

IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to this offering memorandum (the “**offering memorandum**”) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of this offering memorandum. In accessing this offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

Confirmation and your representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, you must comply with the following provisions. By accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to the Issuer, the Parent Guarantor, and the Initial Purchasers (each as defined in this offering memorandum) that (i) you and any customers you represent are outside the United States (as defined in Regulation S under the Securities Act), that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, and to the extent you purchase the securities described in the attached offering memorandum, you will be doing so in an offshore transaction pursuant to and in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”); and (ii) you consent to delivery of such offering memorandum by electronic transmission.

You are reminded that documents may be altered or changed during the process of electronic transmission and, consequently, none of the Initial Purchasers, any person who controls or is otherwise affiliated with any of them, or any of their respective directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

Restrictions: The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate, as the case may be, on behalf of the Issuer in such jurisdiction.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES REFERRED TO IN THIS OFFERING MEMORANDUM HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES LAWS OF APPLICABLE JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

The offering memorandum is not a prospectus for the purposes of the European Union’s Regulation (EU) 2017/1129 (as amended, the “**EU Prospectus Regulation**”).

Prohibition of sales to EEA retail investors — The securities described herein are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the EU Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**EU PRIIPs Regulation**”) for offering or selling the securities described herein or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities described herein or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

Prohibition of sales to UK retail investors — The securities described herein are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (“**FSMA**”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in the EU Prospectus Regulation as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the EU PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the securities described herein or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the securities described herein or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II product governance/Professional investors and ECPs only target market — Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the securities described herein has led to the conclusion that: (i) the target market for the securities described herein is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the securities described herein to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the securities described herein (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the securities described herein (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

UK MiFIR product governance / Professional investors and ECPs only target market — Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the securities described herein has led to the conclusion that: (i) the target market for the securities described herein is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (“**UK MiFIR**”); and (ii) all channels for distribution of the securities described herein to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the manufacturers’ target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the securities described herein (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

Within the UK, this offering memorandum is being directed solely at and may only be communicated to persons: who (i) fall within Article 19(5) or Article 49(2)(a)-(d) of the FSMA; (ii) are outside the UK; or (iii) are persons to whom an invitation or inducement to engage in an investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise be lawfully communicated or caused to be communicated (all such persons collectively being referred to as “**Relevant Persons**”). This offering memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this offering memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. This offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Any person who is not a Relevant Person should not act or rely on the offering memorandum or any of its contents.

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore — In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), the classification of the securities described herein as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

You are reminded that this offering memorandum has been delivered to you on the basis that you are a “professional investor” as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) or, if you are outside Hong Kong, you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located. You may not, nor are you authorized to, deliver or disclose the contents of this offering memorandum to any other person.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

CHAMPION MOMENTS LIMITED

(incorporated in the British Virgin Islands with limited liability)

MOP300,000,000 3.90% Senior Notes due 2026 (the “MOP Notes”)

HK\$1,250,000,000 3.90% Senior Notes due 2026 (the “HK\$ Notes”)

unconditionally and irrevocably guaranteed by



澳門博彩控股有限公司
SJM HOLDINGS LIMITED

incorporated in Hong Kong with limited liability Stock Code : 880

MOP Notes Issue Price: 100%

HK\$ Notes Issue Price: 100%

Champion Moments Limited (the “**Issuer**”), a subsidiary of SJM Holdings Limited 澳門博彩控股有限公司 (“**our Company**”, “**SJM**” or the “**Parent Guarantor**”), is offering MOP300,000,000 aggregate principal amount of its 3.90% Senior Notes due 2026 (the “**MOP Notes**”) and HK\$1,250,000,000 aggregate principal amount of its 3.90% Senior Notes due 2026 (the “**HK\$ Notes**,” and together with the MOP Notes, the “**Notes**”). The Issuer will pay interest on the Notes semi-annually in arrears on May 12 and November 12 of each year, beginning on November 12, 2021. Unless previously repurchased, cancelled or redeemed, the Notes will mature on May 12, 2026. The Notes will be guaranteed (the “**Parent Guarantee**”) by the Parent Guarantor under the terms in each of the indentures governing the Notes (each, an “**Indenture**,” and together, the “**Indentures**”). Subject to certain conditions, the Issuer may redeem either series of the Notes (a) at a redemption price equal to the principal amount plus a make-whole premium; (b) using net proceeds from certain kinds of equity offerings; (c) at the redemption prices set forth in the section entitled “Description of the MOP Notes — Optional Redemption” or “Description of the HK\$ Notes — Optional Redemption”, as the case may be, plus accrued and unpaid interest, if any, to (but not including) the redemption date; (d) in the event of certain changes in withholding tax laws; or (e) in the event of certain requirements concerning holders of the Notes by applicable gaming authorities. Subject to certain conditions, the Issuer and the Parent Guarantor will be required to purchase the Notes in the event of a change of control or certain events affecting our gaming license.

The Notes will be senior unsecured obligations of the Issuer and will rank equally in right of payment with all of its existing and future senior unsecured debt and will rank senior in right of payment to all of the Issuer’s future subordinated debt, if any.

For a more detailed description of the Notes, see “Description of the MOP Notes” beginning on page 109 in respect of MOP Notes and “Description of the HK\$ Notes” beginning on page 137 in respect of HK\$ Notes.

Investing in the Notes involves risks. See “Risk Factors” beginning on page 14.

The Notes are unrated. We have been assigned a corporate family rating of “Ba1” with a negative outlook by Moody’s Investors Service (“**Moody’s**”) and a long-term foreign currency issuer default rating of “BB+” with a negative outlook by Fitch Ratings Services (“**Fitch**”). These ratings do not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody’s and Fitch.

An application of filing and registration of the offering of the Notes in Macau was made to the Chief Executive of Macau pursuant to Section 3 of the Financial System Act, as approved by Decree Law no. 32/39/M dated 5 July 1993. The issuance of an authorization in relation to the offering of the Notes by the Chief Executive of Macau does not imply a judgment or guarantee regarding any of the risks involving the Issuer, the Parent Guarantor, investment risks of the Notes, profit or any other element of the investment.

This offering memorandum is for distribution to Professional Investors (as defined in Section 11 of the Guideline on Provision and Distribution of Financial Products (Circular 033/B/2010-DSB/AMCM) as issued by the Monetary Authority of Macau) (the “**Professional Investors**”) only. Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.

Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the “**MOX**”) has not reviewed the contents of this offering memorandum, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this offering memorandum to Professional Investors only have been reproduced in this offering memorandum. Listing of the Notes on MOX is not to be taken as an indication of the commercial merits or credit quality of the Notes, the Issuer, the Parent Guarantor or the quality of disclosure in this offering memorandum. MOX takes no responsibility for the contents of this offering memorandum, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

This offering memorandum includes particulars given in compliance with the Guideline on Provision and Distribution of Financial Products (Circular 033/B/2010-DSB/AMCM) for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this offering memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Pursuant to the guideline of MOX, by the subscription or holding of the Notes, it is considered that the investors accept all the rights and obligations of each party as set forth in all the agreements and documents in relation to Notes, including but not limited to this offering memorandum and the Indentures.

The Notes and the Parent Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), or the securities laws of any other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold only in offshore transactions in reliance on Regulation S under the Securities Act. For a description of certain restrictions on resales and transfers, see “Plan of Distribution” and “Transfer Restrictions.”

Each series of the Notes will be evidenced by a global note (a “**Global Note**”) in registered form, which will be registered in the name of, and deposited with the MOX. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, the records maintained by the MOX. Except in the limited circumstances set forth herein, individual certificates for a series of the Notes will not be issued in exchange for beneficial interests in the relevant Global Note. It is expected that delivery of the Notes will be made on May 12, 2021 or such later date as may be agreed by the Initial Purchasers and us.

Joint Global Coordinators and Joint Bookrunners

ICBC Macau

Bank of China Macau Branch

BNP PARIBAS

Joint Bookrunners

Banco Nacional
Ultramarino, S.A.

Bank of
Communications Macau

China Construction Bank
Macau Branch

The Bank of East Asia,
Limited

The date of this offering memorandum is May 5, 2021.

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NOTICE TO INVESTORS

This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates, or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. In addition, there may be legal restrictions on the distribution of this offering memorandum and the offering of the Notes in certain jurisdictions. If you come into possession of this offering memorandum, Industrial and Commercial Bank of China (Macau) Limited, Bank of China Limited, Macau Branch, BNP Paribas, Banco Nacional Ultramarino, S.A., Bank of Communications Co., Ltd. Macau Branch, China Construction Bank Corporation Macau Branch, and The Bank of East Asia, Limited (collectively, the “**Initial Purchasers**,” each, an “**Initial Purchaser**”) and we require that you inform yourself about and observe any such restrictions. See “Plan of Distribution” and “Transfer Restrictions.”

Neither the United States Securities and Exchange Commission nor any state securities commission or regulatory authority in the United States has approved or disapproved these securities or determined if this offering memorandum is truthful, complete or adequate. Any representation to the contrary is a criminal offense.

THE MOX TAKES NO RESPONSIBILITY FOR THE CONTENTS OF THIS OFFERING MEMORANDUM, MAKES NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS OFFERING MEMORANDUM.

This offering memorandum is strictly confidential. We are furnishing this offering memorandum solely for the purpose of enabling you to consider the purchase of the Notes. If you have any doubt about this offering memorandum, you should consult your bank manager, legal counsel, professional accountant or other professional advisor. Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchasers, Bank of China Limited, Macau Branch (the “**Trustee**”), and Industrial and Commercial Bank of China (Macau) Limited (the “**Paying Agent**,” the “**Registrar**,” the “**MOX Lodging Agent**,” and the “**Transfer Agent**,” together, the “**Agents**”) or any of their affiliates or advisors in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us and our subsidiaries, the Notes or the Parent Guarantee other than as contained herein.

This document includes particulars given in compliance with Guideline on Provision and Distribution of Financial Products (Circular 033/B/2010-DSB/AMCM) for the purpose of giving information with regard to the Issuer and the Parent Guarantor. Listing of the Notes on the MOX is not to be taken as an indication of the commercial merits or credit quality of the Notes, the Parent Guarantee, the Issuer or the Parent Guarantor or quality of disclosure in this document. Each of the Issuer and the Parent Guarantor accepts full responsibility for the accuracy of the information contained in this offering memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. The contents of this offering memorandum have not been reviewed by any regulatory authority in Hong Kong or elsewhere. Investors are advised to exercise caution in relation to the offering of the Notes. If Investors are in any doubt about any of the contents of the offering memorandum, they should obtain independent professional advice.

This offering memorandum is not a prospectus for the purposes of the European Union’s Regulation (EU) 2017/1129 (as amended, the “**EU Prospectus Regulation**”).

Prohibition of sales to EEA retail investors — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the EU Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**EU PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

Prohibition of sales to UK retail investors — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “**EUWA**”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**FSMA**”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in the EU Prospectus Regulation as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the EU PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II product governance/Professional investors and ECPs only target market — Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

UK MiFIR product governance/Professional investors and ECPs only target market — Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (“**UK MiFIR**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the manufacturers’ target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

In making an investment decision, each prospective investor must rely on its own examination of our Group and the terms of the Notes, including, without limitation, the merits and risks involved. Each person receiving this offering memorandum is advised to read and understand the contents of this offering memorandum, including the financial statements and the related notes thereto, before investing in the Notes. We have provided the information contained in this offering memorandum and have also relied on other identified sources.

We, having made all reasonable inquiries, confirm that: (i) this offering memorandum contains all information with respect to us referred to in this offering memorandum and the Notes, the Parent Guarantee that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this offering memorandum relating to us are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering memorandum with regard to us are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Parent Guarantor, our Group, the Notes and the Parent Guarantee, the omission of which would, in the context of the issue and offering of the Notes, make this offering memorandum, as a whole, misleading in any material respect; and (v) we have made all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer and the Parent Guarantor accept full responsibility for the accuracy of the information contained in this offering memorandum.

Neither the Initial Purchasers nor the Trustee nor the Agents has independently verified any of the information contained in this offering memorandum and they make no representation or warranty, express or implied, as to the accuracy, sufficiency or completeness of such information, and you should not rely on anything contained in this offering memorandum as a promise or representation by the Initial Purchasers or the Trustee or the Agents. To the fullest extent permitted by law, none of the Initial Purchasers or the Trustee or the Agents or any of their respective directors, officers and affiliates accept any responsibility or liability in relation to information contained in this offering memorandum, statement made or purported to be made by any of the Initial Purchasers or the Trustee or the Agents or on its behalf or any other information provided by us in connection with the Issuer, the Parent Guarantor, our Group, the Notes, the Parent Guarantee, or the issue and offering of the Notes. This offering memorandum is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by us, the Initial Purchasers or the Trustee or the Agents that any recipient of this offering memorandum should purchase the Notes.

You should not reproduce or distribute this offering memorandum, in whole or in part, and should not disclose any contents or use any information in this offering memorandum for any purpose other than considering an investment in the Notes. None of the Initial Purchasers or any of their respective affiliates undertakes to review the financial condition or affairs of the Issuer, the Parent Guarantor, or our Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Initial Purchasers or their respective affiliates. By accepting delivery of this offering memorandum, you agree to these terms.

Each prospective purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this offering memorandum and must obtain any consents, approvals or permissions required for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Parent Guarantor, and the Initial Purchasers shall have any responsibility therefor.

We reserve the right to withdraw the offering of the Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.

IN CONNECTION WITH THIS OFFERING, ANY OF THE INITIAL PURCHASERS APPOINTED AND ACTING IN ITS CAPACITY AS A STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILIZATION MAY NOT NECESSARILY OCCUR. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OR OVER ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILIZING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

CERTAIN CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein.

In this offering memorandum, the term “Issuer” refers to Champion Moments Limited, the terms “our Company”, “SJMH” or “Parent Guarantor” refer to SJM Holdings Limited 澳門博彩控股有限公司, and the terms “we,” “our,” “us,” or “our Group” refer to SJM Holdings Limited 澳門博彩控股有限公司 and its consolidated subsidiaries, as the context requires.

References to “Hong Kong” refer to the Hong Kong Special Administrative Region of the People’s Republic of China; “HK\$” and “Hong Kong dollars” refer to the legal currency of Hong Kong; “Macau” refers to the Macau Special Administrative Region of the People’s Republic of China; “Macau patacas” and “MOP” refer to the legal currency of Macau; and “US\$” and “U.S. dollars” refer to the legal currency of the United States; “BVI” refers to the British Virgin Islands. In this offering memorandum, references to “China,” “mainland China,” and “PRC” refer to the People’s Republic of China, excluding Hong Kong, Macau and Taiwan.

We record and publish our financial statements in Hong Kong dollars. The Macau pataca is pegged to the Hong Kong dollar at a rate of HK\$1.00 = MOP1.03. Unless otherwise stated in this offering memorandum, all translations between Hong Kong dollars and Macau pataca for figures were made at such rate. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Hong Kong dollar amounts referred to herein have been, could have been or could be converted into Macau patacas, or vice versa, at any particular rate or at all on such date or any other date.

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent totals of the individual items and actual numbers may differ from those contained herein due to such rounding.

Unless the context otherwise requires, references to “2018,” “2019” and “2020” in this offering memorandum are to our financial years ended December 31, 2018, 2019 and 2020, respectively.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or our or their respective directors and advisors, and neither we, the Initial Purchasers nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. All statements other than statements of historical facts contained in this offering memorandum, including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “may,” “will,” “should,” “could,” “would,” “expect,” “intend,” “plan,” “anticipate,” “going forward,” “ought to,” “seek,” “project,” “forecast,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of these terms or other comparable terminology are forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, results, liquidity and capital resources and are not a guarantee of future performance and may not materialize or may change. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that those expectations will prove to be correct, and you are cautioned not to place undue reliance on such statements. In addition, unanticipated events may adversely affect the actual results we achieve. Important factors that could cause our actual performance or achievements to differ materially from those expressed or implied by the forward-looking statements include, among other things, the following:

- our goals and strategies;
- the material impact of the global COVID-19 pandemic on our business, financial results and liquidity, which could worsen and persist for an unknown duration;
- the reduced access to our target markets due to travel restrictions, and the potential long-term impact on customer retention;
- the expected growth of the gaming and leisure market in Macau and visitation in Macau;
- the impact on the travel and leisure industry from factors such as an outbreak of an infectious disease, such as COVID-19 pandemic, extreme weather patterns or natural disasters, military conflicts and any future security alerts and/or terrorist attacks or other acts of violence;
- general domestic or global political and economic conditions that impact levels of travel, leisure and consumer spending;
- our ability to successfully operate our casinos;
- our ability to extend or renew our gaming concession;
- our ability to obtain or maintain all required governmental approval, authorizations and licenses for our operations;
- our compliance with conditions and covenants under the existing and future indebtedness;
- capital and credit market volatility;
- our ability to raise additional capital, if and when required;
- our entering into new development and construction projects and new ventures in or outside of Macau;
- increased competition from other casino hotel and resort projects in Macau and elsewhere in Asia;
- government policies and regulation relating to the gaming industry, including gaming license approvals in Macau and the legalization of gaming in other jurisdictions, and the leisure market in Macau;
- the uncertainty of tourist behavior related to spending and vacationing at casino resorts in Macau;

- the completion of infrastructure projects in Macau;
- our ability to retain and increase our customers;
- our ability to offer new services and attractions;
- fluctuations in occupancy rates and average daily room rates in Macau;
- our future business development, financial condition and results of operations;
- the expected growth in, market size of and trends in the market in Macau;
- expected changes in our revenues, costs or expenditures;
- our expectations regarding demand for and market acceptance of our brand and business;
- our ability to continue to develop new technologies and/or upgrade our existing technologies;
- cybersecurity risks including misappropriation of customer information or other breaches of information security;
- our ability to protect our intellectual property rights;
- growth of and trends of competition in the gaming and leisure market in Macau;
- general economic and business conditions globally and in Macau;
- the outcome of any current and future litigation; and
- other factors beyond our control.

Furthermore, these forward-looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward-looking statements due to a number of factors, including factors disclosed under “Risk Factors” and elsewhere in this offering memorandum.

Except as required by law, we undertake no obligation to update or otherwise revise any forward-looking statements contained in this offering memorandum, whether as a result of new information, future events or otherwise after the date of this offering memorandum. All forward-looking statements contained in this offering memorandum are qualified by reference to the cautionary statements set forth in this section.

ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a BVI business company incorporated in the BVI with limited liability and the Parent Guarantor is a limited liability company incorporated in Hong Kong. All of our directors and officers reside outside the United States (principally in Hong Kong and Macau). All of our assets and such persons' assets are located outside the United States (principally in Macau). As a result, it may be difficult for a holder of the Notes or the Trustee to effect service of process within the United States upon us or such persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

Each of the Issuer and the Parent Guarantor has appointed Cogency Global Inc. as its agent to receive service of process with respect to any action brought against the Issuer or the Parent Guarantor in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any state in the United States or any action brought against the Issuer or the Parent Guarantor in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Maples and Calder (Hong Kong) LLP, our counsel as to the BVI law, Latham & Watkins LLP, our counsel as to Hong Kong law, and C&C Advogados, our counsel as to Macau law, have advised us, respectively, that there is uncertainty as to whether the courts of the BVI, Hong Kong and Macau, respectively, would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or
- entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

As a general matter, and subject to certain conditions, a judgment obtained in a foreign court would usually be recognized and enforced without any re-examination of the merits at common law, by an action commenced on the foreign judgment in the courts of the BVI or Hong Kong, where the judgment:

- (a) is final and conclusive;
- (b) in respect of which the foreign court had jurisdiction over the defendant according to the conflict of law rules applicable in the jurisdiction where enforcement is sought;
- (c) was not obtained by fraud on the part of the person in whose favor judgment was given or on the part of the foreign court;
- (d) is for a liquidated sum not in respect of penalties, taxes, fines or similar fiscal or revenue obligations;
- (e) recognition or enforcement of which would not be contrary to public policy in the jurisdiction where enforcement is sought; and
- (f) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

Any final and conclusive monetary judgment for a definite sum obtained against the Company in the Courts of New York in respect of the offering would be treated by the Courts of Macau as a cause of action in itself so that no retrial of the merits would be necessary, but for its enforcement in Macau jurisdiction the award of the Courts of New York would be subject to the prior confirmation of the Macau Court of Appeal, which confirmation would be given subject to the verification of the following cumulative requirements (Section 1200 of the Macau Civil Proceedings Code):

- (a) there are no doubts on the authenticity of the document supporting the foreign Court's decision and the decision is intelligible;

- (b) the judgment given by the foreign Court is final and conclusive;
- (c) the jurisdiction of the foreign Court was not attained through fraud and the decision of the foreign Court does not respect to matters of the exclusive jurisdiction of the Macau Courts (e.g. property rights over real estate located in Macau and bankruptcy of companies with registered head office in Macau);
- (d) there is no previous judgment of, or proceedings pending in Macau Courts between the same parties to decide on the same issues as those decided by the foreign Court, except if the foreign Court reserved the jurisdiction;
- (e) the defendant was properly served and the right to contradict and the equal treatment of the parties within the foreign proceedings was respected; and
- (f) the recognition or enforcement of the foreign judgment in Macau would not be contrary to public policy in Macau.

Regarding this last requirement (not contrary to public policy of Macau), it should be noted that in Macau any interest rate higher than the triple of the legal interest rate (29.25% p.a., being the current legal interest rate of 9.75% p.a.) is qualified as usurious. The prohibition of usurious contracts may be considered by the Courts of Macau as a fundamental principle of its legal system, thus a foreign judgment that contains a decision of payment of interest higher than the triple of the Macau legal interest rate may be deemed as contrary to public policy in Macau and, therefore, null and void.

PRESENTATION OF FINANCIAL INFORMATION

Our reporting currency is Hong Kong dollars.

This offering memorandum contains our audited consolidated financial information, which have been prepared and presented in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The financial information as of and for the years ended December 31, 2018, 2019 and 2020 set forth in this offering memorandum have been derived from our consolidated financial statements as of and for the years ended December 31, 2019 and 2020. Such annual consolidated financial statements as audited by Deloitte Touche Tohmatsu (“**Deloitte**”), independent certified public accountants, and are included elsewhere in this offering memorandum.

This offering memorandum contains non-HKFRS financial measures and ratios that are not required by, or presented in accordance with, HKFRS, including Adjusted EBITDA, Adjusted EBITDA margin, and total capitalisation. We present non-HKFRS financial measures so that investors have the same financial data that management uses in evaluating financial performance with the belief that it will assist the investment community in assessing the underlying financial performance of our Company. The non-HKFRS financial measures may not be comparable to other similarly titled measures of other companies, since they are not uniformly defined, and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results reported under HKFRS. Non-HKFRS financial measures and ratios are not measurements of our performance under HKFRS and should not be considered as alternatives to operating income or net profit or any other performance measures derived in accordance with HKFRS or any other generally accepted accounting principles.

GLOSSARY

The following are definitions of certain terms in this offering memorandum as they relate to us. The terms and their meanings may not correspond to standard industry meanings or usages of those terms.

“2026 Notes”	the US\$500,000,000 aggregate amount of 4.500% senior notes due 2026 issued by Champion Path Holdings Limited, a direct wholly-owned subsidiary of SJMH, on January 27, 2021
“2028 Notes”	the US\$500,000,000 aggregate amount of 4.850% senior notes due 2028 issued by Champion Path Holdings Limited, a direct wholly-owned subsidiary of SJMH, on January 27, 2021
“Adjusted EBITDA”	Earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, gain/loss on disposal/write-off of property and equipment, impairment loss on property and equipment, gain/loss on modification of long-term bank loans, project feasibility study cost, share-based payments, sub-concession fee income and pre-opening expenses.
“Board”	the board of directors of the Company
“chips”	tokens, usually in the form of plastic discs issued by a casino to patrons in exchange for cash or credit, which may be used (in lieu of cash) to place bets on gaming tables
“concession”	a government grant for the operation of games of fortune and chance in casinos in Macau under an administrative contract pursuant to which a concessionaire, or the entity holding the concession, is authorized to operate games of fortune and chance in casinos in Macau
“Concession Contract”	the gaming concession agreement executed on March 28, 2002 between Macau government and SJM, published in official Gazette no. 14-II, 2002 and amended by deed of April 19, 2005, published on the Official Gazette no. 18-II, 2005, by which Macau government granted to SJM one of the three concessions for the exploitation of games of fortune and chance or other games in casino in Macau, and amended by Public Deed dated April 19, 2005, the expiry date of which has been extended from March 2020 to June 2022
“Concessionaire(s)”	the holder(s) of a concession for the operation of casino games in Macau
“Cotai”	an area of reclaimed land located between the islands of Taipa and Coloane in Macau

“COVID-19”	an outbreak of a respiratory illness caused by a new strain of coronavirus that was identified in January 2020. The disease has since spread rapidly across the world, causing the World Health Organization to declare the outbreak a pandemic on March 12, 2020
“CARIC”	Cybersecurity Alert and Response Incident Centre
“CPPCC”	Chinese People’s Political Consultative Conference
“DICJ”	the Direcção de Inspeção e Coordenação de Jogos (the Gaming Inspection and Coordination Bureau) of the Secretariat for Economy and Finance of the Macau government
“DSEC”	Statistics and Census Service of the Macau Government
“Galaxy”	Galaxy Casino, S.A., one of the six gaming operators in Macau and one of the three concessionaires in Macau
“gaming machine”	slot machine and/or electronic gaming table
“gaming promoter”	individuals or corporations licensed by and registered with the DICJ to promote games of fortune and chance or other casino games to patrons, through the arrangement of certain services, including the extension of credit, transportation, accommodation, dining and entertainment, whose activity is regulated by the Gaming Promoters Regulation
“GAAP”	Generally Accepted Accounting Principles
“Grand Lisboa”	an integrated resort and casino in the central area of Macau, which is operated by SJM and opened in February 2007
“Grand Lisboa Palace”	an integrated resort and casino in the Cotai area of Macau, which is operated by SJM and has completed construction and is in the process of obtaining the necessary operating licenses, for expected opening in the first half of 2021
“gross gaming revenue”	the total win generated by all casino gaming activities combined, calculated before deduction of commissions, complimentaries and other incentives
“HIBOR”	Hong Kong Interbank Offered Rate
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSE Main Board”	the main board of The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“ICBC Macau”	Industrial and Commercial Bank of China (Macau) Limited
“LIBOR”	London Interbank Offered Rate

“MACAUPORT”	Macauport — Sociedade de Administração de Portos, S.A.
“MAIBOR”	Macau Interbank Offered Rate
“mass market table games”	consists of both table games and gaming machines played by mass market players primarily for cash stakes
“Melco”	Melco Resorts (Macau) Limited, one of the six gaming operators in Macau and one of the three sub-concessionaires in Macau
“MGM”	MGM Grand Paradise Limited, one of the six gaming operators in Macau and one of the three sub-concessionaires in Macau
“NYH”	NYH Gestão de Vendas a Retalho Limitada
“net gaming revenue”	gross gaming revenue less commissions and incentives
“occupancy rate”	the average percentage of available hotel rooms occupied, including complimentary rooms, during a period
“Ponte 16”	Ponte 16 Resort Macau, a hotel and casino resort co-developed by SJM — Investment Limited and World Fortune Limited. SJM commenced operations of Casino Ponte 16 on February 1, 2008. The Hotel Sofitel at Ponte 16 commenced operations in August 2008
“Ponte 16 Credit Facilities”	a secured multicurrency credit facilities agreement with a term of 5 years for an aggregate of HK\$735.0 million and MOP273.0 million for Ponte 16
“Revenue per available room” or “REVPAR”	amount calculated by dividing total room revenues including complimentary rooms (less service charges, if any) by total rooms available, thereby representing a combination of hotel average daily room rates and occupancy
“Shun Tak”	Shun Tak Holdings Limited, a company incorporated in Hong Kong and listed on the HKSE Main Board (stock code: 0242)
“SJM”	Sociedade de Jogos de Macau, S.A., a company incorporated under the laws of Macau and a subsidiary of the Company; references in this offering memorandum to SJM being a wholly owned subsidiary of the Company should be construed as being subject to a 10% social and voting interest and MOP1.00 economic interest held by the managing director of SJM
“slot machines”	gaming machines operated by a single player and electronic multiple-player gaming machines
“STDM”	Sociedade de Turismo e Diversões de Macau, S.A., a company incorporated in Macau and our controlling shareholder

“subconcession”	an agreement for the operation of games of fortune and chance in casinos between the entity holding the concession, or the concessionaire, and a subconcessionaire, pursuant to which the subconcessionaire is authorized to operate games of fortune and chance in casinos in Macau
“subconcessionaire(s)”	the holder(s) of a subconcession for the operation of casino games in Macau
“Syndicated Credit Facilities”	our secured bank loans for the Grand Lisboa Palace Project and general corporate purposes, which consist of (i) a Hong Kong dollar term loan facility of HK\$12,441.0 million, a US dollar term loan facility of US\$156.0 million and a Macau pataca term loan facility of MOP1,382.5 million with a term of 5 years and 5 months (the “ Term Loan Facility ”) and (ii) a Hong Kong dollar revolving credit facility of HK\$8,294.0 million, a US dollar revolving credit facility of US\$104.0 million and a Macau pataca revolving credit facility of MOP921.6 million with an original term of 3 years and 5 months which has been extended to 5 years and 5 months by a waiver obtained on August 24, 2018 (the “ Revolving Credit Facility ”)
“total net revenue”	our gaming, hotel, catering, retail and related services revenues
“Venetian Macau”	Venetian Macau, S.A., one of the six gaming operators in Macau and one of the three sub-concessionaires in Macau
“VIP chips”	a physically identifiable chip that is used to track VIP wagering volume for purposes of calculating commissions and other allowances payable to gaming promoters and individual VIP players
“VIP room”	gaming rooms or areas that have restricted access to VIP patrons and typically offer more personalized service than the general mass market gaming areas
“Wynn Macau”	Wynn Macau, Limited, one of the six gaming operators in Macau and one of the three concessionaires in Macau

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including “Risk Factors,” “Description of the MOP Notes,” “Description of the HK\$ Notes,” and our consolidated financial statements and the related notes, before making an investment decision.

Overview

We are a developer, owner and operator of integrated casinos gaming and resort facilities in Macau. We are the only casino gaming concessionaire in Macau with local roots, and are the largest casino operator in Macau in terms of number of casinos as of the date of this offering memorandum. We are the holding company of SJM, one of first three companies, and one of the six companies currently authorized 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 in March 2002. Our Lisboa brand goes back to 1970, when the Hotel and Casino Lisboa, started operation. Built by our founder, Dr. Stanley Ho, Hotel and Casino Lisboa is Macau’s first integrated casino and resort, which combined lodging, dining, shopping and entertainment with gaming. Over the succeeding decades, the Lisboa brand name established preeminent recognition throughout the region, known to Macau’s many visitors as the destination for entertainment, and was named the Most Valuable Brand in 2014 Business Awards of Macau.

Our casino gaming and resort facilities are exclusively in Macau. As of the date of this offering memorandum, we operated 19 casinos in Macau, including five self-promoted casinos and 14 third party-promoted casinos. Self-promoted casinos are casinos for which promotional and marketing efforts are handled by our marketing department, and third party-promoted casinos are casinos for which marketing efforts are handled by the third party service providers. In the fourth quarter of 2019, we completed the construction of the Grand Lisboa Palace, an integrated resort on Cotai and began the process of obtaining the necessary operating licenses. The Grand Lisboa Palace will feature a total of 1,892 hotel rooms and suites, facilities for meetings and conferences, shopping, dining, entertainment, gaming, and is expected to open in the first half of 2021.

Our current and future operations are designed to cater to a broad spectrum of gaming patrons, from high-stakes VIP gaming patrons to gaming patrons seeking a broader entertainment experience. In addition to our gaming operations, we also operate Grand Lisboa Hotel, Sofitel at Ponte 16 and Jai Alai Hotel as well as a selection of restaurants, bars and retail outlets. We seek to attract patrons throughout Asia and, in particular, from Greater China.

For the years ended December 31, 2018, 2019 and 2020, the following table presents the key financial performance indicators:

	Year ended December 31,		
	2018	2019	2020
	(in millions of HK\$)		
Total net revenue	34,410.1	33,875.0	7,506.7
Profit (loss) for the year attributable to:			
Owners of the Company	2,850.1	3,207.3	(3,024.9)
Non-controlling interests	62.1	110.2	(150.0)
	2,912.2	3,317.5	(3,174.9)
Adjusted EBITDA	3,723.6	4,213.4	(2,089.0)
Adjusted EBITDA margin	10.8%	12.4%	(27.8%)

For the years ended December 31, 2018, 2019 and 2020, the following table presents the key operational performance indicators:

	Year ended December 31,		
	2018	2019	2020
Average number of VIP gaming tables	288	284	192
Average number of mass market gaming tables	1,416	1,482	903
Average total number of gaming tables	1,704	1,766	1,095
Average total number of slot machines	2,668	2,562	1,247
Average daily net-win per VIP gaming table (HK\$)	187,055	132,040	30,228
Average daily net-win per mass market gaming table (HK\$)	44,657	46,451	18,485
Average daily net-win per slot machine (HK\$)	1,188	1,268	866

We believe the year-over-year decline in year of 2020 was mainly due to the impact of COVID-19 pandemic, which resulted in a significant decline in inbound tourism, among other effects. For more details, see “Risk factors — The COVID-19 pandemic has had and will likely continue to have an adverse effect on our business, operations, financial condition, operating results and cash flows.”

Recent Development

Continuing effects of the COVID-19 pandemic

In January 2020, an outbreak of COVID-19 was identified and has since spread throughout much of the world. The COVID-19 pandemic had an adverse effect on our results of operations and financial condition in the first quarter of 2020, which has persisted into the second quarter of 2020 and beyond. Our casino operations in Macau were closed for a 15-day period beginning on February 5, 2020 and resumed operations on a reduced basis on February 20, 2020. However, certain health safeguards, such as limiting the number of seats per table game, slot machine spacing, temperature checks, mask protection, and health declarations remain in effect at the present time. Additionally, group and individual travel visas from the Mainland have been suspended by the Chinese government and most transportation channels to Macau have been curtailed or reduced. Visitors to Macau who are residents of the Mainland, Hong Kong, Taiwan or returning Macau residents have been subject to mandatory 14-day quarantine requirements, whilst those of the above areas (except Macau residents) who have been to countries or areas outside China in the past 14 days or residents of other areas are not permitted to enter. On December 21, 2020, Macau health authorities increased the quarantine period from the 14 days to 21 days for all arrivals to Macau from Hong Kong and any location outside mainland China or Taiwan. Accordingly, visitation to Macau has fallen significantly since the outbreak of COVID-19. According to Macau’s Statistics and Census Bureau, total visitation to Macau decreased by 68.9%, 99.5%, 92.4% and 79.6% in the first, second, third and fourth quarters of 2020, respectively, compared to the same periods in 2019. The decrease in visitation is driven by the outbreak’s strong deterrent effect on travel and social activities, the Chinese government’s suspension of its visa and group tour schemes that allow mainland Chinese residents to travel to Macau, quarantine measures, travel and entry restrictions and conditions in Macau, Hong Kong and certain cities and regions in mainland China, the suspension of ferry services and other modes of transportation regionally, and, bans on entry or enhanced quarantine requirements, depending on the person’s nationality, residency and their recent travel history, for any Macau residents and imported labor, PRC citizens, Hong Kong residents and Taiwan residents attempting to enter Macau. Generally, persons who are not residents of the Greater China area are barred from entry to Macau at this time.

According to the DICJ, gross gaming revenues in Macau declined by 79.3% for the full year 2020 as compared to the full year 2019. We believe such year-over-year decline in 2020 was mainly due to the impact of the COVID-19 pandemic, which resulted in a significant decline in inbound tourism, among other things. While we expect that gross gaming revenues in Macau will continue to be negatively impacted by the significant travel bans or restrictions, visa restrictions and quarantine and social distancing requirements so long as these restrictions remain in place, we have taken various mitigating measures during the COVID-19 pandemic, such as implementing a cost reduction program to minimize cash outflow and rationalizing our capital expenditure program with deferrals and reductions which benefit our balance sheet.

Beginning in June 2020, certain entry restrictions to Macau have been gradually eased. It has been announced that certain groups of people including students, teachers and certain non-resident workers who are PRC citizens can travel between Macau and Zhuhai, a PRC city adjacent to Macau, subject to certain health declaration and testing requirements. Since July 15, 2020, quarantine requirements for visitors to Guangdong Province from Macau were relaxed. On September 23, 2020, mainland China authorities fully resumed the IVS exit visa program, which permits individual PRC citizens from nearly 50 PRC cities to travel to Macau for tourism purposes. Since February 23, 2021, no PRC visitors will be required to complete quarantine upon arrival in Macau. However, quarantine requirements for those traveling between Hong Kong and Macau have been announced to remain effective until further notice, and in the initial phase of opening travel channels between Macau and other regions in Greater China, all visitors seeking entry to Macau will need to test negative for COVID-19 before entering Macau. We are currently unable to determine when these measures will be lifted from additional regions and cities throughout China and lifted measures may be reintroduced if there are adverse developments in the COVID-19 situation in Macau and other regions with access to Macau. See “Risk Factors — Risks Relating to Our Business and Operations — The COVID-19 pandemic has had and will likely continue to have an adverse effect on our business, operations, financial condition, operating results and cash flows.”

THE OFFERING

The following summary is provided solely for your convenience. This summary is not intended to be complete and it is subject to important limitations and exceptions. You should read the full text and more specific details contained elsewhere in this offering memorandum. For a more detailed description of the MOP Notes, see “Description of the MOP Notes.” For a more detailed description of the HK\$ Notes, see “Description of the HK\$ Notes.” The information contained in “Description of the MOP Notes” and “Description of the HK\$ Notes” shall prevail to the extent of any inconsistency with the information set forth in this section. Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the MOP Notes” and “Description of the HK\$ Notes,” as the case may be.

Issuer	Champion Moments Limited.
Parent Guarantor	SJM Holdings Limited 澳門博彩控股有限公司.
Notes Offered	MOP Notes: MOP300,000,000 3.90% senior notes due 2026; and HK\$ Notes: HK\$1,250,000,000 3.90% senior notes due 2026.
Issue Price	MOP Notes: 100% of the principal amount of the MOP Notes. HK\$ Notes: 100% of the principal amount of the HK\$ Notes.
Issue Date	May 12, 2021.
Maturity Date	MOP Notes: May 12, 2026. HK\$ Notes: May 12, 2026.
Interest Rate	The MOP Notes will bear interest at 3.90% per annum from and including May 12, 2021, payable semi-annually in arrears. The HK\$ Notes will bear interest at 3.90% per annum from and including May 12, 2021, payable semi-annually in arrears.
Interest Payment Dates	May 12 and November 12 of each year. The first interest payment will be on November 12, 2021. Interest will accrue from the Issue Date.

Ranking of the Notes	<p>The Notes are:</p> <ul style="list-style-type: none"> • general obligations of the Issuer; • senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes; • at least <i>pari passu</i> in right of payment with all other unsecured and unsubordinated Indebtedness of the Issuer (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law); • guaranteed by the Parent Guarantor on a senior basis, subject to the limitations described under “Description of the MOP Notes — The Parent Guarantee” and in “Risk Factors — Risks Relating to the Notes and the Parent Guarantee;” • subordinated to the secured obligations (if any) of the Issuer and the Parent Guarantor, to the extent of the value of the assets serving as security therefor; and • structurally subordinated to all existing and future obligations of the Subsidiaries of the Parent Guarantor (other than the Issuer).
Use of Proceeds	<p>We intend to use approximately 90% of the net proceeds from the offering of the Notes for refinancing the Syndicated Credit Facilities and the balance for general corporate purposes.</p>
Optional Redemption	<p>MOP Notes:</p> <p>At any time prior to May 12, 2024, the Issuer may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.</p> <p>At any time and from time to time prior to May 12, 2024, the Issuer may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more Equity Offerings at a redemption price of 103.90% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the applicable redemption date; <i>provided</i> that at least 65% of the aggregate principal amount of the Notes originally issued on the Issue Date remains outstanding after each such redemption and any such redemption takes place within 45 days after the closing of the related Equity Offering.</p>

At any time and from time to time on or after May 12, 2024, the Issuer may on any one or more occasions redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on May 12 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2024	101.950%
2025 and thereafter	100.975%

See “Description of the MOP Notes — Optional Redemption.”

HK\$ Notes:

At any time prior to May 12, 2024, the Issuer may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to May 12, 2024, the Issuer may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more Equity Offerings at a redemption price of 103.90% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the applicable redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Issue Date remains outstanding after each such redemption and any such redemption takes place within 45 days after the closing of the related Equity Offering.

At any time and from time to time on or after May 12, 2024, the Issuer may on any one or more occasions redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on May 12 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2024	101.950%
2025 and thereafter	100.975%

See “Description of the HK\$ Notes — Optional Redemption.”

Gaming Redemption The Issuer may, at its option, redeem the Notes if the gaming authority of any jurisdiction in which the Parent Guarantor or any of its Subsidiaries conducts, or proposes to conduct, gaming requires that a person who is a holder or the beneficial owner of Notes be licensed, qualified or found suitable under applicable gaming laws and such holder or beneficial owner, as the case may be, fails to apply or become licensed or qualified within the required time period or is found unsuitable. See “Description of the MOP Notes — Gaming Redemption.”

Redemption for Taxation Reasons Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, at the option of the Issuer, the Parent Guarantor or a Surviving Person, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to (but not including) the date fixed by the Issuer, the Parent Guarantor or a Surviving Person, as the case may be, for redemption, if the Issuer, the Parent Guarantor or a Surviving Person would become obliged to pay certain Additional Amounts as a result of changes in certain tax laws. See “Description of the MOP Notes — Redemption for Taxation Reasons.”

Repurchase of Notes Upon a Change of Control Triggering Event Not later than 20 days following a Change of Control Triggering Event, the Issuer and the Parent Guarantor will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date. See “Description of the MOP Notes — Repurchase of Notes at the Option of Holders — Change of Control Triggering Event.”

Special Put Option Upon the occurrence of (1) any event after which none of the Parent Guarantor or any of its Subsidiaries has such licenses, concessions, subconcessions or other permits or authorizations as are necessary for the Parent Guarantor and its Subsidiaries to own or manage casino or gaming areas or operate casino games of fortune and chance in Macau in substantially the same manner and scope as the Parent Guarantor and its Subsidiaries are entitled to at the Issue Date, for a period of ten consecutive days or more, and such event has a material adverse effect on the financial condition, business, properties, or results of operations of the Parent Guarantor and its Subsidiaries, taken as a whole; or (2) the termination, rescission, revocation or modification of any Gaming License which has had a material adverse effect on the financial condition, business, properties, or results of operations of the Parent Guarantor and its Subsidiaries, taken as a whole, the Issuer and the Parent Guarantor will make an Offer to Purchase all outstanding Notes at a purchase price in cash equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, and Additional Amounts, if any, to (but not including) the Offer to Purchase Payment Date. See “Description of the MOP Notes — Repurchase of Notes at the Option of Holders — Special Put Option.”

Covenants Each of the Indentures includes certain limitations on the Issuer to engage in businesses other than those permitted under such Indenture, the Parent Guarantor’s ability to merge or consolidate with another company and require the Parent Guarantor to provide certain information to the holders of Notes. See “Risks relating to the Notes and the Parent Guarantee — The limited covenants in the Indentures may not protect against developments that may impair the trading price for the Notes or our ability to repay the Notes or service our obligations under the Parent Guarantee.”

Transfer Restrictions The Notes and the Parent Guarantee will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”

Form, Denomination and Registration . . . MOP Notes:

The MOP Notes will be issued only in fully registered form, without coupons, in minimum denominations of MOP1,000,000 of principal amount and integral multiples of MOP500,000 in excess thereof and will be initially represented by one global note registered in the name of, and deposited with, the MOX.

	HK\$ Notes:
	The HK\$ Notes will be issued only in fully registered form, without coupons, in minimum denominations of HK\$1,000,000 of principal amount and integral multiples of HK\$500,000 in excess thereof and will be initially represented by one global note registered in the name of, and deposited with, the MOX.
Book-Entry Only	Each series of the Notes will be issued in book-entry form through the facilities of the MOX for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see “Description of the MOP Notes — Book-Entry; Delivery and Form.”
Delivery of the Notes	The Issuer expects to make delivery of the Notes on or about May 12, 2021, which will be the fifth business day following the date of this offering memorandum referred to as “T+5.” You should note that initial trading of the Notes may be affected by the T+5 settlement. See “Plan of Distribution.”
Trustee of the MOP Notes and the HK\$ Notes	Bank of China Limited, Macau Branch.
Paying Agent, Registrar, MOX Lodging Agent, and Transfer Agent of the MOP Notes and the HK\$ Notes	Industrial and Commercial Bank of China (Macau) Limited.
Listing and Trading	Application has been made to the MOX for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only.
Date of MOX Approval	April 30, 2021
Governing Law	The Notes, the Parent Guarantee, and the Indentures are governed by and will be construed in accordance with the laws of the State of New York.
ISIN	MOP Notes: MO000A3KNNH2 HK\$ Notes: MO000A3KNNJ8
Issuer’s Legal Entity Identifier	5493000WAKO3ODX6DN49
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables present our summary financial information. The summary financial information as of and for the years ended December 31, 2018, 2019 and 2020 set forth below have been derived from our consolidated financial statements as of and for the years ended December 31, 2019 and 2020, which are audited by Deloitte. See “Presentation of Financial Information.”

The summary financial information below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum. The results for any historical period are not necessarily indicative of the results of operations to be expected in any future period.

Consolidated Statement of Comprehensive Income

	Year ended December 31,		
	2018	2019	2020
	(in millions of HK\$)		
Total net revenue	34,410.1	33,875.0	7,506.7
Net gaming revenue	33,677.1	33,158.5	7,304.2
Special gaming tax, special levy and gaming premium	(17,004.5)	(15,530.6)	(3,368.2)
	16,672.6	17,627.9	3,936.0
Hotel, catering, retail and related services income	733.0	716.5	202.5
Cost of sales and services on hotel, catering, retail and related services	(387.1)	(377.3)	(204.1)
Other income, gains and losses	377.3	333.0	156.9
Impairment loss on financial assets	(47.0)	(200.0)	–
Marketing and promotional expenses	(5,831.0)	(6,219.9)	(124.7)
Operating and administrative expenses	(8,566.2)	(8,496.5)	(7,103.8)
Finance costs	(27.5)	(33.7)	(31.7)
Share of profits of an associate	8.9	11.8	11.7
Share of profits of a joint venture	6.6	7.3	4.8
Profit (loss) before taxation	2,939.6	3,369.1	(3,152.4)
Taxation	(27.4)	(51.6)	(22.5)
Profit (loss) for the year	2,912.2	3,317.5	(3,174.9)
Other comprehensive income (expense):			
<i>Item that will not be reclassified to profit or loss:</i>			
Change in fair value of investments in equity instruments designated at fair value through other comprehensive income	266.4	(48.2)	(313.7)
Total comprehensive income (loss) for the year	3,178.6	3,269.3	(3,488.6)
Profit (loss) for the year attributable to:			
Owners of the Company	2,850.1	3,207.3	(3,024.9)
Non-controlling interests	62.1	110.2	(150.0)
	2,912.2	3,317.5	(3,174.9)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company	3,116.5	3,159.1	(3,338.6)
Non-controlling interests	62.1	110.2	(150.0)
	3,178.6	3,269.3	(3,488.6)

Consolidated Statement of Financial Position

	As of December 31,		
	2018	2019	2020
	(in millions of HK\$)		
Non-current assets			
Property and equipment	30,378.6	35,159.8	39,559.0
Right-of-use assets	–	2,864.3	3,353.4
Intangible asset	–	197.6	131.7
Land use rights	2,264.0	–	–
Art works and diamonds	281.3	281.3	281.3
Interest in an associate	306.5	336.4	347.7
Interest in a joint venture	127.7	135.0	139.8
Investments in equity instruments designated at fair value through other comprehensive income	916.3	868.1	554.4
Other assets	1,346.2	840.8	1,161.7
Pledged bank deposit	145.6	–	145.6
	35,766.2	40,683.3	45,674.6
Current assets			
Inventories	90.8	103.3	121.7
Trade and other receivables	1,848.9	1,314.1	798.0
Pledged bank deposits	1.3	1,020.7	1.4
Short-term bank deposits	12,368.7	5,766.2	818.2
Bank balances and cash	6,322.7	8,738.1	5,307.6
	20,632.4	16,942.4	7,046.9
Current liabilities			
Trade and other payables	11,957.6	12,044.3	7,730.8
Taxation payable	116.8	123.7	37.2
Long-term bank loans	200.0	217.0	5,272.2
Lease liabilities	–	177.6	256.4
	12,274.4	12,562.6	13,296.6
Net current assets (liabilities)	8,358.0	4,379.8	(6,249.7)
Total assets less current liabilities	44,124.2	45,063.1	39,424.9
Non-current liabilities			
Other payables	882.9	–	66.7
Long-term bank loans	15,244.8	15,063.7	13,514.9
Lease liabilities	–	547.7	929.6
Amounts due to non-controlling interests of a subsidiary	287.1	203.8	263.3
Deferred taxation	22.8	11.8	10.5
	16,437.6	15,827.0	14,785.0
Net assets	27,686.6	29,236.1	24,639.9
Capital and reserves			
Share capital	11,254.1	11,281.4	11,435.5
Reserves	16,298.0	17,717.0	13,092.6
Equity attributable to owners of the Company	27,552.1	28,998.4	24,528.1
Non-controlling interests	134.5	237.7	111.8
Total equity	27,686.6	29,236.1	24,639.9

Other Financial and Operational Data

	Year ended December 31,		
	2018	2019	2020
Adjusted EBITDA ⁽¹⁾⁽²⁾ (in millions of HK\$)	3,723.6	4,213.4	(2,089.0)
Adjusted EBITDA Margin ⁽³⁾	10.8%	12.4%	(27.8%)

(1) Adjusted EBITDA is earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, gain/loss on disposal/write-off of property and equipment, impairment loss on property and equipment, gain/loss on modification of long-term bank loans, project feasibility study cost, share-based payments, sub-concession fee income and pre-opening expenses.

(2) Adjusted EBITDA may not be directly comparable to other similarly titled measures of other companies, since adjusted EBITDA is not uniformly defined, and has limitations as analytical tools and should not be considered isolation or as substitute for analysis of our operating results reported under HKFRS. Adjusted EBITDA and other adjusted EBITDA-based data are not measurements of our performance under HKFRS and should not be considered as alternatives to operating income or net profit or any other performance measures derived in accordance with HKFRS or any other GAAP.

(3) Adjusted EBITDA Margin is Adjusted EBITDA divided by total net revenue.

The following table presents the reconciliation of profit (loss) before taxation to the Adjusted EBITDA for the periods indicated.

	Year ended December 31,		
	2018	2019	2020
	(in millions of HK\$)		
Profit (loss) before taxation	2,939.6	3,369.1	(3,152.4)
Depreciation and Amortization	1,114.4	1,002.1	973.8
Net interest income	(287.2)	(283.2)	(93.0)
(Profit) loss attributable to non-controlling interests	(71.0)	(126.7)	149.5
Project feasibility study cost	–	227.6	–
Share-based payments	10.2	5.5	1.6
Donations	7.0	7.3	4.3
Loss on disposal of property and equipment	0.5	1.9	1.2
Impairment loss on property and equipment	(2.8)	–	–
Loss (gain) on modification of long-term bank loans	12.9	9.8	(1.0)
Pre-opening expenses	–	–	33.5
Subconcession fee income	–	–	(6.5)
Adjusted EBITDA	3,723.6	4,213.4	(2,089.0)

RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this offering memorandum before making an investment decision in relation to the Notes. The risks and uncertainties described below may not be the only ones that exist. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, prospects, financial condition and results of operations. If any of the possible events described below occur, our business, prospects, financial condition or results of operations could be materially and adversely affected and the market price of the Notes may decline. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND OPERATIONS

The COVID-19 pandemic has had and will likely continue to have an adverse effect on our business, operations, financial condition, operating results and cash flows.

In January 2020, an outbreak of COVID-19 was identified and it has since spread around the world. Currently, there are no fully-effective treatments that are broadly approved for COVID-19 and there is no assurance that a fully-effective treatment will be developed. While vaccines have been developed and approved for use by certain governmental health agencies, there is considerable uncertainty with regard to how quickly such vaccines can be deployed to the general public and how quickly they will stem the spread of COVID-19. The spread and risk of resurgence of COVID-19 have and continue to negatively impact many aspects of our business and the ability and desire of people to travel and participate in activities at crowded indoor places, such as those we offer at our properties.

The current, and uncertain future, impact of COVID-19, including its effect on the ability or desire of people to travel (including to and from our properties), is expected to continue to affect our results, operations, outlooks, plans, goals, growth, reputation, cash flows and liquidity.

On February 4, 2020, the Macau government announced a 15-day closure of all casino operations. Our casino operations were closed for a 15-day period beginning on February 5, 2020 and resumed operations on a reduced basis on February 20, 2020. However, certain health safeguards, such as mandatory wearing of masks, completion of health declarations, temperature checks, and spacing of seats at table games and slot machines remain in effect at the present time. Although substantially all our properties are currently open, we cannot predict whether future closures would be appropriate or may be mandated. For instance, a confirmed COVID-19 case being found in a casino in the future may result in all casino operations in Macau being suspended by the Macau government including our casinos.

The gross gaming revenues in Macau have significantly decreased since the outbreak of COVID-19. The decrease in gross gaming revenue in Macau is closely correlated to the decrease in visitation to Macau, driven by the strong deterrent effect of COVID-19 on travel and social activities, the suspension or reduced availability of the IVS, group tour scheme and other travel visas for visitors, quarantine measures in Macau and elsewhere, travel and entry restrictions and conditions in Macau, the PRC, Hong Kong and Taiwan involving COVID-19 testing, among other things, and the suspension or reduced accessibility of transportation to and from Macau.

While most of the abovementioned factors continue to weigh on visitation to Macau, certain of these travel-related restrictions and requirements have eased since June 2020 as certain regions gradually recover from the COVID-19 pandemic. See “Recent Developments”. Given the evolving situation associated with the COVID-19 pandemic, we are currently unable to determine when travel-related restrictions and requirements will be further lifted. Measures which have been lifted and/or are expected to be lifted may be reintroduced if there are adverse developments in the COVID-19 situation in Macau and other regions with access to Macau. We do not expect our business volume to materially improve until tourist visitation to Macau materially improves.

Once travel advisories and restrictions are lifted, demand for casino resorts may remain weak for a significant length of time and we cannot predict if and when our properties will return to pre-outbreak demand or pricing. In particular, consumer behavior related to discretionary spending and traveling, including demand for casino resorts, may be negatively impacted by the

adverse changes in the perceived or actual economic climate, including higher unemployment rates, declines in income levels and loss of personal wealth resulting from the impact of the COVID-19 pandemic. In addition, we cannot predict the impact that the COVID-19 pandemic will have on our partners, such as tenants, travel agencies, suppliers and other vendors. We may be adversely impacted as a result of the adverse impact that our partners suffer.

As a result of all of the foregoing, we may be required to raise additional capital in the future to finance our operations and/or service our debt obligations and our access to and cost of financing will depend on, among other things, global economic conditions, conditions in the global financing markets, the availability of sufficient amounts of financing, our prospects and our credit ratings. In addition, the terms of future debt agreements could include more restrictive covenants, or require incremental credit enhancements, including guarantees and/or collateral, which may further restrict our business operations or be unavailable due to the restrictions we may be subject to at such time. There is no guarantee that debt financings will be available in the future to fund our obligations, or that they will be available on terms consistent with our expectations.

In addition, the COVID-19 pandemic has significantly increased economic and demand uncertainty. The current outbreak and continued spread of COVID-19 could cause a global recession, which would have a further adverse impact on our financial condition and operations. Current economic forecasts for significant increases in unemployment due to the adoption of social distancing and other policies to slow the spread of the virus is likely to have a negative impact on demand for casino resorts, and these impacts could exist for an extended period of time.

COVID-19 has had and will continue to have an adverse effect on our results of operations, cash flows, and financial condition and our ability to pay dividends. For the year ended December 31, 2020, our total net revenue decreased by 77.8% from the year ended December 31, 2019 to HK\$7,506.7 million, we recorded a net loss of HK\$3,174.9 million and net cash used in operating activities of HK\$7,492.8 million and had net current liabilities of HK\$6,249.7 million as of December 31, 2020. We believe these declines in financial condition are mainly attributable to the impact of the COVID-19 pandemic. Given the uncertainty around the extent and timing of the potential future spread or mitigation of COVID-19 and around the imposition or relaxation of containment measures, the impact on our results of operations, cash flows and financial condition in 2021 and potentially thereafter will be material, but cannot be reasonably estimated at this time as it is unknown when COVID-19 will be sufficiently contained, when or if our properties will return to pre-pandemic demand and pricing, when or how quickly the current travel restrictions will be eased and the resulting impact on our business and operations.

The adverse impact of COVID-19 on our business, operations, financial condition and operating results may also have the effect of heightening many of the other risks related to our business, including, but not limited to, those relating to our level of indebtedness, our need to generate sufficient cash flows to service our indebtedness, and our ability to comply with the covenants contained in the agreements that govern our indebtedness.

We generate substantially all of our cash flow from our properties in Macau and, as a result, we are subject to greater risks than a gaming company which operates in more geographical regions.

Substantially all of our operations are in Macau and our revenues may be materially affected by any disruption or downturns in the Macau gaming market. The dividends and distributions that our direct and indirect subsidiaries pay to us serve as our primary sources of cash and are derived from the earnings and cash flow generated by our operating properties in Macau.

While it had generally improved from the third quarter of 2016 to the last quarter of 2018, the Macau gaming market, according to the DICJ, experienced a decline in gross gaming revenues from 2014 to 2016. We believe such decline was primarily driven by a deterioration in gaming demand from China, which provides a core customer base for the Macau gaming market, as well as other restrictions including the imposition of travel restrictions and the implementation of smoking restrictions in casinos. According to the DICJ, gross gaming revenues in Macau declined by 3.4% on a year-over-year basis in 2019 as compared to 2018. We believe such year-over-year decline in 2019 was mainly driven by a decline in VIP gaming revenues in Macau and the slowdown in the Chinese economy. According to the DICJ, gross gaming revenues in Macau declined by 79.3% on a year-over-year basis in 2020 as compared to 2019. We believe such year-over-year decline in 2020 was mainly due to the impact of the COVID-19 pandemic, which results in

significant decline in inbound tourism, among other things. Further, according to the DICJ, accumulated gross gaming revenues in Macau declined by 82.5%, 81.4%, 80.5% and 79.3% in year-to-date September 2020, October 2020, November 2020 and December 2020, respectively, as compared to the same periods in 2019. We expect that gross gaming revenues in Macau will continue to be negatively impacted by the significant travel bans or restrictions, visa restrictions and quarantine and social distancing requirements so long as these restrictions remain in place. The disruptions to our operations caused by the COVID-19 pandemic have had a material effect on our financial condition, operations and prospects during 2020. As such disruptions are ongoing, such material adverse effects have persisted into 2021 and beyond. See “Summary — Recent Developments — Continuing effects of the COVID-19 pandemic.”

Because our operations are and will be conducted based on our properties in Macau, we are and will be subject to greater risks resulting from limited diversification of our businesses and sources of revenues as compared to gaming companies with more operating properties in various geographic regions. These risks include, but are not limited to:

- dependence on the gaming, tourism and leisure market in Macau;
- limited diversification of businesses and sources of revenues;
- a decline in air, land or ferry passenger traffic to Macau from China or other countries or areas due to higher ticket costs, fears concerning travel, travel restrictions or otherwise, including as a result of the outbreak of widespread health epidemics or pandemics, such as the COVID-19 pandemic, or social unrest in Hong Kong;
- a decline in economic and political conditions in Macau, China or Asia, or an increase in competition within the gaming industry in Macau or generally in Asia;
- inaccessibility to Macau due to inclement weather, road construction or closure of primary access routes;
- austerity measures imposed now or in the future by the governments in China or other countries in Asia;
- tightened control of cross-border fund transfers and/or foreign exchange regulations or policies effected by the Chinese or Macau governments;
- any enforcement or legal measures taken by the Chinese government to deter gaming activities and/or marketing of gaming activities;
- changes in Macau laws and regulations, including gaming laws and regulations, anti-smoking legislation, or interpretations thereof, as well as China travel and visa policies;
- natural and other disasters, including typhoons, outbreaks of infectious diseases, terrorism or violent criminal activities, affecting Macau;
- relaxation of regulations on gaming laws in other regional economies that could compete with the Macau market;
- government restrictions on growth of gaming markets, including policies on gaming table allocation; and
- a decrease in gaming activities and other spending at our properties.

Any of these developments or events could have a material adverse effect on our business, cash flows, financial condition, results of operations and prospects.

The Macau government may unilaterally terminate the Concession Contract for cause without compensation, or SJM may fail to secure its extension.

The Macau government is entitled to terminate the agreement between the Macau government and SJM for the operation of casino games dated March 28, 2002, as amended and supplemented by a supplemental agreement between the same parties dated April 19, 2005, after providing SJM with the opportunity to remedy, for our non-compliance with fundamental obligations under the Concession Contract and applicable laws of Macau, including if it fails to complete the construction projects or suitable alternatives approved by the Macau government on the schedule and in accordance with the terms of the investment plan which forms part of the Concession Contract. See “Regulation — SJM Gaming Concession Contract”. Our Concession Contract expires in June 2022, unless extended pursuant to the applicable laws of Macau. Upon expiration of the Concession Contract, all of our casinos, gaming assets and equipment and ownership rights to the casino properties in Macau will revert to the Macau government without compensation to us. Moreover, beginning in April 2009, the Macau government has an option to redeem the Concession Contract by providing us with at least one-year prior written notice. In such event, we are entitled to fair compensation. As of the date of this offering memorandum, we have not received such written notice. We are considering various options to place us in a good position for the renewal, extension or application process. There can be no assurance that we will be able to renew or extend the Concession Contract on terms favorable to us or at all. If the Macau government chooses to redeem the Concession Contract, the compensation paid may not adequately compensate us for the loss of its future earnings. If the Concession Contract is not renewed or extended upon its stated expiration date, or if the Macau government exercises its early redemption right, we will cease to generate any revenue from our operations, which is currently our principal source of revenue.

In addition, the Concession Contract contains various general covenants and other provisions, with which we are required to comply. These include the obligations to submit periodic information to the Macau government, operate casinos in a fair and honest manner, and maintain certain levels of insurance. Our failure to comply with the terms and conditions of the Concession Contract in a manner satisfactory to the Macau government could ultimately result in the termination of the Concession Contract. The occurrence of any such event of default may require us to compensate the Macau government in accordance with applicable law and any termination of the Concession Contract will cause all of our casinos, gaming assets and equipment and ownership rights to the casino properties to be automatically transferred to the Macau government without compensation to us. If this occurs, we will cease to generate any revenue from our gaming operations, which would materially and adversely affect its business, cash flow, results of operations, financial condition and prospects.

Gaming is a highly regulated industry in Macau and adverse changes or developments in gaming laws or other regulations that affect our operations could be difficult to comply with or may significantly increase our costs, which could cause our projects to be unsuccessful.

Gaming is a highly regulated industry in Macau. Our Macau gaming business is subject to various laws, such as those relating to licensing, tax rates and other regulatory obligations, such as anti-money laundering measures, which may change or become more stringent. Changes in laws may result in additional regulations being imposed on our gaming operations in Macau and our future projects. For example, the Macau government imposed regulations and restrictions that affect the minimum age required for entrance into casinos in Macau, location requirements for sites with gaming machine lounges, data privacy and other matters. Any such legislation, regulation or restriction imposed by the Macau government may have material adverse impact on our operations, business and financial performance. Furthermore, our inability to address any of these requirements or restrictions imposed by the Macau government could adversely affect our reputation and result in criminal or administrative penalties, in addition to any civil liability and other expenses.

Furthermore, in March 2010, the Macau government announced that the number of gaming tables operating in Macau should not exceed 5,500 until the end of the first quarter of 2013. On September 19, 2011, the Secretary for Economy and Finance of the Macau government announced that for a period of ten years thereafter, the total number of gaming tables to be authorized in Macau will increase by an amount equal to an average 3% per annum for ten years. The Macau government subsequently clarified that the allocation of tables over this ten year period does not

need to be uniform and tables may be pre allocated to new properties in Macau. There is no assurance that we will be allocated any new gaming tables authorized by the Macau government, including in connection with the expansion of any existing properties or for any new properties we may develop in Macau.

Also, since January 1, 2019, smoking on the premises of casinos is only permitted in authorized segregated smoking lounges with no gaming activities, and such segregated smoking lounges are required to meet certain standards determined by the Macau government. From time to time, the Macau government may take enforcement actions, such as imposing fines or other penalties, against patrons or gaming operators for any violation of anti-smoking regulations and rules. The implementation of such legislation, rules and regulations may deter potential gaming patrons who are smokers from frequenting casinos in Macau and disrupt the number of patrons visiting or the amount of time visiting patrons spend at our property, which could adversely affect our business, results of operations and financial condition. See “Regulation — Smoking Regulations.”

Our operations in Macau are also exposed to the risk of changes in laws and policies that govern operations of Macau based companies and the Macau government’s interpretation of, or amendments to, our gaming concession. Current laws in Macau, such as licensing requirements, tax rates and other regulatory obligations, including those for anti-money laundering, could change or become more stringent resulting in additional regulations being imposed upon gaming operations in Macau. If we were unable to secure an extension of our concession, or a new concession, in 2022, or if the Macau government were to exercise its redemption right, we would be unable to operate casino gaming in Macau.

In addition, current laws and regulations in Macau concerning gaming and gaming concessions and licenses are, for the most part, fairly recent and there are limited precedents on the interpretation of these laws and regulations. These laws and regulations are complex, and a court or administrative or regulatory body may in the future render an interpretation of these laws and regulations, or issue new or modified regulations, that differ from our interpretation. For instance, certain decisions issued recently by the Macau courts have determined that a gaming operator is liable for the refund of patron funds deposited with a gaming promoter for various purposes while other Macau court decisions have determined that a gaming operator has no such liability. These decisions are not final. The uncertainty caused by these contradictory decisions, a final adverse determination on a gaming operator’s liability with respect to a gaming promoter’s activity or new or modified regulations could have a material adverse effect on our business, financial condition and results of operations.

We face intense competition in Macau and elsewhere in Asia and may not be able to compete successfully.

The gaming and gaming-related businesses in Macau are highly competitive and we face intense and increasing competition as other developers and operators are expected to complete and open new projects in the near future. Current concessionaires and subconcessionaires can open additional gaming facilities. The Macau government has had the ability to grant additional gaming concessions since April 2009, although governmental approval is required before a casino commences operations. See “— The government in Macau could grant additional rights to conduct gaming in the future, which could significantly increase competition and cause us to lose or be unable to gain market share.” We and the other concessionaires and subconcessionaires have announced expansion plans to develop, or are in the process of developing, additional casinos or gaming-related facilities, including mixed-use properties in Macau as part of, or in addition to, their investment obligations under the concessions or subconcessions. As of March 31, 2021, there were 41 casinos in Macau, according to DICJ. The completion of these casinos and gaming-related services and facilities will increase the number of casinos, VIP rooms, gaming tables and slot machines in Macau, as well as hotels, other entertainment and convention center facilities, services and amenities, which will further intensify competition in Macau’s gaming industry and may saturate the gaming industry in Macau. In addition, the opening of these casinos and gaming-related facilities is likely to increase the competition for senior management, trained casino employees, the services of gaming promoters and land for future expansion. Competition may further increase in the future should the Macau government grant additional concessions or authorize additional subconcessions. There is no assurance that demand in Macau’s gaming industry will increase in line with or outpace the supply of casino gaming tables and slot machines

in the future. There is no assurance that the increase in our casinos and casino resorts, for example, the opening of Grand Lisboa Palace, will lead to a corresponding increase in our revenue or that we will be able to maintain or grow our market share in the future or otherwise compete effectively.

A number of our competitors have extensive experience and a well-established presence in the management and operation of mixed-use developments, particularly in mass market casino gaming operations. In addition, some of our competitors may have access to greater financial resources than us or provide services and gaming products that we do not provide. There is no assurance that our development strategy and mixed-use properties will enable us to compete successfully with other mixed-use properties in Macau. If we do not compete effectively with our competitors, our business, cash flow, financial condition, results of operations and prospects may be materially and adversely affected.

Currently, Macau is the only region in the Greater China area offering legal casino gaming. Although the Chinese government has strictly enforced its regulations prohibiting domestic gaming operations, there may be casinos in parts of China that are operated illegally and without licenses. In addition, there is no assurance that China will not in the future permit domestic gaming operations. Competition from casinos in China, legal or illegal, could materially and adversely affect our business, results of operations, financial condition, cash flows and prospects.

We also face competition from casinos throughout the world, including Singapore, South Korea, the Philippines, Malaysia, Vietnam, Cambodia, Australia, Las Vegas, cruise ships in Asia that offer gaming and other casinos throughout Asia. Additionally, certain Asian countries and regions have legalized or in the future may legalize gaming, such as Japan, Taiwan and Thailand, which could increase competition for our gaming operations.

The Macau government has established a maximum number of gaming tables that may be operated in Macau and may limit the number of new gaming tables at new gaming areas in Macau.

The Macau government has imposed a cap on gaming tables and restricts the number of gaming tables that may be operated in Macau. A cap of 5,500 tables up to the end of the first quarter of 2013 was implemented. In addition, for a period of ten years commencing from the second quarter of 2013, the number of gaming tables to be authorized by the Macau government will be limited to an average annual increase of 3%. According to the DICJ, the number of gaming tables in Macau as of March 31, 2021 was 6,092. The Macau government has reiterated further that it does not intend to authorize the operation of any new casino or gaming area that was not previously authorized by the government, or permit tables authorized for mass market gaming operations to be utilized for VIP gaming operations or authorize the expansion of existing casinos or gaming areas. Given such announcements by the Macau government, we may not be able to obtain Macau government's approval to expand our existing casinos or gaming areas or operate a sufficient number of gaming tables at our properties in Macau. These restrictions may have a material impact on our gaming revenues, overall business and operations and may adversely affect our development projects and the future expansion of our business.

Certain of our tax exemption from complementary tax on income from gaming operations will expire in 2022, and we may not be able to extend it.

Companies in Macau are subject to complementary tax of up to 12% of taxable income, as defined in relevant tax laws. We are also subject to a 35% special gaming tax on our gaming revenues as well as other levies of 4% imposed under the Concession Contract. Such other levies may be subject to change in the event the Concession Contract is renegotiated and as a result of any change in relevant laws. The Macau government granted to SJM the benefit of a corporate tax holiday on gaming profits in Macau until 2022. We cannot assure you that the corporate tax holiday benefits will be extended beyond their expiration dates.

In addition, pursuant to the approval letter dated March 30, 2021 issued by the Financial Services Bureau of the Macau government on dividend distributed by us, during the period from April 1, 2020 to June 26, 2022, our shareholders were obligated to pay the special complementary tax of MOP16.9 million (equivalent to HK\$16.4 million) for the 9 months ended December 31, 2020, Mop 22.5 million (equivalent to HK\$21.8 million) for the year ended December 31, 2021 and MOP11.0 million (equivalent to HK\$10.7 million) for the period from January 1, 2022 to June 26, 2022. For each of the years ended December 31, 2019 and 2020, we provided an amount of

MOP23.2 million (equivalent to HK\$22.5 million) for the special complementary tax. Upon the payment of such amount, we will not be liable to pay any other tax in Macau for dividend distributions received from gaming profits. We cannot assure you that similar arrangement will be applied or that, in the event a similar arrangement is adopted, whether we will be required to pay a higher annual sum.

All our current and future construction projects are and will be subject to significant development and construction risks, which could have a material adverse impact on related project timetables, costs and our ability to complete the projects.

All our current and future construction projects are and will be subject to a number of risks, including:

- changes to plans and specifications;
- engineering problems, including defective plans and specifications;
- disruptions to key supply markets, including shortages of, and price increases in, energy, materials and skilled and unskilled labor, and inflation, including any disruptions resulting from the COVID-19 pandemic;
- delays in obtaining or inability to obtain necessary permits, licenses and approvals;
- lack of sufficient, or delays in availability of, financing;
- changes in laws and regulations, or in the interpretation and enforcement of laws and regulations, applicable to gaming, leisure, residential, real estate development or construction projects;
- labor disputes or work stoppages;
- shortage of qualified contractors and suppliers, limitations and/or restrictions on ability of workers to enter Macau due to travel regulations imposed by the Macau and Chinese governments due to the COVID-19 pandemic or inability to enter into definitive contracts with contractors with sufficient skills, financial resources and experience on commercially reasonable terms, or at all;
- disputes with, and defaults by, contractors and subcontractors and other counter-parties;
- personal injuries to workers and other persons;
- environmental, health and safety issues, including site accidents and the spread or outbreak of infectious diseases, such as the ongoing COVID-19 pandemic;
- weather interferences or delays;
- fires, typhoons and other natural disasters;
- geological, construction, excavation, regulatory and equipment problems; and
- other unanticipated circumstances or cost increases.

The occurrence of any of these events could increase the total costs, delay or prevent the construction or opening or otherwise affect the design and features of any existing or future construction projects which we might undertake. We cannot guarantee that our construction costs or total project costs for existing or future projects will not increase beyond amounts initially budgeted.

We could encounter substantial cost increases in the development of our projects and our new projects may not be successful.

We have certain projects under development, including the Grand Lisboa Palace, or intended to be developed pursuant to our expansion plan. The completion of these projects is

subject to a number of contingencies, including adverse developments in applicable legislation, delays or failures in obtaining necessary government licenses, permits or approvals, disruptions to key supply markets, including shortages of, and price increases in energy, materials and skilled and unskilled labor, and inflation, including any disruptions resulting from the COVID-19 pandemic. In addition, construction costs, particularly labor costs, are increasing in Macau and we believe that they are likely to continue to increase due to the significant increase in building activity and the ongoing labor shortage in Macau. There is no assurance that the actual construction costs related to our projects will not exceed the costs we have projected and budgeted. Contingencies that have been set aside by us to cover potential cost overruns or potential delays may be insufficient to cover the full amount of such overruns or delays. If these contingencies are not sufficient to cover these costs, or if we are not able to recover damages for these delays and contingencies, we may not have the funds required to pay the excess costs and our projects may not be completed.

Our current configuration projects and any other construction projects we undertake will entail significant risks. Configuration activity requires us to obtain qualified contractors and subcontractors, the availability of which may be uncertain. Configuration projects are subject to cost overruns and delays caused by events outside of our control or, in certain cases, our contractors' control, such as shortages of materials or skilled labor, unforeseen engineering, environmental and/or geological problems, work stoppages, weather interference, unanticipated cost increases and unavailability of construction materials or equipment. Construction, equipment or staffing problems or difficulties in obtaining any of the requisite materials, licenses, permits, allocations and authorizations from governmental or regulatory authorities could increase the total cost, delay, jeopardize, prevent the construction or opening of our projects, or otherwise affect the design and features. Configuration contractors or counterparties for our current projects may be required to bear certain cost overruns for which they are contractually liable, and if such counterparties are unable to meet their obligations, we may incur increased costs for such developments. In addition, we are managing certain impacts associated with the COVID-19 pandemic, which include ensuring skilled labor, construction materials, licenses and permits are available when needed. The duration and intensity of the COVID-19 pandemic could impact the budget and timeline of our current projects. The occurrence of any of these developments, including the failure to complete our projects in a timely manner, or at all, may negatively affect our financial condition, our results of operations and our ability to pay our debts.

In addition to the construction and regulatory risks associated with our current and future construction projects, we cannot assure you that the level of consumer demand for our casino resorts or for the type of luxury amenities that we offer will meet our expectations. The operating results of our new projects may be materially different than the operating results of our current integrated resorts due to, among other reasons, differences in consumer and corporate spending and preferences in new geographic areas, increased competition from other markets or other developments that may be beyond our control. In addition, our new projects may be more sensitive to certain risks, including risks associated with downturns in the economy, than our current operations. The demands imposed by new developments on our managerial, operational and other resources may impact the operation of our existing operations. If any of these issues were to occur, it could adversely affect our prospects, financial condition, or results of operations.

Construction is subject to hazards that may cause personal injury or loss of life, thereby subjecting us to liabilities and possible losses, which may not be covered by insurance.

The construction of large scale properties, including the types of projects we are or may be involved in, can be dangerous. Construction workers at such sites are subject to hazards that may cause personal injury or loss of life, thereby subjecting the contractors and us to liabilities, possible losses, delays in completion of the projects and negative publicity. We require our contractors and subcontractors to take safety precautions that are consistent with industry practice, but these safety precautions may not be adequate to prevent serious personal injuries or loss of life, damage to property or delays. If accidents occur during the construction of any of our projects, we may be subject to delays, including delays imposed by regulators, liabilities and possible losses, which may not be covered by insurance, and our business, prospects and reputation may be materially and adversely affected.

Inadequate transportation infrastructure in Macau may hinder increases in visitation in Macau.

Macau consists of a peninsula and two islands and is connected to China by several border crossings. Macau has an international airport and connections to China and Hong Kong by road,

ferry and helicopter. To support Macau's planned future development as a gaming and leisure destination, the frequency of bus, car, air and ferry services to Macau will need to increase. While various projects are under development to improve Macau's internal and external transportation links, including the Macau Light Rapid Transit and capacity expansion of border crossings, these projects may not be approved, financed or constructed in time to handle the projected increase in demand for transportation or at all, which could impede the expected increase in visitation to Macau and adversely affect our projects in Macau. Any delays or termination of Macau's transportation infrastructure projects may have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

Our business in Macau is subject to certain regional and global political, social and economic risks that may significantly affect visitation to our properties and have a material adverse effect on our results of operations.

The strength and profitability of our business will depend on consumer demand for integrated resorts and leisure travel in general. Terrorist and violent criminal activities, military conflicts, social events and natural disasters have and may continue to negatively affect travel and leisure expenditures, including lodging, gaming and tourism in Macau. We cannot predict the extent to which such acts or events may affect us, directly or indirectly, in the future.

All of our properties are located in Macau and a significant number of our gaming customers come from, and are expected to continue to come from, mainland China. Accordingly, our business development plans, results of operations and financial condition may be materially and adversely affected by significant political, social and economic developments in Macau and China and our business is sensitive to the willingness of our customers to travel. In particular, our operating results may be adversely affected by:

- changes in Macau's and China's political, economic and social conditions, including any slowdown in economic growth in China;
- tightening of travel or visa restrictions to Macau or from China, including due to the outbreak of infectious disease, such as the recent COVID-19 outbreak, or austerity measures which may be imposed by the Chinese government;
- measures that may be introduced to control inflation, such as interest rate increases or bank account withdrawal controls; and
- changes in the tax laws and regulations.

For example, our business and operations are affected by the travel or visa restrictions imposed by China on its citizens from time to time. A significant number of the gaming customers of our properties come from, and are expected to continue to come from, China. Any travel restrictions imposed by China could negatively affect the number of patrons visiting our properties from China. The Chinese government imposes restrictions on exit visas granted to resident citizens of mainland China for travel to Macau. The government further restricts the number of days that resident citizens of mainland China may spend in Macau for certain types of travel. Such travel and visa restrictions, and any changes imposed by the Chinese government from time to time, could disrupt the number of visitors from mainland China to our properties.

In addition, certain policies and campaigns implemented by the Chinese government may lead to a decline in the number of patrons visiting our properties in Macau and the amount of spending by such patrons. The strength and profitability of the gaming business depends on consumer demand for integrated resorts in general and for the type of luxury amenities that a gaming operator offers. Initiatives and campaigns undertaken by the Chinese government in recent years have resulted in an overall dampening effect on the behavior of Chinese consumers and a decrease in their spending, particularly in luxury good sales and other discretionary spending. For example, the Chinese government's ongoing anti-corruption campaign has had an overall dampening effect on the behavior of Chinese consumers and their spending patterns both domestically and abroad. In addition, the number of patrons visiting our properties may be affected by the Chinese government's focus on deterring marketing of gaming to Chinese mainland residents by casinos and its initiatives to tighten monetary transfer regulations, increase monitoring of various transactions, including bank or credit card transactions, and reduce the

amount that China-issued ATM cardholders can withdraw in each withdrawal and impose a limit on the annual aggregate amount that may be withdrawn. Prior convictions of staff of a foreign casino in China in relation to gaming-related activities in China have also created regulatory uncertainty on marketing activities in China.

Our operations in Macau are also exposed to the risk of changes in laws and policies that govern operations of Macau-based companies. Tax laws and regulations may also be subject to amendment or different interpretation and implementation, thereby adversely affecting our profitability after tax. Further, certain terms of our gaming concession may be subject to renegotiations with the Macau government in the future, including amounts we will be obligated to pay the Macau government in order to continue operations. The results of any renegotiations could have a material adverse effect on our results of operations and financial condition.

Our business growth depends on discretionary consumer spending and is susceptible to global and regional economic downturns.

The demand for gaming activities and related services and luxury amenities that we provide through our operations is dependent on discretionary consumer spending and, as with other forms of entertainment, is susceptible to downturns in global and regional economic conditions. An economic downturn may reduce consumers' willingness to travel and reduce their spending overseas, which would adversely impact us as we depend on visitors from mainland China and other countries to generate a substantial portion of our revenues. Changes in discretionary consumer spending or consumer preferences could be driven by factors such as perceived or actual general economic conditions, high energy and food prices, the increased cost of travel, weak segments of the job market, perceived or actual disposable consumer income and wealth, fears of recession and changes in consumer confidence in the economy or fears of armed conflict or future acts of terrorism. An extended period of reduced discretionary spending and/or disruptions or declines in airline travel could materially and adversely affect our business, results of operations and financial condition.

In addition, our business and results of operations may be materially and adversely affected by any changes in China's economy, including the decrease in the pace of economic growth. A number of measures taken by the Chinese government in recent years to control the rate of economic growth, including those designed to tighten credit and liquidity, have contributed to a slowdown of China's economy. According to the National Bureau of Statistics of China, China's GDP growth rate was 2.3% in 2020, which was lower than the 6.1% in 2019. Any slowdown in China's future growth may have an adverse impact on financial markets, currency exchange rates and other economies, as well as the spending of visitors in Macau and our properties. There is no guarantee that economic downturns, whether actual or perceived, any further decrease in economic growth rates or an otherwise uncertain economic outlook in China will not occur or persist in the future, that they will not be protracted or that governments will respond adequately to control and reverse such conditions, any of which could materially and adversely affect our business, financial condition and results of operations.

In addition, the global macroeconomic environment is facing significant challenges, including the higher prospect of a global recession caused by the COVID-19 pandemic, dampened business sentiment and outlook, and recent decline in oil prices. These recent events have also caused significant declines as well as volatility in global equity and debt capital markets, further elevating the risk of an extended global economic downturn or even a global recession that could in turn trigger a severe contraction of liquidity in the global credit markets. Even prior to the recent events, the global economy was facing the end of quantitative easing by the U.S. Federal Reserve, the continuation of international trade conflicts, including the trade disputes between the United States and China and the potential further escalation of trade tariffs and related retaliatory measures between these two countries and globally. There is considerable uncertainty over the impact and duration of the COVID-19 pandemic on the global macroeconomic environment. Tensions between the United States and China have continued to escalate since 2020 in connection with ongoing trade disputes as well as other factors, including the COVID-19 pandemic and social unrest in Hong Kong.

In addition, introduction of the new National Security Law for Hong Kong and the U.S. State Department's statement in reaction to it, which declared that Hong Kong is no longer autonomous, could result in further deterioration in the Sino-U.S. bilateral relationship, which

could negatively affect the Chinese economy and its demand for gaming and leisure activities. In addition, other factors affecting discretionary consumer spending, including amounts of disposable consumer income, fears of recession, lack of consumer confidence in the economy, change in consumer preferences, high energy, fuel and other commodity costs and increased cost of travel may negatively impact our business. An extended period of reduced discretionary spending and/or disruptions or declines in airline travel could materially adversely affect our business, results of operations and financial condition.

In addition, considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, remains. There have been concerns over conflicts, unrest and terrorist threats in the Middle East, Europe and Africa, including between the United States and Iran, which have resulted in volatility in oil and other markets, and over the conflicts involving Ukraine and Syria and potential conflicts involving the Korean peninsula. Any severe or prolonged slowdown in the global economy or increase in international trade or political conflicts may materially and adversely affect our business, results of operations and financial condition. In addition, continued turbulence in the international markets may adversely affect our ability to access capital markets to meet liquidity needs.

We may suffer substantial losses in the event of a natural or man-made disaster, such as an earthquake, typhoon, a pandemic, terrorist attack, military conflict or other casualty event in Macau.

The strength and profitability of our business will depend on consumer demand for integrated resorts and leisure travel in general. Terrorist and violent criminal activities in Europe, the United States, Southeast Asia and elsewhere, military conflicts in the Middle East, social events, natural disasters such as typhoons, tsunamis and earthquakes, and outbreaks of widespread health epidemics or pandemics, including the COVID-19 pandemic, have and may continue to negatively affect travel and leisure expenditures, including lodging, gaming and tourism. See “— The COVID-19 pandemic has had and will likely continue to have an adverse effect on our business, operations, financial condition, operating results and cash flows.” We cannot predict the extent to which such acts or events may affect us, directly or indirectly, in the future.

The subtropical climate and location of Macau renders it susceptible to typhoons, heavy rainstorms and other natural disasters. In the event of a major typhoon, such as Typhoon Hato and Typhoon Mangkhut in Macau in August 2017 and September 2018, respectively, or other natural disasters in Macau, our properties may be damaged, our operations may be materially and adversely affected and our properties may even be required to temporarily cease operations by regulatory authorities. Any flooding, unscheduled interruption in the technology or transportation services or interruption in the supply of public utilities is likely to result in an immediate and possibly substantial loss of revenues due to a shutdown of any of our properties and material adverse effect on our business operations and financial condition.

The government in Macau could grant additional rights to conduct gaming in the future, which could significantly increase competition and cause us to lose or be unable to gain market share.

In Macau, SJM is one of the six companies authorized by the Macau government to operate gaming activities. Each concessionaire was permitted to enter into a subconcession agreement with one subconcessionaire. The Macau government is currently considering the process of renewing, extending or granting gaming concessions or subconcessions for concessions and subconcessions expiring in 2022. The policies and laws of the Macau government could result in the grant of additional concessions or subconcessions, which could significantly increase the competition in Macau and cause us to lose or be unable to maintain or gain market share, and as a result, adversely affect our business.

Any simultaneous planning, design, construction and development of any projects may stretch our management's time and resources, which could lead to delays, increased costs and other inefficiencies in the development of these projects.

There may be overlap in the planning, design, development and construction periods of our projects. Members of our senior management will be involved in planning and developing our projects at the same time, in addition to overseeing our day-to-day operations. Our management may be unable to devote sufficient time and attention to such projects, as well as our operating properties, which may result in delays in the construction or opening of any of our current or future projects, cause construction cost overruns or cause the performance of our operating properties to be lower than expected, which could have a material adverse effect on our business, financial condition and results of operations.

Our business depends substantially on the continuing efforts of our senior management, and our business may be severely disrupted if we lose their services.

We place substantial reliance on the gaming, project development and hospitality industry experience and knowledge of the Macau market possessed by members of our board of directors, our senior management team, as well as other management personnel. We may experience changes in our key management in the future, including for reasons beyond our control. The loss of the services of any of our executive or key management personnel could hinder our ability to effectively manage our business and implement our growth and development strategies. Finding suitable replacements for members of our board of directors or key management personnel could be difficult, and competition for personnel of similar experience could be intense in Macau. In addition, we do not currently carry key person insurance on any members of our senior management team.

The success of our business depends on our ability to attract and retain an adequate number of qualified personnel. A limited labor supply, increased competition and any increase in demands from our employees could cause labor costs to increase.

The pool of experienced gaming and other skilled and unskilled personnel in Macau is limited. Our demand remains high for personnel occupying sensitive positions that require qualifications sufficient to meet gaming regulations and other requirements or skills and knowledge that would need substantial training and experience. Competitive demand for qualified gaming and other personnel is expected to be intensified by the increased number of properties recently opened and expected to open in close proximity to our properties in Macau. The limited supply and increased competition in the labor market could cause our labor costs to increase.

Macau government policy prohibits us from hiring non-Macau resident dealers and supervisors. In addition, the Macau government announced it will continue to monitor the proportion of management positions held by Macau residents and implement measures to ensure such proportion remains no less than 85% of senior and mid-management positions. Due to the increased competition in the labor market and the relevant regulatory restrictions, we cannot assure you that we will be able to attract and retain a sufficient number of qualified individuals to operate our properties, or that costs to recruit and retain such personnel will not increase significantly. In addition, we have recently been subject to certain labor demands in Macau. The inability to attract, retain and motivate qualified employees and management personnel could have a material adverse effect on our business.

Further, the Macau government is currently enforcing a labor policy pursuant to which the ratio of local to foreign workers that may be recruited is determined on a case-by-case basis and, in relation to construction works, must be at least 1:1 unless otherwise authorized by the Macau government. Such a policy could have a material adverse effect on our ability to complete future works on our properties. Moreover, if the Macau government enforces similar restrictive ratios in other areas, such as the gaming, hotel and entertainment sectors, or imposes additional restrictions on the hiring of foreign workers generally, including as a result of the recent COVID-19 pandemic, this could have a material adverse effect on the operation of our properties.

Moreover, casino resort employers may also contest the hiring of their former employees by us. There can be no assurance that any such claim will not be successful or other similar claims will not be brought against us or any of our affiliates in the future. In the event any such claim is found

to be valid, we could suffer losses and face difficulties in recruiting from competing operators. If found to have basis by courts, these allegations could also result in possible civil liabilities on us or our relevant officers if such officers are shown to have deliberately and willfully condoned a patently unlawful act.

Our insurance coverage may not be adequate to cover all losses that we may suffer from our operations. In addition, our insurance costs may increase and we may not be able to obtain the same insurance coverage in the future.

We currently have various insurance policies providing certain coverage typically required by gaming and hospitality operations in Macau. These insurance policies provide coverage that is subject to policy terms, conditions and limits. There is no assurance that we will be able to renew such insurance coverage on equivalent premium costs, terms, conditions and limits upon their expiration. Certain events, such as typhoons and fires, may increase and have increased our premium costs. The cost of coverage may in the future become so high that we may be unable to obtain the insurance policies we deem necessary for the operation of our projects on commercially practicable terms, or at all, or we may need to reduce our policy limits or agree to certain exclusions from our coverage.

We cannot assure you that any such insurance policies we obtained or may obtain will be adequate to protect us from material losses. Certain acts and events, including any pandemic, epidemic of infectious diseases, earthquakes, hurricanes and floods, or terrorist acts, could expose us to significant uninsured losses that may be, or are, uninsurable or too expensive to justify obtaining insurance. As a result, we may not be successful in obtaining insurance without increases in cost or decreases in coverage levels. In addition, in the event of a substantial loss, the insurance coverage we carry may not be sufficient to pay the full market value or replacement cost of our lost investment or in some cases could result in certain losses being totally uninsured. In addition to the damages caused directly by a casualty loss (such as fire or natural disasters), infectious disease outbreaks or terrorist acts, we may suffer a disruption of our business as a result of these events or be subject to claims by third parties who may be injured or harmed. As an example, the recent COVID-19 pandemic has resulted in many governments around the world, including in Macau, placing quarantines disallowing residents to travel into or outside of the quarantined area, enforcing business closures and other restrictions. While we intend to continue carrying business interruption insurance and general liability insurance, such insurance may not be available on commercially reasonable terms, or at all, and, in any event, may not be adequate to cover any losses that may result from such events. For example, due to insurance industry capacity constraints, it is not possible to obtain cover for business interruption losses for our casino operations caused by events such as the COVID-19 pandemic at a cost that would be reasonable or prudent.

Gaming inherently involves elements of chance that are beyond our control, and as a result our revenues may be volatile and the winnings of our patrons could exceed our casino winnings at particular times during our operations.

The gaming industry is characterized by the element of chance. In addition to the element of chance, theoretical expected win rates are also affected by other factors, including players' skills and experience, the mix of games played, the financial resources of players, the spread of table limits, the volume and mix of bets placed by our players, the amount of time players spend on gambling and the number of our players. As a result, our actual win rates may differ greatly over short time periods, such as from quarter to quarter, and could cause our quarterly results to be volatile. Each of these factors, alone or in combination, have the potential to negatively impact our win rates, and our business, financial condition and results of operations could be materially and adversely affected.

Our revenues are mainly derived from the difference between our casino winnings and the winnings of our casino patrons. Since there is an inherent element of chance in the gaming industry, we do not have full control over our winnings or the winnings of our casino patrons. If the winnings of our patrons exceed our casino winnings, we may record a loss from our gaming operations, and our business, financial condition and results of operations could be materially and adversely affected.

Our gaming business is subject to the risk of cheating and counterfeiting.

All gaming activities at our table games are conducted exclusively with gaming chips which, like real currency, are subject to the risk of alteration and counterfeiting. We incorporate a variety of security and anti-counterfeit features to detect altered or counterfeit gaming chips. Despite such security features, unauthorized parties may try to copy our gaming chips and introduce, use and cash in altered or counterfeit gaming chips in our gaming areas. Any negative publicity arising from such incidents could also tarnish our reputation and may result in a decline in our business, financial condition and results of operation.

Gaming customers may attempt or commit fraud or cheat in order to increase their winnings, including in collusion with the casino's staff. Internal acts of cheating could also be conducted by staff through collusion with dealers, surveillance staff, floor managers or other gaming area staff. Our existing surveillance and security systems, designed to detect cheating at our casino operations, may not be able to detect all such cheating in time or at all, particularly if patrons collude with our employees. In addition, our gaming promoters or other persons could, without our knowledge, enter into betting arrangements directly with our casino patrons on the outcomes of our games of chance, thus depriving us of revenues. Cheating may give rise to negative publicity and such action may materially affect our business, financial condition, operations and cash flows.

Any failure or alleged failure to comply with anti-corruption laws, could result in penalties, which could harm our reputation and have an adverse effect on our business, results of operations and financial condition.

We are subject to a number of anti-corruption laws. Breach of these anti-corruption laws carries severe criminal and civil sanctions as well as other penalties and reputational harm.

We and our affiliated companies have adopted and implemented an anti-corruption compliance program covering both commercial bribery and public corruption which includes internal policies, procedures and training aimed to prevent and detect anti-corruption compliance issues and risks, and procedures to take remedial action when compliance issues are identified. However, we cannot assure you that our employees, consultants, contractors and agents, and those of our affiliates, will adhere to the anti-corruption compliance program, or that any action taken to comply with, or address compliance issues, will be considered adequate by the regulatory bodies with jurisdiction over us and our affiliates. Any violation of our compliance program or applicable law by us or our affiliates could subject us or our affiliates to investigations, prosecutions and other legal proceedings and actions which could result in civil penalties, administrative remedies and criminal sanctions, any of which may result in a material adverse effect on our reputation, cause us to lose customer relationships or lead to other adverse consequences on our business, prospects, results of operations and financial condition. We also deal in significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations. Any violation of anti-money laundering laws or regulations by us could have a negative effect on our results of operations.

We may undertake mergers, acquisitions, strategic transactions or investments that could result in operating difficulties, distractions from our current businesses or adverse effect on our business and financial condition and subject us to regulatory and legal inquiries and proceedings or investigations.

We have made, and may in the future make, acquisitions, investments, divestment or strategic transactions in companies or projects to expand or complement our existing operations. From time to time, we may engage in discussions and negotiations with companies regarding acquisitions, investments, divestment or strategic transactions which may be material or significant, in such companies or projects. We may, from time to time, receive inquiries from regulatory and legal authorities and become subject to regulatory and legal proceedings in connection with such acquisitions, investments, divestment or strategic transactions in companies or projects, which may delay or materially impact the completion of such acquisitions, investments, divestment or strategic transactions.

In addition, if we acquire or invest in another company or project, the integration process following the completion of such acquisition, investment or strategic transaction may prove more difficult than anticipated. We may be subject to liabilities or claims that we are not aware of at the

time of the investment or acquisition, and we may not realize the benefits anticipated at the time of the investment or acquisition. Any benefits anticipated at the time of the investment or acquisition may also not be realized, or may be impacted, due to factors beyond our control. These difficulties could disrupt our ongoing business, distract our management and employees, increase our expenses and liabilities, result in losses, including in material amounts, and adversely affect our businesses, financial condition and operating results. Even if we do identify suitable opportunities, we may not be able to make such acquisitions or investments on commercially acceptable terms or adequate financing may not be available on commercially acceptable terms, if at all, and we may not be able to consummate a proposed acquisition or investment. Our investment strategy may also be affected by external events beyond our control, such as the ongoing COVID-19 pandemic.

In addition, any expansion of our operations and our entry into new markets through mergers, acquisitions, strategic transactions or investments may subject us to:

- additional costs for complying with local laws, rules, regulations and policies as well as other local practices and customs in new markets, including establishing business and regulatory compliance programs;
- currency exchange rate fluctuations or currency restructurings;
- limitations or penalties on the repatriation of earnings;
- unforeseen changes in regulatory requirements;
- uncertainties as to local laws and enforcement of contract and intellectual property rights; and
- changes in government, economic and political policies and conditions, political or civil unrest, acts of terrorism or the threat of international boycotts.

These factors and the impact of these factors on our business and operations are difficult to predict and may have material adverse effect on our business and prospects, financial condition and results of operations.

We are subject to risks relating to litigation, disputes and regulatory investigations which may adversely affect our profitability, financial condition and prospects.

We are, and may in the future be, subject to legal actions, disputes and regulatory investigations in the ordinary course of our business. See “Business — Legal and Administrative Proceedings.” We are also subject to risks relating to legal and regulatory proceedings and investigations which we or our affiliates are or may be a party to from time to time, or which could develop in the future, as well as fines or other penalties which may be imposed on us in connection with any requisite permit, license or other approval for our business and operations. Litigation and regulatory proceedings can be costly and time-consuming and may divert management attention and resources from our operations. We could incur significant defense costs and, in the event of an adverse outcome, be required to pay damages and interest to the prevailing party and, depending on the jurisdiction of the litigation, be held responsible for the costs of the prevailing party. Our reputation may also be adversely affected by our involvement or the involvement of our affiliates in litigation and regulatory proceedings. In addition, we and our affiliates operate or have interests in a number of jurisdictions in which regulatory and government authorities have wide discretion to take procedural actions in support of their investigations and regulatory proceedings, including seizures and freezing of assets and other properties that are perceived to be connected or related to such investigations or regulatory proceedings. Given such wide discretion, regulatory or government authorities may take procedural actions that may affect our assets and properties in connection with any investigation or legal or regulatory proceeding involving us or any of our affiliates, which may materially affect our business, financial condition or results of operations.

In addition, claims and proceedings against us, including but not limited to any claims alleging that we received, misappropriated or misapplied funds or violated any anti-corruption law or regulation, may result in our business operations being subject to greater scrutiny from relevant regulatory authorities and requiring us to make further improvements to our existing systems, controls and business operations, all of which may increase our compliance costs. No assurance

can be provided that any provisions we have made for such matters will be sufficient. Litigation and regulatory proceedings and investigation are inherently unpredictable and our results of operations or cash flows may be adversely affected by an unfavorable resolution of any pending or future litigation, disputes and regulatory investigation.

We extend credit to certain of our VIP promoters and we may in future extend credit to a portion of our individual patrons, and we may not be able to collect gaming receivables from individual patrons.

Consistent with customary practice in the Macau gaming market, we grant credit to certain of our gaming promoters and we may in future also grant credit to certain of our players. Such credit would be extended, including on an unsecured basis, to gaming promoters and players whose level of play and financial resources in our opinion warrant such an extension.

We may not be able to collect all of our gaming receivables from these promoters and players. We expect that we will be able to enforce our gaming receivables only in a limited number of jurisdictions, including Macau and under certain circumstances, Hong Kong. Therefore, we may not have access to a forum in which we will be able to collect all of our gaming receivables because, among other reasons, courts in many jurisdictions do not enforce gaming debts. Further, we may be unable to locate assets in other jurisdictions against which recovery of gaming debts can be sought. The collectability of receivables from our credit customers, could be negatively affected by future business or economic trends or by significant events in the jurisdictions in which these customers reside, or in which their assets are located. We may also, in certain cases, have to determine whether aggressive enforcement actions against a customer will unduly alienate the customer and cause the customer to cease playing at our casinos. We could suffer a material adverse impact on our operating results if our gaming receivables are deemed uncollectible.

Our business and financial plans may be negatively impacted by any contraction in the availability of credit.

Our business and financing plans may be dependent upon the completion of future financings. Any severe contraction of liquidity in the global credit markets may make it difficult and costly to obtain new lines of credit or to refinance existing debt, and may place broad limitations on the availability of credit from credit sources as well as lengthen the recovery cycle of extended credit. Any deterioration in the credit environment may cause us to have difficulty in obtaining additional financing on acceptable terms, or at all, which could adversely affect our ability to complete current and future projects. Tightening of liquidity conditions in credit markets may also constrain revenue generation and growth and could have a material adverse effect on our business, financial condition and results of operations.

VIP gaming customers may cause significant volatility in our revenues and cash flows.

A significant proportion of our casino revenues in Macau is generated from the VIP segment of the gaming market. The loss or a reduction in the play of the most significant of these VIP gaming customers could have an adverse effect on our business. In addition, revenues and cash flows derived from high-end gaming of this type are typically more volatile than those from other forms of gaming primarily due to high bets and the resulting high winnings and losses. As a result, our business and results of operations and cash flows from operations may be more volatile from quarter to quarter than that of our competitors and may require higher levels of cash in reserve to manage this volatility.

We rely on service providers, including VIP gaming promoters and mass market service providers, to market our businesses and attract gaming patrons.

We rely on gaming promoters to promote our VIP rooms and mass market service providers to market the mass market gaming sections in our third party-promoted casinos. Under existing Macau gaming laws and regulations, a gaming promoter must be licensed by us and must register and enter into an agreement with one of the concessionaires or subconcessionaires. Gaming promoters are required to renew their licences on an annual basis. There can be no assurance that our gaming promoters will successfully obtain and renew their licences with the DICJ as required. If a significant number of our existing gaming promoters fail to do so, they will be prohibited from conducting gaming-promotion activities, including promotional activities for our VIP rooms. In this event, our business, financial condition and results of operations could be materially and adversely affected.

In addition, it has been reported that in December 2020, the Standing Committee of the China's National People's Congress amended China's criminal laws such that anyone that organizes trips for mainland Chinese for the purpose of gambling outside of mainland China, including Macau, may be deemed to have conducted a criminal act, and such amendment is expected to take effect on March 1, 2021. It is currently unclear whether and to what extent this amendment will adversely impact the operations of our gaming promoters or our ability to derive customers through our relationships with gaming promoters in the future. Furthermore, a large portion of our gaming business is conducted in premises owned by third parties in which they are responsible for marketing and promotion. If our third party promoters experience difficulties in marketing and promotion or otherwise in conducting their businesses, our business, financial condition and results of operations could be materially and adversely affected.

Under the terms of the gaming promoter agreements entered into by us, the gaming promoters provide marketing and promotional services to us on an exclusive basis. Our mass market service providers also work exclusively with us at each of our third party-promoted casinos. We monitor the activities and performance of our gaming promoters and mass market service providers in order to enforce our rights under these agreements, however there can be no assurance that our gaming promoters and/or mass market service providers will comply with these agreements or that we would be able to effectively enforce our rights against them in the event of their non-compliance. Moreover, there can be no assurance that affiliates of our gaming promoters will not work with our competitors. In addition, we may lose the services of our gaming promoters and/or mass market service providers to other concessionaires or subconcessionaires in the future. If we lose a significant number of our gaming promoters and/or mass market service providers to other concessionaires or subconcessionaires, or if, as a result of increased competition, we are obliged to increase the fees and/or commissions that we pay to our gaming promoters or mass market service providers to retain their services, our business, cash flow, financial condition, results of operations and prospects could be materially and adversely affected.

We are impacted by the reputation and integrity of the parties with whom we engage in business activities, including gaming promoters and we cannot assure you that these parties will always maintain high standards or suitability throughout the term of our association with them.

The reputation and integrity of the parties with whom we engage in business activities are important to our own reputation and our ability to continue to operate in compliance with the permits and licenses required for our businesses. These parties include, but are not limited to, those who are engaged in gaming-related activities, such as gaming promoters, developers and hotel, restaurant and night club operators with whom we have or may enter into services or other types of agreements. Under the Macau Gaming Law, we have an obligation to supervise our gaming promoters to ensure compliance with applicable laws and regulations and serious breaches or repeated misconduct by our gaming promoters could result in the termination of our concession. For parties we deal with in gaming-related activities, where relevant, the gaming regulators also undertake their own probity checks and will reach their own suitability findings in respect of the activities and parties with which we intend to associate. In addition, we also conduct our internal due diligence and evaluation process prior to engaging such parties. Notwithstanding such regulatory probity checks and our own due diligence, we cannot assure you that the parties with whom we are associated will always maintain the high standards that gaming regulators and we require or that such parties will maintain their suitability throughout the term of our association with them. In addition, if any of our gaming promoters violate gaming laws while on our premises, the government may, in its discretion, take enforcement action against the gaming promoters and may find us jointly liable for such gaming promoter's violations. Also, if a party associated with us falls below the gaming regulator's suitability standard or if their probity is in doubt, this may be negatively perceived when assessed by the gaming regulators. As a result, we and our shareholders may suffer reputational harm, as well as impaired relationships with, and possibly sanctions or other measures or actions from, the relevant gaming regulators with authority over our operations.

Health and safety or food safety incidents at our properties may lead to reputational damage and financial exposures.

We provide goods and services to a significant number of customers on a daily basis at our properties in Macau. In particular, with attractions, entertainment and food and beverage offerings at our properties, there are risks of health and safety incidents or adverse food safety events. While we have a number of measures and controls in place aimed at managing such risks, we cannot

guarantee that our insurance is adequate to cover all losses, which may result in us incurring additional costs or damages, and negatively impact our financial performance. Such incidents may also lead to reduced customer flow and reputational damage to our properties. See “— We are subject to risks relating to litigation, disputes and regulatory investigations which may adversely affect our profitability, financial condition and prospects.”

Unfavorable fluctuations in the currency exchange rates of the Hong Kong dollar, U.S. dollar or the Macau pataca and other risks related to foreign exchange and currencies, including restrictions on conversions and/or repatriation of foreign currencies, could adversely affect our indebtedness, expenses, profitability and financial condition.

Our exposure to foreign exchange rate risk is associated with the currency of our operations and our indebtedness and as a result of the presentation of our financial statements in Hong Kong dollars. The majority of our current revenues are denominated in Hong Kong dollars, given the Hong Kong dollar is the predominant currency used in gaming transactions in Macau and is often used interchangeably with the Macau pataca. Our current expenses are denominated predominantly in Macau patacas, and Hong Kong dollars. In addition, a certain portion of our indebtedness and the Notes being offered hereby, and certain expenses, are or will be denominated in U.S. dollars, and the costs associated with servicing and repaying such debt will be denominated in U.S. dollars.

The value of the Hong Kong dollar and the Macau pataca against the U.S. dollar may fluctuate and may be affected by, among other things, changes in political and economic conditions. While the Hong Kong dollar is pegged to the U.S. dollar within a narrow range and the Macau pataca is in turn pegged to the Hong Kong dollar, and the exchange rates between these currencies has remained relatively stable over the past several years, we cannot assure you that the current peg or linkages among the U.S. dollar, Hong Kong dollar and Macau pataca will not be de-pegged, de-linked or otherwise modified and subject to fluctuations. Any significant fluctuations in exchange rates between the Hong Kong dollar, or the Macau pataca to the U.S. dollar may have a material adverse effect on our revenues and financial condition. For example, to the extent that we are required to convert U.S. dollar financings into Hong Kong dollars or Macau patacas for our operations, fluctuations in exchange rates between the Hong Kong dollar or Macau pataca against the U.S. dollar could have an adverse effect on the amounts we receive from the conversion.

While we maintained a certain amount of our operating funds in the same currencies in which we have obligations in order to reduce our exposure to currency fluctuations, we did not engage in hedging transactions with respect to foreign exchange exposure of our revenues and expenses in our day-to-day operations during the years ended December 31, 2018, 2019 and 2020. In addition, we may face regulatory, legal and other risks in connection with our assets and operations in certain jurisdictions that may impose limitations, restrictions or approval requirements on conversions and/or repatriation of foreign currencies. We will consider our overall procedure for managing our foreign exchange risk from time to time, but we cannot assure you that any such procedures will enable us to obtain and achieve effective hedging of our foreign exchange risk, which could materially and adversely affect our financial condition and operating results.

Furthermore, China has tightened currency exchange controls and restrictions on the export and conversion of the Renminbi, the currency of mainland China, in recent years. Restrictions on the export of the Renminbi, as well as the increased effectiveness of such restrictions, may impede the flow of gaming patrons from mainland China to Macau, inhibit the growth of gaming in Macau and negatively impact our gaming operations. See “— Our gaming operations in Macau could be adversely affected by restrictions on the export of the Renminbi and any unfavorable fluctuations in the currency exchange rates of the Renminbi.”

Our gaming operations in Macau could be adversely affected by restrictions on the export of the Renminbi and any unfavorable fluctuations in the currency exchange rates of the Renminbi.

Gaming operators in Macau are currently prohibited from accepting wagers in Renminbi, the currency of China. There are currently restrictions on the export of the Renminbi outside of mainland China, including to Macau. For example, a Chinese citizen traveling abroad is only allowed to take a total of RMB20,000 plus the equivalent of up to US\$5,000 out of China. The annual limit of RMB100,000 is the aggregate amount that can be withdrawn overseas by any

person from Chinese bank accounts and it was set by the Chinese government, with effect on January 1, 2018. In addition, the Chinese government's ongoing anti-corruption campaign has led to tighter monetary transfer regulations, including real-time monitoring of certain financial channels, reducing the amount that China-issued ATM cardholders can withdraw in each withdrawal, imposing a limit on the annual aggregate amount that may be withdrawn and the launch of facial recognition and identity card checks with respect to certain ATM users, which could disrupt the amount of money visitors can bring from mainland China to Macau. Furthermore, a law with respect to the control of cross-border transportation of cash and other negotiable instruments to the bearer was enacted and came into effect on November 1, 2017. In accordance with such law, all individuals entering Macau with an amount in cash or negotiable instrument to the bearer equal to or higher than the amount of MOP120,000 are required to declare such amount to the customs authorities. Restrictions on the export of the Renminbi may impede the flow of gaming customers from China to Macau, inhibit the growth of gaming in Macau and negatively impact our operations.

In addition, the value of Renminbi against the U.S. dollar and other currencies may fluctuate and may be affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. In 2019, the value of Renminbi depreciated approximately 1.2% against the U.S. dollar. It remains difficult to predict how market forces or PRC or U.S. government policy, including the ongoing trade disputes between the PRC and the U.S. governments may further exacerbate the devaluation of Renminbi against the U.S. dollar and other currencies in the future. Given that we derive substantially all of our revenues from Macau and a significant number of our gaming customers come from, and are expected to continue to come from, mainland China, any further devaluation of the Renminbi against the U.S. dollar and other currencies may affect the visitation and level of spending of these gaming customers and could in turn have a material adverse effect on our revenues and financial condition.

A failure to establish and protect our intellectual property rights could have an adverse effect on our business, financial condition and results of operations.

SJM has registered and we have the right to use various trademarks in Hong Kong, Macau and/or other jurisdictions. We endeavor to establish and protect our intellectual property rights through trademarks, service marks, domain names, licenses and other contractual provisions. The brands we use in connection with our properties have gained recognition. Failure to possess, obtain or maintain adequate protection of our intellectual property rights could negatively impact our brands and have a material adverse effect on our business, financial condition and results of operations. For example, third parties may misappropriate or infringe our intellectual property, which may include but not be limited to the use of our intellectual property by offshore gaming websites, including those that may attempt to defraud members of the public. While we may take legal or other appropriate actions against these unauthorized offshore websites, such as by reporting the sites to the appropriate governmental or regulatory authorities, such actions may not be effective or significant expenses could be incurred and such unauthorized activities may draw businesses away from our operations and/or tarnish our reputation, all of which may adversely affect our business, financial condition and results of operations.

The infringement or alleged infringement of intellectual property rights belonging to third parties could adversely affect our business.

We face the potential risk of claims that we have infringed upon the intellectual property rights of third parties, which could be expensive and time-consuming to defend. In addition, we may be required to cease using certain intellectual property rights or selling or providing certain products or services, pay significant damages or enter into costly royalty or licensing agreements in order to obtain the right to use a third party's intellectual property rights (if available at all), any of which could have a negative impact on our business, financial condition and future prospects. Furthermore, if litigation were to result from such claims, our business could be interrupted.

We cannot assure you that anti-money laundering policies that we have implemented, and compliance with applicable anti-money laundering laws, will be effective to prevent our casino operations from being exploited for money laundering purposes.

Macau's free port, offshore financial services and free movement of capital have created an environment whereby Macau's casinos could be exploited for money laundering purposes. We also

deal with significant amounts of cash in our regular casino operations in Macau. As our Macau operations are subject to various reporting and anti-money laundering regulations and increased audits and inspections from regulators, we have implemented anti-money laundering policies to address those requirements. Any further changes to anti-money laundering laws and regulations in Macau may require us to adopt changes to our own anti-money laundering policies.

We cannot assure you that our contractors, agents or employees will continually adhere to any such current or future policies or these policies will be effective in preventing our casino operations from being exploited for money laundering purposes, including from jurisdictions outside of Macau.

There can be no assurance that, despite the anti-money laundering measures we have adopted and undertaken, we would not be subject to any accusation or investigation related to any possible money laundering activities. In addition, we expect to be required by relevant regulatory authorities from Macau and other jurisdictions that regulate our business activities to attend meetings and interviews from time to time to discuss our operations as they relate to anti-money laundering laws and regulations during which regulatory authorities may make inquiries and take other actions at their discretion. Any incident of money laundering, accusation of money laundering or regulatory investigations into possible money laundering activities involving us, our employees, our gaming promoters, our customers or others with whom we are associated could have a material adverse impact on our reputation, business, cash flow, financial condition, prospects and results of operations. Any serious incident of, or repeated violation of, laws related to money laundering or any regulatory investigation into money laundering activities may cause a revocation or suspension of our gaming concession. For more information regarding anti-money laundering regulations in Macau, see “Regulation — Anti-Money Laundering and Terrorism Financing Regulations.”

Our information technology and other systems are subject to cyber security risks, including misappropriation of customer information, other breaches of information security or other cybercrimes, as well as regulatory and other risks.

We rely on information technology and other systems (including those maintained by third-parties with whom we contract to provide data services) to maintain and transmit large volumes of customer information, credit card settlements, credit card funds transmissions, mailing lists and reservations information and other personally identifiable information. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The systems and processes we have implemented to protect customers, employees and company information are subject to the rapidly changing risks of compromised security and may therefore become outdated. Despite our preventive efforts, we are subject to the risks of compromised security, including cyber and physical security breaches, system failure, computer viruses, technical malfunction, inadequate system capacity, power outages, natural disasters and inadvertent, negligent or intentional misuse, disclosure or dissemination of information or data by customers, company employees or employees of third-party vendors, ransomware attacks that encrypt, exfiltrate or otherwise render data unusable or unavailable or other forms of cybercrimes that includes fraud or extortion. These risks can also be manifested in a variety of other ways, including through methods which may not yet be known to the cyber security community, and have become increasingly difficult to anticipate and prevent.

The steps we take to deter and mitigate these risks may not be successful and our insurance coverage for protecting against cyber security risks may not be sufficient. Our third-party information system service providers face risks relating to cyber security similar to ours, and we do not directly control any of such service providers’ information security operations. A significant theft, loss or fraudulent use of customer or company data maintained by us or by a third-party service provider could have an adverse effect on our reputation, cause a material disruption to our operations and management team, and result in remediation expenses, regulatory penalties and litigation by customers and other parties whose information was subject to such attacks, all of which could have a material adverse effect on our business, prospects, results of operations and cash flows. If our information technology systems become damaged or otherwise cease to function properly, our sales and results of operations may be adversely affected and we may have to make significant investments to repair or replace them. Furthermore, any extended downtime from power supply disruptions or information technology system outages which may be caused by cyber security attacks or other reasons at our properties may lead to an adverse impact on our operating results if we are unable to deliver services to customers for an extended period of time.

Despite the security measures we currently have in place, our facilities and systems and those of our third-party service providers may be vulnerable to security breaches, acts of vandalism, phishing attacks, computer viruses, misplaced or lost data, programming or human errors, other cybercrimes and other events. Cyber-attacks are becoming increasingly more difficult to anticipate and prevent due to their rapidly evolving nature and, as a result, the technology we use to protect our systems could become outdated. The occurrence of any of the cyber incidents described above could have a material adverse effect on our business, results of operations and cash flows.

Any perceived or actual electronic or physical security breach involving the misappropriation, loss, or other unauthorized disclosure of confidential or personally identifiable information, whether by us or by a third party, could disrupt our business, damage our reputation and relationships with our customers and employees, expose us to risks of litigation, significant fines and penalties and liability, result in the deterioration of our customers' and employees' confidence in us, and adversely affect our business, results of operations and financial condition. Any perceived or actual unauthorized disclosure of personally identifiable information of our employees, customers or website visitors could harm our reputation and credibility and reduce our ability to attract and retain employees and customers. We are also subject to enactment of new laws, or amendments to existing laws with more stringent requirements, in relation to cybersecurity. For example, a new Cybersecurity Law was introduced in Macau in 2019 which also applies to our businesses in Macau. As any of the above cybersecurity threats develop and grow and our obligations under cybersecurity regulations increase, we may find it necessary to make significant further investments to protect our data and infrastructure, including the implementation of new computer systems or upgrades to existing systems, deployment of additional personnel and protection-related technologies, engagement of third-party consultants, and training of personnel.

Failure to protect the integrity and security of company employee and customer information and comply with applicable privacy regulations may result in damage to our reputation and/or subject us to fines, penalties, lawsuits, restrictions on our use or transfer of data and other risks.

Our businesses collect, use and transmit large volumes of data, including credit card numbers and personal data in various information systems relating to our customers and employees, and such personal data may be collected and/or used in, and transmitted to or from, multiple jurisdictions. Our customers and employees have a high expectation that we will adequately protect their personal information. Such collection, use and/or transmission of personal data are governed by privacy laws and regulations and such laws and regulations change often, vary significantly by jurisdiction and often are newly enacted. In addition, we must also comply with other industry standards such as those for the credit card industry and other applicable data security standards.

Compliance with applicable privacy regulations may increase our operating costs and/or adversely impact our ability to market our products, properties and services to our customers and guests. For example, these laws and regulations may restrict information sharing in ways that make it more difficult to obtain or share information concerning at risk individuals. In addition, non-compliance with applicable privacy regulations by us (or in some circumstances non-compliance by third parties engaged by us) may result in damage of reputation and/or subject us to fines, penalties, payment of damages, lawsuits, criminal liability or restrictions on our use or transfer of data.

Negative press or publicity about us or our directors, officers or affiliates may lead to government investigations, result in harm to our business, brand or reputation and have a material and adverse effect on our business.

Unfavorable publicity regarding us, or our directors, officers or affiliates, whether substantiated or not, may have a material and adverse effect on our business, brand and reputation. Such negative publicity may require us to engage in a defensive media campaign, which may divert our management's attention, result in an increase in our expenses and adversely impact our results of operations, financial condition, prospects and strategies. The continued expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated. Any negative press or publicity could also lead to government or other regulatory investigations, including causing regulators with jurisdiction over our gaming operations in Macau to take action against us or our related licensees, including actions that could

affect the ability or terms upon which our subsidiaries hold their gaming licenses and/or gaming concession, our suitability to continue as a shareholder of those subsidiaries and/ or the suitability of key personnel to remain with us. If any of these events were to occur, it would cause a material adverse effect on our business and prospects, financial condition and results of operations.

RISKS RELATING TO THE NOTES AND THE PARENT GUARANTEE

The Notes and the Parent Guarantee are unsecured obligations.

The Notes and the Parent Guarantee are unsecured obligations of the Issuer and the Parent Guarantor, respectively, and will be effectively subordinated to all future secured indebtedness of the Issuer and the Parent Guarantor, respectively, with respect to the assets securing the related obligations. As a result, upon any distribution to creditors in a bankruptcy, liquidation, or similar proceeding relating to the Issuer or the Parent Guarantor, the holders of secured indebtedness will be entitled to be paid to the extent of the value of such secured assets before any payment may be made with respect to the Notes or the Parent Guarantee.

We have incurred substantial secured indebtedness, and our obligations under the Notes are subordinated with respect to such secured indebtedness.

As of December 31, 2020, our Syndicated Credit Facilities and our Ponte 16 Credit Facilities had outstanding amounts of HK\$18,603.2 million and HK\$183.9 million, respectively. The Syndicated Credit Facilities are secured by certain property and equipment and right-of-use assets of our Group with carrying values of HK\$36,038.5 million and HK\$1,789.0 million respectively as of December 31, 2020 and other pledged assets including certain receivables, certain bank accounts and shares of our subsidiaries including some of our principal subsidiaries, and a legally promissory note for HK\$27,500 million. The Ponte 16 Credit Facilities are secured by certain property and equipment and right-of-use assets of our Group with carrying values of HK\$438.5 million and HK\$58.1 million respectively as of December 31, 2020 and other pledged assets including financial guarantees with promissory notes by our subsidiaries amounting to HK\$1,000.0 million as of the same date and certain bank accounts and shares of our subsidiaries, including some of our principal subsidiaries. See “Description of Other Material Indebtedness.”

Our payment obligations under the Notes and our other future debt, will be effectively subordinated to all of our secured indebtedness and will be structurally subordinated to all obligations of our subsidiaries. Furthermore, our payment obligations under the Notes will rank *pari passu* with any of our future senior unsecured indebtedness. As a result, our secured creditors would have a claim on all or substantially all of our and our subsidiaries’ assets that would be prior to the claims of the holders of the Notes in case of insolvency of our subsidiaries, which may affect your ability to recover any amounts due under the Notes. As we intend to use certain amounts of the net proceeds for refinancing, if our financial condition declines prior to the repayment of the Notes, your ability to recover any amounts due under the Notes will be adversely affected.

The Notes will be structurally subordinated to the liabilities of our subsidiaries.

Our subsidiaries (other than the Issuer) will not have any obligations to pay amounts due under the Notes or the Parent Guarantee or to make funds available for that purpose. None of our subsidiaries will be guarantors of the Notes and the Indentures do not require any of our existing or future subsidiaries to guarantee the Notes. In the event that any of our subsidiaries becomes insolvent, is liquidated, reorganized or dissolved or is otherwise wound up other than as a part of a solvent transaction:

- the creditors of the Parent Guarantor (including the holders of the Notes) will have no right to proceed against the assets of such subsidiary; and
- creditors of such subsidiary, including trade creditors, and any preferred shareholders of such subsidiary will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before the Parent Guarantor, as a direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary.

The limited covenants in the Indentures may not protect against developments that may impair the trading price for the Notes or our ability to repay the Notes or service our obligations under the Parent Guarantee.

The Indentures do not.

- require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flow, liquidity or leverage and, accordingly, does not protect holders of the Notes if we experience significant adverse changes in our financial condition or results of operations;
- limit our ability to incur indebtedness, including secured indebtedness, that is senior or equal in right of payment to the Notes;
- restrict our ability to make investments or to repurchase, or pay dividends or make other payments in respect of our shares or other securities ranking junior to the Notes; or
- limit us from entering into transactions with shareholders or affiliates or selling our assets.

In the future, we may obtain additional financing or refinance any of our existing debt, which will increase our level of indebtedness (including debt which is structurally senior to the Notes). An increase in the level of our indebtedness, or other events that could adversely affect our business, financial condition, results of operations or prospects, may cause rating agencies to downgrade any credit ratings on the Notes, which could adversely affect their trading price and liquidity, and downgrade our corporate rating generally, which could increase our cost of borrowing, limit our access to the capital markets and result in more restrictive covenants in future debt agreements.

We will have a substantial amount of indebtedness, which could have important consequences for holders of the Notes and significant effects on our business and future operations.

Our level of indebtedness may make it more difficult for us to satisfy our obligations with respect to the Notes, increase our vulnerability to general adverse economic and industry conditions, impair our ability to obtain additional financing in the future for working capital needs, capital expenditure, acquisitions or general corporate purposes, require us to dedicate a significant portion of our cash flow from operations to the payment of principal and interest on our debt, which would reduce the funds available to us for our operations or expansion of our existing operations, limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, place us at a competitive disadvantage as compared to our competitors, to the extent that they are not as leveraged, subject us to higher interest expense in the event of increases in interest rates to the extent a portion of our debt bears interest at variable rates, which would reduce the funds available for our operations; and in the event we or one of our subsidiaries were to default, result in the loss of all or a substantial portion of our and our subsidiaries' assets, over which our lenders have taken or will take security. Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes, as well as on our business and future operations.

If we are unable to comply with the restrictions and covenants in our debt agreements, including the Indentures, there could be a default under the terms of these agreements or the Indentures, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in our current or future debt and other agreements, or the Indentures, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indentures, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt or result in a default under our other debt agreements, including the Indentures. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to obtain alternative financing on reasonable terms or at all.

We may not be able to generate sufficient cash flow to meet our debt service obligations.

Our ability to make scheduled payments due on our existing and anticipated indebtedness obligations, including our bank loans, and the Notes, to refinance and to fund working capital needs, planned capital expenditures and development efforts will depend on our ability to generate cash. We will require generation of sufficient operating cash flow from our operations to service our current and future projected indebtedness. Our ability to obtain cash to service our existing and projected debt is subject to a range of economic, financial, competitive, legislative, regulatory, business and other factors, many of which are beyond our control, including:

- our future operating performance;
- the demand for services that we provide;
- general economic conditions and economic conditions affecting Macau or the gaming industry in particular;
- our ability to hire and retain employees and management at a reasonable cost;
- competition; and
- legislative and regulatory factors affecting our operations and business.

Our operating cash flows have decreased significantly in recent months due to the COVID-19 pandemic. If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness, including the Notes, on or before the maturity date, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations. In addition, we may not be able to effect any of these actions, if necessary, on commercially reasonable terms or at all. Our ability to sell assets or restructure or refinance our indebtedness, including the Notes, will depend on the condition of the financing and capital markets, our financial condition and our ability to obtain requisite governmental approvals at such time.

Any refinancing of any of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our operations. The terms of existing or future debt instruments, including the Indentures, may limit or prevent us from taking any of these actions. In addition, any failure to make scheduled payments of interest and principal on our outstanding indebtedness would likely result in downgrades of any credit ratings we or the Notes may have at such time, which could harm our ability to incur additional indebtedness on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, could materially adversely affect our business, prospects, financial condition and results of operations, as well as our ability to satisfy our obligations with respect to the Notes.

The Issuer currently does not have operating activities or revenue, and payments with respect to the Notes are dependent upon cash flow from other members of our Group.

The Issuer currently does not have any operating activities or revenue. The Issuer's primary assets will be intergroup loans to other subsidiaries of our Group. Accordingly, the Issuer's ability to pay principal and interest on the Notes will depend upon its receipt of principal and interest payments on the intergroup loans from such borrowing subsidiaries and the ability of the Parent Guarantor to honor their obligations under the Parent Guarantee. The borrowing subsidiaries and the Parent Guarantor may not have material operations or assets, and therefore depend upon the receipt of sufficient funds through intergroup loans from other Group members and distributions of dividends from its subsidiaries to meet their obligations. Certain covenants under our existing indebtedness impose limitations on our subsidiaries, including SJM, to pay dividends or distributions to the Parent Guarantor. See "Description of Other Material Indebtedness." Our failure to make payments to the Issuer in amounts necessary to service our obligations under the Notes of either series could lead to a payment default under the indenture governing such series of Notes.

The Parent Guarantor is a holding company which will depend on payments from its subsidiaries to provide it with funds to meet its obligation under the Parent Guarantee.

The Parent Guarantor is a holding company with no material business operations of its own or significant assets. The Parent Guarantor depends, and will depend in the future, on the receipt of the interest or principal payments on intercompany loans or advances and dividends from its operating subsidiaries to satisfy its obligations, including the obligations under the Parent Guarantee. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their respective shareholders is dependent upon, among other things, their distributable earnings and cash flow conditions and may be affected by restrictions contained in their articles of association and restrictions contained in relevant loan agreements or debt instruments. See “Description of Other Material Indebtedness.” These restrictions could reduce the amounts that the Parent Guarantor receives from its subsidiaries, which in turn would restrict its ability to satisfy its obligations under the Parent Guarantee.

We may elect to redeem the Notes prior to their maturity.

Pursuant to terms of each series of the Notes, we may elect to redeem either or both series of such Notes prior to their maturity in whole or in part at the redemption prices specified in the section entitled “Description of the MOP Notes — Optional Redemption.” The date on which we elect to redeem such Notes may not accord with the preference of particular holders of such Notes. In addition, a Noteholder may not be able to reinvest the redemption proceeds in comparable securities at the same rate of return of such Notes.

We may not be able to repurchase the Notes upon a Change of Control Triggering Event or a Special Put Option Triggering Event.

Upon the occurrence of specified change of control events and a rating decline, we will be required to offer to purchase all the outstanding Notes at a purchase price equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest, if any, and additional amounts, if any. See “Description of the MOP Notes — Repurchase of Notes at the Option of Holders — Change of Control Triggering Event.” In addition, upon the occurrence of specified special put option triggering events (which relate to certain events of loss, termination, rescission, revocation or modification of our gaming license), we will be required to offer to purchase all the outstanding Notes at a purchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, and additional amounts, if any. See “Description of the MOP Notes — Repurchase of Notes at the Option of Holders — Special Put Option.” Furthermore, we may redeem the Notes if (a) certain changes in tax law impose withholding taxes on amounts payable on the Notes, and, as a result, we are required to pay additional amounts with respect to such withholding taxes.

The source of funds for any such repurchases would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any change of control triggering events or special put option triggering events to make purchases of outstanding Notes. Our failure to make a required offer to purchase or to purchase the outstanding MOP Notes or the HK\$ Notes, as the case may be, would constitute an event of default under the relevant series of Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of “Change of Control” for purposes of the Indentures does not necessarily afford protection for the holders of the Notes in the event of certain highly-leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control for purposes of the Indentures also includes a phrase relating to the sale of “all or substantially all” of our assets. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes, and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

We may, in our discretion, require holders and beneficial owners of Notes to dispose of their Notes, or we may redeem the Notes, due to regulatory considerations.

We may redeem the Notes due to regulatory considerations, either as required by gaming authorities or in our discretion. Each of the Indentures grants us the power to redeem the relevant series of the Notes if the gaming authority of any jurisdiction in which the Parent Guarantor or any of its subsidiaries conducts, or proposes to conduct, gaming requires that a person who is a holder or the beneficial owner of Notes be licensed, qualified or found suitable under applicable gaming laws and such holder or beneficial owner, as the case may be, fails to apply or become licensed or qualified within the required time period or is found unsuitable.

Under the foregoing circumstances, pursuant to the Indentures, if such person fails to apply or become licensed or qualified or is found unsuitable, the Issuer shall have the right, at its option:

- (1) to require such person to dispose of its Notes or beneficial interest therein within 30 days of receipt of notice of the Issuer's election or such earlier date as may be requested or prescribed by such gaming authority; or
- (2) to redeem such Notes, which redemption may be less than 10 days following the notice of redemption if so requested or prescribed by the applicable gaming authority, at a redemption price equal to:
 - (a) the lesser of:
 - (i) the person's cost, plus accrued and unpaid interest, if any, to the earlier of the redemption date or the date of the finding of unsuitability or failure to comply; and
 - (ii) 100% of the principal amount thereof, plus accrued and unpaid interest, if any, and additional amounts, if any, to but excluding the earlier of the redemption date or the date of the finding of unsuitability or failure to comply; or
 - (b) such other amount as may be required by applicable law or order of the applicable gaming authority.

See "Description of the MOP Notes — Gaming Redemption."

The Notes may not be a suitable investment for all investors.

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. Investors should not invest in the Notes unless they have the expertise (either alone or with the help of a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact of this investment will have on their overall investment portfolio.

Each investor of the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this information memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have;
- on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. The Issuer will seek a listing of the Notes on the MOX. We do not intend to apply for listing of the Notes on any U.S. securities exchange or for quotation through an automated dealer quotation system. We have been advised that the Initial Purchasers intend to make a market in the Notes, but they are not obligated to do so and may discontinue such market-making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See “Transfer Restrictions.” No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for any series of the Notes. If an active trading market for the Notes of any series does not develop or is not continued, the market price and liquidity of such Notes could be adversely affected.

Our corporate ratings may be lowered or withdrawn in the future.

We have been assigned ratings “Ba1” by Moody’s and “BB+” by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the ratings assigned to us may adversely affect the market price of the Notes.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes of a series may be highly volatile. Factors such as variations in our turnovers, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of such Notes to change. Any such developments may result in large and sudden changes in the volume and price at which such Notes will trade. We cannot assure you that these developments will not occur in the future.

Investment in the Notes is subject to exchange rate risks.

The Issuer will pay principal of, and interest on, the MOP Notes in Macau pataca and the HK\$ Notes in Hong Kong dollar. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “Investor’s Currency”) other than stated currency of the Notes. These include the risk that exchange rates may significantly change (including changes due to devaluation of Hong Kong dollar or Macau pataca, as the case may be, or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to Hong Kong dollar or Macau pataca, as the case may be, would decrease (1) the Investor’s Currency equivalent yield on the Notes, (2) the Investor’s Currency equivalent value of the principal payable on the Notes and (3) the Investor’s Currency equivalent market value of the Notes. Governments and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal at all.

We may issue additional Notes in the future.

We may, from time to time, and without prior consultation of the Noteholders, create and issue further Notes (see “Description of the MOP Notes — Further Issues.”) or otherwise raise additional capital through such means and in such manner as we may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Notes.

The Notes do not contain restrictive operating covenants.

The indenture governing the Notes of either series will contain operating covenants intended to benefit the interests of holders of such Notes and that limit our ability to, among other things, consolidate or merge with or into another person. The indenture governing the Notes of either series, however, does not contain other restrictive operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness, the incurrence of liens or the issuance or repurchase of securities by us. In addition, the indenture governing the Notes of either series does not contain any other covenants or provisions designed to afford holders of such Notes protection in the event of a highly leveraged transaction involving us or in the event of a decline in our credit rating or the rating of the Notes as the result of a takeover, recapitalization, highly leveraged transaction or similar restructuring involving us that could adversely affect such holders. Subject to the terms of our existing corporate debt and other credit facilities, we may incur substantial additional indebtedness in the future.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global form and deposited with the MOX. Interests in the Notes represented by the Global Notes will trade in book-entry form only, and Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or holders of the Notes. The MOX will be the sole registered holder of the Global Notes representing the Notes. Payments of interest or principal will be made to the registered account of each person who is shown on the records of MOX at the relevant time as an account holder, who is a direct participant of the MOX, as notified to the Paying Agent by the MOX. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After such payments, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of the MOX or, if you are not a participant in the MOX, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of Noteholder under the Indentures.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from the MOX. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis. Similarly, upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through the MOX. The procedures to be implemented through the MOX may not be adequate to ensure the timely exercise of rights under the Notes.

We may make amendments to and seek waivers from certain provisions of the Indentures.

Under certain circumstances as described below under “Description of the MOP Notes — Amendments and Waivers — Amendments Without Consent of Holders,” we may, from time to time, and without prior consultation with the holders of the Notes, make certain amendments to the relevant Indenture. Further, under certain circumstances as described below under “Description of the MOP Notes — Amendments and Waivers — Amendments With Consent of Holders,” we may, from time to time, and with the consent of the holders of the Notes of not less than a majority in aggregate principal amount of the outstanding Notes, make certain amendments to the Indentures or waive future compliance by us and the Parent Guarantor, with certain

provisions of the Indentures. If the requisite consents are obtained (if required) and/or the relevant conditions are satisfied (or waived) and such amendments or waivers become operative, all holders of a series of the Notes will be bound by the terms of the relevant Indenture as amended, whether or not a holder of such Notes delivered a consent. Such amendments or waivers could materially increase the credit risks faced by holders of the Notes or could otherwise be materially adverse to the interests of the holders of the Notes.

The Trustee may request holders of the Notes to provide an indemnity, security and/or pre-funding to its satisfaction.

Under certain circumstances, including without limitation giving notice to us upon an event of default and taking enforcement steps pursuant to the terms of the Indenture, the Trustee may, at its sole discretion, request holders of the Notes to provide an indemnity, security and/or pre-funding to its satisfaction before it takes actions on behalf of holders of the Notes. The Trustee shall not be obliged to take any such actions if not indemnified, secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity, security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity, security and/or pre-funding to it, in breach of the terms of the Indentures and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Notes to take such actions directly.

We will follow the applicable corporate disclosure standards for debt securities listed on the MOX, which standards may be different from those applicable to debt securities listed in certain other countries.

We will be subject to reporting obligations in respect of the Notes to be listed on the MOX. The disclosure standards imposed by the MOX may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

There may be less publicly available information about us than is typically available about public companies in certain other jurisdictions

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this offering memorandum has been prepared in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and other GAAPs and how those differences might affect the financial information contained in this offering memorandum.

The insolvency laws of the BVI, Hong Kong, Macau and other local insolvency laws may differ from United States bankruptcy law or those of other jurisdictions with which Holders of the Notes are familiar.

As the Issuer is incorporated under the laws of the BVI and the Parent Guarantor is incorporated under the laws of Hong Kong, an insolvency proceeding relating to the Issuer or the Parent Guarantor, even if brought in the United States, would likely involve the insolvency laws of the BVI or Hong Kong, as the case may be, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law or those of other jurisdictions with which Holders of the Notes are familiar.

You may have difficulty enforcing judgments obtained against us.

All of our assets are located outside of the United States. All of our current operations and administrative and corporate functions are conducted in Macau and Hong Kong. In addition, substantially all of our directors and officers are nationals and/or residents of countries other than

the United States. Substantially all of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in the BVI, Hong Kong, and Macau courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors. In addition, there is uncertainty as to whether the courts of the BVI, Hong Kong or Macau would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In addition, it is uncertain whether such BVI, Hong Kong or Macau courts would be competent to hear original actions brought in the BVI, Hong Kong or Macau against us or such persons predicated upon the securities laws of the United States or any state.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or our respective advisers.

Market data, industry forecasts and gaming industry statistics in this offering memorandum are derived from public sources, including publicly available information and industry publications. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources and believe this information to be reliable, they have not been independently verified by us or the Initial Purchasers or our or their respective directors and advisers, and neither we, the Initial Purchasers nor our or their respective directors and advisers make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Due to possibly inconsistent collection methods and other problems, such statistics herein may be inaccurate. You should not unduly rely on such market data, industry forecasts and gaming industry statistics.

The Notes will be listed and traded on the MOX, a relatively new platform.

The rules and procedures relating to the listing and trading platform of the MOX is subject to changes beyond our control. The MOX introduced its platform for listing and trading of bonds in December 2018. As of the date of this offering memorandum, issuing and underwriting of bonds in Macau are regulated by Section 3 of the Financial System Act, as approved by Decree Law no. 32/93/M dated July 5, 1993, setting out that bonds offering of an enterprise in Macau, which is not a credit institution, is subject to the authorization of the Chief Executive of Macau, and by guidelines no. 009/B/2019-DSB/AMCM (relating to the issuance of bonds and the management of services regarding the respective selling and negotiation) and no. 009/B/2019-DSB/AMCM (relating to the underwriting and custody of bonds) that came into force on June 28, 2019. Bond issuance and underwriting regulation are still developing and may change in the future. Investors shall be aware of any potential alteration on the practice of registration and listing of the Notes in Macau.

Further, there are currently limited number of bonds similar to the Notes listed or traded in the MOX. Investors should familiarize themselves with the rules, procedures and systems of the MOX's trading platform and consult with its advisors and evaluate the risks involved in trading the listed Notes on the MOX. Investors should be aware of all the potential risks in trading the Notes on the platform of MOX and that there are not many prior cases for reference.

USE OF PROCEEDS

We estimate that the net proceeds from the offering of the Notes will be the total of approximately MOP298 million and approximately HK\$1,240 million, after deducting discounts of the Initial Purchasers and estimated offering expenses payable by us. Subject to compliance with applicable laws and regulations, we intend to use approximately 90% of the net proceeds from the offering of the Notes for refinancing the Syndicated Credit Facilities and the balance for general corporate purposes.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the consolidated capitalization and indebtedness of the Company as of December 31, 2020:

- on an actual basis;
- on an adjusted basis to give effect to the 2026 Notes and 2028 Notes which have been issued in January 2021 and the net proceeds have been received, before deducting the underwriting discounts and commissions and other expenses relating to the 2026 Notes and 2028 Notes paid/payable by us; and
- on an adjusted basis to give effect to the issuance of the MOP Notes and HK\$ Notes and receipt of the net proceeds from this offering before deducting the underwriting discounts and commissions and other estimated expenses relating to this offering payable by us.

You should read this table in conjunction with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this offering memorandum.

	As of December 31, 2020	
	Actual	As Adjusted
	(in millions of HK\$)	
Bank and other borrowings – current portion		
Syndicated Credit Facilities – current portion	5,088.3	5,088.3
Ponte 16 Credit Facilities Bank Loans – current portion	183.9	183.9
Total bank and other borrowings – current portion	5,272.2	5,272.2
Bank and other borrowings – non-current portion		
Syndicated Credit Facilities – non-current portion ⁽¹⁾	13,514.9	13,514.9
2026 Notes and 2028 Notes ⁽²⁾	–	7,753.4
MOP Notes to be issued ⁽³⁾	–	291.3
HK\$ Notes to be issued	–	1,250.0
Total bank and other borrowings – non-current portion	13,514.9	22,809.6
Total indebtedness	18,787.1	28,081.8
Total Equity:		
Share capital	11,435.5	11,435.5
Reserves	13,092.6	13,092.6
Non-controlling interests	111.8	111.8
Total equity	24,639.9	24,639.9
Total capitalization⁽⁴⁾	43,427.0	52,721.7

Notes:

1. Does not give effect to the actual repayment of HK\$3,500.0 million on the Revolving Credit Facility and HK\$5,416.9 million on the Term Loan Facility in February 2021 subsequent to December 31, 2020.
2. The translations between Hong Kong dollars and U.S. dollars of the 2026 Notes and 2028 Notes for converting to the as adjusted figures in HK\$ were made at the rate of HK\$7.7534 to US\$1.00, which was the noon buying rate as certified for customs purposes by the Federal Reserve Bank of New York for cable transfers for Hong Kong dollars on December 31, 2020.
3. The Macau pataca is pegged to the Hong Kong dollar at a rate of HK\$1.00 = MOP1.03.
4. Total capitalization equals total bank and other borrowings plus total equity.

Other than as disclosed above and in this offering memorandum, there has been no material change in our capitalization since December 31, 2020.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present our selected financial information. The selected financial information as of and for the years ended December 31, 2018, 2019 and 2020 set forth below have been derived from our consolidated financial statements as of and for the years ended December 31, 2019 and 2020, as audited by Deloitte, independent certified public accountants. See "Presentation of Financial Information."

You should read the selected consolidated financial data set forth below in conjunction with our consolidated financial statements, together with the accompanying notes, included elsewhere in this offering memorandum.

Consolidated Statement of Comprehensive Income

	Year ended December 31,		
	2018	2019	2020
	(in millions of HK\$)		
Total net revenue	34,410.1	33,875.0	7,506.7
Net gaming revenue	33,677.1	33,158.5	7,304.2
Special gaming tax, special levy and gaming premium	(17,004.5)	(15,530.6)	(3,368.2)
	16,672.6	17,627.9	3,936.0
Hotel, catering, retail and related services income	733.0	716.5	202.5
Cost of sales and services on hotel, catering, retail and related services	(387.1)	(377.3)	(204.1)
Other income, gains and losses	377.3	333.0	156.9
Impairment loss on financial assets	(47.0)	(200.0)	–
Marketing and promotional expenses	(5,831.0)	(6,219.9)	(124.7)
Operating and administrative expenses	(8,566.2)	(8,496.5)	(7,103.8)
Finance costs	(27.5)	(33.7)	(31.7)
Share of profits of an associate	8.9	11.8	11.7
Share of profits of a joint venture	6.6	7.3	4.8
Profit (loss) before taxation	2,939.6	3,369.1	(3,152.4)
Taxation	(27.4)	(51.6)	(22.5)
Profit (loss) for the year	2,912.2	3,317.5	(3,174.9)
Other comprehensive income (expense):			
<i>Item that will not be reclassified to profit or loss:</i>			
Change in fair value of investments in equity instruments designated at fair value through other comprehensive income	266.4	(48.2)	(313.7)
Total comprehensive income (loss) for the year	3,178.6	3,269.3	(3,488.6)
Profit (loss) for the year attributable to:			
Owners of the Company	2,850.1	3,207.3	(3,024.9)
Non-controlling interests	62.1	110.2	(150.0)
	2,912.2	3,317.5	(3,174.9)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company	3,116.5	3,159.1	(3,338.6)
Non-controlling interests	62.1	110.2	(150.0)
	3,178.6	3,269.3	(3,488.6)

Consolidated Statement of Financial Position

	As of December 31,		
	2018	2019	2020
	(in millions of HK\$)		
Non-current assets			
Property and equipment	30,378.6	35,159.8	39,559.0
Right-of-use assets	–	2,864.3	3,353.4
Intangible asset	–	197.6	131.7
Land use rights	2,264.0	–	–
Art works and diamonds	281.3	281.3	281.3
Interest in an associate	306.5	336.4	347.7
Interest in a joint venture	127.7	135.0	139.8
Investments in equity instruments designated at fair value through other comprehensive income	916.3	868.1	554.4
Other assets	1,346.2	840.8	1,161.7
Pledged bank deposit	145.6	–	145.6
	35,766.2	40,683.3	45,674.6
Current assets			
Inventories	90.8	103.3	121.7
Trade and other receivables	1,848.9	1,314.1	798.0
Pledged bank deposits	1.3	1,020.7	1.4
Short-term bank deposits	12,368.7	5,766.2	818.2
Bank balances and cash	6,322.7	8,738.1	5,307.6
	20,632.4	16,942.4	7,046.9
Current liabilities			
Trade and other payables	11,957.6	12,044.3	7,730.8
Taxation payable	116.8	123.7	37.2
Long-term bank loans	200.0	217.0	5,272.2
Lease liabilities	–	177.6	256.4
	12,274.4	12,562.6	13,296.6
Net current assets (liabilities)	8,358.0	4,379.8	(6,249.7)
Total assets less current liabilities	44,124.2	45,063.1	39,424.9
Non-current liabilities			
Other payables	882.9	–	66.7
Long-term bank loans	15,244.8	15,063.7	13,514.9
Lease liabilities	–	547.7	929.6
Amounts due to non-controlling interests of a subsidiary	287.1	203.8	263.3
Deferred taxation	22.8	11.8	10.5
	16,437.6	15,827.0	14,785.0
Net assets	27,686.6	29,236.1	24,639.9
Capital and reserves			
Share capital	11,254.1	11,281.4	11,435.5
Reserves	16,298.0	17,717.0	13,092.6
Equity attributable to owners of the Company	27,552.1	28,998.4	24,528.1
Non-controlling interests	134.5	237.7	111.8
Total equity	27,686.6	29,236.1	24,639.9

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in connection with “Selected Consolidated Financial Information” and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. Certain statements in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are forward-looking statements. See “Forward-Looking Statements” regarding these statements.

Overview

SJMH is the holding company of SJM, one of the six companies authorized 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 in March 2002, the expiry date of which has been extended from March 2020 to June 2022. SJM is the only casino gaming concessionaire with its roots in Macau.

SJM’s 19 casinos currently in operation are located in prime locations on the Macau Peninsula and Taipa, and as at December 31, 2020 offered 1,223 gaming tables and 1,196 slot machines. Non-gaming operations include the Grand Lisboa Hotel, the Jai Alai Hotel and a 51% interest in the Sofitel Ponte 16.

The Grand Lisboa Palace, SJM’s integrated resort on Cotai, has completed construction and is in the process of obtaining the necessary operating licenses, for expected opening in the first half of 2021. The Grand Lisboa Palace will feature a total of 1,892 hotel rooms and suites under three brand names, a casino with areas for VIP, premium and mass market table gaming, slot machines plus facilities for meetings and conferences, shopping, dining and entertainment.

Summary of Financial Results

For the year ended December 31, 2020, our total net revenue was HK\$7,506.7 million, a decrease of 77.8%, from HK\$33,875.0 million of total net revenue for the year ended December 31, 2019. The decrease in total net revenue was primarily attributable to the COVID-19 pandemic, which led to closure of Macau casinos for 15 days in February 2020, as well as ongoing restrictions on entry from the Mainland, Hong Kong and other locations, curtailment of transportation channels and quarantine requirements. As a result of the foregoing, we incurred loss attributable to owners of the Company of HK\$3,024.9 million for the year ended December 31, 2020, as compared to the profit attributable to owners of the Company of HK\$3,207.3 million for the year ended December 31, 2019.

For the year ended December 31, 2019, our total net revenue was HK\$33,875.0 million, a decrease of 1.6% from HK\$34,410.1 million of total net revenue for the year ended December 31, 2018. The decrease in total net revenue was primarily attributable to the decrease of gross VIP gaming revenue to HK\$13,687.3 million in 2019 from HK\$19,663.2 million in 2018 resulting from decrease in VIP chip sales and partially offset by the increase of gross mass gaming revenue to HK\$25,127.0 million in 2019 from HK\$23,080.3 million in 2018. The profit attributable to owners of the Company for the year ended December 31, 2019 was HK\$3,207.3 million, as compared to profit attributable to owners of the Company of HK\$2,850.1 million for the year ended December 31, 2018. The increase in profitability was primarily attributable to the decrease of special gaming tax, special levy and gaming premium to HK\$15,530.6 million in 2019 from HK\$17,004.5 million in 2018 and partially offset by the decrease of net gaming revenue to HK\$33,158.5 million in 2019 from HK\$33,677.1 million in 2018 and the increase of marketing and promotional expenses to HK\$6,219.9 million in 2019 from HK\$5,831.0 million in 2018.

The following table summarizes the results of our operations:

	Year ended December 31,		
	2018	2019	2020
(in millions of HK\$, except for percentages)			
Consolidated Statements of Operations			
Data:			
Total net revenue	34,410.1	33,875.0	7,506.7
Net gaming revenue	33,677.1	33,158.5	7,304.2
Profit (loss) attributable to owners of the Company	2,850.1	3,207.3	(3,024.9)
Adjusted EBITDA ⁽¹⁾	3,723.6	4,213.4	(2,089.0)
Adjusted EBITDA Margin ⁽²⁾	10.8%	12.4%	(27.8%)

(1) Adjusted EBITDA is earnings after adjustment for non-controlling interests and before accounting for interest income and expense, tax, depreciation and amortisation, donations, gain/loss on disposal/write-off of property and equipment, impairment loss on property and equipment, gain/loss on modification of long-term bank loans, project feasibility study cost, share-based payments, sub-concession fee income and pre-opening expenses.

(2) Adjusted EBITDA Margin is Adjusted EBITDA divided by total net revenue.

Factors Affecting Our Current and Future Results

For discussion on factors affecting our current and future results of operations, see “Industry Overview.”

Critical Accounting Policies and Estimates

Management’s review and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements. Our consolidated financial statements were prepared in conformity with HKFRS. In the application of our accounting policies, our directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Property and Equipment and Other Long-Lived Assets

We depreciate property and equipment on a straight-line basis over their estimated useful lives with no residual value assumed. The estimated useful lives are based on the nature of the assets, as well as current operating strategy and legal considerations, such as contractual life. Future events, such as property expansions, property developments, new competition or new regulations, could result in a change in the manner in which we use certain assets and could have an impact on the estimated useful lives of such assets. During the year ended December 31, 2019, we changed the estimated useful lives of certain of our property and equipment based on a combination of factors accumulating over time that provided us with updated information to make a better estimate on the economic lives of these assets.

These factors included (1) the stabilization of the operating, regulatory and competitive environment in Macau, which includes meeting the final land concession deadlines imposed by Macau government for our properties situated at Macau Peninsula and Cotai and (2) consideration of the estimated useful lives assigned to buildings of our peers in the gaming and hospitality industry. Based on these factors, as well as the anticipated use and condition of the assets evaluated, we determined that changes to the useful lives of certain property and equipment were appropriate. As a result, we revised the estimated useful lives of the property and equipment to a range of 25 to 50 years to better reflect the estimated periods during which these assets are expected to remain in service.

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

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

- Obtaining an understanding and evaluating the relevant control procedures 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 related loss allowance by reviewing information in respect of:
 - (i) the financial performance of gaming promoters and service providers;
 - (ii) expected growth rate and future development of gaming industry;
 - (iii) relevant commissions and service fee payables for assessing exposure to credit losses; and
- Checking the repayment history and the subsequent settlements in respect of those advances and other receivables on a sample basis.

Determination on lease term of contracts with renewal options

We apply judgment to determine the lease term for lease contracts in which it is a lessee, specifically, the leases relating to leasehold lands.

Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

When assessing reasonable certainty, we consider all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);
- the extent of leasehold improvements undertaken by us; and
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for our needs).

As of December 31, 2020, the carrying amounts of right-of-use assets and lease liabilities for the lease contracts which we are reasonably certain be renewed are HK\$2,486.8 million and HK\$469.2 million respectively.

Revenue Recognition

Our revenue contracts with customers consist of casino, hotel rooms, food and beverage, retail and other transactions.

Gaming revenue is the aggregate net difference between gaming wins and losses. Commissions paid to gaming promoters and rebates paid to patrons are recorded as a reduction to gaming revenue. We account for gaming revenue on a portfolio basis given the similar characteristics of wagers by recognizing net win per gaming day.

For gaming operations in which we provide complimentary catering and hotel services (“**hospitality service**”) to gaming customers to incentivise gaming, we deduct the amount of hospitality services to the gaming revenue based on pre-agreed price and in return such deducted amount records as hotel, catering, retail and related services income.

For gaming operations in which we provide award points to customers under loyalty programs, we deduct the amount of award points from the gaming revenue based on pre-agreed price. Such deducted amount is deferred revenue and recognised as loyalty programs liabilities until customers redeem the award points for retail goods and hospitality service. Upon redemption, the consideration of each retail good and hospitality service is recorded as hotel, catering, retail and related services income.

The transaction price of hotel rooms, food and beverage, and retail transactions is the net amount collected from the customer for such goods and services. The transaction price for such transactions is recorded as revenue when the good or service is transferred or rendered to the customer during their stay at the hotel or when the delivery is made for the food and beverage, retail and other services.

We have other contracts that include multiple goods and services, such as packages that bundle food and beverage and other services with hotel stays. For such arrangements, we allocate revenue to each good or service based on its relative stand-alone selling price. We primarily determine the stand-alone selling price of hotel rooms, food and beverage, and retail goods and services based on the amount that we charge when each is sold separately in similar circumstances to similar customers.

Income Tax

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 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. Our 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 recognized 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 recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and interests in a joint venture and an associate, except where we are 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 realized, 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 we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, we apply HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognized due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognized on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Recent Changes in Accounting Standards

See note 2 to our consolidated financial statements included elsewhere in this offering memorandum for a discussion of recent changes in accounting standards.

Results of Operations

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

For the year ended December 31, 2020, our total net revenue was HK\$7,506.7 million, a decrease of 77.8%, from HK\$33,875.0 million of total net revenue for the year ended December 31, 2019. The decrease in total net revenue was primarily attributable to the COVID-19 pandemic, which led to closure of Macau casinos for 15 days in February 2020, as well as ongoing restrictions on entry from the Mainland, Hong Kong and other locations, curtailment of transportation channels and quarantine requirements. As a result of the foregoing, we incurred a loss attributable to owners of the Company of HK\$3,024.9 million for the year ended December 31, 2020, as compared to a profit attributable to owners of the Company of HK\$3,207.3 million for the year ended December 31, 2019.

VIP gaming operations.

Gaming revenue from VIP gaming operations for the year ended December 31, 2020 was HK\$2,037.1 million, a decrease of 85.1%, from HK\$13,687.3 million for the year ended December 31, 2019, primarily attributable to the COVID-19 pandemic, which led to closure of Macau casinos for 15 days in February 2020, as well as ongoing restrictions on entry from the Mainland, Hong Kong and other locations, curtailment of transportation channels and quarantine requirements.

The following table sets forth information related to our VIP gaming operations for the periods indicated:

VIP operations	For the year ended December 31,		(Decrease)
	2019	2020	
Average daily net-win per VIP gaming table (HK\$)	132,040	30,228	(77.1%)
VIP chip sales (HK\$ million)	420,164	58,304	(86.1%)
Average number of VIP gaming tables (Average of month-end numbers)	284	192	(32.4%)

Mass market table gaming operations.

Gaming revenue from mass market table gaming operations for the year ended December 31, 2020 was HK\$5,858.8 million, a decrease of 76.7%, from HK\$25,127.0 million for the year ended December 31, 2019, primarily attributable to the COVID-19 pandemic, which led to closure of Macau casinos for 15 days in February 2020, as well as ongoing restrictions on entry from the Mainland, Hong Kong and other locations, curtailment of transportation channels and quarantine requirements.

The following table sets forth information related to our mass market table gaming operations for the periods indicated:

<u>Mass market table gaming operations</u>	<u>For the year ended December, 31</u>		<u>(Decrease)</u>
	<u>2019</u>	<u>2020</u>	
Average daily net-win per mass market gaming table (HK\$)	46,451	18,485	(60.2%)
Average number of mass market gaming tables (Average of month-end numbers)	1,482	903	(39.1%)

Slot machine and other gaming operations.

Gaming revenue from slot machine and other gaming operations for the year ended December 31, 2020 was HK\$379.3 million, a decrease of 68.0%, from HK\$1,185.8 million for the year ended December 31, 2019, primarily attributable to the COVID-19 pandemic, which led to closure of Macau casinos for 15 days in February 2020, as well as ongoing restrictions on entry from the Mainland, Hong Kong and other locations, curtailment of transportation channels and quarantine requirements.

The following table sets forth information related to our slot machine operations for the periods indicated:

<u>Slot machine operations</u>	<u>For the year ended December 31,</u>		<u>(Decrease)</u>
	<u>2019</u>	<u>2020</u>	
Average daily net-win per slot machine (HK\$)	1,268	866	(31.7%)
Average number of slot machines (Average of month-end numbers) .	2,562	1,247	(51.3%)

Hotel, catering, retail and related services income.

Revenue from hotel, catering, retail and related services for the year ended December 31, 2020 was HK\$202.5 million, a decrease of 71.7%, from HK\$716.5 million for the year ended December 31, 2019, primarily attributable to the COVID-19 pandemic, which led to closure of Macau casinos for 15 days in February 2020, as well as ongoing restrictions on entry from the Mainland, Hong Kong and other locations, curtailment of transportation channels and quarantine requirements.

Operating costs and expenses

The major operating costs and expenses for the year ended December 31, 2020 and 2019 were:

	<u>For the year ended December 31,</u>		<u>(Decrease)</u>
	<u>2019</u>	<u>2020</u>	
	<u>HK\$ million</u>	<u>HK\$ million</u>	
Special gaming tax, special levy and gaming premium	15,530.6	3,368.2	(78.3%)
Cost of sales and services on hotel, catering, retail and related services	377.3	204.1	(45.9%)
Marketing and promotional expenses	6,219.9	124.7	(98.0%)
Operating and administrative expenses	8,496.5	7,103.8	(16.4%)
Finance costs	33.7	31.7	(5.9%)

Special gaming tax, special levy and gaming premium.

Special gaming tax, special levy and gaming premium decreased by HK\$12,162.4 million, or 78.3%, to HK\$3,368.2 million for the year ended December 31, 2020 from HK\$15,530.6 million for the year ended December 31, 2019 primarily due to the decrease of gross gaming revenue.

Cost of sales and services on hotel, catering, retail and related services.

Cost of sales and services on hotel, catering, retail and related services decreased by HK\$173.2 million, or 45.9%, to HK\$204.1 million for the year ended December 31, 2020 from HK\$377.3 million for the year ended December 31, 2019 primarily due to lower consumption of food and beverage and hotel supplies in response to decrease in business activities.

Marketing and promotional expenses.

Marketing and promotional expenses decreased by HK\$6,095.2 million, or 98.0%, to HK\$124.7 million for the year ended December 31, 2020 from HK\$6,219.9 million for the year ended December 31, 2019 primarily due to reduced marketing activities being organized during the year of 2020 in light of travel restrictions and constraints around visa issuances for international visitors.

Operating and administrative expenses.

Operating and administrative expenses decreased by HK\$1,392.7 million, or 16.4%, to HK\$7,103.8 million for the year ended December 31, 2020 from HK\$8,496.5 million for the year ended December 31, 2019 primarily due to a combination of the following:

Staff cost. Staff cost decreased by HK\$521.0 million or 8.9% to HK\$5,354.7 million for the year ended December 31, 2020 from HK\$5,875.7 million for the year ended December 31, 2019. The decrease is primarily due to taking a number of measures to reduce staff cost by freezing the headcount, and instituting voluntary unpaid leave to cope with the impact of the COVID-19 pandemic.

Rental and building management fee. Rental and building management fee decreased by HK\$307.3 million or 131.8% to a negative fee of HK\$74.2 million (including COVID-19 related rent concessions of HK\$148.1 million) for the year ended December 31, 2020 from HK\$233.1 million for the year ended December 31, 2019. The decrease is primarily due to obtaining rental concessions from landlords as a consequence of the COVID-19 pandemic and adoption of HKFRS 16.

Gaming equipment. Gaming equipment decreased by HK\$102.1 million or 51.9% to HK\$94.6 million for the year ended December, 2020 from HK\$196.7 million for the year ended December 31, 2019. The decrease is primarily due to the decrease of gaming activities.

Depreciation and amortization. Depreciation and amortization decreased by HK\$55.1 million or 5.2% to HK\$1,000.2 million for the year ended December 31, 2020 from HK\$1,055.3 million for the year ended December 31, 2019. The decrease is primarily due to certain property and equipment being fully depreciated.

Finance costs.

Finance costs decreased by HK\$2.0 million, or 5.9%, to HK\$31.7 million for the year ended December, 2020 from HK\$33.7 million for the year ended December 31, 2019 primarily due to lower interest rates on our bank loans.

Profit/loss

As a result of the foregoing, we incurred a loss of HK\$3,174.9 million for the year ended December 31, 2020, as compared to a profit of HK\$3,317.5 million for the year ended December 31, 2019.

Profit/loss attributable to owners of the Company

We had net loss attributable to owners of the Company of HK\$3,024.9 million for the year ended December 31, 2020, compared to net profit attributable to owners of the company of HK\$3,207.3 million for the year ended December 31, 2019.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenues

For the year ended December 31, 2019, our total net revenue was HK\$33,875.0 million, a decrease of 1.6%, from HK\$34,410.1 million of total net revenue for the year ended December 31, 2018. The decrease in total net revenue was primarily attributable to the decrease of VIP gross gaming revenue to HK\$13,687.3 million in 2019 from HK\$19,663.2 million in 2018 resulting from a decrease in VIP chip sales and partially offset by the increase of mass market gross gaming revenue to HK\$25,127.0 million in 2019 from HK\$23,080.3 million in 2018. The profit attributable to owners of the Company for the year ended December 31, 2019 was HK\$3,207.3 million, as compared to a profit attributable to owners of the Company of HK\$2,850.1 million for the year ended December 31, 2018. The increase in profitability was primarily attributable to the decrease of special gaming tax, special levy and gaming premium to HK\$15,530.6 million in 2019 from HK\$17,004.5 million in 2018 and partially offset by the decrease of net gaming revenue to HK\$33,158.5 million in 2019 from HK\$33,677.1 million in 2018 and the increase of marketing and promotional expenses to HK\$6,219.9 million in 2019 from HK\$5,831.0 million in 2018.

VIP gaming operations.

Gaming revenue from VIP gaming operations for the year ended December 31, 2019 was HK\$13,687.3 million, a decrease of 30.4%, from HK\$19,663.2 million of gaming revenue from VIP gaming operations for the year ended December 31, 2018, primarily attributable to the decrease in VIP chip sales of 37.4% to HK\$420,164 million for the year ended December 31, 2019 from HK\$670,700 million for the year ended December 31, 2018, partially offset by the increase in VIP hold rate to 3.26% for the year ended December 31, 2019 from 2.93% for the year ended December 31, 2018.

The following table sets forth information related to our VIP gaming operations for the periods indicated:

<u>VIP operations</u>	<u>For the year ended December 31,</u>		<u>(Decrease)</u>
	<u>2018</u>	<u>2019</u>	
Average daily net-win per VIP gaming table (HK\$)	187,055	132,040	(29.4%)
VIP chip sales (HK\$ million)	670,700	420,164	(37.4%)
Average number of VIP gaming tables (Average of month-end numbers)	288	284	(1.4%)

Mass market table gaming operations.

Gaming revenue from mass market table gaming operations for the year ended December 31, 2019 was HK\$25,127.0 million, an increase of 8.9%, from HK\$23,080.3 million for the year ended December 31, 2018, primarily attributable to the growth in gaming market mainly driven by mass market and the increase of mass market gaming tables to capture the growth.

The following table sets forth information related to our mass market table gaming operations for the periods indicated:

Mass market table gaming operations	For the year ended December 31,		Increase
	2018	2019	
Average daily net-win per mass market gaming table (HK\$)	44,657	46,451	4.0%
Average number of mass market gaming tables (Average of month-end numbers)	1,416	1,482	4.7%

Slot machine and other gaming operations.

Gaming revenue from slot machine and other gaming operations for the year ended December 31, 2019 was HK\$1,185.8 million, an increase of 2.5%, from HK\$1,156.5 million for the year ended December 31, 2018, primarily attributable to the increase of Grand Lisboa slot machine revenue of HK\$24.1 million to HK\$469.3 million for the year ended December 31, 2019 from HK\$445.2 million for the year ended December 31, 2018 by increasing the number of slot machines.

The following table sets forth information related to our slot machine operations for the periods indicated:

Slot machine operations	For the year ended December 31,		Increase/ (Decrease)
	2018	2019	
Average daily net-win per slot machine (HK\$)	1,188	1,268	6.8%
Average number of slot machines (Average of month-end numbers) .	2,668	2,562	(4.0%)

Hotel, catering, retail and related services income.

Revenue from hotel, catering, retail and related services for the year ended December 31, 2019 was HK\$716.5 million, a decrease of 2.3%, from HK\$733.0 million for the year ended December 31, 2018, primarily attributable to the decrease of hotel occupancy rate and the decrease of retail operations resulting from a decrease in gaming business.

Operating costs and expenses

The major operating costs and expenses for the year ended December 31, 2019 and 2018 were:

	For the year ended December 31,		Increase/ (Decrease)
	2018	2019	
	HK\$ million	HK\$ million	
Special gaming tax, special levy and gaming premium	17,004.5	15,530.6	(8.7%)
Cost of sales and services on hotel, catering, retail and related services	387.1	377.3	(2.5%)
Impairment loss on financial assets .	47.0	200.0	325.5%
Marketing and promotional expenses	5,831.0	6,219.9	6.7%
Operating and administrative expenses	8,566.2	8,496.5	(0.8%)
Finance costs	27.5	33.7	22.5%

Special gaming tax, special levy and gaming premium.

Special gaming tax, special levy and gaming premium decreased by HK\$1,473.9 million, or 8.7%, to HK\$15,530.6 million for the year ended December 31, 2019 from HK\$17,004.5 million for the year ended December 31, 2018 primarily due to the decrease of gross gaming revenue.

Cost of sales and services on hotel, catering, retail and related services.

Cost of sales and services on hotel, catering, retail and related services decreased by HK\$9.8 million, or 2.5%, to HK\$377.3 million for the year ended December 31, 2019 from HK\$387.1 million for the year ended December 31, 2018 primarily due to lower consumption of food and beverage and hotel supplies in response to a decrease in hotel business activities.

Impairment loss on financial assets.

Impairment loss on financial assets increased by HK\$153.0 million, or 325.5%, to HK\$200.0 million for the year ended December 31, 2019 from HK\$47.0 million for the year ended December 31, 2018, due to uncollectible credit from a service provider.

Marketing and promotional expenses.

Marketing and promotional expenses increased by HK\$388.9 million, or 6.7%, to HK\$6,219.9 million for the year ended December 31, 2019 from HK\$5,831.0 million for the year ended December 31, 2018, primarily due to increased marketing and promotional activities in response to the growth of the mass market and increased competition.

Operating and administrative expenses.

Operating and administrative expenses decreased by HK\$69.7 million, or 0.8%, to HK\$8,496.5 million for the year ended December 31, 2019 from HK\$8,566.2 million for the year ended December 31, 2018, primarily due to the following:

Depreciation and amortization. Depreciation and amortization decreased by HK\$146.8 million or 12.2% to HK\$1,055.3 million for the year ended December 31, 2019 from HK\$1,202.1 million for the year ended December 31, 2018. The decrease is primarily due to certain property and equipment being fully depreciated and partially offset by the recognition of right-of-use assets resulting from the adoption of a new Hong Kong financial reporting standard on January 1, 2019.

Staff cost. Staff cost increased by HK\$70.2 million or 1.2% to HK\$5,875.7 million for the year ended December 31, 2019 from HK\$5,805.5 million for the year ended December 31, 2018. The increase was primarily due to general salary increases offset by a reduction in full time employees.

Finance costs.

Finance costs increased by HK\$6.2 million, or 22.5%, to HK\$33.7 million for the year ended December 31, 2019 from HK\$27.5 million for the year ended December 31, 2018 primarily due to the increase of finance cost related to lease liabilities resulting from the adoption of a new HKFRS on January 1, 2019, partially set off by the decrease in interest cost due to the reduction in outstanding balance of the Ponte 16 Credit Facilities.

Profit/loss

As a result of the foregoing, we had a profit of HK\$3,317.5 million for the year ended December 31, 2019, as compared to a profit of HK\$2,912.2 million for the year ended December 31, 2018.

Profit/loss attributable to owners of the Company

We had net profit attributable to owners of the Company of HK\$3,207.3 million for the year ended December 31, 2019, compared to net profit attributable to owners of the Company of HK\$2,850.1 million for the year ended December 31, 2018.

Liquidity and Capital Resources

Our bank balances and cash amounted to HK\$6,125.8 million (not including HK\$147.0 million pledged bank deposits) as of December 31, 2020. This represented a decrease of 57.8% as compared with the position as of December 31, 2019 of HK\$14,504.3 million primarily attributable to net cash used in operating activities of HK\$7,492.8 million for the year ended December 31, 2020, compared to net cash provided by operating activities of HK\$4,423.4 million for the year ended December 31, 2019.

Total outstanding balances of bank loans drawn by us as of December 31, 2020 amounted to HK\$18,787.1 million (as of December 31, 2019: HK\$15,280.7 million). As of December 31, 2020, HK\$6,500.0 million of credit facilities remained unused and available for future drawdown. The maturity profile of the Group's borrowings as of December 31, 2020 is as follows:

<u>Within 1 year</u>	<u>1-2 years</u>	<u>Total</u>
28.1%	71.9%	100%

Gearing ratio

Our gearing ratio (defined as the ratio of total outstanding bank loans less pledged bank deposits, short-term bank deposits, bank balances and cash to total assets (excluding pledged bank deposits, short-term bank deposits, bank balances and cash)) was 26.9% as at December 31, 2020, compared to 0.0% as at December 31, 2019.

Cash Flows

The following table sets forth our consolidated statements of cash flows for the periods indicated.

	<u>Year ended December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
	<u>(in millions of HK\$)</u>		
Net cash from (used in) operating activities	4,036.2	4,423.4	(7,492.8)
Net cash from (used in) investing activities	(9,390.4)	734.1	2,539.0
Net cash provided by (used in) financing activities	5,505.9	(2,742.1)	1,523.3
(Decrease) increase in cash and cash equivalents	151.7	2,415.4	(3,430.5)
Cash and cash equivalents at beginning of year	<u>6,171.0</u>	<u>6,322.7</u>	<u>8,738.1</u>
Cash and cash equivalents at end of year	<u>6,322.7</u>	<u>8,738.1</u>	<u>5,307.6</u>

Operating Activities

Operating cash flows are generally affected by changes in operating income and accounts receivable related to table games play conducted on a cash and credit basis and the remainder of the business, including hotel, catering, retail and related services that are conducted primarily on a cash basis.

Net cash used in operating activities was HK\$7,492.8 million for the year ended December 31, 2020, compared to net cash provided by operating activities of HK\$4,423.4 million for the year ended December 31, 2019. The change was primarily due to the operating loss of HK\$3,174.9 million for the year ended December 31, 2020 compared to the operating profit of HK\$3,317.5 million for the year ended December 31, 2019 and the change in working capital.

Net cash from operating activities was HK\$4,423.4 million for the year ended December 31, 2019, compared to HK\$4,036.2 million for the year ended December 31, 2018. The increase in net cash provided by operating activities was attributable to the operating profit of HK\$3,317.5 million for the year ended December 31, 2019 compared to HK\$2,912.2 million for the year ended December 31, 2018 and the change in working capital.

Investing Activities

Net cash from investing activities was HK\$2,539.0 million for the year ended December 31, 2020, as compared to net cash from investing activities of HK\$734.1 million for the year ended December 31, 2019. Net cash used in investing activities was HK\$9,390.4 million in 2018.

Net cash from investing activities amounted to HK\$2,539.0 million for the year ended December 31, 2020, primarily attributable to withdrawal of short-term bank deposits of HK\$9,961.6 million, withdrawal of pledged bank deposits of HK\$873.8 million and interest received of HK\$157.0 million, partially offset by placement of short-term bank deposits of HK\$5,013.6 million, purchase of property and equipment of HK\$3,045.8 million and deposits paid for purchase of property and equipment of HK\$401.8 million.

Net cash from investing activities amounted to HK\$734.1 million in 2019, primarily attributable to withdrawal of short-term bank deposits of HK\$22,112.4 million, repayments from contractors of HK\$668.5 million and interest received of HK\$331.4 million, partially offset by purchase of property and equipment of HK\$5,501.6 million, placement of short-term bank deposits of HK\$15,509.9 million and placement of pledged bank deposits of HK\$873.8 million.

Net cash used in investing activities amounted to HK\$9,390.4 million in 2018, primarily attributable to purchase of property and equipment of HK\$5,777.3 million, placement of short-term bank deposits of HK\$28,078.8 million and advances to contractors of HK\$668.5 million, partially offset by withdrawal of short-term bank deposits of HK\$25,429.2 million and interest received of HK\$269.5 million.

Financing Activities

Net cash from financing activities amounted to HK\$1,523.3 million for the year ended December 31, 2020, primarily attributable to the new long-term bank loans raised of HK\$3,500.0 million, partially offset by interest paid of HK\$506.9 million, dividend paid of HK\$1,246.8 million and repayments of lease liabilities of HK\$344.4 million

Net cash used in financing activities amounted to HK\$2,742.1 million in 2019, primarily attributable to interest paid of HK\$541.3 million and dividends paid of HK\$1,642.6 million.

Net cash from financing activities amounted to HK\$5,505.9 million in 2018, primarily attributable to the new long-term bank loans raised of HK\$7,450.0 million, partially offset by interest paid of HK\$451.7 million and dividends paid of HK\$1,301.5 million.

Other Financing and Liquidity Matters

We may obtain financing in the form of, among other things, equity or debt, including additional bank loans, bonds, notes or other debt, or rely on our operating cash flow to fund the development of future projects. See “Description of other Material Indebtedness.”

We have relied and intend in the future to rely on our operating cash flow and different forms of financing to meet our funding needs and repay our indebtedness, as the case may be.

The timing of any future debt and equity financing activities will be dependent on our funding needs, our development and construction schedule, the availability of funds on terms acceptable to us, and prevailing market conditions. We may carry out activities from time to time to strengthen our financial position and ability to better fund our business expansion plans. Such activities may include refinancing, purchasing or otherwise retiring existing debt, monetizing assets, sale-and-leaseback transactions or other similar activities. Any such activities will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors and the amounts involved may be material.

Any other future developments may be subject to further financing and a number of other factors, many of which are beyond our control.

Our capital expenditure commitments amounted to HK\$2,754.5 million as of December 31, 2020 (as of December 31, 2019: HK\$7,050.2 million), of which HK\$2,506.8 million (as of December 31, 2019: HK\$6,785.1 million) were for the Grand Lisboa Palace project, which has an estimated total project cost of approximately HK\$39 billion, including capital expenditure commitments to date.

The Grand Lisboa Palace project is being funded and future projects will be funded by a combination of internal resources and debt financing. The exact investment plans for our 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.

Bank Loans

Our long-term bank loans as of December 31, 2020 are summarized below. For details and summary of terms of our indebtedness, see "Description of Other Material Indebtedness."

	At December 31, 2020
	HK\$ million
The syndicated secured long-term bank loans are repayable:	
Within one year	5,272.2
Within a period of more than one year but not more than two years .	13,514.9

Variable-rate bank loans comprise:

	Carrying amounts At December 31, 2020
	HK\$ million
Syndicated Credit Facilities	18,603.2
Ponte 16 Credit Facilities	183.9
Total bank loans	<u>18,787.1</u>

There were no material changes outside the ordinary course of business in contractual obligations during the year ended December 31, 2020.

Off-Balance Sheet Arrangements

We have not entered into any transactions with special purpose entities nor do we engage in any transactions involving derivatives that would be considered speculative positions. We have not retained or contingent interest in assets transferred to an unconsolidated entity.

Financial Guarantee Obligations

As of December 31, 2020, our total amount of guarantees provided to banks was HK\$87.3 million, which were guarantees in respect of credit facilities granted to an associate and an investee company. We had no significant contingent liabilities as of December 31, 2020.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices.

Interest Rate Risk

Our exposure to interest rate risk is associated with our indebtedness bearing interest based on floating rates. We attempt to manage interest rate risk by managing the mix of long-term fixed rate borrowings and variable rate borrowings and we may supplement by hedging activities in a manner we deem prudent. We cannot be sure that these risk management strategies have the desired effect, and interest rate fluctuations could have a negative impact on our results of operations. As of December 31, 2020, we are subject to fluctuations in HIBOR as a result of our credit facilities.

We do not intend to engage in transactions in derivatives or other financial instruments for trading or speculative purposes and we expect the provisions of our existing and any future credit facilities to restrict or prohibit the use of derivatives and financial instruments for purposes other than hedging.

Foreign Exchange Risk

Our exposure to foreign exchange rate risk is associated with a portion of our indebtedness and certain expenses have been and are denominated in U.S. dollars, and the costs associated with servicing and repaying such debt will be denominated in U.S. dollars. The majority of our revenues are denominated in Hong Kong dollars, given the Hong Kong dollar is the predominant currency used in casinos in Macau and is often used interchangeably with the Macau pataca in Macau, while our expenses are denominated predominantly in Macau patacas and Hong Kong dollars.

The value of the Hong Kong dollar and the Macau pataca against the U.S. dollar may fluctuate and may be affected by, among other things, changes in political and economic conditions. While the Hong Kong dollar is pegged to the U.S. dollar within a narrow range and the Macau pataca is in turn pegged to the Hong Kong dollar, and the exchange rates between these currencies has remained relatively stable over the past several years, we cannot assure you that the current peg or linkages between the U.S. dollar, Hong Kong dollar and Macau pataca will not be de-pegged, de-linked or otherwise modified and subjected to fluctuations. Any significant fluctuations in exchange rates between Hong Kong dollar or Macau pataca to U.S. dollar may have a material adverse effect on our revenues and financial condition.

We accept foreign currencies from our customers, and, as of December 31, 2020, in addition to Hong Kong dollars and Macau patacas, we also hold other foreign currencies. However, as our principal operations are primarily conducted and recorded in Hong Kong dollars, any foreign exchange risk exposure associated with those currencies is minimal.

We have not engaged in hedging transactions with respect to foreign exchange exposure of our revenues and expenses in our day-to-day operations during the year ended December 31, 2020 or during the year ended December 31, 2019. Instead, we maintained a certain amount of our operating funds in the same currencies in which we have obligations, thereby reducing our exposure to currency fluctuations. However, we occasionally enter into foreign exchange transactions as part of financing transactions and capital expenditure programs.

Credit Risk

As a common practice in Macau, we grant credit to gaming promoters. The gaming promoters bear the responsibility for issuing to and subsequently collecting credit from their players. We have established controls over the issuance of credit and aim to pursue aggressively overdue debt from gaming promoters. This collection activity includes as relevant frequent personal contact with the debtor, delinquency notices and litigation. However, we may not be able to collect all of our gaming receivables from our gaming promoters.

INDUSTRY OVERVIEW

Certain information and statistics set out in this section and elsewhere in this offering memorandum relating to the economies of Macau and the industry in which we operate are derived from government agencies, including the DSEC and the DICJ. None of the reports cited in this offering memorandum was commissioned by us, the Initial Purchasers, any of our or their directors, officers, agents, employees, advisors or representatives or any other person or party involved in this offering.

We believe that the sources of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information or statistics false or misleading. No independent verification has been carried out on such information or statistics by us, the Initial Purchasers, any of our or their directors, officers, agents, employees, advisors or representatives or any other person or party involved in this offering, and no representation is given as to the accuracy of such information or statistics.

Historical information presented herein is not necessarily indicative of future performance. In addition, this information contains “forward-looking” statements that relate to future events, which are, by their nature, subject to significant risks and uncertainties. In light of the current COVID-19 pandemic affecting the global economy, including the gaming industry, investors are advised to read this section together with the information provided in “Risk Factors.”

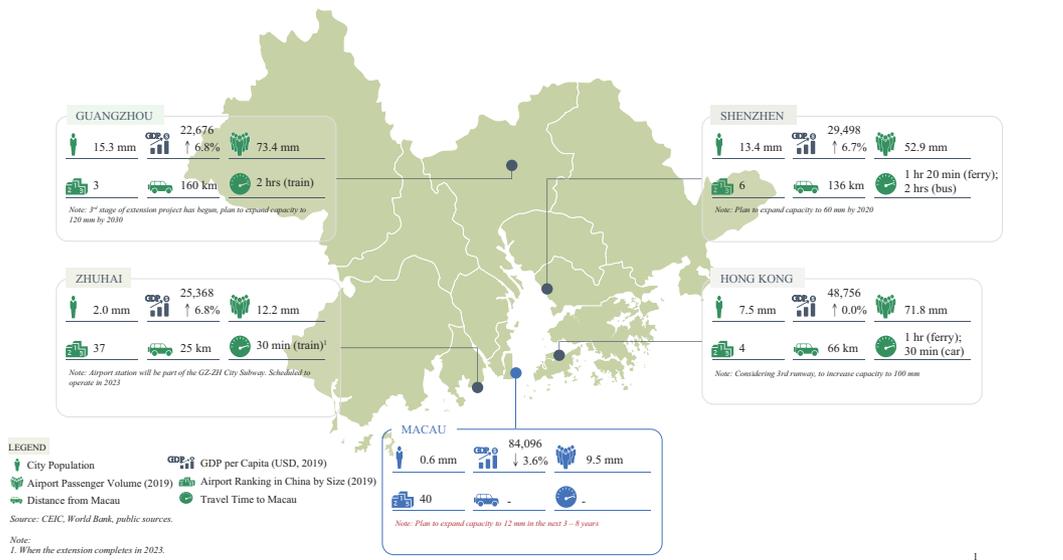
Macau overtook Las Vegas Strip as the world’s largest gaming destination in terms of gross gaming revenues in 2006, and has maintained its market dominance since then, generating gross gaming revenues of HK\$294.0 billion (US\$37.9 billion), HK\$283.9 billion (US\$36.6 billion), HK\$58.7 billion (US\$7.6 billion) in 2018, 2019 and 2020, respectively. Macau’s success as a gaming destination has been a driving force in the legalization and proliferation of gaming across the Asia Pacific region, and has been an integral part of Macau’s economic growth, through job creation, increased tourism, tax revenues and attraction of human resources and foreign capital.

Macau’s Geographic Location

Macau is a Special Administrative Region of the People’s Republic of China located on the Pearl River Delta, adjacent to the southern coastline of Guangdong Province, one of China’s wealthiest and most urbanized provinces.

Being an international tourism hub in the region and home to Greater China’s only legal casino gaming region, Macau attracts visitors from Guangdong Province, which had a population of approximately 115 million as of December 31, 2019 according to the Statistics Bureau of Guangdong Province, and from the rest of China, Hong Kong, Taiwan, Japan, South Korea, Thailand, Vietnam, Malaysia, Singapore, Indonesia, India and the Philippines, which are all within approximately five hours away by flight from Macau and together had a total population of approximately 3.4 billion in 2019, according to the International Monetary Fund.

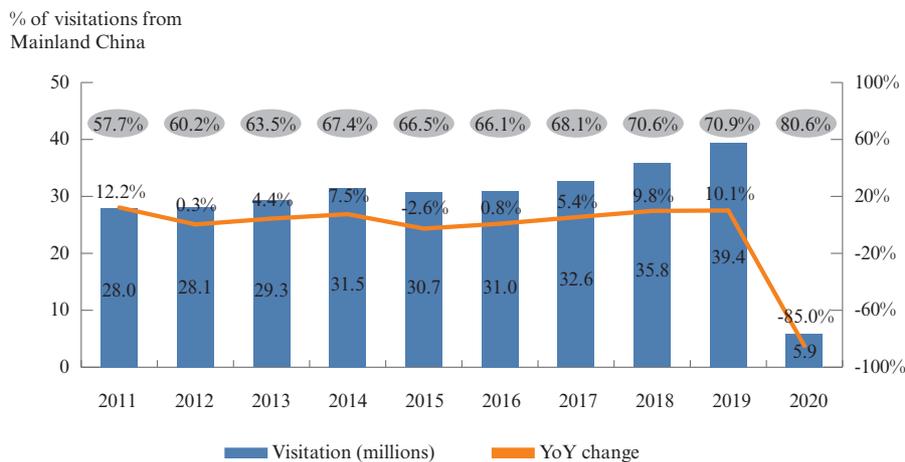
Guangzhou, Zhuhai, Shenzhen, Macau and Hong Kong represent five of China’s top 10 affluent cities by GDP per capita, and are all within two hours away from Macau by train or ferry, and recently completed transportation projects, such as the extension of the Guangzhou-Zhuhai Intercity Railway and the completion of the 55-km Hong Kong-Zhuhai-Macau bridge, facilitate visitations from the surrounding affluent regions.



Visitation to Macau

According to Macau's Statistics and Census Bureau, visitors to Macau grew to 39.4 million in 2019, representing a CAGR of 6.4% from 2015 – 2019, but declined to 5.9 million in 2020 due to the COVID-19 pandemic, representing a decline of 85.0% year-on-year. Total visitation from mainland China to Macau accounted for over 70% of total visitations to Macau, and grew to 27.9 million in 2019, representing a CAGR of 8.2% from 2015 – 2019, but declined to 4.8 million in 2020, representing a decline of 83.0% year-on-year. The decrease in visitation is a result of the COVID-19 pandemic's strong deterrent effect on travel and social activities, the Chinese government's suspension of its visa and group tour schemes that allow mainland Chinese residents to travel to Macau, quarantine measures, travel and entry restrictions and conditions in Macau, Hong Kong and certain cities and regions in mainland China, the suspension of ferry services and other modes of transportation regionally, and, bans on entry or enhanced quarantine requirements, depending on the person's nationality, residency and their recent travel history, for any Macau residents and imported labor, PRC citizens, Hong Kong residents and Taiwan residents attempting to enter Macau.

Macau overall visitation growth



Source: DSEC

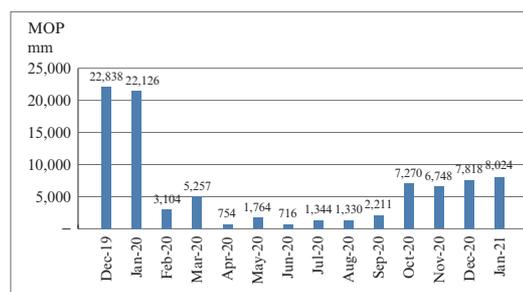
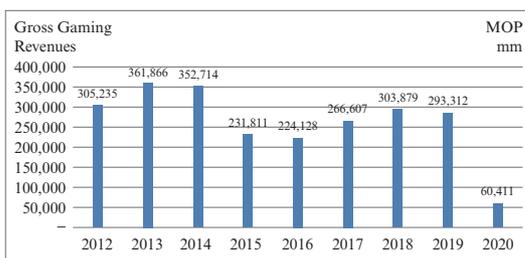
Certain restrictions have since been released as the region gradually recovers from the COVID-19 pandemic. Since July 15, 2020, quarantine requirements for visitors to Guangdong Province from Macau were relaxed, and on September 23, 2020, mainland China authorities fully resumed the IVS program, which has resulted in increases in visitation since September 2020. Total visitation to Macau from mainland China for the months of October, November and December 2020 increased 30.8%, 42.7% and 47.1%, respectively, from 412,000 in September 2020.



According to the Hong Kong Tourism Commission as of December 2020, the IVS covers 49 cities and estimated over 300 million mainland Chinese citizens. However, according to the DSEC, there were only 13.1 million IVS travelers in 2019, or less than 4.3% of the eligible citizens, indicating room for increased growth.

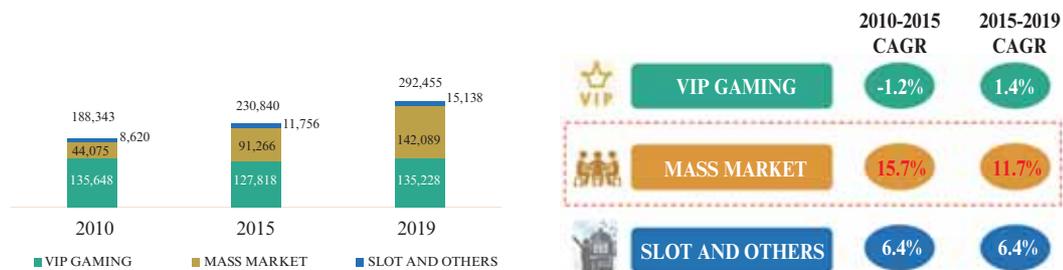
Macau Gross Gaming Revenues

Gross gaming revenues in Macau peaked in 2013 at HK\$350.2 billion (US\$45.2 billion) but rebounded and improved consistently with 29 consecutive months of year-over-year growth between August 2016 and December 2018. According to the DICJ, gross gaming revenues in Macau for 2019 was HK\$283.9 billion (US\$36.6 billion), representing a contraction of 3.4% as compared to 2018, mainly driven by a decline in VIP gaming revenues and the slowdown in the Chinese economy, and HK\$58.7 billion (US\$7.6 billion) for 2020, representing a decline of 79.3%, mainly due to the impact of the COVID-19 outbreak, and the resulting decline in inbound tourism, among other things. While industry trends in Macau have shown improvement in the fourth quarter of 2020, with gross gaming revenue in the fourth quarter of 2020 of HK\$21.2 billion increasing 347.0% as compared to the third quarter of 2020, Macau continues to be impacted by a range of external factors, including uncertainties related to trade relations between China and the United States, other government policies that may adversely affect the Macau gaming market, and COVID-19.



Source: DICJ.

The Macau gaming market consists of the VIP market, the mass market and slot machines. The mass market is a higher margin gaming segment than the VIP market, as the VIP market margins are impacted by VIP promoter commissions and higher player concessions. Mass market has shown steady and strong growth over recent years and the GGR of mass tables has surpassed the prior peak in 2014 mainly driven by new casino resorts in Cotai.



Source: SJM and public sources

Key Drivers for the Macau Gaming Market

We believe the development of the Macau gaming market has been driven by and will continue to be driven by a combination of factors, including:

- Close proximity to approximately 3.4 billion people in nearby regions in Asia and expansion of mainland China out-bound tourism to Macau;
- Continuing economic development and emergence of a wealthier demographic in China;
- Increased diversification in non-gaming offerings further enhancing visitation and game play;
- Further improvement of transportation and infrastructure driving visitation; and
- China's continued focus on development and integration of the Greater Bay Area.

Details of these market drivers and initiatives are set out as follows:

Close Proximity to Approximately 3.4 Billion People in Nearby Regions in Asia and Expansion of Mainland China Out-bound Tourism to Macau

Macau shares a border with China's populous and wealthy Guangdong Province and is approximately one hour from Hong Kong via high-speed ferry. Approximately 3.4 billion people live within a five-hour flight of Macau. The relatively easy access from major population centers in Asia facilitates Macau's development as a popular gaming destination in the region. Demand for non-gaming services, including retail, leisure and entertainment services is also supported by the growth of personal disposable income and the growth of the middle class in China.

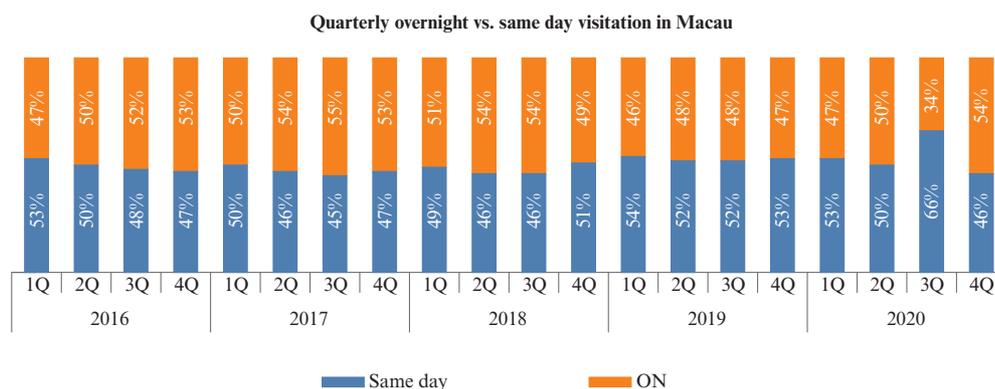
Visitation from China grew at a CAGR of 8.7% from 2010 to 2019 and accounted for approximately 70.9% of visitation to Macau in 2019.

The following table shows the population of, and visitation to Macau from, countries and regions within a five-hour flight of Macau in 2019. According to the DSEC, Macau had 39.4 million visitations in 2019.

	2019 Visitations to Macau (Millions) (A)	2019 Population (Millions) (B)	Visitations as a % of Population (A+B)
China	27.9	1,403.9	2.0%
Hong Kong	7.4	7.5	97.8%
Taiwan	1.1	23.6	4.5%
South Korea.....	0.7	51.7	1.4%
Philippines.....	0.4	107.3	0.4%
Japan.....	0.3	126.2	0.2%
Malaysia.....	0.2	32.6	0.6%
Indonesia.....	0.2	266.9	0.1%
Thailand.....	0.2	69.6	0.2%
India.....	0.1	1,367.6	<0.1%
Singapore.....	0.1	5.7	2.0%
Vietnam.....	<0.1	96.5	<0.1%

Source: Twelve months ended December 31, 2019 visitation figures from DSEC; 2019 China population figure as compiled by National Bureau of Statistics of China and the rest of the 2019 population figures from International Monetary Fund World Economic Outlook Database, October 2020.

In terms of same-day and overnight visitation, 2016 marked the first time in a decade with aggregate overnight visitation exceeding same-day visitation, and this trend continued into the first three quarters of 2018 until the fourth quarter of 2018 when same-day visitation grew to 51%. In the fourth quarter of 2019, same-day visitation reached 53% and grew to 66% in the third quarter of 2020, as a result of enhanced accessibility to and from Macau attributed to the recent completion of major transportation and infrastructure projects.



Source: DSEC

Visitation growth from mainland China has been supported by the implementation of the IVS. Following its implementation in 2003, mainland Chinese citizens from selected large urban centers and economically developed regions were able to obtain permits to travel to Macau on their own without having to be part of a tour. According to the Hong Kong Tourism Commission as of September 2020, the IVS covers 49 cities and estimated over 300 million mainland Chinese citizens.

In March 2016, the Ministry of Public Security of China announced a new practice to make it easier for some mainland Chinese citizens to apply for the IVS visa. In 2020, mainland Chinese IVS visitors accounted for 39.2% of total visitations from China, according to DSEC statistics. Non-package tour visitors are generally considered more valuable to gaming operators due to higher spending propensity as compared with package tour visitors.

The majority of visitors from mainland China are from nearby areas. From 2017 to 2019, Guangdong province accounted for approximately 41-46% of the mainland Chinese visitors to Macau. In the twelve months ended November 30, 2020, approximately 57% of visitors from mainland China were from Guangdong province.

With continued economic development and favorable visa policies, further penetration of tourism by mainland Chinese residents is expected to increase growth opportunities for the Macau gaming market.

Continuing Economic Development and Emergence of a Wealthier Demographic in China

It is anticipated that Macau will directly benefit from China's expanding economy. According to the National Bureau of Statistics of China, China's GDP grew at a CAGR of 10.2% from 2010 to 2019. Long-term economic growth in China is expected to help sustain and fuel the development of Macau.

The promotion of domestic demand is critical in sustaining long-term economic growth in China. The impact of the global recession on China's economic growth has provided an impetus for China's shift to increase domestic consumption in order to reduce dependence on exports and foreign investments. In order to strengthen domestic spending and consumption, the Chinese government is accelerating urbanization and providing an impetus for better education and jobs. In 2019, approximately 60.6% of China's 1.4 billion population lived in urban areas, according to the National Bureau of Statistics of China. Rapid urbanization has historically spurred greater consumption and shifted the composition of retail spending in China from a heavy weighting on food to more diverse consumption.

The shift in China's consumption patterns towards more discretionary spending is expected to continue as incomes continue to increase. Given the higher propensity for gaming in this demographic, increasing spending patterns are expected to further support growth in Macau's gaming market.

Increased Diversification in Non-gaming Offerings Further Enhancing Visitation and Game Play

Macau also provides non-gaming amenities in the form of retail, lodging, dining, conference and entertainment amenities, which are supported by the Macau government's infrastructure initiatives.

Although non-gaming revenues currently represent a small portion of total revenues in the Macau gaming market, the development of non-gaming attractions positions Macau as a comprehensive entertainment destination. As casino operators incorporate retail, food and beverage outlets and entertainment into their properties to offer an integrated resort experience, visitation to Macau, duration of stay and spending of visitors (excluding gaming expense and donations) have all increased.

Retail

In the past ten years, casino operators have expanded retail space on the Macau Peninsula and in Cotai for upscale shopping. Retail sales in Macau grew at a CAGR of 10.8% from 2010 to 2019, according to statistics released by the DSEC. As mainland Chinese citizens constitute a majority of visitors to Macau, retail plays an important role in attracting Chinese customers to the region to purchase premium brands without paying a luxury goods tax which may be levied if the purchases were made in mainland China. During 2019, mainland Chinese visitors spent an average of US\$120 per person on shopping in Macau, higher than visitors from any other region, according to the DSEC. The upcoming supply of retail space offered by entertainment resorts is expected to help further propel visitation and business to the casinos.

Lodging

As of December 31, 2020, according to figures released by the DSEC, Macau had approximately 35,142 hotel rooms. By comparison, the Las Vegas Strip had approximately 143,117 hotel rooms as of the same date, according to figures released by the Las Vegas Convention and Visitors Authority. It is anticipated that the additional high quality hotels, in combination with increasing retail, entertainment facilities and MICE space to be added in Macau in 2021 and 2022, will continue to enhance Macau's reputation as a world-class tourist and business destination and, ultimately, to contribute to increases in both visitation and the average length of stay in Macau.

Dining

The food and beverage outlets of Macau's integrated resorts have contributed substantially to advancing Macau's reputation as a destination offering a wide range of quality dining alternatives. The importance of dining to Macau tourism has been increasingly recognized since November 2017 when Macau was officially designated a Creative City of Gastronomy by United Nations Educational, Scientific and Cultural Organization.

Entertainment

The newly integrated gaming resorts support the development of Macau's entertainment offerings to broaden the appeal of Macau. The new resorts offer a variety of leisure and entertainment attractions to help draw in a more diverse array of visitors.

Further Improvement of Transportation and Infrastructure Driving Visitation

Macau is accessible by land, air and sea. During 2019, approximately 74.3% of visitation arrived in Macau via the Zhuhai border gate, Lotus Flower Checkpoint and Checkpoint of Trans-border Industrial Park and Hong Kong Zhuhai-Macau Bridge, approximately 15.9% arrived via ferry from Hong Kong and nearby cities in China and approximately 9.8% arrived via the Macau International Airport and heliport. Specifically, in-bound visitations into Cotai have been increasing as a percentage of total visitation over the last few years.

Several airlines fly directly to Macau International Airport, operating direct routes to Macau from mainland China and Taiwan, and countries such as Japan, Malaysia, Philippines, Singapore, South Korea and Thailand (services are currently interrupted by the pandemic).

A number of infrastructure projects to facilitate travel have been recently completed or are in various stages of planning or development, most of which are expected to contribute to growth in visitation and an increase in gaming patrons:

New Taipa Ferry Terminal. The Pac On Ferry Terminal, a MOP3.8 billion project, opened on June 1, 2017, with a capacity to accommodate 30 million passengers annually. The new five-floor terminal is approximately 200,000 square meters, quadruple the size of the temporary Taipa ferry terminal. The new terminal is able to accommodate three ferry operators across its 16 berths.

Hong Kong-Zhuhai-Macau Bridge. The link between the three areas, opened to traffic since October 2018, includes a bridge with total length of approximately 55 kilometers, boundary crossing facilities, access roads and associated works. The bridge allows a significant reduction in travel time from Hong Kong as well as throughout China to Macau.

Lotus Flower Checkpoint on Hengqin Island. In 2019 the Standing Committee of the National People's Congress of China approved a proposal to transfer jurisdiction of the Lotus Flower checkpoint on Hengqin Island to the Macau Special Administrative Region, aiming to further promote the development of the Greater Bay Area and strengthen Macau's infrastructure links with mainland China, in addition to making the cross-border flow of passengers and goods more convenient. In addition, Law No. 1/2020 which came into effect on March 18, 2020 states that the jurisdiction of the Macau Special Administrative Region will be extended gradually to the Lotus Flower Checkpoint on Hengqin Island. On the same date, the Lotus Flower Checkpoint on Hengqin Island was inaugurated with certain areas under the jurisdiction of the Macau Special Administrative Region, pursuant to notice No. 7/2020 of the Macau Chief Executive. From August 18, 2020, Lotus Flower Checkpoint has moved to Hengqin Checkpoint.

Gongbei-Zhuhai Airport Railroad Transit and Guangzhou-Zhuhai Intercity Mass Rapid Transit. The Gongbei-Zhuhai Airport rail road transit project commenced in 2014 and Phase 1, connecting Gongbei and Hengqin Island, was completed in 2020. Phase 1 of the project is the extension rail of the Guangzhou-Zhuhai Intercity Mass Rapid Transit, which includes direct connection facilities to the Macau Light Rapid Transit Line and links the Pearl River Delta and mainland China with Macau. Phase 2 of the project, which connects Hengqin Island to Zhuhai Airport, has commenced construction and is expected to commence operation in 2023.

Airport Capacity Upgrade. The north extension of the passenger terminal building of the Macau International Airport, with a total area of 14,000 square meters, was opened in February 2018, and is expected to enable the airport to receive up to 7.8 million passengers per year. The south extension project is currently under construction and is expected to increase the airport's receiving capacity to 10 million passengers per year when completed. The airport served approximately 9.7% of the annual incoming visitation traffic to Macau in 2019.

The above initiatives are all expected to improve transportation to and from Macau and thereby contribute to growth in visitation.

In recent years, the rapid development of the high-speed rail network in mainland China has made Macau an easier destination to reach from inner cities in mainland China. Currently, the high speed rail connects Macau well with cities in central China, northern China, as well as various coastal cities. According to Mass Transit Railway, with the completion of the high-speed rail routes, it is expected to take approximately nine hours from Beijing to Hong Kong by train.

Continued developments on Hengqin Island, including improved road transportation to the Zhuhai Airport, are expected to increase entry into Macau via the Lotus Bridge and facilitate Macau's growth as a tourism hub through increased visitor traffic and extended length of stays.

China's continued focus on development and integration of the Greater Bay Area

Macau is part of the Greater Bay Area which comprises the two Special Administrative Regions of Hong Kong and Macau, and the nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong province. With the Greater Bay Area's significance in China's innovation-driven development and commitment to reform, China has announced its aim to further deepen cooperation and integration to promote coordinated regional economic development.

On July 1, 2017, the National Development and Reform Commission and the governments of Guangdong, Hong Kong and Macau signed the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area in Hong Kong. The framework sets out the goals and principles of cooperation and establishes the key cooperation areas in the development of the Greater Bay Area.

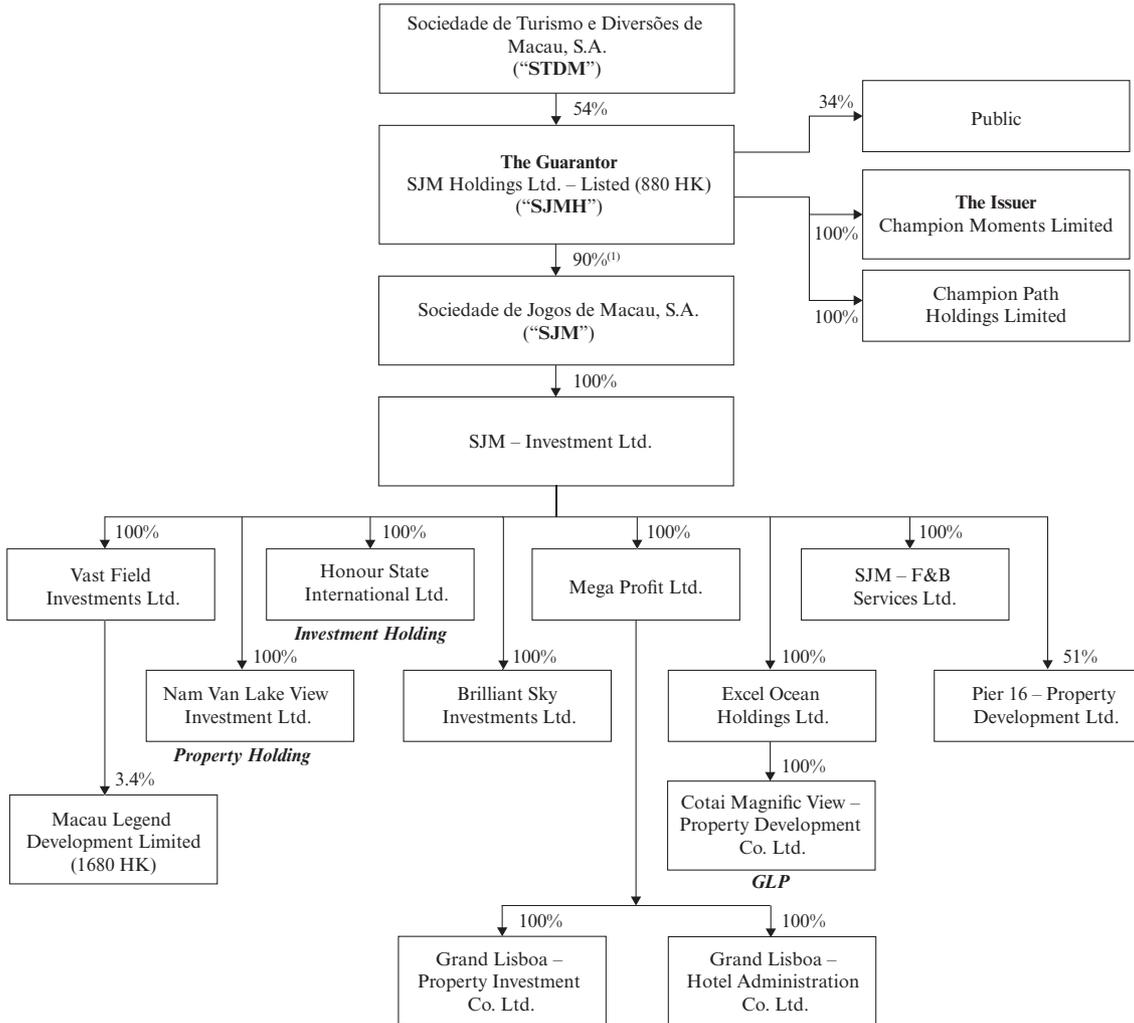
On February 18, 2019, the Outline Development Plan for the Greater Bay Area was promulgated with the Chinese government's announced focus on the following seven areas:

- Developing an international innovation and technology hub;
- Expediting infrastructural connectivity;
- Building a globally competitive modern industrial system;
- Taking forward ecological conservation;
- Developing a quality living circle for living, working and traveling;
- Strengthen cooperation and jointly participating in the Belt and Road Initiative; and
- Jointly developing Guangdong-Hong Kong-Macao cooperation platforms.

The development of the Greater Bay Area is believed to demonstrate China's continued focus on developing Macau into a world center of tourism and leisure and a platform for commerce and trade between China and Lusophone countries, as well as a base for exchange and cooperation.

CORPORATE STRUCTURE

The following sets out our simplified corporate structure, including our principal subsidiaries and affiliates, as of the date of this offering memorandum:



(1) Pursuant to the relevant requirements under Macau law, 10% of the equity interests in SJM is represented by Type B shares which are held by the managing director of SJM. 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, SJMH has effectively a 100% economic interest in SJM.

BUSINESS

Overview

We are a developer, owner and operator of integrated casinos gaming and resort facilities in Macau. We are the only casino gaming concessionaire in Macau with local roots, and are the largest casino operator in Macau in terms of number of casinos as of the date of this offering memorandum. We are the holding company of SJM, one of first three companies, and one of the six companies currently authorized 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 in March 2002. Our Lisboa brand goes back to 1970, when the Hotel and Casino Lisboa, started operation. Built by our founder, Dr. Stanley Ho, Hotel and Casino Lisboa is Macau's first integrated casino and resort, which combined lodging, dining, shopping and entertainment with gaming. Over the succeeding decades, the Lisboa brand name established preeminent recognition throughout the region, known to Macau's many visitors as the destination for entertainment, and was named the Most Valuable Brand in 2014 Business Awards of Macau.

Our casino gaming and resort facilities are exclusively in Macau. As of the date of this offering memorandum, we operated 19 casinos in Macau, including five self-promoted casinos and 14 third party-promoted casinos. Self-promoted casinos are casinos for which promotional and marketing efforts are handled by our marketing department, and third party-promoted casinos are casinos for which marketing efforts are handled by the third party service providers. In the fourth quarter of 2019, we completed the construction of the Grand Lisboa Palace, an integrated resort on Cotai and began the process of obtaining the necessary operating licenses. The Grand Lisboa Palace will feature a total of 1,892 hotel rooms and suites, facilities for meetings and conferences, shopping, dining, entertainment, gaming, and is expected to open in the first half of 2021.

Our current and future operations are designed to cater to a broad spectrum of gaming patrons, from high-stakes VIP gaming patrons to gaming patrons seeking a broader entertainment experience. In addition to our gaming operations, we also operate Grand Lisboa Hotel, Sofitel at Ponte 16 and Jai Alai Hotel as well as a selection of restaurants, bars and retail outlets. We seek to attract patrons throughout Asia and, in particular, from Greater China.

For the years ended December 31, 2018, 2019 and 2020, the following table presents the key financial performance indicators:

	Year ended December 31,		
	2018	2019	2020
	(in millions of HK\$)		
Total net revenue	34,410.1	33,875.0	7,506.7
Profit (loss) for the year attributable to:			
Owners of the Company	2,850.1	3,207.3	(3,024.9)
Non-controlling interests	62.1	110.2	(150.0)
	2,912.2	3,317.5	(3,174.9)
Adjusted EBITDA	3,723.6	4,213.4	(2,089.0)
Adjusted EBITDA margin	10.8%	12.4%	(27.8%)

For the years ended December 31, 2018, 2019 and 2020, the following table presents the key operational performance indicators:

	Year ended December 31,		
	2018	2019	2020
Average number of VIP gaming tables	288	284	192
Average number of mass market gaming tables	1,416	1,482	903
Average total number of gaming tables	1,704	1,766	1,095
Average total number of slot machines	2,668	2,562	1,247
Average daily net-win per VIP gaming table (HK\$)	187,055	132,040	30,228
Average daily net-win per mass market gaming table (HK\$)	44,657	46,451	18,485
Average daily net-win per slot machine (HK\$)	1,188	1,268	866

We believe the year-over-year decline in year of 2020 was mainly due to the impact of COVID-19 pandemic, which resulted in a significant decline in inbound tourism, among other effects. For more details, see “Risk factors — The COVID-19 pandemic has had and will likely continue to have an adverse effect on our business, operations, financial condition, operating results and cash flows.”

Recent Developments

Continuing effects of the COVID-19 pandemic

In January 2020, an outbreak of COVID-19 was identified and has since spread throughout much of the world. The COVID-19 pandemic had an adverse effect on our results of operations and financial condition in the first quarter of 2020, which has persisted into the second quarter of 2020 and beyond. Our casino operations in Macau were closed for a 15-day period beginning on February 5, 2020 and resumed operations on a reduced basis on February 20, 2020. However, certain health safeguards, such as limiting the number of seats per table game, slot machine spacing, temperature checks, mask protection, and health declarations remain in effect at the present time. Additionally, group and individual travel visas from the Mainland have been suspended by the Chinese government and most transportation channels to Macau have been curtailed or reduced. Visitors to Macau who are residents of the Mainland, Hong Kong, Taiwan or returning Macau residents have been subject to mandatory 14-day quarantine requirements, whilst those of the above areas (except Macau residents) who have been to countries or areas outside China in the past 14 days or residents of other areas are not permitted to enter. On December 21, 2020, Macau health authorities increased the quarantine period from the 14 days to 21 days for all arrivals to Macau from Hong Kong and any location outside mainland China or Taiwan. Accordingly, visitation to Macau has fallen significantly since the outbreak of COVID-19. According to Macau’s Statistics and Census Bureau, total visitation to Macau decreased by 68.9%, 99.5% 92.4% and 79.6% in the first, second, third and fourth quarters of 2020, respectively, compared to the same periods in 2019. The decrease in visitation is driven by the outbreak’s strong deterrent effect on travel and social activities, the Chinese government’s suspension of its visa and group tour schemes that allow mainland Chinese residents to travel to Macau, quarantine measures, travel and entry restrictions and conditions in Macau, Hong Kong and certain cities and regions in mainland China, the suspension of ferry services and other modes of transportation regionally, and, bans on entry or enhanced quarantine requirements, depending on the person’s nationality, residency and their recent travel history, for any Macau residents and imported labor, PRC citizens, Hong Kong residents and Taiwan residents attempting to enter Macau. Generally, persons who are not residents of the Greater China area are barred from entry to Macau at this time.

According to the DICJ, gross gaming revenues in Macau declined by 79.3% for the full year 2020 as compared to the full year 2019. We believe such year-over-year decline in 2020 was mainly due to the impact of the COVID-19 pandemic, which resulted in a significant decline in inbound tourism, among other things. While we expect that gross gaming revenues in Macau will continue

to be negatively impacted by the significant travel bans or restrictions, visa restrictions and quarantine and social distancing requirements so long as these restrictions remain in place, we have taken various mitigating measures during the COVID-19 pandemic, such as implementing a cost reduction program to minimize cash outflow and rationalizing our capital expenditure program with deferrals and reductions which benefit our balance sheet.

Beginning in June 2020, certain entry restrictions to Macau have been gradually eased. It has been announced that certain groups of people including students, teachers and certain non-resident workers who are PRC citizens can travel between Macau and Zhuhai, a PRC city adjacent to Macau, subject to certain health declaration and testing requirements. Since July 15, 2020, quarantine requirements for visitors to Guangdong Province from Macau were relaxed. On September 23, 2020, mainland China authorities fully resumed the IVS exit visa program, which permits individual PRC citizens from nearly 50 PRC cities to travel to Macau for tourism purposes. Since February 23, 2021, no PRC visitors will be required to complete quarantine upon arrival in Macau. However, quarantine requirements for those traveling between Hong Kong and Macau have been announced to remain effective until further notice, and in the initial phase of opening travel channels between Macau and other regions in Greater China, all visitors seeking entry to Macau will need to test negative for COVID-19 before entering Macau. We are currently unable to determine when these measures will be lifted from additional regions and cities throughout China and lifted measures may be reintroduced if there are adverse developments in the COVID-19 situation in Macau and other regions with access to Macau. See “Risk Factors — Risks Relating to Our Business and Operations — The COVID-19 pandemic has had and will likely continue to have an adverse effect on our business, operations, financial condition, operating results and cash flows.”

Announcement of Selected Unaudited Key Performance Indicators of 2021 First Quarter

On 4 May 2021 SJMH announced 2021 First Quarter selected unaudited Key Performance indicators, as follows.

- Our total net revenue, gross gaming revenue and net gaming revenue for the first quarter ended March 31, 2021 was HK\$2,478 million, HK\$2,652 million and HK\$2,412 million respectively, a decrease of 28.8%, 32.7% and 29.2% compared to the first quarter ended March 31, 2020.
- Our adjusted EBITDA for the first quarter ended March 31, 2021 declined to a negative HK\$319 million from negative HK\$200 million for the first quarter ended March 31, 2020, a decrease of 60.0%.
- Our adjusted EBITDA Margin for the first quarter ended March 31, 2021 decreased to negative 12.9% from negative 5.7% for the first quarter ended March 31, 2020.
- Loss attributable to owners of the Company for the first quarter ended March 31, 2021 was HK\$647 million, as compared with HK\$409 million for the first quarter ended March 31, 2020, an increased loss of 58.2%.
- Our gross gaming revenue accounted for 11.6% of Macau’s casino gaming revenue for the first quarter ended March 31, 2021, as compared with 13.3% for the first quarter ended March 31, 2020.
- As at March 31, 2021, we had HK\$2,475 million of cash, bank balances, short-term bank deposits and pledged bank deposits and HK\$16,555 million of total debt as at March 31, 2021. We have a revolving credit facility of HK\$10.0 billion, of which HK\$10.0 billion was undrawn as of March 31, 2021. For the three months ended March 31, 2021, our daily operating costs and interest excluding those relating to Grand Lisboa Palace was approximately HK\$13.4 million per day, representing a decrease of 13 % as compared to the same period in 2020. We believe that our cash balance and unused facility as of March 31, 2021 is sufficient to support 2.6 years of operations under a “zero revenue” cash outflow scenario.

	Three months ended March 31,		
	2021	2020	(Decrease)/ Increase
	(in million of HK\$, except for percentages)		
Total Net Revenue	2,478	3,479	(28.8%)
Net Gaming Revenue	2,412	3,407	(29.2%)
Loss Attributable to Owners of the Company	(647)	(409)	58.2%
Adjusted EBITDA	(319)	(200)	(60.0%)
Adjusted EBITDA Margin	(12.9%)	(5.7%)	

Net gaming revenue earned by SJM was HK\$2,412 million in the three months ended March 31, 2021, a decrease of 29.2% from the three months ended March 31, 2020, which was net of commissions and incentives of HK\$240 million in the three months ended March 31, 2021 compared to HK\$536 million in the three months ended March 31, 2020.

During the three months ended March 31, 2021, our VIP gross gaming revenue was HK\$485 million, a decrease of 59.4% from HK\$1,196 million in the three months ended March 31, 2020, mass market gross gaming revenue was HK\$2,051 million, a decrease of 21.3% from HK\$2,606 million, and slot machine gross gaming revenue was HK\$116 million, a decrease of 17.3% from HK\$141 million in the same period.

Our total net revenue during the three months ended March 31, 2021 was HK\$2,478 million, which included hotel, catering, retail and related services revenue of HK\$66 million, compared to HK\$72 million for the three months ended March 31, 2020.

	Three months ended March 31,		
	2021	2020	(Decrease)
	(in million of HK\$, except for percentages)		
VIP Gross Gaming Revenue	485	1,196	(59.4%)
Mass Market Gross Gaming Revenue	2,051	2,606	(21.3%)
Slot Machine Gross Gaming Revenue	116	141	(17.3%)
Gross Gaming Revenue	2,652	3,943	(32.7%)
Commissions and incentives	(240)	(536)	(55.1%)
Net Gaming Revenue	2,412	3,407	(29.2%)

During the three months ended March 31, 2021, we operated an average of 177 VIP gaming tables, 1,066 mass market gaming tables and 1,207 slot machines, compared to 218 VIP gaming tables, 933 mass market gaming tables and 1,595 slot machines for the three months ended March 31, 2020 (average of three month-end counts).

Our total VIP chips sales during the three months ended March 31, 2021 were HK\$13 billion, and the VIP gaming hold percentage (before commissions and incentives) was 3.7% compared to HK\$34 billion and 3.6%, respectively, for the three months ended March 31, 2020.

	Key Results for the Group's Casinos	
	Three months ended March 31, 2021	
	Gross Gaming Revenue	Adjusted EBITDA
	(in million of HK\$)	
Casino Grand Lisboa	585	(115)
Other Self-promoted Casinos ⁽¹⁾	375	(117)
Satellite Casinos ⁽²⁾	1,692	(6)

(1) Casino Lisboa, Casino Oceanus at Jai Alai (including gaming area in the Jai Alai building), Casino Eastern and Casino Taipa

(2) Fourteen third party-promoted casinos

Unrealised fair value gain in investment in equity securities designated at fair value through other comprehensive income of HK\$43 million in the three months ended March 31, 2021 has been recognised in other comprehensive income and accumulated under investment revaluation reserve.

Our capital expenditure during the three months ended March 31, 2021 was HK\$548 million, which was primarily for construction in progress.

Below is summary of Self-promoted Casinos and Hotel Statistics:

	Self-promoted Casino Statistics			
	Three months ended 31 March,			
	2021	2020	Variance	
(in million of HK\$, except for percentages)				
Revenues:				
VIP	216	749	(533)	(71.2%)
Mass Market	667	1,000	(333)	(33.3%)
Slot	77	87	(10)	(11.5%)
Gross Gaming Revenues	960	1,836	(876)	(47.7%)
VIP Chip Sales Volume	7,464	21,188	(13,724)	(64.8%)
Win	216	749	(533)	(71.2%)
Hold %	2.9%	3.5%	–	(0.6%)
Mass Table Drop	3,884	5,417	(1,533)	(28.3%)
Mass Table Win	667	1,000	(333)	(33.3%)
Non-Rolling Chip Win %	17.2%	18.5%	–	(1.3%)
Slot Handle	1,594	1,886	(292)	(15.5%)
Slot Win	77	87	(10)	(11.5%)
Slot Win %	4.8%	4.6%	–	0.2%
Hotel Statistics				
Three months ended March 31,				
	2021	2020	Variance	
(in million of HK\$, except for percentages)				
Occupancy %				
Grand Lisboa Hotel	52.5%	35.3%	–	17.2%
Jai Alai Hotel	43.5%	37.4%	–	6.1%
Sofitel at Ponte 16	48.4%	33.7%	–	14.7%
Average Daily Rate				
Grand Lisboa Hotel	704	1,765	(1,061)	(60.1%)
Jai Alai Hotel	202	568	(366)	(64.5%)
Sofitel at Ponte 16	447	1,096	(649)	(59.2%)
Revenue per Available Room				
Grand Lisboa Hotel	369	622	(253)	(40.7%)
Jai Alai Hotel	88	212	(124)	(58.5%)
Sofitel at Ponte 16	217	370	(153)	(41.4%)

The above discussions on our performance for the first quarter 2021 (“Unaudited Q1 Quarterly Results”) relate to certain parts of our operations only and are based on our internal records and management accounts. None of the data in the Unaudited Q1 Quarterly Results has been audited by independent auditors. The Unaudited Q1 Quarterly Results should not be taken as an indication of our expected financial condition or results of operations for the full financial year of 2021.

None of the Initial Purchasers, the Trustee, the Agents, or any of their respective directors, affiliates, officers, advisers, employees or agents makes any representation, warranty or undertaking, express or implied of, or accepts any responsibility or liability with respect to the Unaudited Q1 Quarterly Results.

History

The following sets forth key milestones in our development history:

<u>Date</u>	<u>Milestone</u>
November 28, 2001	SJM was incorporated as a limited liability company in Macau.
February 8, 2002.	SJM won tender to become a concessionaire operating casino gaming in Macau.
March 28, 2002	SJM signed a gaming concession contract valid until 31 March 2020 with the Macau government.
April 1, 2002.	SJM commenced operations with 11 casinos.
February 17, 2006.	SJM Holdings Limited was incorporated in Hong Kong.
February 11, 2007.	We opened the Grand Lisboa.
February 1, 2008.	We opened Casino Ponte 16.
July 16, 2008	SJM Holdings Limited was listed on the HKSE Main Board.
December 17, 2008	We opened the Grand Lisboa Hotel.
December 15, 2009.	We opened Casino Oceanus at Jai Alai.
May 15, 2013	Concession Contract published in Macau government Gazette for lease of land in Cotai by us for development of resort complex.
July 2013	We signed agreements with Gianni Versace S.p.A. to open ‘Palazzo Versace Macau’ at Grand Lisboa Palace.
February 13, 2014.	Ground-breaking ceremony for our integrated resort Grand Lisboa Palace in Cotai.
July 18, 2014	We signed agreements with K.L. S.A.M. and Karl Lagerfeld Greater China Holdings Limited to open ‘KARL LAGERFELD’ Tower at Grand Lisboa Palace.
November 15, 2017	We opened the Jai Alai Hotel.
March 15, 2019	We signed gaming concession contract extension valid until June 26, 2022 with the Macau government.
May 30, 2019	We signed an agreement with China Duty Free Group Co., Ltd. to open its Macau flagship outlet at Grand Lisboa Palace.
January 20, 2020.	We signed an agreement with NYH Gestão de Vendas a Retalho Limitada for the operation of a department store at Grand Lisboa Palace.
January, 2021.	SJM Holdings Limited was assigned corporate ratings of “Ba1” by Moody’s and “BB+” by Fitch, and subsequently raised US\$1 billion via issuance of 5-year and 7-year Notes in the international market.

Our Competitive Strengths

We are the longest established gaming company in Macau.

We are the longest established gaming company in Macau. Established in 1962, our predecessor, STDM, introduced modern casino gaming in Macau in the 1960s. STDM opened Asia's first integrated hotel and casino, Casino Lisboa, in the 1970s which combined lodging, dining, shopping, entertainment and gaming in one building. In 2002, the gaming assets of STDM were transferred to us as one of the original three concessions awarded by the Macau government. Since 2002, we have been profitable in our operations every year through to the year ended December 31, 2019.

We believe our unique position to be Macau's longest established gaming company, our local roots and our superior knowledge of our Chinese clientele allow us to provide a "real Macau" experience to our visitors, and our strength and name recognition of our "Lisboa" brand are a valuable asset. Based on our long history in Macau, we believe that the Casino Lisboa, the Grand Lisboa and our soon to be opened Grand Lisboa Palace, will continue to be major destinations in Macau for many gaming patrons from Greater China and Asia.

We are the largest gaming operator in Macau in terms of number of casinos.

We are the largest gaming operator in Macau in terms of numbers of casinos. As of December 31, 2020, we operated 19 casinos out of a total of 38 casinos, 1,223 out of 6,080 gaming tables and 1,196 out of 8,906 slot machines in Macau, representing approximately 50.0%, 20.1% and 13.4% of the total number of casinos, gaming tables and slot machines in Macau, respectively. As December 31, 2020, we have also the largest quota of gaming tables granted by the Macau government, being 1,843 gaming tables and over 2,500 slot machines. Our current operations are largely based in Macau Peninsula, where we have consistently maintained market leadership with over 40% gross gaming revenue on the Macau Peninsula in the past. With the opening of Grand Lisboa Palace in the first half of 2021, we will expand our presence into Cotai and expect to further increase our gaming capacity by up to 550 gaming tables and 1,200 slot machines.

Our extensive casino portfolio appeals to a broad spectrum of gaming patrons, from the modern Grand Lisboa and the historic Casino Lisboa, which appeal to VIP and high-stakes mass market patrons, to conveniently located casinos, such as Casino Oceanus at Jai Alai near the Macau Maritime Terminal, which appeal to single day visitors.

We have an excellent track record with government and regulators in Macau.

We have an excellent track record working with government and regulators in Macau. We were the first concessionaire to receive the concession in 2002 and we were granted an extension from March 31, 2020 to June 26, 2022. Our founder, Dr. Stanley Ho, was the founding chairman of The Chamber of Macau Casino Gaming Concessionaires and Sub-concessionaires and his deep involvement in the community had a profound influence in many areas such as commerce, academia, philanthropy and government in Macau. For the period from 2010 to 2020, our total tax contribution to the Macau government amounted over US\$29.0 billion. We believe our longstanding and locally-rooted presence gives us superior knowledge on how to maintain a healthy and strong relationship with government and regulators in Macau.

We are positioned in close proximity to the lucrative greater China market

Our casinos are located in Macau, a Special Administrative Region of the People's Republic of China located on the Pearl River Delta, and remains the closest place for the increasingly-affluent Chinese population to engage in gaming related activities near mainland China. Macau is located adjacent to the southern coastline of Guangdong Province, one of China's wealthiest and most urbanized provinces and is an hour away via high-speed ferry from Hong Kong. Being an international tourism hub in the region and home to Greater China's only approved casino gaming region, Macau attracts visitors from Guangdong Province, which had a population of approximately 115 million as of December 31, 2019 according to the Statistics Bureau of Guangdong Province, and from the rest of China, Hong Kong, Taiwan, Japan, South Korea, Thailand, Vietnam, Malaysia, Singapore, Indonesia, India and the Philippines, which are all within approximately five hours away by flight from Macau and together had a total population of approximately 3.4 billion in 2019, according to the International Monetary Fund.

Since 2006, Macau has been the world's largest gaming destination by gross gaming revenues and remains the only destination for legal casino gambling within Greater China. As China's spending power increases, we believe we will be able to leverage on our proximity to all the surrounding affluent cities to expand our business and secure our future growth.

Our conservative financial management is backed by robust liquidity.

As a result of our well-established operations and prudent financial policy, we have been able to maintain a strong financial position with ample liquidity on hand. As of December 31, 2018, 2019 and 2020, our bank balances and cash, excluding the pledged bank deposit, amounted to approximately HK\$18,691 million, HK\$14,504 million and HK\$6,126 million, respectively. Our debt to total capitalization ratio for the past 10 years have been consistently low at less than 46.0%, with average interest rate on our loans less than 3.1%. As of December 31, 2020, we had total credit facilities of HK\$26,000 million and our total outstanding balances of bank loans drawn amounted to HK\$18,787 million. We believe that our cash balance and unused credit facility is sufficient to support 2.8 years of operations under a "zero revenue" cash outflow scenario, and that our active management of our debts and strong financial capability position as well to endure short-term economic downturns as well as to pursue future development and growth opportunities.

We have an experienced management team with a proven track record in operating gaming and gaming-related activities in Macau.

Our long-serving senior management team has extensive experience in casino and hospitality management and operation in Macau. We have fortified our core team with the addition of experienced professionals from the international gaming industry. We believe that our senior management team, which has a combination of in-depth local knowledge of gaming and hospitality in Macau and specialized and international expertise, places it in a strong position to take advantage of the opportunities offered in Macau.

Our Business 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.

Macau has a strong appeal as a tourism and leisure destination, we believe there are several key districts in Macau where gaming traffic will be concentrated. We plan to capture such gaming traffic with our existing and potential casino developments in the Lisboa District, the Inner Harbour District, the Outer Harbour District and Cotai. We are in the process of developing and leasing properties in order to implement this plan. For example, we have completed construction of the Grand Lisboa Palace and we are in the process of obtaining the necessary operating licenses. The Grand Lisboa Palace, which will comprise a total gross floor area of 521,435 square meters plus 77,158 square meters of parking area. More than 90% of the total area will be devoted to a full range of non-gaming facilities, including hotel towers — "Grand Lisboa Palace", "Palazzo Versace" and "Karl Lagerfeld" — totaling 1,892 rooms, plus other first class facilities for events, meetings and conferences, shopping, dining, entertainment, and gaming. In January 2020, we announced the signing of an agreement with NYH for it to operate a high-class department store covering approximately 15,500 square meters in the project's retail mall. Subject to obtaining the necessary operating permits, the project is expected to open in the first half of 2021.

We will continue to improve and enhance the efficiency of our existing properties across both the mass market and VIP sectors of the gaming business.

We are currently deploying a comprehensive cost reduction program in all of our self-promoted casinos. The program consists of the following elements:

Transferring staff from Macau Peninsula to Cotai. Upon the opening of Grand Lisboa Palace a significant number of staff members, particularly in gaming operations, will be transferred from our operations on Macau peninsula to the Grand Lisboa Palace. The careful redeployment of human resources will benefit the overall efficiency of our gaming business.

Continuing to focus on the Mass Market Segment. We intend to continue to focus on mass market gaming due to its attractive growth opportunities and higher margin profile. We are continuing to expand gaming capacity at Grand Lisboa by making more space available for tables for mass market gaming and for premium mass market gaming and we expect to continuously offer highly differentiated gaming and non-gaming products to capture the ever-changing demographic of the premium segment of the premium mass market. In addition, we are placing greater focus on our non-gaming attractions. We designed our non-gaming attractions to complement the mass market focus by delivering experiences that specifically appeal to mass market and premium mass gaming players. In addition, we will continue to enhance and optimize our mix of retail offerings in line with the preferences of our target customers.

Upgrading Information Technology System. We will continue to implement a comprehensive upgrade of our information technology systems to increase efficiency through multiple channels, such as automation of our gaming, cash and chips processes and improving our use of labor through more efficient staff scheduling. This will enable us to improve our operating margins.

We will remain focused principally on Macau, while selectively considering opportunities for future expansion in the Asian region.

We focus on the mass market segment in Macau, which has historically shown strong operating margins and which we believe will have strong potential for future growth. We believe that our focus on acquiring and retaining mass market customers will enable us to achieve stable growth. We also believe the growth of the Asian economies, including China, with their populations of over three billion people within a five-hour flight radius of Macau, will continue to drive mass market growth. We cater to mass-market customers by entertainment attractions, strategic marketing and promotional campaigns that offer a tiered customer loyalty program.

We are committed to maintaining stable and diversified sources of revenues from both gaming and non-gaming activities in Macau, while selectively considering opportunities for future expansion in the Asian region. Our objective is to maintain stable and recurring sources of gaming revenues by continuing our focus on the mass and premium mass market gaming segments, which have proven more resilient to market fluctuations than the VIP gaming segment. In addition, we expect to continue enhancing our non-gaming offerings, including entertainment attractions, food and beverage offerings, and luxury accommodations, which will enable us to further generate non-gaming revenues. We believe our commitment to maintaining stable revenue streams will provide us with the financial flexibility to pursue our business strategies.

We will maintain a strong financial position, with a view to long-term growth.

A strong balance sheet and a conservative capital structure are key tenets of our fundamental operating philosophy as a company. This approach helps us to maintain financial stability. It also forms the core foundation for our future growth strategy. We believe that a proactive management of our balance sheet and an efficient capital structure will enhance our ability and flexibility to pursue opportunistic growth in the future. Additionally, we believe that patience is an important attribute in monitoring the development of the market in which we operate and in identifying and executing future development in existing, as well as new markets.

Our Gaming Operations

Our gaming operations are comprised of VIP gaming, mass market table gaming and slot machines. In general, only baccarat table games are offered in the VIP rooms, whilst a variety of table games, including baccarat, are offered in the mass market gaming areas. Slot machines are offered in or adjacent to the mass market gaming sections. As of December 31, 2020, we had the largest quota of gaming tables granted by the Macau government, being 1,843 gaming tables, plus over 2,500 slot machines, although our casinos were operating at a reduced capacity with an aggregate of 174 VIP tables, 1,049 mass market tables and 1,196 slot machines due to the COVID-19 pandemic.

VIP Gaming

VIP players in Macau play mostly for higher stakes in dedicated VIP rooms. VIP players are sourced mainly by gaming promoters or sometimes through direct relationships between the casino and the players. As at December 31, 2020, we operated VIP gaming in 10 of our casinos. We engage VIP gaming promoters in both our self-promoted casinos and third party-promoted casinos based on their market knowledge, customer relations and financial stability, and experience with VIP gaming patrons and operations. As of December 31, 2018, 2019 and 2020, we engaged 19, 15 and 12 VIP room gaming promoters, respectively.

In accordance with general industry practice, gaming promoters typically commit to certain casino-specified minimum VIP chip purchases per VIP room per month. In return for their promotional services, we pay the gaming promoter a commission based on either gaming win or on VIP chips sales, of which a proportion may be paid to the player in the form of a rebate. Hence, although the VIP segment accounts for a large portion of total gross gaming revenues, margins from the VIP segment are less favorable than those from the mass market segment. In addition, VIP players typically receive various forms of complimentary services, such as transportation, accommodation and food and beverage services from us or from the gaming promoters. These complimentary services also affect the margins of the VIP business.

Mass Market Table Gaming

All of our casinos offer mass market gaming, which is generally a higher-margin operation relative to VIP gaming. Our mass market gaming revenues have grown significantly in recent years. Baccarat is the most popular game in our mass market gaming areas, and we also offer most major types of table games such as blackjack, poker, Caribbean stud poker and sic bo. We frequently adjust the mixture of gaming tables based on a number of factors including the popularity of particular games.

Like our VIP patrons, our mass market gaming patrons typically come from nearby destinations in Asia, including Greater China, South Korea and Japan with a significant number of gaming patrons coming to our casinos from greater China. In recent years, we have increased our emphasis on mass market business including the premium mass market segment.

Slot Machines

Slot machines, including other electronic gaming machines, constitute the smallest segment of our gaming business, but generally operate at a higher margin than mass market table games. Slot machines and other gaming machines are acquired from multiple vendors and are frequently changed to adapt to customer tastes. Slot machine areas are provided in 10 of our casinos.

The following table sets forth a breakdown of revenue derived from our gaming operations for the periods indicated:

	Year Ended December 31,					
	2018		2019		2020	
	HKS	%	HKS	%	HKS	%
	(in millions, except of percentages)					
VIP gaming operations	19,663.2	44.8	13,687.3	34.2	2,037.1	24.6
Mass market table gaming operations . . .	23,080.3	52.6	25,127.0	62.8	5,858.8	70.8
Slot machine operations	1,156.5	2.6	1,185.8	3.0	379.3	4.6
Total	43,900.0	100.0	40,000.1	100.0	8,275.2	100

Our Casinos

As of the date of this offering memorandum, we operated 19 casinos in Macau, which are conveniently located in prime locations on the Macau Peninsula and Taipa.

Grand Lisboa

The Grand Lisboa, our flagship casino and the largest of our self-promoted casinos, is located at the heart of central Macau, adjacent to the historic Casino Lisboa and close to other major landmarks, including the Bank of China Building and Clube Militar de Macau. Grand Lisboa commenced operations in February 2007. As of December 31, 2020, there were 210 mass market gaming tables, 103 VIP gaming tables and 403 slot machines in operation at Grand Lisboa.

Grand Lisboa currently occupies approximately 163,197 square meters of floor area, offering 24-hour gaming and a wide range of table games and slot machines. The layout of our main gaming floor is organized using the different market segments we target. Although most of the floor features an open floor plan, design elements shift in an effort to create an impression of increasing luxury and exclusivity as patrons ascend from lower to higher limit gaming. Our premium mass market gaming areas service top tier premium mass patrons as well as other invited patrons. The premium mass market gaming areas feature exclusive facilities and luxury amenities. Most of Grand Lisboa's VIP gaming rooms are located on the uppermost floors which are accessible by exclusive elevators. Our VIP areas also offer lounges, entertainment areas and access to luxury amenities and services.

For the years ended December 31, 2018, 2019 and 2020, Grand Lisboa received over, 11.0 million, 12.0 million, and 1.8 million visitors, respectively and an average of approximately 30,000, 32,000, and 4,900 visitors per day, respectively. The following table sets forth a breakdown of operating results of Grand Lisboa for the periods indicated:

	Year Ended December 31,		
	2018	2019	2020
VIP operations			
Gross gaming revenue (HK\$ million) . . .	10,155	6,966	1,101
Average daily net-win per VIP gaming tables (HK\$)	244,042	157,717	30,442
VIP chips sales (HK\$ million)	361,746	212,151	31,811
Average number of VIP gaming tables (average of month-end numbers)	114	121	103
Mass market table gaming operations			
Gross gaming revenue (HK\$ million) . . .	5,063	5,475	857
Average daily net-win per mass market gaming tables (HK\$)	50,811	52,633	16,386
Average number of mass gaming tables (average of month-end numbers)	273	285	149
Slot machine operations			
Gross gaming revenue (HK\$ million)	445	469	109
Average daily net-win per slot machine (HK\$)	1,568	1,558	802
Average number of slot machines (average of month-end numbers)	778	825	389
Total Gross Gaming Revenue (HK\$ million)	15,663	12,910	2,067

Other Self-Promoted Casinos

Self-promoted casinos are casinos for which promotional and marketing efforts are handled by our marketing department. Our other self-promoted casinos, besides Grand Lisboa, are listed below, with their gaming facilities as at December 31, 2020:

	<u>VIP gaming tables</u>	<u>Mass gaming tables</u>	<u>Slot machines</u>
Other Self-Promoted Casinos			
Casino Lisboa	–	63	–
Casino Oceanus at Jai Alai	–	187	277
Casino Eastern	–	16	–
Casino Taipa (temporarily closed for renovation)	–	–	–
Total	<u>–</u>	<u>266</u>	<u>277</u>

The following table sets forth a breakdown of operating results of our other self-promoted casinos for the periods indicated:

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
VIP operations			
Gross gaming revenue (HK\$ million)	1,630	1,284	91
Average daily net-win per VIP gaming tables (HK\$)	159,454	159,850	23,589
VIP chips sales (HK\$ million)	55,151	34,240	2,257
Average number of VIP gaming tables (average of month-end numbers)	28	22	11
Mass market table gaming operations			
Gross gaming revenue (HK\$ million)	4,327	4,704	1,150
Average daily net-win per mass market gaming tables (HK\$)	33,873	32,880	13,879
Average number of mass gaming tables (average of month-end numbers)	350	392	236
Slot machine operations			
Gross gaming revenue (HK\$ million)	308	320	113
Average daily net-win per slot machine (HK\$)	1,118	1,321	1,075
Average number of slot machines (average of month-end numbers) ..	756	663	299
Total Gross Gaming Revenue (HK\$ million)	6,265	6,308	1,354

Third Party-Promoted Casinos

Third party-promoted casinos are operated by SJM together with a service provider who is responsible for marketing and promotion, and who in most cases is the owner of the casino premises. As at December 31, 2020 we operated 14 third party-promoted casinos, as follows:

	<u>VIP gaming tables</u>	<u>Mass gaming tables</u>	<u>Slot machines</u>
Third Party-Promoted Casinos			
Casino Babylon	10	24	20
Casino Casa Real	4	27	68
Casino Diamond	6	31	–
Casino Emperor Palace	6	50	90
Casino Fortuna	–	48	–
Casino Golden Dragon	5	37	–
Casino Grandview	2	14	61
Casino Kam Pek Paradise	–	49	73
Casino Landmark	9	69	–
Casino Le Royal Arc	16	26	–
Casino Legend Palace	13	56	52
Casino Macau Jockey Club (temporarily closed for renovation)	–	–	–
Casino Million Dragon	–	39	34
Casino Ponte 16	–	88	118
Casino Royal Dragon	–	15	–
	<hr/>	<hr/>	<hr/>
Total	71	573	516
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The following table sets forth a breakdown of operating results of our third party-promoted casinos for the periods indicated:

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
	<hr/>	<hr/>	<hr/>
VIP operations			
Gross gaming revenue (HK\$ million)	7,879	5,438	845
Average daily net-win per VIP gaming tables (HK\$)	146,845	105,665	30,492
VIP chips sales (HK\$ million)	253,803	173,773	24,236
Average number of VIP gaming tables (average of month-end numbers)	147	141	79
Mass market table gaming operations			
Gross gaming revenue (HK\$ million)	13,690	14,947	3,852
Average daily net-win per mass market gaming tables (HK\$)	47,357	50,872	21,187
Average number of mass gaming tables (average of month-end numbers)	792	805	518
Slot machine operations			
Gross gaming revenue (HK\$ million)	403	397	157
Average daily net-win per slot machine (HK\$)	974	1,012	799
Average number of slot machines (average of month-end numbers) . .	1,134	1,074	559
Total Gross Gaming Revenue (HK\$ million)	21,972	20,782	4,854

Our Non-Gaming Operations

In addition to our gaming operations, we also operate the Grand Lisboa Hotel, Sofitel at Ponte 16 and the Jai Alai Hotel, which contain a varied range of lodging, dining, shopping, entertainment and meeting facilities.

Hotel Grand Lisboa

Since opening in 2008, Hotel Grand Lisboa has become an icon of the new Macau, with its distinctive architecture in the shape of a giant golden lotus. As of December 31, 2020, Hotel Grand Lisboa offered 413 five-star hotel rooms and suites, restaurants and bars, retail outlets and recreation and leisure facilities including a health and fitness club, swimming pool, spa and salon and banquet and meeting facilities. The Grand Lisboa has garnered numerous awards over the years. In February 2021, Hotel Grand Lisboa received from Forbes Travel Guide quadruple Five-Star awards for a second consecutive year, for its hotel, Spa at Grand Lisboa, restaurants Robuchon au Dôme and The Eight. In 2019, Grand Lisboa received the Award for Euroexcellence in Luxury by Macau European Chamber of Commerce for its commitment to delivering ultimate luxury and extraordinary elegance with its impeccable hospitality services. Grand Lisboa Hotel has also been recognized as the “Luxury Hotel of the Year” and the “Landmark View of the Year” at Sohu Travel Hotel Awards 2018 and the Top 10 Best Restaurant Hotel by 2018 KOL Gold List. In January 2021, French restaurant “Robuchon au Dôme” and Cantonese restaurant “The Eight” received three stars in the Michelin Guide Hong Kong Macau 2021. Modern steakhouse “The Kitchen” was also awarded one star. The wine cellars of “Robuchon au Dôme” and Italian restaurant “Casa Don Alfonso” received the Grand Award and “The Kitchen” received the Best of Award of Excellence from Wine Spectator.

Sofitel Macau

The Sofitel Macau at Ponte 16, 51%-owned by SJM, offers five-star rooms and services to guests at its location at the historic inner harbor area of Macau Peninsula. As at December 31, 2020, Sofitel Macau at Ponte 16 offered 408 hotel rooms and suites, plus restaurants and bars, retail outlets and recreation and leisure facilities including health and fitness club, swimming pool, spa and salon and banquet and meeting facilities. Since opening in 2008, the Sofitel at Ponte 16 has also received numerous travel industry awards in the past, in both business and luxury categories, including the Macao Green Hotel Award in 2017 – 2019 - Silver, Luxury Cultural Hotel by World Luxury Hotel Awards in 2019, Asia’s Top Spa Hotel & Resort by 2019 – 2020 Now Travel Asia Awards, China’s Best Destination Hotel by the 19th Golden Horse Awards of China and Excellent Service Oriented Hotel of the Year by 2019 Greater Bay Area Hospitality Awards. The “So Spa” received the award of Luxury Hammam Experience by World Luxury Spa Awards 2019 and Asia’ top Wellness Spa by 2019-2020 Now Travel Asia Awards.

Jai Alai Hotel

The Jai Alai Hotel was opened by SJM in 2017, offering 132 rooms in a convenient location connected to the Casino Oceanus at Jai Alai and then to the Macau Maritime Terminal via a series of overhead walkways. The Jai Alai Hotel occupies part of the repurposed Jai Alai Building, together with restaurants, and gaming areas.

The following table set forth a summary of our non-gaming operations for the periods indicated:

	Year Ended December 31,		
	2018	2019	2020
Hotel Grand Lisboa			
Revenue (HK\$ million)	518	514	156
Occupancy rate (%)	95.5	93.8	17.9
Average number of rooms	413	413	413
Average room rate (HK\$)	1,495	1,508	1,465
Sofitel at Ponte 16			
Revenue (HK\$ million)	214	212	47
Occupancy rate (%)	92.7	91.2	17.8
Average number of rooms	408	408	408
Average room rate (HK\$)	1,144	1,144	845
Jai Alai Hotel*			
Revenue (HK\$ million)	19	22	4
Occupancy rate (%)	71.3	73.0	18.5
Average number of rooms	132	132	132
Average room rate (HK\$)	562	612	471

* Jai Alai hotel commenced operation on November 15, 2017

Grand Lisboa Palace

The Grand Lisboa Palace, our integrated resort on Cotai, has completed construction and is in the process of obtaining the necessary operating licenses. The Grand Lisboa Palace will comprise a total gross floor area of 521,435 square meters plus 77,158 square meters of parking area. The design of the Grand Lisboa Palace was inspired by the architecture of European monumental buildings while featuring traditional Chinese motifs, and the positioning of the Grand Lisboa Palace celebrates the meeting of East and West that reflects the rich cultural heritage of Macau. The combination in the interior of Chinoiserie-styled elements with modern amenities we believe will create a unique luxury experience for our patrons.

With more than 90% of the total area devoted to a full range of non-gaming facilities, the Grand Lisboa Palace is an integrated resort that will offer 1,892 rooms and suites and other first class leisure and recreation facilities including health and fitness clubs, swimming pools, spas and salons and banquet and meeting facilities to give its guests varied luxury accommodation and refined leisure enjoyment. The Grand Lisboa Palace resort will feature distinct and exciting hospitality propositions, including three hotel towers: “Grand Lisboa Palace”, “Palazzo Versace” and “Karl Lagerfeld”. Among these, the five-star Grand Lisboa Palace hotel will offer approximately 1,350 luxury rooms and suites.

Grand Lisboa Palace is also the first integrated resort in the world to house two towers exclusively designed by world-class fashion brands, namely Versace and Karl Lagerfeld respectively. Palazzo Versace will offer 271 rooms and suites which boast a total Versace-branded lifestyle experience. The tower bearing the name of the late fashion legend, Karl Lagerfeld also with 271 rooms and suites, is the only one in the world with its interior substantially designed by the eponymous designer.

Underpinned by our industry-leading culinary expertise which has been recognized extensively in the Michelin Guide, Grand Lisboa Palace will also offer fine and diverse cuisines via over 30 food and beverage outlets. In addition, the themed retail mall of Grand Lisboa Palace will cover more than 75,000 square meters and will feature approximately 100 shops including the Macau flagship outlet of China Duty Free Group, as well as one of Macau’s largest department stores, to be run by the operator of the famous New Yaohan Department Store. Amongst its diversified entertainment and leisure facilities, the resort will offer The Grand Pavilion, a splendid venue for events and banquets, and a versatile multi-purpose hall for meetings and performances.

We expect Grand Lisboa Palace to open in the first half of 2021.

Advertising and Marketing

We seek to attract customers to our properties and to grow our customer base over time by utilizing multiple modes of advertising, sales and marketing activities and programs. We use local and regional media to publicize our projects and operations. We have a public relations and advertising team that cultivates media relationships, promotes our brands and engages media in various markets. Advertising uses a variety of media platforms that include digital, print, television, online, outdoor, on property, collateral and direct mail pieces, all as permitted by the laws of Macau, the PRC and relevant regions.

For self-promoted casinos, we employ marketing strategies such as: (i) loyalty card programs to target mass market gaming patrons; (ii) transportation services; (iii) hosting special events or promotions; (iv) customer relationship management; and (v) free entertainment. We make full provision for the bonus points and credit points stored in the relevant cards at month end in our accounts. We regularly hold promotions and special events, operate loyalty programs with our patrons and have developed a series of commission and other incentive-based programs.

Promotion and marketing of our third party-promoted casinos are provided by the third party service providers. As consideration for their services, third party service providers are paid a certain percentage of the gross gaming income generated by casino games and slot machines, net of operating expenses.

Arrangement with VIP Gaming Promoters

The gaming promoter agreement may be terminated by (i) mutual agreement, or (ii) if any party to the agreement cannot carry out its obligations under the agreement and this results in a material breach of the terms of the agreement. In addition, the agreement is voidable upon the death or deregistration of the VIP gaming promoter or the bankruptcy of any party to the agreement. Unless the agreements are terminated or notice is served by a party 30 days prior to the date on which the agreement expires or the date on which the agreement is expected to be extended, such agreements may be renewed until the end of the term of our concession.

Under the gaming promoter agreements between us and our VIP room gaming promoters, the VIP room gaming promoters agree to comply fully with all applicable Macau laws and regulations as well as our regulations, rules and procedures, including, but not limited to, those relating to gaming, gaming promoter licensing, gaming credit extension, internal controls and anti-money laundering laws and regulations. We are not liable or jointly liable for any misconduct on the part of our gaming promoters or mass market service providers that occurs outside of our casinos.

From time to time, we extend temporary credit, to our VIP gaming promoters, which is repayable in the month following the granting of the credit. The amount of such temporary credit is limited to and secured by the accrued commissions payable to our gaming promoters. In some cases, unsecured credit of not more than the equivalent of three months' commissions payable may be granted to gaming promoters who have good credit histories and track records of large business volumes. Our advances to gaming promoters as of December 31, 2018, 2019 and 2020 was HK\$210.4 million, HK\$189.6 million and HK\$112.5 million, respectively.

As of the date of this offering memorandum, there was no provision for overdue advances and receivables from our VIP Gaming Promoters.

Suppliers

We depend on certain suppliers to provide us with products and services such as ferry tickets, hotel rooms, catering services, floral arrangements, construction and other administrative services. In each of the years ended December 31, 2018, 2019 and 2020, purchase from our five largest suppliers combined accounted for less than 30% of our annual total purchases.

Market and Competition

The gaming and hospitality market in Macau is and will continue to be intensely competitive. Our competitors include the current concession and subconcession holders in Macau plus other gaming and hospitality operators in Asia and elsewhere.

Competition within Macau

In Macau we compete with concessionaires Galaxy and Wynn Macau, and with subconcessionaires Venetian Macau, Melco and MGM. Galaxy currently operates multiple casinos in Macau, including StarWorld, a hotel and casino resort in Macau's central business and tourism district. Wynn Macau opened in September 2006 on the Macau peninsula and an extension called Encore in 2010. Venetian Macau operates Sands Macao on the Macau peninsula, The Venetian Macao, the Plaza Casino at The Four Seasons Hotel Macao, Londoner Macao (previously called the Sands Cotai Central) and the Parisian Macao. Melco operates Altira Macau in Taipa, City of Dreams and has a majority ownership of Studio City in Cotai. MGM opened in December 2007, which is located next to Wynn Macau on the Macau peninsula, and the MGM Cotai in February 2018.

The existing concessions and subconcessions do not have any limit on the number of gaming facilities that may be operated. Therefore, in addition to facing competition from existing operations of these concessionaires and subconcessionaires, we would face increased competition when any of them constructs new, or renovates pre-existing, casinos in Macau or enters into leasing, services or other arrangements with hotel owners, developers or other parties for the operation of casinos and gaming activities in new or renovated properties. The Macau government is currently considering the process of rebidding, extension or grant of the gaming concessions and subconcessions which all expire in 2022.

The current policy of the Macau government is that the number of gaming tables in operation in Macau is limited to an average annual increase of 3%. According to the DICJ, the number of gaming tables operating in Macau as of March 31, 2021 was 6,092. The Macau government also has announced that it does not intend to authorize the operation of any new casino or gaming area that was not previously authorized by the government, or permit tables authorized for mass market gaming operations to be utilized for VIP gaming operations or authorize the expansion of existing casinos or gaming areas.

Competition with Other Markets

We also face competition from casinos and gaming resorts located in other Asian destinations together with cruise ships. Casinos and integrated gaming resorts are becoming increasingly popular in Asia, giving rise to more opportunities for industry participants and increasing regional competition. There are major gaming facilities in Australia, Cambodia, Malaysia, Philippines, Singapore, South Korea and Vietnam. In December 2016, a law which conceptually enables the development of integrated resorts in Japan took effect. In addition, several other Asian countries are considering or are in the process of legalizing gambling and establishing casino-based entertainment complexes.

Employees

As of December 31, 2018, 2019 and 2020, we had approximately 20,400, 20,700 and 19,700 employees, respectively. As of December 31, 2020, approximately 75% of our employees were gaming staff, with the balance being primarily hotel, food and beverage staff. We have excellent staff retention records.

Our employee remuneration 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. We regularly review our remuneration policy and evaluate staff performance. Staff are encouraged to attend training classes that are related to our business. We provide training for career enhancement in the form of internal courses and workshops for staff, subsidies for education of staff at Macau Millennium College, and scholarships to children of staff to study at institutions of their choice. Our employment policies reflect our commitment to Macau society as around 90% of our approximately 20,000 employees are local Macau residents. We believe that our relationship with our employees is excellent.

For the years ended December 31, 2018, 2019 and 2020, respectively, we incurred staff costs of HK\$5,944.5 million, HK\$6,011.5 million and HK\$5,479.8 million.

Intellectual Property

Our brand names, notably the Grand Lisboa, Casino Lisboa and Grand Lisboa Palace brands, are valuable assets for our gaming operations. As of the date of this offering memorandum, we were the registered owner of our material domain names and had registered, or had applied for registration of, our material trademarks in Hong Kong and Macau.

Our Internal Control Policies

We have adopted governance policies and internal control measures in order to achieve operations in a professional manner in compliance with our internal control requirements and applicable laws.

Macau laws prohibit SJM and our staff and agents who participate in our operations from offering or giving money or any other item of value to win or retain business or to influence any act or decision of any government official. Our business policies include provisions relating to compliance with all applicable anti-corruption laws including the relevant Macau laws.

We manage and operate our casinos pursuant to requirements under the Concession Contract and applicable laws and our governance policies, including a set of anti-money laundering policies and procedures approved by the DICJ, addressing requirements issued by the DICJ and the DICJ's instructions on anti-money laundering, counter-terrorist financing and other applicable laws and regulations in Macau.

We have training programs in place with the aim that all relevant staff involved in gaming operations managed by us understand anti-money laundering policies and the related procedures.

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 and keep ourselves up-to-date on developments in local legislation and standards for environmental protection. We are committed to achieving a level of environmental performance that goes beyond compliance. We have not experienced any cases of non-compliance relating to environmental laws and regulations in Macau and Hong Kong.

Legal and Administrative Proceedings

From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business. We have been named as a defendant in a number of legal proceedings in Macau which are pending but none of which is considered material for the purpose of this offering. Whilst significant in terms of numbers of cases but, in aggregate, of no material financial impact, we have been named as a defendant in a number of pending labour dispute claims filed by our former employees who were seeking damages totalling approximately MOP43.1 million (HK\$41.8 million) as of 31 December 2020. These claims relate to employment issues including unpaid amounts in relation to services provided on days of annual leave and public holidays, shift work, overtime work, allowances and tips.

REGULATION

This section summarizes the principal Macau laws and regulations which are relevant to our business and operations. As this is a summary, it does not contain a detailed analysis of the Macau laws and regulations which are relevant to our business and operations.

General

As a casino concessionaire, SJM is subject to the regulatory control of the Government of Macau. The government has adopted laws and administrative regulations governing the operation of casinos in Macau. Only concessionaires or subconcessionaires are permitted to operate casinos. Subconcessions may be awarded subject to the approval of the Macau government and each concessionaire has issued one subconcession. Each concessionaire was required to enter into a concession agreement with the Macau government which, together with the laws and administrative regulations, forms the framework for the regulation of the activities of the concessionaire.

Under the laws and administrative regulations, concessionaires are subject to suitability requirements relating to background, associations and reputation, as are shareholders of 5% or more of a concessionaire's share capital, officers, directors and key employees. The same requirements apply to any entity engaged by a concessionaire to manage casino operations. Concessionaires are required to satisfy minimum capitalization requirements, demonstrate and maintain adequate financial capacity to operate the concession and submit to continuous monitoring of their casino operations by the Macau government. Concessionaires also are subject to periodic financial reporting requirements and reporting obligations with respect to, among other things, certain contracts, financing activities and transactions with directors, financiers and key employees. Transfers or the encumbering of interests in concessionaires must be reported to the Macau government and are ineffective without government approval. Concessionaires must procure that transfers or the encumbering of indirect interests in concessionaires amounting to 5% or more of their share capital are reported to the Macau government and made subject to government approval.

Each concessionaire is required to engage an executive director who must be a permanent resident of Macau and the holder of at least 10% of the capital stock of the concessionaire. The appointment of the executive director and of any successor is ineffective without the approval of the Macau government. All contracts placing the management of a concessionaire's casino operations with a third party also are ineffective without the approval of the Macau government.

Concessionaires are subject to a special gaming tax of 35% of gross gaming win and must also make an annual contribution of up to 4% of gross gaming win for the promotion of public interests, social security, infrastructure and tourism. Concessionaires are obligated to withhold, according to the rate in effect as set by the government, from any commissions paid to gaming promoters. Such withholding rate may be adjusted from time to time.

Gaming Promoters

A gaming promoter, also known as a junket operator, is a person who, for the purpose of promoting casino gaming activity, arranges customer transportation and accommodations, and provides credit in their sole discretion, food and beverage services and entertainment in exchange for commissions or other compensation from a concessionaire. Macau law provides that gaming promoters must be licensed by and registered with the DICJ in order to do business with and receive compensation from concessionaires. For a license to be obtained, direct and indirect owners of 5% or more of a gaming promoter (regardless of its corporate form or sole proprietor status), its directors and its key employees must be found suitable. Applicants are required to pay the cost of license investigations and are required to maintain suitability standards during the period of licensure. The term of a gaming promoter's license is one calendar year, and licenses can be renewed for additional periods upon the submission of renewal applications. Natural person licensees are subject to a suitability verification process every three years and business entity licensees are subject to the same requirement every six years. Certain instructions relating to commissions payable to gaming promoters were set out in the Dispatch of the Secretary for Economy and Finance no. 83/2009, dated September 11, 2009. Such instructions also impose certain financial reporting and audit requirements on gaming promoters.

Under Macau law, licensed gaming promoters must identify outside contractors who assist them in their promotion activities. These contractors are subject to approval by the DICJ. Changes in the management structure of licensed gaming promoters must be reported to the DICJ and any transfer or the encumbering of interests in such licensees is ineffective without prior government approval. To conduct gaming promotion activities licensees must be registered with one or more concessionaires and/ or subconcessionaires and must have written contracts with such concessionaires and/ or subconcessionaires, copies of which must be submitted to the DICJ.

Macau law further provides that concessionaires are jointly responsible with their gaming promoters for the activities of their representatives and their directors and contractors in the concessionaires' casinos, and for their compliance with applicable laws and regulations. Concessionaires must submit annual lists of their gaming promoters, and must update such lists on a quarterly basis. The Macau government may designate a maximum number of gaming promoters and specify the number of gaming promoters a concessionaire is permitted to engage. Concessionaires are subject to periodic reporting requirements with respect to commissions paid to their gaming promoters representatives and are required to oversee their activities and report instances of unlawful activity.

The government of Macau may assume temporary custody and control over the operation of a concession in certain circumstances. During any such period, the costs of operations must be borne by the concessionaire. The government of Macau also may redeem a concession starting at an established date after the entering into effect of a concession. The government of Macau also may terminate a concession for cause, including, without limitation, failure of the concessionaire to fulfill its obligations under law or the concession contract.

Gaming Credit Regulations

Macau Law no. 5/2004 has legalized the extension of gaming credit to patrons or gaming promoters by concessionaires and subconcessionaires. Gaming promoters may also extend credit to patrons upon signing an agreement with a concessionaire or subconcessionaire to carry out such activity. Assigning or transferring one's authorization to extend gaming credit is not permitted. This statute sets forth filing obligations for those extending credit and the supervising role of the DICJ in this activity. Gaming debts contracted pursuant to this statute are a source of civil obligations and may be enforced in court.

SJM Gaming Concession Contract

The Concession Contract executed on March 28, 2002 between Macau government and SJM, published in official Gazette no. 14-II, 2002 and amended by deed of April 19, 2005, published on the Official Gazette no. 18-II, 2005, by which Macau government granted to SJM one of the three concessions for the exploitation of games of fortune and chance or other games in casino in Macau, and amended by Public Deed dated April 19, 2005, the expiry date of which has been extended from March 2020 to June 2022. SJM's gaming operations are restricted under the concession granted to casino games, slot machine gaming and other games authorized by the Macau government.

The Concession Contract is governed by Macau Law and subject to the exclusive Jurisdiction of Macau Courts.

Transfer of shares of SJM, change to its share capital, issuance of bonds, amendments to its articles of association and the granting of guarantees, securities or encumbrances are subject to prior authorization from Macau government.

In addition, the Concession Contract contains various general covenants and other provisions, with which SJM is required to comply. These include the obligations to submit periodic information to the Macau government, operate casinos in a fair and honest manner, and maintain certain levels of insurance.

In this respect, SJM is required by the Concession Contract to carry general third-party liability insurance in connection with the operation of casino games located in Macau and the development of gaming-related services included in the Concession that are not already covered by existing insurance policies.

SJM's failure to comply with the terms and conditions of the Concession Contract in a manner satisfactory to the Macau government could ultimately result in the termination of the Concession Contract as the Macau government has the right to unilaterally terminate the Concession Contract upon the occurrence of certain serious events of default.

The occurrence of any such event of default may require SJM to compensate the Macau government in accordance with applicable law and any termination of the Concession Contract will cause all of SJM's casinos, gaming assets and equipment and ownership rights to the casino properties to be automatically transferred to the Macau government without compensation to SJM.

Upon expiration of the Concession Contract, all of SJM's gaming assets and equipment and ownership rights to the casino of the Concessionaire in Macau will be transferred to the Macau government without compensation to SJM.

Smoking Regulations

Under the Smoking Prevention and Tobacco Control Law, as amended pursuant to Law no. 9/2017, from January 1, 2019, smoking on casino premises is only permitted in authorized segregated smoking lounges with no gaming activities and such smoking lounges are required to meet certain standards determined by the Macau government.

Access to Casinos and Gaming Areas Regulations

Under Law no. 10/2012, as amended pursuant to Law no. 17/2018, the minimum age required for entrance into casinos in Macau is 21 years of age. The director of the DICJ may authorize employees under 21 years of age to temporarily enter casinos or gaming areas, after considering their special technical qualifications. In addition, off-duty gaming related employees of gaming operators and gaming promoters may not, starting from December 2019, access any casinos or gaming areas, except during the Chinese New Year festive season or under specific circumstances.

Responsible Gaming Regulations

On October 18, 2019, the DICJ issued Instruction no. 4/2019, which came into effect on December 27, 2019, setting out measures for the implementation of responsible gaming principles. Under this instruction, concessionaires and subconcessionaires are required to implement certain measures to promote responsible gambling, including: making information available on the risks of gambling, responsible gambling and odds, both inside and outside the casinos and gaming areas and through electronic means; creation of information and counseling kiosks and a hotline; adequate regulation of lighting inside casinos and gaming areas; self-exclusion and exclusion at third party request procedures, off-duty gaming related employees entry restriction procedures, physical entry requirements, preventive measures for restricted access by persons under 21 years of age; public exhibition of time; creation and training of teams and a coordinator responsible for promoting responsible gambling.

Control of Cross-Border Transportation of Cash Regulations

On June 12, 2017, (Law no. 6/2017) with respect to the control of cross-border transportation of cash and other negotiable instruments to the bearer, was enacted. Such law came into effect on November 1, 2017. In accordance with such law, all individuals entering Macau with an amount in cash or negotiable instrument to the bearer equal to or higher than the amount determined by the order of the Chief Executive of Macau at MOP120,000 (equivalent to US\$15,033) will be required to declare such amount to the customs authorities. The customs authorities may also request an individual exiting Macau to declare if such individual is carrying an amount in cash or negotiable instruments to the bearer equal to or higher to such amount. Individuals that fail to duly complete the required declaration may be subject to a fine (ranging from 1% to 5% of the amount that exceeds the amount determined by the order of the Chief Executive of Macau for declaration purposes, such fine being at least MOP1,000 (equivalent to US\$125) and not exceeding MOP500,000 (equivalent to US\$62,637)). In the event the relevant customs authorities find that the cash or negotiable instrument to the bearer carried by an individual while entering or exiting Macau may be associated with or result from any criminal

activity, such incident shall be notified to the relevant criminal authorities and the relevant amounts shall be seized pending investigation.

Anti Money Laundering and Terrorism Financing Regulations

In conjunction with current gaming laws and regulations, we are required to comply with the laws and regulations relating to anti-money laundering activities in Macau. Law No. 2/2006 (as amended pursuant to Law No. 3/2017), the Administrative Regulation No. 7/2006 (as amended pursuant to Administrative Regulation no. 17/2017) and the DICJ Instruction No. 1/2016 in effect from May 13, 2016 (as amended pursuant to the DICJ Instruction no. 1/2019) govern our compliance requirements with respect to identifying, reporting and preventing anti-money laundering and terrorism financing crimes at our casinos in Macau. Under these laws and regulations, we are required to:

- implement internal procedures and rules governing the prevention of anti-money laundering and terrorism financing crimes which are subject to prior approval from the DICJ;
- identify and evaluate the money laundering and terrorism financing risk inherent to gaming activities;
- identify any customer who is a politically exposed person or any customer or transaction where there is a sign of money laundering or financing of terrorism or which involves significant sums of money in the context of the transaction, even if any sign of money laundering is absent;
- refuse to deal with any of our customers who fail to provide any information requested by us;
- keep records on the identification of a customer for a period of five years;
- establish a regime for electronic transfers;
- keep individual records of all transactions related to gaming which involve credit securities;
- keep records of all electronic transactions for amounts equal to or exceeding MOP8,000 (equivalent to approximately US\$1,002) in cases of occasional transactions and MOP120,000 (equivalent to approximately US\$15,025) in cases of transactions that arose in the context of a continuous business relationship;
- notify the Finance Information Bureau if there is any sign of money laundering or financing of terrorism;
- adopt a compliance function and appoint compliance officers; and
- cooperate with the Macau government by providing all required information and documentation requested in relation to anti-money laundering activities.

Under Article 2 of Administrative Regulation 7/2006 (as amended pursuant to Administrative Regulation no. 17/2017) and the DICJ Instruction 1/2016 (as amended pursuant to the DICJ Instruction no. 1/2019), we are required to track and report transactions and granting of credit that are MOP500,000 (equivalent to approximately US\$62,603) or above. Pursuant to the legal requirements above, if the customer provides all required information, after submitting the reports, we may continue to deal with those customers that were reported to the DICJ and, in case of suspicious transactions, to the Finance Information Bureau.

Prevention and Suppression of Corruption in External Trade Regulations

In addition to the general criminal laws regarding corrupt practices in the public and private sector that are in force in Macau, on January 1, 2015, Law no. 10/2014, criminalizing corruption acts in external trade and providing for a system for prevention and suppression of such criminal acts, came into effect in Macau.

Asset Freezing Enforcement Regulations

On August 29, 2016, Law no. 6/2016, with respect to the framework for the enforcement of asset freezing orders, which comprised of United Nations Security Council sanctions resolutions for the fight against terrorism and proliferation of weapons of mass destruction, was enacted. Under this law, the Chief Executive of Macau is the competent authority to enforce freezing orders and the Asset Freeze Coordination Commission must assist the Chief Executive of Macau in all technical aspects of such enforcement. Among other entities, gaming operators are subject to certain obligations and duties regarding the freezing of assets ordered by the United Nations Security Council sanctions resolutions, including reporting and cooperation obligations.

Foreign Exchange Regulations

Gaming operators in Macau may be authorized to open foreign exchange counters at their casinos and gaming areas subject to compliance with the Foreign Exchange Agencies Constitution and Operation Law (Decree-Law no. 38/97/M), the Exchange Rate Regime (Decree-Law no. 39/97/M) and the specific requirements determined by the Monetary Authority of Macau. The transaction permitted to be performed in such counters is limited to buying and selling bank bills and coins in foreign currency, and to buying travelers checks.

Intellectual Property Rights Regulations

Our subsidiaries incorporated in Macau are subject to local intellectual property regulations. Intellectual property protection in Macau is supervised by the Intellectual Property Department of the Economic and Technological Development Bureau of the Macau government. The applicable regime in Macau with regard to intellectual property rights is defined by two main laws. The Industrial Property Code (Decree-Law no. 97/99/M, as amended pursuant to Law no. 11/2001), covers (i) inventions meeting the patentability requirements; (ii) semiconductor topography products; (iii) trademarks; (iv) designations of origin and geographical indications; and (v) awards. The Regime of Copyright and Related Rights (Decree-Law no. 43/99/M, as amended by Law no. 5/2012), protects intellectual works and creations in the literary, scientific and artistic fields, by copyright and related rights.

Personal Data Regulations

Processing of personal data by our subsidiaries in Macau is subject to compliance with the Personal Data Protection Act (Law no. 8/2005) and, in the case of SJM, any instructions issued by the DICJ from time to time. The Office for Personal Data Protection, or GPDP, is the regulatory authority in Macau specially in charge of supervising and enforcing the Personal Data Protection Act. Breaches are subject to civil liability, administrative and criminal sanctions.

The legal framework and the instructions issued by the DICJ require that certain procedures must be adopted before collecting, processing and/or transferring personal data, including obtaining consent from the data subject and/or notifying or requesting authorization from the GPDP and/or DICJ, as applicable, prior to processing personal data.

Cybersecurity Regulations

Law no. 13/2019, the Cybersecurity Law, came into effect on December 21, 2019 and is intended to protect networks, systems and data of public and private operators of critical infra-structures, among which operators of games of fortune and chance or other games in casinos are included.

The cybersecurity system is composed of a Cybersecurity Commission, a CARIC and cybersecurity supervisory entities.

Among other duties, private infra-structures operators are required to appoint a suitable and experienced person to be responsible for handling its cybersecurity and to be permanently reachable by CARIC, create a cybersecurity department, implement adequate internal cybersecurity procedures, conduct evaluations of its networks' security and risks, submit annual reports to their supervisory entity and inform CARIC and the respective supervisory entity of any cybersecurity incidents.

Additional regulations have been enacted to further determine and detail how the above-mentioned obligations are to be fulfilled.

Labor Quotas Regulations

All businesses in Macau must apply to the Labor Affairs Bureau for labor quotas to import non-resident unskilled workers from China and other regions or countries. Non-resident skilled workers are also subject to the issuance of a work permit by the Macau government, which is given individually on a case-by-case basis. Businesses are free to employ Macau residents in any position, as by definition all Macau residents have the right to work in Macau. SJM is not currently allowed to hire non-Macau resident dealers and supervisors under Macau government's policy.

Pursuant to Macau social security laws, Macau employers must register their employees under a mandatory social security fund and make social security contributions for each of its resident employees and pay a special duty for each of its non-resident employees on a quarterly basis. Employers must also buy insurance to cover employment accidents and occupational illnesses for all employees.

Minimum Salary Regulations

On April 27, 2020, Law no. 5/2020, with respect to minimum salary, was enacted. Such law came into effect on November 1, 2020. In accordance with such law, the monthly minimum salary in Macau is MOP6,656 (US\$834) per month (excluding overtime, night and shift allowances and regular bonus related payments). The minimum salary requirement applies to all workers in Macau except domestic helpers and special needs workers.

Land Regulations

Land in Macau is legally divided into plots. In most cases, private interests in real property located in Macau are obtained through long-term leases from the Macau government granted for periods of 25 years and subsequently renewable for consecutive periods of 10 years, subject to applicable legislation in Macau. The land is initially granted on a provisional basis and registered as such with the Macau Real Property Registry and only upon completion of the development is the land concession converted into definitive status and so registered with the Macau Real Property Registry.

Distribution of Profits Regulation

Entities incorporated by quotas in Macau are required to set aside a minimum of 25% of the entity's profit after tax to the legal reserve until the balance of the legal reserve reaches a level equivalent to 50% of the entity's share capital, regarding entities incorporated by shares the percentages are 10% of the profit until the legal reserve reaches 25% of the share capital, in accordance with the provisions of the Macau Commercial Code. The legal reserve sets aside an amount from the subsidiaries' statements of operations and is not available for distribution to the shareholders of the subsidiaries. The appropriation of legal reserve is recorded in the subsidiaries' financial statements in the year in which it is approved by the shareholders of the relevant subsidiaries.

DIRECTORS AND SENIOR EXECUTIVES

Our Directors

The following table sets forth information regarding our directors as of the date of this offering memorandum.

Name	Age	Position/Title
Ms. Ho Chiu Fung, Daisy	56	Chairman and Executive Director
Mr. Fok Tsun Ting, Timothy	75	Co-Chairman and Executive Director
Deputada Leong On Kei, Angela	60	Co-Chairman and Executive Director
Dr. So Shu Fai	70	Vice-Chairman, Executive Director and Chief Executive Officer
Dr. Chan Un Chan	67	Executive Director
Mr. Shum Hong Kuen, David	66	Executive Director
Mr. Ng Chi Sing	69	Non-executive Director
Mr. Tsang On Yip, Patrick	49	Non-executive Director
Mr. Chau Tak Hay	78	Independent Non-executive Director
Hon. Shek Lai Him, Abraham	75	Independent Non-executive Director
Mr. Tse Hau Yin	73	Independent Non-executive Director
Ms. Wong Yu Pok, Marina	72	Independent Non-executive Director

Executive Directors

Ms. Ho Chiu Fung, Daisy, aged 56, was elected as our Executive Director in June 2017. She was appointed to succeed as our Chairman in June 2018, and was appointed as the Chairman of the Executive Committee of the Board in July 2018, and a member of the Nomination Committee and the Remuneration Committee of the Board in February 2019. Ms. Ho was re-designated from a member to the Chairman of the Nomination Committee of the Board in June 2019. She was elected as a director of SJM and was appointed as the Chairman of the board of directors of SJM in March 2019. Ms. Ho is also a director of a number of our principal subsidiaries.

Ms. Ho was an appointed representative of Shun Tak, which is a corporate director of STD M, up till March 31, 2010, and has thereafter become an appointed representative of Lanceford Company Limited, which is also a corporate director of STD M, since April 1, 2010. She was appointed an executive director of Shun Tak, a company listed on the HKSE Main Board, in 1994, and has been the deputy managing director and chief financial officer of Shun Tak since 1999. She is also a member of the executive committee, remuneration committee and nomination committee of Shun Tak and a director of a number of its subsidiaries.

Ms. Ho is Vice President and Executive Committee Member of The Real Estate Developers Association of Hong Kong, Member of the Hong Kong Institute of Real Estate Administrators, Vice President of Macao Association of Building Contractors and Developers, Member of The Chinese General Chamber of Commerce and of its Ladies Committee, Life Member of Macao Chamber of Commerce and Executive Member of its Ladies Committee, Fellow of The Hong Kong Institute of Directors, Governor of The Canadian Chamber of Commerce in Hong Kong, Advisory Board Member of Po Leung Kuk, Chairman of Hong Kong Ballet, Chairman cum Director of University of Toronto (Hong Kong) Foundation Limited and Chairman of its Scholarship Selection Committee, Chair of International Dean's Advisory Board of Joseph L. Rotman School of Management – University of Toronto, World Fellow of The Duke of Edinburgh's Award World Fellowship, Honorary Vice President of the Hong Kong Girl Guides Association, Honorary President of Hong Kong Federation of Women and Member of Advisory Council of the Canadian International School of Hong Kong.

Ms. Ho holds a Master of business administration degree in finance from the University of Toronto, Canada and a Bachelor's degree in marketing from the University of Southern California, U.S.A.

Mr. Fok Tsun Ting, Timothy, aged 75, was appointed as our Executive Director in 2010, and was appointed as a member of the Cotai Project Committee of the Board in 2015. He was appointed as our Co-Chairman in June 2018, and was appointed as a member of the Executive Committee of the Board in July 2018. Mr. Fok has been a director of SJM since 2014.

Mr. Fok is the chairman of Fok Ying Tung Group, the chairman of Fok Ying Tung Foundation and a member of the Trust Committee of Henry Fok Foundation, a charitable foundation established in Macau which is a shareholder of STDM. He is an honorary member of the International Olympic Committee, a vice-president – East Asia of the Olympic Council of Asia, the president of the Sports Federation and Olympic Committee of Hong Kong, China and the president of the Hong Kong Football Association. Mr. Fok was a member of the 8th, 9th, 10th, 11th and 12th National Committee of CPPCC and a vice-chairman of the Committee of Education, Science, Culture, Health and Sports of CPPCC. He was elected as a member of the Legislative Council of Hong Kong, representing the Sports, Performing Arts, Culture and Publication functional constituency from 1998 to 2012.

Mr. Fok was appointed as a Justice of the Peace by the Hong Kong Government in 1998, and was awarded the Gold Bauhinia Star Medal and the Silver Bauhinia Star Medal by the Hong Kong Government in 2004 and 1999, respectively. He was awarded the Olympic Order in Silver by International Olympic Committee in October 2018.

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.

Deputada Leong On Kei, Angela, aged 60, has been our Executive Director since 2007. She was appointed as our Co-Chairman in June 2018. Deputada Leong has been a member of the Remuneration Committee and the Nomination Committee of the Board since 2008, a member of the Executive Committee of the Board since 2009, and a member of Cotai Project Committee of the Board since 2015. She has been the Chairman of the Staff Welfare Consultative Committee of SJM since 2005, a director of SJM since 2007 and the Managing Director of SJM since 2010. Deputada Leong is also a director of a number of our principal subsidiaries. She has been a director of STDM since 2005 and a shareholder of STDM.

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, a vice-chairman of Jiangxi Federation of Returned Overseas Chinese, Honorary Citizen of Jinggangshan, Jiangxi Province and of Guangzhou, Guangdong Province, Honorary President of Jinggangshan Cadre Training Academy, Jiangxi Province and Honorary Principal of Jinggangshan Experimental Primary School, Jiangxi Province. In 2005, 2009, 2013 and 2017, respectively, Deputada Leong was elected a member of the 3rd, 4th, 5th and 6th Legislative Assemblies of Macau and the chairman of the 6th Administrative Council of the Legislative Assemblies of Macau. She is a member of the 2nd, 3rd, 4th and 5th Elective Committee of Chief Executive of Macau. She is an elective committee member of the 10th, 11th, 12th and 13th National People's Congress of Macau, China. She is a member of Tourism Development Committee of Macau since 2018.

Deputada Leong is currently a consultant of Macao Basic Law Promotion Association, a member of the Board of Trustees of Macao Foundation, the president of the General Association of Administrators and Promoters for Macao Gaming Industry, a vice-president of the board of Supervisors of The Macao Chamber of Commerce, a honorary consultant of The Women's General Association of Macau, the president of Macao Social Services Centre, a vice-president of Federation of Macao China Sport General Associations, the president of Macao Dance Sport Federation and a director of Stanley Ho Astronautics Training Foundation. She was a Standing Committee member of Zhuhai Municipal Committee of CPPCC until December 2016 and a member of the Cultural Industries Committee of Macau from 2010 to 2016. Deputada Leong 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 Government in 2009. She was awarded the Business Awards of Macau – Award of Female Entrepreneur in 2013 and the Bronze Bauhinia Star by Hong Kong Government in 2015.

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

Dr. So Shu Fai, aged 70, was appointed as our director in 2006. He is currently our Chief Executive Officer and Executive Director, and was appointed as our Vice-Chairman in June 2018. Dr. So is responsible for execution of our strategy and the overall management of our business. He was the Chairman of the Executive Committee of the Board from 2009 to July 2018 and thereafter a member of the said committee. Dr. So was the Chairman of the Remuneration Committee and the Nomination Committee of the Board from 2008 to 2012 and thereafter a member of the said committees. He was appointed as a member of the Cotai Project Committee of the Board in 2015. Dr. So has been a director of SJM and a member of the senior management of SJM since 2002. He was elected as the chairman of the board of directors of SJM from 2013 to March 2019. Dr. So is a director of a number of principal subsidiaries, an associate and a joint venture of the Company. He 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 is also a director of Estoril-Sol, SGPS, S.A. which is listed on Euronext Lisbon. Dr. So is the chairman of the board of directors of MACAUPORT and was appointed as a member of the Executive Committee of MACAUPORT in March 2019.

Dr. So is presently the Honorary Consul of the Republic of Portugal in Hong Kong and a consultant of the Economic Development Council of the Macau 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 a member of the 9th, 10th, 11th and 12th National Committee of CPPCC and a member of the Committee of Foreign Affairs of the National Committee of the CPPCC.

Dr. So was awarded the Honorary University Fellowship by The University of Hong Kong in 2005, the Medal of Merit — Culture by the Macau 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 was awarded the Honorary Fellowship by HKU SPACE in 2019.

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, Australia in 2001. Dr. So is a Chartered Secretary and a Chartered Governance Professional and a fellow member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom. He is a fellow member of The Hong Kong Institute of Directors.

Dr. Chan Un Chan, aged 67, was elected as our Executive Director in June 2018. She has been a director of SJM since 2009. Dr. Chan is a director and a shareholder of STDM. She is the chairman of UNIR (HK) Management Limited, the executive director of Tagus Properties Limited, a director of UNIR HOTELS PTY LTD and Wei Hang Shipyard (Zhong Shan) Co., Limited.

Dr. Chan actively involves in charitable and community services in China, Hong Kong and Macau. She is the Vice-Chairman of Beijing Chinese Overseas Friendship Association, Honorary Director of Beijing Xiaoxing Ballet Art Development Foundation, Honorary Director of Guangdong Women and Children's Foundation, Hon. Vice-President of Hong Kong Anti-Cancer Society, Permanent Director of Hong Kong Art Craft Merchants Association Limited, Life Patron of Hong Kong Ballet Group and Vice-Presidente da Assembleia Geral of Obra das Mães, Macau. Dr. Chan was a director of Tung Wah Group of Hospitals from 2006 to 2008, a vice-chairman of Tung Wah Group of Hospitals from 2008 to 2013 and the chairman of Tung Wah Group of Hospitals from 2013 to 2014, a member of Fundraising Committee 2003 of End Child Sexual Abuse Foundation, and a sponsor of Mobile Classroom of End Child Sexual Abuse Foundation. She was a member of the 11th Guangdong Provincial Committee of CPPCC.

Dr. Chan was awarded the China Children Philanthropists by China Children and Teenagers' Fund in 2008, the World Outstanding Chinese Award by United World Chinese Association in 2008, the Star of Charity by Guangdong Women and Children's Foundation in 2012 and the Bronze Bauhinia Star by the Hong Kong Government in 2014.

Dr. Chan was conferred with Honorary Doctor of Commerce from The University of West Alabama, U.S.A. in 2008, Honorary Doctorate in Management from Lincoln University, U.S.A. in 2009 and Honorary Fellowship Award from Canadian Chartered Institute of Business Administration in 2009.

Mr. Shum Hong Kuen, David, aged 66, has been our Executive Director since 2007. He has been a member of the Executive Committee and the Cotai Project Committee of the Board since 2009 and 2015, respectively. Mr. Shum was a member of the Nomination Committee of the Board from 2008 to February 2019. He is also a director of a number of principal subsidiaries 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. Mr. Shum is also a director of a number of subsidiaries in the Shun Tak group. He is an appointed representative of Shun Tak, a corporate director of STDM and a shareholder of STDM.

Mr. Shum holds a Bachelor's degree from the University of Illinois, Urbana-Champaign, U.S.A. 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 Directors

Mr. Ng Chi Sing, aged 69, was appointed as our Executive Director in 2006 and has been re-designated to Non-Executive Director since June 2020. He was our Chief Operating Officer until June 2020. Mr. Ng was a member of the Executive Committee of the Board from 2009 to June 2020. He was the Chief Operating Officer of SJM from 2002 to June 2020 and a director of SJM from 2002 to March 2019. Mr. Ng has been appointed as an adviser of SJM since June 2020.

Mr. Ng has over 40 years of experience in the casino business. He was a Standing Committee member of the 12th Shanghai Municipal Committee of CPPCC until January 2018. Mr. Ng was awarded as Chevalier dans l'Ordre National du Mérite by the French Government in 2015.

Mr. Ng is a fellow member of The Hong Kong Institute of Directors.

Mr. Tsang On Yip, Patrick, aged 49, was elected as our Non-executive Director in June 2019. He has been a supervisory committee member of SJM and certain of its subsidiaries since March 2019. He is the chief executive officer and director of Chow Tai Fook Enterprises Limited. Mr. Tsang currently holds directorships in five companies listed on the HKSE Main Board, namely, executive director of UMP Healthcare Holdings Limited and Melbourne Enterprises Limited, and non-executive director of Greenheart Group Limited, i-CABLE Communications Limited and Integrated Waste Solutions Group Holdings Limited. He was a managing director and Head of Asia Fixed Income Capital Markets at Deutsche Bank AG, Hong Kong Branch before joining Chow Tai Fook Enterprises Limited. Mr. Tsang has extensive finance and investment expertise acquired over a 20-year career in investment banking.

Mr. Tsang is an appointed representative of Many Town Company Limited, a corporate director of STDM, a director of Chow Tai Fook (Holding) Limited, a governor of Chow Tai Fook Charity Foundation Limited, a member of Hong Kong Chief Executive Election Committee, a General Committee member of the Employers' Federation of Hong Kong and a member of the 12th Henan Provincial Committee of CPPCC.

Mr. Tsang holds a Bachelor of Arts degree in Economics from Columbia College of Columbia University.

Independent Non-Executive Directors

Mr. Chau Tak Hay, aged 78, has been our Independent Non-executive Director 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, thereafter appointed as Chairman of the said committee in June 2019, and a member of the Nomination Committee of the Board since 2008, and was the Chairman of the said committee from 2012 to June 2019, and then re-designated from the Chairman to member of the said committee.

Mr. Chau has been an independent non-executive director of Tradelink Electronic Commerce Limited (listed on the HKSE Main Board) since 2009. He also had been an independent non-executive director of Wheelock and Company Limited (listed on the HKSE Main Board) since 2012, and ceased to be its independent non-executive director after its delisting in July 2020. He also has been an independent non-executive director of Wharf Real Estate Investment Company Limited (listed on the HKSE Main Board) since January 2021.

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 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 Government in 2002.

Hon. Shek Lai Him, Abraham, aged 75, has been our Independent Non-executive Director since 2007, and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board since 2008. He was appointed as the Chairman of the Cotai Project Committee of the Board in 2015.

Hon. Shek is the honorary chairman and an independent non-executive director of Chuang's China Investments Limited, the vice-chairman and an independent non-executive director of ITC Properties Group Limited and the vice-chairman and executive director of Goldin Financial Holdings Limited, all 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, CSI Properties Limited, Everbright Grand China Assets Limited, Far East Consortium International Limited, Lai Fung Holdings Limited, Lifestyle International Holdings 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. He was appointed as independent non-executive director of Landing International Development Limited in August 2020 and was appointed as independent non-executive director of Hao Tian International Construction Investment Group Limited in October 2020, both companies are listed on the HKSE Main Board. Hon. Shek is an independent non-executive director of Ping An OneConnect Bank (Hong Kong) Limited.

Hon. Shek was an independent non-executive director of ITC Corporation Limited, Midas International Holdings Limited, TUS International Limited, MTR Corporation Limited and Hop Hing Group Holdings Limited, all of which are listed on the HKSE Main Board, until March 2017, January 2018, January 2017, May 2019 and June 2020, respectively.

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 for Hong Kong 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 Government in 2007 and 2013, respectively, was awarded the Honorary Fellowship of Lingnan University in November 2008, the Honorary Fellowship of Hong Kong University of Science and Technology in June 2014, the Honorary University Fellowship by The University of Hong Kong in September 2016, and Honorary Fellowship by The Education University of Hong Kong in March 2018. Hon. Shek is also the chairman and an independent member of English Schools Foundation, 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 appointed as honorary member of the court of the Hong Kong University of Science and Technology in August 2020.

Mr. Tse Hau Yin, aged 73, has been our Independent Non-executive Director 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 was appointed as a member of the Cotai Project Committee of the Board in 2015. Mr. Tse 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.

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 Certified Public Accountant in Macau. He is a fellow member of The Hong Kong Institute of Directors.

Ms. Wong Yu Pok, Marina, aged 72, was elected as our Independent Non-executive Director in June 2019. She has been a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board since June 2019.

Ms. Wong is an independent non-executive director of Hong Kong Ferry (Holdings) Company Limited, Kerry Logistics Network Limited, Kerry Properties Limited and Luk Fook Holdings (International) Limited, companies listed on the HKSE Main Board.

Ms. Wong joined PricewaterhouseCoopers in 1968 and was responsible for the development of the firm's business in Mainland China since 1980. After her retirement as a partner from PricewaterhouseCoopers in July 2004, she joined Tricor Services Limited as a director from September 2004 to February 2006.

Ms. Wong is a member of a number of Government advisory and other bodies in Hong Kong, including The Dental Council of Hong Kong and was the Chairman of The Applied Research Council up to February 2017. She is the Chartered President of Hong Kong Women Professionals & Entrepreneurs Association and Vice-Chairman of the Hong Kong Federation of Women. Ms. Wong was appointed as a Justice of the Peace in 2004.

An accountant by training, Ms. Wong is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. She was conferred Honorary Fellow of City University of Hong Kong in 2008.

Our Company Secretary

The following table sets forth information regarding our company secretary as of the date of this offering memorandum:

Name	Age	Position/Title
Ms. Kwok Shuk Chong	61	Company Secretary

Ms. Kwok Shuk Chong, aged 61, was appointed as our Company Secretary since 2009. Ms. Kwok 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 Chartered Secretary and a Chartered Governance Professional and a fellow member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute 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.

Our Senior Executives

The following table sets forth information regarding our senior executives as of the date of this offering memorandum:

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Mr. Benjamin Toh	55	Chief Financial Officer Chief Operating Officer — Finance & Development
Mr. Francis McFadden	63	Chief Operating Officer — Gaming & Hospitality
Mr. Daniel Shim	57	Chief Corporate Affairs Officer
Mr. Paul Baker	49	President — Grand Lisboa Palace
Mr. Jonathan Charles Pyne	62	Chief Legal Counsel

Mr. Benjamin Toh, aged 55, was appointed as our Chief Financial Officer since January 2021, and is also Chief Operating Officer for Finance and Development of SJM since October 2020. Prior to joining the our Group, he was Chief Financial Officer of Shangri-La Asia Limited from April 2016 to March 2019. He joined Sands China Ltd. in April 2007 and was Chief Financial Officer, Executive Vice President and Executive Director from June 2010 to April 2016. Prior to that, Mr. Toh spent 15 years with General Electric Company.

Mr. Francis McFadden, aged 63, was appointed as our Chief Operating Officer for Gaming and Hospitality since June 2020. He was our President Business Development Joint Ventures from 2006 to 2020. Prior to joining our Group, he was Chief Operating Officer of Venetian Macau from 2003 to 2006. Prior to that, Mr. McFadden worked in senior positions in Casinos Austria International Holdings, PricewaterhouseCoopers European Union Office and Ladbrokes.

Mr. Daniel Shim, aged 57, was appointed as our Chief Corporate Affairs Officer since September 2020. Prior to joining our Group, he was Vice President for Human Resources Asia Pacific of Knorr Bremse Asia Pacific from 2018 to 2020. Prior to that, Mr. Shim worked in senior positions in Asia Infrastructure Investment Bank, Mass Transit Railway Corporation, Las Vegas Sands and Venetian Macau.

Mr. Paul Baker, aged 49, was appointed as the President of Grand Lisboa Palace since October 2018. Prior to joining our Group, he was Deputy Chief Operating Officer of Genting Malaysia Berhad from 2014 to 2018. Prior to that, Mr. Baker worked in various leadership positions in Wynn Resorts and EVP Resort Operations Caesars Entertainment and Harrah's Entertainment.

Mr. Jonathan Charles Pyne, aged 62, was appointed as our Chief Legal Counsel since 2008. Prior to joining our Group, he was director of Compliance and Risk in PricewaterhouseCoopers from 2001 to 2008. Prior to that, Mr. Pyne had over 20 years' experience as legal counsel or partner in law firms specialising in Corporate Finance and Commercial Law in London, Hong Kong and Thailand.

PRINCIPAL SHAREHOLDERS

As of the date of this offering memorandum, the interests and short positions of 5% or more of our issued share capital and share options as recorded in the register required to be kept by us under Section 336 of the Securities and Futures Ordinance of (Chapter 571 of the Laws of Hong Kong) (the “SFO”) are as follows:

Name of substantial shareholders	Capacity	Long/short position	No. of shares held	No. of underlying shares held	Approximate percentage of issued shares ⁽²⁾
Sociedade de Turismo e Diversões de Macau, S.A.	Beneficial owner and its controlled corporation ⁽¹⁾	Long position	3,062,059,500	–	53.90%
Leong On Kei, Angela	Beneficial owner	Long position	457,950,000	30,000,000 ⁽³⁾	8.59%

Notes:

- (1) 12,072,000 Shares are directly held by Konrad Investments Limited, an indirect wholly-owned subsidiary of STDM through Bounty Rich Holdings Limited.
- (2) The percentage has been calculated based on 5,681,444,293 Shares in issue as of the date of this offering memorandum.
- (3) These represent the interests in underlying shares in respect of the options granted by us.

Save as disclosed above, as of the date of this offering memorandum, we had not been notified by any persons 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.

RELATED PARTY TRANSACTIONS

We engage in a variety of related party transactions, in particular with STD M, our controlling shareholder. Certain of our directors have beneficial interests in STD M. Ms. Ho Chiu Fung, Daisy has beneficial interests in STD M via Lanceford Company Limited, a corporate director of STD M, and she is the representative of Lanceford Company Limited to act as a director of STD M. Mr. Shum Hong Kuen, David also has beneficial interests in STD M and he is the representative of Shun Tak (a corporate director of STD M) to act as a director of STD M. Both Deputada Leong On Kei, Angela and Dr. Chan Un Chan have beneficial interests in STD M and are directors of STD M. Mr. Tsang On Yip, Patrick's relative has beneficial interests in STD M via Many Town Company Limited, a corporate director of STD M, and Mr. Tsang On Yip, Patrick is the representative of Many Town Company Limited to act as a director of STD M.

(1) Premises Leasing Master Agreement

We entered into an agreement dated June 18, 2008 with STD M, which contains the terms and conditions for the leasing of properties by the STD M Group to us for use as casinos, offices or for other business purposes (the “**Premises Leasing Master Agreement**”). This has been renewed with the last renewal on December 23, 2019 with broadly similar terms as the original agreement.

During the year ended December 31, 2019 and 2020, the amount paid as property rentals and additions of right-of-use assets under this agreement was approximately HK\$243 million and HK\$573 million, respectively.

(2) Products and Services Master Agreement

We entered into an agreement dated June 18, 2008 with STD M, which contains the principles, guidelines, terms and conditions for the provision of products and services by STD M and its associates (the “**Products and Services Master Agreement**”). The types of products and services include hotel accommodation, hotel management and operation, entertainment, transportation and maintenance services. This has been renewed with the last renewal on December 23, 2019 with broadly similar terms as the original agreement.

During the year ended December 31, 2019 and 2020, the amount paid under this agreement was approximately HK\$162 million and HK\$42 million, respectively, with a significant reduction in transportation and hotel accommodation costs in 2020 as a direct result of the COVID-19 pandemic.

(3) Premises Leasing Master Agreement with a director of SJMH

We entered into an agreement dated November 22, 2013 with Deputada Leong On Kei, Angela for the leasing of properties by the director and/or her associates to us effective from January 1, 2014. This agreement has been renewed with the last renewal on December 23, 2019 with a term of three years from January 1, 2020 with similar terms as the original agreement.

During the year ended December 31, 2019 and 2020, the amount paid as property rentals and additions of right-of-use assets under this agreement was approximately HK\$119 million and HK\$249 million, respectively.

(4) Agreement for a New Yaohan Department Store in Grand Lisboa Palace retail mall

In January 2020, we entered into an agreement with NYH, a subsidiary of STD M, to operate a high-class department store in the Grand Lisboa Palace retail mall. The store will be under the brand “New Yaohan” and will cover approximately 15,500 square meters.

(5) Acquisition of Head Office

In June 2019, we completed the acquisition of the 18th Floor of China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong from an associate of STD M at a consideration of HK\$680 million which became our head office. The purchase was first announced by us on November 9, 2018.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

Syndicated Credit Facilities

Overview

On September 27, 2016, SJM, as borrower, entered into a HK\$25.0 billion senior secured syndicated credit facilities agreement (the “**Syndicated Credit Facilities**”). The Syndicated Credit Facilities comprise a Hong Kong dollar term loan facility of HK\$12,441.0 million, a U.S. dollar term loan facility of US\$156.0 million and a Macau pataca term loan facility of MOP1,382.5 million with a term of 5 years and 5 months (the “**Term Loan Facility**”) and a Hong Kong dollar revolving credit facility of HK\$8,294.0 million, a U.S. dollar revolving credit facility of US\$104.0 million and a Macau pataca revolving credit facility of MOP921.6 million with an original term of 3 years and 5 months which has been extended to 5 years and 5 months by a waiver obtained on August 24, 2018 (the “**Revolving Credit Facility**”).

Maturity Date

The final maturity date of the Syndicated Credit Facilities is February 28, 2022 in respect of the Term Loan Facility and the Revolving Credit Facility, or if earlier, the date of repayment, prepayment or cancellation in full of the Syndicated Credit Facilities.

Drawdowns and Prepayments

As of December 31, 2020, the outstanding principal balances were HK\$12,441.0 million, US\$156.0 million and MOP1,382.5 million under the Term Loan Facility and HK\$2,902.9 million, US\$36.4 million and MOP322.6 million under the Revolving Credit Facility. The Revolving Credit Facility of HK\$5,391.1 million, US\$67.6 million and MOP599.0 million remains available for future drawdown as of December 31, 2020.

On February 9, 2021, we settled HK\$2,834.0 million, US\$35.5 million and MOP314.9 million under the Term Loan Facility and HK\$2,902.9 million, US\$36.4 million and MOP322.6 million under the Revolving Credit Facility by the net proceeds from the offering of the 2026 Notes and 2028 Notes issued on January 27, 2021.

On February 22, 2021, we settled HK\$1,658.8 million, US\$20.8 million and MOP184.3 million under the Term Loan Facility by the net proceeds from the offering of the 2026 Notes and 2028 Notes issued on January 27, 2021 and the internal fund.

On April 8, 2021, we drew down HK\$663.5 million, US\$8.3 million and MOP73.7 million under the Revolving Credit Facility and used the proceeds from such drawdown to pay for costs associated with the Grand Lisboa Palace project.

Drawdowns on the Term Loan Facility and the Revolving Credit Facility are subject to satisfaction of conditions precedent specified in the Syndicated Credit Facilities.

Repayment

The Term Loan Facility is repayable in five installments according to a repayment schedule which were amended pursuant to a waiver letter from ICBC Macau (in its capacity as the Facility Agent under the Syndicated Credit Facilities) to us dated December 10, 2019. Pursuant to the terms of the ICBC waiver letter, ICBC Macau agreed, among other things, to extend the repayment dates of the first, second third, fourth instalments and the final repayment of the Syndicated Credit Facilities to March 31, 2021, June 30, 2021, September 30, 2021, December 31, 2021 and February 28, 2022.

On March 31, 2021, we repaid HK\$829.4 million, US\$10.4 million and MOP92.2 million in accordance with the repayment schedule.

Each loan made under the Revolving Credit Facility is repayable in full on the last day of an agreed upon interest period in respect of the loan, generally ranging from one to six months, or rolling over subject to compliance with certain covenants and satisfaction of conditions precedent.

We may make voluntary prepayments in respect of the Syndicated Credit Facilities in a minimum amount of HK\$500.0 million, plus the amount of any applicable break costs. We are also subject to mandatory prepayment requirements in respect of various amounts as specified in the Syndicated Credit Facilities; in the event of the disposal of all or substantially all of the business and assets of the Grand Lisboa Palace, the Grand Lisboa and the other charged assets are required to be repaid in full.

Interest and Fees

Borrowings under the Syndicated Credit Facilities bear interest at HIBOR, LIBOR or MAIBOR, as applicable, plus a margin ranging from 1.50% to 2.25% per annum as adjusted in accordance with the consolidated leverage ratio in respect of the SJM Holdings. We may select an interest period for borrowings under the Syndicated Credit Facilities of one, two, three or six months or any other agreed period. We are obligated to pay a commitment fee quarterly in arrears on the undrawn amount of the Revolving Credit Facility until the end of the applicable availability period.

Security

The indebtedness under the Syndicated Credit Facilities is guaranteed by SJM Holdings and certain subsidiaries (the “**Syndicated Borrowing Group**”). Security for the Syndicated Credit Facilities includes: a first-ranking priority interest in substantially all assets of the Syndicated Borrowing Group, the issued share capital and equity interests and certain bank accounts, buildings, fixtures and equipment of the Syndicated Borrowing Group and certain other excluded assets and customary security.

Covenants

The Syndicated Credit Facilities contain covenants customary for such financings, including, but not limited to, the limitations on (except as permitted under the Syndicated Credit Facilities) (i) incurring additional liens; (ii) incurring additional indebtedness; (iii) making certain investments; (iv) paying dividends, distributions and other restricted payments; (v) creating any subsidiaries; and (vi) selling assets.

The financial covenants under the Syndicated Credit Facilities including a minimum consolidated interest coverage ratio and maximum consolidated leverage ratio:

- a. Minimum Consolidated Interest Coverage, as defined in the terms of the Syndicated Credit Facilities, which shall be equal to or more than 3 times for the quarterly reporting periods ending September 30, 2016, onwards;
- b. Maximum Consolidated Leverage, as defined in the terms of the Syndicated Credit Facilities, which shall be equal to or less than 6 times from the quarterly reporting periods ending September 30, 2016 to December 31, 2019; 5 times from the quarterly reporting periods ending March 31, 2020 to December 31, 2020 and 4 times from the quarterly reporting periods ending March 30, 2021, onwards.

On May 18, 2020, ICBC Macau, in its capacity as the Facility Agent under the Syndicated Credit Facilities, has consented to suspend the covenant to the financial covenants testing for the consolidated interest coverage ratio and the maximum consolidated leverage ratio from June 30, 2020 to September 30, 2021 due to the COVID-19 pandemic and relevant border entry restrictions and quarantine measures implemented by the Macau government.

Events of Default

The event of default regime under the Syndicated Credit Facilities comprises events of default that are customary for a facility of this nature including, among others, subject to certain grace periods and exceptions: (i) the failure to make any payment when due; (ii) the breach of financial covenants; (iii) a cross-default triggered by any other event of default in the facility agreements or other documents forming the indebtedness of the borrower and/or guarantors; (iv) the breach of the credit facility documents; (v) certain events occurring which may give rise to a termination or rescission of our concession contract and land concessions; (vi) insolvency or

bankruptcy events; (vii) misrepresentations on the part of the borrower and guarantors in statements made in the loan documents delivered to the lenders; and (viii) the seizure or destruction of the Grand Lisboa Palace or the Grand Lisboa.

Ponte 16 Credit Facilities

Overview

On June 23, 2017, our subsidiary, Pier 16 — Property Development Limited, as borrower, amended and restated a prior secured multicurrency credit facilities agreement with a term of 5 years for an aggregate of a HK\$735.0 million and MOP273.0 million. The Ponte 16 Credit Facilities comprise three Hong Kong dollar term loan facilities of HK\$260.0 million, HK\$400.0 million and HK\$75.0 million, respectively, and a Macau pataca term loan facility of MOP273.0 million.

Maturity Date

The final maturity date of the Ponte 16 Credit Facilities is June 29, 2022, or if earlier, the date of repayment, prepayment or cancellation in full of the Ponte 16 Credit Facilities.

Drawdowns

As of December 31, 2020, the outstanding principal balances were HK\$65.4 million, HK\$100.7 million, and HK\$18.9 million under the Ponte 16 Term Loan Facilities.

Drawdowns on the Ponte 16 Term Loan Facilities are subject to satisfaction of conditions precedent specified in the Ponte 16 Credit Facilities.

Repayment

The Ponte 16 Credit Facilities are repayable in 20 installments according to the repayment schedules which were amended pursuant to a waiver letter from ICBC Macau (in its capacity as the sole lender under the Ponte 16 Credit Facilities) to us dated June 23, 2020. Pursuant to the terms of the ICBC waiver letter, ICBC Macau agreed, among other things, to defer the principal repayment of the Ponte 16 Credit Facilities for the period from June 30, 2020 to March 31, 2021 for 12 months.

Interest and Fees

Borrowings under the Ponte 16 Credit Facilities bears interest at HIBOR plus a margin ranging from 2.125% to 2.50% per annum as adjusted in accordance with the consolidated leverage ratio in respect of the Borrower.

Security

The indebtedness under the Ponte 16 Credit Facilities is guaranteed by SJM and Success Universe Group Limited (“SUGL”). Security for the Ponte 16 Credit Facilities includes: a HK\$1.0 billion *livrança* (where SJM is responsible for a sum of not exceeding HK\$510 million), the issued share capital and equity interests and certain bank accounts, buildings, fixtures and equipment of the Borrower and certain other excluded assets and customary security.

Covenants

The Ponte 16 Credit Facilities contain covenants customary for such financings, including, but not limited to, the limitations on (except as permitted under the Ponte 16 Credit Facilities) (i) incurring additional liens; (ii) incurring additional indebtedness (including guarantees); (iii) the disposal of certain key assets; (iv) paying dividends, distributions and other restricted payments; and (v) carrying on business which is not the permitted business activities of the Borrower.

The financial covenants under the Ponte 16 Credit Facilities including a minimum consolidated interest coverage ratio and maximum consolidated leverage ratio:

- a. Minimum Consolidated Interest Coverage, as defined in the terms of the Ponte 16 Credit Facilities, which shall be equal to or more than 3 times;
- b. Maximum Consolidated Leverage, as defined in the terms of the Ponte 16 Credit Facilities, which shall be equal to or less than 5 times.

On June 23, 2020, ICBC Macau, in its capacity as the sole lender under the Ponte 16 Credit Facilities, has consented to suspend the covenant to the financial covenants testing for the consolidated interest coverage ratio and the maximum consolidated leverage ratio from June 30, 2020 to March 31, 2021 due to the outbreak of COVID-19 and relevant border entry restrictions and quarantine measures implemented by the Macau government.

Events of Default

The event of default regime under the Ponte 16 Credit Facilities comprises events of default that are customary for a facility of this nature including, among others, subject to certain grace periods and exceptions: (i) the failure to make any payment when due; (ii) the breach of financial covenants; (iii) a cross-default triggered by any other event of default in the facility agreements or other documents forming the indebtedness of the borrower and/or guarantors; (iv) the breach of the credit facility documents; (v) certain events occurring which may give rise to a termination or rescission of our concession contract and land concessions; (vi) insolvency or bankruptcy events; (vii) misrepresentations on the part of the borrower and guarantors in statements made in the loan documents delivered to the lenders; (viii) suspension or cessation of listing of SUGL on the Hong Kong Stock Exchange; (ix) change of ownership control and (x) cessation of the borrower or certain of its subsidiaries' business.

2026 Notes and 2028 Notes

On January 27, 2021, our subsidiary, Champion Path Holdings Limited, issued US\$500,000,000 aggregate principal amount of its 4.500% Senior Notes due 2026 (the “**2026 Notes**”) and US\$500,000,000 aggregate principal amount of its 4.850% Senior Notes due 2028 (the “**2028 Notes**”). The Company intended to use approximately 90% of the net proceeds from the Notes for refinancing the Syndicated Credit Facilities and the balance for general corporate purposes. The 2026 Notes and the 2028 Notes were issued pursuant to indentures dated as of January 27, 2021 (together, the “**2021 Indentures**”). Interest on the 2026 Notes and the 2028 Notes is payable semi-annually in arrears. The 2026 Notes and the 2028 Notes, which are listed on the Hong Kong Stock Exchange, mature on January 27, 2026 and January 27, 2028, respectively, in each case unless redeemed or repurchased earlier. As of the date of this offering memorandum, we had a total of US\$500 million principal amount of the 2026 Notes outstanding and a total of US\$500 million principal amount of the 2028 Notes outstanding.

The 2021 Indentures contain certain covenants, restricting us from, among other things, effecting a consolidation or merger and selling all or substantially all of our and our subsidiaries assets, taken as a whole. The 2021 Indentures contain certain customary events of default, including default in the payment of principal, or of any premium, on any of the 2026 Notes and the 2028 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the 2021 Indentures. If an event of default occurs and is continuing, the trustee under each of the 2021 Indentures or the holders of at least 25% of each of the outstanding 2026 Notes and the 2028 Notes may declare the principal of such notes to be immediately due and payable.

At any time prior to January 27, 2024 and January 27, 2025, we may redeem the 2026 Notes and the 2028 Notes, respectively, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

In addition, at any time prior to January 27, 2024 and January 27, 2025, we may use the net cash proceeds from certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2026 Notes and the 2028 Notes, respectively, at a redemption price equal to 104.500% of the aggregate principal amount of the 2026 Notes and 104.850% of the aggregate principal amount of the 2028 Notes, plus accrued and unpaid interest, if any;

On or after January 27, 2024 and January 27, 2025, we may redeem the 2026 Notes, in whole or in part, at a premium decreasing annually from 102.250% and 101.125%, respectively, of the applicable principal amount to 100% of the applicable principal amount, plus accrued and unpaid interest to, but not including, the redemption date.

On or after January 27, 2025, January 27, 2026 and January 27, 2027, we may redeem the 2028 Notes, in whole or in part, at a premium decreasing annually from 102.425%, 101.213% and 100.000%, respectively, of the applicable principal amount, plus accrued and unpaid interest to, but not including, the redemption date.

DESCRIPTION OF THE MOP NOTES

For purposes of this “Description of the MOP Notes,” (i) the term “Issuer” refers only to Champion Moments Limited, a company incorporated with limited liability under the laws of the British Virgin Islands, and any successor obligor on the Notes, and not to any of its Subsidiaries, and (ii) the term “Parent Guarantor” refers only to SJM Holdings Limited, a company incorporated with limited liability under the laws of Hong Kong, and any successor obligor on the Notes, and not to any of its Subsidiaries. The Parent Guarantor’s guarantee of the Notes is referred to as the “Parent Guarantee.” The term “Notes” in this section refers only to the MOP Notes.

The MOP Notes are to be issued under an indenture, to be dated as of May 12, 2021, among the Issuer, the Parent Guarantor and Bank of China Limited, Macau Branch, as trustee (the “Trustee”). For purposes of this “Description of the MOP Notes,” the term “Indenture” refers only to the indenture governing the MOP Notes.

The following is a summary of the material provisions of the Indenture. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture and it does not restate the Indenture in their entirety. You can find definitions of certain terms used in this description under “— Definitions.” Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available for inspection upon prior written request and satisfactory proof of holding by Holders on or after the Original Issue Date at all reasonable times during normal business hours at the corporate trust office of the Trustee at 20/F, Bank of China Building, Avenida Doutor Mario Soares, Macau.

The Indenture will not be qualified under, will not incorporate or include any of, by reference or otherwise, or be subject to, the provisions of the U.S. Trust Indenture Act of 1939, as amended.

Brief Description of the Notes

The Notes are:

- general obligations of the Issuer;
- senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured and unsubordinated Indebtedness of the Issuer (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Parent Guarantor on a senior basis, subject to the limitations described below under the caption “— The Parent Guarantee” and in “Risk Factors — Risks Relating to the Notes and the Parent Guarantee;”
- subordinated to the secured obligations (if any) of the Issuer and the Parent Guarantor, to the extent of the value of the assets serving as security therefor; and
- structurally subordinated to all existing and future obligations of the Subsidiaries of the Parent Guarantor (other than the Issuer).

The Notes will mature on May 12, 2026, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the MOP Notes” include any Additional Notes that are actually issued.

The Notes will bear interest at 3.90% per annum from and including the Original Issue Date or from and including the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on May 12 and November 12 (each an “Interest

Payment Date”), commencing November 12, 2021. Interest on overdue principal and interest will accrue at a rate that is 1% higher than the then applicable interest rate on the Notes. Interest on the Notes will be paid to Holders of record at the close of business on April 27 or October 28, or, if the Notes are held in global form and lodged with Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the “MOX”), on the seventh Clearing System Business Day immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. The period beginning on and including the Original Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “Interest Period.” Interest on the Notes will be calculated on the basis of the actual number of days in an Interest Period (or such other period) and a 365-day year, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

Except as described under “— Optional Redemption,” “— Gaming Redemption,” “— Redemption for Taxation Reasons” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Issuer).

In any case in which the date of the payment of principal of, premium (if any) on or interest on the Notes is not a Business Day, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due and no interest on the Notes shall accrue for the intervening period.

The Notes will be issued only in fully registered form, without coupons, in denominations of MOP1,000,000 and integral multiples of MOP500,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made by wire transfer in Macau pataca at the office or agency of the Issuer maintained for that purpose (which initially will be the specified office of the Paying Agent, currently located at 18/F, ICBC Macau Tower, Macau Landmark, Macau), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, if the Notes are in definitive form and the Issuer acts as its own paying agent, payment of interest may be made by wire transfer (at the expense of the Issuer) to the Holders. Interest payable on the Notes held through the MOX will be available to MOX participants (as defined herein) on the Business Day following payment thereof.

The Parent Guarantee

The Parent Guarantee is:

- a general obligation of the Parent Guarantor;
- senior in right of payment to all existing and future obligations of the Parent Guarantor expressly subordinated in right of payment to the Parent Guarantee;
- at least ranked *pari passu* in right of payment with all other unsecured and unsubordinated Indebtedness of the Parent Guarantor (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuant to applicable law);
- subordinated to secured obligations (if any) of the Parent Guarantor, to the extent of the value of the assets serving as security therefor; and
- structurally subordinated to all existing and future obligations of the Subsidiaries of the Parent Guarantor (other than the Issuer).

The Parent Guarantor will irrevocably and unconditionally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under (including any Additional Amounts payable in respect of), the Notes when and as the same shall become due and payable, whether on the Stated Maturity, upon acceleration, by call for redemption

or otherwise. The Parent Guarantor will (1) agree that its obligations under the Parent Guarantee will be as if the Parent Guarantor were principal obligor and not merely surety and will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture, and (2) waive its right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Issuer prior to exercising its rights under the Parent Guarantee. The Parent Guarantee will not be discharged with respect to any Note except by payment in full of the principal thereof, interest thereon and all other amounts payable thereunder (including any Additional Amounts payable in respect thereof). Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Parent Guarantee will be reinstated with respect to such payments as though such payment had not been made. All payments under the Parent Guarantee are required to be made in Macau pataca.

Release of the Parent Guarantee

The Parent Guarantee may be automatically and unconditionally released and discharged in certain circumstances, including:

- upon repayment in full of the Notes;
- in whole or in part, with the requisite consent of the Holders in accordance with the provisions described under “— Amendments and Waivers;” and
- upon the merger or consolidation of the Parent Guarantor with and into the Issuer that is the Surviving Person (as defined under the caption “— Certain Covenants — Consolidation, Merger and Sale of Assets”) in such merger or consolidation, or upon the liquidation of the Parent Guarantor following the transfer of all or substantially all of its assets to the Issuer, in each case in compliance with the applicable provisions of the Indenture.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Parent Guarantee will be made by or on behalf of the Issuer or the Parent Guarantor without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within Macau or any jurisdiction in which the Issuer, a Surviving Person or the Parent Guarantor is organized or resident for tax purposes or any political subdivision or taxing authority thereof or therein or any jurisdiction through which payment is made by or on behalf of the Issuer, a Surviving Person or the Parent Guarantor, as the case may be, or any political subdivision or taxing authority thereof or therein (each, as applicable, a “Relevant Jurisdiction”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Issuer, a Surviving Person or the Parent Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note or the Parent Guarantee, as the case may be, and the Relevant Jurisdiction, other than merely holding such Note or the receipt of payments thereunder or under the Parent Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

- (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period; or
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Issuer, the Parent Guarantor or a Surviving Person, addressed to the Holder, to provide information concerning such Holder's or its beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (where presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
- (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge; or
 - (c) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended ("FATCA"), any current or future U.S. Treasury regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA; or
 - (d) any taxes that are payable other than (i) by withholding or deduction from payments of principal of, or premium (if any) or interest on the Note, or (ii) by direct payment by the Issuer or the Parent Guarantor in respect of claims made against the Issuer or the Parent Guarantor, as the case may be; or
 - (e) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c) and (d); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under the Parent Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Neither the Trustee nor any Agent shall be responsible for paying any Additional Amounts or for determining whether such Additional Amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Parent Guarantor or any Surviving Person, Holder or any third party to pay such Additional Amounts.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Issuer may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Parent Guarantee) in all respects (or in all respects except for the issue date, issue price and the first interest period and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes. Prior to the time such tranche of Additional Notes may be consolidated to form a single series with the previously outstanding Notes, such tranche of Additional Notes shall have a temporary ISIN and be represented by a temporary global note.

Optional Redemption

At any time prior to May 12, 2024, the Issuer may redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. Neither the Trustee nor any of the Agents shall be responsible for verifying or calculating the Applicable Premium.

At any time and from time to time prior to May 12, 2024, the Issuer may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more Equity Offerings at a redemption price of 103.90% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 45 days after the closing of the related Equity Offering.

At any time from time to time on or after May 12, 2024, the Issuer may on any one or more occasions redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on May 12 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2024	101.950%
2025 and thereafter	100.975%

Any redemption described under this “— Optional Redemption” caption may, at the Issuer’s discretion, be subject to one or more conditions precedent, in which case the related notice will describe each such condition, and if applicable, shall state that, in the Issuer’s discretion, the date of redemption may be delayed until such time as any or all such conditions shall be satisfied or waived, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied or waived by the date of redemption, or by the date of redemption as so delayed.

If the optional redemption date is on or after a Record Date and on or before the related Interest Payment Date, the accrued and unpaid interest will be paid to the Person in whose name the Note is registered at the close of business on such Record Date, and no additional interest will be payable to Holders whose Notes will be subject to redemption by the Issuer.

Gaming Redemption

Each Holder, by accepting a Note, shall be deemed to have agreed that if the Gaming Authority of any jurisdiction in which the Parent Guarantor or any of its Subsidiaries conducts or proposes to conduct gaming requires that a person who is a Holder or the beneficial owner of Notes be licensed, qualified or found suitable under applicable Gaming Laws, such Holder or beneficial owner, as the case may be, shall apply for a license, qualification or a finding of suitability within the required time period. If such Person fails to apply or become licensed or qualified or is found unsuitable, the Issuer shall have the right, at its option:

- (1) to require such Person to dispose of its Notes or beneficial interest therein within 30 days of receipt of notice of the Issuer's election or such earlier date as may be requested or prescribed by such Gaming Authority; or
- (2) to redeem such Notes, which redemption may be less than 10 days following the notice of redemption if so requested or prescribed by the applicable gaming authority, at a redemption price equal to:
 - (a) the lesser of:
 - (i) the person's cost, plus accrued and unpaid interest, if any, and Additional Amounts, if any, to but excluding the earlier of the redemption date or the date of the finding of unsuitability or failure to comply; and
 - (ii) 100% of the principal amount thereof, plus accrued and unpaid interest, if any, and Additional Amounts, if any, to but excluding the earlier of the redemption date or the date of the finding of unsuitability or failure to comply; or
 - (b) such other amount as may be required by applicable law or order of the applicable Gaming Authority.

The Issuer and the Parent Guarantor shall notify the Trustee in writing prior to the Issuer exercising such option. Neither the Issuer, the Parent Guarantor nor the Trustee shall be responsible for any costs or expenses any Holder of Notes may incur in connection with the Parent Guarantor's application for a license, qualification or a finding of suitability.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Issuer, the Parent Guarantor or a Surviving Person (as defined under "— Consolidation, Merger and Sale of Assets"), as a whole but not in part, upon giving not less than 10 days' nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to (but not including) the date fixed by the Issuer, the Parent Guarantor or a Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction) of a Relevant Jurisdiction affecting taxation,

which change or amendment becomes effective (or in the case of an official position, is announced) (i) with respect to the Issuer or the Parent Guarantor, on or after the Original Issue Date relating to the issue of the Notes, or (ii) with respect to any Surviving Person, on or after the date such Surviving Person assumes its obligations under or in respect of the Notes and the Indenture, with respect to any payment due or to become due under the Notes or the Indenture, the Issuer, a Surviving Person, or the Parent Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Issuer, a Surviving Person, or the Parent Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer, such Surviving Person, or the Parent Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Issuer, such Surviving Person, or the Parent Guarantor, as the case may be, will deliver to the Trustee at least 10 days but not more than 60 days before a redemption date:

- (1) an Officer's Certificate stating that such change, amendment, or stating of an official position referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Issuer, such Surviving Person, or the Parent Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment, or stating of an official position referred to in the prior paragraph.

The Trustee shall and is entitled to accept and rely conclusively upon such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders. The Trustee will not be responsible for any loss occasioned by acting in reliance on such certificate or opinion, and is not obligated to investigate or verify such certificate or opinion.

Any Notes that are redeemed for tax reasons will be canceled.

Selection and Notice

The Issuer will give not less than 10 days' nor more than 60 days' notice of any redemption to the Holders and the Trustee, except that redemption notices may be given more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture or less than 10 days prior to a redemption date as provided under "— Gaming Redemption." If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

- (1) if the Notes are listed on any recognized securities exchange or held through a clearing system, in compliance with the requirements of the principal recognized securities exchange on which the Notes are listed or the requirement of the clearing system; or
- (2) if the Notes are not listed on any recognized securities exchange or held through a clearing system, on a *pro rata* basis, by lot or by such other method as the Trustee in its sole discretion deems fair and appropriate, unless otherwise required by applicable law or by applicable clearing system requirements.

No Note of MOP1,000,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on the Notes or portions of them called for redemption.

Repurchase of Notes at the Option of Holders

Change of Control Triggering Event

Not later than 20 days following a Change of Control Triggering Event, the Issuer and the Parent Guarantor will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Issuer and the Parent Guarantor have agreed in the Indenture that they shall timely repay all Indebtedness and obtain any necessary consent under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Issuer and the Parent

Guarantor, it is important to note that if the Issuer and the Parent Guarantor are unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the Holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, they would continue to be prohibited from purchasing the Notes. In that case, the failure by the Issuer and the Parent Guarantor to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes may also constitute an event of default under certain debt instruments of the Parent Guarantor and its Subsidiaries. Future debt of the Parent Guarantor and its Subsidiaries may also (1) prohibit the Parent Guarantor from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Issuer and the Parent Guarantor to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Issuer and the Parent Guarantor. The Issuer and the Parent Guarantor's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by their then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes and the Parent Guarantee — We may not be able to repurchase the Notes upon a Change of Control Triggering Event or a Special Put Option Triggering Event."

Notes repurchased by the Issuer and the Parent Guarantor pursuant to a Change of Control Offer will have the status of Notes issued but not outstanding or will be retired and canceled at the option of the Issuer. Notes purchased by a third party (other than an Affiliate of the Parent Guarantor) pursuant to the preceding paragraph will have the status of Notes issued and outstanding.

The phrase "all or substantially all," as used with respect to the assets of the Parent Guarantor in the definition of "Change of Control Triggering Event," will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Parent Guarantor has occurred.

Notwithstanding the above, the Issuer and the Parent Guarantor will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner within the same time frame and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and the Parent Guarantor and purchases all Notes validly tendered and not withdrawn, or (2) notice of redemption has been given in accordance with the terms of the Indenture, as described above under the caption "— Optional Redemption" or "— Redemption for Taxation Reasons," pursuant to which the Issuer has exercised its right to redeem the Notes in full, unless and until there is a default in payment of the applicable redemption price.

Neither the Trustee nor any of the Agents will be required to take any steps to monitor or ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control Triggering Event has occurred and shall not be liable to any person for any failure to do so and shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from the Issuer or the Parent Guarantor.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require the Issuer and the Parent Guarantor to purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

Each of the Issuer and the Parent Guarantor will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes pursuant to this provision.

Special Put Option

Not later than ten days following the occurrence of a Special Put Option Triggering Event, the Issuer and the Parent Guarantor will make an Offer to Purchase all outstanding Notes (a “Special Put Option Offer”) at a purchase price in cash equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, and Additional Amounts, if any, to (but not including) the Offer to Purchase Payment Date.

Notes repurchased by the Issuer and the Parent Guarantor pursuant to a Special Put Option Offer will have the status of Notes issued but not outstanding or will be retired and canceled at the option of the Issuer. Notes purchased by a third party (other than an Affiliate of the Parent Guarantor) pursuant to the preceding paragraph will have the status of Notes issued and outstanding.

The provisions described above that require the Issuer and the Parent Guarantor to make a Special Put Option Offer following a Special Put Option Triggering Event will be applicable whether or not any other provisions of the Indenture are applicable.

Except as described above with respect to a Special Put Option Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Issuer and the Parent Guarantor repurchase or redeem the Notes in the event of a termination, rescission or expiration of any gaming license held by the Parent Guarantor and its Subsidiaries.

Notwithstanding the above, the Issuer and the Parent Guarantor will not be required to make a Special Put Option Offer upon a Special Put Option Triggering Event if (1) a third party makes a Special Put Option Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Special Put Option Offer made by the Issuer and the Parent Guarantor and purchases all Notes properly tendered and not withdrawn, or (2) notice of redemption has been given in accordance with the terms of the Indenture, as described above under the caption “— Optional Redemption” or “— Redemption for Taxation Reasons,” pursuant to which the Issuer has exercised its right to redeem the Notes in full, unless and until there is a default in payment of the applicable redemption price.

The Issuer and the Parent Guarantor have agreed in the Indenture that they shall timely repay all Indebtedness and obtain any necessary consent under, or terminate, agreements or instruments that would otherwise prohibit a Special Put Option Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Issuer and the Parent Guarantor, it is important to note that if the Issuer and the Parent Guarantor are unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the Holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Special Put Option Offer, they would continue to be prohibited from purchasing the Notes. In that case, the failure by the Issuer and the Parent Guarantor to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Special Put Option Triggering Event under the Notes may also constitute an event of default under certain debt instruments of the Parent Guarantor and its Subsidiaries. Future debt of the Parent Guarantor and its Subsidiaries may also (1) prohibit the Parent Guarantor from purchasing Notes in the event of a Special Put Option Triggering Event; (2) provide that a Special Put Option Triggering Event is a default; or (3) require repurchase of such debt upon a Special Put Option Triggering Event. Moreover, the exercise by the Holders of their right to require the Issuer and the Parent Guarantor to purchase the Notes could cause a default under other Indebtedness, even if the Special Put Option Triggering Event itself does not, due to the financial effect of the purchase on the Issuer and the Parent Guarantor. The Issuer and the Parent Guarantor’s ability to pay cash to the Holders following the occurrence of a Special Put Option Triggering Event may be limited by their then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors — Risks Relating to the Notes and the Parent Guarantee — We may not be able to repurchase the Notes upon a Change of Control Triggering Event or a Special Put Option Triggering Event.”

Each of the Issuer and the Parent Guarantor will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes pursuant to this provision. To the extent that the provisions of any applicable securities laws or regulations conflict with provisions of this provision, each of the Issuer and the Parent Guarantor will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

Neither the Trustee nor any of the Agents will be required to take any steps to monitor or ascertain whether any event which could lead to the occurrence of a Special Put Option Triggering Event has occurred and shall not be liable to any person for any failure to do so and shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from the Issuer or the Parent Guarantor.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on the Issuer's Business Activities

The Issuer will not conduct any business or other activities other than the activities in connection with issuance of the Notes or the Incurrence of any other Indebtedness. Such activities shall, for the avoidance of doubt, include (a) the offering, sale or issuance of the Notes or other debt instruments and the Incurrence of Indebtedness represented by the Notes or such debt instruments, or the Incurrence of any other Indebtedness permitted under the Indenture; (b) the on-lending of the proceeds of the offering, sale or issuance of the Notes or any other Indebtedness to any Subsidiary of the Parent Guarantor located in a jurisdiction outside Hong Kong or Macau; (c) the activities related to the establishment and/or maintenance of the Issuer's corporate existence; and (d) any other activities in connection therewith.

The Issuer will at all times remain a directly or indirectly Wholly Owned Subsidiary of the Parent Guarantor. The Issuer will not issue any Capital Stock other than the issuance of its ordinary shares to the Parent Guarantor or a Wholly Owned Subsidiary of the Parent Guarantor. For so long as any Notes are outstanding, the Issuer will not, and the Parent Guarantor will procure that none of the Subsidiaries will, commence or take any action to cause a winding-up or liquidation of the Issuer.

Use of Proceeds

The Issuer and the Parent Guarantor will not, and the Parent Guarantor will not permit any of its Subsidiaries to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than as specified under the caption "Use of Proceeds" in this offering memorandum (or in the case of Additional Notes, the offering document or other documents relating to the sale of such Additional Notes, if any).

Consolidation, Merger and Sale of Assets

The Parent Guarantor will not, directly or indirectly, consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person, unless:

- (1) the Parent Guarantor shall be the continuing Person or the Person (if other than it) formed by or surviving such consolidation or merger or to which such sale, assignment, conveyance, transfer, lease or other disposition shall have been made (the "Surviving Person") shall be a corporation organized and validly existing under the laws of Hong Kong, Macau, the Cayman Islands, the British Virgin Islands or Bermuda;

- (2) the Surviving Person shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Parent Guarantor under the Indenture and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes, shall remain in full force and effect;
- (3) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Issuer or the Parent Guarantor that may adversely affect Holders.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Parent Guarantor will file with the Trustee and the MOX and furnish to the Holders upon request, as soon as they are available but in any event not more than ten calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Parent Guarantor’s Common Stock is at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Parent Guarantor ceases to be listed for trading on a recognized stock exchange, the Parent Guarantor will file with the Trustee and the MOX and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Parent Guarantor, copies of the financial statements (on a consolidated basis and in the English language) of the Parent Guarantor in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 60 calendar days after the end of the second financial quarter of the Parent Guarantor, copies of the financial statements (on a consolidated basis and in the English language) of the Parent Guarantor in respect of such half year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 60 calendar days after the end of each of the first and third financial quarters of the Parent Guarantor, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Parent Guarantor, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Parent Guarantor, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Parent Guarantor to the effect that such financial statements are true in all material respects and present fairly the financial position of the Parent Guarantor as at the end of, and the results of its operations for, the relevant quarterly period.

- (2) So long as any of the Notes remain outstanding, the Parent Guarantor and the Issuer will provide to the Trustee:
 - (a) at the same time as the financial statements are provided pursuant to paragraph (1)(a) above an Officer's Certificate stating that (i) a review has been conducted of the activities of the Parent Guarantor and its Subsidiaries and the Parent Guarantor's and the Subsidiaries' performance under the Indenture and that the Parent Guarantor and each Subsidiary have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof, and (ii) having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer and the Parent Guarantor, as at a date (the "Certification Date") not more than five days before the date of the certificate, that no Event of Default or Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Original Issue Date or, if such an event had occurred, giving details of it and the action which the Parent Guarantor proposes to take with respect thereto; and
 - (b) as soon as possible and in any event within 30 days after the Parent Guarantor becomes aware or should reasonably become aware of the occurrence of an Event of Default, an Officer's Certificate setting forth the details of such event, and the action which the Parent Guarantor proposes to take with respect thereto, and the Trustee shall be entitled to accept such certificate as sufficient evidence thereof without any liability or responsibility to any person, in which event it shall be conclusive and binding on the Holders.

The Trustee shall be entitled to conclusively rely on any such certification or notification without any liability or responsibility to any person.

Compliance with the Guidelines on Corporate Bonds

The Issuer and the Parent Guarantor will comply with all requirements, covenants and obligations set out in the Guidelines on Corporate Bonds and any other applicable law or regulation (as amended from time to time) as directed by the AMCM.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under "— Certain Covenants — Consolidation, Merger and Sale of Assets," or the failure by the Issuer and the Parent Guarantor to make or consummate an Offer to Purchase in the manner described under the caption "— Repurchase of Notes at the Option of Holders;"
- (4) the Parent Guarantor or any of its Subsidiaries defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clauses (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes then outstanding;
- (5) there occurs with respect to any Indebtedness of the Parent Guarantor or any of its Subsidiaries having an outstanding principal amount of US\$50.0 million (or the

Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the Holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;

- (6) one or more final judgments or orders for the payment of money are rendered against the Parent Guarantor or any of its Significant Subsidiaries and are not paid or discharged within the time frame specified in such final judgement or order, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$50.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Parent Guarantor's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Parent Guarantor or any of its Significant Subsidiaries with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Parent Guarantor or any of its Significant Subsidiaries or for any substantial part of the property and assets of the Parent Guarantor or any of its Significant Subsidiaries and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Parent Guarantor or any of its Significant Subsidiaries under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Parent Guarantor or any of its Significant Subsidiaries (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) other than in connection with a solvent liquidation or reorganization (except for any solvent liquidation or reorganization of the Parent Guarantor), consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Parent Guarantor or any of its Significant Subsidiaries or for all or substantially all of the property and assets of the Parent Guarantor or any of its Significant Subsidiaries or (c) effects any general assignment for the benefit of creditors (other than, in each case under (b), any of the foregoing that arises from any solvent liquidation or restructuring of a Significant Subsidiary in the ordinary course of business that shall result in the net assets of such Significant Subsidiary being transferred to or otherwise vested in the Parent Guarantor, the Issuer or any Subsidiary on a pro rata basis or on a basis more favorable to the Parent Guarantor or the Issuer); or
- (9) the Parent Guarantor denies or disaffirms its obligations under the Parent Guarantee or, except as permitted by the Indenture, the Parent Guarantee is determined to be illegal or invalid or shall for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clauses (7) or (8) above) occurs and is continuing under the Indenture, the Trustee in its sole discretion and without further notice or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Issuer (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written request of such Holders will (subject to being pre-funded and/or indemnified and/or secured to its satisfaction), declare the principal of, premium, if any, and any accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and any accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clauses (7) or (8) above occurs with respect to the Parent Guarantor or any of its Significant Subsidiaries, the principal of, premium, if any, and any accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Issuer and to the Trustee may on behalf of all the Holders, waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured; *provided* that no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that is unclear, conflicting or equivocal, conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to act on the direction of Holders or expend its own funds in following such direction if it does not believe that reimbursement or satisfactory pre-funding and/or indemnity and/or security is assured to it.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) such Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) such Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders provide the Trustee pre-funding and/or indemnity and/or security satisfactory to the Trustee in its sole discretion against any fees, costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the pre-funding and/or indemnity and/or security; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a written direction that is inconsistent with the request.

Notwithstanding anything to the contrary in the Indenture or any other document relating to the Notes, in the event that the Trustee shall receive instructions from two or more groups of Holders, each holding at least 25% in aggregate principal amount of the then outstanding Notes, and the Trustee believes (in its sole discretion and may rely on such legal or other advice as it may deem appropriate) that such instructions are conflicting, the Trustee may, in its sole discretion, exercise any one or more of the following options:

- (i) refrain from acting on any such conflicting instructions;
- (ii) take the action requested by the Holders of the highest percentage of the aggregate principal amount of the then outstanding Notes, notwithstanding any other provisions of the Indenture (and always subject to such indemnity and/or security and/or pre-funding as is satisfactory to the Trustee in its sole discretion); and
- (iii) petition a court of competent jurisdiction for further instructions.

In all such instances where the Trustee has acted or refrained from acting as outlined above, the Trustee shall not be responsible or liable for any losses or liability of any nature whatsoever to any party.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

None of the Trustee or any Agent is obligated to do anything to ascertain whether any Default or Event of Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and each of the Trustee and the Agents may assume that no such event has occurred and that the Issuer and the Parent Guarantor are performing all of their respective obligations under the Indenture, the Notes and the Parent Guarantee, unless the Trustee or the Agent, as the case may be, has received written notice of the occurrence of such event or facts establishing that a Default or an Event of Default has occurred or that the Issuer and the Parent Guarantor are not performing all of their respective obligations under the Indenture, the Notes and the Parent Guarantee.

No Payments for Consents

The Parent Guarantor will not, and shall not permit any of its Subsidiaries (including the Issuer) to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Notwithstanding the foregoing, the Issuer shall be permitted, to the fullest extent permitted by applicable laws and regulations, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture, to exclude or modify the offer or payment to (1) the Holders or beneficial owners of the Notes that are believed by the Issuer to be U.S. persons as defined in Regulation S of the Securities Act and (2) the Holders or beneficial owners in any jurisdiction where (A) the solicitation of such consent, waiver or amendment in the manner deemed appropriate by the Issuer and the payment of consideration therefor would require the Issuer or the Parent Guarantor to (i) file a registration statement, prospectus or similar document or subject the Issuer or the Parent Guarantor to ongoing periodic reporting or similar requirements under any securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states), (ii) qualify as a foreign corporation or other entity as a dealer in securities in such jurisdiction if it is not otherwise required to so qualify, (iii) generally consent to service of process in any such jurisdiction or (iv) subject the Issuer or the Parent Guarantor to material taxation in any such jurisdiction if it is not otherwise so subject or (B) such solicitation would otherwise not be permitted under applicable law in such jurisdiction, in each case as determined by the Issuer in its sole discretion and the Trustee shall not have any responsibility or liability for such determination by the Issuer.

Amendments and Waivers

Amendments Without Consent of Holders

The Indenture, the Notes and the Parent Guarantee may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;
- (2) comply with the provisions described under “— Certain Covenants — Consolidation, Merger and Sale of Assets;”
- (3) evidence and provide for the acceptance of appointment by a successor Trustee or successor Agent;

- (4) add any guarantor, or any guarantee, or release any guarantor from any guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add collateral to secure the Notes or the Parent Guarantee;
- (7) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (8) effect any changes to the Indenture in a manner necessary to comply with the procedures of the MOX;
- (9) make any other change that does not materially and adversely affect the rights of any Holder;
- (10) to comply with requirements of applicable Gaming Laws or to provide for requirements imposed by applicable Gaming Authorities; or
- (11) conform the text of the Indenture, the Note or the Parent Guarantee to any provision of this “Description of the MOP Notes” to the extent that such provision in this “Description of the MOP Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes or the Parent Guarantee.

Amendments With Consent of Holders

The Indenture, the Notes and the Parent Guarantee may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes and the Holders of a majority in principal amount of the outstanding Notes may amend or waive future compliance by the Issuer, the Parent Guarantor or any of its Subsidiaries with any provision thereof; *provided, however*, that no such modification, amendment or waiver may, without the consent of holders of at least 90% in aggregate principal amount of the Notes then outstanding:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note and the Parent Guarantee;
- (5) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release the Parent Guarantor from the Parent Guarantee, except as provided in the Indenture;
- (8) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

- (9) amend, change or modify the Parent Guarantee in a manner that materially and adversely affects the Holders;
- (10) reduce the amount payable upon a Special Put Option Offer or, change the time or manner by which a Special Put Option Offer may be made or by which the Notes must be repurchased pursuant to a Special Put Option Offer, unless such amendment, waiver or modification shall take effect prior to the occurrence of a Special Put Option Triggering Event;
- (11) change the redemption date or the redemption price of the Notes from that stated under the caption “— Optional Redemption,” “— Gaming Redemption,” or “— Redemption for Taxation Reasons;”
- (12) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or the Parent Guarantee in a manner which materially and adversely affects the Holders; or
- (13) make any change in the preceding amendment and waiver provisions.

Unclaimed Money

Claims against the Issuer or the Parent Guarantor for the payment of principal of, premium, if any, or interest, on the Notes or the Parent Guarantee will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Issuer or the Parent Guarantor in the Indenture, or in any of the Notes or the Parent Guarantee, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Issuer or the Parent Guarantor, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Parent Guarantee. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws.

Concerning the Trustee and the Agents

Bank of China Limited, Macau Branch is to be appointed as Trustee under the Indenture with respect to the Notes. Industrial and Commercial Bank of China (Macau) Limited is to be appointed as paying agent (the “Paying Agent”), note registrar (the “Registrar”), MOX lodging agent (the “MOX Lodging Agent”) and transfer agent (the “Transfer Agent”, together with the MOX Lodging Agent, the Registrar and the Paying Agent, the “Agents”) with regard to the Notes. Except during the continuance of a Default of which a responsible office of the Trustee has received notice, the Trustee will not be liable, except for the performance of such duties and only such duties as are specifically set forth in the Indenture or the Notes, and no implied covenant or obligation shall be read into the Indenture or the Notes against the Trustee. If an Event of Default of which a responsible office of the Trustee has received notice has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture or the Notes as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture or the Notes at the request of any Holder, unless such Holder shall have provided to the Trustee pre-funding and/or indemnity and/or security satisfactory to it against any loss, liability or expense. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture will not be construed as an obligation or duty.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Issuer or the Parent Guarantor to obtain payment of claims in certain cases or to realize on

certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Issuer or the Parent Guarantor and their respective Affiliates and shall not be obligated to account for any profits therefrom; provided, however, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

The Trustee is indemnified and given relief from responsibility in circumstances as set out in the Indenture.

The Trustee shall not be responsible for the performance by any other person appointed by the Issuer or the Parent Guarantor in relation to the Notes and shall assume that the same are being duly performed. The Trustee shall not be liable to any holders or any other person for any action taken by the holders or the Trustee, as the case may be, in accordance with the instructions of the holders pursuant to the Indenture. The Trustee shall be entitled to seek directions from, and rely on any written direction of, the holders which has been duly given by the holders of the requisite principal amount of the Notes outstanding pursuant to the Indenture and the Trustee, in the absence of fraud, gross negligence or willful misconduct on its part, is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

Each Holder, by accepting the Notes agrees, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of, and investigation into, all risks arising under or in connection with the offering of the Notes and has not relied on and will not at any time rely on the Trustee in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “Global Note”). On the Original Issue Date, the Global Note will be registered in the name of the MOX, and deposited with, the MOX. Any additional Notes will be represented by additional global notes in registered form without interest coupons attached (the “Additional Global Notes” and, together with the Global Note, the “Global Notes”).

Global Notes

Ownership of beneficial interests in the Global Notes (the “book-entry interests”) will be limited to persons that have accounts with the MOX (“participants”) or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained by the MOX and its participants.

Except as set forth below under “— Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, the MOX will credit on its records a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form by the MOX, the MOX will be considered the sole holder of the Notes for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of the Notes for any purposes. As such, participants must rely on the procedures of the MOX and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of holders under the Indenture.

None of the Issuer, the Parent Guarantor, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Note

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent in Macau pataca.

The Paying Agent will, in turn, make payments to relevant direct participants in accordance with its procedures. Payments by direct participants to owners of book-entry interests held through such participants will be governed by arrangements agreed between the participants and the owners of the book-entry interests and are the responsibility of such participants.

Each of the Issuer and the Parent Guarantor will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “— Additional Amounts.”

Under the terms of the Indenture, the Issuer, the Parent Guarantor and the Trustee will treat the registered holder of the Global Notes (i.e., the MOX) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Parent Guarantor, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of the MOX or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by the Paying Agent or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of the MOX or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- any action or failure to take action by the MOX or any participant or indirect participant.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the Paying Agent will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the Paying Agent in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that under existing practices of the MOX, if fewer than all of the Notes are to be redeemed at any time, the MOX will credit its participants’ accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as it deems fair and appropriate; *provided, however*, that no book-entry interest of MOP1,000,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

The MOX has advised that it will take any action permitted to be taken by a Holder only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. The MOX will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. However, if there is an Event of Default under the Notes, the MOX reserves the right to exchange the Global Notes for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

So long as the Notes are held in global form and the relevant Global Notes are held by the MOX, transfers between participants in the MOX and the settlement methods are regulated by the MOX and will be effected in accordance with the MOX’s rules and procedures, as amended from time to time. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Notes in accordance with the normal procedures of the MOX and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Notes will be subject to the restrictions on transfer discussed under “Transfer Restrictions.”

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement under the Book-Entry System

Book-entry interests owned through MOX accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of MOX participants on the Business Day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of the MOX, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning the MOX

The Issuer understands as follows with respect to the MOX:

The MOX holds securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. The MOX provides to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. The MOX interfaces with domestic securities markets. MOX participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to the MOX is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a MOX participant, either directly or indirectly.

Although the foregoing sets out the procedures of the MOX in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of the MOX, the MOX is not under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Issuer, the Parent Guarantor, the Trustee or any of their respective agents will have responsibility for the performance of the MOX or its participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the MOX, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (2) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Issuer has received a written request from a Holder, the Issuer will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the Trustee, the Issuer will use its best efforts to make arrangements with the MOX for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Issuer and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through the MOX.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or mail (if intended for the Issuer or the Parent Guarantor) addressed to the Issuer or the Parent Guarantor at 18/F, China Merchants Tower, Shun Tak Centre, No. 168-200 Connaught Road Central, Hong Kong; facsimile number: +852 3960 8111), (if intended for the Trustee), at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of the MOX. Any such notice shall be deemed to have been delivered on the day such notice is delivered to the MOX, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

Each of the Issuer and the Parent Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, the Parent Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Cogency Global Inc. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Parent Guarantee and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the MOP Notes" for which no definition is provided.

"Adjusted Treasury Rate" means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after May 12, 2024, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

"Affiliate" means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“AMCM” means the Monetary Authority of Macau.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the principal amount of such Note on May 12, 2024 (such redemption price being described in the third paragraph in “Optional Redemption” exclusive of any accrued interest), plus all required remaining scheduled interest payments due on such Note through May 12, 2024 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Note on such redemption date.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which (1) if the Notes are lodged with the MOX, the MOX is not operating and closed for business, and (2) banking institutions in The City of New York, London, Hong Kong or Macau (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible or exchangeable into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Parent Guarantor with or into another Person (other than STDM) or the merger or amalgamation of another Person (other than STDM) with or into the Parent Guarantor, or the sale of all or substantially all the assets of the Parent Guarantor to another Person (other than STDM);
- (2) STDM is the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act) of less than 51% of the total voting power of the Voting Stock of the Parent Guarantor;
- (3) the adoption of a plan relating to the liquidation or dissolution of the Parent Guarantor; or
- (4) the first day on which Parent Guarantor ceases to own, directly or indirectly, 100% of the Voting Stock of the Issuer or Sociedade de Jogos de Macau, S.A.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, provided that the Notes are rated by at least one Rating Agency, a Rating Decline.

“Clearing System Business Day” means a day (other than a Saturday, Sunday or legal holiday) on which (1) banks and foreign exchange markets are open for business and settlement of Macau pataca payments in Macau and the place where the Principal Office of the Paying Agent is located, and (2) the Macau government provides public services.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to May 12, 2024 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a comparable maturity to May 12, 2024.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the definition of Adjusted Treasury Rate is applicable, the average of three (or such lesser number as is available) Reference Treasury Dealer Quotations for such redemption date.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; provided that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of a “change of control” occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in “— Repurchase of Notes at the Option of Holders — Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer’s and the Parent Guarantor’s repurchase of such Notes as are required to be repurchased pursuant to the covenants described under “— Repurchase of Notes at the Option of Holders — Change of Control Triggering Event.”

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Equity Offering” means (i) any bona fide public or private offering of Capital Stock (other than Disqualified Stock) of the Parent Guarantor, other than to Affiliates of the Parent Guarantor after the Original Issue Date, (ii) any bona fide underwritten secondary public offering or secondary private placement of Capital Stock (other than Disqualified Stock) of the Parent Guarantor beneficially owned by STDM or any other Person that directly or indirectly controls the Parent Guarantor, after the Original Issue Date, or (iii) any bona fide public or private offering of Capital Stock (other than Disqualified Stock) of STDM or any other Person that directly or indirectly controls the Parent Guarantor, other than to the Parent Guarantor or its Subsidiaries after the Original Issue Date; provided that in the instance of (ii) or (iii), to the extent that STDM or any other Person that directly or indirectly controls the Parent Guarantor, as the case may be, applies the net cash proceeds from such offering or private placement solely towards the Capital Stock of the Parent Guarantor.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Fitch” means Fitch Ratings Ltd. and its successors.

“GAAP” means Hong Kong Financial Reporting Standards or other generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Gaming Authorities” means, in any jurisdiction in which the Parent Guarantor or any of its Subsidiaries manages or conducts any casino, gaming business or activities, the applicable gaming board, commission, or other governmental gaming regulatory body or agency which (a) has, or may at any time after issuance of the Notes have, jurisdiction over the gaming activities of the Parent Guarantor or any of its Subsidiaries, or any successor to such authority or (b) is, or may at any time after the issuance of the Notes be, responsible for interpreting, administering and enforcing the Gaming Laws.

“Gaming Laws” means all applicable constitutions, treatises, resolutions, laws, regulations, instructions and statutes pursuant to which any Gaming Authority possesses regulatory, licensing or permit authority over gaming, gambling or casino activities, and all rules, rulings, orders, ordinances, regulations of any Gaming Authority applicable to the gambling, casino, gaming businesses or activities of the Parent Guarantor (or any other operator of the casino including any

of the Parent Guarantor's Affiliates) or the Parent Guarantor or any of its Subsidiaries in any jurisdiction, as in effect from time to time, including the policies, interpretations and administration thereof by the Gaming Authorities.

"Gaming License" means the license, concession, subconcession or other authorization from any Governmental Authority which authorizes, permits, concedes or allows the Parent Guarantor or any of its Subsidiaries, at the relevant time, to own or manage casino or gaming areas or operate casino games of fortune and chance.

"Governmental Authority" means the government of Macau or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

"Guidelines on Corporate Bonds" means Guidelines on Management of Corporate Bond Issuance and Trading and Guidelines on Underwriting and Custody of Corporate Bond issued by the AMCM (Circular no. 009/B/2019-DSB/AMCM and Circular no. 009/B/2019-DSB/AMCM), as amended or restated from time to time.

"Holder" means the Person in whose name a Note is registered in the Note register.

"Hong Kong" means the Hong Kong Special Administrative Region of the People's Republic of China.

"Incur" means, with respect to any Indebtedness, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness; provided that the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments; and
- (4) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person.

"Investment Grade" means a rating of BBB- or better by S&P (or its equivalent under any successor rating category of S&P), a rating of BBB- or better by Fitch (or its equivalent under any successor rating category of Fitch), a rating of Baa3 or better by Moody's (or its equivalent under any successor rating category of Moody's), and the equivalent ratings of any other "nationally recognized statistical rating organization" selected by the Issuer and the Parent Guarantor as having been substituted as a Rating Agency for S&P, Fitch or Moody's, as the case may be.

"Macau" means the Macau Special Administrative Region of the People's Republic of China.

"Moody's" means Moody's Investors Service, Inc. and its successors.

"MOX" means Chongwa (Macao) Financial Asset Exchange Co., Ltd.

"Net Cash Proceeds" means with respect to any issuance or sale of Capital Stock or securities convertible or exchangeable into Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment

obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Offer to Purchase" means an offer to purchase Notes by the Issuer or the Parent Guarantor from the Holders commenced by the Issuer or the Parent Guarantor, sending a notice to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 10 days nor later than 60 days from the date such notice is sent) (the "Offer to Purchase Payment Date");
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Issuer or the Parent Guarantor defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the tender agent (the "Tender Agent") at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Tender Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of MOP1,000,000 or integral multiples of MOP500,000 in excess thereof.

On one Business Day prior to the Offer to Purchase Payment Date, the Issuer or the Parent Guarantor shall deposit with the Tender Agent immediately available and cleared funds to pay the purchase price of all Notes or portions thereof so accepted. On the Offer to Purchase Payment Date, the Issuer or the Parent Guarantor shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officer's Certificate specifying the Notes or portions thereof accepted for payment by the Issuer or the Parent Guarantor. The Tender Agent shall promptly transfer to the Holders so accepted payment an amount equal to the purchase price, and the Registrar shall promptly authenticate and give to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of MOP1,000,000 or integral multiples of MOP500,000 in excess thereof. The Issuer and the Parent Guarantor will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. Each of the Issuer and the Parent Guarantor will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Issuer and the Parent Guarantor are required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, each of the Issuer

and the Parent Guarantor will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Issuer and the Parent Guarantor will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Issuer and the Parent Guarantor and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Parent Guarantor and its Subsidiaries which the Issuer or the Parent Guarantor, as the case may be, in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Issuer or the Parent Guarantor to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Parent Guarantor, or, in the case of the Issuer, one of the directors or officers of the Issuer.

“Officer’s Certificate” means a certificate signed by an Officer.

“Opinion of Counsel” means a written opinion from an external legal counsel reasonably acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Rating Agencies” means any of (i) S&P, (ii) Moody’s, (iii) Fitch or (iv) if any or all of them shall not make a rating of the Notes publicly available, any other “nationally recognized statistical rating organization” that is registered as such pursuant to Section 15E of the Exchange Act and Rule 17g thereunder selected by the Issuer and the Parent Guarantor as a replacement agency.

“Rating Category” means: (1) with respect to S&P, any of the following categories: “AAA,” “AA,” “A,” “BBB,” “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Aaa,” “Aa,” “A,” “Baa,” “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); (3) with respect to Fitch, any of the following categories “AAA,” “AA,” “A,” “BBB,” “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody’s or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P and Fitch; “1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “B+” to “B-,” will constitute a decrease of one gradation).

“Rating Date” means in connection with a Change of Control Triggering Event, that date which is 60 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Parent Guarantor or any other Person or Persons to effect a Change of Control.

“Rating Decline” means in connection with a Change of Control Triggering Event, the occurrence on, or within 60 days after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Parent Guarantor or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below:

- (1) in the event the Notes or the Parent Guarantor are rated by two Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes or the Parent Guarantor by either Rating Agency shall be below Investment Grade;

- (2) in the event the Notes or the Parent Guarantor are rated by one, and only one, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes or the Parent Guarantor by such Rating Agency shall be below Investment Grade; or
- (3) in the event either the Notes or the Parent Guarantor is rated below Investment Grade by any two Rating Agencies on the Rating Date, such rating of the Notes or the Parent Guarantor by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories);

provided that for a decline that occurs during the review period subsequent to the initial occurrence, public notice or notice of intention, such decline will only qualify as a Ratings Decline if (i) such Rating Agencies' published report refers to the Change of Control as a factor, or one of the factors in the downgrade, and (ii) such Rating Agencies have not previously affirmed their ratings following the initial occurrence, public notice or notice of intention.

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Parent Guarantor in good faith.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

"S&P" means S&P Rating Inc., a division of S&P Global Ratings, and its successors.

"Significant Subsidiary" means a Subsidiary that would be a "significant subsidiary" within the meaning of the definition of "significant subsidiary" in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Original Issue Date; provided that in each instance in such definition in which the term "10 percent" is used, the term "5 percent" shall be substituted therefor, and provided further that, in any fiscal year of the Parent Guarantor when the income before tax of the Parent Guarantor as shown in its consolidated financial statements for such fiscal year is negative or zero, the term "(3) The registrant's and its other subsidiaries' equity in the income from continuing operations before income taxes of the subsidiary exclusive of amounts attributable to any non-controlling interests exceeds 10 percent of such income of the registrant and its subsidiaries consolidated for the most recently completed fiscal year" shall be deemed to be deleted in its entirety from the definition of "significant subsidiary" in such Regulation.

"Special Put Option Triggering Event" means:

- (1) any event after which none of the Parent Guarantor or any of its Subsidiaries has such licenses, concessions, sub-concessions or other permits or authorizations as are necessary for the Parent Guarantor and its Subsidiaries to own or manage casino or gaming areas or operate casino games of fortune and chance in Macau in substantially the same manner and scope as the Parent Guarantor and its Subsidiaries are entitled to at the Original Issue Date, for a period of 20 consecutive days or more, and such event has a material adverse effect on the financial condition, business, properties, or results of operations of the Parent Guarantor and its Subsidiaries, taken as a whole; or
- (2) the termination, rescission, revocation or modification of any Gaming License which has had a material adverse effect on the financial condition, business, properties, or results of operations of the Parent Guarantor and its Subsidiaries, taken as a whole.

"Stated Maturity" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date

specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“STDM” means Sociedade de Turismo e Diversões de Macau, S.A.

“Subsidiary” means, with respect to any Person, (1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders’ agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person.

DESCRIPTION OF THE HK\$ NOTES

For purposes of this “Description of the HK\$ Notes,” (i) the term “Issuer” refers only to Champion Moments Limited, a company incorporated with limited liability under the laws of the British Virgin Islands, and any successor obligor on the Notes, and not to any of its Subsidiaries, and (ii) the term “Parent Guarantor” refers only to SJM Holdings Limited, a company incorporated with limited liability under the laws of Hong Kong, and any successor obligor on the Notes, and not to any of its Subsidiaries. The Parent Guarantor’s guarantee of the Notes is referred to as the “Parent Guarantee.” The term “Notes” in this section refers only to the HK\$ Notes.

The HK\$ Notes are to be issued under an indenture, to be dated as of May 12, 2021, among the Issuer, the Parent Guarantor and Bank of China Limited, Macau Branch, as trustee (the “Trustee”). The HK\$ Notes are identical in all material respects with the MOP Notes, other than as set out below.

The indenture governing the HK\$ Notes will be substantially identical to the indenture governing the MOP Notes except those difference as summarized below. For a summary of the material provisions of the indenture governing the HK\$ Notes, please read the section entitled “Description of the MOP Notes” in this offering memorandum in conjunction with this section, in which instance the terms “MOP”, “Macau pataca”, “MOP Notes” and “Indenture” in that section shall be construed accordingly to refer to HK\$, Hong Kong dollar, the HK\$ Notes and the indenture governing the HK\$ Notes.

Maturity and Interest

The Notes will mature on May 12, 2026, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 3.90% per annum from and including the Original Issue Date or from and including the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on May 12 and November 12 (each an “Interest Payment Date”), commencing November 12, 2021. Interest on overdue principal and interest will accrue at a rate that is 1% higher than the then applicable interest rate on the Notes. Interest on the Notes will be paid to Holders of record at the close of business on April 27 or October 28, or, if the Notes are held in global form and lodged with Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the “MOX”), on the seventh Clearing System Business Day immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. The period beginning on and including the Original Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “Interest Period”. Interest on the Notes will be calculated on the basis of the actual number of days in an Interest Period (or such other period) and a 365-day year, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

Optional Redemption

At any time prior to May 12, 2024, the Issuer may redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. Neither the Trustee nor any of the Agents shall be responsible for verifying or calculating the Applicable Premium.

At any time and from time to time prior to May 12, 2024, the Issuer may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more Equity Offerings at a redemption price of 103.90% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided that* at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 45 days after the closing of the related Equity Offering.

At any time from time to time on or after May 12, 2024, the Issuer may on any one or more occasions redeem the Notes, in whole or in part, at a redemption price equal to the percentage of

principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on May 12 of the years indicated below:

Year	Percentage
2024	101.950%
2025 and thereafter	100.975%

Any redemption described under this “— Optional Redemption” caption may, at the Issuer’s discretion, be subject to one or more conditions precedent, in which case the related notice will describe each such condition, and if applicable, shall state that, in the Issuer’s discretion, the date of redemption may be delayed until such time as any or all such conditions shall be satisfied or waived, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied or waived by the date of redemption, or by the date of redemption as so delayed.

If the optional redemption date is on or after a Record Date and on or before the related Interest Payment Date, the accrued and unpaid interest will be paid to the Person in whose name the Note is registered at the close of business on such Record Date, and no additional interest will be payable to Holders whose Notes will be subject to redemption by the Issuer.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the HK\$ Notes” for which no definition is provided.

“Adjusted Treasury Rate” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after May 12, 2024, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the principal amount of such Note on May 12, 2024 (such redemption price being described in the third paragraph in “Optional Redemption” exclusive of any accrued interest), plus all required remaining scheduled interest payments due on such Note through May 12, 2024 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Note on such redemption date.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to May 12, 2024 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a comparable maturity to May 12, 2024.

TAXATION

The following summary of certain BVI, Hong Kong and Macau tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

BVI Taxation

Under existing BVI laws, payments of interest and principal on the Notes will not be subject to taxation in the BVI and no withholding will be required on the payment of interest and principal to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to BVI income or corporation tax, provided that the payments are made to persons who are not resident in the BVI.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to the Notes.

All instruments relating to transactions in respect of the Notes are exempt from payment of stamp duty in the BVI. This assumes that the Issuer does not hold an interest in real estate in the BVI.

There are currently no withholding taxes or exchange control regulations in the BVI applicable to us.

If neither the Issuer nor any subsidiary holds an interest in real estate in the BVI, no stamp duty is payable in respect of the issue of the Notes or on an instrument of transfer in respect of the Notes.

Hong Kong Taxation

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Interest payments on the Notes will be subject to Hong Kong profits tax where such payments are received by or accrue to:

- a financial institution (as defined in the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)) and the income arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong, where such interest is derived from Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong, such payment is in respect of the funds of the trade, profession or business, where such interest is derived from Hong Kong.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on sums derived from the sale, disposal or redemption of the Notes where such sums are received by or accrue to a person, not being a financial institution, from the carrying on of a trade, profession or business carried on in Hong Kong and the sums have a Hong Kong source, or where such sums are received by or accrue to a financial institution by way of gains on profit arising from or through the carrying on by the financial institution of its business in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside Hong Kong).

Macau Taxation

Withholding Tax

No withholding tax is payable in Macau in respect of payments of principal or interest in respect of the Notes or in respect of any capital gains arising from the sale of the Notes.

Stamp Duty

Pursuant to sections 13 and 14 of the General Table of Stamp Duty, attached to the Stamp Duty Regulation, as approved and amended by Law no. 17/88/M dated 27 June 1988 and Law no. 24/2020, both the issuance of the Notes and their transfer is subject to stamp duty at the rate of two per one thousand calculated over the amount of the Notes and at the rate of five per one thousand calculated over the transaction amount, respectively.

However, for the year of 2021, taxation over the said issuance and transfer has been exempted by article 16 of the Macau Budget Law for the year of 2021, as approved by Law no. 27/2020 dated 31 December 2020.

Documents and contracts issued or signed out of Macau if needed to be presented before any Macau Authority, Public Service or Court, need to pay stamp duty as if they were issued or executed in Macau.

Before investing in the Notes, each potential investor should understand thoroughly (either alone or with the help of its own tax adviser) the possible Macau tax consequences of buying, holding or selling any Notes and the procedures for paying any stamp duty due.

Complementary Income Tax

The Complementary Income Tax shall be considered as profit tax in commercial or industrial activities which charges the tax payer on the actual profit or estimated profit as obtained in Macau pursuant to section 2 of the Regulation of Complementary Income Tax, as approved by Law no. 21/78/M dated 9 September 1978, and its section 20 sets out that interest on Notes or capital gains arising from the sale of the Notes are taxable income for calculating profit. The latest amendment of the Regulation of Complementary Income Tax (Law no. 21/2019) stipulates exemptions from Complementary Income Tax in relation to three types of bonds (including government bonds, local government bonds and central SOE bonds). However, none of such exemptions is applicable to the Notes. As per the Regulation of Complementary Income Tax, the tax rate of Complementary Income Tax is up to 12% (subject to any double taxation agreement as may be entered into between Macau and the relevant jurisdiction of the taxpayer).

Nevertheless, the budget law for the year 2020 (Law no. 22/2019) has set out an exemption of Complementary Income Tax up to the amount of MOP600,000.00 for the tax year of 2020. In addition, under section 22 of law 3/2020 (amendment to budget law for the year 2020), the taxpayer is entitled to a deduction in the amount of MOP300,000.00 to its tax collection amount for the tax year of 2020.

Similarly, the Macau Budget Law for the year of 2021, as approved by Law no. 27/2020 dated 31 December 2020, also stipulated an exemption of Complementary Income Tax up to the amount of MOP600,000.00 for the tax year of 2020. Additionally, the said Law also included an exemption for the tax year of 2021 in relation to the Complementary Income Tax for interest or profits received from sales and purchase, redemption or disposal of the bonds issued in Macau.

The beneficiary of the Notes' interest shall be the taxpayer of the Complementary Income Tax.

There is no withholding or deduction requirement imposed on the Issuer in respect of payments of principal or interest in respect of the Notes or in respect of any capital gains arising from the sale of the Notes. As the Issuer is not obliged to withhold or deduct the Complementary Income Tax under Macau law, the Issuer has no obligation to gross up for such tax under Condition 12 of the Terms and Conditions of the Notes.

The beneficiary of the Notes' interest is required to complete the related tax enrolment procedure for the fulfilment of the tax duties in connection with the Notes. The beneficiary of the Notes' interest who is not a Macau resident shall also submit documents to the Macau tax authority (which is the Finance Service Bureau) for the registration as taxpayer in Macau.

If the beneficiary fails to submit the tax filings accurately within the prescribed time period, the Macau tax authority may impose a penalty of up to MOP20,000.00. If the beneficiary fails to pay Complementary Income Tax within 60 days from the prescribed time period, the Macau tax authority may impose the payment of late interests as well as an extra payment of 3% over the amount of Complementary Income Tax payable.

Before investing in the Notes, each potential investor should understand thoroughly (either alone or with the help of its own tax adviser) the possible Macau tax consequences of buying, holding or selling any Notes and the procedures for paying such Complementary Income Tax.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and the Notes characterized as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

PLAN OF DISTRIBUTION

Industrial Commercial Bank of China (Macau) Limited, Bank of China Limited, Macau Branch, BNP Paribas, Banco Nacional Ultramarino, S.A., Bank of Communications Co., Ltd. Macau Branch, China Construction Bank Corporation Macau Branch, and The Bank of East Asia, Limited are acting as joint lead managers and joint lead bookrunners of the offering, and as Initial Purchasers, of the Notes. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each Initial Purchaser named below has severally agreed to purchase, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite such Initial Purchaser's name.

Initial Purchaser	Principal Amount of MOP Notes	Principal Amount of HK\$ Notes
Industrial and Commercial Bank of China (Macau) Limited	MOP80,000,000	HK\$350,000,000
Bank of China Limited, Macau Branch	MOP80,000,000	HK\$300,000,000
BNP Paribas	MOP80,000,000	HK\$300,000,000
Banco Nacional Ultramarino, S.A.	MOP15,000,000	HK\$75,000,000
Bank of Communications Co., Ltd. Macau Branch	MOP15,000,000	HK\$75,000,000
China Construction Bank Corporation Macau Branch	MOP15,000,000	HK\$75,000,000
The Bank of East Asia, Limited	MOP15,000,000	HK\$75,000,000
Total	<u>MOP300,000,000</u>	<u>HK\$1,250,000,000</u>

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are several and not joint and subject to approval of legal matters by counsel and to other conditions. The purchase agreement may be terminated by the Initial Purchasers in certain circumstances prior to the delivery and payment of the Notes.

We have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities. In addition, we have agreed to reimburse the Initial Purchasers for certain expenses incurred in connection with the offering of the Notes.

No Sale of Similar Securities

We have agreed that, for a period of 90 days from the Issue Date, we will not, without the prior written consent of the Initial Purchasers, offer, sell, contract to sell or otherwise dispose of, except as provided under the purchase agreement, any debt securities issued or guaranteed by the Issuer or the Parent Guarantor, or securities that are convertible into or exchangeable for the securities or such other debt securities.

Commissions and Discounts

The Initial Purchasers propose to resell the Notes at the issue price set forth on the cover page of this offering memorandum only outside the United States in offshore transactions in reliance on Regulation S. After the initial offering, the prices at which the Notes are offered may be changed at any time without notice. Purchasers may offer and sell the Notes through certain of their affiliates.

Notes and the Parent Guarantee Are Not Being Registered

The Notes and the Parent Guarantee have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

New Issue of the Notes

The Notes will constitute a new class of securities with no established trading market. Application has been made to the MOX for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any such market making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchasers. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

Settlement

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

Stabilization

In connection with this offering, any of the Initial Purchasers appointed and acting in its capacity as a stabilizing manager (or persons acting on behalf of any stabilizing manager(s)) may over allot notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. Specifically, the Initial Purchasers may over allot the offering, creating a syndicate short position. In addition, the Initial Purchasers may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities, which may be effected in the over-the-counter market or otherwise, may stabilize or maintain the market price of the Notes above independent market levels. However, stabilization may not necessarily occur and any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilization action or over allotment must be conducted by the relevant stabilizing manager(s) (or person(s) acting on behalf of any stabilizing manager(s)) in accordance with all applicable laws and rules.

Other Relationships with the Initial Purchasers

Certain of the Initial Purchasers and their affiliates are agents, arrangers and/or lenders under the Syndicated Credit Facilities and, accordingly, may receive a portion of the net proceeds of this offering through any repayment of borrowings under the Syndicated Credit Facilities. See “Description of Other Material Indebtedness.”

The Initial Purchasers or their affiliates have performed commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers or their affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses. Furthermore, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the Initial Purchasers or their affiliates that have a lending relationship with us routinely hedge or are likely to hedge their credit exposure to us consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including

potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. We may also enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

In connection with this offering of the Notes, each Initial Purchaser and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any of our other securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Notes. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes, the Parent Guarantee or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes and the Parent Guarantee may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or their respective affiliates on behalf of us in such jurisdiction.

United States

The Notes and the Parent Guarantee have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions.”

Prohibition of Sales to EEA Retail Investors

Each Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the EU Prospectus Regulation; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Prohibition of sales to UK Retail Investors — Each Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the UK. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
 - (iii) not a qualified investor as defined in Article 2 of UK Prospectus Regulation; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Each Initial Purchaser has further represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21 (1) of the FSMA does not apply to the Issuer; and

it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the UK.

BVI

No invitation has been or will be made directly or indirectly to the public in the BVI or any person resident or citizen in the BVI to subscribe for any of the Notes and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the BVI. This offering memorandum does not constitute, and will not be, an offering of the Notes to any person in the BVI.

Hong Kong

This offering memorandum neither constitutes a “prospectus” (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) (the “**C(WUMPO)**”), nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the “**SFO**”). This offering memorandum is for distribution in Hong Kong only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made thereunder.

Each Initial Purchaser has represented that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the SFO and any rules made under the SFO; or (ii) in circumstances which do not result in this offering memorandum being a “prospectus” as defined in the C(WUMPO) or which do not constitute an offer to the public within the meaning of C(WUMPO); and

- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Macau

Each of the Initial Purchasers has represented, warranted and agreed that the Notes have not been and will not be promoted, distributed, sold or delivered in Macau, or any document relating to the Notes be distributed or circulated in Macau, except under the terms of and in compliance with the Financial System Act, as approved by Decree Law no. 32/39/M dated 5 July 1993, and Guidelines under Circular no. 033/B/2010-DSB/AMCM and Guidelines no. 009/B/2019-DSB/AMCM (relating to the issuance of bonds and the management of services regarding the respective selling and negotiation) and no. 009/B/2019-DSB/AMCM (relating to the underwriting and custody of bonds) and any other laws in Macau that may apply to the offer and sale of the Notes in Macau. The Notes are registered for public offer under the Financial System Act and Guidelines under Circular no. 033/B/2010-DSB/AMCM and Guidelines no. 009/B/2019-DSB/AMCM (relating to the issuance of bonds and the management of services regarding the respective selling and negotiation) and no. 009/B/2019-DSB/AMCM (relating to the underwriting and custody of bonds) to offer and sell to Professional Investors, and may only be offered or sold in Macau by Macau licensed entities according to the Macau Financial System Act and upon their communication to the Monetary Authority of Macau and the MOX, in observation of the guidelines and recommendations issued by the Macau local regulatory authority from time to time.

The Initial Purchasers who are not Macau licensed entities will not promote, distribute, sell or deliver any of the Notes in Macau.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”), and disclosure under the FIEA has not been made with respect to the Notes. Accordingly, each Initial Purchaser represents and agrees that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which terms as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

Each Initial Purchaser has acknowledged that this offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Initial Purchaser has represented, warranted and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase, and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2 (1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

PRC

Each Initial Purchaser has acknowledged that this offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Each Initial Purchaser has represented and agreed that, except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are encouraged to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes. The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, you will be deemed to have made the following acknowledgements, representations to, and agreements with, the Issuer, the Parent Guarantor, and the Initial Purchasers:

1. You understand and acknowledge that:
 - the Notes and the Parent Guarantee have not been registered under the Securities Act or any other applicable securities laws;
 - the Notes are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;
 - the Notes are being offered and sold only outside the United States in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and
 - unless so registered, the Notes may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph 4 below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, you are not acting on our behalf, and you are purchasing the Notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither the Issuer nor the Parent Guarantor nor the Initial Purchasers nor any person representing the Issuer, the Parent Guarantor, or the Initial Purchasers have made any representation to you with respect to our Group or the offering of the Notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning our Group and the Notes as you have deemed necessary in connection with your decision to purchase the Notes including an opportunity to ask questions of and request information from our Group.
4. You represent that you are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act.
5. You also acknowledge that each Note will contain a legend substantially to the following effect:

THIS NOTES AND THE PARENT GUARANTEE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

6. You acknowledge that the Issuer, the Parent Guarantor, the Initial Purchasers, the Trustee, the Transfer Agent and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Notes is no longer accurate, you will promptly notify the Issuer, the Parent Guarantor, and the Initial Purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.
7. You understand that the each of the MOP Notes and the HK\$ Notes initially will be represented by a global note and that transfers thereto are restricted as described under “Description of the MOP Notes — Book-Entry; Delivery and Form.”

RATINGS

The Notes are unrated. We have been assigned a corporate family rating of Ba1 with a negative outlook by Moody's and a long-term foreign currency issuer default rating of BB+ with a negative outlook by Fitch. The ratings do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Further, we cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

We are being represented by Latham & Watkins LLP with respect to legal matters of U.S. federal and New York law. Certain legal matters with respect to legal matters of U.S. federal and New York law in connection with this offering will be passed upon for the Initial Purchasers by King & Wood Mallesons. Certain legal matters as to BVI law will be passed upon for us by Maples and Calder (Hong Kong) LLP. Certain legal matters as to Macau law will be passed upon for us by C&C Advogados. Certain legal matters as to Macau law will be passed upon for the Initial Purchasers by Manuela António – Lawyers and Notaries.

INDEPENDENT AUDITOR

The consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included in this offering memorandum, have been audited by Deloitte, independent certified public accountants, as stated in the reports appearing herein.

The consolidated financial statements as of and for the year ended December 31, 2018 are included as comparative information within the audited consolidated financial statements as of and for the year ended December 31, 2019.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Notes and the Parent Guarantee. The entering into of the Indentures and the issue of the Notes have been authorized by a resolution of the board of directors of the Issuer dated February 23, 2021. The entering into and performance of the Parent Guarantee has been authorized by a resolution of the board of directors of our Company dated February 23, 2021.

Documents Available

For so long as any of the Notes are outstanding, copies of the Indentures may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the Trustee.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the most recent two fiscal years may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the Trustee.

Litigation

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes and the Parent Guarantee.

No Material Adverse Change

Except as disclosed in this offering memorandum, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2020 that is material in the context of the issue of the Notes and the Parent Guarantee.

Clearing Systems And Settlement

The Notes have been accepted for clearance through the MOX. Certain trading information with respect to the Notes is set forth below:

	ISIN
MOP Notes	MO000A3KNNH2
HK\$ Notes	MO000A3KNNJ8

Only Notes evidenced by a Global Note have been accepted for clearance through the MOX.

Listing of The Notes

Application has been made to the MOX for the listing of, and permission to deal in, the Notes issued to Professional Investors only. The MOX takes no responsibility for the correctness of any statements made on opinions or reports contained in this offering memorandum. Listing of the Notes on the MOX is not to be taken as an indication of the merits of the Notes or us.

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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 98 to 198, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 ("HKSAs") 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 MATTER

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of construction in progress ("CIP") and right-of-use assets related to Grand Lisboa Palace Project ("GLP Project")

We identified the impairment assessment of CIP and right-of-use assets related to GLP Project as a key audit matter because the estimation of the recoverable amount of the CIP and right-of-use assets related to GLP Project involved significant management judgement and estimation with respect to the assumptions used.

At 31 December 2020, the carrying amounts of CIP and right-of-use assets related to GLP Project amounted to approximately HK\$34,023.0 million and HK\$1,970.0 million, respectively as set out in note 4 to the consolidated financial statements. In the opinion of the directors of the Company, no impairment loss was recognised on the CIP and right-of-use assets related to GLP Project as at 31 December 2020.

As disclosed in note 4 to the consolidated financial statements, the management of the Group considered there was indication for impairment for the CIP and right-of-use assets related to GLP Project due to the changes in market conditions after the outbreak of coronavirus disease ("COVID-19"). The management of the Group prepared discounted cash flow projections for GLP Project based on the financial budget approved by the management of the Group and engaged an independent professional valuer (the "Valuer") to conduct impairment assessment on the recoverable amounts of CIP and right-of-use assets related to GLP Project as at 31 December 2020. The key assumptions adopted by the management of the Group are the pre-tax discount rate, terminal growth rate and expected changes in revenues and costs of approved financial budget in the discounted cash flow projections.

Our procedures in relation to evaluating the appropriateness of the impairment assessment of CIP and right-of-use assets related to GLP Project included:

- Understanding the impairment assessment process of the Group with the involvement of the Valuer engaged by the management of the Group to estimate the recoverable amounts of the CIP and right-of-use assets related to GLP Project;
- Evaluating the competence, capabilities and objectivity of the Valuer;
- Assessing the reasonableness of the key assumptions adopted by the management of the Group in determining the recoverable amounts of CIP and right-of-use assets related to GLP Project including terminal growth rate and expected changes in revenues and costs of approved financial budget by comparing the management's expectations for the market development to relevant industry growth forecasts and with reference to market information based on our knowledge of the business;
- Assessing the reasonableness of discount rate applied in the discounted cash flow projections by developing independent expectations for the discount rate based on market data and certain company specific input data, as well as evaluating the reasonableness of input data applied by the Valuer, with the involvement of our valuation specialists; and
- Performing sensitivity test on reasonably possible changes of pre-tax discount rate and terminal growth rate to assess the potential impact on the recoverable amounts.

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.

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, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT

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 Au Mei Yin.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23 February 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$ million	2019 HK\$ million
Gaming, hotel, catering, retail and related services revenues	5(a)	7,506.7	33,875.0
Gaming revenue	6	7,304.2	33,158.5
Special gaming tax, special levy and gaming premium		(3,368.2)	(15,530.6)
		3,936.0	17,627.9
Hotel, catering, retail and related services income		202.5	716.5
Cost of sales and services on hotel, catering, retail and related services		(204.1)	(377.3)
Other income, gains and losses		156.9	333.0
Impairment loss on financial assets		—	(200.0)
Marketing and promotional expenses		(124.7)	(6,219.9)
Operating and administrative expenses		(7,103.8)	(8,496.5)
Finance costs	7	(31.7)	(33.7)
Share of profits of an associate	17	11.7	11.8
Share of profits of a joint venture	18	4.8	7.3
(Loss) profit before taxation	8	(3,152.4)	3,369.1
Taxation	10	(22.5)	(51.6)
(Loss) profit for the year		(3,174.9)	3,317.5
Other comprehensive expense:			
<i>Item that will not be reclassified to profit or loss:</i>			
Change in fair value of investments in equity instruments designated at fair value through other comprehensive income		(313.7)	(48.2)
Total comprehensive (expense) income for the year		(3,488.6)	3,269.3
(Loss) profit for the year attributable to:			
owners of the Company		(3,024.9)	3,207.3
non-controlling interests		(150.0)	110.2
		(3,174.9)	3,317.5

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$ million	2019 HK\$ million
Total comprehensive (expense) income for the year attributable to:			
owners of the Company		(3,338.6)	3,159.1
non-controlling interests		(150.0)	110.2
		(3,488.6)	3,269.3
(Loss) earnings per share:			
Basic	12	HK(53.3) cents	HK56.6 cents
Diluted	12	HK(53.3) cents	HK56.6 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK\$ million	2019 HK\$ million
Non-current assets			
Property and equipment	13	39,559.0	35,159.8
Right-of-use assets	14	3,353.4	2,864.3
Intangible asset	15	131.7	197.6
Art works and diamonds	16	281.3	281.3
Interest in an associate	17	347.7	336.4
Interest in a joint venture	18	139.8	135.0
Investments in equity instruments designated at fair value through other comprehensive income	19	554.4	868.1
Other assets	20	1,161.7	840.8
Pledged bank deposit	21	145.6	—
		45,674.6	40,683.3
Current assets			
Inventories		121.7	103.3
Trade and other receivables	22	798.0	1,314.1
Pledged bank deposits	21	1.4	1,020.7
Short-term bank deposits	23	818.2	5,766.2
Bank balances and cash	23	5,307.6	8,738.1
		7,046.9	16,942.4
Current liabilities			
Trade and other payables	24	7,730.8	12,044.3
Taxation payable		37.2	123.7
Long-term bank loans	25	5,272.2	217.0
Lease liabilities	26	256.4	177.6
		13,296.6	12,562.6
Net current (liabilities) assets		(6,249.7)	4,379.8
Total assets less current liabilities		39,424.9	45,063.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK\$ million	2019 HK\$ million
Non-current liabilities			
Other payables	24	66.7	—
Long-term bank loans	25	13,514.9	15,063.7
Lease liabilities	26	929.6	547.7
Amount due to non-controlling interests of a subsidiary	27	263.3	203.8
Deferred taxation	28	10.5	11.8
		14,785.0	15,827.0
Net assets		24,639.9	29,236.1
Capital and reserves			
Share capital	29	11,435.5	11,281.4
Reserves		13,092.6	17,717.0
Equity attributable to owners of the Company		24,528.1	28,998.4
Non-controlling interests		111.8	237.7
Total equity		24,639.9	29,236.1

The consolidated financial statements on pages 98 to 198 were approved and authorised for issue by the Board of Directors on 23 February 2021 and are signed on its behalf by:

Ho Chiu Fung, Daisy
Director

So Shu Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	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 2019	11,254.1	849.0	325.9	15,028.3	27,457.3	134.5	27,591.8
Profit for the year	—	—	—	3,207.3	3,207.3	110.2	3,317.5
Other comprehensive expense for the year	—	—	(48.2)	—	(48.2)	—	(48.2)
Total comprehensive (expense) income for the year	—	—	(48.2)	3,207.3	3,159.1	110.2	3,269.3
Exercise of share options	27.3	(8.0)	—	—	19.3	—	19.3
Recognition of equity-settled share-based payments	—	5.5	—	—	5.5	—	5.5
Release of lapsed equity-settled share-based payments	—	(48.3)	—	48.3	—	—	—
Arising from changes in cash flow estimates on an amount due to non-controlling interests of a subsidiary (note 27)	—	—	—	—	—	(7.2)	(7.2)
Arising from changes in shareholding of a subsidiary	—	—	—	(0.2)	(0.2)	0.2	—
Dividends paid (note 11)	—	—	—	(1,642.6)	(1,642.6)	—	(1,642.6)
	27.3	(50.8)	—	(1,594.5)	(1,618.0)	(7.0)	(1,625.0)
At 31 December 2019	11,281.4	798.2	277.7	16,641.1	28,998.4	237.7	29,236.1
Loss for the year	—	—	—	(3,024.9)	(3,024.9)	(150.0)	(3,174.9)
Other comprehensive expense for the year	—	—	(313.7)	—	(313.7)	—	(313.7)
Total comprehensive expense for the year	—	—	(313.7)	(3,024.9)	(3,338.6)	(150.0)	(3,488.6)
Exercise of share options	154.1	(40.6)	—	—	113.5	—	113.5
Recognition of equity-settled share-based payments	—	1.6	—	—	1.6	—	1.6
Release of lapsed equity-settled share-based payments	—	(37.4)	—	37.4	—	—	—
Arising from changes in cash flow estimates on an amount due to non-controlling interests of a subsidiary (note 27)	—	—	—	—	—	17.1	17.1
Deemed capital contribution from non-controlling interests of a subsidiary (note 27)	—	—	—	—	—	7.0	7.0
Dividends paid (note 11)	—	—	—	(1,246.8)	(1,246.8)	—	(1,246.8)
	154.1	(76.4)	—	(1,209.4)	(1,131.7)	24.1	(1,107.6)
At 31 December 2020	11,435.5	721.8	(36.0)	12,406.8	24,528.1	111.8	24,639.9

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 HK\$ million	2019 HK\$ million
Operating activities		
(Loss) profit before taxation	(3,152.4)	3,369.1
Adjustments for:		
Interest income	(116.3)	(304.8)
Interest expenses	26.5	26.2
Imputed interest on an amount due to non-controlling interests of a subsidiary	5.2	7.5
Dividend income	(2.0)	(3.8)
Share of profits of an associate	(11.7)	(11.8)
Share of profits of a joint venture	(4.8)	(7.3)
(Gain) loss on modification of long-term bank loans	(2.0)	9.8
Depreciation of property and equipment	547.0	827.6
Depreciation of right-of-use assets	387.3	227.7
Amortisation of intangible assets	65.9	—
Loss on disposal/write-off of property and equipment	1.3	2.1
Share-based payments	1.6	5.5
COVID-19-related rent concessions	(148.1)	—
Impairment loss on financial assets	—	200.0
Operating cash flows before movements in working capital	(2,402.5)	4,347.8
Increase in inventories	(18.4)	(12.5)
Decrease in trade and other receivables	455.2	103.9
(Decrease) increase in trade and other payables	(5,416.8)	39.9
Cash (used in) from operations	(7,382.5)	4,479.1
Income tax paid	(110.3)	(55.7)
Net cash (used in) from operating activities	(7,492.8)	4,423.4

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 HK\$ million	2019 HK\$ million
Investing activities		
Interest received	157.0	331.4
Dividends received	1.5	3.8
Purchase of property and equipment	(3,045.8)	(5,501.6)
Proceeds from disposal of property and equipment	0.2	2.7
Deposits paid for purchase of property and equipment	(401.8)	(311.2)
Purchase of right-of-use assets	(0.2)	—
Payments for rental deposits	(3.4)	(0.2)
Proceeds of rental deposits refunded	7.8	1.6
Repayment from an investee company	2.0	8.0
Withdrawal of short-term bank deposits	9,961.6	22,112.4
Placement of short-term bank deposits	(5,013.6)	(15,509.9)
Withdrawal of pledged bank deposits	873.8	—
Placement of pledged bank deposits	(0.1)	(873.8)
Acquisition of an intangible asset	—	(197.6)
Repayments from contractors	—	668.5
Net cash from investing activities	2,539.0	734.1
Financing activities		
Interest paid	(506.9)	(541.3)
Dividends paid	(1,246.8)	(1,642.6)
Proceeds on issue of shares	113.5	19.3
New long-term bank loans raised	3,500.0	—
Payment of long-term bank loans arrangement fee	(20.5)	(25.0)
Repayment of long-term bank loans	(50.0)	(200.0)
Repayments of lease liabilities	(344.4)	(254.5)
Advance from (repayment to) non-controlling interests of a subsidiary	78.4	(98.0)
Net cash from (used in) financing activities	1,523.3	(2,742.1)
Net (decrease) increase in cash and cash equivalents	(3,430.5)	2,415.4
Cash and cash equivalents at 1 January	8,738.1	6,322.7
Cash and cash equivalents at 31 December	5,307.6	8,738.1
Analysis of the balances of cash and cash equivalents, representing bank balances and cash	5,307.6	8,738.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

SECTION A

THE COMPANY'S STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

	Notes	2020 HK\$ million	2019 HK\$ million
Non-current assets			
Property and equipment		—	0.1
Investments in subsidiaries	40	4,067.8	4,359.3
		4,067.8	4,359.4
Current assets			
Other receivables, deposits and prepayments		4.4	25.2
Amounts due from subsidiaries	41	13,627.7	10,251.5
Short-term bank deposits		792.0	3,319.8
Bank balances and cash		1,204.0	1,759.5
		15,628.1	15,356.0
Current liabilities			
Other payables and accruals		12.3	15.3
Amount due to a subsidiary	41	—	291.5
		12.3	306.8
Net current assets		15,615.8	15,049.2
Net assets		19,683.6	19,408.6
Capital and reserves			
Share capital	29	11,435.5	11,281.4
Reserves	31	8,248.1	8,127.2
Total equity		19,683.6	19,408.6

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 23 February 2021 and is signed on its behalf by:

Ho Chiu Fung, Daisy
Director

So Shu Fai
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

SECTION B

1. GENERAL INFORMATION

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 operations of casinos and related facilities, and hotel, catering, retail and related services 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 the annual report.

The consolidated financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the Company.

COVID-19 Pandemic

Due to the outbreak of the coronavirus disease (“COVID-19”), there are travel restrictions such as those related to the China Individual Visit Scheme (“China IVS”), the Hong Kong Macau Ferry Terminal closure and other countries restricting inbound travel from mainland China. The Group suspended its casino operations from 5 February 2020 to 19 February 2020 following the measures from Macau SAR government in an effort to contain the spread of the pandemic. Starting from 20 February 2020, the Group resumed the casino operations gradually. Since reopening, patrons are subject to a number of measures, including mandatory wearing of masks, completion of health declarations, temperature checks and spacing of seats at table games and slot machines. Visitations to Macau SAR decreased substantially in 2020 due to various government policies on travel restrictions and quarantine requirements. Starting from 26 August 2020 onwards, the China IVS resumed for residents of Guangdong Province and the rest of mainland China afterwards. These visitors, under certain health declarations and testing requirements, are exempted from quarantine requirements. However, many overseas countries are still facing unprecedented health crisis with the rapid spread of infections. Currently, certain measures, including stringent travel restrictions, quarantine and testing requirements are imposed to visitors from Hong Kong, Taiwan and the rest of the world.

At the present time, given the evolving conditions created by and in response to the COVID-19 pandemic, it is not possible to determine when travel restrictions will be lifted or whether they could be reintroduced if there are adverse developments in the pandemic situation. The disruptions arising from the COVID-19 pandemic had a significant adverse impact on the Group’s financial condition, operations and cash flows during the year ended 31 December 2020. Given the uncertainty about the future course of COVID-19, the regulatory and economic responses, the impact on the Group’s future operating results cannot be reasonably estimated at this stage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 COVID-19-Related Rent Concessions.

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts on early application of Amendment to HKFRS 16 COVID-19-Related Rent Concessions

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a COVID-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained profits at 1 January 2020. The Group has benefited from one to eleven months waiver of lease payments on several leases in casino properties, commercial properties and motor vehicles. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of HK\$148.1 million, which has been recognised as variable lease payments in profit or loss for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. APPLICATION OF NEW AND AMENDMENTS TO 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 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ⁴
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 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²

1 Effective for annual periods beginning on or after 1 January 2023.

2 Effective for annual periods beginning on or after 1 January 2022.

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 2021.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (Continued)

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

As at 31 December 2020, the Group’s right to defer settlement for borrowings of HK\$13,514.9 million are subject to compliance with covenants within 12 months from the reporting date. Such borrowings were classified as non-current as the Group obtained consent from banks for waiver of the financial covenant tests and expected to meet such covenants when the financial covenant tests resume. Pending clarification on the application of relevant requirements of the amendments, the Group will further assess whether application of the amendments will have an impact on the classification of these borrowings. The impacts on application, if any, will be disclosed in the Group’s future consolidated financial statements.

Except for as disclosed above, the application of the amendments will not result in reclassification of the Group’s other liabilities as at 31 December 2020.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange and by the Hong Kong Companies Ordinance.

Going concern assessment

In preparing the Group’s consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities exceeded its current assets by approximately HK\$6,249.7 million as at 31 December 2020. The directors of the Company reviewed the Group’s cash flow projections which cover a period of not less than twelve months from 31 December 2020 and are of the opinion that the Group will have sufficient liquidity to meet its financial obligations that will be due in the coming twelve months from 31 December 2020 on the basis that:

- (i) The Group has undrawn unconditional facility from the long-term bank loans facility agreement amounting to HK\$6,500.0 million as at 31 December 2020; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation of consolidated financial statements (Continued)

Going concern assessment (Continued)

- (ii) On 27 January 2021, a wholly-owned subsidiary of the Company, Champion Path Holdings Limited, issued 4.5% senior notes with an aggregate principal amount of US\$500 million (equivalent to HK\$3,875.05 million) and a final maturity date of 27 January 2026, and 4.85% senior notes with an aggregate principal amount of US\$500 million (equivalent to HK\$3,875.05 million) and a final maturity date of 27 January 2028. The net proceeds from the issuance will be used to repay a portion of amounts outstanding under its long-term bank loans facility agreement and for general corporate purposes.

Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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 accounted for in accordance with HKFRS 16 Leases ("HKFRS 16"), 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 ("HKAS 36").

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.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation of consolidated financial statements (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.

3.2 Significant accounting policies

3.2.1 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:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- 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.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.1 Basis of consolidation (Continued)

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3.2.2 Investments in subsidiaries

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

3.2.3 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. 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. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.3 Interest in an associate (Continued)

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When an objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 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 is not allocated to any asset that 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 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.

3.2.4 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. 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. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.4 Interest in a joint venture (Continued)

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When an objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 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 is not allocated to any asset that 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.

3.2.5 Revenue from contracts with customers

The Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.5 Revenue from contracts with customers (Continued)

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations including obligation to provide goods or services to patrons on complementary basis and patron's options to acquire additional goods or services for free or at a discount in future granted under customer relationship programs, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified goods or service before that goods or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The directors of the Company considered that the Group acts as a principal for gaming operations in casinos with services provided by gaming promoters and service providers as the Group controls the specified service to be provided by the Group before services transferred to a customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.5 Revenue from contracts with customers (Continued)

Revenue recognition

The Group's revenue contracts with customers consist of casino, hotel rooms, food and beverage, retail and other transactions.

Gaming revenue is the aggregate net difference between gaming wins and losses. Commissions paid to gaming promoters and rebates paid to patrons are recorded as a reduction to gaming revenue. The Group accounts for gaming revenue on a portfolio basis given the similar characteristics of wagers by recognising net win per gaming day.

For gaming operations that the Group provides complimentary goods and services to gaming customers to incentivise gaming, the Group allocates a portion of the gaming revenue to the respective type of revenue from complimentary goods or services based on its relative stand-alone selling price. Discretionary complimentaries supplied by third parties are recorded as payables to third parties. The Group accounts for complimentaries on a portfolio basis given the similar characteristics of the incentives.

For gaming operations that the Group provides award points to customers under loyalty programs, the Group allocates a portion of the gaming revenue to the loyalty programs liabilities based on its relative stand-alone selling price of such award points (less estimated breakage). Such allocated amount is deferred revenue and recognised as loyalty programs liabilities until customers redeem the award points for free goods and services. Upon redemption, the deferred consideration of each good and service is allocated to the respective type of revenue. Redemption of award points at third party outlets are recorded as payables to third parties.

The transaction price of hotel rooms, food and beverage, and retail transactions is the net amount collected from the customer for such goods and services. The transaction price for such transactions is recorded as revenue when the good or service is transferred or rendered to the customer during their stay at the hotel or when the delivery is made for the food and beverage, retail and other services.

The Group has other contracts that include multiple goods and services, such as packages that bundle food and beverage and other services with hotel stays. For such arrangements, the Group allocates revenue to each good or service based on its relative stand-alone selling price. The Group primarily determines the stand-alone selling price of hotel rooms, food and beverage, and retail goods and services based on the amount that the Group charges when each is sold separately in similar circumstances to similar customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.6 Property and equipment

Property and equipment are tangible assets that are 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 right-of-use assets 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. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of buildings commences when they are ready for their intended use.

The cost of leasehold improvements is depreciated on a straight line basis over their respective estimated useful lives.

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

Chips	25%
Furniture, fixtures and equipment	5.9% – 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 an item of property and equipment is determined as the difference between the net sales proceeds and the carrying amount of the item and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.7 Ownership interests in leasehold land and buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position.

For the leasehold land and buildings in Macau SAR and Hong Kong SAR, where the cost of right-of-use assets cannot be reliably separated from the cost of land and buildings, the entire cost of land and buildings is treated as property and equipment and depreciated and amortised on a straight line basis over the estimated useful life of the buildings.

The cost of other buildings in Macau SAR is depreciated over 25 years to 50 years using the straight line method, which represents the shorter of respective lease term or estimated useful life of buildings.

3.2.8 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.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.9 Intangible asset

Intangible asset with finite useful life that is acquired separately is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible asset with finite useful life is recognised 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. Intangible asset with indefinite useful life that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3.2.10 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.

3.2.11 Inventories

Inventories, which mainly represent food and beverage held for sale, are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.2.12 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. 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 market place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 Revenue from Contracts with Customers. 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 (“FVTPL”)) 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 FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments designated at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including advances to gaming promoters, other receivables from gaming promoters and service providers, other sundry receivables, rental deposits, pledged bank deposits, short-term bank deposits, bank balances, amounts due from an associate/a joint venture/an investee company) and financial guarantees contracts which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

The Group applies simplified approach to recognise lifetime ECL for advances to gaming promoters. For all other instruments, the Group measures the loss allowance equal to 12m ECL under general approach, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the ability of gaming promoter or service provider to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the gaming promoter or service provider;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the gaming promoter or service provider that results in a significant decrease in the ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition, the Group considers the changes in the risk that the specified debtor will default on the contract.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL (Continued)

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

The ECL on advances to gaming promoters and other receivables from gaming promoters and services providers are assessed individually.

12m ECL for other sundry receivables, rental deposits, pledged bank deposits, short-term bank deposits, bank balances and amounts due from an associate/a joint venture/an investee company are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for the financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of advances to gaming promoters and other receivables from gaming promoters and service providers where the corresponding adjustment is recognised through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivables is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial liabilities and equity (Continued)

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 contract liabilities are initially measured at their fair values. It is subsequently measured at the higher of:

- (i) the amount of the loss allowance determined in accordance with HKFRS 9; and
- (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition/modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the contractual terms of a financial liability are modified, the Group assess whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.12 Financial instruments (Continued)

Financial liabilities and equity (Continued)

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.2.13 Impairment losses on property and equipment, right-of-use assets and intangible asset

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets, and intangible asset with finite useful lives 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 relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property and equipment, right-of-use assets, and intangible asset are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.13 Impairment losses on property and equipment, right-of-use assets and intangible asset (Continued)

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated to reduce the carrying amount of assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) 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 (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3.2.14 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 loss/profit before taxation 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 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.14 Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in a joint venture and an associate, 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.15 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 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.

3.2.16 Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.16 Leases (Continued)

The Group as a lessee (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold land and buildings and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from COVID-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.16 Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease payments change due to changes in market rental rates following a market rent review, in which case the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.16 Leases (Continued)

The Group as a lessee (Continued)

Lease modifications

Except for COVID-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentive receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification. The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

COVID-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.17 Equity-settled share-based payment transactions

- (a) *Share options granted to directors, employees and other participants of the Group*
Equity-settled share based payments to directors, employees and other participants providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest 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 equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. 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.

When 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*
Equity-settled share-based payment transactions with parties other than directors and employees are measured at the fair values of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the goods or the counterparty renders service. The fair values of the goods or services received are recognised as expenses, unless the goods or services qualify for recognition as assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

3.2.18 Employee benefits

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.

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 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Determination on lease term of contracts with renewal options

The Group applies judgment to determine the lease term for lease contracts in which it is a lessee that include renewal option, specifically, the leases relating to leasehold lands.

The assessment of whether the Group is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);
- the extent of leasehold improvements undertaken by Group; and
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs);

As at 31 December 2020, the carrying amounts of right-of-use assets and lease liabilities for the lease contracts which the Group is reasonably certain to exercise the renewal option are HK\$2,486.8 million and HK\$469.2 million (2019: HK\$2,548.1 million and HK\$468.7 million) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies (Continued)

Determination on incremental borrowing rates of lease contracts

In determining incremental borrowing rates of lease contracts, the Group applies judgement to determine the applicable rates, taking into account the nature of the underlying assets and the terms and condition of the leases at both the commencement date and the effective date of the modification to calculate the present value of lease payments. The incremental borrowing rates of the Group applied significantly affect the amounts of lease liabilities and right-of-use assets recognised.

Key sources of estimation uncertainty

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

Impairment assessment of the construction in progress ("CIP") and right-of-use assets related to Grand Lisboa Palace Project ("GLP Project")

In determining whether CIP and right-of-use assets related to GLP Project are impaired, the management of the Group has to exercise significant judgement and make estimation on the recoverable amounts of the CIP and right-of-use assets related to GLP Project. Changes in the key assumptions, including the pre-tax discount rate, terminal growth rate and expected changes in revenues and costs of approved financial budget in the discounted cash flow projections, could materially affect the recoverable amounts. These key assumptions are subject to greater uncertainties in the current year for how the COVID-19 pandemic may progress and evolve.

The management of the Group considered there was indication for impairment for the CIP and right-of-use assets related to GLP Project due to the changes in market conditions after the outbreak of COVID-19. The management of the Group prepared discounted cash flow projections for GLP Project based on the financial budget approved by the management of the Group and engaged an independent professional valuer to conduct impairment assessment on the recoverable amounts of the CIP and right-of-use assets related to GLP Project.

At 31 December 2020, the carrying amounts of the CIP and right-of-use assets related to GLP Project amounted to approximately HK\$34,023.0 million and HK\$1,970.0 million, respectively. In the opinion of the directors of the Company, no impairment loss was recognised on the CIP and right-of-use assets related to GLP Project as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

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

Save as disclosed in note 27, the amount due to non-controlling interests of a subsidiary as at 31 December 2020 of HK\$263.3 million (2019: HK\$203.8 million) is repayable only when the subsidiary has surplus funds which require significant estimates. Surplus fund represents cash available in the 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 such 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 such amount due to non-controlling interests of a subsidiary.

5. OPERATING SEGMENTS

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

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

Reportable segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the “CODM”). CODM, who is responsible for allocating resources and assessing performance of the reportable segments, has been identified as a group of senior management that makes strategic decisions.

The CODM regularly analyses gaming operations in terms of VIP gaming operations, mass market table gaming operations, slot machine and other gaming operations, and the relevant revenues and operating results are reviewed as a whole for resources allocation and performance assessment. For hotel, catering and retail operations, the CODM regularly reviews the performance on the basis of the 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 reportable segment named “hotel, catering and retail operations”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. OPERATING SEGMENTS (Continued)

Segment information about these businesses is presented below:

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

	Segment revenue		Segment results	
	2020 HK\$ million	2019 HK\$ million	2020 HK\$ million	2019 HK\$ million
Gaming operations: recognised at a point in time	7,304.2	33,158.5	(2,608.8)	3,570.9
Hotel, catering and retail operations: External sales: Catering and retail operations: recognised at a point in time	164.5	433.3		
Hotel operations: recognised over time	38.0	283.2		
	202.5	716.5		
Inter-segment sales: Catering and retail operations: recognised at a point in time	28.0	52.1		
Hotel operations: recognised over time	32.2	128.6		
	60.2	180.7		
Eliminations	262.7 (60.2)	897.2 (180.7)	(475.7)	(195.7)
	202.5	716.5		
Total: recognised at a point in time	7,468.7	33,591.8		
recognised over time	38.0	283.2		
	7,506.7	33,875.0		
Reconciliation from segment results to (loss) profit before taxation:			(3,084.5)	3,375.2
Unallocated corporate income			73.9	163.4
Unallocated corporate expenses			(158.3)	(188.6)
Share of profits of an associate			11.7	11.8
Share of profits of a joint venture			4.8	7.3
(Loss) profit before taxation			(3,152.4)	3,369.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. OPERATING SEGMENTS (Continued)

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the (loss) profit before taxation from/earned by each segment without allocation of corporate income and expenses and share of profits of an associate and a joint venture. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

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

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

	2020 HK\$ million	2019 HK\$ million
ASSETS		
Segment assets:		
gaming operations	7,611.4	13,584.4
hotel, catering and retail operations	4,118.5	4,425.1
	11,729.9	18,009.5
Interest in an associate	347.7	336.4
Interest in a joint venture	139.8	135.0
Unallocated bank deposits, bank balances and cash	2,051.7	5,227.0
Other unallocated assets	38,452.4	33,917.8
Group's total	52,721.5	57,625.7
LIABILITIES		
Long-term bank loans:		
gaming operations	18,632.0	15,082.5
hotel, catering and retail operations	55.0	70.3
unallocated corporate bank loans	100.1	127.9
	18,787.1	15,280.7
Other segment liabilities:		
gaming operations	5,427.4	10,689.8
hotel, catering and retail operations	441.3	364.8
	5,868.7	11,054.6
Total segment liabilities	24,655.8	26,335.3
Unallocated liabilities	3,425.8	2,054.3
Group's total	28,081.6	28,389.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. OPERATING SEGMENTS (Continued)

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

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

- (i) other unallocated assets include mainly certain property and equipment, certain right-of-use assets, certain deposits made on acquisitions of property and equipment, art works and diamonds, amounts due from an associate/a joint venture/an investee company and investments in equity instruments designated at FVTOCI.
- (ii) unallocated liabilities include mainly certain construction payables and amount due to non-controlling interests of a subsidiary.
- (iii) all assets are allocated to reportable segments, other than interest in an associate/a joint venture, unallocated bank deposits, bank balances and cash and those mentioned in above (i).
- (iv) all liabilities are allocated to reportable segments, other than liabilities not attributable to respective segments as mentioned in above (ii).

(c) Other segment information of the Group

	2020 HK\$ million	2019 HK\$ million
Additions to non-current assets (other than financial instruments):		
gaming operations	1,272.7	496.0
hotel, catering and retail operations	12.8	47.0
corporate level*	4,933.7	5,355.8
	6,219.2	5,898.8

* Amount includes certain property and equipment, certain right-of-use assets and certain deposits made on acquisitions of property and equipment 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 2020

5. OPERATING SEGMENTS (Continued)

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

	2020 HK\$ million	2019 HK\$ million
Depreciation:		
gaming operations	734.7	731.4
hotel, catering and retail operations	224.7	293.6
corporate level	40.8	30.3
	1,000.2	1,055.3
Loss (gain) on disposal/write-off of property and equipment:		
gaming operations	1.0	2.2
hotel, catering and retail operations	0.2	0.1
corporate level	0.1	(0.2)
	1.3	2.1
Share-based payments:		
gaming operations	1.6	4.3
corporate level	—	1.2
	1.6	5.5
Finance costs:		
gaming operations	16.3	8.6
hotel, catering and retail operations	4.7	7.0
corporate level	10.7	18.1
	31.7	33.7
Interest income:		
gaming operations	48.1	157.2
hotel, catering and retail operations	1.2	6.3
corporate level	67.0	141.3
	116.3	304.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. OPERATING SEGMENTS (Continued)

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

	2020 HK\$ million	2019 HK\$ million
Impairment loss on financial assets: gaming operations	—	200.0

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 the reporting period.

6. GAMING REVENUE

	2020 HK\$ million	2019 HK\$ million
Gaming revenue from:		
VIP gaming operations	2,037.1	13,687.3
mass market table gaming operations	5,858.8	25,127.0
slot machine and other gaming operations	379.3	1,185.8
	8,275.2	40,000.1
Less: commissions and incentives	(971.0)	(6,841.6)
	7,304.2	33,158.5

7. FINANCE COSTS

	2020 HK\$ million	2019 HK\$ million
Interests on:		
long-term bank loans	509.4	620.2
lease liabilities	30.1	20.2
Imputed interest on an amount due to non-controlling interests of a subsidiary	5.2	7.5
	544.7	647.9
Less: Amount capitalised	(513.0)	(614.2)
	31.7	33.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

8. (LOSS) PROFIT BEFORE TAXATION

	2020 HK\$ million	2019 HK\$ million
<i>(Loss) profit before taxation has been arrived at after charging:</i>		
Directors' remuneration (note 9)	83.1	95.5
Less: Amount capitalised	(11.1)	(12.3)
	72.0	83.2
Retirement benefits scheme contributions for other staff	204.2	217.1
Less: Forfeited contributions	(9.8)	(23.1)
	194.4	194.0
Other staff costs	5,202.3	5,722.0
Total employee benefit expenses	5,468.7	5,999.2
Auditor's remuneration	17.0	17.0
Amortisation of intangible asset (including in operating and administrative expenses)	65.9	—
Depreciation of property and equipment	547.0	827.6
Depreciation of right-of-use assets	387.3	227.7
Loss on modification of long-term bank loans	—	9.8
Loss on disposal/write-off of property and equipment	1.3	2.1
<i>and after crediting:</i>		
Bank interest income	116.3	304.8
COVID-19-related rent concessions (note 14)	148.1	—
Dividend income	2.0	3.8
Gain on modification of long-term bank loans	2.0	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2020					2019				
	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 COMPANY										
Executive directors:										
Ms. Ho Chiu Fung, Daisy	1.2	0.3	0.1	—	1.6	1.2	0.4	0.4	1.2	3.2
Mr. Fok Tsun Ting, Timothy	1.8	0.4	0.1	—	2.3	1.8	0.6	0.1	—	2.5
Deputada Leong On Kei, Angela	1.9	0.4	0.1	—	2.4	1.9	0.6	0.1	—	2.6
Dr. So Shu Fai (Chief Executive Officer)	1.9	0.4	0.1	—	2.4	1.9	0.6	0.1	—	2.6
Mr. Ng Chi Sing (Note (d))	—	—	—	—	—	0.5	0.2	0.1	—	0.8
Mr. Shum Hong Kuen, David	1.2	0.3	0.1	—	1.6	1.3	0.4	0.1	—	1.8
Dr. Chan Un Chan	0.5	0.1	0.1	—	0.7	0.6	0.2	0.1	—	0.9
Non-executive directors:										
Mr. Ng Chi Sing (Note (d))	0.5	0.1	0.1	—	0.7	—	—	—	—	—
Dr. Cheng Kar Shun (Note (e))	—	—	—	—	—	0.2	—	—	—	0.2
Mr. Tsang On Yip, Patrick (Note (f))	0.5	0.1	0.1	—	0.7	0.3	0.1	0.1	—	0.5
Independent non-executive directors:										
Mr. Chau Tak Hay	0.8	0.2	0.1	—	1.1	0.8	0.3	0.1	—	1.2
Dr. Lan Hong Tsung, David (Note (g))	—	—	—	—	—	0.4	—	—	—	0.4
Hon. Shek Lai Him, Abraham	1.6	0.4	0.1	—	2.1	1.6	0.6	0.1	—	2.3
Mr. Tse Hau Yin	1.6	0.3	0.1	—	2.0	1.6	0.5	0.1	—	2.2
Ms. Wong Yu Pok, Marina (Note (h))	0.8	0.1	0.1	—	1.0	0.4	0.1	0.1	—	0.6
	14.3	3.1	1.2	—	18.6	14.5	4.6	1.5	1.2	21.8
SUBSIDIARIES										
Executive directors:										
Ms. Ho Chiu Fung, Daisy	11.4	2.5	1.2	—	15.1	9.2	3.0	0.9	—	13.1
Mr. Fok Tsun Ting, Timothy	1.2	0.2	1.2	—	2.6	1.2	0.4	1.2	—	2.8
Deputada Leong On Kei, Angela	9.3	2.0	2.4	—	13.7	9.8	3.6	2.2	—	15.6
Dr. So Shu Fai (Chief Executive Officer)	12.1	2.7	1.2	—	16.0	12.7	4.2	1.2	—	18.1
Mr. Ng Chi Sing (Note (d))	—	—	—	—	—	2.5	0.9	9.6	—	13.0
Mr. Shum Hong Kuen, David	1.2	0.2	0.4	—	1.8	1.1	0.4	0.4	—	1.9
Dr. Chan Un Chan	0.4	0.1	0.4	1.6	2.5	0.3	0.2	0.4	4.3	5.2
Non-executive directors:										
Mr. Ng Chi Sing (Note (d))	—	—	8.9	—	8.9	—	—	—	—	—
Dr. Cheng Kar Shun (Note (e))	—	—	—	—	—	0.1	—	0.1	—	0.2
Mr. Tsang On Yip, Patrick (Note (f))	—	—	0.9	—	0.9	—	—	0.4	—	0.4
Independent non-executive directors:										
Mr. Chau Tak Hay	—	—	—	—	—	—	—	—	—	—
Dr. Lan Hong Tsung, David (Note (g))	—	—	—	—	—	—	—	—	—	—
Hon. Shek Lai Him, Abraham	0.9	0.1	—	—	1.0	0.9	0.3	—	—	1.2
Mr. Tse Hau Yin	0.8	0.2	1.0	—	2.0	0.8	0.3	1.1	—	2.2
Ms. Wong Yu Pok, Marina (Note (h))	—	—	—	—	—	—	—	—	—	—
	37.3	8.0	17.6	1.6	64.5	38.6	13.3	17.5	4.3	73.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

	2020					2019				
	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:										
Ms. Ho Chiu Fung, Daisy	12.6	2.8	1.3	—	16.7	10.4	3.4	1.3	1.2	16.3
Mr. Fok Tsun Ting, Timothy	3.0	0.6	1.3	—	4.9	3.0	1.0	1.3	—	5.3
Deputada Leong On Kei, Angela	11.2	2.4	2.5	—	16.1	11.7	4.2	2.3	—	18.2
Dr. So Shu Fai (Chief Executive Officer)	14.0	3.1	1.3	—	18.4	14.6	4.8	1.3	—	20.7
Mr. Ng Chi Sing (Note (d))	—	—	—	—	—	3.0	1.1	9.7	—	13.8
Mr. Shum Hong Kuen, David	2.4	0.5	0.5	—	3.4	2.4	0.8	0.5	—	3.7
Dr. Chan Un Chan	0.9	0.2	0.5	1.6	3.2	0.9	0.4	0.5	4.3	6.1
Non-executive directors:										
Mr. Ng Chi Sing (Note (d))	0.5	0.1	9.0	—	9.6	—	—	—	—	—
Dr. Cheng Kar Shun (Note (e))	—	—	—	—	—	0.3	—	0.1	—	0.4
Mr. Tsang On Yip, Patrick (Note (f))	0.5	0.1	1.0	—	1.6	0.3	0.1	0.5	—	0.9
Independent non-executive directors:										
Mr. Chau Tak Hay	0.8	0.2	0.1	—	1.1	0.8	0.3	0.1	—	1.2
Dr. Lan Hong Tsung, David (Note (g))	—	—	—	—	—	0.4	—	—	—	0.4
Hon. Shek Lai Him, Abraham	2.5	0.5	0.1	—	3.1	2.5	0.9	0.1	—	3.5
Mr. Tse Hau Yin	2.4	0.5	1.1	—	4.0	2.4	0.8	1.2	—	4.4
Ms. Wong Yu Pok, Marina (Note (h))	0.8	0.1	0.1	—	1.0	0.4	0.1	0.1	—	0.6
	51.6	11.1	18.8	1.6	83.1	53.1	17.9	19.0	5.5	95.5

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 fees paid to Deputada Leong On Kei, Angela include 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. Other fees paid to Mr. Tse Hau Yin represent the fee (including performance-based discretionary payment) acting as supervisory committee chairman of SJM and its certain subsidiaries. Other fees paid to Mr. Tsang On Yip, Patrick represent the fee acting as supervisory committee member of SJM and its certain subsidiaries. Other fees paid to all directors also include various allowances.
- (d) Re-designated from executive director to non-executive director on 10 June 2020.
- (e) Retired as non-executive director on 11 June 2019.
- (f) Elected as non-executive director on 11 June 2019.
- (g) Retired as independent non-executive director on 11 June 2019.
- (h) Elected as independent non-executive director on 11 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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.

The five highest paid individuals of the Group for the year ended 31 December 2020 included four (2019: four) directors of the Company, whose emoluments are disclosed above, and the remaining one (2019: one) is an employee of the Group, details of whose emolument are as follows:

	2020 HK\$ million	2019 HK\$ million
Employee:		
Salaries and allowances	12.5	14.9

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. TAXATION

	2020 HK\$ million	2019 HK\$ million
Macau SAR Complementary Tax ("CT"):		
current tax	22.5	61.5
underprovision in prior years	1.3	1.1
	23.8	62.6
Deferred taxation credit (<i>note 28</i>)	(1.3)	(11.0)
	22.5	51.6

No provision for CT on gaming related income is made for a subsidiary of the Company, SJM. Pursuant to the approval notices issued by the Macau SAR government dated 27 September 2016 and 17 April 2020, SJM has been exempted from CT for income generated from gaming operations for the periods from 1 January 2017 to 31 March 2020 and 1 April 2020 to 26 June 2022, respectively.

In addition, pursuant to the approval letter dated 27 February 2018 issued by the Financial Services Bureau of the Macau SAR government on dividend distributed by SJM (the "Special Complementary Tax") for the period from 1 January 2017 to 31 March 2020, SJM's shareholders were obligated to pay the Special Complementary Tax of Macau Pataca ("MOP") 23.2 million (equivalent to HK\$22.5 million) for each of the years ended 31 December 2017 to 2019 and MOP5.8 million (equivalent to HK\$5.6 million) for the three months ending 31 March 2020. SJM has applied for extension of approval from Financial Services Bureau of the Macau SAR government but the amount of the Special Complementary Tax for the period from 1 April 2020 to 26 June 2022 has not been determined by the Financial Services Bureau of the Macau SAR government up to the date of this report. During the year, the Company, as a shareholder of SJM, provided an amount of MOP23.2 million (equivalent to HK\$22.5 million) (2019: MOP23.2 million (equivalent to HK\$22.5 million)) for the Special Complementary Tax based on their best estimate.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. TAXATION (Continued)

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

	2020 HK\$ million	2019 HK\$ million
(Loss) profit before taxation	(3,152.4)	3,369.1
Tax (credit) charge at the applicable income tax rate of 12%	(378.3)	404.3
Effect of tax exemption granted to the Group	261.6	(425.6)
Effect of share of results of an associate and a joint venture	(2.0)	(2.3)
Effect of income not taxable for tax purpose	(8.5)	(16.3)
Effect of expenses not deductible for tax purpose	16.1	23.7
Effect of tax losses not recognised	182.3	123.7
Effect of deductible temporary difference not recognised	(58.7)	(72.2)
Underprovision in respect of prior years	1.3	1.1
Utilisation of deductible temporary difference previously not recognised	(13.8)	(6.0)
Utilisation of tax losses previously not recognised	—	(1.3)
Special Complementary Tax	22.5	22.5
Tax charge for the year	22.5	51.6

11. DIVIDENDS

	2020 HK\$ million	2019 HK\$ million
Interim dividend per ordinary share paid:		
HK8 cents for 2019	—	453.1
Final dividend per ordinary share paid:		
HK22 cents for 2019	1,246.8	—
HK21 cents for 2018	—	1,189.5
	1,246.8	1,642.6

On 23 February 2021, the board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HK22 cents per ordinary share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. (LOSS) EARNINGS PER SHARE

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

(Loss) earnings

	2020 HK\$ million	2019 HK\$ million
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the year attributable to owners of the Company)	(3,024.9)	3,207.3

Number of shares

	2020	2019
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	5,670,017,886	5,663,681,403
Effect of dilutive potential ordinary shares on share options (Note)	—	1,772,634
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	5,670,017,886	5,665,454,037

Note: For the year ended 31 December 2020, the diluted loss per share was the same as the basic loss per share as the computation of the diluted loss per share does not assume the exercise of the Company's share options because the assumed exercise would result in a decrease in loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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
COST									
At 1 January 2019	4,943.5	460.3	6,938.9	581.4	4,253.2	52.8	286.1	24,774.0	42,290.2
Additions	739.0	0.3	173.4	38.8	29.4	8.2	—	4,633.7	5,622.8
Disposals/write-off	—	—	(157.8)	(77.7)	(23.2)	(5.6)	—	—	(264.3)
At 31 December 2019	5,682.5	460.6	6,954.5	542.5	4,259.4	55.4	286.1	29,407.7	47,648.7
Additions	1.3	—	129.2	180.1	37.4	—	—	4,615.3	4,963.3
Disposals/write-off	—	—	(49.7)	(62.1)	(26.9)	—	—	—	(138.7)
At 31 December 2020	5,683.8	460.6	7,034.0	660.5	4,269.9	55.4	286.1	34,023.0	52,473.3
DEPRECIATION									
At 1 January 2019	2,448.9	459.3	5,391.1	457.0	3,034.5	41.5	79.3	—	11,911.6
Provided for the year	68.8	0.5	529.5	68.8	151.1	5.0	13.1	—	836.8
Eliminated on disposals/write-off	—	—	(154.5)	(77.4)	(22.8)	(4.8)	—	—	(259.5)
At 31 December 2019	2,517.7	459.8	5,766.1	448.4	3,162.8	41.7	92.4	—	12,488.9
Provided for the year	77.6	0.4	294.5	54.2	119.0	4.4	12.5	—	562.6
Eliminated on disposals/write-off	—	—	(48.4)	(62.1)	(26.7)	—	—	—	(137.2)
At 31 December 2020	2,595.3	460.2	6,012.2	440.5	3,255.1	46.1	104.9	—	12,914.3
CARRYING VALUES									
At 31 December 2020	3,088.5	0.4	1,021.8	220.0	1,014.8	9.3	181.2	34,023.0	39,559.0
At 31 December 2019	3,164.8	0.8	1,188.4	94.1	1,096.6	13.7	193.7	29,407.7	35,159.8

At 31 December 2020, pursuant to the gaming concession held by the Group, certain of the Group's property and equipment with an aggregate carrying value of HK\$1,074.8 million (2019: HK\$1,119.7 million) in respect of the Group's gaming business have to be returned to the Macau SAR government upon completion of the term of the concession.

At 31 December 2020, the carrying values of the construction in progress of HK\$34,023.0 million (2019: HK\$29,407.7 million) represented the construction in progress of GLP Project.

Other staff costs of HK\$552.6 million (2019: HK\$499.2 million), operating lease rentals in respect of rented premises of HK\$14.9 million (2019: HK\$11.3 million), depreciation expenses of right-of-use asset of HK\$72.6 million (2019: HK\$52.7 million), depreciation expenses of property and equipment of HK\$15.6 million (2019: HK\$9.2 million) and interest expenses of HK\$513.0 million (2019: HK\$614.2 million) have been capitalised in construction in progress for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. RIGHT-OF-USE ASSETS

	Leasehold lands HK\$ million	Leasehold land and buildings HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
COST				
At 1 January 2019	2,685.5	310.0	39.0	3,034.5
Additions	—	57.1	53.1	110.2
At 31 December 2019	2,685.5	367.1	92.1	3,144.7
Additions	0.2	949.1	—	949.3
Early termination/end of lease contracts	—	(233.1)	(85.4)	(318.5)
At 31 December 2020	2,685.7	1,083.1	6.7	3,775.5
DEPRECIATION				
At 1 January 2019	—	—	—	—
Charge for the year	63.4	169.2	47.8	280.4
At 31 December 2019	63.4	169.2	47.8	280.4
Charge for the year	63.9	353.9	42.1	459.9
Early termination/end of lease contracts	—	(232.8)	(85.4)	(318.2)
At 31 December 2020	127.3	290.3	4.5	422.1
CARRYING VALUES				
At 31 December 2020	2,558.4	792.8	2.2	3,353.4
At 31 December 2019	2,622.1	197.9	44.3	2,864.3
			2020 HK\$ million	2019 HK\$ million
Expense relating to short-term leases			39.9	208.2
Total cash outflow for leases			410.0	474.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. RIGHT-OF-USE ASSETS (Continued)

For both years, the Group leases certain leasehold lands, commercial properties, carparks and motor vehicles for its operations. Lease contracts are entered into for fixed term from 1 to 25 years. Certain leases of leasehold lands in Macau SAR are negotiated for an initial term of 25 years with extension options exercisable by the Group.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns casino and commercial properties. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests and fixed payments are paid annually. The leasehold land components of these owned properties are not presented separately as the payments made cannot be allocated reliably.

Rent concessions

During the year ended 31 December 2020, lessors of various casino properties, commercial properties and motor vehicles provided rent concessions to the Group through rent reductions ranging from 24% to 83% over one to eleven months.

These were rent concessions occurred as a direct consequence of COVID-19 pandemic, which met all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. The effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of HK\$148.1 million were recognised as negative variable lease payments.

15. INTANGIBLE ASSET

During the year ended 31 December 2019, the Group accepted a gaming concession extension contract with Macau SAR government in respect of the gaming concession of SJM, which was originally due to expire on 31 March 2020, for a further period up to 26 June 2022. The cost of extension premium for the gaming concession contract of MOP200.0 million (equivalent to HK\$194.2 million) and related costs have been amortised on a straight line basis over the extended term of the gaming concession starting from 1 April 2020.

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 2020

17. INTEREST IN AN ASSOCIATE

	2020 HK\$ million	2019 HK\$ million
Cost of unlisted investment	25.0	25.0
Discount on acquisition	6.8	6.8
Share of post-acquisition profits	315.9	304.6
	347.7	336.4

The cost of investment in an associate represents the Group's 49% quota capital in an entity, Zhen Hwa Harbour Construction Company Limited, which is established in Macau SAR and engaged in the provision of construction services in Macau SAR and investment holding business.

The associate is accounted for using the equity method in the 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.

	2020 HK\$ million	2019 HK\$ million
Current assets	1,358.1	1,402.6
Non-current assets	102.3	104.5
Current liabilities	(1,379.8)	(1,374.9)
Non-current liability	(1.2)	(2.6)
Revenue	856.1	867.6
(Loss) profit for the year	(51.1)	90.4

The unrecognised share of results of an associate*:

	2020 HK\$ million	2019 HK\$ million
At 1 January	549.4	578.7
Unrecognised share of results for the year	74.1	(29.3)
At 31 December	623.5	549.4

* The Group's share of accumulated losses on a construction project is limited to a fixed amount of MOP100.0 million (equivalent to HK\$97.1 million) as agreed with the holding company of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

	2020 HK\$ million	2019 HK\$ million
Net assets of an associate	79.4	129.6
Unrecognised share of loss of an associate	623.5	549.4
Adjusted net assets of an associate	702.9	679.0
Proportion of the Group's ownership interest in an associate	49%	49%
	344.4	332.7
Effect of fair value adjustments at acquisition	3.3	3.7
Carrying amount of the Group's interest in an associate	347.7	336.4

Reconciliation of share of profits of an associate

	2020 HK\$ million	2019 HK\$ million
Results for the year of an associate	(51.1)	90.4
Unrecognised share of results for the year	74.1	(29.3)
Unrealised losses (profits) for the year	0.9	(37.0)
Adjusted profits for the year of an associate	23.9	24.1
Proportion of the Group's ownership interest in an associate	49%	49%
Share of profits of an associate	11.7	11.8

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18. INTEREST IN A JOINT VENTURE

	2020	2019
	HK\$ million	HK\$ million
Cost of unlisted investment	39.7	39.7
Share of post-acquisition profits	100.1	95.3
	139.8	135.0

The cost of investment in a joint venture represents the Group's 49% quota capital in an entity, Chong Fung Real Estate Investment Limited, which is established in Macau SAR and engaged in property investment business 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 (2019: HK\$34.3 million) arising on acquisition of the joint venture.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. INTEREST IN A JOINT VENTURE (Continued)

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.

	2020 HK\$ million	2019 HK\$ million
Current assets	223.3	211.5
Non-current assets	25.3	26.2
Current liabilities	(33.3)	(32.1)
Revenue	9.1	14.4
Profit for the year	9.7	15.0
The above profit for the year includes the following:		
Depreciation	0.9	0.9
Interest income	3.9	4.4

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

	2020 HK\$ million	2019 HK\$ million
Net assets of a joint venture	215.3	205.6
Proportion of the Group's ownership interest in a joint venture	49%	49%
Goodwill	105.5 34.3	100.7 34.3
Carrying amount of the Group's interest in a joint venture	139.8	135.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. INVESTMENTS IN EQUITY INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

At 31 December 2020, the amounts comprise equity shares listed in Hong Kong of HK\$249.0 million (2019: HK\$296.5 million) and unlisted equity shares in a private entity established in the British Virgin Islands of HK\$305.4 million (2019: HK\$571.6 million) that are carried at fair value. These investments are not held for trading, instead, they are held for long-term strategic purposes. The management has elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

20. OTHER ASSETS

	2020 HK\$ million	2019 HK\$ million
Deposits made on acquisitions of property and equipment	998.1	691.5
Rental deposits	21.8	5.5
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	39.0	41.0
	1,161.7	840.8

The amounts due from an associate/a joint venture/an investee company are unsecured, interest-free and have no fixed repayment terms. 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

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21. PLEDGED BANK DEPOSITS

	2020 HK\$ million	2019 HK\$ million
Non-current portion		
Bank deposits pledged:		
to secure a bank facility (Note (a))	145.6	—
Current portion		
Bank deposits pledged:		
to secure a bank facility (Note (a))	—	145.6
to secure a bank facility (Note (b))	—	873.8
in favor of the Macau SAR court against any future legal proceedings of labour disputes	1.0	1.0
others	0.4	0.3
	1.4	1,020.7

Notes:

- (a) The amount represents a deposit pledged to secure the bank facility granted to a subsidiary of the Company. The bank facility represents a guarantee amounting to HK\$291.3 million from 1 April 2007 to 180 days after 22 June 2022 (2019: 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) The amount represented a temporary deposit pledged to secure a bank facility granted to SJM for the period from 27 May 2019 to 27 March 2020. The banking facility represents a guarantee amounting to MOP3,500 million (equivalent to HK\$3,398.1 million) which is in favour of the Macau SAR government against obligations that would arise to SJM as an employer in connection with the termination of employment agreements potentially caused by expiration of the gaming concession contract. However, the bank no longer required the pledge of the temporary deposit in relation to the bank facility after 27 March 2020, therefore the deposit has been released during the year ended 31 December 2020.

At 31 December 2020, the pledged bank deposits carry fixed interest rates at 1.00% (2019: ranging from 2.20% to 2.40%) per annum.

Details of impairment assessment of pledged bank deposits for the year ended 31 December 2020 are set out in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. TRADE AND OTHER RECEIVABLES

	2020 HK\$ million	2019 HK\$ million
Advances to gaming promoters, net	112.5	189.6
Other receivables from gaming promoters and service providers, net	337.5	625.9
Prepayments	172.9	197.8
Other sundry receivables	175.1	300.8
	798.0	1,314.1

As at 1 January 2019, the carrying amount of advances to gaming promoters was HK\$210.4 million.

Advances to gaming promoters 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.

Advances are only granted to gaming promoters with good credit histories and financial track records. The Group has enforceable right and intends to offset the advances against commission payables to or deposits from relevant gaming promoters. In addition, 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 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. With the consent of gaming promoters and service providers, the Group can offset the outstanding balances against commission and service fee payables to or deposits from relevant gaming promoters and service providers. In the event that a gaming promoter or service provider fails to repay, the Group has the right, pursuant to the relevant gaming promoter agreement or service provider agreement, to offset or withhold the payables to that gaming promoter or service provider, realise cheques and execute guarantees, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. TRADE AND OTHER RECEIVABLES (Continued)

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

	2020 HK\$ million	2019 HK\$ million
Age		
0 to 30 days	7.8	189.6
61 to 90 days	104.7	—
	112.5	189.6

Details of impairment assessment of trade and other receivables for the year ended 31 December 2020 are set out in note 36.

Other sundry receivables mainly include deposits paid for rentals and operating supplies, interest receivables 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:

	2020 HK\$ million	2019 HK\$ million
STDM and its associates (as defined under Chapter 14A of the Listing Rules), excluding the Group	41.6	29.4
An associate of the Group	74.4	7.8
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	90.4	164.2
	206.4	201.4

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

At 31 December 2020, the short-term bank deposits carry fixed interest rates ranging from 0.45% to 1.42% (2019: 1.45% to 3.00%) per annum with original maturity ranging over 4 months to 6 months (2019: 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 2020, bank balances carry effective interest rates ranging from 0.16% to 1.75% (2019: 0.13% to 2.90%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. TRADE AND OTHER PAYABLES

	2020 HK\$ million	2019 HK\$ million
Trade payables	307.6	1,047.2
Special gaming tax payable	354.5	1,209.6
Chips in circulation	1,504.8	5,062.4
Chips in custody and deposits received from gaming patrons and gaming promoters	1,399.4	520.3
Payables for acquisition of property and equipment	76.5	38.0
Construction payables	2,852.4	1,670.2
Accrued staff costs	794.9	1,706.9
Accrued operating expenses	21.6	191.2
Withholding tax payable	14.6	24.9
Other sundry payables and accruals	471.2	573.6
	7,797.5	12,044.3
Less: Non-current portion of construction payables	(66.7)	—
	7,730.8	12,044.3

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

	2020 HK\$ million	2019 HK\$ million
Age		
0 to 30 days	294.1	1,030.6
31 to 60 days	8.2	10.4
61 to 90 days	2.1	2.0
Over 90 days	3.2	4.2
	307.6	1,047.2

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

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For the year ended 31 December 2020

24. TRADE AND OTHER PAYABLES (Continued)

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

	2020 HK\$ million	2019 HK\$ million
STDM and its associates (as defined under Chapter 14A of the Listing Rules), excluding the Group	44.2	66.1
An associate of the Group	209.7	153.5
Entities in which STDM, certain directors of the Company and of its subsidiaries and/or their close family members have control/significant influence/beneficial interests	181.9	282.2
	435.8	501.8

25. LONG-TERM BANK LOANS

	2020 HK\$ million	2019 HK\$ million
The syndicated secured long-term bank loans are repayable:		
Within one year	5,272.2	217.0
Within a period of more than one year but not exceeding two years	13,514.9	5,060.5
Within a period of more than two years but not exceeding five years	—	10,003.2
	18,787.1	15,280.7
Less: Amounts due within one year shown under current liabilities	(5,272.2)	(217.0)
Amounts shown under non-current liabilities	13,514.9	15,063.7

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25. LONG-TERM BANK LOANS (Continued)

Variable-rate bank loans comprise:

	Carrying amounts	
	2020 HK\$ million	2019 HK\$ million
Secured bank loans for GLP Project ("GLP Bank Loans")		
HK\$ bank loan at 3-months Hong Kong Interbank Offered Rate ("HIBOR") + 2.25% per annum (2019: HIBOR + 1.50% per annum)	15,429.5	12,478.9
United State dollars ("US\$") bank loan at 3-months London Interbank Offered Rate ("LIBOR") + 2.25% per annum (2019: LIBOR + 1.50% per annum)	1,509.1	1,220.5
MOP bank loan at 3-months Macau Interbank Offered Rate ("MAIBOR") + 2.25% per annum (2019: MAIBOR + 1.50% per annum)	1,664.6	1,346.3
	18,603.2	15,045.7
Secured bank loans for Ponte 16 ("P16 Bank Loans") HK\$ bank loan at 3-months HIBOR + 2.25% per annum (2019: HIBOR + 2.13% per annum)	183.9	235.0
Total bank loans	18,787.1	15,280.7

GLP Bank Loans

Due to the outbreak of COVID-19, the Group obtained consent from the banks on 23 June 2020 for waiver of the financial covenant tests on consolidated interest coverage ratio and consolidated leverage ratio during the year ended 31 December 2020.

At 31 December 2020, the range of effective interest rates of the secured bank loans is 2.40% to 2.46% (2019: 3.41% to 3.87%) per annum. The purpose of the secured syndicated loan facilities is for financing the GLP Project.

During the year ended 31 December 2019, the Group recorded a loss of HK\$9.8 million (2020: nil) on modification of the GLP Bank Loans facilities because of entering into an agreement to modify certain financial covenants and repayment schedule of the GLP Bank Loans facilities.

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25. LONG-TERM BANK LOANS (Continued)

GLP Bank Loans (Continued)

At 31 December 2020, the GLP Bank Loans are secured by certain property and equipment and right-of-use assets of the Group with carrying values of HK\$36,038.5 million (2019: HK\$31,436.0 million) and HK\$1,789.0 million (2019: HK\$1,827.0 million) respectively. In addition, the other key terms and securities for such long-term bank loans pledged are set out as follows:

- (i) an assignment of all material project documents, receivables and related receivables generated from gaming and hotel operation of SJM and its certain subsidiaries, if default;
- (ii) floating charges over all assets (except immovable property) and legal charges over certain bank accounts of SJM and its certain subsidiaries;
- (iii) an unconditional and irrevocable funding and completion undertaking for the GLP Project;
- (iv) assignments of all the rights and benefits of insurance and reinsurance policies and construction contracts relating to certain properties held by the Group, if default;
- (v) share pledges over the shares of certain subsidiaries; and
- (vi) a legal promissory note (i.e. notarised livranca) for HK\$27,500 million (2019: HK\$27,500 million) issued by SJM and endorsed by the Company and certain subsidiaries of SJM.

P16 Bank Loans

During the year ended 31 December 2020, the Group recorded a gain of HK\$2.0 million (2019: nil) on modification of the P16 Bank Loans facilities because of entering into an agreement to modify the repayment schedule of the P16 Bank Loans facilities. Due to the outbreak of COVID-19, the Group obtained consent from the banks on 23 June 2020 for waiver of the financial covenant tests on consolidated interest coverage ratio and consolidated leverage ratio during the year ended 31 December 2020.

At 31 December 2020, the effective interest rate of the secured bank loans is 2.43% (2019: 4.48%) per annum. The main purpose of the loans is to finance the payment of the land premium and the related cost for any land concession modification in respect of the phase 3 development project at Ponte 16 and settle certain loans from non-controlling shareholders.

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For the year ended 31 December 2020

25. LONG-TERM BANK LOANS (Continued)

P16 Bank Loans (Continued)

At 31 December 2020, the P16 Bank Loans are secured by certain property and equipment and right-of-use assets of the Group with carrying values of HK\$438.5 million (2019: HK\$464.5 million) and HK\$58.1 million (2019: HK\$59.8 million), respectively. In addition, the other key terms and securities for such long-term bank loans pledged are set out as follows:

- (i) financial guarantees with promissory notes given by certain subsidiaries and the non-controlling shareholders amounting to approximately HK\$1,000 million (2019: HK\$1,000 million) and HK\$490 million (2019: HK\$490 million), respectively;
- (ii) 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;
- (iii) floating charges over all assets (except immovable property) and legal charges over certain bank accounts of certain subsidiaries;
- (iv) assignments of all the rights and benefits of insurance policies relating to certain properties held by the Group, if default; and
- (v) share pledges over the shares of certain subsidiaries.

26. LEASE LIABILITIES

	2020 HK\$ million	2019 HK\$ million
Lease liabilities payable:		
Within one year	256.4	177.6
Within a period of more than one year but not exceeding two years	309.7	35.2
Within a period of more than two years but not exceeding five years	78.5	35.1
Within a period of more than five years	541.4	477.4
	1,186.0	725.3
Less: Amount due for settlement with 12 months shown under current liabilities	(256.4)	(177.6)
Amount due for settlement after 12 months shown under non-current liabilities	929.6	547.7

The weighted average incremental borrowing rates applied to lease liabilities is 2.45% (2019: 2.45%).

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For the year ended 31 December 2020

26. LEASE LIABILITIES (Continued)

Restrictions or covenants on leases

Lease liabilities of HK\$1,186.0 million are recognised with related right-of-use assets of HK\$3,353.4 million as at 31 December 2020 (2019: lease liabilities of HK\$725.3 million and related right-of-use assets of HK\$2,864.3 million). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. The related leased assets may not be used as security for borrowing purposes.

As at 31 December 2020, the amounts are secured by rental deposits with carrying values of HK\$52.7 million (2019: HK\$29.5 million).

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

At the end of reporting period, the amount 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 2020, imputed interest of HK\$5.2 million (2019: HK\$7.5 million) on the amount due to the non-controlling interests of the subsidiary of HK\$263.3 million (2019: HK\$203.8 million) has been recognised at a weighted average original interest rate of approximately 2.47% (2019: 2.47%) per annum. At 31 December 2020, the principal amount was HK\$297.8 million (2019: HK\$219.4 million). During the year ended 31 December 2020, the principal amount has been adjusted by HK\$7.0 million (2019: nil) as the deemed capital contribution arising from future cash flow estimates on amount due to non-controlling interests of a subsidiary.

The relevant bank facilities allow 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 facilities agreement. During the year ended 31 December 2020, these carrying amounts have been adjusted by HK\$17.1 million (2019: HK\$7.2 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.

At 31 December 2020 and 31 December 2019, the total carrying amounts are classified as non-current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. 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 2019	(64.4)	41.6	(22.8)
Credit (charge) to profit or loss (<i>note 10</i>)	18.2	(7.2)	11.0
At 31 December 2019	(46.2)	34.4	(11.8)
Credit (charge) to profit or loss (<i>note 10</i>)	(3.4)	4.7	1.3
At 31 December 2020	(49.6)	39.1	(10.5)

At 31 December 2020, the Group has unrecognised tax losses of HK\$3,216.9 million (2019: HK\$2,274.3 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams. These unrecognised tax losses will expire in three years from the year of assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

29. SHARE CAPITAL

	Issued and fully paid	
	Number of shares	Amount HK\$ million
Ordinary shares with no par value		
At 1 January 2019	5,659,659,293	11,254.1
Exercise of share options	4,710,000	27.3
At 31 December 2019	5,664,369,293	11,281.4
Exercise of share options	13,775,000	154.1
At 31 December 2020	5,678,144,293	11,435.5

During the year ended 31 December 2020, 13,775,000 (2019: 4,710,000) share options were exercised, resulting in the issue of 3,000,000, 7,775,000 and 3,000,000 (2019: 3,450,000, 1,000,000 and 260,000) ordinary shares in the Company at a price of HK\$7.48, HK\$9.826 and HK\$4.89 (2019: HK\$2.82, HK\$8.33 and HK\$5.03) per share respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

30. 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 lapsed automatically on 13 May 2019 upon the expiry of 10-year period, 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 might 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 might determine in their absolute discretion, are regarded as valuable human resources of the Group. Following the expiry of the Scheme, no further share options can be granted thereunder but the outstanding share options granted under the Scheme shall continue to be valid and exercisable.

One-third of the options granted are exercisable for a period of nine years commencing on the date each falling six months, 1.5 years and 2.5 years after the date of grant. All options granted are expiring on the last day of the said nine years period; where the acceptance date should not be later than 28 days after the date of grant. A nominal consideration of HK\$1 is payable on acceptance of the grant of options. The subscription price of the option shares is not less than the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing price of the shares on the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

30. SHARE OPTION SCHEME (Continued)

A summary of the movements of the outstanding options during the year ended 31 December 2020 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 31.12.2019	Reclassified in 2019	Exercised in 2019	Lapsed in 2019	Outstanding at 31.12.2019	Exercised in 2020	Lapsed in 2020	Outstanding at 31.12.2020
					Outstanding at 1.1.2019	Reclassified in 2019	Exercised in 2019	Lapsed in 2019								
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)	—	—	—	—	—	—	—	—	
	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	4,000,000	(500,000)	—	—	—	—	—	3,500,000	—	(3,500,000)	—	
	8.10.2013	8.10.2013 to 7.4.2014	8.4.2014 to 7.4.2023	22	1,000,000	—	—	(1,000,000)	—	—	—	—	—	—	—	
	8.10.2013	8.10.2013 to 7.4.2015	8.4.2015 to 7.4.2023	22	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)	—	—	—	—	—	—	—	
	15.6.2015	15.6.2015 to 14.12.2015	15.12.2015 to 14.12.2024	9.826	36,002,000	(167,000)	—	(1,000,000)	—	—	—	34,835,000	(7,000,000)	—	27,835,000	
	15.6.2015	15.6.2015 to 14.12.2016	15.12.2016 to 14.12.2024	9.826	36,002,000	(167,000)	—	(1,000,000)	—	—	—	34,835,000	—	—	34,835,000	
	15.6.2015	15.6.2015 to 14.12.2017	15.12.2017 to 14.12.2024	9.826	35,996,000	(166,000)	—	(1,000,000)	—	—	—	34,830,000	—	—	34,830,000	
	22.6.2017	22.6.2017 to 21.12.2017	22.12.2017 to 21.12.2026	8.33	500,000	—	(500,000)	—	—	—	—	—	—	—	—	
	22.6.2017	22.6.2017 to 21.12.2018	22.12.2018 to 21.12.2026	8.33	1,000,000	—	(500,000)	—	—	—	—	500,000	—	—	500,000	
	22.6.2017	22.6.2017 to 21.12.2019	22.12.2019 to 21.12.2026	8.33	1,000,000	—	—	—	—	—	—	1,000,000	—	—	1,000,000	
	21.6.2018	21.6.2018 to 20.12.2018	21.12.2018 to 20.12.2027	10.26	1,000,000	—	—	—	—	—	—	1,000,000	—	—	1,000,000	
	21.6.2018	21.6.2018 to 20.12.2019	21.12.2019 to 20.12.2027	10.26	1,000,000	—	—	—	—	—	—	1,000,000	—	—	1,000,000	
	21.6.2018	21.6.2018 to 20.12.2020	21.12.2020 to 20.12.2027	10.26	1,000,000	—	—	—	—	—	—	1,000,000	—	—	1,000,000	

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30. 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 31.12.2019	Exercised in 2020	Lapsed in 2020	Outstanding at 31.12.2020
					Outstanding at 1.1.2019	Reclassified in 2019	Exercised in 2019	Lapsed in 2019				
Employees	13.7.2009	13.7.2009 to 12.1.2010	13.1.2010 to 12.1.2019	2.82	450,000	—	(450,000)	—	—	—	—	—
	26.5.2010	26.5.2010 to 25.11.2010	26.11.2010 to 25.11.2019	5.03	260,000	—	(260,000)	—	—	—	—	—
	17.3.2011	17.3.2011 to 16.9.2011	17.9.2011 to 16.9.2020	12.496	3,000,000	—	—	—	3,000,000	—	(3,000,000)	—
	8.10.2013	8.10.2013 to 7.4.2014	8.4.2014 to 7.4.2023	22	12,398,000	200,000	—	(189,000)	12,409,000	—	(184,000)	12,225,000
	8.10.2013	8.10.2013 to 7.4.2015	8.4.2015 to 7.4.2023	22	12,353,000	200,000	—	(187,000)	12,366,000	—	(183,000)	12,183,000
	8.10.2013	8.10.2013 to 7.4.2016	8.4.2016 to 7.4.2023	22	12,339,000	200,000	—	(186,000)	12,353,000	—	(183,000)	12,170,000
	15.6.2015	15.6.2015 to 14.12.2015	15.12.2015 to 14.12.2024	9.826	5,385,000	60,000	—	(64,000)	5,381,000	(99,000)	(88,000)	5,194,000
	15.6.2015	15.6.2015 to 14.12.2016	15.12.2016 to 14.12.2024	9.826	5,385,000	60,000	—	(64,000)	5,381,000	(95,000)	(88,000)	5,198,000
	15.6.2015	15.6.2015 to 14.12.2017	15.12.2017 to 14.12.2024	9.826	5,270,000	60,000	—	(62,000)	5,268,000	(81,000)	(84,000)	5,103,000
	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	(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	(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	(1,000,000)	—	—	
Other participants	17.3.2011	17.3.2011 to 16.9.2011	17.9.2011 to 16.9.2020	12.496	—	500,000	—	—	500,000	—	(500,000)	—
	8.10.2013	8.10.2013 to 7.4.2014	8.4.2014 to 7.4.2023	22	367,000	(200,000)	—	(167,000)	—	—	—	—
	8.10.2013	8.10.2013 to 7.4.2015	8.4.2015 to 7.4.2023	22	367,000	(200,000)	—	(167,000)	—	—	—	—
	8.10.2013	8.10.2013 to 7.4.2016	8.4.2016 to 7.4.2023	22	366,000	(200,000)	—	(166,000)	—	—	—	—
	15.6.2015	15.6.2015 to 14.12.2015	15.12.2015 to 14.12.2024	9.826	277,000	107,000	—	(217,000)	167,000	(167,000)	—	—
	15.6.2015	15.6.2015 to 14.12.2016	15.12.2016 to 14.12.2024	9.826	277,000	107,000	—	(217,000)	167,000	(167,000)	—	—
	15.6.2015	15.6.2015 to 14.12.2017	15.12.2017 to 14.12.2024	9.826	276,000	106,000	—	(216,000)	166,000	(166,000)	—	—
					188,270,000	—	(4,710,000)	(7,902,000)	175,658,000	(13,775,000)	(7,810,000)	154,073,000
Weighted average exercise price per share					HK\$12.32	—	HK\$4.11	HK\$16.08	HK\$12.38	HK\$8.24	HK\$13.08	HK\$12.71

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30. SHARE OPTION SCHEME (Continued)

On 1 February 2019, one of the other participants of the Group has been employed as an employee of the Group. The classification of outstanding number of such other participant's share options is reclassified to employees' section.

On 11 June 2019, a director of the Company retired. The classification of outstanding number of such ex-director's share options is reclassified to other participants' section.

In respect of the above options exercised during the year, the weighted average closing price per share at the dates of exercise was HK\$10.02 (2019: HK\$7.50). At the end of the reporting period, 154,073,000 (2019: 174,658,000) share options are exercisable.

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

Date of grant	13 July 2009	26 May 2010	31 August 2010	17 March 2011	8 October 2013	15 June 2015	11 May 2016	22 June 2017	21 June 2018
Model	Black-Scholes	Binomial	Binomial	Black-Scholes	Binomial	Binomial	Binomial	Binomial	Binomial
Number of share options	166,700,000	500,000	5,000,000	116,000,000	50,460,000	126,725,000	3,000,000	3,000,000	3,000,000
Vesting period	6 to 30 months from the date of grant	6 to 60 months from the date of grant	6 to 30 months from the date of grant	6 to 30 months from the date of grant	6 to 30 months from the date of grant	6 to 30 months from the date of grant			
Closing share price at date of grant	HK\$2.82	HK\$5.03	HK\$7.48	HK\$12.14	HK\$22	HK\$9.83	HK\$4.76	HK\$8.33	HK\$10.26
Expected/contractual life	5 – 6 years	9.5 years	9.5 years	5 years	9.5 years	9.5 years	9.5 years	9.5 years	9.5 years
Exercise price per share	HK\$2.82	HK\$5.03	HK\$7.48	HK\$12.496	HK\$22	HK\$9.826	HK\$4.89	HK\$8.33	HK\$10.26
Exercise multiple (Directors)	N/A	1.79 times	1.81 times	N/A	2 times	2.8 times	N/A	2.8 times	2.8 times
Exercise multiple (Employees and other participants)	N/A	1.79 times	1.81 times	N/A	2 times	2.2 times	2.2 times	N/A	N/A
Expected volatility	66.46%	56.16%	49.56%	54.83%	47.55%	47.00%	47.13%	42.02%	38.17%
Risk-free interest rate	1.74 – 1.94 %	2.35%	1.89%	2.49%	2.03%	1.74%	1.67%	1.25%	2.27%
Expected dividend yield	3.26%	1.79%	1.87%	3.33%	3.182%	5.5%	5.25%	2.88%	1.95%

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.

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30. SHARE OPTION SCHEME (Continued)

The contractual life used in the Binominal model is the full life of share options from date of grant to expiry date provided by the Company.

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 2020, the Group recognised total expenses of HK\$1.6 million (2019: HK\$5.5 million), in relation to share options granted by the Company.

31. RESERVES

	Share options reserve	Retained profits	Total
	HK\$ million	HK\$ million	HK\$ million
THE COMPANY			
At 1 January 2019	849.0	7,490.5	8,339.5
Exercise of share options	(8.0)	—	(8.0)
Recognition of equity-settled share-based payments	5.5	—	5.5
Release of lapsed equity-settled share-based payments	(48.3)	48.3	—
Dividends paid (<i>note 11</i>)	—	(1,642.6)	(1,642.6)
Profit and total comprehensive income for the year (<i>Note</i>)	—	1,432.8	1,432.8
At 31 December 2019	798.2	7,329.0	8,127.2
Exercise of share options	(40.6)	—	(40.6)
Recognition of equity-settled share-based payments	1.6	—	1.6
Release of lapsed equity-settled share-based payments	(37.4)	37.4	—
Dividends paid (<i>note 11</i>)	—	(1,246.8)	(1,246.8)
Profit and total comprehensive income for the year (<i>Note</i>)	—	1,406.7	1,406.7
At 31 December 2020	721.8	7,526.3	8,248.1

Note: Amount included dividend income from SJM of HK\$1,456.3 million (2019: HK\$1,456.3 million).

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32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2020, property and equipment totalling HK\$95.2 million (2019: HK\$343.0 million) were settled by utilising deposits made on acquisitions of property and equipment.

33. CAPITAL COMMITMENTS

	2020 HK\$ million	2019 HK\$ million
Capital expenditure in respect of acquisitions of property and equipment:		
Authorised but not contracted for:		
GLP Project	1,641.2	3,875.8
Others	62.2	107.0
	1,703.4	3,982.8
Contracted for but not provided in the consolidated financial statements:		
GLP Project	865.6	2,909.3
Others	185.5	158.1
	1,051.1	3,067.4

At 31 December 2020, capital expenditure in respect of acquisitions of property and equipment committed to acquire from related parties amounted to HK\$59.1 million (2019: HK\$149.2 million).

At 31 December 2020, the estimated total project costs for the GLP Project by the Group's management is approximately HK\$39,000 million (2019: HK\$39,000 million).

34. 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 operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of a trustee. The Group contributes 5% of the relevant payroll costs to the MPF 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.

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For the year ended 31 December 2020

34. RETIREMENT BENEFITS SCHEMES (Continued)

The Group operates a defined contribution retirement scheme for all qualifying employees since 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 the Group at rates specified in the rules of the scheme.

The Group operates a Non-mandatory Central Provident Fund (the "CPF") for all qualifying employees since 2019. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustees. The Group contributes 5% of the relevant payroll costs to the CPF, which is matched with contribution of all relevant employees.

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.

35. 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 long-term bank loans, lease liabilities, amount due to non-controlling interests of a subsidiary, and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in these consolidated financial statements.

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

36. 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 in a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (Continued)

(b) Categories of financial instruments

	2020 HK\$ million	2019 HK\$ million
<i>Financial assets</i>		
Investments in equity instruments designated at FVTOCI	554.4	868.1
Amortised cost	7,061.5	16,790.6
	7,615.9	17,658.7
<i>Financial liabilities</i>		
Amortised cost	24,262.9	23,875.9

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

(c) Credit risk management and impairment assessment

As at the end of the reporting period, the Group's maximum exposure to credit risk which will 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 statement of financial position; and
- the amount of financial guarantee obligations disclosed in note 39.

The Group has concentration of credit risk as 100% (2019: 100%) of the advances and receivables are due from the Group's five largest gaming promoters. Other than concentration of credit risk on advances to gaming promoters, other receivables from gaming promoters and service providers, amounts due from an associate/a joint venture/an investee company and liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk management and impairment assessment (Continued)

As part of the Group's credit risk management, the Group applies internal credit rating for the gaming promoters and service providers. The Group may at its discretion extend credit periods for certain gaming promoters and service providers with long-term relationship and good repayment patterns. The Group assessed the ECL for advances to gaming promoters and other receivables from gaming promoters and service providers individually as at 31 December 2020 and 31 December 2019.

Movement in the loss allowance

	2020 HK\$ million	2019 HK\$ million
At 1 January	379.5	179.5
Impairment loss recognised	—	200.0
At 31 December	379.5	379.5

During the year ended 31 December 2019, the Group provided impairment allowance of HK\$200.0 million (2020: nil) for other receivable from gaming promoters and service providers as the management considered a service provider is credit-impaired. As at 31 December 2020, loss allowance with an aggregate balance of HK\$379.5 million (2019: HK\$379.5 million) represents individually credit-impaired advances to gaming promoters and other receivables from gaming promoters and service providers which are fully impaired as the management considered the outstanding balances from these gaming promoters and service providers were uncollectible given that one or more events of default occurred.

No impairment allowance is recognised for the remaining advances to gaming promoters and other receivables from gaming promoters and service providers since the loss given default and exposure at default are significantly reduced as those advances to gaming promoters are subject to certain offsetting and enforceable netting agreements as well as due to the low probability of default of the gaming promoters and service providers based on historical credit loss experience. The management has also assessed all available forward looking information, including but not limited to expected growth rate and future development of gaming industry, and concluded that there is no significant increase in credit risk.

For the interest receivables and credit card receivables included in other sundry receivables, pledged bank deposits, short-term bank deposits and bank balances, no allowance for impairment was made since the management considers the probability of default is negligible as such amounts are receivable from or placed in banks in Macau SAR and Hong Kong having good reputation and are considered to have low credit risk.

For rental deposits, the management considered the historical experience and forward-looking information and assessed the risk of default as low, no impairment allowance is made during the year.

For the amounts due from an associate/a joint venture/an investee company and other amounts in other sundry receivables, no allowance for impairment was made since the management considers the probability of default is minimal after assessing the counterparties' financial background and creditability and/or exposure at default is minimal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk management and impairment assessment (Continued)

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was HK\$87.3 million (2019: HK\$87.3 million) as at 31 December 2020. Details of the financial guarantee contracts are set out in note 39. At the end of the reporting period, the management assessed that no credit facilities were utilised under guarantee and financial positions of that associate and that investee company, and concluded that there has been no significant credit risk arising from the financial guarantee contracts. Accordingly, there was no loss allowance for financial guarantee contracts issued by the Group.

(d) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to its bank balances and long-term 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 lease liabilities. 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/LIBOR/MAIBOR arising from long-term bank loans.

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances and long-term bank loans. The analyses were prepared assuming these balances outstanding at the end of the reporting period were outstanding for the whole year. 5 basis points and 50 basis points (2019: 5 basis points and 50 basis points) increase, respectively, represent management's assessment of the reasonably possible change in interest rates.

Except for bank balances using 5 basis points (2019: 5 basis points), if interest rates on long-term bank loans had been 50 basis points (2019: 50 basis points) higher and all other variables were held constant, the potential effect on loss/profit for the year without adjusting for any amount to be capitalised:

	2020 HK\$ million	2019 HK\$ million
Increase in loss for the year (2019: decrease in profit for the year)	(92.2)	(73.2)

If interest rates had been lower in an opposite magnitude and all other variables held constant, the potential effect on the results would be equal and opposite.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (Continued)

(e) Price risk management

The Group is exposed to equity price risk on the investments in listed equity securities measured at FVTOCI, operating in gaming, entertainment and hotel industry sector. The Group currently does not have a policy to hedge such risk. In addition, the Group also invested in certain unquoted equity securities for investees operating in gaming, entertainment and hotel industry sector for long term strategic purposes which were designated at FVTOCI. The Group has designated a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

The sensitivity analyses below have been determined base on the exposure to equity price risk on the equity securities in investments in equity securities designated at FVTOCI at the end of the reporting period. If the fair value on such equity securities had been 10% (2019: 10%) higher/lower, the potential effect on the investment revaluation reserve is as follows:

The Group's investment revaluation reserve would increase/decrease by HK\$55.4 million (2019: HK\$86.8 million) arising from the listed equity securities and unlisted equity shares in investments in equity instruments designated at FVTOCI.

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 consideration of going concern assessment prepared by the directors of the Company is set out in note 3.1, as the Group's current liabilities exceeded its current assets by approximately HK\$6,249.7 million at 31 December 2020.

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 and financial guarantee contracts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (Continued)

(f) Liquidity risk management (Continued)

	Weighted average effective interest rate	On demand HK\$ million	Not more than 3 months HK\$ million	Over 3 months but not more than 6 months HK\$ million	Over 6 months but not more than 1 year HK\$ million	Over 1 year HK\$ million	Total undiscounted cash flow HK\$ million	Carrying amount HK\$ million
At 31 December 2020								
Trade payables	—	—	304.4	0.5	2.7	—	307.6	307.6
Chips in circulation	—	1,504.8	—	—	—	—	1,504.8	1,504.8
Other payables	—	—	1,062.7	733.9	1,536.8	66.7	3,400.1	3,400.1
Amount due to non-controlling interests of a subsidiary	2.47%	—	—	—	—	297.8	297.8	263.3
Long-term bank loans (Note (i))	2.58%	—	1,124.9	1,579.8	3,006.0	13,571.0	19,281.7	18,787.1
Financial guarantee obligations (Note (ii))	—	87.3	—	—	—	—	87.3	—
Lease liabilities	2.45%	—	55.5	54.4	173.9	1,270.4	1,554.2	1,186.0
		1,592.1	2,547.5	2,368.6	4,719.4	15,205.9	26,433.5	25,448.9
At 31 December 2019								
Trade payables	—	—	1,045.7	1.0	0.5	—	1,047.2	1,047.2
Chips in circulation	—	5,062.4	—	—	—	—	5,062.4	5,062.4
Other payables	—	—	1,963.9	75.6	242.3	—	2,281.8	2,281.8
Amount due to non-controlling interests of a subsidiary	2.47%	—	—	—	—	219.4	219.4	203.8
Long-term bank loans (Note (i))	3.81%	—	193.7	199.2	405.0	15,632.1	16,430.0	15,280.7
Financial guarantee obligations (Note (ii))	—	87.3	—	—	—	—	87.3	—
Lease liabilities	2.45%	—	73.0	43.0	77.1	884.6	1,077.7	725.3
		5,149.7	3,276.3	318.8	724.9	16,736.1	26,205.8	24,601.2

Notes:

- (i) The amounts included above for variable-rate long-term 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 2020

36. FINANCIAL INSTRUMENTS (Continued)

(g) Fair value measurement of financial instruments

The Group's investments in equity instruments designated at FVTOCI are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2020 HK\$ million	31 December 2019 HK\$ million		
Investments in equity instruments designated at FVTOCI				
Listed equity securities	249.0	296.5	Level 1	Quoted bid prices in an active market
Unlisted equity securities	305.4	571.6	Level 2	Market approach: Net asset value with main multiple being Price-to-Book multiples of comparable companies (2019: estimated normalised trailing twelve months net profits with main multiple being Price-to-Earnings multiples of comparable companies) (Note)

Note: Due to the outbreak of COVID-19, there is increased uncertainty associated with the valuation technique with key inputs adopted as at 31 December 2019 (estimated normalised trailing twelve months net profits with main multiple being Price-to-Earnings multiples of comparable companies). Therefore, the valuation technique and key inputs adopted as at 31 December 2020 changed to be net asset value and Price-to-Book multiples of comparable companies as more appropriate under current market environment.

There were no transfers between Level 1 and 2 during the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (Continued)

(g) Fair value measurement of financial instruments (Continued)

In estimating the fair value of unlisted equity securities, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages qualified third party valuers to perform the valuation. The management of the Group works closely with the qualified third party valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the unlisted equity securities.

Information about the valuation techniques and inputs used in determining the fair value of unlisted equity securities are disclosed above.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. FINANCIAL INSTRUMENTS (Continued)

(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 an enforceable netting agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

Please refer to note 22 for detail offsetting arrangements.

Financial assets subject to offsetting and enforceable netting agreements

	Gross amounts of recognised financial assets HK\$ million	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position 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 2020	112.8	(0.3)	112.5	(11.6)	100.9
— at 31 December 2019	236.9	(47.3)	189.6	(85.1)	104.5

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 2020	11.9	(0.3)	11.6	(11.6)	—
— at 31 December 2019	240.6	(47.3)	193.3	(85.1)	108.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. 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 (Continued)

The amounts set off have been disclosed in the above table and details of the arrangements are set out in note 22.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Long-term bank loans	Amount due to non- controlling interests of a subsidiary	Interest payables	Lease liabilities	Dividend payables	Total
	HK\$ million (note 25)	HK\$ million (note 27)	HK\$ million (Note)	HK\$ million (note 26)	HK\$ million	HK\$ million
At 1 January 2019	15,444.8	287.1	8.2	865.3	—	16,605.4
Net financing cash flows	(225.0)	(98.0)	(525.4)	(270.4)	(1,642.6)	(2,761.4)
Loss on modification of long-term bank loans	9.8	—	—	—	—	9.8
New leases entered	—	—	—	110.2	—	110.2
Interest expenses	51.1	7.5	569.1	20.2	—	647.9
Dividend recognised	—	—	—	—	1,642.6	1,642.6
Changes in cash flow estimates	—	7.2	—	—	—	7.2
At 31 December 2019	15,280.7	203.8	51.9	725.3	—	16,261.7
Net financing cash flows	3,429.5	78.4	(481.2)	(370.1)	(1,246.8)	1,409.8
Gain on modification of long-term bank loans	(2.0)	—	—	—	—	(2.0)
Gain arising from early termination of lease contracts	—	—	—	(0.3)	—	(0.3)
New leases entered	—	—	—	949.1	—	949.1
COVID-19-related rent concessions	—	—	—	(148.1)	—	(148.1)
Interest expenses	78.9	5.2	430.5	30.1	—	544.7
Dividend recognised	—	—	—	—	1,246.8	1,246.8
Changes in cash flow estimates	—	(17.1)	—	—	—	(17.1)
Deemed capital contribution	—	(7.0)	—	—	—	(7.0)
At 31 December 2020	18,787.1	263.3	1.2	1,186.0	—	20,237.6

Note: The amount is included in trade and other payables as set out in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. RELATED PARTY TRANSACTIONS

- (a) Other than the transactions and balances with related parties disclosed in respective notes in the 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	2020 HK\$ million	2019 HK\$ million	
STDM and its associates, excluding the Group ("STDM Group") (as defined under Chapter 14A of the Listing Rules)	Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules			
	Property rentals (note 38(c))	8.7	242.7	
	Transportation (note 38(d))	9.1	99.8	
	Hotel accommodation (note 38(d))	—	17.9	
	Entertainment and staff messing (note 38(d))	—	14.8	
	Exempt continuing connected transactions under Chapter 14A of the Listing Rules			
	Share of administrative expenses (note 38(e) and (f))	1.7	1.5	
	Hotel accommodation (38(d))	2.8	—	
	Entertainment (note 38(d))	10.7	—	
	Cleaning services (note 38(f))	15.0	28.3	
	Hotel management and operation (note 38(d) and (f))	5.6	16.2	
	Promotional and advertising services (note 38(d) and (f))	3.2	6.5	
	Maintenance services (note 38(d) and (f))	14.1	13.2	
	Others (note 38(f))	8.2	17.1	
	Non-exempt connected transactions under Chapter 14A of the Listing Rules			
	Right-of-use assets — HKFRS 16 (note 38(c))	564.3	—	
	Purchase of a property (note 38(m))	—	680.0	
	Certain directors of the Company and of its subsidiaries and their associates (as defined under Chapter 14A of the Listing Rules)	Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules		
		Service fees paid to a service provider in relation to the promotion of a casino (note 38(g))	2.2	950.4
		Property rentals (note 38(i))	20.3	118.8
		Non-exempt connected transactions under Chapter 14A of the Listing Rules		
Right-of-use assets — HKFRS 16 (note 38(i))		228.6	—	
Exempt continuing connected transactions under Chapter 14A of the Listing Rules				
Transportation (note 38(f) and (h))		4.4	20.3	
Others (note 38(f))		58.8	65.0	
Entities other than above in which STDM, certain directors of the Company and of its subsidiaries and/or their close family members have control/significant influence/beneficial interests		Service fees (reimbursed from) paid to a service provider in relation to the promotion of a casino (note 38(j))	(253.6)	739.8
		Insurance expenses	189.0	168.8
	Sub-concession fee income	6.5	—	
	Promotion and advertising expenses	—	0.6	
	Service fee in relation to foreign currencies exchange	3.9	11.5	
	Construction costs	28.9	2.5	
	Others	6.6	9.3	
An associate	Construction costs and management fee paid	207.3	278.2	
A joint venture	Property rentals (note 38(n))	6.1	14.4	

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For the year ended 31 December 2020

38. 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 2020, the net amount received or receivable on reimbursement of STDM chips in circulation amounted to HK\$0.2 million (2019: HK\$0.1 million).
- (c) The Company entered into an agreement dated 18 June 2008 with STDM for the leasing of properties by STDM or the members of the STDM Group to the Group (the "Premises Leasing Master Agreement with STDM"). 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 Premises Leasing Master Agreement with STDM was renewed on 23 December 2019 for a term of period from 1 April 2020 to 31 December 2022 with similar terms as the previous agreement. The amounts of transactions during the period were disclosed in note 38(a) above.

During the year ended 31 December 2019, the amount disclosed in note 38(a) represented the payment amount for property rentals with related parties and/or connected parties.

During the year ended 31 December 2020, the amount disclosed in note 38(a) represents the property rentals with related parties and/or connected parties for the addition of right-of-use assets and expenses relating to the relevant short-term leases.

During the year ended 31 December 2020, the lease transactions with related parties represent additions of right-of-use assets of HK\$564.3 million (2019: nil), incurred expenses relating to the relevant short-term leases of HK\$8.7 million (2019: HK\$95.5 million) and interest expenses of HK\$10.2 million (2019: HK\$3.7 million) on the relevant lease liabilities with carrying amount of HK\$323.2 million as at 31 December 2020 (2019: HK\$69.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. RELATED PARTY TRANSACTIONS (Continued)

- (d) The Company 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 38(f). The Renewed Master Agreement expired on 31 December 2013, and was renewed on 6 January 2014, 26 January 2017 and 23 December 2019, each for a term of three years starting from 1 January 2014, 1 January 2017 and 1 January 2020, respectively, with similar terms for the provision of products and services for five categories: hotel accommodation, entertainment, transportation, hotel management and operation and maintenance services. The transaction amounts for the hotel management and operations and maintenance services during the year were de minimis as described in note 38(f).
- (e) The Company entered into an agreement with STDM dated 18 June 2008 (the “Administrative Cost Sharing Agreement”) whereby STDM and its associates have agreed to continue to share certain administrative services.

Starting from 2014, these transactions were exempted as continuing connected transactions under Rule 14A.98 of the Listing Rules. The amount of transactions during the year was disclosed in note 38(a) above.

- (f) These are individually de minimis transactions as defined under Rule 14A.76 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) 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 (the “Service Agreement”) for the period from 1 October 2009 to 31 March 2020 or any earlier termination with 21 days’ notice to other party who is in default of the agreement. On 4 May 2020, SJM entered into an addendum to the Service Agreement with Tin Hou Limited for extending the provision of services as specified in the Service Agreement to SJM until 26 June 2022. Tin Hou is a company controlled over 50% by a half-brother of a director of certain subsidiaries of the Company and was a connected person of the Company pursuant to Rules 14A.07(4) and 14A.12(2)(a) of the Listing Rules. From the effective date of the addendum to the Service Agreement, such subsidiaries of the Company are categorised as insignificant subsidiaries of the Group according to Rule 14A.09 of the Listing Rules. In this regard, the director is not considered as a connected person of the Company and the transactions between SJM and Tin Hou under the Service Agreement are no longer continuing connected transactions for the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. RELATED PARTY TRANSACTIONS (Continued)

- (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.

Such agreement was renewed on 31 December 2016 with ST-CITS and on 31 December 2019 with a subsidiary of ST-CITS, each for a term of three years starting from 1 January 2017 and 1 January 2020, respectively, with similar terms as the previous agreement. The transaction amounts for transportation during the years ended 31 December 2019 and 2020 were de minimis as described in note 38(f). From 16 July 2020, ST-CITS was no longer a connected party of the Company due to restructuring related to ST-CITS. Hence, the transactions between SJM and ST-CITS were no longer treated as continuing connected transactions.

- (i) The Company entered into an agreement dated 22 November 2013 with a director of the Company for the leasing of properties by the director and/or her associates to the Group (the “Premises Leasing Master Agreement”) 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. On 14 December 2016, the Company entered into a renewed Premises Leasing Master Agreement with the director and/or her associates to the Group (the “Renewed Premises Leasing Master Agreement”). The Renewed Premises Leasing Master Agreement expired on 31 December 2019, and was further renewed on 23 December 2019 for a term of three years from 1 January 2020 with similar terms as the previous agreement. The amounts of transactions during the period were disclosed in note 38(a) above.

During the year ended 31 December 2019, the amount disclosed in note 38(a) represented the payment amount for property rentals with related parties and/or connected parties.

During the year ended 31 December 2020, the amount disclosed in note 38(a) represents the property rentals with related parties and/or connected parties for the additions of right-of-use assets and expenses relating to the relevant short-term leases.

During the year ended 31 December 2020, the lease transactions with related parties represent additions of right-of-use assets of HK\$228.6 million (2019: HK\$9.3 million), incurred expenses relating to the relevant short-term leases of HK\$20.3 million (2019: HK\$117.2 million) and interest expenses of HK\$3.9 million (2019: HK\$0.1 million) on the relevant lease liabilities with carrying amount of HK\$166.9 million as at 31 December 2020 (2019: HK\$7.8 million).

- (j) Service fees in relation to the promotion of a casino were reimbursed from/paid to an entity in which certain directors of the Group are the directors and/or key management personnel of the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. RELATED PARTY TRANSACTIONS (Continued)

- (k) Save as disclosed in note 25, in addition to the securities provided by the Group to the relevant banks, the non-controlling interests of a subsidiary also provided securities to secure the syndicate secured bank loans 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\$490 million (2019: HK\$490 million); and
 - (ii) 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.

- (m) A property was acquired at a consideration of HK\$680 million during the year ended 31 December 2019. The seller in the acquisition was a connected person of the Company, and hence the acquisition constituted a connected transaction pursuant to Chapter 14A of the Listing Rules.
- (n) During the year ended 31 December 2019, the amount disclosed in note 38(a) represented the payment amount for property rentals with related parties and/or connected parties.

During the year ended 31 December 2020, the amount disclosed in note 38(a) represents the property rentals with related parties and/or connected parties for the expenses relating to the relevant short-term leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

39. FINANCIAL GUARANTEE OBLIGATIONS

	2020		2019	
	Maximum guarantees given HK\$ million	Credit facilities utilised HK\$ million	Maximum guarantees given HK\$ million	Credit facilities utilised HK\$ million
Guarantees given to banks in respect of credit facilities granted to:				
an associate	67.3	—	67.3	—
an investee company	20.0	—	20.0	—
	87.3	—	87.3	—

The fair value of financial guarantee obligations 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 2020 and 31 December 2019 as the default risk is low.

40. INVESTMENTS IN SUBSIDIARIES

	2020 HK\$ million	2019 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 (<i>Note</i>)	95.5	387.0
	4,067.8	4,359.3

Note: For the year ended 31 December 2020, a subsidiary of the Company has returned capital by way of an interim dividend of HK\$291.5 million to the Company.

Details of the Company's principal subsidiaries at the end of the reporting period are set out in note 43.

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

The amounts due from subsidiaries are unsecured, interest-free and 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 repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. EVENT AFTER REPORTING PERIOD

On 27 January 2021, a wholly-owned subsidiary of the Company, Champion Path Holdings Limited, issued 4.5% senior notes with an aggregate principal amount of US\$500 million (equivalent to HK\$3,875.05 million) and a final maturity date of 27 January 2026, and 4.85% senior notes with an aggregate principal amount of US\$500 million (equivalent to HK\$3,875.05 million) and a final maturity date of 27 January 2028. The net proceeds from the issuance will be used to repay a portion of amounts outstanding under its long-term bank loans facility agreement and for general corporate purposes.

43. PRINCIPAL SUBSIDIARIES

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

(a) General information of subsidiaries

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ quota capital	Attributable proportion of nominal value of issued share capital/ quota capital held by the Group		Principal activity
			2020	2019	
Bondwell Limited	Hong Kong	Ordinary shares: HK\$1	100%	100%	Property holding
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. PRINCIPAL SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ quota capital	Attributable proportion of nominal value of issued share capital/ quota capital held by the Group		Principal activity
			2020	2019	
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/ Hong Kong	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
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 – 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. PRINCIPAL SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ quota capital	Attributable proportion of nominal value of issued share capital/ quota capital held by the Group		Principal activity
			2020	2019	
SJM – Investment Limited	Macau SAR	Quota capital: MOP1,000,000	100%	100%	Investment holding
SJM Retail Services Private Limited	Macau SAR	Quota capital: MOP 25,000	100%	100%	Provision of retail services
SJM–Project Management Services (HK) Limited	Hong Kong	Ordinary shares: 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/ Hong Kong	Ordinary shares: US\$1	100%	100%	Investment holding

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. PRINCIPAL SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

At the end of both reporting periods, 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	
		2020	2019
Gaming related operations	Macau SAR	1	2
	Hong Kong	3	3
		4	5
Hotel, catering and retail related operations	Macau SAR	1	1
	Hong Kong	1	1
		2	2
Investment holdings/Inactive	British Virgin Islands/Macau SAR	15	15
	British Virgin Islands/Hong Kong	5	5
	Hong Kong	6	4
	Macau SAR	5	6
	Samoa	1	1
		32	31
		38	38

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. PRINCIPAL SUBSIDIARIES (Continued)

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests

The table below shows details of a non-wholly-owned subsidiary 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) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	2020	2019	2020	2019
				HK\$ million	HK\$ million	HK\$ million	HK\$ million
Pier 16 – Property Development Limited	Macau SAR	49%	49%	(150.0)	110.2	111.8	237.7

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

	2020 HK\$ million	2019 HK\$ million
Current assets	65.0	372.9
Non-current assets	643.6	680.0
Current liabilities	(307.7)	(480.6)
Non-current liabilities	(549.3)	(463.9)
Equity attributable to owners of the company	(148.4)	108.4
	2020 HK\$ million	2019 HK\$ million
Revenue	46.7	795.1
Cost of sales and expenses	(366.0)	(555.1)
(Loss) profit for the year	(306.1)	224.9
(Loss) profit attributable to owners of the company	(306.1)	224.9
Net cash (outflow) inflow from operating activities	(338.6)	371.4
Net cash outflow from investing activities	(16.6)	(24.1)
Net cash inflow (outflow) from financing activities	97.3	(427.6)
Net cash outflow	(257.9)	(80.3)

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 124 to 226, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 matters

How our audit addressed the key audit matters

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, repayment history and all available forward looking information of those gaming promoters and service providers.

As disclosed in note 4 to the consolidated financial statements, the Group's advances to gaming promoters and other receivables from gaming promoters and service providers, net of related loss allowance of HK\$379.5 million, amounted to HK\$815.5 million as at 31 December 2019. 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 and evaluating the relevant control procedures 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 related loss allowance by reviewing information in respect of:
 - (i) the financial performance of gaming promoters and service providers;
 - (ii) expected growth rate and future development of gaming industry; and
 - (iii) relevant commissions and service fee payables for assessing exposure to credit losses; 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

Key audit matters

How our audit addressed the key audit matters

Capitalisation of additions to and the carrying values of construction in progress ("CIP") of Grand Lisboa Palace Project ("GLP Project")

We identified the capitalisation of additions to and the carrying values of CIP of GLP Project as a key audit matter due to the significance of the GLP Project to the Group's consolidated financial statements.

As disclosed in note 13 to the consolidated financial statements, additions to CIP of GLP Project amounted to HK\$4,633.7 million during the year ended 31 December 2019 and the carrying values of CIP of GLP Project amounted to approximately HK\$29,407.7 million as at 31 December 2019 which accounted for 51.0% of the Group's total assets as at 31 December 2019. The relevant accounting policies in relation to capitalisation of additions to CIP are set out in note 3.6 "Property and equipment" and note 3.9 "Borrowing costs" to the consolidated financial statements.

Our procedures in relation to capitalisation of additions to and the carrying values of CIP of GLP Project included:

- Obtaining an understanding of the progress of GLP Project by interviewing the Group's project management team, external quantity surveyors and architects;
- Evaluating the appropriateness of the Group's construction costs and borrowing costs capitalisation policies by analysing the nature of those costs capitalised against the requirements of HKAS 16 "Property, Plant and Equipment" and HKAS 23 "Borrowing Costs"; and
- Checking, on a sample basis, the amount of additions capitalised with reference to the contractors' invoices, and quantity surveyors' and architects' certificates of the construction contract works; and recalculating the borrowing costs capitalised in CIP of GLP Project.

INDEPENDENT AUDITOR'S REPORT

Key audit matters

How our audit addressed the key audit matters

Accuracy and completeness of 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 2019.

Our procedures in relation to the accuracy and completeness of disclosure of related party 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.

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.

INDEPENDENT AUDITOR'S REPORT

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 HKSAAs 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.

As part of an audit in accordance with HKSAAs, 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.

INDEPENDENT AUDITOR'S REPORT

- 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.

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 Au Mei Yin.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

16 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK\$ million	2018 HK\$ million
Gaming, hotel, catering, retail and related services revenues	5(a)	33,875.0	34,410.1
Gaming revenue	6	33,158.5	33,677.1
Special gaming tax, special levy and gaming premium		(15,530.6)	(17,004.5)
Hotel, catering, retail and related services income		17,627.9	16,672.6
Cost of sales and services on hotel, catering, retail and related services		716.5	733.0
Other income, gains and losses		(377.3)	(387.1)
Impairment loss on financial assets		333.0	377.3
Marketing and promotional expenses		(200.0)	(47.0)
Operating and administrative expenses		(6,219.9)	(5,831.0)
Finance costs	7	(8,496.5)	(8,566.2)
Share of profits of an associate	18	(33.7)	(27.5)
Share of profits of a joint venture	19	11.8	8.9
		7.3	6.6
Profit before taxation	8	3,369.1	2,939.6
Taxation	10	(51.6)	(27.4)
Profit for the year		3,317.5	2,912.2
Other comprehensive (expense) income:			
<i>Item that will not be reclassified to profit or loss:</i>			
Change in fair value of investments in equity instruments designated at fair value through other comprehensive income		(48.2)	266.4
Total comprehensive income for the year		3,269.3	3,178.6
Profit for the year attributable to:			
owners of the Company		3,207.3	2,850.1
non-controlling interests		110.2	62.1
		3,317.5	2,912.2

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK\$ million	2018 HK\$ million
Total comprehensive income for the year attributable to:			
owners of the Company		3,159.1	3,116.5
non-controlling interests		110.2	62.1
		3,269.3	3,178.6
Earnings per share:			
Basic	12	HK56.6 cents	HK50.4 cents
Diluted	12	HK56.6 cents	HK50.3 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK\$ million	2018 HK\$ million
Non-current assets			
Property and equipment	13	35,159.8	30,378.6
Right-of-use assets	14	2,864.3	—
Intangible asset	15	197.6	—
Land use rights	16	—	2,264.0
Art works and diamonds	17	281.3	281.3
Interest in an associate	18	336.4	306.5
Interest in a joint venture	19	135.0	127.7
Investments in equity instruments designated at fair value through other comprehensive income	20	868.1	916.3
Other assets	21	840.8	1,346.2
Pledged bank deposit	22	—	145.6
		40,683.3	35,766.2
Current assets			
Inventories		103.3	90.8
Trade and other receivables	23	1,314.1	1,848.9
Pledged bank deposits	22	1,020.7	1.3
Short-term bank deposits	24	5,766.2	12,368.7
Bank balances and cash	24	8,738.1	6,322.7
		16,942.4	20,632.4
Current liabilities			
Trade and other payables	25	12,044.3	11,957.6
Taxation payable		123.7	116.8
Long-term bank loans	27	217.0	200.0
Lease liabilities	28	177.6	—
		12,562.6	12,274.4
Net current assets		4,379.8	8,358.0
Total assets less current liabilities		45,063.1	44,124.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK\$ million	2018 HK\$ million
Non-current liabilities			
Other payables	25	—	882.9
Long-term bank loans	27	15,063.7	15,244.8
Lease liabilities	28	547.7	—
Amount due to non-controlling interests of a subsidiary	29	203.8	287.1
Deferred taxation	30	11.8	22.8
		15,827.0	16,437.6
Net assets		29,236.1	27,686.6
Capital and reserves			
Share capital	31	11,281.4	11,254.1
Reserves		17,717.0	16,298.0
Equity attributable to owners of the Company		28,998.4	27,552.1
Non-controlling interests		237.7	134.5
Total equity		29,236.1	27,686.6

The consolidated financial statements on pages 124 to 226 were approved and authorised for issue by the Board of Directors on 16 March 2020 and are signed on its behalf by:

Ho Chiu Fung, Daisy
Director

So Shu Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 2018	11,241.5	892.1	59.5	13,524.7	25,717.8	72.4	25,790.2
Profit for the year	—	—	—	2,850.1	2,850.1	62.1	2,912.2
Other comprehensive income for the year	—	—	266.4	—	266.4	—	266.4
Total comprehensive income for the year	—	—	266.4	2,850.1	3,116.5	62.1	3,178.6
Exercise of share options	12.6	(3.5)	—	—	9.1	—	9.1
Recognition of equity-settled share-based payments	—	10.2	—	—	10.2	—	10.2
Release of lapsed equity-settled share-based payments	—	(49.8)	—	49.8	—	—	—
Dividends paid (note 11)	—	—	—	(1,301.5)	(1,301.5)	—	(1,301.5)
	12.6	(43.1)	—	(1,251.7)	(1,282.2)	—	(1,282.2)
At 31 December 2018 (audited)	11,254.1	849.0	325.9	15,123.1	27,552.1	134.5	27,686.6
Adjustments (note 2)	—	—	—	(94.8)	(94.8)	—	(94.8)
At 1 January 2019 (restated)	11,254.1	849.0	325.9	15,028.3	27,457.3	134.5	27,591.8
Profit for the year	—	—	—	3,207.3	3,207.3	110.2	3,317.5
Other comprehensive expense for the year	—	—	(48.2)	—	(48.2)	—	(48.2)
Total comprehensive (expense) income for the year	—	—	(48.2)	3,207.3	3,159.1	110.2	3,269.3
Exercise of share options	27.3	(8.0)	—	—	19.3	—	19.3
Recognition of equity-settled share-based payments	—	5.5	—	—	5.5	—	5.5
Release of lapsed equity-settled share-based payments	—	(48.3)	—	48.3	—	—	—
Arising from changes in cash flow estimates on an amount due to non-controlling interests of a subsidiary	—	—	—	—	—	(7.2)	(7.2)
Arising from changes in shareholding of a subsidiary	—	—	—	(0.2)	(0.2)	0.2	—
Dividends paid (note 11)	—	—	—	(1,642.6)	(1,642.6)	—	(1,642.6)
	27.3	(50.8)	—	(1,594.5)	(1,618.0)	(7.0)	(1,625.0)
At 31 December 2019	11,281.4	798.2	277.7	16,641.1	28,998.4	237.7	29,236.1

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK\$ million	2018 HK\$ million
Operating activities		
Profit before taxation	3,369.1	2,939.6
Adjustments for:		
Interest income	(304.8)	(299.1)
Interest expenses	26.2	20.4
Imputed interest on an amount due to non-controlling interests of a subsidiary	7.5	7.1
Dividend income	(3.8)	(20.7)
Share of profits of an associate	(11.8)	(8.9)
Share of profits of a joint venture	(7.3)	(6.6)
Depreciation of property and equipment	827.6	1,162.8
Depreciation of right-of-use assets	227.7	—
Loss on disposal/write-off of property and equipment	2.1	0.9
Impairment loss on financial assets	200.0	47.0
Operating lease rentals in respect of land use rights	—	42.8
Share-based payments	5.5	10.2
Reversal of impairment loss on property and equipment	—	(5.4)
Loss on modification of long-term bank loans	9.8	12.9
Operating cash flows before movements in working capital	4,347.8	3,903.0
Increase in inventories	(12.5)	(8.1)
Decrease (increase) in trade and other receivables	103.9	(26.8)
Increase in trade and other payables	39.9	190.7
Cash from operations	4,479.1	4,058.8
Income tax paid	(55.7)	(22.6)
Net cash from operating activities	4,423.4	4,036.2

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK\$ million	2018 HK\$ million
Investing activities		
Interest received	331.4	269.5
Dividends received	3.8	22.0
Purchase of property and equipment	(5,501.6)	(5,777.3)
Proceeds from disposal of property and equipment	2.7	1.6
Deposits paid for purchase of property and equipment	(311.2)	(595.5)
Payments for rental deposits	(0.2)	—
Proceeds of rental deposits refunded	1.6	—
Acquisition of an intangible asset	(197.6)	—
Repayment from an investee company	8.0	7.4
Repayments from (advances to) contractors	668.5	(668.5)
Withdrawal of short-term bank deposits	22,112.4	25,429.2
Placement of short-term bank deposits	(15,509.9)	(28,078.8)
Placement of pledged bank deposits	(873.8)	—
Net cash from (used in) investing activities	734.1	(9,390.4)
Financing activities		
Interest paid	(541.3)	(451.7)
Dividends paid	(1,642.6)	(1,301.5)
Proceeds on issue of shares	19.3	9.1
New long-term bank loans raised	—	7,450.0
Payment of long-term bank loans arrangement fee	(25.0)	—
Repayment of long-term bank loans	(200.0)	(200.0)
Repayments of lease liabilities	(254.5)	—
Repayment to non-controlling interests of a subsidiary	(98.0)	—
Net cash (used in) from financing activities	(2,742.1)	5,505.9
Net increase in cash and cash equivalents	2,415.4	151.7
Cash and cash equivalents at 1 January	6,322.7	6,171.0
Cash and cash equivalents at 31 December	8,738.1	6,322.7
Analysis of the balances of cash and cash equivalents, representing bank balances and cash	8,738.1	6,322.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

SECTION A

THE COMPANY'S STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Notes	2019 HK\$ million	2018 HK\$ million
Non-current assets			
Property and equipment		0.1	0.2
Investments in subsidiaries	43	4,359.3	4,359.3
		4,359.4	4,359.5
Current assets			
Other receivables, deposits and prepayments		25.2	39.5
Amounts due from subsidiaries	44	10,251.5	9,859.9
Short-term bank deposits		3,319.8	5,610.0
Bank balances and cash		1,759.5	24.4
		15,356.0	15,533.8
Current liabilities			
Other payables and accruals		15.3	8.2
Amount due to a subsidiary	44	291.5	291.5
		306.8	299.7
Net current assets		15,049.2	15,234.1
Net assets		19,408.6	19,593.6
Capital and reserves			
Share capital	31	11,281.4	11,254.1
Reserves	33	8,127.2	8,339.5
Total equity		19,408.6	19,593.6

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 16 March 2020 and is signed on its behalf by:

Ho Chiu Fung, Daisy
Director

So Shu Fai
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 operations of casinos and related facilities, and hotel, catering, retail and related services 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 (HK\$), which is also the functional currency of the Company.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred as the “Group”) has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong SAR”) and Macau SAR and land leases and motor vehicles in Macau SAR was determined on a portfolio basis; and
- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term of certain leases of properties and land leases in Macau SAR with extension and termination options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rate applied is 2.43%.

	At 1 January 2019
	HK\$ million
Operating lease commitments disclosed as at 31 December 2018:	
land use rights	204.7
rented premises and other assets	528.4
	733.1
Add: Termination options reasonably certain not to be exercised	40.4
Extension options reasonably certain to be exercised	617.3
Less: Recognition exemption — short-term leases	(155.8)
	1,235.0
Lease liabilities discounted at relevant incremental borrowing rates relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	865.3
Analysed as	
Current	220.8
Non-current	644.5
	865.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	HK\$ million
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	770.5
Reclassified from land use rights (Note)	2,264.0
	<hr/> 3,034.5
By class:	
Leasehold lands	2,685.5
Leasehold land and buildings	310.0
Motor vehicles	39.0
	<hr/> 3,034.5

Note: Upfront payments for leasehold lands in Macau SAR for own use were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, land use rights amounting to HK\$2,264.0 million were reclassified to right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	HK\$ million	HK\$ million	HK\$ million
Non-current assets			
Land use rights (<i>Note</i>)	2,264.0	(2,264.0)	—
Right-of-use assets	—	3,034.5	3,034.5
Current liability			
Lease liabilities	—	(220.8)	(220.8)
Non-current liability			
Lease liabilities	—	(644.5)	(644.5)
Capital and reserves			
Reserves	(16,298.0)	94.8	(16,203.2)

Note: For the purpose of reporting cash flows for the year ended 31 December 2019, movements have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO 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 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
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 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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 (“Listing Rules”) on the Stock Exchange 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below:

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:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- 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.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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 2019

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 have been 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. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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 Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When an objective evidence exists, 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 is not allocated to any asset that 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 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 2019

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. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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 Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When an objective evidence exists, 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 is not allocated to any asset that 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 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Revenue from contracts with customers

The Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations including obligation to provide goods or services to patrons on complementary basis and patron’s options to acquire additional goods or services for free or at a discount in future granted under customer relationship programs, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Revenue from contracts with customers (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified goods or service before that goods or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The directors of the Company considered that the Group acts as a principal for gaming operations in casinos with services provided by gaming promoters and service providers as the Group controls the specified service to be provided by the Group before services transferred to a customer.

Revenue recognition

The Group's revenue contracts with customers consist of casino, hotel rooms, food and beverage, retail and other transactions.

Gaming revenue is the aggregate net difference between gaming wins and losses. Commissions paid to gaming promoters and rebates paid to patrons are recorded as a reduction to gaming revenue. The Group accounts for gaming revenue on a portfolio basis given the similar characteristics of wagers by recognising net win per gaming day.

For casino transactions that include complimentary goods and services provided by the Group to gaming customers on a discretionary basis to incentivise gaming, the Group allocates revenue to the goods or services delivered based upon relative stand-alone selling prices. Discretionary complimentary provided by the Group and supplied by third parties are deducted from liabilities in relation to complementary goods and services and amounts owned are paid to the third parties. The Group accounts for complimentary on a portfolio basis given the similar characteristics of the incentives by recognising redemption per gaming day.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Revenue from contracts with customers (Continued)

Revenue recognition (Continued)

For casino transactions that include award points earned by customers under the Group's loyalty programs, the Group allocates a portion of the net win based upon the relative standalone selling price of such award points (less estimated breakage). Such allocated amount is deferred and recognised in liabilities in relation to loyalty points under customer relationship programs until customers redeem the award points for free goods and services. Upon redemption, the deferred consideration of each good and service is allocated to the respective type of revenue. Redemption of award points at third party outlets are deducted from the liabilities in relation to loyalty points under customer relationship programs and amounts owed are paid to the third parties.

The transaction price of hotel rooms, food and beverage, and retail transactions is the net amount collected from the customer for such goods and services. The transaction price for such transactions is recorded as revenue when the good or service is transferred or rendered to the customer during their stay at the hotel or when the delivery is made for the food and beverage, retail and other services.

The Group has other contracts that include multiple goods and services, such as packages that bundle food and beverage and other services with hotel stays. For such arrangements, the Group allocates revenue to each good or service based on its relative stand-alone selling price. The Group primarily determines the stand-alone selling price of hotel rooms, food and beverage, and retail goods and services based on the amount that the Group charges when each is sold separately in similar circumstances to similar customers.

3.6 Property and equipment

Property and equipment are tangible assets that are 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 right-of-use assets (upon application of HKFRS 16) or land use rights (before application of HKFRS 16) 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 and Hong Kong SAR, where the cost of right-of-use assets (upon application of HKFRS 16) or land use rights (before application of HKFRS 16) cannot be reliably separated from the cost of land and buildings, the entire cost of land and buildings is treated as finance lease and depreciated and amortised on a straight line basis over the estimated useful life of the buildings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property and equipment (Continued)

The cost of other buildings in Macau SAR is depreciated over 25 years to 50 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 their respective estimated useful lives.

Depreciation is recognised so as to write off the cost of other property and equipment, less their residual values 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 an item of property and equipment is determined as the difference between the net sales proceeds and the carrying amount of the item and is recognised in profit or loss.

3.7 Ownership interests in leasehold land and buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “right-of-use assets” (upon application of HKFRS 16) or “land use rights” (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property and equipment.

3.8 Land use rights (prior to 1 January 2019)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.10 Intangible asset

Intangible asset with finite useful life that is acquired separately is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible asset with finite useful life is recognised 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. Intangible asset with indefinite useful life that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss 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. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments

Financial assets and financial liabilities are recognised in the Group's and the Company's statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. 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 ("FVTPL")) 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 FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments designated at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including advances to gaming promoters, other receivables from gaming promoters and service providers, other sundry receivables, advances to contractors, bank deposits and bank balances, amounts due from ultimate holding company/an associate/a joint venture/an investee company) and financial guarantees contracts which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group applies simplified approach to recognise lifetime ECL for advances to gaming promoters. For all other instruments, the Group measures the loss allowance equal to 12m ECL under general approach, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

The ECL on advances to gaming promoters and other receivables from gaming promoters and services providers are assessed individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the ability of gaming promoter or service provider to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the gaming promoter or service provider;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the gaming promoter or service provider that results in a significant decrease in the ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition, the Group considers the changes in the risk that the specified debtor will default on the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

Financial assets (Continued)

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected loss is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, the cumulative amount of income recognised over the guarantee period.

Except for the financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of advances to gaming promoters and other receivables from gaming promoters and service providers where the corresponding adjustment is recognised through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivables is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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.

Financial liabilities at amortised cost

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

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 contract liabilities are initially measured at their fair values. It is subsequently measured at the higher of:

- (i) the amount of the loss allowance determined in accordance with HKFRS 9; and
- (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition/Substantial modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.14 Impairment losses on property and equipment, right-of-use assets and intangible asset

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets, and intangible asset with finite useful lives 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 relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property and equipment, right-of-use assets, and intangible asset are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 (or a cash-generating unit) 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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) 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 (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in a joint venture and an associate, 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.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Taxation (Continued)

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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Leases (Continued)

*The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)
(Continued)*

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold land and buildings and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Leases (Continued)

*The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)
(Continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which case the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Leases (Continued)

*The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)
(Continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group as lessee (prior to 1 January 2019)

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.

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.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expenses on a straight line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Equity-settled share-based payment transactions

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

Equity-settled share based payments to directors, employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest 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 equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. 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.

When 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*

Equity-settled share-based payment transactions with parties other than directors and employees are measured at the fair values of the goods or services received, unless that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the goods or the counterparty renders service. The fair values of the goods or services received are recognised as expenses, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Short-term and other long-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.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Useful lives of property and equipment

The Group depreciates property and equipment on a straight-line basis over their estimated useful lives with no residual value assumed. The estimated useful lives are based on the nature of the assets, as well as current operating strategy and legal considerations, such as contractual life. Future events, such as property expansions, property developments, new competition or new regulations, could result in a change in the manner in which the Group uses certain assets and could have an impact on the estimated useful lives of such assets. During the year ended 31 December 2019, the Group changed the estimated useful lives of certain of its property and equipment based on a combination of factors accumulating over time that provided the Group with updated information to make a better estimate on the economic lives of these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies (Continued)

Useful lives of property and equipment (Continued)

These factors included (1) the stabilisation of the operating, regulatory and competitive environment in Macau SAR, which includes meeting the final land concession deadlines imposed by Macau SAR Government for the Group's properties situated at Macau Peninsula and Cotai and (2) consideration of the estimated useful lives assigned to buildings of the Group's peers in the gaming and hospitality industry. Based on these factors, as well as the anticipated use and condition of the assets evaluated, the Group determined that changes to the useful lives of certain property and equipment were appropriate. As a result, the Group revised the estimated useful lives of the property and equipment to a range of 25 to 50 years to better reflect the estimated periods during which these assets are expected to remain in service.

These changes in estimated useful lives of property and equipment were accounted for as changes in accounting estimates effective 1 January 2019. The impact of these changes for the year ended 31 December 2019 was a decrease in depreciation expense and an increase in profit for the year of HK\$167.3 million for certain property and equipment with carrying amounts of HK\$2,435.0 million as at 31 December 2019.

Determination on lease term of contracts with renewal options

The Group applies judgment to determine the lease term for lease contracts in which it is a lessee that include renewal option, specifically, the leases relating to leasehold lands.

The assessment of whether the Group is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);
- the extent of leasehold improvements undertaken by Group; and
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs).

As at 31 December 2019, the carrying amounts of right-of-use assets and lease liabilities for the lease contracts which the Group is reasonably certain to exercise the renewal option are HK\$2,548.1 million and HK\$468.7 million respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies (Continued)

Determination on incremental borrowing rates of lease contracts

In determining incremental borrowing rates of lease contracts, the Group applies judgement to determine the applicable rates, taking into account the nature of the underlying assets and the terms and condition of the leases at both the commencement date and the effective date of the modification to calculate the present value of lease payments. The incremental borrowing rates of the Group applied significantly affect the amounts of lease liabilities and right-of-use assets recognised.

Key sources of estimation uncertainty

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

Loss allowance on advances to gaming promoters and other receivables from gaming promoters and service providers

The Group grants pre-approved revolving credit lines and short-term temporary advances to its gaming promoters with good credit histories and financial track records. For the outstanding balances from credit-impaired gaming promoters and service providers, an estimated loss allowance is maintained to reduce the Group's receivables to their recoverable amounts. The allowances are estimated based on credit reviews of gaming promoters or service providers with outstanding balance and an evaluation of the amounts expected to be recovered with reference to relevant commissions and service fees accrued to, and deposits received from, the relevant gaming promoters or service providers at the end of the reporting period, the continuous business relationship, the commissions and service fees payable to the relevant gaming promoters or service providers, the cheques, and guarantees obtained and the financial background of the relevant gaming promoters or service providers. The management has also assessed all available forward looking information, including but not limited to expected growth rate and future development of gaming industry. When the actual future cash flows from the settlement of the outstanding balances from gaming promoters or service providers are less than expected, a material impairment loss may arise and affect profit or loss in the period of change. As at 31 December 2019, the carrying amount of advances to gaming promoters and other receivables from gaming promoters and service providers are HK\$815.5 million (2018: HK\$1,049.5 million), net of related loss allowance of HK\$379.5 million (2018: HK\$179.5 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies (Continued)

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

Save as disclosed in note 29, the amount due to non-controlling interests of a subsidiary as at 31 December 2019 of HK\$203.8 million (2018: HK\$287.1 million) is repayable only when the subsidiary has surplus funds which require significant estimates. Surplus fund represents cash available in the 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 such 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 such amount due to non-controlling interests of a subsidiary.

5. OPERATING SEGMENTS

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

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

Reportable segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the “CODM”). CODM, who is responsible for allocating resources and assessing performance of the reportable segments, has been identified as a group of senior management that makes strategic decisions.

The CODM regularly analyses gaming operations in terms of VIP gaming operations, mass market table gaming operations, slot machine and other gaming operations, and the relevant revenues and operating result are reviewed as a whole for resources allocation and performance assessment. For hotel, catering and retail operations, the CODM regularly reviews the performance on the basis of the 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 reportable segment named “hotel, catering and retail operations”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. OPERATING SEGMENTS (Continued)

Segment information about these businesses is presented below:

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

	Segment revenue		Segment results	
	2019 HK\$ million	2018 HK\$ million	2019 HK\$ million	2018 HK\$ million
Gaming operations: recognised at a point in time	33,158.5	33,677.1	3,570.9	3,331.6
Hotel, catering and retail operations: External sales: Catering and retail operations: recognised at a point in time	433.3	441.8		
Hotel operations: recognised over time	283.2	291.2		
	716.5	733.0		
Inter-segment sales: Catering and retail operations: recognised at a point in time	52.1	33.5		
Hotel operations: recognised over time	128.6	123.5		
	180.7	157.0		
Eliminations	897.2 (180.7)	890.0 (157.0)	(195.7)	(456.6)
	716.5	733.0		
Total: recognised at a point in time	33,591.8	34,118.9		
recognised over time	283.2	291.2		
	33,875.0	34,410.1		
Reconciliation from segment results to profit before taxation:			3,375.2	2,875.0
Unallocated corporate income			163.4	205.1
Unallocated corporate expenses			(188.6)	(156.0)
Share of profits of an associate			11.8	8.9
Share of profits of a joint venture			7.3	6.6
Profit before taxation			3,369.1	2,939.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. OPERATING SEGMENTS (Continued)

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit before taxation earned by each segment without allocation of corporate income and expenses, and share of profits of an associate/a joint venture. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

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

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

	2019 HK\$ million	2018 HK\$ million
ASSETS		
Segment assets:		
gaming operations	13,584.4	16,494.0
hotel, catering and retail operations	4,425.1	4,662.4
	18,009.5	21,156.4
Interest in an associate	336.4	306.5
Interest in a joint venture	135.0	127.7
Unallocated bank deposits, bank balances and cash	5,227.0	5,669.2
Other unallocated assets	33,917.8	29,138.8
Group's total	57,625.7	56,398.6
LIABILITIES		
Long-term bank loans:		
gaming operations	15,082.5	15,078.0
hotel, catering and retail operations	70.3	130.1
unallocated corporate bank loans	127.9	236.7
	15,280.7	15,444.8
Other segment liabilities:		
gaming operations	10,689.8	10,338.4
hotel, catering and retail operations	364.8	261.1
	11,054.6	10,599.5
Total segment liabilities	26,335.3	26,044.3
Unallocated liabilities	2,054.3	2,667.7
Group's total	28,389.6	28,712.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. OPERATING SEGMENTS (Continued)

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

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

- (i) other unallocated assets include mainly certain property and equipment, certain right-of-use assets (2018: land use rights), art works and diamonds, amounts due from an associate/a joint venture/an investee company and investments in equity instruments designated at FVTOCI.
- (ii) unallocated liabilities include mainly certain construction payables and amount due to non-controlling interests of a subsidiary.
- (iii) all assets are allocated to reportable segments, other than interest in an associate/a joint venture, unallocated bank deposits, bank balances and cash and those mentioned in above (i).
- (iv) all liabilities are allocated to reportable segments, other than liabilities not attributable to respective segments as mentioned in above (ii).

(c) Other segment information of the Group

	2019 HK\$ million	2018 HK\$ million
Additions to non-current assets (other than financial instruments):		
gaming operations	496.0	325.3
hotel, catering and retail operations	47.0	56.0
corporate level*	5,355.8	6,903.0
	5,898.8	7,284.3

* Amount includes certain right-of-use assets (2018: land use rights), property and equipment, intangible asset 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 2019

5. OPERATING SEGMENTS (Continued)

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

	2019 HK\$ million	2018 HK\$ million
Depreciation:		
gaming operations	731.4	620.1
hotel, catering and retail operations	293.6	536.7
corporate level	30.3	6.0
	1,055.3	1,162.8
Loss (gain) on disposal/write-off of property and equipment:		
gaming operations	2.2	0.5
hotel, catering and retail operations	0.1	0.4
corporate level	(0.2)	—
	2.1	0.9
Share-based payments:		
gaming operations	4.3	6.9
corporate level	1.2	3.3
	5.5	10.2
Finance costs:		
gaming operations	8.6	3.2
hotel, catering and retail operations	7.0	6.1
corporate level	18.1	18.2
	33.7	27.5
Interest income:		
gaming operations	157.2	119.8
hotel, catering and retail operations	6.3	3.2
corporate level	141.3	176.1
	304.8	299.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. OPERATING SEGMENTS (Continued)

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

	2019 HK\$ million	2018 HK\$ million
Impairment loss on financial assets: gaming operations	200.0	47.0
Reversal of impairment loss on property and equipment: gaming operations	—	(4.8)
hotel, catering and retail operations	—	(0.6)
	—	(5.4)

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 2019

6. GAMING REVENUE

	2019 HK\$ million	2018 HK\$ million
Gaming revenue from:		
VIP gaming operations	13,687.3	19,663.2
mass market table gaming operations	25,127.0	23,080.3
slot machine and other gaming operations	1,185.8	1,156.5
	40,000.1	43,900.0
Less: commissions and incentives	(6,841.6)	(10,222.9)
	33,158.5	33,677.1

7. FINANCE COSTS

	2019 HK\$ million	2018 HK\$ million
Interests on:		
long-term bank loans	620.2	484.0
lease liabilities	20.2	—
Imputed interest on an amount due to non-controlling interests of a subsidiary	7.5	7.1
	647.9	491.1
Less: Amount capitalised	(614.2)	(463.6)
	33.7	27.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

8. PROFIT BEFORE TAXATION

	2019 HK\$ million	2018 HK\$ million
<i>Profit before taxation has been arrived at after charging:</i>		
Directors' remuneration (note 9)	95.5	100.3
Less: Amount capitalised	(12.3)	(11.2)
	83.2	89.1
Retirement benefits scheme contributions for other staff	217.1	212.1
Less: Forfeited contributions	(23.1)	(28.6)
	194.0	183.5
Other staff costs	5,722.0	5,660.1
Share-based payments to other staff	—	0.6
Total other staff costs	5,722.0	5,660.7
Total employee benefit expenses	5,999.2	5,933.3
Operating lease rentals in respect of:		
land use rights	—	45.5
rented premises	—	440.4
	—	485.9
Auditor's remuneration	17.0	15.0
Depreciation of property and equipment	827.6	1,162.8
Depreciation of right-of-use assets	227.7	—
Loss on modification of long-term bank loans	9.8	12.9
Loss on disposal/write-off of property and equipment	2.1	0.9
<i>and after crediting:</i>		
Bank interest income	304.8	299.1
Dividend income	3.8	20.7
Reversal of impairment loss on property and equipment	—	5.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2019					2018				
	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 COMPANY										
Executive directors:										
Dr. Ho Hung Sun, Stanley (Note d)	—	—	—	—	—	0.4	—	—	—	0.4
Ms. Ho Chiu Fung, Daisy	1.2	0.4	0.4	1.2	3.2	0.8	0.3	0.9	3.3	5.3
Mr. Fok Tsun Ting, Timothy	1.8	0.6	0.1	—	2.5	1.4	0.5	0.1	—	2.0
Deputada Leong On Kei, Angela	1.9	0.6	0.1	—	2.6	1.5	0.5	0.1	—	2.1
Dr. So Shu Fai (Chief Executive Officer)	1.9	0.6	0.1	—	2.6	1.7	0.5	0.1	—	2.3
Mr. Ng Chi Sing	0.5	0.2	0.1	—	0.8	0.5	0.2	0.1	—	0.8
Mr. Shum Hong Kuen, David	1.3	0.4	0.1	—	1.8	1.2	0.4	0.1	—	1.7
Dr. Chan Un Chan (Note e)	0.6	0.2	0.1	—	0.9	0.3	0.1	0.1	—	0.5
Non-executive directors:										
Dr. Cheng Kar Shun (Note f)	0.2	—	—	—	0.2	0.5	0.2	0.1	—	0.8
Mr. Tsang On Yip, Patrick (Note g)	0.3	0.1	0.1	—	0.5	—	—	—	—	—
Independent non-executive directors:										
Mr. Chau Tak Hay	0.8	0.3	0.1	—	1.2	0.7	0.2	0.1	—	1.0
Dr. Lan Hong Tsung, David (Note h)	0.4	—	—	—	0.4	0.7	0.2	0.1	—	1.0
Hon. Shek Lai Him, Abraham	1.6	0.6	0.1	—	2.3	1.5	0.5	0.1	—	2.1
Mr. Tse Hau Yin	1.6	0.5	0.1	—	2.2	1.4	0.5	0.1	—	2.0
Ms. Wong Yu Pok, Marina (Note i)	0.4	0.1	0.1	—	0.6	—	—	—	—	—
	14.5	4.6	1.5	1.2	21.8	12.6	4.1	2.0	3.3	22.0
SUBSIDIARIES										
Executive directors:										
Dr. Ho Hung Sun, Stanley (Note d)	—	—	—	—	—	10.6	3.5	1.1	—	15.2
Ms. Ho Chiu Fung, Daisy	9.2	3.0	0.9	—	13.1	—	—	—	—	—
Mr. Fok Tsun Ting, Timothy	1.2	0.4	1.2	—	2.8	1.1	0.4	0.8	—	2.3
Deputada Leong On Kei, Angela	9.8	3.6	2.2	—	15.6	9.5	3.5	2.2	—	15.2
Dr. So Shu Fai (Chief Executive Officer)	12.7	4.2	1.2	—	18.1	12.3	4.2	1.2	—	17.7
Mr. Ng Chi Sing	2.5	0.9	9.6	—	13.0	10.6	3.5	1.2	—	15.3
Mr. Shum Hong Kuen, David	1.1	0.4	0.4	—	1.9	1.1	0.4	0.3	—	1.8
Dr. Chan Un Chan (Note e)	0.3	0.2	0.4	4.3	5.2	0.2	—	0.2	6.3	6.7
Non-executive directors:										
Dr. Cheng Kar Shun (Note f)	0.1	—	0.1	—	0.2	0.4	0.1	0.4	—	0.9
Mr. Tsang On Yip, Patrick (Note g)	—	—	0.4	—	0.4	—	—	—	—	—
Independent non-executive directors:										
Mr. Chau Tak Hay	—	—	—	—	—	—	—	—	—	—
Dr. Lan Hong Tsung, David (Note h)	—	—	—	—	—	—	—	—	—	—
Hon. Shek Lai Him, Abraham	0.9	0.3	—	—	1.2	0.8	0.3	—	—	1.1
Mr. Tse Hau Yin	0.8	0.3	1.1	—	2.2	0.8	0.2	1.1	—	2.1
Ms. Wong Yu Pok, Marina (Note i)	—	—	—	—	—	—	—	—	—	—
	38.6	13.3	17.5	4.3	73.7	47.4	16.1	8.5	6.3	78.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

	2019					2018				
	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 (Note d)	—	—	—	—	—	11.0	3.5	1.1	—	15.6
Ms. Ho Chiu Fung, Daisy	10.4	3.4	1.3	1.2	16.3	0.8	0.3	0.9	3.3	5.3
Mr. Fok Tsun Ting, Timothy	3.0	1.0	1.3	—	5.3	2.5	0.9	0.9	—	4.3
Deputada Leong On Kei, Angela	11.7	4.2	2.3	—	18.2	11.0	4.0	2.3	—	17.3
Dr. So Shu Fai (Chief Executive Officer)	14.6	4.8	1.3	—	20.7	14.0	4.7	1.3	—	20.0
Mr. Ng Chi Sing	3.0	1.1	9.7	—	13.8	11.1	3.7	1.3	—	16.1
Mr. Shum Hong Kuen, David	2.4	0.8	0.5	—	3.7	2.3	0.8	0.4	—	3.5
Dr. Chan Un Chan (Note e)	0.9	0.4	0.5	4.3	6.1	0.5	0.1	0.3	6.3	7.2
Non-executive directors:										
Dr. Cheng Kar Shun (Note f)	0.3	—	0.1	—	0.4	0.9	0.3	0.5	—	1.7
Mr. Tsang On Yip, Patrick (Note g)	0.3	0.1	0.5	—	0.9	—	—	—	—	—
Independent non-executive directors:										
Mr. Chau Tak Hay	0.8	0.3	0.1	—	1.2	0.7	0.2	0.1	—	1.0
Dr. Lan Hong Tsung, David (Note h)	0.4	—	—	—	0.4	0.7	0.2	0.1	—	1.0
Hon. Shek Lai Him, Abraham	2.5	0.9	0.1	—	3.5	2.3	0.8	0.1	—	3.2
Mr. Tse Hau Yin	2.4	0.8	1.2	—	4.4	2.2	0.7	1.2	—	4.1
Ms. Wong Yu Pok, Marina (Note i)	0.4	0.1	0.1	—	0.6	—	—	—	—	—
	53.1	17.9	19.0	5.5	95.5	60.0	20.2	10.5	9.6	100.3

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 fees paid to Deputada Leong On Kei, Angela include 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. Other fees paid to Mr. Tse Hau Yin represent the fee (including performance-based discretionary payment) acting as supervisory committee chairman of SJM and its certain subsidiaries. Other fees paid to Mr. Tsang On Yip, Patrick represent the fee acting as supervisory committee member of SJM and its certain subsidiaries. Other fees paid to all directors also include various allowances.
- (d) Retired as executive director with effect from 12 June 2018.
- (e) Elected as executive director with effect from 12 June 2018.
- (f) Retired as non-executive director on 11 June 2019.
- (g) Elected as non-executive director on 11 June 2019.
- (h) Retired as independent non-executive director on 11 June 2019.
- (i) Elected as independent non-executive director on 11 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

The five highest paid individuals of the Group for the year ended 31 December 2019 included four (2018: five) directors of the Company, whose emoluments are disclosed above and the remaining one (2018: nil) is an employee of the Group, details of whose emolument are as follows:

	2019 HK\$ million	2018 HK\$ million
Employee: salaries and allowances	14.9	—

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

10. TAXATION

	2019 HK\$ million	2018 HK\$ million
Macau SAR Complementary Tax ("CT"):		
current tax	61.5	54.6
underprovision in prior year	1.1	0.1
	62.6	54.7
Deferred taxation credit (<i>note 30</i>)	(11.0)	(27.3)
	51.6	27.4

No provision for CT on gaming related income is made for a subsidiary of the Company, SJM. Pursuant to the approval notice issued by the Macau SAR government dated 27 September 2016, SJM has been exempted from CT for income generated from gaming operations for the period from 1 January 2017 to 31 March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. TAXATION (Continued)

In addition, pursuant to the approval letter dated 27 February 2018 issued by the Financial Services Bureau of the Macau SAR government on dividend distributed by SJM (the "Special Complementary Tax") for the period from 1 January 2017 to 31 March 2020, SJM's shareholders were obligated to pay the Special Complementary Tax of Macau Pataca ("MOP") 23.2 million (equivalent to HK\$22.5 million) for each of the years ended 31 December 2017 to 2019 and MOP5.8 million (equivalent to HK\$5.6 million) for the three months ending 31 March 2020.

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

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

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

	2019	2018
	HK\$ million	HK\$ million
Profit before taxation	3,369.1	2,939.6
Tax at the applicable income tax rate of 12%	404.3	352.7
Effect of tax exemption granted to the Group	(425.6)	(409.3)
Effect of share of results of an associate and a joint venture	(2.3)	(1.9)
Effect of income not taxable for tax purpose	(16.3)	(25.4)
Effect of expenses not deductible for tax purpose	23.7	48.3
Effect of tax losses not recognised	123.7	96.0
Effect of deductible temporary difference not recognised	(72.2)	(55.6)
Underprovision in respect of prior year	1.1	0.1
Utilisation of deductible temporary difference previously not recognised	(6.0)	—
Utilisation of tax losses previously not recognised	(1.3)	—
Special Complementary Tax	22.5	22.5
Tax charge for the year	51.6	27.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. DIVIDENDS

	2019 HK\$ million	2018 HK\$ million
Interim dividend per ordinary share paid:		
HK8 cents for 2019	453.1	—
HK8 cents for 2018	—	452.7
Final dividend per ordinary share paid:		
HK21 cents for 2018	1,189.5	—
HK15 cents for 2017	—	848.8
	1,642.6	1,301.5

A final dividend of HK22 cents per ordinary share, totalling HK\$1,246.8 million, is proposed by the directors of the Company at a board meeting held on 16 March 2020, which is subject to approval by the shareholders of the Company in the forthcoming annual general meeting and is calculated on the basis of 5,667,369,293 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

	2019 HK\$ million	2018 HK\$ million
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	3,207.3	2,850.1

Number of shares

	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,663,681,403	5,658,874,526
Effect of dilutive potential ordinary shares on share options	1,772,634	4,128,152
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,665,454,037	5,663,002,678

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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
COST									
At 1 January 2018	4,942.7	459.1	6,859.8	610.9	4,185.2	48.3	286.1	18,171.6	35,563.7
Additions	0.8	1.2	98.7	40.4	56.3	4.7	—	6,647.4	6,849.5
Disposals/write-off	—	—	(48.5)	(69.9)	(4.4)	(0.2)	—	—	(123.0)
Transfers	—	—	28.9	—	16.1	—	—	(45.0)	—
At 31 December 2018	4,943.5	460.3	6,938.9	581.4	4,253.2	52.8	286.1	24,774.0	42,290.2
Additions	739.0	0.3	173.4	38.8	29.4	8.2	—	4,633.7	5,622.8
Disposals/write-off	—	—	(157.8)	(77.7)	(23.2)	(5.6)	—	—	(264.3)
At 31 December 2019	5,682.5	460.6	6,954.5	542.5	4,259.4	55.4	286.1	29,407.7	47,648.7
DEPRECIATION AND IMPAIRMENT									
At 1 January 2018	2,212.9	457.6	4,889.9	446.2	2,764.3	36.3	66.1	—	10,873.3
Provided for the year	236.0	1.7	548.9	80.0	279.0	5.4	13.2	—	1,164.2
Impairment loss reversed in profit or loss	—	—	(0.6)	—	(4.8)	—	—	—	(5.4)
Eliminated on disposals/write-off	—	—	(47.1)	(69.2)	(4.0)	(0.2)	—	—	(120.5)
At 31 December 2018	2,448.9	459.3	5,391.1	457.0	3,034.5	41.5	79.3	—	11,911.6
Provided for the year	68.8	0.5	529.5	68.8	151.1	5.0	13.1	—	836.8
Eliminated on disposals/write-off	—	—	(154.5)	(77.4)	(22.8)	(4.8)	—	—	(259.5)
At 31 December 2019	2,517.7	459.8	5,766.1	448.4	3,162.8	41.7	92.4	—	12,488.9
CARRYING VALUES									
At 31 December 2019	3,164.8	0.8	1,188.4	94.1	1,096.6	13.7	193.7	29,407.7	35,159.8
At 31 December 2018	2,494.6	1.0	1,547.8	124.4	1,218.7	11.3	206.8	24,774.0	30,378.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. PROPERTY AND EQUIPMENT (Continued)

At 31 December 2019, pursuant to the gaming concession held by the Group, certain of the Group's property and equipment with an aggregate carrying value of HK\$1,119.7 million (2018: HK\$1,494.8 million) in respect of the Group's gaming business have to be returned to the Macau SAR government upon completion of the term of the concession in 2022 (2018: 2020).

At 31 December 2019, the carrying values of the construction in progress of HK\$29,407.7 million (2018: HK\$24,774.0 million) represented the construction in progress of development and operation of a casino, hotel and entertainment complex on a parcel of land in Macau SAR government ("Grand Lisboa Palace Project").

Other staff costs of HK\$499.2 million (2018: HK\$355.8 million), operating lease rentals in respect of rented premises of HK\$11.3 million (2018: HK\$17.4 million), depreciation expenses of right-of-use assets of HK\$52.7 million (2018: operating lease rentals in respect of land use rights of HK\$92.1 million), depreciation expenses of property and equipment of HK\$9.2 million (2018: HK\$1.4 million) and interest expenses of HK\$614.2 million (2018: HK\$463.6 million) have been capitalised in construction in progress for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. RIGHT-OF-USE ASSETS

	Leasehold lands HK\$ million	Leasehold land and buildings HK\$ million	Motor vehicles HK\$ million	Total HK\$ million
COST				
At 1 January 2019 (note 2)	2,685.5	310.0	39.0	3,034.5
Additions	—	57.1	53.1	110.2
At 31 December 2019	2,685.5	367.1	92.1	3,144.7
DEPRECIATION				
At 1 January 2019	—	—	—	—
Charge for the year	63.4	169.2	47.8	280.4
At 31 December 2019	63.4	169.2	47.8	280.4
CARRYING VALUES				
At 31 December 2019	2,622.1	197.9	44.3	2,864.3
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16				208.2
Total cash outflow for leases				474.8

For both years, the Group leases certain leasehold lands, commercial properties, carparks, and motor vehicles for its operations. Lease contract are entered into for fixed term from 1 to 25 years. Certain leases of leasehold lands in Macau SAR are negotiated for an initial term of 25 years with extension options exercisable by the Group.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns casino and commercial properties. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are not presented separately as the payments made cannot be allocated reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. INTANGIBLE ASSET

During the year, the Group accepted a gaming concession extension contract with Macau SAR government in respect of the gaming concession of SJM, which was originally due to expire on 31 March 2020, for a further period up to 26 June 2022. The cost of extension premium for the gaming concession contract of MOP200.0 million (equivalent to HK\$194.2 million) and related costs will be amortised on a straight line basis over the extended term of the gaming concession starting from 1 April 2020.

16. LAND USE RIGHTS

	2018 HK\$ million
<hr/>	
CARRYING VALUE	
At 1 January	2,396.8
Released to profit or loss during the year	(42.8)
Released and capitalised to construction in progress during the year	(90.0)
	<hr/>
At 31 December	2,264.0
	<hr/>

The amounts represent prepayment of rentals for land use rights situated in Macau SAR.

Such land use rights were reclassified as right-of-use assets upon the initial application of HKFRS 16 (note 2).

17. 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 2019

18. INTEREST IN AN ASSOCIATE

	2019 HK\$ million	2018 HK\$ million
Cost of unlisted investment	25.0	25.0
Discount on acquisition	6.8	6.8
Share of post-acquisition profits	304.6	274.7
	336.4	306.5

The cost of investment in an associate represents the Group's 49% quota capital in an entity, Zhen Hwa Harbour Construction Company Limited, which is established in Macau SAR and engaged in the provision of construction services in Macau SAR and investment holding business.

The associate is accounted for using the equity method in the 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.

	2019 HK\$ million	2018 HK\$ million
Current assets	1,402.6	1,420.0
Non-current assets	104.5	98.6
Current liabilities	(1,377.5)	(1,480.2)
Revenue	867.6	865.8
Profit for the year	90.4	71.9

The unrecognised share of results of an associate*:

	2019 HK\$ million	2018 HK\$ million
At 1 January	578.7	551.2
Unrecognised share of results for the year	(29.3)	27.5
At 31 December	549.4	578.7

* The Group's share of accumulated losses on a construction project is limited to a fixed amount of HK\$97.1 million as agreed with the holding company of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. 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

	2019 HK\$ million	2018 HK\$ million
Net assets of an associate	129.6	38.4
Unrecognised share of loss of an associate	549.4	578.7
Adjusted net assets of an associate	679.0	617.1
Proportion of the Group's ownership interest in an associate	49%	49%
	332.7	302.4
Effect of fair value adjustments at acquisition	3.7	4.1
Carrying amount of the Group's interest in an associate	336.4	306.5

Reconciliation of share of profits of an associate

	2019 HK\$ million	2018 HK\$ million
Results for the year of an associate	90.4	71.9
Unrecognised share of results for the year	(29.3)	27.5
Unrealised profits for the year	(37.0)	(81.2)
Adjusted profits for the year of an associate	24.1	18.2
Proportion of the Group's ownership interest in an associate	49%	49%
Share of profits of an associate	11.8	8.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INTEREST IN A JOINT VENTURE

	2019	2018
	HK\$ million	HK\$ million
Cost of unlisted investment	39.7	39.7
Share of post-acquisition profits	95.3	88.0
	135.0	127.7

The cost of investment in a joint venture represents the Group's 49% quota capital in an entity, Chong Fung Real Estate Investment Limited, which is established in Macau SAR and engaged in property investment business 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 (2018: HK\$34.3 million) arising on acquisition of the joint venture.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INTEREST IN A JOINT VENTURE (Continued)

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.

	2019 HK\$ million	2018 HK\$ million
Current assets	211.5	195.6
Non-current assets	26.2	27.1
Current liabilities	(32.1)	(32.1)
Revenue	14.4	14.4
Profit for the year	15.0	13.5
The above profit for the year includes the following:		
Depreciation	0.9	0.9
Interest income	4.4	3.1

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

	2019 HK\$ million	2018 HK\$ million
Net assets of a joint venture	205.6	190.6
Proportion of the Group's ownership interest in a joint venture	49%	49%
	100.7	93.4
Goodwill	34.3	34.3
Carrying amount of the Group's interest in a joint venture	135.0	127.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

20. INVESTMENTS IN EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

At 31 December 2019, the amounts comprise equity shares listed in Hong Kong of HK\$296.5 million (2018: HK\$352.3 million) and unlisted equity shares in a private entity established in the British Virgin Islands of HK\$571.6 million (2018: HK\$564.0 million) that are carried at fair value. These investments are not held for trading, instead, they are held for long-term strategic purposes. The management has elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

21. OTHER ASSETS

	2019 HK\$ million	2018 HK\$ million
Deposits made on acquisitions of property and equipment	691.5	723.3
Rental deposits (<i>note 23</i>)	5.5	25.2
Other receivables from gaming promoters and service providers (<i>note 23</i>)	—	445.9
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	41.0	49.0
	840.8	1,346.2

The amounts due from an associate/a joint venture/an investee company and other receivables from gaming promoters and service providers are unsecured, interest-free and have no fixed repayment terms. 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 2019

22. PLEDGED BANK DEPOSITS

	2019 HK\$ million	2018 HK\$ million
Non-current portion		
Bank deposit pledged:		
to secure a bank facility (Note (a))	—	145.6
Current portion		
Bank deposits pledged:		
to secure a bank facility (Note (a))	145.6	—
to secure a bank facility (Note (b))	873.8	—
others	1.3	1.3
	1,020.7	1.3

Notes:

- (a) The amount represents a deposit pledged to secure the bank facility granted to a subsidiary of the Company. The bank facility represents a guarantee amounting to HK\$291.3 million from 1 April 2007 to 180 days after 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) The amount represents a temporary deposit pledged to secure a bank facility granted to SJM for the period from 27 May 2019 to 27 March 2020. The banking facility represents a guarantee amounting to MOP3,500 million (equivalent to HK\$3,398.1 million) which is in favour of the Macau SAR government against obligations that would arise to SJM as an employer in connection with the termination of employment agreements potentially caused by expiration of the gaming concession contract.

At 31 December 2019, the pledged bank deposits carry fixed interest rates ranging from 2.20% to 2.40% (2018: 1.00% to 1.75%) per annum.

Details of impairment assessment of pledged bank deposits for the year ended 31 December 2019 are set out in note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. TRADE AND OTHER RECEIVABLES

	2019 HK\$ million	2018 HK\$ million
Advances to gaming promoters, net	189.6	210.4
Other receivables from gaming promoters and service providers, net	625.9	839.1
Prepayments	197.8	291.4
Other sundry receivables	306.3	310.6
Advances to contractors	—	668.5
	1,319.6	2,320.0
Less: Non-current portion (<i>note 21</i>)	(5.5)	(471.1)
Current portion	1,314.1	1,848.9

Advances to gaming promoters 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. At 31 December 2019, all of the advances to gaming promoters (net of allowances) are neither past due nor impaired.

Advances are only granted to gaming promoters 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. With the consent of gaming promoters and service providers, the Group can offset the outstanding balances against commission and service fee payables to or deposits from relevant gaming promoters and service providers. In the event that a gaming promoter or service provider fails to repay, the Group has the right, pursuant to the relevant gaming promoter agreement or service provider agreement, to offset or withhold the payables to that gaming promoter or service provider, realise cheques and execute guarantees, if any.

At 31 December 2019, the management expects that rental deposits of HK\$5.5 million (2018: HK\$25.2 million) will not be realised or released within 12 months from the end of the reporting period. Hence, such amounts are classified as non-current assets.

At 31 December 2018, the management expected that other receivables from gaming promoters and service providers of HK\$445.9 million would not be realised or released within 12 months from the end of the reporting period (2019: nil). Hence, such amounts were classified as non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. TRADE AND OTHER RECEIVABLES (Continued)

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

	2019 HK\$ million	2018 HK\$ million
Age		
0 to 30 days	189.6	210.4

Details of impairment assessment of trade and other receivables for the year ended 31 December 2019 are set out in note 39.

At 31 December 2018, advances to contractors represented construction costs of Grand Lisboa Palace Project advanced to contractors. The amounts were unsecured, interest-free and the management expected the amounts would be realised within 12 months from the end of the reporting period. Hence, such amounts were classified as current assets.

Other sundry receivables mainly include deposits paid for rentals and operating supplies, interest receivables 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:

	2019 HK\$ million	2018 HK\$ million
STDM and its associates (as defined under Chapter 14A of the Listing Rules), excluding the Group	29.4	237.7
An associate of the Group	7.8	5.2
Entities in which STDM, certain directors of the Company and of its subsidiaries and/or their close family members have control/significant influence/beneficial interests	164.2	150.9
	201.4	393.8

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

At 31 December 2019, the short-term bank deposits carry fixed interest rates ranging from 1.45% to 3.00% (2018: 1.00% to 3.00%) per annum with original maturity ranging over 3 months to 6 months (2018: 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 2019, bank balances carry effective interest rates ranging from 0.13% to 2.90% (2018: 0.13% to 2.55%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. TRADE AND OTHER PAYABLES

	2019 HK\$ million	2018 HK\$ million
Trade payables	1,047.2	1,389.1
Special gaming tax payable	1,209.6	1,451.2
Chips in circulation	5,062.4	4,480.7
Chips in custody and deposits received from gaming patrons and gaming promoters	520.3	597.9
Payables for acquisition of property and equipment	38.0	38.0
Construction payables	1,670.2	2,550.0
Accrued staff costs	1,706.9	1,678.9
Accrued operating expenses	191.2	171.1
Withholding tax payable for gaming promoters and employees	24.9	21.1
Other sundry payables and accruals	573.6	462.5
	12,044.3	12,840.5
Less: Non-current portion	—	(882.9)
Current portion	12,044.3	11,957.6

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

	2019 HK\$ million	2018 HK\$ million
Age		
0 to 30 days	1,030.6	1,373.2
31 to 60 days	10.4	10.4
61 to 90 days	2.0	2.3
Over 90 days	4.2	3.2
	1,047.2	1,389.1

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. TRADE AND OTHER PAYABLES (Continued)

The Group provides numerous products and services to its customers. There is often a timing difference between the cash payment by the customers and recognition of revenue for each of the associated performance obligations. The Group has the following main types of liabilities associated with contracts with customers including in other sundry payables and accruals: (1) liabilities in relation to loyalty points under customer relationship programs and (2) other deferred revenue.

The liabilities in relation to loyalty points under customer relationship programs represent a deferral of revenue for future goods and services to be provided by the Group until gaming patrons redeem points earned. The loyalty points are expected to be redeemed and recognised as revenue within one year of being earned.

The other deferred revenue represents accrued goods or services provided on a complimentary basis to gaming patrons and gaming promoters for future goods and services provided by the Group. The majority of these goods or services are expected to be recognised as revenue within one year of being granted.

The following table summarises the liability activity related to contracts with customers:

	Liabilities in relation to loyalty points under customer relationship programs		Other deferred revenue	
	2019 HK\$ million	2018 HK\$ million	2019 HK\$ million	2018 HK\$ million
Balance at 1 January	21.8	26.7	6.4	6.4
Balance at 31 December	21.3	21.8	5.3	6.4
Decrease	(0.5)	(4.9)	(1.1)	—

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

	2019 HK\$ million	2018 HK\$ million
STDM and its associates (as defined under Chapter 14A of the Listing Rules), excluding the Group	66.1	77.5
An associate of the Group	153.5	167.8
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	282.2	341.3
	501.8	586.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. FINANCIAL GUARANTEE OBLIGATIONS

The fair value of financial guarantee obligations set out in note 42 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 2019 and 31 December 2018 as the default risk is low.

27. LONG-TERM BANK LOANS

	2019 HK\$ million	2018 HK\$ million
The syndicated secured long-term bank loans are repayable:		
Within one year	217.0	200.0
Within a period of more than one year but not more than two years	5,060.5	2,451.5
Within a period of more than two years but not more than five years	10,003.2	12,793.3
	15,280.7	15,444.8
Less: Amounts due within one year shown under current liabilities	(217.0)	(200.0)
	15,063.7	15,244.8

Variable-rate bank loans comprise:

	Carrying amounts	
	2019 HK\$ million	2018 HK\$ million
Secured bank loans for Grand Lisboa Palace Project ("GLP Bank Loans")		
HK\$ bank loan at 3-months		
Hong Kong Interbank Offered Rate		
("HIBOR") + 1.50% per annum (2018: HIBOR + 1.50% per annum)	12,478.9	12,449.1
United State dollars ("US\$") bank loan at 3-months		
London Interbank Offered Rate		
("LIBOR") + 1.50% per annum (2018: LIBOR + 1.50% per annum)	1,220.5	1,217.6
MOP bank loan at 3-months		
Macau Interbank Offered Rate		
("MAIBOR") + 1.50% per annum (2018: MAIBOR + 1.50% per annum)	1,346.3	1,343.1
	15,045.7	15,009.8
Secured bank loans for Ponte 16 ("P16 Bank Loans")		
HK\$ bank loan at 3-months HIBOR + 2.13% per annum		
(2018: HIBOR + 2.13% per annum)	235.0	435.0
	15,280.7	15,444.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. LONG-TERM BANK LOANS (Continued)

GLP Bank Loans

During the year ended 31 December 2019, the Group recorded a loss of HK\$9.8 million (2018:HK\$12.9 million) on modification of the GLP Bank Loans facilities because of entering into an agreement to modify certain financial covenants and repayment schedule of the GLP Bank Loans facilities.

At 31 December 2019, the range of effective interest rates of the secured bank loans is 3.41% to 3.87% (2018: 3.89% to 4.32%) per annum. The purpose of the secured syndicated loan facilities is for financing the Grand Lisboa Palace Project.

At 31 December 2019, the GLP Bank Loans are secured by certain property and equipment and right-of-use assets (2018: certain property and equipment and land use rights) of the Group with carrying values of HK\$31,436.0 million (2018: HK\$27,215.9 million) and HK\$1,827.0 million (2018: HK\$1,740.3 million) respectively. In addition, the other key terms and securities for such long-term bank loans pledged are set out as follows:

- (i) an assignment of all material project documents, receivables and related receivables generated from gaming and hotel operation of SJM and its certain subsidiaries, if default;
- (ii) floating charges over all assets (except immovable property) and legal charges over certain bank accounts of SJM and its certain subsidiaries;
- (iii) an unconditional and irrevocable funding and completion undertaking for the Grand Lisboa Palace Project;
- (iv) assignments of all the rights and benefits of insurance and reinsurance policies and construction contracts relating to certain properties held by the Group, if default;
- (v) share pledges over the shares of certain subsidiaries; and
- (vi) a legal promissory note (i.e. notarised livranca) for HK\$27,500 million (2018: HK\$27,500 million) issued by SJM and endorsed by the Company and certain subsidiaries of SJM.

P16 Bank Loans

At 31 December 2019, the effective interest rates of the secured bank loans are 4.48% (2018: 4.45%) per annum. The main purpose of the loans is to finance the payment of the land premium and the related cost for any land concession modification in respect of the phase 3 development project at Ponte 16 and settle certain loans from non-controlling shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. LONG-TERM BANK LOANS (Continued)

P16 Bank Loans (Continued)

At 31 December 2019, the P16 Bank Loans are secured by certain property and equipment and right-of-use assets (2018: certain property and equipment and land use rights) of the Group with carrying values of HK\$464.5 million (2018: HK\$503.1 million) and HK\$59.8 million (2018: HK\$56.6 million), respectively. In addition, the other key terms and securities for such long-term bank loans pledged are set out as follows:

- (i) financial guarantees with promissory notes given by certain subsidiaries and the non-controlling shareholders amounting to approximately HK\$1,000 million (2018: HK\$1,000 million) and HK\$490 million (2018: HK\$490 million), respectively;
- (ii) 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;
- (iii) floating charges over all assets (except immovable property) and legal charges over certain bank accounts of certain subsidiaries;
- (iv) assignments of all the rights and benefits of insurance policies relating to certain properties held by the Group, if default; and
- (v) share pledges over the shares of certain subsidiaries.

28. LEASE LIABILITIES

	2019
	HK\$ million
<hr/>	
Lease liabilities payable:	
Within one year	177.6
Within a period of more than one year but not more than two years	35.2
Within a period of more than two years but not more than five years	35.1
Within a period of more than five years	477.4
	<hr/>
	725.3
Less: Amount due for settlement with 12 months shown under current liabilities	(177.6)
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Amount due for settlement after 12 months shown under non-current liabilities	547.7
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. LEASE LIABILITIES (Continued)

Restrictions or covenants on leases

Lease liabilities of HK\$725.3 million are recognised with related right-of-use assets of HK\$2,864.3 million as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. The related leased assets may not be used as security for borrowing purposes.

As at 31 December 2019, the amounts are secured by rental deposits with carrying values of HK\$29.5 million.

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

At the end of reporting period, the amount 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 2019, imputed interest of HK\$7.5 million (2018: HK\$7.1 million) on the amount due to the non-controlling interests of the subsidiary of HK\$203.8 million (2018: HK\$287.1 million) has been recognised at a weighted average original interest rate of approximately 2.47% (2018: 2.51%) per annum. At 31 December 2019, the principal amount was HK\$219.4 million (2018: HK\$317.4 million).

The relevant bank facilities allow 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 facilities agreement. During the year ended 31 December 2019, these carrying amounts have been adjusted by HK\$7.2 million (2018: nil) because of changes in cash flow estimates, computed based on the present value of future cash outflows discounted at the original effective interest rate.

At 31 December 2019 and 31 December 2018, the total carrying amounts are classified as non-current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2018	(65.3)	15.2	(50.1)
Credit to profit or loss (<i>note 10</i>)	0.9	26.4	27.3
At 31 December 2018	(64.4)	41.6	(22.8)
Credit (charge) to profit or loss (<i>note 10</i>)	18.2	(7.2)	11.0
At 31 December 2019	(46.2)	34.4	(11.8)

At 31 December 2019, the Group has unrecognised tax losses of HK\$2,213.2 million (2018: HK\$1,452.5 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams. These unrecognised tax losses will expire in three years from the year of assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. SHARE CAPITAL

	Issued and fully paid	
	Number of shares	Amount HK\$ million
Ordinary shares with no par value		
At 1 January 2018	5,658,129,293	11,241.5
Exercise of share options	1,530,000	12.6
At 31 December 2018	5,659,659,293	11,254.1
Exercise of share options	4,710,000	27.3
At 31 December 2019	5,664,369,293	11,281.4

During the year ended 31 December 2019, 4,710,000 (2018: 1,530,000) share options were exercised, resulting in the issue of 3,450,000, 1,000,000 and 260,000 (2018: 740,000, 500,000 and 290,000) ordinary shares in the Company at a price of HK\$2.82, HK\$8.33 and HK\$5.03 (2018: HK\$2.82, HK\$8.33 and HK\$9.826) per share respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 lapsed automatically on 13 May 2019 upon the expiry of 10-year period, 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 might 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 might determine in their absolute discretion, are regarded as valuable human resources of the Group. Following the expiry of the Scheme, no further share options can be granted thereunder but the outstanding share options granted under the Scheme shall continue to be valid and exercisable.

One-third of the options granted are exercisable for a period of nine years commencing on the date each falling six months, 1.5 years and 2.5 years after the date of grant. All options granted are expiring on the last day of the said nine years period; where the acceptance date should not be later than 28 days after the date of grant. A nominal consideration of HK\$1 is payable on acceptance of the grant of options. The subscription price of the option shares is not less than the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing price of the shares on the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the 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.

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 21 June 2018, a total of 3,000,000 share options with the estimated fair value of approximately HK\$12.1 million at the date of grant to a director, were granted at an exercise price of HK\$10.26 per share under the terms of the Scheme. Total consideration received from the Participant for taking up the options granted amounted to HK\$1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. SHARE OPTION SCHEME (Continued)

A summary of the movements of the outstanding options during the year ended 31 December 2019 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 1.1.2018	Granted in 2018	Exercised in 2018	Lapsed in 2018	Outstanding at 31.12.2018	Reclassified in 2019	Exercised in 2019	Lapsed in 2019	Outstanding at 31.12.2019	
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	4,000,000	—	—	—	—	4,000,000	(500,000)	—	—	3,500,000
	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	36,002,000	—	—	—	—	36,002,000	(167,000)	—	(1,000,000)	34,835,000
	15.6.2015	15.6.2015 to 14.12.2016	15.12.2016 to 14.12.2024	9.826	36,002,000	—	—	—	—	36,002,000	(167,000)	—	(1,000,000)	34,835,000
	15.6.2015	15.6.2015 to 14.12.2017	15.12.2017 to 14.12.2024	9.826	35,996,000	—	—	—	—	35,996,000	(166,000)	—	(1,000,000)	34,830,000
	22.6.2017	22.6.2017 to 21.12.2017	22.12.2017 to 21.12.2026	8.33	1,000,000	—	(500,000)	—	—	500,000	—	(500,000)	—	—
	22.6.2017	22.6.2017 to 21.12.2018	22.12.2018 to 21.12.2026	8.33	1,000,000	—	—	—	—	1,000,000	—	(500,000)	—	500,000
	22.6.2017	22.6.2017 to 21.12.2019	22.12.2019 to 21.12.2026	8.33	1,000,000	—	—	—	—	1,000,000	—	—	—	1,000,000
	21.6.2018	21.6.2018 to 20.12.2018	21.12.2018 to 20.12.2027	10.26	—	1,000,000	—	—	—	1,000,000	—	—	—	1,000,000
	21.6.2018	21.6.2018 to 20.12.2019	21.12.2019 to 20.12.2027	10.26	—	1,000,000	—	—	—	1,000,000	—	—	—	1,000,000
	21.6.2018	21.6.2018 to 20.12.2020	21.12.2020 to 20.12.2027	10.26	—	1,000,000	—	—	—	1,000,000	—	—	—	1,000,000

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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 1.1.2018	Granted in 2018	Exercised in 2018	Lapsed in 2018	Outstanding at 31.12.2018	Reclassified in 2019	Exercised in 2019	Lapsed in 2019	Outstanding at 31.12.2019
Employees	13.7.2009	13.7.2009 to 12.1.2010	13.1.2010 to 12.1.2019	2.82	890,000	—	(440,000)	—	450,000	—	(450,000)	—	—
	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)	—	—
	17.3.2011	17.3.2011 to 16.9.2011	17.9.2011 to 16.9.2020	12.496	3,000,000	—	—	—	3,000,000	—	—	—	3,000,000
	8.10.2013	8.10.2013 to 7.4.2014	8.4.2014 to 7.4.2023	22	13,235,000	—	—	(837,000)	12,398,000	200,000	—	(189,000)	12,409,000
	8.10.2013	8.10.2013 to 7.10.2014	8.10.2014 to 7.4.2023	22	1,000,000	—	—	(1,000,000)	—	—	—	—	—
	8.10.2013	8.10.2013 to 7.4.2015	8.4.2015 to 7.4.2023	22	13,185,000	—	—	(832,000)	12,353,000	200,000	—	(187,000)	12,366,000
	8.10.2013	8.10.2013 to 7.10.2015	8.10.2015 to 7.4.2023	22	500,000	—	—	(500,000)	—	—	—	—	—
	8.10.2013	8.10.2013 to 7.4.2016	8.4.2016 to 7.4.2023	22	13,170,000	—	—	(831,000)	12,339,000	200,000	—	(186,000)	12,353,000
	8.10.2013	8.10.2013 to 7.10.2016	8.10.2016 to 7.4.2023	22	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)	—	—	—	—	—
	8.10.2013	8.10.2013 to 7.10.2018	8.10.2018 to 7.4.2023	22	500,000	—	—	(500,000)	—	—	—	—	—
	15.6.2015	15.6.2015 to 14.12.2015	15.12.2015 to 14.12.2024	9.826	5,750,000	—	(97,000)	(268,000)	5,385,000	60,000	—	(64,000)	5,381,000
	15.6.2015	15.6.2015 to 14.12.2016	15.12.2016 to 14.12.2024	9.826	5,750,000	—	(97,000)	(268,000)	5,385,000	60,000	—	(64,000)	5,381,000
	15.6.2015	15.6.2015 to 14.12.2017	15.12.2017 to 14.12.2024	9.826	5,599,000	—	(96,000)	(233,000)	5,270,000	60,000	—	(62,000)	5,268,000
	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	—	—	—	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	—	—	—	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	—	—	—	1,000,000
Others participants	13.7.2009	13.7.2009 to 12.1.2010	13.1.2010 to 12.1.2019	2.82	300,000	—	(300,000)	—	—	—	—	—	—
	17.3.2011	17.3.2011 to 16.9.2011	17.9.2011 to 16.9.2020	12.496	—	—	—	—	—	500,000	—	—	500,000
	8.10.2013	8.10.2013 to 7.4.2014	8.4.2014 to 7.4.2023	22	367,000	—	—	—	367,000	(200,000)	—	(167,000)	—
	8.10.2013	8.10.2013 to 7.4.2015	8.4.2015 to 7.4.2023	22	367,000	—	—	—	367,000	(200,000)	—	(167,000)	—
	8.10.2013	8.10.2013 to 7.4.2016	8.4.2016 to 7.4.2023	22	366,000	—	—	—	366,000	(200,000)	—	(166,000)	—
	15.6.2015	15.6.2015 to 14.12.2015	15.12.2015 to 14.12.2024	9.826	277,000	—	—	—	277,000	107,000	—	(217,000)	167,000
	15.6.2015	15.6.2015 to 14.12.2016	15.12.2016 to 14.12.2024	9.826	277,000	—	—	—	277,000	107,000	—	(217,000)	167,000
	15.6.2015	15.6.2015 to 14.12.2017	15.12.2017 to 14.12.2024	9.826	276,000	—	—	—	276,000	106,000	—	(216,000)	166,000
					193,069,000	3,000,000	(1,530,000)	(6,269,000)	188,270,000	—	(4,710,000)	(7,902,000)	175,658,000
Weighted average exercise price per share					HK\$12.57	HK\$10.26	HK\$5.95	HK\$20.51	HK\$12.32	—	HK\$4.11	HK\$16.08	HK\$12.38

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32. SHARE OPTION SCHEME (Continued)

On 1 February 2019, one of the other participants of the Group has been employed as an employee of the Group. The classification of outstanding number of such other participant's share options is reclassified to employees' section.

On 11 June 2019, a director of the Company retired. The classification of outstanding number of such ex-director's share options is reclassified to other participants' section.

On 12 June 2018, a director of the Company retired and has continued as an employee of the Group. The classification of outstanding number of such ex-director's share option is reclassified to employees' section.

In respect of the above options exercised during the year, the weighted average closing price per share at the dates of exercise was HK\$7.50 (2018: HK\$8.73). At the end of the reporting period, 174,658,000 share options are exercisable (2018: 185,270,000).

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

Date of grant	13 July 2009	26 May 2010	31 August 2010	17 March 2011	8 October 2013	15 June 2015	11 May 2016	22 June 2017	21 June 2018
Model	Black-Scholes	Binomial	Binomial	Black-Scholes	Binomial	Binomial	Binomial	Binomial	Binomial
Number of share options	166,700,000	500,000	5,000,000	116,000,000	50,460,000	126,725,000	3,000,000	3,000,000	3,000,000
Vesting period	6 to 30 months from the date of grant	6 to 60 months from the date of grant	6 to 30 months from the date of grant	6 to 30 months from the date of grant	6 to 30 months from the date of grant	6 to 30 months from the date of grant			
Closing share price at date of grant	HK\$2.82	HK\$5.03	HK\$7.48	HK\$12.14	HK\$22	HK\$9.83	HK\$4.76	HK\$8.33	HK\$10.26
Expected/contractual life	5–6 years	9.5 years	9.5 years	5 years	9.5 years	9.5 years	9.5 years	9.5 years	9.5 years
Exercise price per share	HK\$2.82	HK\$5.03	HK\$7.48	HK\$12.496	HK\$22	HK\$9.826	HK\$4.89	HK\$8.33	HK\$10.26
Exercise multiple (Directors)	N/A	1.79 times	1.81 times	N/A	2 times	2.8 times	N/A	2.8 times	2.8 times
Exercise multiple (Employees and other participants)	N/A	1.79 times	1.81 times	N/A	2 times	2.2 times	2.2 times	N/A	N/A
Expected volatility	66.46%	56.16%	49.56%	54.83%	47.55%	47.00%	47.13%	42.02%	38.17%
Risk-free interest rate	1.74–1.94 %	2.35%	1.89%	2.49%	2.03%	1.74%	1.67%	1.25%	2.27%
Expected dividend yield	3.26%	1.79%	1.87%	3.33%	3.182%	5.5%	5.25%	2.88%	1.95%

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. SHARE OPTION SCHEME (Continued)

The contractual life used in the Binominal 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 a director, the management assumed an exercise multiple of 2.8 times for options granted in 2018 based on the historical exercise behaviour of the Company's director.

The Company's share options granted to other participates 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 2019, the Group recognised total expenses of HK\$5.5 million (2018: HK\$10.2 million), in relation to share options granted by the Company.

33. RESERVES

	Share options reserve	Retained profits	Total
	HK\$ million	HK\$ million	HK\$ million
THE COMPANY			
At 1 January 2018	892.1	7,255.4	8,147.5
Exercise of share options	(3.5)	—	(3.5)
Recognition of equity-settled share-based payments	10.2	—	10.2
Release of lapsed equity-settled share-based payments	(49.8)	49.8	—
Dividends paid (<i>note 11</i>)	—	(1,301.5)	(1,301.5)
Profit and total comprehensive income for the year (<i>Note</i>)	—	1,486.8	1,486.8
At 31 December 2018	849.0	7,490.5	8,339.5
Exercise of share options	(8.0)	—	(8.0)
Recognition of equity-settled share-based payments	5.5	—	5.5
Release of lapsed equity-settled share-based payments	(48.3)	48.3	—
Dividends paid (<i>note 11</i>)	—	(1,642.6)	(1,642.6)
Profit and total comprehensive income for the year (<i>Note</i>)	—	1,432.8	1,432.8
At 31 December 2019	798.2	7,329.0	8,127.2

Note: Amount included dividend income from SJM of HK\$1,456.3 million (2018: HK\$1,456.3 million).

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34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2019, property and equipment totalling HK\$343.0 million (2018: HK\$160.6 million) were settled by utilising deposits made on acquisitions of property and equipment.

35. OPERATING LEASE COMMITMENTS

At 31 December 2018, 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 2018	Rented premises and other assets 2018
	HK\$ million	HK\$ million
Within one year	11.2	361.2
In the second to fifth year inclusive	44.9	160.3
After five years	148.6	6.9
	204.7	528.4

Note: The above disclosure commitment also included payment of HK\$26.6 million which are related to arrangements that contain lease and non-lease elements.

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

Lease term of land use rights in Macau SAR are negotiated for an initial term of 25 years at a fixed rental, which is subject to renewal at the Group's option in the future.

At 31 December 2018, operating lease rentals committed to related parties amounted to HK\$360.8 million which fall due as follows:

	Rented premises 2018
	HK\$ million
Within one year	289.2
In the second to fifth year inclusive	71.6
	360.8

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For the year ended 31 December 2019

36. CAPITAL COMMITMENTS

	2019 HK\$ million	2018 HK\$ million
Capital expenditure in respect of acquisitions of property and equipment:		
Authorised but not contracted for:		
Grand Lisboa Palace Project	3,875.8	4,098.5
Others	107.0	93.4
	3,982.8	4,191.9
Contracted for but not provided in the consolidated financial statements:		
Grand Lisboa Palace Project	2,909.3	4,632.5
Others	158.1	715.6
	3,067.4	5,348.1

At the end of the reporting period, capital expenditure in respect of acquisitions of property and equipment committed to acquire from related parties amounted to HK\$149.2 million (2018: HK\$829.2 million).

At 31 December 2019, the estimated total project costs for the Grand Lisboa Palace Project by the Group's management is approximately HK\$39,000 million (2018: HK\$36,000 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 operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of a trustee. The Group contributes 5% of the relevant payroll costs to the MPF 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. RETIREMENT BENEFITS SCHEMES (Continued)

The Group 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 the Group 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.

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 long-term bank loans, lease liabilities, amount due to non-controlling interests of a subsidiary, and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. FINANCIAL INSTRUMENTS (Continued)

(b) Categories of financial instruments

	2019 HK\$ million	2018 HK\$ million
Financial assets		
Investments in equity instruments designated at FVTOCI	868.1	916.3
Amortised cost	16,790.6	21,020.0
	17,658.7	21,936.3
Financial liabilities		
Amortised cost	23,875.9	24,652.2

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.

(c) Credit risk management and impairment assessment

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 42 respectively.

The Group has concentration of credit risk as 100% (2018: 100%) of the advances and receivables are due from the Group's five largest gaming promoters. 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, the Group does not have any other significant concentration of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk management and impairment assessment (Continued)

As part of the Group's credit risk management, the Group applies internal credit rating for the gaming promoters and service providers. The Group assessed the ECL for advances to gaming promoters and other receivables from gaming promoters and service providers individually as at 31 December 2019 and 31 December 2018.

Movement in the loss allowance

	2019 HK\$ million	2018 HK\$ million
At 1 January	179.5	132.5
Impairment loss recognised	200.0	47.0
At 31 December	379.5	179.5

During the year ended 31 December 2019, the Group provided impairment allowance of HK\$200.0 million (2018: HK\$47.0 million) for other receivable from gaming promoters and service providers as the management considered a service provider is credit-impaired. As at 31 December 2019, loss allowance with an aggregate balance of HK\$379.5 million (2018: HK\$179.5 million) represents individually credit-impaired advances to gaming promoters 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 given that one or more events of default occurred.

No impairment allowance is recognised for the remaining advances to gaming promoters and other receivables from gaming promoters and service providers since the loss given default and exposure at default are significantly reduced as those advances to gaming promoters and other receivables from gaming promoters and service providers are subject to certain offsetting and enforceable netting agreements as well as due to the low probability of default of the gaming promoters and service providers based on historical credit loss experience. The management has also assessed all available forward looking information, including but not limited to expected growth rate and future development of gaming industry, and concluded that there is no significant increase in credit risk.

For the interest receivables and credit card receivables included in other sundry receivables, bank deposits and bank balances, no allowance for impairment was made since the management considers the probability of default is negligible as such amounts are receivable from or placed in banks in Macau SAR and Hong Kong having good reputation and are considered to have low credit risk.

For the amounts due from ultimate holding company/an associate/a joint venture/an investee company, other amounts in other sundry receivables and advances to contractors, no allowance for impairment was made since the management considers the probability of default is minimal after assessing the counterparties' financial background and creditability and/or exposure at default is minimal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. FINANCIAL INSTRUMENTS (Continued)

(c) Credit risk management and impairment assessment (Continued)

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was HK\$87.3 million (2018: HK\$87.3 million) as at 31 December 2019. Details of the financial guarantee contracts are set out in note 42. At the end of the reporting period, the management assessed that no credit facilities were utilised under guarantee and financial positions of that associate and that investee company, and concluded that there has been no significant credit risk arising from the financial guarantee contracts. Accordingly, there was no loss allowance for financial guarantee contracts issued by the Group.

(d) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to its bank balances and long-term 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 lease liabilities. 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/LIBOR/MAIBOR arising from long-term bank loans.

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances and long-term bank loans. The analyses were prepared assuming these balances outstanding at the end of the reporting period were outstanding for the whole year. 5 basis points and 50 basis points (2018: 5 basis points and 50 basis points) increase, respectively, represent management's assessment of the reasonably possible change in interest rates.

Except for bank balances using 5 basis points (2018: 5 basis points), if interest rates on long-term bank loans had been 50 basis points (2018: 50 basis points) higher and all other variables were held constant, the potential effect on profit for the year:

	2019 HK\$ million	2018 HK\$ million
Decrease in profit for the year	(73.2)	(75.1)

If interest rates had been lower in an opposite magnitude and all other variables held constant, the potential effect on the results would be equal and opposite.

(e) Price risk management

The Group is exposed to equity price risk on the investments in listed equity securities measured at FVTOCI, operating in gaming, entertainment and hotel industry sector. The Group currently does not have a policy to hedge such risk. In addition, the Group also invested in certain unquoted equity securities for investees operating in gaming, entertainment and hotel industry sector for long term strategic purposes which were designated at FVTOCI. The Group has designated a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. FINANCIAL INSTRUMENTS (Continued)

(e) Price risk management (Continued)

The sensitivity analyses below have been determined base on the exposure to equity price risk on the equity securities in investments in equity securities designated at FVTOCI at the end of the reporting period. If the market bid price on such equity securities had been 10% (2018: 10%) higher/lower, the potential effect on the investment revaluation reserve is as follows:

The Group's investment revaluation reserve would increase/decrease by HK\$86.8 million (2018: HK\$91.6 million) arising from the listed equity securities and unlisted equity shares in investments in equity instruments designated at FVTOCI.

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 management considers 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. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. FINANCIAL INSTRUMENTS (Continued)

(f) Liquidity risk management (Continued)

	Weighted average effective interest rate	On demand HK\$ million	Not more than 3 months HK\$ million	Over 3 months but not more than 6 months HK\$ million	Over 6 months but not more than 1 year HK\$ million	Over 1 year HK\$ million	Total undiscounted cash flow HK\$ million	Carrying amount HK\$ million
At 31 December 2019								
Trade payables	—	—	1,045.7	1.0	0.5	—	1,047.2	1,047.2
Chips in circulation	—	5,062.4	—	—	—	—	5,062.4	5,062.4
Other payables	—	—	1,963.9	75.6	242.3	—	2,281.8	2,281.8
Amount due to non-controlling interests of a subsidiary	2.47%	—	—	—	—	219.4	219.4	203.8
Long-term bank loans (Note (i))	3.81%	—	193.7	199.2	405.0	15,632.1	16,430.0	15,280.7
Financial guarantee obligations (Note (ii))	—	87.3	—	—	—	—	87.3	—
Lease liabilities	2.45%	—	73.0	43.0	77.1	884.6	1,077.7	725.3
		5,149.7	3,276.3	318.8	724.9	16,736.1	26,205.8	24,601.2
At 31 December 2018								
Trade payables	—	—	1,387.0	2.1	—	—	1,389.1	1,389.1
Chips in circulation	—	4,480.7	—	—	—	—	4,480.7	4,480.7
Other payables	—	—	2,706.7	35.2	215.9	92.7	3,050.5	3,050.5
Amount due to non-controlling interests of a subsidiary	2.51%	—	—	—	—	317.4	317.4	287.1
Long-term bank loans (Note (i))	4.12%	—	207.0	208.2	418.3	16,321.9	17,155.4	15,444.8
Financial guarantee obligations (Note (ii))	—	87.3	—	—	—	—	87.3	—
		4,568.0	4,300.7	245.5	634.2	16,732.0	26,480.4	24,652.2

Notes:

- (i) The amounts included above for variable-rate long-term 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

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39. FINANCIAL INSTRUMENTS (Continued)

(g) Fair value measurement of financial instruments

The Group's investments in equity instruments designated at FVTOCI are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2019 HK\$ million	31 December 2018 HK\$ million		
Investments in equity instruments designated at FVTOCI				
Listed equity securities	296.5	352.3	Level 1	Quoted bid prices in an active market
Unlisted equity securities	571.6	564.0	Level 2	Market approach: estimated normalised trailing twelve months net profits with main multiple being Price-to-Earnings multiples of comparable companies (2018: recent transaction price of the investments)

There were no transfers between Level 1 and 2 during the current year.

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39. FINANCIAL INSTRUMENTS (Continued)

(g) Fair value measurement of financial instruments (Continued)

In estimating the fair value of unlisted equity securities, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages qualified third party valuers to perform the valuation. The management of the Group works closely with the qualified third party valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the unlisted equity securities.

Information about the valuation techniques and inputs used in determining the fair value of unlisted equity securities are disclosed above.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

All gains and losses included in other comprehensive income relate to the unlisted equity instruments designated at FVTOCI held at the end of the reporting period and are reported as changes of investment revaluation reserve.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. FINANCIAL INSTRUMENTS (Continued)

(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 an enforceable netting agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

Please refer to note 23 for detail offsetting arrangements.

Financial assets subject to offsetting and enforceable netting agreements

	Gross amounts of recognised financial assets HK\$ million	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position 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 2019	236.9	(47.3)	189.6	(85.1)	104.5
at 31 December 2018	338.3	(127.9)	210.4	(125.6)	84.8

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 2019	240.6	(47.3)	193.3	(85.1)	108.2
at 31 December 2018	449.0	(127.9)	321.1	(125.6)	195.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 (Continued)

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 23.

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 agreements 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 2019

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Long-term bank loans	Amount due to non- controlling interests of subsidiaries	Interest payables	Lease liabilities	Dividend payables	Total
	HK\$ million (note 27)	HK\$ million (note 29)	HK\$ million (Note)	HK\$ million (note 28)	HK\$ million	HK\$ million
At 1 January 2018	8,135.0	280.0	22.8	—	—	8,437.8
Net financing cash flows	7,250.0	—	(451.7)	—	(1,301.5)	5,496.8
Loss on modification of long-term bank loans	12.9	—	—	—	—	12.9
Interest expenses	46.9	7.1	437.1	—	—	491.1
Dividend recognised	—	—	—	—	1,301.5	1,301.5
At 31 December 2018	15,444.8	287.1	8.2	—	—	15,740.1
Adjustment upon application of HKFRS 16 (note 2)	—	—	—	865.3	—	865.3
At 1 January 2019 (restated)	15,444.8	287.1	8.2	865.3	—	16,605.4
Net financing cash flows	(225.0)	(98.0)	(525.4)	(270.4)	(1,642.6)	(2,761.4)
Loss on modification of long-term bank loans	9.8	—	—	—	—	9.8
New leases entered	—	—	—	110.2	—	110.2
Interest expenses	51.1	7.5	569.1	20.2	—	647.9
Dividend recognised	—	—	—	—	1,642.6	1,642.6
Changes in cash flow estimates	—	7.2	—	—	—	7.2
At 31 December 2019	15,280.7	203.8	51.9	725.3	—	16,261.7

Note: The amount is included in trade and other payables as set out in note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. RELATED PARTY TRANSACTIONS

- (a) Other than the transactions and balances with related parties disclosed in respective notes in the 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	2019 HK\$ million	2018 HK\$ million	
STDM and its associates, excluding the Group ("STDM Group") (as defined under Chapter 14A of the Listing Rules)	Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules			
	Property rentals (note 41(c))	242.7	263.6	
	Transportation (note 41(d))	99.8	130.2	
	Hotel accommodation (note 41(d))	17.9	22.2	
	Entertainment and staff messing (note 41(d))	14.8	18.0	
	Exempt continuing connected transactions under Chapter 14A of the Listing Rules			
	Share of administrative expenses (notes 41(e) and (f))	1.5	1.7	
	Cleaning services (note 41(f))	28.3	27.6	
	Hotel management and operation (notes 41(d) and (f))	16.2	21.1	
	Promotional and advertising services (notes 41(d) and (f))	6.5	13.7	
	Maintenance services (notes 41(d) and (f))	13.2	15.0	
	Others (note 41(f))	17.1	17.4	
	Non-exempt connected transactions under Chapter 14A of the Listing Rules			
	Purchase of a property (note 41(m))	680.0	—	
	Certain directors of the Company and of its subsidiaries and their associates (as defined under Chapter 14A of the Listing Rules)	Non-exempt continuing connected transactions under Chapter 14A of the Listing Rules		
		Service fees in relation to the promotion of a casino (note 41(g))	950.4	979.4
		Property rentals (note 41(i))	118.8	118.5
Exempt continuing connected transactions under Chapter 14A of the Listing Rules				
Transportation (notes 41(f) and (h))		20.3	18.4	
Others (note 41(f))		65.0	66.1	
Entities other than above in which STDM, certain directors of the Company and of its subsidiaries and/or their close family members have control/significant influence/beneficial interests		Service fees in relation to the promotion of a casino (note 41(j))	739.8	710.4
	Insurance expenses	168.8	108.4	
	Promotion and advertising expenses	0.6	0.7	
	Service fee in relation to foreign currencies exchange	11.5	11.5	
	Construction costs	2.5	3.4	
	Others	9.3	8.9	
An associate	Construction costs and management fee paid	278.2	356.9	
A joint venture	Property rentals (note 41(n))	14.4	14.4	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. 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 2019, the net amount received or receivable on reimbursement of STDM chips in circulation amounted to HK\$0.1 million (2018: HK\$1.1 million).
- (c) The Company 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.

During the years ended 31 December 2018 and 2019, the amount disclosed in note 41(a) represents the payment amount for property rentals with related parties and/or connected parties.

Upon the application of HKFRS 16 for the year ended 31 December 2019, the property rentals with related parties incurred interest expenses of HK\$3.7 million on the relevant lease liabilities with carrying amount of HK\$69.7 million as at 31 December 2019, and expenses of HK\$95.5 million relating to the relevant short-term leases.

- (d) The Company 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 41(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, transportation, hotel management and operation and maintenance services. The transaction amounts for the hotel management and operations and maintenance services during the year were de minimis as described in note 41(f).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. RELATED PARTY TRANSACTIONS (Continued)

- (e) The Company entered into an agreement with STDM dated 18 June 2008 (the “Administrative Cost Sharing Agreement”) whereby STDM and its associates have agreed to continue to share certain administrative services.

Starting from 2014, these transactions were exempted as continuing connected transactions under Rule 14A.98 of the Listing Rules. The amount of transactions during the year was disclosed in note 41(a) above.

- (f) These are individually de minimis transactions as defined under Rule 14A.76 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) 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 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.

Such agreement was renewed on 31 December 2016 for a term of three years from 1 January 2017 with similar terms as the previous agreement. The transaction amount for transportation during the year was de minimis as described in note 41(f).

- (i) The Company entered into an agreement dated 22 November 2013 with a director of the Company for the leasing of properties by the director and/or 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 41(a) above.

During the years ended 31 December 2018 and 2019, the amount disclosed in note 41(a) represents the payment amount for property rentals with related parties and/or connected parties.

Upon the application of HKFRS 16 for the year ended 31 December 2019, the property rentals with related parties recognised an addition of right-of-use assets amounted to HK\$9.3 million and incurred interest expenses of HK\$0.1 million on the relevant lease liabilities with carrying amount of HK\$7.8 million as at 31 December 2019, and expenses of HK\$117.2 million relating to the relevant short-term leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. RELATED PARTY TRANSACTIONS (Continued)

- (j) Service fees in relation to the promotion of a casino were paid to an entity in which certain directors of the Group are the directors and/or key management personnel of the entity.
- (k) Save as disclosed in note 27, in addition to the securities provided by the Group to the relevant banks, the non-controlling interests of a subsidiary also provided securities to secure the syndicate secured bank loans 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\$490 million (2018: HK\$490 million); and
 - (ii) 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.

- (m) A property was acquired at a consideration of HK\$680 million during the year ended 31 December 2019. The seller in the acquisition was a connected person of the Company, and hence the acquisition constituted a connected transaction pursuant to Chapter 14A of the Listing Rules.
- (n) During the years ended 31 December 2018 and 2019, the amount disclosed in note 41(a) represents the payment amount for property rentals with related parties and/or connected parties.

Upon the application of HKFRS 16 for the year ended 31 December 2019, the property rentals with related parties incurred interest expenses of HK\$0.3 million on the relevant lease liabilities with carrying amount of HK\$3.6 million as at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42. CONTINGENT LIABILITIES AND GUARANTEES

	2019		2018	
	Maximum guarantees given HK\$ million	Credit facilities utilised HK\$ million	Maximum guarantees given HK\$ million	Credit facilities utilised HK\$ million
Guarantees given to banks in respect of credit facilities granted to:				
an associate	67.3	—	67.3	—
an investee company	20.0	—	20.0	—
	87.3	—	87.3	—

43. INVESTMENTS IN SUBSIDIARIES

	2019 HK\$ million	2018 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 46.

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

The amounts due from subsidiaries are unsecured, interest-free and 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 repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

45. EVENT AFTER REPORTING PERIOD

Due to an outbreak of a respiratory illness caused by a novel coronavirus identified in China, on 4 February 2020, the Macau SAR government announced the suspension of casino operations from 5 February 2020. On 17 February 2020, the Macau SAR government announced the resumption of Macau casino operations, including the Group's casino operations, from 20 February 2020. The Group's casino operations resumed on 20 February 2020, except for the casino operations at Casino Oceanus at Jai Alai, Casino Eastern and Casino Taipa which resumed on 27 February 2020, 28 February 2020 and 6 March 2020, respectively. The Group's casino operation at Casino Macau Jockey Club is currently yet to resume at the date of this report. Additionally, there are travel restrictions such as those related to the China Individual Visit Scheme, the Hong Kong Macau Ferry Terminal closure and other countries restricting inbound travel from mainland China. The duration and intensity of this global health emergency and related disruptions is uncertain, including potential broader impacts outside of China if travel and visitation continues to be restricted and there is a resulting decline in Chinese tourist spending in Macau SAR. Given the dynamic nature of these circumstances, the related impact on the Group's operating segments in Macau SAR and the consolidated results of operations, cash flows and financial condition will be material but cannot be reasonably estimated at this time.

46. 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/ 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
			2019	2018	
Bondwell Limited	Hong Kong	Ordinary shares: HK\$1	100%	100%	Property holding
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

46. PRINCIPAL SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ quota capital	Attributable proportion of nominal value of issued share capital/ quota capital held by the Group		Principal activity
			2019	2018	
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/Hong Kong	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
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	— <i>(Note (e))</i>	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

46. PRINCIPAL SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ quota capital	Attributable proportion of nominal value of issued share capital/ quota capital held by the Group		Principal activity
			2019	2018	
SJM – Investment Limited	Macau SAR	Quota capital: MOP1,000,000	100%	100%	Investment holding
SJM Retail Services Private Limited	Macau SAR	Quota capital: MOP 25,000	100%	100%	Provision of retail services
SJM – Project Management Services (HK) Limited	Hong Kong	Ordinary shares: 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/ Hong Kong	Ordinary shares: US\$1	100%	100%	Investment holding

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.
- (e) The subsidiary of the Company was deregistered on 1 November 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

46. PRINCIPAL SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

At the end of both reporting periods, 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	
		2019	2018
Gaming related operations	Macau SAR	2	2
	Hong Kong	3	2
		5	4
Hotel, catering and retail related operations	Macau SAR	1	1
	Hong Kong	1	—
		2	1
Investment holdings/Inactive	British Virgin Islands/Macau SAR	15	15
	British Virgin Islands/Hong Kong	5	5
	Hong Kong	4	2
	Macau SAR	6	6
	Samoa	1	1
		31	29
		38	34

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For the year ended 31 December 2019

46. PRINCIPAL SUBSIDIARIES (Continued)

(b) Details of a non-wholly-owned subsidiary that has material non-controlling interests

The table below shows details of a non-wholly-owned subsidiary 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		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019	2018	2019	2018
				HK\$ million	HK\$ million	HK\$ million	HK\$ million
Pier 16 – Property Development Limited	Macau SAR	49%	49%	110.2	62.1	237.7	134.7

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

	2019 HK\$ million	2018 HK\$ million
Current assets	372.9	461.9
Non-current assets	680.0	729.5
Current liabilities	(480.6)	(463.3)
Non-current liabilities	(463.9)	(829.0)
Equity attributable to owners of the company	108.4	(100.9)
	2019 HK\$ million	2018 HK\$ million
Revenue	795.1	732.5
Cost of sales and expenses	(555.1)	(637.6)
Profit for the year	224.9	126.7
Profit attributable to owners of the company	224.9	126.7
Net cash inflow from operating activities	371.4	363.1
Net cash outflow from investing activities	(24.1)	(20.1)
Net cash outflow from financing activities	(427.6)	(220.5)
Net cash (outflow) inflow	(80.3)	122.5

OUR REGISTERED OFFICES

ISSUER

Champion Moments Limited
Vistra Corporate Services Centre
Wickhams Cay II, Road Town
Tortola, VG1110
British Virgin Islands

PARENT GUARANTOR

SJM Holdings Limited
18th Floor, China Merchants Tower
Shun Tak Centre
Nos. 168–200 Connaught Road Central
Hong Kong

TRUSTEE

Bank of China Limited, Macau Branch
20/F, Bank of China Building
Avenida Doutor Mario Soares
Macau

REGISTRAR, MOX LODGING AGENT, PAYING AGENT AND TRANSFER AGENT

**Industrial and Commercial Bank of China
(Macau) Limited**
18/F, ICBC Tower
Macau Landmark
555, Avenida da Amizade, Macau

OUR LEGAL ADVISORS

As to U.S. law

Latham & Watkins LLP
18th Floor, One Exchange Square
8 Connaught Place, Central
Hong Kong

As to Macau law

C&C Advogados
Av. da Praia Grande
759, 3-5/F
Macau

As to BVI law

**Maples and Calder
(Hong Kong) LLP**
26th Floor, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

LEGAL ADVISORS TO THE INITIAL PURCHASERS

As to U.S. law

King & Wood Mallesons
13th Floor Gloucester Tower
The Landmark
15 Queen's Road Central
Central Hong Kong

As to Macau law

Manuela António — Lawyers and Notaries
Alameda Dr. Carlos
D'Assumpção, nos. 411-417
Dynasty Plaza, 15th floor D-H
Macau

LEGAL ADVISORS TO THE TRUSTEE

As to U.S. law

Herbert Smith Freehills
23rd Floor,
Gloucester Tower,
15 Queen's Road Central
Hong Kong

INDEPENDENT AUDITOR

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

MOX LISTING AGENT

**Industrial and Commercial Bank of China
(Macau) Limited**
18/F, ICBC Tower
Macau Landmark
555, Avenida da Amizade, Macau