.25% |

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 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 (2015: employees and directors), the management assumed an exercise multiple of 2.2 times (2015: 2.2 times and 2.8 times) for options granted in 2016 and 2015 based on the historical exercise behaviour of the Company's employees (2015: employees and directors).

The Company's share options granted to other participants are by reference to the fair values of the share options granted to employees for providing similar management services.

During the year ended 31 December 2016, the Group recognised total expenses of HK\$170.0 million (2015: HK\$314.3 million), whilst HK\$0.1 million (2015: HK\$0.2 million) capitalised to construction in progress during the year, in relation to share options granted by the Company.

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For the year ended 31 December 2016

33. RESERVES

| | Share options reserve HK\$ million | Retained profits HK\$ million | Total HK\$ million |
|---|---|-------------------------------------|-----------------------|
| THE COMPANY | | | |
| At 1 January 2015 | 376.5 | 5,503.7 | 5,880.2 |
| Exercise of share options | (1.2) | — | (1.2) |
| Recognition of equity-settled share-based payments | 314.3 | — | 314.3 |
| Release of lapsed equity-settled share-based payments | (7.8) | 7.8 | — |
| Dividends paid (note 11) | — | (4,072.8) | (4,072.8) |
| Profits and total comprehensive income for the year (Note) | — | 4,893.1 | 4,893.1 |
| At 31 December 2015 | 681.8 | 6,331.8 | 7,013.6 |
| Exercise of share options | (0.6) | — | (0.6) |
| Recognition of equity-settled share-based payments | 170.0 | — | 170.0 |
| Release of lapsed equity-settled share-based payments | (12.5) | 12.5 | — |
| Dividends paid (note 11) | — | (1,188.0) | (1,188.0) |
| Profits and total comprehensive income for the year (Note) | — | 1,690.0 | 1,690.0 |
| At 31 December 2016 | 838.7 | 6,846.3 | 7,685.0 |

Note: Amount included dividend income from SJM of HK\$1,747.6 million (2015: HK\$4,854.4 million).

34. MAJOR NON-CASH TRANSACTIONS

Other than the transactions disclosed in respective notes to the consolidated financial statements, property and equipment totalling HK\$65.1 million (2015: HK\$61.0 million) were settled by utilising deposits made on acquisitions during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. OPERATING LEASE COMMITMENTS

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 | |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2016 HK\$ million | 2015 HK\$ million | 2016 HK\$ million | 2015 HK\$ million |
| Within one year | 4.6 | 4.6 | 222.6 | 265.7 |
| In the second to fifth year inclusive | 39.0 | 35.7 | 371.4 | 213.9 |
| After five years | 175.4 | 182.3 | — | — |
| | 219.0 | 222.6 | 594.0 | 479.6 |

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

Lease term of land use rights in Macau SAR are negotiated for a term of 25 years at a fixed rental, which is subject to revision in the future.

At 31 December 2016, operating lease rentals committed to related parties amounted to HK\$554.3 million (2015: HK\$396.9 million) which fall due as follows:

| | Rented premises | |
|---------------------------------------|----------------------|----------------------|
| | 2016 HK\$ million | 2015 HK\$ million |
| Within one year | 186.1 | 207.6 |
| In the second to fifth year inclusive | 368.2 | 189.3 |
| | 554.3 | 396.9 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. CAPITAL COMMITMENTS

| | 2016 HK\$ million | 2015 HK\$ million |
|---|----------------------|----------------------|
| Capital expenditure in respect of property and equipment: | | |
| Authorised but not contracted for: | | |
| Grand Lisboa Palace Project | 13,188.4 | 13,960.6 |
| Others | 33.6 | 146.1 |
| | 13,222.0 | 14,106.7 |
| Contracted for but not provided in the consolidated financial statements: | | |
| Grand Lisboa Palace Project | 7,968.9 | 10,140.3 |
| Others | 251.0 | 987.0 |
| | 8,219.9 | 11,127.3 |

At the end of the reporting period, capital expenditure in respect of property and equipment committed to acquire from related parties amounted to HK\$719.5 million (2015: HK\$2,418.1 million).

Up to 31 December 2016, the estimated total project costs for the Grand Lisboa Palace Project by the Group's management is approximately HK\$36,000 million (2015: HK\$30,000 million).

37. RETIREMENT BENEFITS SCHEMES

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

The Group and the Company operate a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group and the Company in funds under the control of a trustee. The Group and the Company contribute 5% of the relevant payroll costs to the Scheme, which is matched with mandatory contribution of all employees. For certain employees, the maximum monthly contribution was limited to HK\$1,500 per employee.

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

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

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38. 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 shareholders 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, amounts due to non-controlling interests of subsidiaries, 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.

39. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

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

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | 15,050.4 | 18,961.7 |
| Financial assets at fair value through profit or loss | 78.1 | 61.4 |
| Available-for-sale financial assets | 328.3 | 211.2 |
| | 15,456.8 | 19,234.3 |
| Financial liabilities | | |
| Amortised cost | 10,993.0 | 10,503.2 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk management

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

- the carrying amount of the respective recognised financial assets as stated in the Group's statements of financial position; and
- the amount of financial guarantee obligations and contingent liabilities disclosed in notes 26 and 41 respectively.

The Group has concentration of credit risk at 97% (2015: 91%) of the advances and receivables are due from the Group's five largest gaming promoters. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual advance and receivable from gaming promoters at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group also considers the relevant commissions accrued to, and deposits received from, the relevant gaming promoters at the end of each of the reporting period, the continuous business relationship, the commissions payable to the relevant gaming promoters subsequent to the end of the reporting period, the cheques and guarantees obtained and the financial background of the relevant gaming promoters to ascertain the recoverability of the advances to and receivables from gaming promoters. As a result, the directors of the Company consider that the Group's exposure to credit risk on these advances and receivables is significantly reduced.

In addition, the management considers that there is no significant credit risk on the receivables from the service providers of satellite casinos (net of allowance of doubtful debts), ultimate holding company, an associate, a joint venture, an investee company as well as those arising from financial guarantees given to banks in respect of credit facilities granted to an investee company and an associate (note 41) after assessing their financial background and creditability.

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

Other than concentration of credit risk on advances to and receivables from gaming promoters, amounts due from an associate/a joint venture/an investee company and liquid funds which are deposited with several banks with high credit ratings (2015: advances to and receivables from gaming promoters, amounts due from an associate/a joint venture/an investee company and liquid funds), the Group does not have any other significant concentration of credit risk.

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39. FINANCIAL INSTRUMENTS (Continued)

(d) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to its bank balances and bank loans (2015: bank balances and bank loans). The Group is also exposed to fair value interest rate risk in relation to its fixed-rate bank deposits, pledged bank deposits, short-term bank deposits and fixed-rate bank loans. The Group currently does not have a policy on hedging of interest rate risks. However, the management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

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 HIBOR arising from bank loans.

The sensitivity analyses below have been determined based on the exposure to interest rates for bank loans and bank balances (2015: interest rates for bank loans and bank balances). The analyses were prepared assuming these balances outstanding at the end of the reporting period were outstanding for the whole year. 50 basis points (2015: 50 basis points) increase represents management's assessment of the reasonably possible change in interest rates. The management does not anticipate a decrease in interest rate for bank loans and bank balances 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 and bank balances (2015: bank loans and bank balances) had been 50 basis points (2015: 50 basis points) higher and all other variables were held constant, the potential effect on profit for the year:

| | 2016 HK\$ million | 2015 HK\$ million |
|---------------------------------|----------------------|----------------------|
| Increase in profit for the year | 36.2 | 39.5 |

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For the year ended 31 December 2016

39. FINANCIAL INSTRUMENTS (Continued)

(e) Price risk management

The Group is exposed to equity price risk on the investment in equity securities operating in gaming, entertainment and hotel industry sector and quoted on the Stock Exchange. The Group currently does not have a policy to hedge such risk. For financial assets at fair value through profit or loss and available-for-sale investment in equity securities, the management monitors market price exposure and will consider hedging significant market price exposure should the need arise.

The sensitivity analyses below have been determined based on the exposure to equity price risk on the listed equity securities in financial assets at fair value through profit or loss and available-for-sale investment in equity securities at the end of the reporting period. If the market bid price on such listed equity securities had been 10% (2015: 10%) higher/lower, the potential effect on profit for the year/ investment revaluation reserve is as follows:

- the Group's profit for the year ended 31 December 2016 would increase/decrease by HK\$7.8 million (2015: increase/decrease by HK\$6.1 million) arising from the listed equity securities in financial assets at fair value through profit or loss; and
- the Group's investment revaluation reserve would increase/decrease by HK\$32.8 million (2015: increase/decrease by HK\$21.1 million) arising from the listed equity securities in available-for-sale investment in equity securities.
- the management does not anticipate a significant decrease in the market bid price on the available-for-sale investment in equity securities in the next financial year having regard to the trends in the market bid price. Accordingly, sensitivity analysis on a decrease in such price is not presented.

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 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 in the foreseeable future and manage its liquidity position. In addition, the management of the Group expects to fund the remaining estimated construction costs and commitments of its development projects in Macau SAR through a proper balance between internal generated funds and credit facilities secured by the projects' assets.

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39. 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 |
|---|---|---------------------------|--|--|--|--------------------------------|--|------------------------------------|
| At 31 December 2016 | | | | | | | | |
| Trade payables | — | — | 1,228.9 | 5.5 | 4.7 | — | 1,239.1 | 1,239.1 |
| Chips in circulation | — | 4,419.1 | — | — | — | — | 4,419.1 | 4,419.1 |
| Other payables | — | — | 2,307.0 | 72.0 | 838.6 | 833.3 | 4,050.9 | 4,050.9 |
| Amounts due to non-controlling interests of subsidiaries | 3.51% | — | — | 294.0 | — | 317.4 | 611.4 | 566.4 |
| Payable for acquisitions of land use rights | 5.00% | — | — | 182.9 | — | — | 182.9 | 178.4 |
| Bank loans (Note (i)) | 3.40% | — | 43.2 | 506.5 | — | — | 549.7 | 539.1 |
| Financial guarantee obligations (Note (ii)) | — | 87.3 | — | — | — | — | 87.3 | — |
| | | 4,506.4 | 3,579.1 | 1,060.9 | 843.3 | 1,150.7 | 11,140.4 | 10,993.0 |
| At 31 December 2015 | | | | | | | | |
| Trade payables | — | — | 1,304.6 | 3.8 | 1.1 | — | 1,309.5 | 1,309.5 |
| Chips in circulation | — | 4,403.4 | — | — | — | — | 4,403.4 | 4,403.4 |
| Other payables | — | — | 1,566.7 | 39.4 | 710.5 | 603.6 | 2,920.2 | 2,920.2 |
| Amounts due to non-controlling interests of subsidiaries | 4.10% | — | — | — | 5.0 | 758.4 | 763.4 | 635.0 |
| Payable for acquisitions of land use rights | 5.00% | — | — | 182.9 | 182.9 | 182.9 | 548.7 | 522.3 |
| Bank loans (Note (i)) | 3.07% | — | 45.4 | 45.1 | 89.4 | 566.7 | 746.6 | 712.8 |
| Financial guarantee obligations (Note (ii)) | — | 87.3 | — | — | — | — | 87.3 | — |
| | | 4,490.7 | 2,916.7 | 271.2 | 988.9 | 2,111.6 | 10,779.1 | 10,503.2 |

Notes:

- (i) The amounts included above for variable rate bank loans are subject to change if variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.
- (ii) The amounts included in the undiscounted cash flow above for financial guarantee contracts are the maximum amounts the Group 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 considers 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 2016

39. FINANCIAL INSTRUMENTS (Continued)

(g) Fair value measurement of financial instruments

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 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.

The Group's available-for-sale investment in equity securities and financial assets at fair value through profit or loss are measured subsequent to initial recognition at fair value, which are grouped into Level 1 based on the degree to which the fair value is observable.

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) Financial assets and financial liabilities subject to offsetting and enforceable netting agreements

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to enforceable netting agreements that cover similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

Please refer to note 22 for details of offsetting arrangements.

Financial assets subject to offsetting and enforceable netting agreements

| | Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK\$ million | Gross amounts of recognised financial assets HK\$ million | Net amounts of financial assets presented in the consolidated statement of financial position HK\$ million | Related amounts of financial instruments not set off in the consolidated statement of financial position HK\$ million | Net amount HK\$ million |
|------------------------------|---|---|---|--|----------------------------|
| Advances to gaming promoters | | | | | |
| — at 31 December 2016 | 577.7 | (152.4) | 425.3 | (50.1) | 375.2 |
| — at 31 December 2015 | 862.0 | (215.1) | 646.9 | (111.8) | 535.1 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. FINANCIAL INSTRUMENTS (Continued)

(h) Financial assets and financial liabilities subject to offsetting and enforceable netting agreements (Continued)

Financial liabilities subject to offsetting and enforceable netting agreements

| | Gross amounts of recognised financial liabilities HK\$ million | Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK\$ million | Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$ million | Related amounts of financial instruments not set off in the consolidated statement of financial position HK\$ million | Net amount HK\$ million |
|-----------------------|--|--|--|--|----------------------------|
| Trade payables | | | | | |
| — at 31 December 2016 | 395.8 | (152.4) | 243.4 | (50.1) | 193.3 |
| — at 31 December 2015 | 430.6 | (215.1) | 215.5 | (111.8) | 103.7 |

The Group currently has a legally enforceable right to set off the advances to gaming promoters and the trade payables to these counterparties that are due to be settled on the same date and the Group intends to settle these balances on a net basis. Details of the arrangements are set out in note 22.

The gross amounts of the recognised advances to gaming promoters and trade payables and their net amounts as presented in the Group's consolidated statement of financial position, both of which have been disclosed in the above tables, are measured at amortised cost.

The amounts which have been offset against the related recognised advances to gaming promoters and trade payables in the Group's consolidated statement of financial position are subject to enforceable netting arrangements and measured on the same basis as the recognised financial assets and financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. RELATED PARTY TRANSACTIONS

- (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 | 2016 HK\$ million | 2015 HK\$ million |
|---|---|----------------------|----------------------|
| STDM and its associates (as defined under Chapter 14A of the Listing Rules), excluding the Group ("STDM Group") | <i>Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules</i> | | |
| | Property rentals (note 40(c)) | 274.7 | 294.4 |
| | Transportation (note 40(d)) | 137.6 | 153.6 |
| | Hotel accommodation (note 40(d)) | 32.3 | 77.6 |
| | Entertainment and staff messing (note 40(d)) | 27.0 | 51.2 |
| | <i>Exempt continuing connected transactions under Chapter 14A of the Listing Rules</i> | | |
| | Share of administrative expenses (note 40(e) and (f)) | 1.8 | 1.7 |
| | Cleaning services (note 40(f)) | 24.4 | 23.7 |
| | Hotel management and operation (note 40(d) and (f)) | 29.2 | 29.7 |
| | Promotional and advertising services (note 40(d) and (f)) | 14.3 | 18.3 |
| | Dredging services (note 40(d) and (f)) | — | 0.1 |
| | Maintenance services (note 40(d) and (f)) | 17.6 | 18.1 |
| | Others (note 40(f)) | 15.1 | 13.8 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

| Relationship | Nature of transactions | 2016 HK\$ million | 2015 HK\$ million |
|---|---|----------------------|----------------------|
| Certain directors of the Company and of its subsidiaries and their associates (as defined under Chapter 14A of the Listing Rules) | <i>Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules</i> | | |
| | Service fees in relation to the promotion of a casino (note 40(g)) | 1,184.4 | 1,340.3 |
| | Transportation (note 40(h)) | 37.8 | 43.5 |
| | Property rentals (note 40(i)) | 162.8 | 158.6 |
| | <i>Exempt continuing connected transactions under Chapter 14A of the Listing Rules</i> | | |
| | Others (note 40(f)) | 36.7 | 30.4 |
| Entities other than above in which STDM, certain directors of the Company and of its subsidiaries and/or their close family members have control/significant influence/beneficial interests | Service fees in relation to the promotion of a casino (note 40(j)) | 624.3 | 858.6 |
| | Insurance expenses | 97.4 | 96.7 |
| | Promotion and advertising expenses | 1.1 | 1.3 |
| | Service fee in relation to foreign currencies exchange | 15.8 | 14.8 |
| | Construction costs | 301.2 | 289.0 |
| | Others | 27.2 | 13.3 |
| An associate | Construction costs and management fee paid | 1,533.2 | 823.6 |
| A joint venture | Property rentals | 14.4 | 14.4 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. RELATED PARTY TRANSACTIONS (Continued)

- (b) In 2002, SJM was granted a concession to operate casinos in Macau SAR. For this purpose, STDM transferred its gaming assets to SJM. SJM has been borrowing casino chips from STDM for the purpose of its business operation since SJM, as a new concessionaire from 2002, did not have sufficient casino chips to meet its business needs. According to the gaming concession contract, SJM is permitted to use STDM's casino chips, both in treasury and those put in circulation by STDM prior to 1 April 2002 and should honour such casino chips. In order to regulate the borrowing and use of STDM chips, the Group entered into an agreement with STDM dated 18 June 2008 (the "Chips Agreement") regarding the honouring and borrowing of STDM chips. Under the Chips Agreement, the Group has agreed to honour the STDM chips in circulation upon their redemption by patrons or clients. In addition, STDM has agreed to reimburse the STDM chips presented by the Group to STDM, by paying to the Group in cheque the aggregate face value of chips so presented within the same quarter when such presentation takes place. During the year ended 31 December 2016, the net amount received or receivable on reimbursement of STDM chips in circulation amounted to HK\$1.2 million (2015: HK\$0.8 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 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 40(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 include 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 operations, promotional and advertising services, and travel agency services, which are regarded as de minimis transactions as described in note 40(f). The Renewed Master Agreement expired on 31 December 2013, and was renewed on 6 January 2014 for a term of three years from 1 January 2014 and was further renewed on 26 January 2017 for a term of three years from 1 January 2017 with similar terms for the provision of products and services for five categories: hotel accommodation, entertainment and staff messing (staff messing is not applicable since 1 January 2017), transportation, hotel management and operation, and maintenance services. The transaction amounts for the dredging services, hotel management and operations and maintenance services during the year were de minimis as described in note 40(f).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. RELATED PARTY TRANSACTIONS (Continued)

- (e) The Group entered into an agreement with STD M dated 18 June 2008 (the “Administrative Cost Sharing Agreement”) whereby STD M 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 STD M group is calculated based on an estimate of (i) the actual time spent by each department for providing services to the Group and the STD M group respectively recorded on time sheets and (ii) the floor area occupied, respectively, by the Group and the STD M group for storage services.

On 19 June 2011, the Company entered into an agreement with STD M to renew the Administrative Cost Sharing Agreement in sharing the cost of the above-mentioned administrative services. The renewed agreement was expired on 31 December 2013 and exempted as continuing connected transactions under Rule 14A.98. The amounts of transactions during the year were disclosed in note 40(a) above.

- (f) These are de minimis transactions as defined under Rule 14A.76(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.76(1)(a) of the Listing Rules.
- (g) SJM entered into an agreement with Tin Hou Limited (“Tin Hou”) dated 19 February 2010 regarding the provision of management services and promotion service to SJM in the gaming area of Grand Emperor Hotel in Macau SAR for the period from 1 October 2009 to the expiry of SJM’s gaming license on 31 March 2020 or any earlier termination with 21 days’ notice to the other party who is in default of the agreement. Tin Hou is a company controlled over 50% by a half-brother of a director of subsidiaries of the Company and is a connected person of the Company pursuant to Rule 14A.07(4) and 14A.12(2)(a) of the Listing Rules.
- (h) 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 cross border 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 31 December 2013. Such agreement expired on 31 December 2013 and was renewed on 6 December 2013 for a term of three years from 1 January 2014 and was further renewed on 31 December 2016 for a term of three years from 1 January 2017 with similar terms as the previous agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. RELATED PARTY TRANSACTIONS (Continued)

- (i) The Group entered into an agreement dated 22 November 2013 with a director of the Company for the leasing of properties by the director and her associates to the Group effective from 1 January 2014. The term of each implementing lease was for a term commencing on a date specified in the relevant implementing lease and ended on a date not later than 31 December 2016. Such agreement was renewed on 14 December 2016 for a term of three years from 1 January 2017 with similar terms as the previous agreement. The amounts of transactions during the year were disclosed in note 40(a) above.
- (j) Service fees in relation to the promotion of a casino were paid to an entity in which certain directors of the Group were the directors and/or key management personnel of the entity.
- (k) Save as disclosed in note 28, in addition to the securities provided by the Group to the relevant bank, the syndicated secured bank loans are also secured by non-controlling interests of a subsidiary of the Group. At the end of the reporting period, the key terms and securities pledged are set out as follows:
 - (i) financial guarantee with promissory note of HK\$1,176 million;
 - (ii) an unconditional and irrevocable funding undertaking for the purpose of satisfying the construction costs of certain properties in Ponte 16 which include (i) the land premium and all other premiums and sums of money payable to the Governmental Agency of Macau SAR in respect of properties in Ponte 16; (ii) all construction costs and all operating costs to be incurred; and (iii) all financial costs and expenses, including interest payable in respect of the syndicated secured bank loans facility;
 - (iii) an unconditional and irrevocable undertaking for the purpose of ensuring the completion of phase 3 development project in Ponte 16; and
 - (iv) share pledges over all shares in Pier 16 – Property and its subsidiaries.
- (l) In November 2007, the 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:
 - (i) penalties incurred by the Company 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
 - (ii) losses or contingency provisions incurred by the Company 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 the Company 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 2016

41. CONTINGENT LIABILITIES AND GUARANTEES

| | 2016 | | 2015 | |
|---|--|--|--|--|
| | 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 | 1.9 | 67.3 | 1.9 |
| an investee company | 20.0 | — | 20.0 | — |
| | 87.3 | 1.9 | 87.3 | 1.9 |

42. INVESTMENTS IN SUBSIDIARIES

| | 2016 HK\$ million | 2015 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 |
| | 4,359.3 | 4,359.3 |

Details of the Company's principal subsidiaries at the end of the reporting period are set out in note 44.

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

The amounts due from subsidiaries are unsecured, interest-free and are expected to be realised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. PRINCIPAL SUBSIDIARIES

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

(a) General information of subsidiaries

| Name of subsidiary | Place of incorporation or 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 |
|--|---|---|---|------|---|
| | | | 2016 | 2015 | |
| Brilliant Sky International Limited | Macau SAR | Quota capital: MOP25,000 | 100% | 100% | Provision of marketing and promotion services |
| Brilliant Sky Investments Limited | British Virgin Islands/ Macau SAR | Share: US\$1 | 100% | 100% | Investment holding |
| Brilliant Talent Hospitality Services Limited | Macau SAR | Quota capital: MOP25,000 | 100% | 100% | Provision of hospitality services |
| Cotai Magnific View – Property Development Company Limited | Macau SAR | Ordinary shares: MOP1,000,000 | 100% | 100% | Preparation for property development |
| Grand Lisboa – Hotel Administration Company Limited | Macau SAR | Ordinary shares: MOP1,000,000 | 100% | 100% | Hotel operations |
| Grand Lisboa – Property Investment Company Limited | Macau SAR | Ordinary shares: MOP1,000,000 | 100% | 100% | Property holding |
| Honour State International Limited | British Virgin Islands/ Macau SAR | Share: US\$1 | 100% | 100% | Securities holding |
| Macau Dredging Services Limited | Macau SAR | Quota capital: MOP1,000,000 | 100% | 100% | Provision of dredging services |
| Nam Van Lake View Investment Limited | Macau SAR | Quota capital: MOP1,000,000 | 100% | 100% | Property holding |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. PRINCIPAL SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

| Name of subsidiary | Place of incorporation or 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 |
|---|---|---|---|--------------------|--|
| | | | 2016 | 2015 | |
| New Hop Wo Catering Company Limited | Macau SAR | Quota capital: MOP100,000 | 100% | 100% | Provision of food and beverage services |
| Pier 16 – Entertainment Group Corporation Limited | Macau SAR | Quota capital: MOP25,000 | 51% | 51% | Provision of management services for casino operations |
| Pier 16 – Gaming Promotion, Limited | Macau SAR | Quota capital: MOP50,000 | 51% | 51% | Provision of gaming promotion services |
| Pier 16 – Management Limited | Macau SAR | Quota capital: MOP25,000 | 51% | 51% | Hotel operations |
| Pier 16 – Property Development Limited | Macau SAR | Ordinary shares: MOP10,000,000 | 51% | 51% | Property holding |
| SJM – Customer Services (HK) Limited | Hong Kong | Ordinary share: HK\$1 | 100% | 100% | Provision of customer services |
| SJM – F&B Services Limited | Macau SAR | Quota capital: MOP25,000 | 100% | 100% | Provision of food and beverage services |
| SJM Holdings Management Services Limited | Hong Kong | Ordinary shares: HK\$2 | 100% | 100% | Provision of management services |
| SJM – Investment Limited | Macau SAR | Quota capital: MOP1,000,000 | 100% | 100% | Investment holding |
| SJM – Project Management Services (HK) Limited | Hong Kong | Ordinary share: HK\$1 | 100% | 100% | Provision of human resources and project management services |
| Sociedade de Jogos de Macau, S.A. | Macau SAR | Ordinary shares: Type A shares: MOP270,000,000 Type B shares: MOP30,000,000 | 100% (Note (a)) | 100% (Note (a)) | Casino operations and investment holding |
| Vast Field Investments Limited | British Virgin Islands/ Macau SAR | Ordinary share: US\$1 | 100% | 100% | Investment holding |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. PRINCIPAL SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

Notes:

- (a) Pursuant to the relevant requirements under Macau SAR law, SJM's ordinary shares are divided into two categories, namely, Type A shares and Type B shares representing 90% and 10% equity interests in SJM respectively. Holders of Type A shares have voting control of SJM in its shareholders' meeting. Except for one Type A share directly held by a wholly-owned subsidiary of the Company, the Company holds all the remaining Type A shares, whilst Type B shares are held by the managing director of SJM, pursuant to the relevant requirements under Macau SAR law. As Type B shares have restricted rights and only entitle the holder of Type B shares to an aggregate amount of MOP1 of dividend payable, the Company is effectively entitled to a 100% economic interest in SJM.
- (b) Except for 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) None of the subsidiaries had any debt securities outstanding at the end of both reporting periods.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries are operated in Macau SAR. The principal activities of these subsidiaries are summarised as follows:

| Principal activities | Place of incorporation or establishment/operations | Number of subsidiaries | |
|---------------------------------------|--|------------------------|------|
| | | 2016 | 2015 |
| Gaming related operations | Macau SAR | 3 | 3 |
| | Cambodia | 1 | 1 |
| | | 4 | 4 |
| Hotel and catering related operations | Macau SAR | 1 | 1 |
| Investment holdings/Inactive | British Virgin Islands/ Macau SAR | 15 | 15 |
| | British Virgin Islands/ Hong Kong | 4 | 4 |
| | Hong Kong | 1 | 1 |
| | Macau SAR | 5 | 4 |
| | Samoa | 1 | 1 |
| | | 26 | 25 |
| | | 31 | 30 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. PRINCIPAL SUBSIDIARIES (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that has material non-controlling interests:

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Loss allocated to non-controlling interests | | Accumulated non-controlling interests | |
|--|--|---|------|---|----------------------|---------------------------------------|----------------------|
| | | 2016 | 2015 | 2016 HK\$ million | 2015 HK\$ million | 2016 HK\$ million | 2015 HK\$ million |
| Pier 16 – Property Development Limited | Macau SAR | 49% | 49% | (11.9) | (3.3) | 94.9 | 159.9 |

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Pier 16 – Property Development Limited

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Current assets | 645.8 | 601.9 |
| Non-current assets | 1,092.5 | 1,575.7 |
| Current liabilities | (1,317.2) | (329.0) |
| Non-current liabilities | (594.4) | (1,893.5) |
| Equity attributable to owners of the company | (167.4) | (41.4) |
| Non-controlling interests | (5.9) | (3.5) |

| | 2016 HK\$ million | 2015 HK\$ million |
|--|----------------------|----------------------|
| Revenue | 719.9 | 799.4 |
| Cost of sales and expenses | (725.8) | (815.3) |
| Profit (loss) for the year | 3.5 | (3.0) |
| Profit attributable to owners of the company | 5.9 | 0.5 |
| Net cash inflow from operating activities | 299.6 | 340.7 |
| Net cash inflow from investing activities | 85.3 | 77.0 |
| Net cash outflow from financing activities | (496.8) | (308.6) |
| Net cash (outflow) inflow | (111.9) | 109.1 |

FIVE-YEAR FINANCIAL SUMMARY

| | For the year ended 31 December | | | | 2016 HK\$ million |
|--|--------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2012 HK\$ million | 2013 HK\$ million | 2014 HK\$ million | 2015 HK\$ million | |
| RESULTS | | | | | |
| Gaming, hotel, catering and related services revenues (Note) | 78,958.2 | 87,125.9 | 79,457.6 | 48,863.7 | 41,798.4 |
| Gaming revenue (Note) | 78,323.4 | 86,431.3 | 78,792.2 | 48,282.3 | 41,272.5 |
| Profit before taxation | 6,826.6 | 7,774.9 | 6,869.7 | 2,490.2 | 2,348.3 |
| Taxation | (74.9) | (52.5) | (88.3) | (38.3) | (33.8) |
| Profit for the year | 6,751.7 | 7,722.4 | 6,781.4 | 2,451.9 | 2,314.5 |
| Profit attributable to: | | | | | |
| owners of the Company | 6,745.4 | 7,706.0 | 6,730.7 | 2,465.0 | 2,326.5 |
| non-controlling interests | 6.3 | 16.4 | 50.7 | (13.1) | (12.0) |
| | 6,751.7 | 7,722.4 | 6,781.4 | 2,451.9 | 2,314.5 |
| As at 31 December | | | | | |
| | 2012 HK\$ million | 2013 HK\$ million | 2014 HK\$ million | 2015 HK\$ million | 2016 HK\$ million |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 37,293.8 | 42,368.5 | 42,215.1 | 36,854.7 | 38,755.0 |
| Total liabilities | (17,379.8) | (18,913.3) | (17,352.8) | (13,375.3) | (13,913.8) |
| Net assets | 19,914.0 | 23,455.2 | 24,862.3 | 23,479.4 | 24,841.2 |

Note: 2012–2015 comparative figures have been reclassified to conform with current year's presentation.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Executive Director

Dr. Ho Hung Sun, Stanley

Non-executive Director

Dr. Cheng Kar Shun

Independent Non-executive Directors

Mr. Chau Tak Hay

Dr. Lan Hong Tsung, David

Hon. 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

Dr. Rui José da Cunha

Mr. Fok Tsun Ting, Timothy

Deputada Leong On Kei, Angela

Mr. Shum Hong Kuen, David

AUDIT COMMITTEE

Mr. Tse Hau Yin (*Committee Chairman*)

Mr. Chau Tak Hay

Dr. Lan Hong Tsung, David

Hon. Shek Lai Him, Abraham

NOMINATION COMMITTEE

Mr. Chau Tak Hay (*Committee Chairman*)

Dr. Lan Hong Tsung, David

Deputada Leong On Kei, Angela

Hon. Shek Lai Him, Abraham

Mr. Shum Hong Kuen, David

Dr. So Shu Fai

Mr. Tse Hau Yin

REMUNERATION COMMITTEE

Dr. Lan Hong Tsung, David (*Committee Chairman*)

Mr. Chau Tak Hay

Deputada Leong On Kei, Angela

Hon. Shek Lai Him, Abraham

Dr. So Shu Fai

Mr. Tse Hau Yin

CHIEF FINANCIAL OFFICER

Mr. McBain, Robert Earle

CHIEF LEGAL COUNSEL

Mr. Pyne, Jonathan Charles

COMPANY SECRETARY

Ms. Kwok Shuk Chong

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 3001–3006, 30th 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 (Hong Kong Stock Exchange)

0880.HK (Reuters)

880:HK (Bloomberg)

Board lot: 1,000 shares

Designated Securities Eligible for Short Selling

Constituent of Hang Seng HK35 Index

Eligible Stock for both “buy” and “sell” of

Southbound Trading of Shanghai-Hong Kong Stock
Connect and Shenzhen-Hong Kong Stock Connect

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor

Hopewell Centre

183 Queen’s Road East, Wanchai

Hong Kong

Tel: (852) 2862 8555

Fax: (852) 2865 0990

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

Email: hkinfo@computershare.com.hk

LEGAL ADVISORS

On Hong Kong Law:

Baker & McKenzie

Herbert Smith Freehills

Linklaters

On Macau Law:

C&C Advogados

Riquito Advogados

FINANCIAL ADVISOR

Somerley Capital Limited

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Macau) Limited

Bank of China Limited

BNP Paribas

Industrial and Commercial Bank of China (Asia) Limited

DEFINITIONS

In this report, unless the context states otherwise, the following expressions shall have the following meanings:

| | |
|---|---|
| “Adjusted EBITDA” | : earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, premium on acquisition written off, loss on disposal/write-off of property and equipment, share-based payments and impairment loss on available-for-sale investment in equity securities |
| “ Adjusted EBITDA Margin” | : the Adjusted EBITDA divided by total revenue |
| “Adjusted Grand Lisboa EBITDA” | : earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, premium on acquisition written off, loss on disposal/write-off of property and equipment, share-based payments, impairment loss on available-for-sale investment in equity securities and before elimination of inter-company consumption |
| “Adjusted Grand Lisboa EBITDA Margin” | : the Adjusted Grand Lisboa EBITDA divided by revenue |
| “Administrative Cost Sharing Agreement” | : the agreement dated 18 June 2008 entered into between the Company and STDM by which STDM and/or its associates (as defined in the Listing Rules) and the Group have agreed to share the costs of certain administrative services, which was renewed on 19 June 2011 and expired on 31 December 2013 |
| “Board” | : the board of Directors of the Company |
| “CG Code” | : Corporate Governance Code set out in Appendix 14 of the Listing Rules |
| “Chips Agreement” | : the agreement dated 18 June 2008 entered into between STDM and SJM to regulate the honouring, borrowing and use of the casino chips of STDM for the purposes of SJM’s gaming operations |
| “CODM” | : the chief operation decision maker, which is a group of executive directors of the Company who regularly analyse gaming revenue in terms of VIP gaming operations, mass market table gaming operations, slot machine and other gaming operations |
| “Company” or “SJM Holdings” | : SJM Holdings Limited, a company incorporated in Hong Kong with limited liability, the ordinary shares of which are listed on the Stock Exchange |
| “connected person(s)” | : has the meaning ascribed to it under the Listing Rules |
| “CT” | : the Complementary Tax of the Macau SAR |

DEFINITIONS

| | |
|--|---|
| “DICJ” | : Direcção de Inspeção e Coordenação de Jogos, the Gaming Inspection and Coordination Bureau in Macau |
| “Director(s)” | : the director(s) of the Company |
| “Group” | : the Company and its subsidiaries |
| “Hong Kong” or “Hong Kong SAR” | : the Hong Kong Special Administrative Region of the People’s Republic of China |
| “HKAS” | : Hong Kong Accounting Standard |
| “HK GAAP” | : Hong Kong generally accepted accounting principles |
| “HKFRSs” | : Hong Kong Financial Reporting Standards |
| “HKICPA” | : Hong Kong Institute of Certified Public Accountants |
| “Listing Rules” | : The Rules Governing the Listing of Securities on the Stock Exchange |
| “Macau” or “Macau SAR” or “MSAR” | : the Macau Special Administrative Region of the People’s Republic of China |
| “Model Code” | : the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules |
| “New Hop Wo” | : New Hop Wo Catering Company Limited, a company acquired by the Group on 28 February 2014 |
| “Options” | : share options which the Directors may grant to any participants of the Scheme |
| “Other Self-promoted Casinos” | : Casino Lisboa and Casino Oceanus at Jai Alai |
| “Pier 16 – Property” | : Pier 16 – Property Development Limited, a 51% subsidiary of the Company |
| “Premises Leasing Master Agreement” | : the agreement entered into between the Company and STDM dated 18 June 2008 for the leasing of premises by STDM Group to the Group |
| “Products and Services Master Agreement” | : the agreement entered into between the Company and STDM on 18 June 2008 for the provision of products and services by STDM and/or its associates (as defined in the Listing Rules) to the Group |

DEFINITIONS

| | |
|-----------------------------|---|
| “Renewed Master Agreement” | : the products and services master agreement dated 19 June 2011 entered into between the Company and STDM in relation to the renewal of the Products and Services Master Agreement which was renewed on 6 January 2014 and was further renewed on 26 January 2017 for a term of three years from 1 January 2017 |
| “Scheme” | : the share option scheme of the Company adopted on 13 May 2009 |
| “SFO” | : the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| “Share(s)” | : the ordinary share(s) in the share capital of the Company |
| “Shareholder(s)” | : holder(s) of the Share(s) |
| “SJM” | : Sociedade de Jogos de Macau, S.A., a joint stock company “sociedade anónima” incorporated under the laws of Macau and a subsidiary of the Company |
| “Special Complementary Tax” | : the dividend tax which shareholders are obligated to pay to Macau SAR government for dividend distribution |
| “ST-CITS” | : Shun Tak & CITS Coach (Macao) Limited, a company incorporated in Macau with limited liability |
| “STDM” | : Sociedade de Turismo e Diversões de Macau, S.A., a controlling Shareholder |
| “STDM Group” | : STDM and its associates (as defined in the Listing Rules), excluding the Group |
| “STDM-I” | : STDM-Investments Limited, a subsidiary of STDM liquidated on 15 August 2011 |
| “Stock Exchange” | : The Stock Exchange of Hong Kong Limited |
| “the Reporting Period” | : the period for the year ended 31 December 2016 |
| “US GAAP” | : United States generally accepted accounting principles |
| “HK\$” | : Hong Kong dollar(s), the lawful currency of Hong Kong |
| “%” | : per cent |



<http://www.sjmholdings.com>

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