ANNUAL REPORT | 年報 2008

澳門博彩控股有限公司
SJM HOLDINGS LIMITED

Stock Code 股份代號：880

Corporate Information

Board of Directors

Chairman and Executive Director

Dr. Ho Hung Sun, Stanley

Non-executive Director

Dato' Dr. Cheng Yu Tung

Independent Non-executive Directors

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

Executive Director and Chief Executive Officer

Dr. So Shu Fai

Executive Director and Chief Operating Officer

Mr. Ng Chi Sing

Executive Directors

Mr. Rui José da Cunha
Ms. Leong On Kei, Angela
Mr. Shum Hong Kuen, David

Audit Committee

Mr. Tse Hau Yin – *Chairman*
Mr. Chau Tak Hay
Mr. Shek Lai Him, Abraham

Nomination Committee

Dr. So Shu Fai – *Chairman*
Mr. Chau Tak Hay
Mr. Lan Hong Tsung, David
Ms. Leong On Kei, Angela
Mr. Shek Lai Him, Abraham
Mr. Shum Hong Kuen, David
Mr. Tse Hau Yin

Remuneration Committee

Dr. So Shu Fai – *Chairman*
Mr. Lan Hong Tsung, David
Ms. Leong On Kei, Angela
Mr. Shek Lai Him, Abraham
Mr. Tse Hau Yin

Company Secretary

Mr. Mok Wing Kai, Henry
FCPA, FCCA, ACA, ACIS, ACS, MBA, MSc

Registered Office

Unit 14–Unit 16, 15th Floor
China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong
website: www.sjmholdings.com

Auditors

Deloitte Touche Tohmatsu
H.C. Watt & Company Limited

Compliance Advisor

OSK Capital Hong Kong Limited
(previously known as
OSK Asia Capital Limited)
11/F Hip Shing Hong Centre
55 Des Voeux Road Central
Hong Kong

Share Registrar

Computershare Hong Kong
Investor Services Limited
Rooms 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

About Us

SJM Holdings Limited is the holding company of Sociedade de Jogos de Macau, S.A. ("SJM"), one of the six companies authorised to operate casino games of fortune and other games of chance in casinos, under the terms of a concession granted by the government of the Macau Special Administrative Region ("Macau") in March 2002. SJM is the only casino gaming concessionaire with its roots in Macau, and is the largest in terms of turnover and number of casinos. Over the past year more than 15 million patrons enjoyed SJM's facilities, which comprise more than 1,400 gaming tables and over 3,800 slot machines.

Contents

FOCUS ON MACAU

HEART & SOUL OF MACAU

SJM continues a legacy of almost half a century as a prime force in Macau's progress, and faces the new era with a renewed commitment to making an active and positive contribution to the city that we call home.

Our Lisboa Brand

Strength In The Name

Our Lisboa brand name has earned global recognition and is synonymous with the best that Macau offers as a leisure destination. Visitors flock to our Lisboa properties as well as our other entertainment facilities confident that they will experience the authentic Macau and receive a warm welcome and the best quality service.


GRAND LISBOA






PEOPLE BUSINESS

TEAM EFFORT

Our deep local knowledge and experience are vital resources as we strive to expand and further develop our operations. In doing so, we will continue to promote the sustainable prosperity of Macau, the home of over 90% of our employees.





A Bright Future

Driving Growth

"We are delighted to see Macau emerge as the major resort destination of China – an economic asset to the nation and a source of entertainment and enjoyment for so many people. SJM is committed to full participation in the unprecedented opportunities of this era, for the benefit of the Company and our shareholders, our staff and our community," says Chairman Dr. Stanley Ho.

Milestones

16 Jul 2008

17 Dec 2008

SJM is incorporated as a limited liability company in Macau
28 Nov 2001

SJM wins tender to become a concessionaire operating casino gaming in Macau
8 Feb 2002

SJM signs gaming concession contract valid until 31 March 2020 with the Macau Government
28 Mar 2002

SJM commences operations with 11 casinos
1 Apr 2002

SJM Holdings Limited is incorporated in Hong Kong
17 Feb 2006

SJM opens Casino Grand Lisboa, Macau's new landmark
11 Feb 2007

SJM opens Casino Ponte 16
1 Feb 2008

SJM Holdings Limited is listed on the Main Board of the Stock Exchange of Hong Kong
16 Jul 2008

SJM opens the Grand Lisboa Hotel
17 Dec 2008


1 Feb 2008


11 Feb 2007

1 Apr 2002

Financial Highlights and Dividend Schedule

Financial Highlights

	Year Ended 31 December 2008 (HK$ in millions except per share amounts)	Year Ended 31 December 2007 (HK$ in millions except per share amounts)
Gaming Revenue	27,992.4	32,146.6
Other Income	303.8	186.4
EBITDA*	1,599.5	2,060.7
Profit attributable to equity holders	796.1	1,533.5
Earnings per share – basic	18.4 cents	40.9 cents
Proposed final dividend per share	6.0 cents	(not applicable)

* Earnings after adjustment for minority interest and before interest income and expense, tax, depreciation and amortisation.

Dividend Schedule

Announcement of final dividend	23 March 2009
Deadline for lodging of all transfers	4:30pm, 7 May 2009
Closure of register of members	8 May to 13 May 2009 (both dates inclusive)
Annual General Meeting	13 May 2009
Posting of dividends to shareholders	19 June 2009

Chairman's Statement

In this first annual report of SJM Holdings Limited ("SJM Holdings" or the "Company") since the Company's listing on the Hong Kong Stock Exchange in July 2008, I am pleased to comment on our performance, financial condition and strategy.

Our gaming revenue and audited profit attributable to equity holders of the Company amounted to HK$27,992 million and HK$796 million in 2008, and our basic earnings per share were HK 18.4 cents. While these figures represent declines from the previous year's results, we consider our results in 2008 to be satisfactory in view of the general economic conditions and specific challenges to our industry that characterised the year, particularly during the second half.

Importantly, we have maintained the strength of our balance sheet, we are moving ahead with two new casino projects without external financing and we face with confidence the current climate of challenge and opportunity. Our equity attributable to equity holders at year-end 2008 was HK$7.3 billion against total bank loans of HK$5.8 billion, and our total holding of cash and bank balances exceeded HK$5.8 billion (not including HK$414.4 million pledged bank deposit).

Much has been written about Macau's economic woes in recent months, but it is important to step back and put our local situation in perspective. Macau, while facing general and specific challenges, is actually a comparatively bright spot in the current global situation. Although local growth, by most measurements, slowed or halted by the end of 2008, in important metrics such as visitor arrivals, tourist spending and total gaming revenue, the leveling off that we are experiencing follows a period of stunning increases during the previous several years. Amidst gathering global economic problems, a new high number of visitors still came to Macau in 2008 and generated record gaming revenue and record gaming tax receipts.

While the Macau landscape is marred by a number of unfinished projects, unfulfilled commitments and cutbacks in employment and procurement of services, we consider SJM Holdings to be in an advantageous position in terms of the strength of our core business and our resources.

Indeed we have not changed our strategy and basic business direction: we focus on the business of gaming that we know best and provide an attractive product aimed at a targeted clientele. In implementing our strategy, we always strive to balance capacity increase with reasonably anticipated demand, and to balance financing requirements with financing cost and availability.

In spite of the deterioration in the financial and economic environment as the year progressed, 2008 was a year of accomplishment for SJM Holdings. Notably, the long, and at times complex, process of our initial public offering was completed in July, and we welcomed public shareholders into our ownership for the first time. Our new flagship Casino Grand Lisboa continued to perform excellently, and finally in December 2008 our luxurious Grand Lisboa Hotel held its grand opening.

On the other side of our home base, the Macau Peninsula, Casino Ponte 16 opened in February 2008. The development took another major step forward with the opening of the Sofitel Hotel at Ponte 16 in August 2008.

In 2008, we undertook several important measures to tightly manage our portfolio of casinos. As of the first quarter of this year we had suspended operations at four smaller properties and we have revised the service provision contracts for most of our third-party promoted casinos. Additionally, we have reduced the number of VIP rooms in our stable by over 40%. We arranged no new financing in 2008 and we have no plans for additional borrowings in 2009.

As further described herein, we are continuing to develop a number of exciting projects for 2009 and farther into the future. In several months, visitors will be able to enjoy L'Arc, an elegant new casino in a highly strategic location on Macau Peninsula, and by the end of the year we expect to host the grand opening of Oceanus, our stunning new project located across from the Macau Maritime Terminal. For the longer term, we are planning to participate in the redevelopment of the historic Hotel and Casino Lisboa and the development of two sites on Cotai, but we will evaluate market conditions carefully before committing to a timetable.

Subsequent to year-end, the six gaming operators in Macau agreed to establish an industry association with myself as the first chairman. This is an important and positive step that I have been advocating since the liberalisation of Macau's gaming industry, and it represents a commitment on behalf of each of the operators to maintain cooperative ties and work for the sustainable development of the gaming sector.

It has always been my belief that the health of a company and the health of its community go hand in hand. Therefore, contributing to society is a priority for us. During the past year SJM Holdings has stepped up its sponsorship of cultural and sporting events, contributed to relief projects in the Mainland, and supported charities and public sector initiatives that enhance the welfare of the community.

In a similar vein, my belief is that for a company to cultivate a loyal workforce, it must be loyal to them. We are proud to stand out in our industry by completing the year with no staff layoffs. It is the right thing to do, and it is good business.

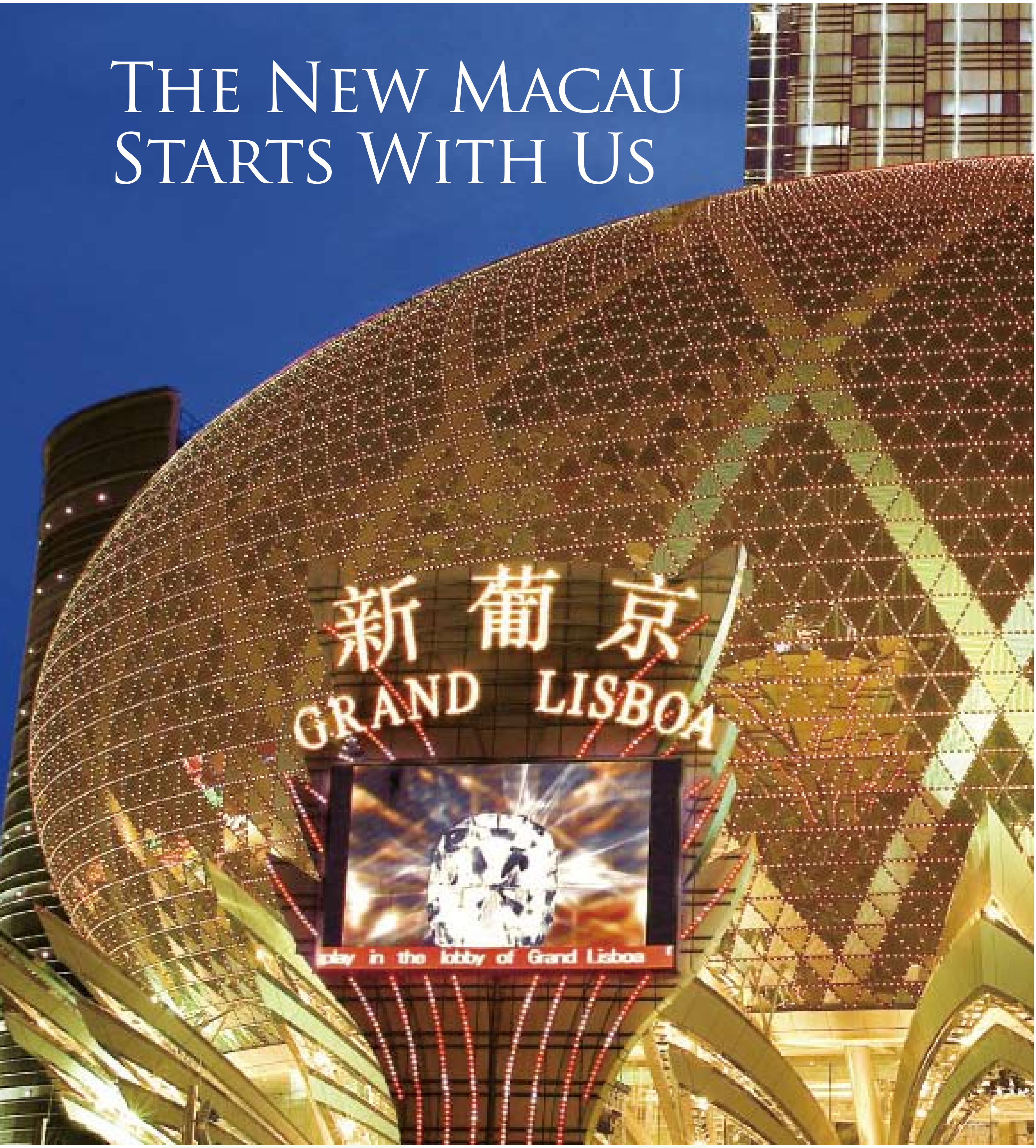
The Board of Directors has recommended a dividend of HK 6 cents per share, our first dividend declared as a listed company.

I extend my appreciation to the management and staff of SJM Holdings and to our shareholders and business partners for their support as we seek and meet new challenges for future growth.

Stanley Ho
Chairman

Hong Kong, 25 March 2009

The New Macau Starts With Us



Group Operating Results

The Company and its subsidiaries (collectively, the "Group") generated gaming revenue and profit attributable to equity holders of the Company for the year ended 31 December 2008 of $27,992.4 million and $796.1 million, respectively, as compared to gaming revenue of $32,146.6 million and profit attributable to equity holders of the Company of $1,533.5 million for the year ended 31 December 2007.

The decrease in gaming revenue in 2008 was primarily due to a decline in revenues from VIP gaming operations, caused principally by credit market conditions that affected VIP gaming promotion business. These factors reduced VIP chips purchases and consequently the revenues derived from VIP gaming operations. In addition, the hold rate, or house-win percentage, in VIP gaming operations declined slightly in 2008 from the previous year. Besides reduced revenues from VIP gaming operations, other factors that contributed to lower profit in the year were competitive conditions which resulted in an increased share of VIP revenues being paid to VIP gaming promoters, the start-up costs and operating loss of Ponte 16, the start-up costs of Grand Lisboa Hotel, and increased depreciation and interest costs related to both projects.

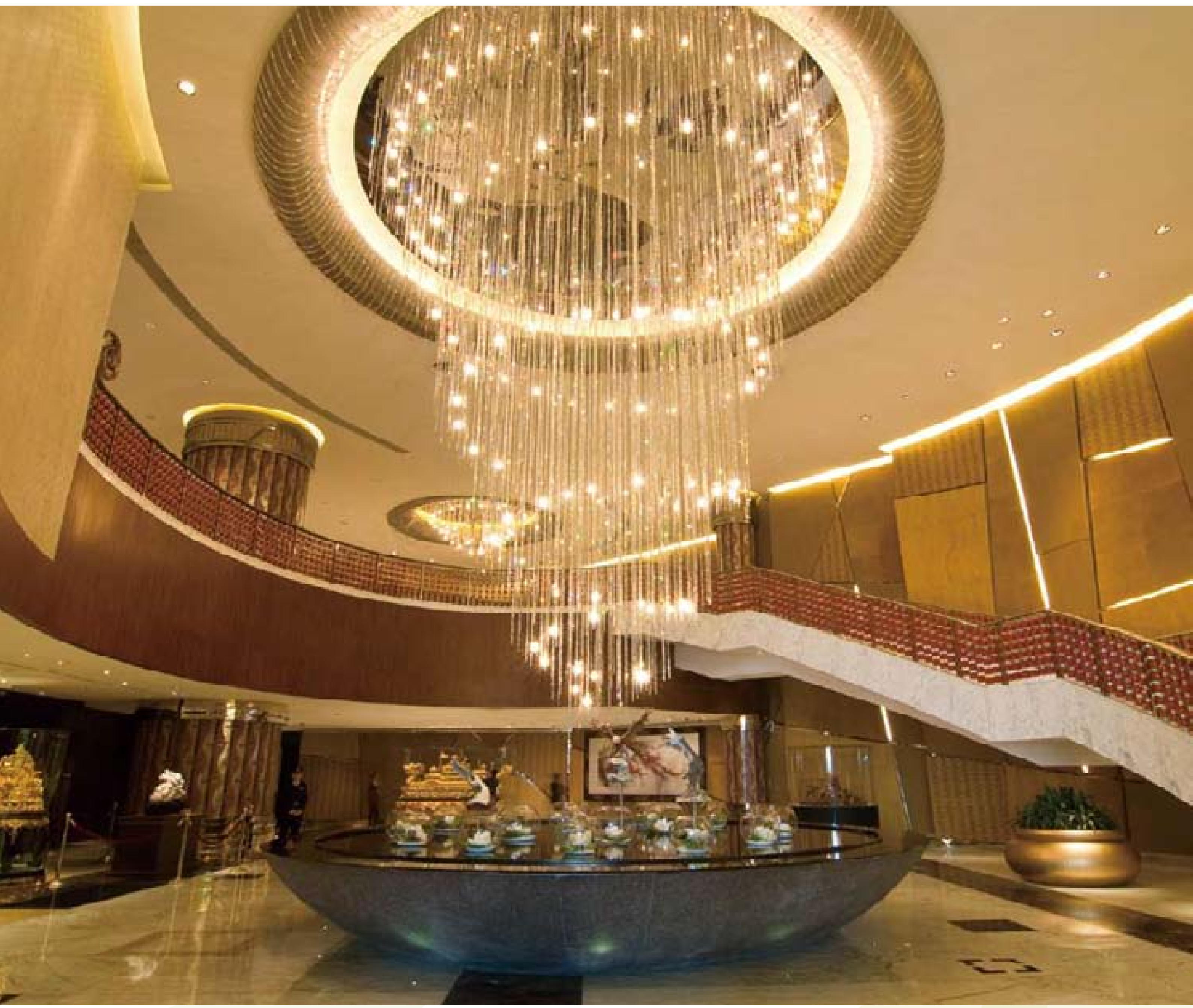
For the year ended 31 December 2008, the Group's EBITDA (earnings after adjustment for minority interest and before interest income and expense, tax and depreciation and amortisation) was $1,599.5 million, compared with $2,060.7 million for the previous year, a decrease of 22.4%. For the year ended 31 December 2008, the Group's adjusted EBITDA (earnings after adjustment for minority interest and before interest income and expense, tax, depreciation and amortisation, preopening expenses, development expenses, loss on disposal of fixed assets and other income) was $1,580.0 million, compared with $2,102.3 million for the previous year, a decrease of 24.8%.

The Group's EBITDA margin for the year was 5.7%, a decrease of 10.9%, and the Group's adjusted EBITDA margin for the year was 5.6%, a decrease of 13.8%. Property EBITDAR (EBITDA plus rental expense and corporate expenses) for the Group was $2,070.7 million, representing a decrease of 18.8% from the amount of $2,550.3 million for the previous year. Adjusted property EBITDAR (adjusted EBITDA plus rental expense and corporate expenses) for the Group was $2,051.2 million, representing a decrease of 20.9% from the amount of $2,591.9 million for the previous year.

Group results for the year ended 31 December 2008 reflected depreciation charges of $769.0 million, which increased from $572.1 million from the previous year due mainly to increased depreciation related to Ponte 16 and the Grand Lisboa, and finance costs of $158.2 million, which increased from $7.1 million due mainly to interest on loans arranged in 2007 and drawn down beginning in mid-2007.

Casino Grand Lisboa Operating Results

Gaming revenue and profit attributable to the Company's flagship Casino Grand Lisboa, for the year ended 31 December 2008, increased by 79.7% and 39.4% to $8,605.3 million and $1,139.9 million, respectively from revenue of $4,788.3 million and attributable profit of $817.7 million for the year ended 31 December 2007.



For the year ended 31 December 2008, EBITDA of Casino Grand Lisboa was $1,403.6 million, an increase of 40.8% from $996.9 million for the previous year, and adjusted EBITDA was $1,407.2 million, an increase of 35.4% from $1,039.0 million for 2007. EBITDA margin and adjusted EBITDA margin of Casino Grand Lisboa in 2008 were 16.4%. For the year ended 31 December 2008, adjusted property EBITDAR of Casino Grand Lisboa was $1,434.2 million, an increase of 35.9% from $1,055.7 million for the previous year.

VIP Gaming Operations

VIP gaming operations accounted for 57.1% of the Group's total gaming revenue in the year, as compared to 64.1% for the previous year. In order to improve the efficiency of its VIP operations, the Company consolidated VIP rooms from various casinos into a new VIP area located in Casino Lisboa and reduced the number of VIP rooms and VIP gaming tables in operation. As at 31 December 2008, SJM had 40 VIP rooms with 180 VIP gaming tables, as compared with 75 VIP rooms with 305 VIP gaming tables as at 31 December 2007. As at 31 December 2008, SJM operated VIP gaming in 11 of its casinos.

VIP room consolidation therefore resulted in the average number of VIP gaming tables during the year decreasing to 234 from 312 in the previous year. The average net-win per day per VIP table increased to $186,470 in 2008 from $181,012 in 2007. Average net-win per VIP table for Casino Grand Lisboa was $292,217 per day in 2008.

Gaming revenue from VIP gaming operations was $15,970.0 million in 2008 which represented a decrease of 22.5% from $20,613.6 million in 2007, reflecting a 20.7% decrease in VIP chips sales to $553,618 million in 2008 from $698,407 million in 2007 as a result of increased competition. The hold rate for VIP operations decreased slightly in 2008 to 2.88% from 2.95% in 2007. Gaming revenue from VIP gaming operations was affected positively by VIP gaming operations at Casino Grand Lisboa which commenced in August 2007 and contributed $5,775.4 million in VIP gaming revenue and $193,824 million in VIP chips sales during the year ended 31 December 2008.

Mass Market Table Gaming Operations

Gaming revenue from mass market table gaming operations comprised 39.5% of the Group's total gaming revenue in 2008, compared to 33.2% in 2007. SJM had 1,154 mass market tables as at 31 December 2008, including 97 mass market tables at Ponte 16 which was opened in February 2008, as compared with 1,107 mass market gaming tables as at 31 December 2007.

Gaming revenue from mass market table gaming operations increased to $11,063.7 million, representing growth of 3.6%, from $10,676.4 million recorded in 2007. The increase was due primarily to the increase in mass market revenue of Casino Grand Lisboa during the year and the opening of Ponte 16 in February 2008. As at 31 December 2008, SJM operated mass market table gaming in 14 of its casinos.

SJM's average number of mass market gaming tables increased to 1,193 in 2008 from 1,087 in 2007, while the average net-win per day per mass market gaming table decreased to $25,338 from $26,909 for the previous year. For Casino Grand Lisboa, average net-win per mass market table was $29,044 per day in 2008.

Slot Machine Operations

Gaming revenue from slot machine operations and other gaming operations (Tombola) comprised 3.4% of the Group's total gaming revenue in 2008, compared to 2.7% in 2007. SJM had 3,867 slot machines as at 31 December 2008 as compared with 3,702 slot machines as at 31 December 2007. As at 31 December 2008, SJM operated slot machines in 11 of its casinos and in 4 slot halls.

Gaming revenue from slot machine operations and other gaming operations increased by $102.1 million, or 11.9%, to $958.7 million in 2008 from $856.6 million for the previous year. The increase was mainly due to the opening of Ponte 16 in February 2008, with approximately 292 slot machines on average in operation during the year.

The average number of slot machines in 2008 increased to 3,842, from 3,475 in 2007. The average net-win per slot machine increased to $681 per day in 2008, from $674 per day in 2007. The average net-win per slot machine at Casino Grand Lisboa was $977 per day in 2008.

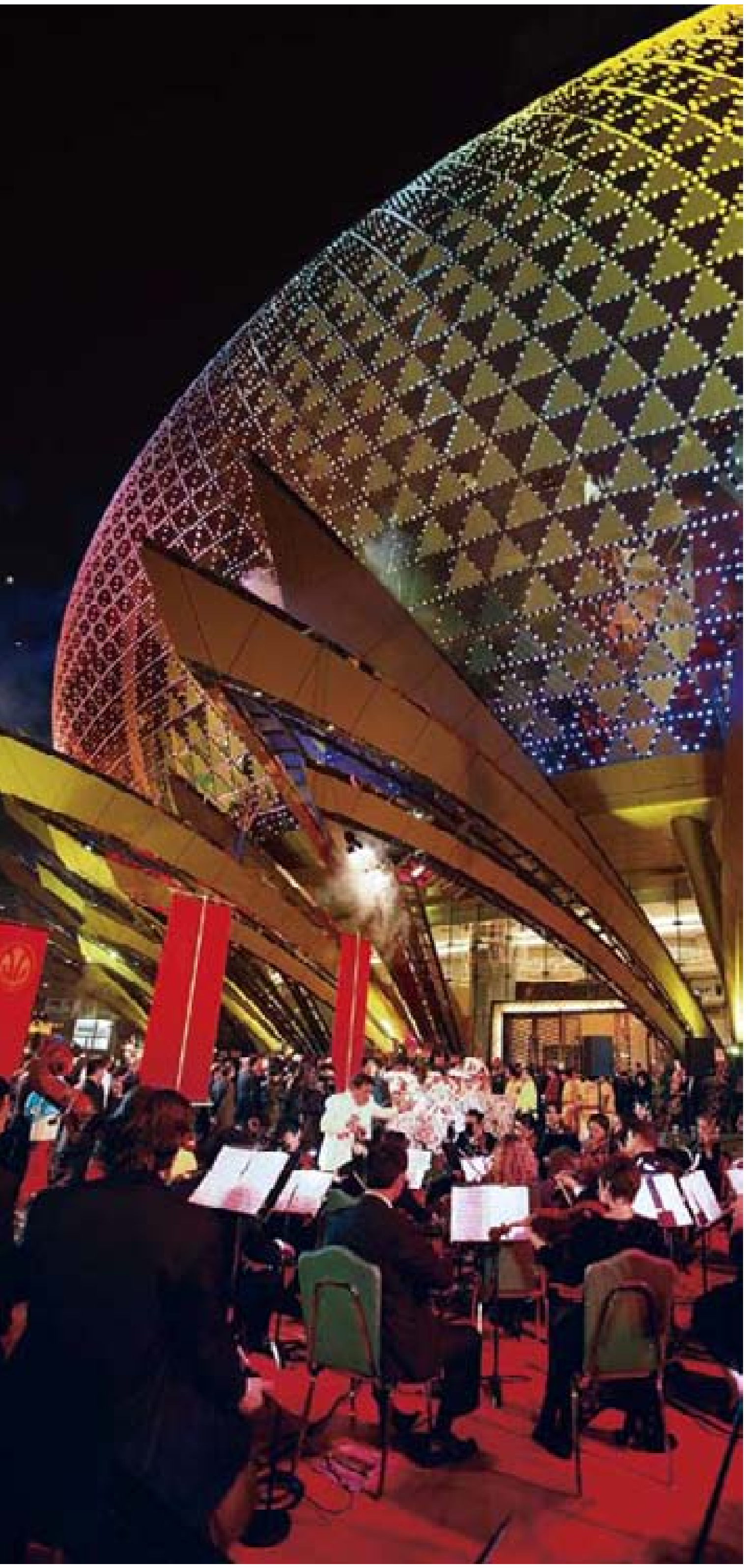
Non-gaming Revenue

Income from hotel, catering and related services totaled $172.6 million in 2008, an increase of 114.4% from $80.5 million in 2007, due to the opening of the Grand Lisboa Hotel, and increased food and beverage revenue. Other income, primarily interest earned on bank deposits, finance leases interest received and income from amortisation of financial guarantee obligations, increased to $131.2 million from $105.9 million during the year.


Immigration
INNER HARBOUR
MACAU PENINSULA
St. Paul's
Pier 16
Macau Maritime Terminal
OUTER HARBOUR
A-Ma Temple
LISBOA DISTRICT
Macau Tower
Sai Van Bridge
Macau-Taipa Bridge
Friendship Bridge
University of Macau
Pac On Ferry Terminal
Race Course
TAIPA
Macau International Airport
ZHUHAI (HENQIN ISLAND)
Sports Ground
COTAI
Lotus Bridge
Macau East Asian Games Dome
Immigration
MACAU PENINSULA
1 Casino Lisboa
2 Grand Lisboa
3 Casino Ponte 16
4 Casino Emperor Palace
5 Casino Kam Pek Paradise
6 Casino Diamond
7 Casino Fortuna
8 Club VIP Legend
9 Casino Casa Real
10 Casino Kingsway
11 Casino Jai Alai
12 Casino Jimei
13 Casino Golden Dragon
14 Casino Babylon
TAIPA
15 Casino Macau Jockey Club
16 Casino New Century
L'Arc
Oceanus

Prospects and Recent Developments

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



Market Environment

The growth of the Macau gaming industry has been interrupted by the general weakening of the global economy resulting from the global credit crunch and this has been exacerbated by the tightening of visa conditions for Mainland residents wishing to visit Macau. The total number of visitors to Macau (including arrivals of non-resident workers, students, etc.) increased, however, by 11.8% to a record 30.2 million. Per-capita spending by visitors also increased during the year by approximately 5.5%, while the average length of stay in Macau by visitors remained relatively flat at slightly over one day.

Competition in the Macau gaming industry increased in intensity, particularly in the VIP gaming segment. Responding to industry concerns by the concessionaires and sub-concessionaires about the sustainability of VIP gaming margins, the Macau government began consultations in May 2008 with all operators regarding a cap on commissions paid to VIP gaming promoters. While the concessionaires and sub-concessionaires have expressed agreement on a reasonable cap on commissions there has been no adoption of such proposal by the Macau government at this date.

In 2008, the Macau government also announced measures to restrict growth in gaming facilities. The Company does not expect that the restrictions proposed will have a negative effect on its business or development plans.

As outlined in the prospectus of the Company dated 26 June 2008 (the "Prospectus"), the Group seeks to grow its business through the development of strategically located gaming clusters in Macau to target different segments of the gaming market, to improve operating margins through cost reduction initiatives and improving efficiency and to actively manage its portfolio by expanding and upgrading its existing casinos to improve their overall yield. To this end, the Group is progressing on a number of projects, which are described below.

Casino Grand Lisboa

Performance of the flagship Casino Grand Lisboa continued to exceed the Company's expectations. Daily revenue from mass market table games grew by 5.5% in 2008 and daily revenue from slot machines grew by 43.9%. Total growth in revenue per day, which was also positively influenced by the opening of VIP gaming rooms at the casino during the second half of 2007, was 59.1%. In February 2008, the Casino Grand Lisboa was the first casino in Macau to introduce the game Texas Hold 'Em Poker, and later in the year introduced the game of Casino War. In March 2008 Casino Grand Lisboa opened its VIP slot machine area on the second floor.

In addition to the completion and opening of the Grand Lisboa Hotel, further progress was made on the final outfitting of the top floors of the tower which will house additional VIP gaming areas and food and beverage facilities. Subject to obtaining relevant government permits, the Company expects to open these floors later in 2009.

During 2008, Casino Grand Lisboa had an average of approximately 26,500 visitors per day, and the Casino Grand Lisboa bus program brought more than 1.5 million visitors to the casino from the Macau Maritime Terminal and the Border Gate. To continue attracting gaming patrons to Casino Grand Lisboa, the Company launched a number of special promotions during the year, such as Spot to Win, Beijing Olympic Dream and Daily Cash Reward. Large-scale jackpots are paid regularly and publicised, including $5,135,188.87 won on 17 July 2008, the largest paid by the Grand Lisboa to that date. During the year 59,512 members joined the Casino Grand Lisboa loyalty card programme, bringing the total number of members to 185,588.

Grand Lisboa Hotel

The Grand Lisboa Hotel held its grand opening on 17 December 2008, in the presence of the Macau SAR Chief Executive and many dignitaries. Though the delayed issuance of the operating licence resulted in minimal revenue being contributed by the hotel during 2008, the hotel's occupancy level, average room rate and customer acclaim have since exceeded expectations. Food and beverage revenue at the Grand Lisboa Hotel increased by 51.4% during the year to $113.1 million, reflecting increased customer count, larger check amounts and the opening of new venues, The Kitchen, The Lotus Lounge and The Poolside Bar.

Prospects and Recent Developments

Ponte 16

Casino Ponte 16, located in Macau's historic Inner Harbour area, held its grand opening ceremony on 1 February 2008 and commenced operations with 105 tables and 297 slot machines. During its first 11 months of operations, over three million patrons visited Casino Ponte 16. After a delay of several months, licenses for the Sofitel Macau at Ponte 16 and for restaurant/bar operations were obtained in July 2008, and the 20-storey, 408-room hotel opened in August 2008. Five food and beverage outlets, including the Mistral Restaurant and the Sixteen 8 Restaurant, also began serving customers in August 2008. However, the project's revenues for the year were insufficient to cover operating and start-up costs and the project contributed a loss to the Group in 2008. The Company expects that operating performance will improve with the introduction of VIP gaming operations later in 2009 plus full-year operation of the hotel, but does not make any prediction about its performance in the near future.

Oceanus

During the second half of 2008, the New Yaohan department store vacated its premises in the Outer Harbour area and the Company began converting the building to Oceanus. Connecting via overhead walkway to the Macau Maritime Terminal, Oceanus will conveniently serve patrons who arrive in Macau by sea or through the northern Border Gate. Oriented towards the day-trip market, the casino project will comprise around 270,000 square feet of gaming space and supporting facilities. The casino interior is designed by renowned casino architects Paul Steelman Design Group and the project is planned to have up to 300 mass market gaming tables and 600 slot machines plus dining and back-of-house facilities. During 2008 Oceanus progressed on schedule and the Group expects completion in November 2009.

L'Arc

In a strategic location on the Macau Peninsula adjacent to a number of flagship casino properties, Casino L'Arc is scheduled to open by the third quarter of 2009. The new facility, designed in a classical style, will comprise 115,000 square feet and is planned to have over 150 gaming tables and 400 slot machines catering to the mass market. L'Arc will be a third-party promoted casino.

Redevelopment of Hotel and Casino Lisboa

In October 2007, SJM was granted options by Sociedade de Turismo e Diversões de Macau, S.A. ("STDM") to purchase the 15/16 portion of the Hotel Lisboa that was not already owned by SJM at a consideration of $4,295 million and a development site at Nam Van Lake Lot 11-A at a consideration of $360 million. Details of the option agreements, and the notification of exercise by SJM in April 2008, were included in the Prospectus. The Company subsequently invited prominent international architectural firms to submit concept design proposals for the redevelopment of Hotel Lisboa and Casino Lisboa, and the submitted designs were opened to public viewing and review by a panel of experts in July and August 2008.

On 20 March 2009, the Company announced that, after consideration of the economic environment and financial market conditions, SJM had executed new agreements with STDM by which the terms of the option agreement for Nam Van Lake Lot 11-A were cancelled and the terms of the option agreement for Hotel Lisboa were replaced with an agreement that the Hotel Lisboa building would be jointly redeveloped by SJM and STDM. The new agreement for the Hotel Lisboa specifies that a formal joint redevelopment agreement will be entered into between SJM and STDM which will govern the terms under which the two parties participate in the redevelopment. No timetable has been set for the redevelopment.

Other Casino Projects

In August 2008, SJM's Casino Kam Pek became Casino Kam Pek Paradise, and its operations were converted to a third-party promoted basis. As at 31 December 2008, five of the Company's casinos had suspended operations: Casino Macau Palace, Casino Kingsway, Casino Taipa, Casino Marina and Casino Oriental. Subsequent to year-end, on 17 January 2009, Casino Jimei opened at the site of the former Casino Oriental and began operations on a third-party promoted basis. The Company has longer term plans for additional new projects, including two developments on Cotai and a club style VIP casino in the Lisboa District, but the timetable for these projects is being reviewed and will be subject to market conditions.

Financial Review

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

Liquidity, Financial Resources and Capital Structure

The Group maintained a strong financial position, with bank balances and cash amounting to $5,847.1 million (not including $414.4 million pledged bank deposits) as at 31 December 2008. This represented a decrease of 10.2% as compared with the position as at 31 December 2007 of $6,510.9 million. The decrease was mainly attributable to financing for capital expenditure for the Grand Lisboa and Ponte 16 and payment of dividend in 2008.

Total loan facilities available to the Group as at 31 December 2008 amounted to $6,600 million, of which $656 million was undrawn. The maturity profile of the Group's borrowings as at 31 December 2008 is set out below:

		Maturity Profile		
Within 1 year	**1–2 years**	**2–5 years**	**Over 5 years**	**Total**
17.45%	17.80%	64.75%	0.0%	100.0%

Gearing Ratio

The Group's gearing ratio (defined as the ratio of total outstanding bank loans less bank balances and cash to total assets (excluding bank balances and cash)) was nil at the end of 2008 (as at 31 December 2007: nil).

Capital Expenditure Commitments

Capital expenditure commitments by the Group amounted to $1,401.5 million as at 31 December 2008 (as at 31 December 2007: $2,195.8 million), which were primarily for construction works on the Grand Lisboa Hotel, Ponte 16 and Oceanus. Capital expenditures for Oceanus and L'Arc are expected to be funded by internal resources, and other projects in the future will be funded by a combination of internal resources and external financing. The exact investment plans for the Group's projects are subject to change based upon execution of the business plans, progress of the projects, market conditions and management's view of future business conditions.

Pledge of Assets

As at 31 December 2008, certain of the Group's property, plant and equipment and land use rights with carrying values of $6,062.3 million and $836.7 million, respectively (as at 31 December 2007: $6,082.5 million and $764.0 million, respectively), were pledged with banks for loan facilities. In addition, the Group had pledged bank deposits of $414.4 million as at 31 December 2008, as compared with $145.9 million as at 31 December 2007.

Contingent Liabilities and Guarantees

As at 31 December 2008, the Group had total guarantees given to banks of $333.6 million (as at 31 December 2007: $423.5 million), which were guarantees in respect of credit facilities granted to an associate, an investee company and a related company. The Group had no significant contingent liabilities as at 31 December 2008.

Developments Regarding Litigation

Ms. Winnie Ho and Moon Valley Inc. (the "Applicants") applied to the Court of Appeal in October 2008 to withdraw their motion seeking leave to appeal to the Court of Final Appeal against earlier judgments in the Court of First Instance and in the Court of Appeal. Those judgments had refused the Applicants leave to seek judicial review of the decisions of the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Securities and Futures Commission to respectively allow, and not object to, the listing of the Company's shares. The Court of Appeal granted the Applicants permission to withdraw the application for leave to appeal on 28 October 2008. Thus, the judicial review proceedings in Hong Kong have come to a close.

There has been no significant development in the litigation to which SJM or any of its subsidiaries or STDM are parties, as described in the Prospectus. The Directors maintain their opinion, as originally expressed in the Prospectus, that based on the information and advice provided by the Company's legal advisors in Macau, that, regardless of how such litigation will be adjudicated, none of the proceedings, together or alone, will have a material adverse impact on the business or assets of the Company, on its status as a listed company, or on the business or assets of SJM, or its Reorganisation (as such term was defined in the Prospectus), or any of its subsidiaries.

Financial Risk

The Group follows a conservative policy in financial management with minimal exposure to currency and interest rate risks. Funds borrowed by the Group are on a floating rate basis. The Group does not currently hedge its interest rate exposure, although it may consider doing so in the future. None of the Group's outstanding borrowings was denominated in a foreign currency as at 31 December 2008. The Group's principal operations are primarily conducted and recorded in Hong Kong dollars resulting in minimal exposure to foreign exchange fluctuations. All of the Group's bank deposits are denominated in Hong Kong dollars, United States dollars or Macau patacas. It is the Group's policy not to engage in speculative trading activity.

Material Acquisitions and Disposals

The Group made no material acquisitions or material disposals of subsidiaries and associated companies during the year ended 31 December 2008.

Human Resources

As at 31 December 2008, the Group had 19,335 full-time employees, which represented an increase of 1,868 employees since 31 December 2007. The increase in employees is mainly due to the addition of employees during the year at Ponte 16 and at the Grand Lisboa Hotel. The Group's employee turnover rate was minimal in 2008.

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

Staff are encouraged to attend training classes that are related to the Group's business. The Group provides training for career enhancement, subsidises for education of staff at Macau Millennium College and Millennium Secondary School, and awards scholarships to children of staff to study at institutions of their choice.

Directors and Senior Management

Executive Directors

Dr. Ho Hung Sun, Stanley, aged 87, is the Chairman and an Executive Director of the Company and has been the Managing Director of SJM since 2001. Dr. Ho is also a director of the following principal subsidiaries of the Group: Efort Limited, Grand Lisboa – Hotel Administration Company Limited ("Grand Lisboa Hotel Administration"), Grand Lisboa – Property Investment Company Limited ("Grand Lisboa – Property Investment"), Nam Van Lake View Investment Limited ("Nam Van Lake View"), SJM – F&B Service Limited ("SJM – F&B"), SJM – Investment Limited ("SJM – Investment"), SJM Retail Services Private Limited and Sociedade de Desenvolvimento Unido de Macau S.A.R.L.

Dr. Ho is the founder of and has been the Managing Director of STDM since 1962. Dr. Ho is the Vice-Chairman of the board of directors of Macau International Airport Company Limited, the Co-Chairman of the Advisory Committee of Seng Heng Bank Limited and the Chairman of the board of directors of the Macau Horse Racing Company, Limited. Dr. Ho is also the Group Executive Chairman of the Hong Kong Main Board listed Shun Tak Holdings Limited, and the Chairman of the board of directors of the Euronext Lisbon listed Estoril Sol, SGPS, S.A. In the past three years, Dr. Ho was the Chairman of the Hong Kong Main Board listed Value Convergence Holdings Limited up to 29 April 2008, and the Chairman of the Hong Kong Main Board listed Melco International Development Limited ("Melco") up to 15 March 2006.

Dr. Ho is a Standing Committee member of the 11th National Committee of the Chinese People's Political Consultative Conference ("CPPCC"). Dr. Ho has been the President of The Real Estate Developers Association of Hong Kong since 1984. Dr. Ho is a member of the Court of The Hong Kong Polytechnic University, an Honorary Lifetime Chairman of The University of Hong Kong Foundation for Educational Development and Research, as well as a Vice-Patron of The Community Chest of Hong Kong. In Macau, Dr. Ho is a member of the Economic Development Council of the Macau Government, Trustee of the Macau Foundation and Council member of the University of Macau. Dr. Ho was a Vice-President of both the Macau Special Administrative Region Preparatory Committee and the Macau Special Administrative Region Basic Law Drafting Committee. He was also a member of the Consultative Committee for the Basic Law of the Hong Kong Special Administrative Region.

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

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

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

Dr. So Shu Fai, aged 57, is the Chief Executive Officer and an Executive Director of the Company and has been a director of SJM and a member of the senior management of SJM since 2002. He is also a director of the following principal subsidiaries of the Group:

Efort Limited, Grand Lisboa – Hotel Administration, Grand Lisboa – Property Investment, Honour State International Limited, Nam Van Lake View, Pier 16 – Entertainment Group Corporation Limited ("Pier 16 – Entertainment"), Pier 16 – Management Limited ("Pier 16 – Management"), Pier 16 – Property Development Limited ("Pier 16 – Property Development"), Pier 16 – Resort Hotel Management Limited ("Pier – 16 Resort"), SJM – F&B, SJM Employment Agency Limited ("SJM Employment"), SJM – Investment, SJM Retail Services Private Limited, Sociedade de Desenvolvimento Unido de Macau S.A.R.L. and Time Frontier Limited, and he is a director of Zhen Hwa Harbour Construction Company Limited, an associate of the Company and Chong Fung Real Estate Investment Limited ("Chong Fung"), a jointly-controlled entity of the Company. He is responsible for execution of the Company's strategy and the overall management of the Company's business. Dr. So joined STDM in 1976 and has over 30 years of experience in the casino business. Dr. So is an executive director of Shun Tak Holdings Limited, an independent non-executive director of the Hong Kong Main Board listed Yu Ming Investments Limited, a director of the Euronext Lisbon listed Estoril Sol, SGPS, S.A. and of Seng Heng Bank Limited, and the Chairman of the board of directors of MACAUPORT – Sociedade de Administração de Portos, S.A.

Dr. So is a member of the 11th National Committee of CPPCC, a member of the Committee of Foreign Affairs of the National Committee of CPPCC, consultant to the Committee for Liaison with Hong Kong, Macau, Taiwan and Overseas Chinese of the Beijing Municipal Committee of CPPCC, Honorary Consul of the Republic of Portugal in Hong Kong, as well as a member of the Economic Development Council and of the Cultural Consultative Council of the Macau Government. Dr. So is the President of Clube Militar de Macau and a committee member of the 8th China Federation of Literary and Art Circles. Dr. So serves as a director of The University of Hong Kong Foundation for Educational Development and Research. He graduated with a Bachelor of Science degree from The University of Hong Kong in 1973, and received a doctoral degree in Management Studies from the IMC/Southern Cross University in 2001. Dr. So was awarded an Honorary University Fellowship by The University of Hong Kong in 2005.

Mr. Ng Chi Sing, aged 57, is the Chief Operating Officer and an Executive Director of the Company, and has been a director and the Chief Operating Officer and a member of the senior management of SJM since 2002. He is also a director of the following principal subsidiaries of the Group: Efort Limited, Grand Lisboa – Hotel Administration, Grand Lisboa – Property Investment, Honour State International Limited, Nam Van Lake View, Pier 16 – Entertainment, Pier 16 – Management, Pier 16 – Property Development, Pier 16 – Resort, SJM Employment, SJM – F&B, SJM – Investment, SJM Retail Services Private Limited, Sociedade de Desenvolvimento Unido de Macau S.A.R.L., and Time Frontier Limited, and he is a director of Chong Fung, a jointly-controlled entity of the Company. He is responsible for overseeing SJM's operations. Mr. Ng joined STDM in 1978 and has approximately 30 years of experience in the casino business. Mr. Ng served as the Deputy General Manager for Casino Administration and Operations of STDM from 1999 to 2002. Mr. Ng is a member of the Shanghai Municipal Committee of CPPCC and a member of the Council of the Macau University of Science and Technology. Mr. Ng holds a Bachelor's degree from The University of Hong Kong and a Master of Management Studies degree from Asia International Open University (Macau).

Mr. Rui José da Cunha, aged 67, is an Executive Director of the Company and has been a director of SJM since 2001. He is also a director of the following principal subsidiaries of our Group: Efort Limited, Grand Lisboa – Hotel Administration, Grand Lisboa – Property Investment, Nam Van Lake View, SJM Employment, SJM – F&B, SJM Investment, SJM Retail Services Private Limited and Sociedade de Desenvolvimento

Unido de Macau S.A.R.L. Mr. Rui Cunha is also the company secretary and president of the general meeting of the following principal subsidiaries of the Group: Grand Lisboa – Hotel Administration, Grand Lisboa – Property Investment, Pier 16 – Property Development and Sociedade de Desenvolvimento Unido de Macau S.A.R.L. As the Company Secretary of SJM since 2003, he is responsible for overseeing the company secretarial and legal affairs of SJM. Mr. Rui Cunha has been an attorney-at-law in Macau since 1981, and was a founding member of the Macau Bar Association. Mr. Rui Cunha is the founder and senior partner of C&C Advogados, a law office with headquarters in Macau and an overseas office in Lisbon, Portugal. From 1965 until 1981, Mr. Rui Cunha served as Public Prosecutor, Attorney General and Judge of High Court in Portugal and various ex-Portuguese colonies. Mr. Rui Cunha graduated in 1964 from the University of Lisbon, Portugal.

Ms. Leong On Kei, Angela, aged 48, is an Executive Director of the Company and a director of SJM since 2007 and of STDM since 2005. She has been actively involved in public and community services in China, Hong Kong and Macau. In 2005, she was elected a member of the 3rd Legislative Assembly of the Macau Special Administrative Region. Ms. Leong is also president of the General Association of Administrators and Promoters for Macau Gaming Industry. She has been a director of Po Leung Kuk since 2005.

Mr. Shum Hong Kuen, David, aged 54, is an Executive Director of the Company and has been a director of SJM since 2007 and of Sociedade de Turismo e Desenvolvimento Insular S.A.R.L. since 1998. He is an executive director and a member of the Executive Committee of the board of directors of Shun Tak Holdings Limited. He is also a director of a number of subsidiaries of the Shun Tak Group. Mr. Shum holds a Bachelor's degree from the University of Illinois, Urbana-Champaign, and a Master's degree in Business Administration from the University of California, Berkeley, U.S.A.

Non-executive Director

Dato' Dr. Cheng Yu Tung, aged 83, is a Non-executive Director of the Company and has been a director and the President of the board of directors of SJM since 2001. Dato' Dr. Cheng's business activities are extensive and varied, ranging from jewellery, real estate, infrastructure and hotels to the logistics business. Dato' Dr. Cheng is the Chairman of New World Development Company Limited, Chow Tai Fook Enterprises Limited and Melbourne Enterprises Limited and non-executive Chairman of Lifestyle International Holdings Limited and a non-executive director of Shun Tak Holdings Limited. Dato' Dr. Cheng has been awarded the *Commandeur de L'ordre des Arts et des Lettres and the Chevalier de la Legion d'Honneur* by the French Government. He was awarded the Grand Bauhinia Medal by the Hong Kong Government in 2008.

Independent Non-executive Directors

Mr. Chau Tak Hay, aged 66, has been an Independent Non-executive Director of the Company since 2008. He has also been, since 2003, an independent non-executive director of the Hong Kong Main Board listed China Life Insurance Company Limited. 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. Mr. Chau graduated from The University of Hong Kong in 1967. Mr. Chau was awarded the Gold Bauhinia Star by the Hong Kong Government in 2002.

Mr. Lan Hong Tsung, David, aged 68, has been an Independent Non-executive Director of the Company since 2008. He is the Senior Advisor of Mitsui & Co (HK) Ltd. and is also an independent non-executive director of Nanyang Commercial Bank, Ltd., Hong Kong Main Board listed Cheung Kong Infrastructure Holdings Limited, Hong Kong Main Board listed Hutchison Harbour Ring Limited and ARA Asset Management (Prosperity) Limited, the manager of Hong Kong Main Board listed Prosperity Real Estate Investment Trust. In 2000, Mr. Lan was awarded the Gold Bauhinia Star by the Hong Kong Government for his 39 year-long civil service when he retired as the Secretary for Home Affairs. Since 2003, Mr. Lan has been appointed as a member of the National Committee of the Chinese People's Political Consultative Conference. He is also a Fellow member of the Institute of Chartered Secretaries & Administrators. Mr. Lan graduated from the University of London with a BA degree and obtained AMP (Harvard) qualification from the Harvard Business School. He was also a Visiting Fellow of Queen Elizabeth House (Oxford).

Mr. Shek Lai Him, Abraham, aged 63, has been an Independent Non-executive Director of the Company since 2008. He is also an independent non-executive director of the following companies and investment trusts listed on the Main Board of the Stock Exchange:

- Chuang's China Investments Limited
- Chuang's Consortium International Limited
- Country Garden Holdings Company Limited
- Hop Hing Group Holdings Limited
- Hsin Chong Construction Group Ltd.
- ITC Corporation Limited
- Lifestyle International Holdings Limited
- Midas International Holdings Limited
- MTR Corporation Limited
- NWS Holdings Limited
- Paliburg Holdings Limited
- Titan Petrochemicals Group Limited
- Eagle Asset Management (CP) Limited, the Manager of Champion Real Estate Investment Trust
- Regal Portfolio Management Limited, the Manager of Regal Real Estate Investment Trust

Mr. Shek graduated from the University of Sydney with a Bachelor of Arts degree. Mr. Shek was an independent non-executive director of the Hong Kong Main Board listed New World TMT Limited from 2004 to 2006, Hop Hing Holdings Limited from January 2007 to April 2008, and See Corporation Limited from October 2005 to September 2008. He was also a member of the Managing Board of Kowloon-Canton Railway Corporation from February 2004 to December 2007. Mr. Shek is a member of the Legislative Council of Hong Kong and a director of the Hong Kong Mortgage Corporation Limited. Mr. Shek was appointed as a Justice of the Peace in 1995. He is also Vice Chairman of Independent Police Complaints Council.

Mr. Tse Hau Yin, aged 61, has been an Independent Non-executive Director of the Company since 2008. Mr. Tse is also an independent non-executive director of the China Construction Bank Corporation, China Telecom Corporation Limited, CNOOC Limited, Sinofert Holdings Limited, Wing Hang Bank Limited and Linmark Group Limited, all of which are listed on the Hong Kong Main Board. Mr. Tse is a member of the Supervisory Committee of SJM. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales and a fellow member and past president of the HKICPA. He is also a registered auditor in Macau. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Between 1997 and 2000, Mr. Tse served as the non-executive chairman of KPMG's operations in the PRC and was a member of the KPMG China Advisory Board. He is currently the chairman of the International Advisory Council of The People's Municipal Government of Wuhan. Mr. Tse holds a Bachelor of Social Sciences degree from The University of Hong Kong.

Report of the Directors

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

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2008 (the "Financial Statements").

Principal Activities

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

An analysis of the turnover and trading results of the Group by business segments during the financial year is set out in Note 7 to the Financial Statements.

Principal Subsidiaries

A list of principal subsidiaries, together with their places of incorporation and operations and particulars of their issued share capital/registered capital and principal activity, is set out in Note 50 to the Financial Statements.

Financial Results

The profit of the Group for the year ended 31 December 2008, and the balance sheet of the Company and of the Group at that date are set out in the Financial Statements on pages 55 to 110.

Dividends

In January 2008, prior to the listing of the Company, SJM declared dividends of $3.5 billion to its then shareholders in which a dividend of $2.5 billion was subject to the success of the proposed listing of the Company on the Main Board of the Stock Exchange in 2008. The full amount of this dividend was paid in 2008.

The Board of Directors (the "Board") recommends a final dividend of HK 6 cents per share in respect of the year ended 31 December 2008.

The proposed final dividend, if approved by the shareholders at the Annual General Meeting scheduled on 13 May 2009, will be paid on 19 June 2009 to shareholders whose names appear on the Register of Members on 13 May 2009.

Major Suppliers and Customers

Suppliers

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

During the year, 38.1% of the Group's purchases was attributable to the Group's five largest suppliers combined. Hip Hing Engineering (Macau) Co., Ltd., which provides SJM with construction services, accounted for 15.8% of the Group's total purchases, Zhen Hwa Harbour Construction Co. Ltd. (an associate of the Company that is 49% owned by SJM) which provides SJM with construction services, accounted for 8.2% of the Group's total purchases, Far East Hydrofoil Co. Ltd., which supplies SJM with ferry tickets, accounted for 6.0% of the Group's total purchases, Hotel Lisboa Macau, which provides SJM with casino and office leasing, hotel rooms and entertainment services, accounted for 4.7% of the Group's total purchases, and Companhia de Electricidade de Macau, which provides SJM with electric utility services, accounted for 3.4% of the Group's total purchases.

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

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

Dr. Ho is Chairman of the board of general meeting of Companhia de Electricidade de Macau.

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

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

Reserves

Movements in the reserves of the Company during the year and reserves available for distribution to shareholders are set out in Note 39 to the Financial Statements. Movements in the reserves of the Group are reflected in the Financial Statements on the Consolidated Statement of Changes in Equity.

Donations

Donations made by the Group during the year amounted to $9.5 million.

Fixed Assets

Details of movements in fixed assets during the year are set out in Note 15 to the Financial Statements.

Bank Loans

Particulars of bank loans of the Group as at 31 December 2008 are set out in Note 36 to the Financial Statements.

Borrowing Costs Capitalisation

Borrowing costs capitalised by the Group during the year amounted to $113.1 million.

Major Group Properties

Details of major properties of the Group as at 31 December 2008 are as follows:

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

Property, Plant and Equipment and Land Use Rights

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

According to the Prospectus, the land and buildings of the Group included in the above cost were valued at $10,003.8 million on 31 March 2008 and valued at 10,076.9 million on 31 December 2008. Had the Group's land and buildings been included in the Financial Statements at such valuation throughout the year ended 31 December 2008, an additional depreciation charge of $103.1 million would have been charged to the Consolidated Income Statement for the year ended 31 December 2008.

Share Capital

During the year, the issued and fully paid share capital was increased from $10,000 to $5,000,000,000 by two issues of shares credited as fully paid and by an issue of shares under the global offering of shares which is described in the Prospectus (the "Global Offering") which was completed in July 2008. In January 2008, 269,999,999 shares of $1.00 each ("Shares") were issued credited as fully paid to the then holders of type A shares in the share capital of SJM ("SJM A Shares") in consideration of the acquisition by the Company of the entire issued SJM A Shares and a further 3,480,000,000 Shares were issued credited as fully paid to the same shareholders in July 2008 following the capitalisation of an amount of $3,480,000,000 standing to the credit of the share premium account of the Company following the issue of shares pursuant to the Global Offering. A total of 1,250,000,000 Shares were allotted and issued at a price of $3.08 under the Global Offering.

Details of movements in share capital of the Company during the year are set out in Note 38 to the Financial Statements.

Directors

The Directors and their brief biographical details are set out on pages 26 to 29 of this annual report. Details of their remuneration are set out in Note 11 to the Financial Statements.

In accordance with the Company's Articles of Association, Dr. Ho Hung Sun, Stanley and Mr. Rui José da Cunha, each an Executive Director, and Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin, each an Independent Non-executive Director, will retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

Directors' Service Contracts

The appointments of Independent Non-executive Directors are for specific terms (not exceeding three years) subject to earlier retirement by rotation in accordance with the provisions of the Company's Articles of Association. The Independent Non-executive Director, Mr. Tse Hau Yin, has entered into a service contract with SJM on 25 November 2008, pursuant to which he is appointed as an independent non-executive officer of SJM and on 11 January 2008, each of the Independent Non-executive Directors and the Non-executive Director has entered into a letter of appointment with the Company for a term of three years which shall end in any event on either: (a) the date of the third Annual General Meeting after the first election as a Non-executive Director or Independent Non-executive Director (as the case may be) by shareholders in the Annual General Meeting; or (b) the date on which a Non-executive Director or Independent Non-executive Director (as the case may be) shall retire by rotation.

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

Directors' Interests in Contracts and Connected Transactions

Save as disclosed below, no contract of significance to which the Company, its holding company or any of their subsidiaries was a party, and in which a Director was materially interested, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

(A) Contracts with STDM

STDM is a controlling shareholder and therefore a connected person of the Company as defined under the Listing Rules. Dr. Ho is a director of STDM and, as at 31 December 2008, approximately 31.655% of the equity share capital of STDM is owned by him directly and indirectly (through Lanceford Co. Ltd., a company wholly-owned by Dr. Ho). Ms. Leong On Kei, Angela is a director of STDM and she also has a beneficial interest in STDM. Dato' Dr. Cheng Yu Tung and Mr. Shum Hong Kuen, David also have beneficial interests in STDM. Many Town Company Limited is a corporate director of STDM and is owned as to 93.3% by United Worldwide Investment S.A. which is owned as to 50% by Dato' Dr. Cheng Yu Tung.

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

(1) Premises Leasing Master Agreement

On 18 June 2008, the Company entered into a premises leasing master agreement with STDM which contains the terms and conditions for the leasing of premises by the STDM Group to the Company for use as casinos, offices, or for other business purposes (the "Premises Leasing Master Agreement"). Payments for the premises under the agreement comprised of rental, utility charges, air conditioning service charges and building management fees where the relevant rental must be fair and reasonable, and may not be higher than the rental for the same or comparable type of premises provided by independent third parties in the ordinary course of business; the utility charges payable are based on actual utility consumption; and the air conditioning expenses and building management fees are determined in accordance with and not exceeding the relevant market prices. The terms and conditions on which such premises are to be provided should be no less favourable to us than those offered by independent third parties. This agreement is for a term commencing on 18 June 2008 and ending on 31 March 2020 and the Company may terminate at any time during the term of the agreement by giving at least three months' prior written notice. Approximately $73.1 million was paid under this agreement during the year.

(2) *Products and Services Master Agreement*

On 18 June 2008, the Company entered into an agreement with STDM which contains the principles, guidelines, terms and conditions for the provision of products and services by the STDM Group to the Company (the "Products and Services Master Agreement"). The products and services can be categorised as (i) hotel accommodation, (ii) hotel management and operation, (iii) entertainment and staff messing, (iv) dredging services, (v) transportation (including jetfoil tickets supplied by Far East Hydrofoil Co. Ltd. through STDM), (vi) promotional and advertising services, (vii) travel agency services and (viii) maintenance services. The price for such products and services to be provided must be fair and reasonable and must be made in accordance with and not exceeding the relevant market price for such products and services, or where there is no relevant market price, then according to and not exceeding the contractual price. The terms and conditions on which such products and services are to be provided should be no less favourable to us than those offered to independent third parties. This agreement has a term of three years renewable by mutual agreement of the parties and the Company may terminate by giving at least three months' prior written notice. The aggregate amount of transactions under this agreement for the year ended 31 December 2008 is shown in the table below.

(3) *Administrative Cost Sharing Agreement*

On 18 June 2008, the Company entered into an agreement with STDM dated 18 June 2008 (the "Administrative Cost Sharing Agreement") whereby STDM has agreed to continue to share the administrative services including, among others, general public relations work, promotional functions, arranging ticketing and hotel accommodations, transportation and the provision of storage services with the Group and the Group has agreed to pay for the shared services on a cost basis. This agreement is for a term of 3 years commencing on 18 June 2008. The amount of administrative costs shared between Group and the STDM group is calculated based on an estimate of (i) the actual time spent by each department for providing services to us and the STDM group respectively, recorded on time sheets during a trial period of three months and (ii) the floor area occupied, respectively, by the Group and the STDM group for storage services. The amount of transactions during the year was approximately $47.4 million.

(4) *Chips Agreement*

On 18 June 2008, SJM entered into an agreement with STDM to regulate the honouring, borrowing and use of the casino chips of STDM for the purposes of its gaming operations (the "Chips Agreement"). Since 1 April 2002, SJM has been borrowing casino chips from STDM for the purpose of its business operation. STDM has agreed to reimburse SJM for the aggregate face value of the chips honoured by SJM which were not sold by SJM. The Chips Agreement has no fixed term but may be terminated by mutual agreement or upon termination of SJM's Concession Contract, whichever is earlier. During 2008, the Company redeemed STDM chips in circulation from patrons in the amount of $368.1 million. These transactions were in accordance with the Chips Agreement dated 18 June 2008.

(5) Purchase Option Agreements

STDM and SJM entered into purchase option agreements dated 17 October 2007 whereby STDM granted SJM the right to exercise an option to purchase from the STDM Group the 15/16 portion of the Hotel Lisboa which was not already owned by SJM at a consideration of $4,295 million and to purchase the development site at Nam Van Lake Lot 11-A at a consideration of $360 million (collectively, the "Purchase Option Agreements"). On 17 April 2008, SJM exercised both options. Under the relevant option agreements, each of STDM and SJM is required to enter into a promissory sale and purchase agreement in respect of the proposed acquisitions. On 20 March 2009, SJM and STDM executed deeds of settlement and variation by which the terms of the purchase option agreement for Nam Van Lake Lot 11-A were cancelled and the terms of the Purchase Option Agreement for Hotel Lisboa were replaced with an agreement that the Hotel Lisboa building would be jointly redeveloped by STDM and SJM.

(6) Aircraft Lease Agreements

Sky Reach Investments Limited ("Sky Reach"), a wholly-owned subsidiary of the Company has entered into aircraft sublease agreements with Companhia de Aviação Jet Asia Limitada ("Jet Asia"), a wholly-owned subsidiary of STDM pursuant to which Sky Reach agreed to sublease six aircraft to Jet Asia (the "Aircraft Sublease Agreements"). The first and the second sublease agreements were entered into in December 2007, the third sublease agreement was entered into in May 2008, the fourth and the fifth sublease agreements were entered into in August 2008 and the sixth sublease agreement was entered into in December 2008. Each of the Aircraft Sublease Agreements has an initial term of 10 years and may be extended by mutual consent of Sky Reach and Jet Asia on such terms as may be agreed between them. Pursuant to the sublease agreements, the aggregate amount paid by Jet Asia for the leasing of the aircraft for the year ended 31 December 2008 is approximately $30.4 million. The terms of the aircraft sublease agreements are in accordance with normal business practice.

The aggregate amount paid by the Group during the year and the annual caps for the financial year ended 31 December 2008 and the annual caps for the years ending 31 December 2009 and 2010 of the respective continuing connected transactions are set out as follows:

	Aggregate amount for the year ended 31 December 2008 HK$ (millions)	Annual Cap for the year ended 31 December 2008 HK$ (millions)	Annual Cap for the year ending 31 December 2009 HK$ (millions) *(note 3)*	Annual Cap for the year ending 31 December 2010 HK$ (millions) *(note 3)*
Products and Services Master Agreement				
- *Hotel accommodation*	83.0	110	139	187
- *Hotel management and operation*	100.4	150	38	42
- *Entertainment and staff messing*	78.8	95	113	115
- *Dredging services*	43.7	98	114	134
- *Transportation*	346.1	612	693	758
- *Promotional and advertising services*	18.5	26	29	35
- *Maintenance services*	59.5	81	89	98
Premises Leasing Master Agreement	73.1	150	205	206
Chips Agreement	*(note 1)* 368.1	917	917	917
Purchase Option Agreements	*(note 2)* NIL	4,655	4,655	–
Aircraft Sublease Agreements	*(note 4)* 30.4	38	55	55

Note 1:
The amount of STDM chips redeemed from patrons during the period from 1 January 2008 to 31 December 2008 was $368.1 million.

2008	**(millions)**
1 January – 31 March	$11.9
1 April – 30 June	$302.1
1 July – 30 September	$49.5
1 October – 31 December	$4.6
Total	$368.1

The amount for the fourth quarter will be settled before 31 March 2009 and all other amounts were received in 2008.

Note 2:
Pursuant to an announcement dated 20 March 2009, SJM and STDM executed deeds of settlement and variation by which terms of the purchase option agreement for Nam Van Lake Lot 11-A were cancelled and the terms of the Purchase Options Agreement for Hotel Lisboa were replaced with an agreement that the Hotel Lisboa would be jointly redeveloped by STDM and SJM. Accordingly, the caps to the Purchase Option Agreements are no longer relevant.

Note 3:
The caps for 2009 and 2010 for the categories "Hotel Accommodation", "Hotel Management and Operation" and "Entertainment and Staff Messing" were revised and details were included in the Company's announcement dated 25 March 2009.

Note 4:
According to an announcement dated 20 January 2009, the Company has announced the annual caps for 2009 and 2010 for the Aircraft Sublease Agreements.

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

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the Joint Auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The Joint Auditors have reported their factual findings on these procedures to the Board and confirmed that for the year 2008, the continuing connected transactions (i) have received the approval of the Board; (ii) have been entered into in accordance with the pricing policies of the Company if the transactions involve provision of goods or services; (iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iv) have not exceeded the relevant cap amounts for the financial year ended 31 December 2008 as set out in the Prospectus.

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

(a) in the ordinary and usual course of business of the Company;

(b) either on normal commercial terms or, on terms no less favourable to the Company than the terms available to and from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company.

At a meeting on 17 March 2009, the Independent Board reviewed and confirmed compliance with an agreement between SJM and STDM dated 18 June 2008 regarding the honouring and borrowing of STDM chips for the purpose of SJM's casino gaming operations. The aggregate face value of STDM chips redeemed by STDM during 2008 was $368.1 million.

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

(B) Other interests

Mr. Rui José da Cunha is the founder and senior partner in the Macau law firm, C & C Advogados, which provides legal services to the Group on normal commercial terms. The aggregate amount paid for the year ended 31 December 2008 is approximately $4.5 million.

SJM has entered into an agreement with Elixir International Limited, an indirect wholly-owned subsidiary of Melco dated 24 November 2008 regarding the provision of system integration services and maintenance services for surveillance camera systems, extra low voltage systems, computer facilities and equipment, gaming products and any other systems as may be mutually agreed between the parties. The aggregate amount paid for the year ended 31 December 2008 was approximately $24.4 million. Each of STDM and Dr. Ho has beneficial interests in Melco, further details of which are set out in the section below.

Directors' Interests in Competing Business

Dr. Ho has beneficial interests in Melco which, through its interest in Melco Crown Entertainment Limited, is also engaged in the casino gaming business in Macau. As at 31 December 2008, Dr. Ho was directly and indirectly interested (through Lanceford Company Limited) in approximately 1.77% of the issued share capital of Melco. In addition, Dr. Ho is one of the beneficiaries of a discretionary trust which has a right to convert convertible loan notes issued by Melco into an interest of approximately 9.59% in the issued share capital of Melco (or approximately 8.75% in the enlarged issued share capital of Melco). Dr. Ho is not a member of the board of directors of Melco, nor has he exercised, and is not able to exercise any influence on the daily financial and operating policies of Melco or the sub-concessionaire, Melco Crown Gaming (Macau) Limited. STDM has an insignificant shareholding in Melco.

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

Directors' and Chief Executive Officer's Interests and Short Positions in Shares, Underlying Shares and Debentures

Dealing in the shares of the Company on the Stock Exchange commenced on 16 July 2008 ("the Listing Date"). As at 31 December 2008, interests and short positions of each Director and the Chief Executive Officer in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, are as follows:

Long Positions in the Shares and Underlying Shares of the Company

Name of Director	Number of Ordinary shares	Capacity	Percentage of issued share capital of the Company*
Dr. Ho Hung Sun, Stanley	3,049,987,500 (Long position)	Interest of controlled corporations[1]	61%
	381,262,500 (Long position)	Beneficial owner	7.625%
Dr. So Shu Fai	127,500,000 (Long position)	Beneficial owner	2.55%
Mr. Ng Chi Sing	95,625,000 (Long position)	Beneficial owner	1.913%
Mr. Rui José da Cunha	15,937,500 (Long position)	Beneficial owner	0.319%
Ms. Leong On Kei, Angela	15,937,500 (Long position)	Beneficial owner	0.319%

* The percentage has been calculated based on 5,000,000,000 ordinary shares in issue as at 31 December 2008.

1 Dr. Ho is taken to be interested in the 3,049,987,500 ordinary shares held by STDM – Investments Limited ("STDM – Investments") which is owned as to 99.99% by STDM, with the remaining 0.01% interest held by Dr. Ho. As at 31 December 2008, approximately 31.655% of the equity share capital of STDM is owned by Dr. Ho directly and indirectly (through Lanceford Co. Ltd., a company wholly-owned by Dr. Ho).

Directors' Right to Acquire Shares

Save as disclosed above, so far as was known to any Director, as of 31 December 2008, none of the Directors or the Chief Executive Officer had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Interests and Short Positions of Substantial Shareholders in Shares, Underlying Shares and Debentures

As at 31 December 2008, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

Name of Substantial Shareholder	Number of Ordinary shares	Capacity	Percentage of issued share capital of the Company*
Dr. Ho Hung Sun, Stanley	3,049,987,500 (Long position)	Interest of controlled corporations[1]	61%
	381,262,500 (Long position)	Beneficial owner	7.625%
STDM	3,049,987,500 (Long position)	Interest of controlled corporations[1]	61%
STDM – Investments	3,049,987,500 (Long position)	Beneficial owner	61%

* The percentage has been calculated based on 5,000,000,000 ordinary shares in issue as at 31 December 2008.

1 See footnote (1) under "Directors' and Chief Executive Officer's Interests and Short Positions in Shares, Underlying Shares and Debentures"

Save as disclosed above, as at 31 December 2008, the Company had not been notified by any persons (other than a Director or the Chief Executive Officer or their respective associate(s)) of any interest or short position in shares and underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

Related Party Transactions

Details of the significant related party transactions undertaken in the usual course of business are set out in Note 48 to the Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards. The related party transactions referred in Note 48(a) (ii) to (vi) constitute continuing connected transactions, as defined under the Listing Rules.

Undertakings by STDM and Dr. Ho

Pursuant to deed of non-competition undertakings (the "Non-Competition Undertakings") dated 18 June 2008, STDM and Dr. Ho have respectively undertaken with the Company and subject to certain conditions relating to the continued listing of the Shares on the Stock Exchange and, variously, STDM remaining the controlling shareholder of the Company and Dr. Ho remaining as a Director, that, apart from maintaining their investments in Melco, neither STDM nor Dr. Ho will compete with the operation of casino gaming businesses of SJM in Macau. STDM has also undertaken with SJM that if it becomes aware of any venue in Macau that is suitable for casino or slot machine operations, it will notify the Company of such opportunity and Dr. Ho has undertaken that if he becomes aware of any business opportunity which directly or indirectly competes, or may lead to competition with the casino gaming business of SJM in Macau, he will notify the Company of such opportunity and has also agreed to procure that such business opportunity is first offered to the Group upon terms which are fair and reasonable. It is provided in the Non-Competition Agreement that if there is any disagreement between Dr. Ho and the Company as to whether any activity or business or proposed activity or business of Dr. Ho or any of his associates directly or indirectly competes or may lead to competition with the casino gaming business of SJM, the matter will be determined by the Independent Board whose decision will be final and binding.

At a meeting on 17 March 2009, the Independent Board, comprising all four of the Independent Non-executive Directors, reviewed the confirmations from Dr. Ho and STDM dated 6th March 2009 in respect of the non-competition undertakings provided by each of them to the Company dated 18th June 2008 and the position regarding the indemnity provided by STDM-Investments in respect of certain litigation ongoing at the time of the Company's global offering of shares. Based on the confirmations provided by Dr Ho and STDM and after review, the Independent Board confirmed compliance with the non-competition undertakings. Based on information provided by the law firms in Macau and Hong Kong who had conduct of the relevant legal proceedings, the Independent Board confirmed that there was currently no claim against STDM-Investments in respect of the ongoing litigation.

Management Contracts

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

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2008.

Sufficiency of Public Float

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

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 44 to 52 of this annual report.

Auditors

A resolution for the re-appointment of Deloitte Touche Tohmatsu and H.C. Watt & Co. Ltd as joint auditors of the Company until the conclusion of the next Annual General Meeting is to be proposed at the forthcoming Annual General Meeting.

Review by Audit Committee

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

By order of the Board of Directors
SJM Holdings Limited
Stanley Ho
Chairman

Hong Kong, 25 March 2009

Corporate Governance Report

Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures. The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Code on Corporate Governance Practices as stated in Appendix 14 of the Listing Rules. During the period commencing 16 July 2008 until 31 December 2008, the Company has complied with the code provisions set out in Appendix 14 of the Listing Rules.

Model Code of Conduct for Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Company confirms that all Directors have complied with the required standards as stated in the Model Code from the Listing Date until 31 December 2008.

Board Composition

The Company is governed by the Board which is responsible for directing and supervising its affairs and overseeing the Group's businesses, strategic decision and performance. Execution of the Board's decisions and daily operations are delegated to the management. The Board comprises six Executive Directors, one Non-executive Director and four Independent Non-executive Directors.

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

Non-executive Director: Dato' Dr. Cheng Yu Tung

Independent Non-executive Directors: Mr. Chau Tak Hay, Mr. Lan Hong Tsung, David, Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin.

Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are segregated. The Chairman is responsible for the formulation of the Group's overall business development policies while the Chief Executive Officer is responsible for the overall management of the Group's business.

Business Relationship Between Directors

Mr. Rui José da Cunha is the founder and senior partner in the Macau law firm, C&C Advogados, which provides legal services to Dr. Ho and STDM on normal commercial terms.

Appointment and Re-election of Directors

According to the Company's Articles of Association, the Board has the power to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The power to appoint any person as a Director is subject to election by shareholders at the first general meeting after their appointment.

The Company's Articles of Association specifies that at each Annual General Meeting one third of the Directors shall retire but shall be eligible for re-election. At the forthcoming Annual General Meeting, Dr. Ho Hung Sun, Stanley, Mr. Rui José da Cunha, Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin, will retire and have offered themselves for re-election.

Independent Non-executive Directors

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

Other roles of INEDs include

- taking the lead where potential conflicts of interest arise,
- serving on audit, remuneration, nomination and other board committees,
- scrutinising the Company's performance in achieving corporate goals and objectives, and monitoring reporting of performance

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of three years unless they retire earlier by reason of rotation.

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

The Company has complied with Rules 3.10(1) and (2) of the Listing Rules relating to appointment of at least three Independent Non-executive Directors and an Independent Non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise.

Responsibilities of Directors

Management of the Company updates the Directors on their duties and responsibilities as well as the conduct, business activities and development of the Group. The management supplies the Directors and Board Committees with adequate, complete and reliable information in a timely manner to enable them to make informed decisions. Timely updates on changes in laws and compliance issues relevant to the Group and appropriate information on the Group's business and activities are provided to our Directors. All Directors have access to the management, Group Legal Counsel and Company Secretary for any information relevant to the Group they require in discharging their duties.

Training for Directors

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development training to Directors whenever necessary. The Directors may seek professional advice at the Company's expense.

Practices and Conduct of Meetings

Notices of Board meetings are usually served to all Directors before the meeting. Notice of at least 14 days is given for regular Board meetings to give all Directors an opportunity to attend. Reasonable notice is given for all other Board meetings. Board meeting agenda and papers together with all appropriate, complete and reliable information are sent to all Directors before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All Directors are entitled to have access to Board papers and related materials, prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it. Queries raised by the Directors will be responded as promptly and fully as possible. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction that involves a conflict of interests for a substantial shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting at which the Independent Non-executive Directors should be present.

Board and Board Committee Meetings

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

Details of individual Directors' attendance at the Board and Board Committee meetings held in the year are set out in the following table:

Number of Meetings	Board Meetings (12)	Audit Committee Meetings (2)	Remuneration Committee Meeting (1)	Nomination Committee Meeting (1)
EXECUTIVE DIRECTORS				
Dr. Ho Hung Sun, Stanley	11/12	n/a	n/a	n/a
Dr. So Shu Fai	12/12	n/a	1/1	1/1
Mr. Ng Chi Sing	11/12	n/a	n/a	n/a
Mr. Rui José da Cunha	11/12	n/a	n/a	n/a
Ms. Leong On Kei, Angela	10/12	n/a	n/a	1/1
Mr. Shum Hong Kuen, David	10/12	n/a	1/1	1/1
NON-EXECUTIVE DIRECTOR				
Dato' Dr. Cheng Yu Tung	9/12	n/a	n/a	n/a
INDEPENDENT NON-EXECUTIVE DIRECTORS				
Mr. Chau Tak Hay	9/12	2/2	n/a	1/1
Mr. Lan Hong Tsung, David	10/12	n/a	1/1	1/1
Mr. Shek Lai Him, Abraham	10/12	2/2	1/1	1/1
Mr. Tse Hau Yin	10/12	2/2	1/1	1/1

Delegation by the Board – Board Committees

The Board has proper delegation of its powers and has established three Board Committees, with specific written terms of reference that deal clearly with their authority and duties, to oversee particular aspects of the Group's affairs. Sufficient resources, including the advice of the external Auditors and other independent professional advisers, are provided to the Board Committees to enable them to discharge their duties. In addition, and as mentioned above, an Independent Board is constituted to review compliance with the terms of certain agreements executed ahead of the Company's initial public offering.

AUDIT COMMITTEE

The Audit Committee of the Company was established in June 2008 and it comprises three Independent Non-executive Directors, Mr. Tse Hau Yin as the Chairman and Mr. Chau Tak Hay and Mr. Shek Lai Him, Abraham as members.

The Audit Committee is accountable to the Board and its primary role is to assist the Board to monitor the Company's financial reporting process, to consider the nature and scope of audit reviews, to ensure that effective internal control and risk management systems are in place and to review the Group's interim and annual financial statements. The Audit Committee has access to and maintains an independent communication with the external Auditors and the management, including the Group's internal audit department, to ensure effective information exchange on all relevant financial and accounting matters. The written terms of reference of the Audit Committee conform to the code provision requirements of the Code. Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee are sent to all members of the committee for their comments and records, within a reasonable time after the meeting.

The Audit Committee meets at least twice a year and submits its written report to the Board after each meeting, drawing the Board's attention to important issues that the Board should be aware of, identifying any matters in respect of which it considers that action or improvement is needed and making appropriate recommendations.

The Audit Committee was established after the listing of the Company and held two meetings in 2008. It has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including the review of the interim and annual results of the Company for the year.

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

(i) Review of interim and annual financial statements of the Group, with recommendations to the Board for approval, examination of significant matters relating to the external Auditor's interim review and annual audit, review of tax matters and review of the accounting policies and practices adopted by the Group.

(ii) Review of internal control and risk management systems and assessment of their effectiveness to ensure that appropriate measures are in place to safeguard all significant assets and operations of the Group as well as to support continuous growth;

(iii) Review of overall accounts receivables position of the Group and the effectiveness of credit control, and reinforcing education to the management and the operation units the importance of adherence to the established credit control measures;

(iv) Review of audit strategy, approach and methodologies and assessment of key audit risks with the external Auditor in the audit planning stage;

(v) Review of the findings and recommendations from internal audit on the internal control reviews and approval of the annual internal audit plan; and

(vi) Report of the findings and making recommendations to the Board for improvement or implementation in respect of the above matters.

The terms of reference of the Audit Committee conform to the code provision requirements of the Code and are available from the Company Secretary upon request from any shareholder of the Company.

Remuneration Committee

The Remuneration Committee of the Company was established in June 2008. It comprises five members, Dr. So Shu Fai as the Chairman, one Executive Director, Ms. Leong On Kei, Angela, and three Independent Non-executive Directors, Mr. Lan Hong Tsung, David, Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin.

The principal function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management, review their specific remuneration packages and terms of service contracts, and assess the performance of the executive directors. The written terms of reference of the Remuneration Committee conform to the code provision requirements of the Code and are available from the Company Secretary upon request from any shareholder of the Company.

The Remuneration Committee will meet at least once a year, with the attendance of representatives from senior management and the Company Secretary. The Remuneration Committee will submit its written report to the Board after each Remuneration Committee Meeting, making recommendations of the Director's fees (including Audit Committee, Nomination Committee and Remuneration Committee members' fees) and other remuneration related matters.

Remuneration Committee consults the Chairman/CEO about proposals relating to remuneration of other executive directors and have access to professional advice.

The emoluments of Directors, including basic salary and performance bonus, are based on each Director's individual skill and involvement in the Group's affairs, the Company's performance and profitability, remuneration benchmarking in the industry and prevailing market conditions. During the year, there was one Remuneration Committee meeting, at which its members reviewed the remuneration policy and made recommendations to the Board on proposed Directors' emoluments and fees (including fees for membership of particular Board Committees) after taking into account a benchmarking report prepared by PricewaterhouseCoopers and the Directors' remuneration and fees for previous years. The Remuneration Committee also approved the specific remuneration packages of all Executive Directors after taking into account the remuneration policy and structure, the benchmarking report referred to above and the contribution of, and work performed by, relevant Directors. These recommendations were endorsed by the Board and would be submitted to shareholders for approval at the Annual General Meeting. No individual Director has taken part in setting his or her own remuneration.

The Directors' remuneration for the year ended 31 December 2008 is set out in Note 11 to the Financial Statements.

The Company is proposing to adopt an Executive Share Option Scheme (ESOP) for which Directors can be granted options and a resolution regarding the adoption of ESOP will be proposed at the Annual General Meeting for shareholders' approval.

Retirement benefits schemes of the Group are set out in Note 46 to the Financial Statements.

Nomination Committee

The Nomination Committee of the Company was established in June 2008. It comprises five members, Dr. So Shu Fai as the Chairman, two Executive Directors, Mr. Lan Hong Tsung, David and Ms. Leong On Kei, Angela, and four Independent Non-executive Directors, Mr. Chau Tak Hay, Mr. Shek Lai Him, Abraham, Mr. Shum Hong Kuen, David and Mr. Tse Hau Yin.

The Nomination Committee is accountable to the Board and its primary functions are to review the structure, size and composition of the Board and to make recommendations to the Board on appointment or re-appointment of Directors. The committee is mandated to nominate candidates to fill casual vacancies of the Board and to review the independence of Independent Non-executive Directors on an annual basis. In its nomination procedures, the Nomination Committee makes reference to criteria including reputation of candidates for integrity, accomplishment and experience, professional and educational background and commitment in respect of available time. The Nomination Committee meets at least once a year, with the attendance of representatives from senior management and the Company Secretary. The written terms of reference of the Nomination Committee conform to the code provision requirements of the Code and are available from the Company Secretary upon request from any shareholder of the Company.

At its meeting on 5 December 2008, the members of the Nomination Committee considered which of the Directors should retire by rotation in accordance with the Articles of Association of the Company, and it was agreed that Dr. Ho Hung Sun, Stanley, Mr. Rui José da Cunha, Mr. Shek Lai Him, Abraham and Mr. Tse Hau Yin would retire and offer themselves for re-election at the forthcoming Annual General Meeting. At this meeting, the Nomination Committee reviewed the structure, size and composition of the Board and assessed the independence of the Independent Non-executive Directors according to the criteria set out in Rule 3.13 of the Listing Rules.

Financial Reporting

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

Directors' Responsibilities on the Financial Statements

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

Auditors' Responsibility

The external Auditors of the Company are Deloitte Touche Tohmatsu and H.C. Watt & Company Limited, Certified Public Accountants (together, the "Joint Auditors"). A statement by the Joint Auditors about their reporting responsibilities is included in the Independent Joint Auditors' Report on the Company's Financial Statements on pages 53 to 54.

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

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

AUDITORS' REMUNERATION

During the year, the remuneration in respect of statutory audit services (including the interim audit) provided by the Joint Auditors was $12.3 million.

Relating to the initial public offering of the Company, Deloitte Touche Tohmatsu and H. C. Watt & Company Limited had charged $17.0 million and $4.6 million respectively for their work of accountants' report and tax advice.

During 2008, a unit of Deloitte Touche Tohmatsu, one of the Joint Auditors, also performed advisory services related to internal controls and anti-money laundering procedures, in connection with the initial public offering of the Company. For their services, HK$1.7 million was incurred.

Total fees for these non-auditing services amounted to $23.3 million for the year.

Internal Controls

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

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

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

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

During the year ended 31 December 2008, Internal Audit performed a review of the effectiveness of the internal control system of the Group's businesses in respect to business processes, practices and procedures, which covered all material controls, including financial, operational and compliance controls and risk management functions. Internal Audit was not aware of any significant defect/weakness on the internal control system that would have an adverse impact on the financial position or operations of the Group. Internal Audit submits its report to the Audit Committee quarterly with findings and recommendations on improvements. The Audit Committee is satisfied with the internal audit works performed and with the adequacy of resources and qualifications of staff within Internal Audit.

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

Shareholders Rights and Investor Relations

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

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

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the audit committee, nomination committee and remuneration committee, or in their absence, their duly appointed delegates are available to answer questions at the shareholders' meeting. Separate resolutions are proposed at shareholders' meeting on each substantial issue, including the election of individual Directors.

The Company recognises the importance of maintaining on-going and timely communications with shareholders and the investment community to enable them to form their own judgment and to provide constructive feedback. The Company holds press conferences, analysts' briefings and investor meetings/calls after the announcement of its financial results, and regularly participates in investment forums and briefings hosted by investment banks. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development. Enquiries from investors are dealt with in an informative and timely manner.

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

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

Independent Joint Auditors' Report

Deloitte.
德勤

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

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

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

TO THE SHAREHOLDERS OF SJM HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of SJM Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 55 to 110, which comprise the consolidated and the Company's balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

H.C. Watt & Company Limited
Certified Public Accountants
Hong Kong
Henry C.H. Chui
Practising Certificate No. P599

23 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$ (in millions)	2007 HK$ (in millions)
Gaming revenue	8	**27,992.4**	32,146.6
Special gaming tax, special levy and gaming premium		**(10,915.0)**	(12,497.6)
		17,077.4	19,649.0
Hotel, catering and related services income		**172.6**	80.5
Cost of sales and services		**(133.7)**	(45.0)
Other income		**131.2**	105.9
Marketing and promotional expenses		**(10,115.0)**	(12,433.3)
Operating and administrative expenses		**(6,307.2)**	(5,864.0)
Finance costs	9	**(158.2)**	(7.1)
Share of results of an associate		**(1.5)**	0.4
Share of profits of a jointly controlled entity		**6.6**	7.0
Profit before taxation	10	**672.2**	1,493.4
Taxation	12	**(16.7)**	(0.2)
Profit for the year		**655.5**	1,493.2
Attributable to			
— equity holders of the Company		**796.1**	1,533.5
— minority interests		**(140.6)**	(40.3)
		655.5	1,493.2
Dividends	13	**3,800.0**	—
Earnings per share — Basic	14	**18.4 cents**	40.9 cents

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$ (in millions)	2007 HK$ (in millions)
Non-current assets			
Property, plant and equipment	15	**9,535.9**	8,411.8
Land use rights	17	**886.5**	815.0
Intangible assets	18	**52.1**	64.7
Art work and diamonds	19	**281.7**	278.9
Interest in an associate	20	**64.6**	60.6
Interest in a jointly controlled entity	21	**62.3**	55.7
Available-for-sale investments in equity securities	22	**5.5**	—
Deposits made on acquisitions	23	**219.0**	221.6
Amount due from a fellow subsidiary	24	**365.4**	164.5
Pledged bank deposits	25	**145.6**	145.6
		11,618.6	10,218.4
Current assets			
Inventories		**43.4**	21.0
Trade and other receivables	26	**930.0**	799.6
Amount due from ultimate holding company	27	**4.6**	—
Amounts due from fellow subsidiaries	24	**—**	190.9
Amount due from an associate	28	**20.0**	20.0
Amount due from a jointly controlled entity	29	**14.3**	14.3
Amount due from an investee company	30	**160.7**	180.2
Investment in trading securities	31	**13.1**	57.2
Pledged bank deposits	25	**268.8**	0.3
Bank balances and cash		**5,847.1**	6,537.5
		7,302.0	7,821.0
Current liabilities			
Trade and other payables	32	**4,582.8**	5,661.8
Amount due to ultimate holding company		**—**	114.9
Amounts due to fellow subsidiaries		**—**	201.7
Financial guarantee obligations	34	**14.5**	14.5
Obligations under finance leases	35	**16.0**	7.0
Taxation		**38.1**	21.6
Current portion of long-term bank loans	36	**1,020.0**	100.0
Bank overdrafts		**—**	26.6
		5,671.4	6,148.1
Net current assets		**1,630.6**	1,672.9
Total assets less current liabilities		**13,249.2**	11,891.3

	Notes	**2008 HK$ (in millions)**	2007 HK$ (in millions)
Non-current liabilities			
Financial guarantee obligations	34	**13.3**	27.8
Obligations under finance leases	35	**365.4**	164.5
Long-term bank loans	36	**4,824.0**	4,808.0
Amount due to a minority shareholder of a subsidiary	37	**610.2**	330.9
		5,812.9	5,331.2
Net assets		**7,436.3**	6,560.1
Capital and reserves			
Share capital	38	**5,000.0**	291.3
Reserves		**2,287.1**	6,073.7
Equity attributable to equity holders of the Company		**7,287.1**	6,365.0
Minority interests		**149.2**	195.1
Total equity		**7,436.3**	6,560.1

The consolidated financial statements on pages 55 to 110 were approved and authorised for issue by the Board of Directors on 23 March 2009 and are signed on its behalf by:

DR. HO HUNG SUN, STANLEY
DIRECTOR

DR. SO SHU FAI
DIRECTOR

Balance Sheet

At 31 December 2008

	Notes	2008 HK$ (in millions)	2007 HK$ (in millions)
Non-current assets			
Property, plant and equipment	15	**0.4**	—
Investments in subsidiaries	16	**3,972.3**	—
		3,972.7	—
Current assets			
Deposits and prepayments		**2.3**	—
Amounts due from subsidiaries	33	**2,316.8**	—
Bank balances and cash		**674.1**	—
		2,993.2	—
Current liabilities			
Other payables and accruals		**6.5**	—
Net current assets		**2,986.7**	—
Total assets less current liabilities		**6,959.4**	—
Capital and reserves			
Share capital	38	**5,000.0**	—
Reserves	39	**1,959.4**	—
Total equity		**6,959.4**	—

DR. HO HUNG SUN, STANLEY
DIRECTOR

DR. SO SHU FAI
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital HK$ (in millions)	Share premium HK$ (in millions)	Legal reserve HK$ (in millions)	Retained profits* HK$ (in millions)	Attributable to equity holders of the Company HK$ (in millions)	Minority interests HK$ (in millions)	Total HK$ (in millions)
At 1 January 2007	194.2	—	49.5	4,587.8	4,831.5	4.7	4,836.2
Capitalisation issue of a subsidiary	97.1	—	—	(97.1)	—	—	—
Capital contribution arising from fair value adjustment on amount due to a minority shareholder of a subsidiary	—	—	—	—	—	230.6	230.6
Capital contribution by minority shareholder of a subsidiary	—	—	—	—	—	0.1	0.1
	97.1	—	—	(97.1)	—	230.7	230.7
Profit for the year	—	—	—	1,533.5	1,533.5	(40.3)	1,493.2
Transfers	—	—	24.3	(24.3)	—	—	—
At 31 December 2007	291.3	—	73.8	5,999.9	6,365.0	195.1	6,560.1
Arising on group reorganisation	**(21.3)**	**2,731.4**	**(73.8)**	**(2,636.3)**	**–**	**–**	**–**
Issue of shares	**1,250.0**	**2,600.0**	**–**	**–**	**3,850.0**	**–**	**3,850.0**
Capitalisation issue	**3,480.0**	**(3,480.0)**	**–**	**–**	**–**	**–**	**–**
Expenses incurred in connection with the issue of shares	**–**	**(224.0)**	**–**	**–**	**(224.0)**	**–**	**(224.0)**
Capital contribution arising from fair value adjustment on amount due to a minority shareholder of a subsidiary	**–**	**–**	**–**	**–**	**–**	**94.7**	**94.7**
Dividends paid	**–**	**–**	**–**	**(3,500.0)**	**(3,500.0)**	**–**	**(3,500.0)**
	4,708.7	**1,627.4**	**(73.8)**	**(6,136.3)**	**126.0**	**94.7**	**220.7**
Profit for the year	**–**	**–**	**–**	**796.1**	**796.1**	**(140.6)**	**655.5**
At 31 December 2008	**5,000.0**	**1,627.4**	**–**	**659.7**	**7,287.1**	**149.2**	**7,436.3**

* An amount of HK$2,636.3 million, which represents the retained profits of the subsidiaries acquired at the date of group reorganisation, is charged to the retained profits of the Group pursuant to the group reorganisation.

In accordance with the provisions of the Macau Commercial Code issued by the government of Macau Special Administrative Region, the People's Republic of China, certain subsidiaries of the Company are required to transfer from their annual net profit at a minimum rate of 10% or 25% to a legal reserve before the appropriation of profits to dividend until the legal reserve reaches 25% or 50% of the respective subsidiary's registered capital. The legal reserve is not distributable to shareholders.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$ (in millions)	2007 HK$ (in millions)
Operating activities		
Profit before taxation	**672.2**	1,493.4
Adjustments for:		
Interest income	**(68.6)**	(67.5)
Interest expenses	**130.2**	0.1
Imputed interest on amount due to a minority shareholder of a subsidiary	**28.0**	7.0
Dividend income	**(1.3)**	(3.8)
Income from amortisation of financial guarantee obligations	**(14.5)**	(15.5)
Share of results of an associate	**1.5**	(0.4)
Share of profits of a jointly controlled entity	**(6.6)**	(7.0)
Amortisation of intangible assets	**6.4**	4.7
Depreciation of property, plant and equipment	**769.0**	572.1
Loss on disposal of property, plant and equipment	**15.0**	0.4
Operating lease rentals in respect of land use rights	**11.3**	10.6
Intangible assets written off	**6.2**	—
Gain on partial disposal of interest in a jointly controlled entity	**—**	(2.8)
Allowance for doubtful debts	**24.5**	—
Loss on fair value changes on investment in trading securities	**44.1**	—
Operating cash flows before movements in working capital	**1,617.4**	1,991.3
Increase in inventories	**(22.4)**	(21.0)
Increase in trade and other receivables	**(161.0)**	(234.6)
Decrease in trade and other payables	**(811.1)**	(456.4)
Cash from operations	**622.9**	1,279.3
Taxation paid	**(0.2)**	(198.8)
Net cash from operating activities	**622.7**	1,080.5
Investing activities		
Interest received	**69.0**	71.2
Dividend received from an associate	**—**	17.7
Dividend received from trading securities	**1.3**	3.8
Purchase of property, plant and equipment	**(1,978.1)**	(4,165.3)
Proceeds from disposal of property, plant and equipment	**6.2**	5.9
Deposits paid for acquisition of property, plant and equipment	**(74.1)**	(107.3)
Purchase of land use rights	**(110.5)**	(6.6)
Purchase of intangible assets	**—**	(46.8)
Purchase of art work and diamonds	**(2.8)**	(278.9)
Proceeds from partial disposal of interest in a jointly controlled entity	**—**	4.9
Net (advance to) repayment from ultimate holding company	**(4.6)**	477.4
Repayment from (advances to) fellow subsidiaries	**218.0**	(161.8)
Repayment from a joint venturer	**—**	0.7
Repayment from an investee company	**14.0**	39.7
(Increase) decrease in pledged bank deposits	**(268.5)**	57.0
Decrease in bank deposits	**—**	100.0
Net cash used in investing activities	**(2,130.1)**	(3,988.4)

	2008 HK$ (in millions)	2007 HK$ (in millions)
Financing activities		
Interest paid	**(235.4)**	(87.8)
Dividends paid	**(3,500.0)**	—
Proceeds from issue of shares	**3,850.0**	—
Expenses incurred in connection with the issue of shares	**(224.0)**	—
Repayment to ultimate holding company	**(114.9)**	—
Repayment to fellow subsidiaries	**(201.7)**	—
Repayment of obligations under finance leases	**(12.4)**	—
Bank loans raised	**1,036.0**	6,408.0
Repayment of bank loans	**(100.0)**	(1,500.0)
Borrowings from a minority shareholder of a subsidiary	**346.0**	376.0
Capital contribution by minority shareholder of a subsidiary	**—**	0.1
Net cash from financing activities	**843.6**	5,196.3
Net (decrease) increase in cash and cash equivalents	**(663.8)**	2,288.4
Cash and cash equivalents at 1 January	**6,510.9**	4,222.5
Cash and cash equivalents at 31 December	**5,847.1**	6,510.9
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**5,847.1**	6,537.5
Bank overdrafts	**—**	(26.6)
	5,847.1	6,510.9

1. General and basis of preparation of financial statements

The Company is a public limited company incorporated in Hong Kong and acts as an investment holding company. Its ultimate holding company is Sociedade de Turismo e Diversões de Macau, S.A. ("STDM"), a company established in Macau Special Administrative Region, the People's Republic of China ("MSAR"). The address of the registered office and principal place of business of the Company is Unit 14–Unit 16, 15th Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the holding company of the Group on 17 January 2008. Details of the Group Reorganisation are more fully explained in the paragraph headed "Reorganisation" in the section headed "History and Reorganisation" of the prospectus of the Company dated 26 June 2008 (the "Prospectus"). The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting. The consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the years ended 31 December 2007 and 31 December 2008 have been prepared on the basis as if the current group structure had been in existence throughout the periods. The consolidated balance sheet of the Group as at 31 December 2007 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

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

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRS"s)

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - Int 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) - Int 12	Service concession arrangements
HK(IFRIC) - Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRS"s) (continued)

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[2]
HKFRS 8	Operating segments[2]
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives[7]
HK(IFRIC) - INT 13	Customer loyalty programmes[4]
HK(IFRIC) - INT 15	Agreements for the construction of real estate[2]
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation[5]
HK(IFRIC) - INT 17	Distribution of non-cash assets to owners[3]
HK(IFRIC) - INT 18	Transfer of assets from customers[6]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

[2] Effective for annual periods beginning on or after 1 January 2009.

[3] Effective for annual periods beginning on or after 1 July 2009.

[4] Effective for annual periods beginning on or after 1 July 2008.

[5] Effective for annual periods beginning on or after 1 October 2008.

[6] Effective for transfers on or after 1 July 2009.

[7] Effective for annual periods ending on or after 30 June 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Significant accounting policies

The consolidated financial statements have been prepared under the historical cost basis except for an amount due to a minority shareholder of a subsidiary which is adjusted to its fair value at initial recognition and for certain financial instruments which are measured at fair values. The consolidated financial statements have also been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

Common control combinations

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

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

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

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous balance sheet date or when they first come under common control, which is the shorter.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at deemed cost less any identified impairment loss. The deemed cost represents the carrying amounts of consolidated net assets of the subsidiaries at the date on which they were transferred to the Company at the time of the Group Reorganisation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

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

Interests in joint ventures

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entities recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

3. Significant accounting policies (continued)

Revenue recognition

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

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

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

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment loss.

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

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

For the land and building in MSAR, where the cost of land use right cannot be reliably separated from the cost of land and building, the cost of land and building is depreciated and amortised on a straight line basis over the remaining terms of the gaming concession.

The cost of other buildings in MSAR is depreciated over 25 years or 40 years using the straight line method.

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

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

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

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

Land use rights

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

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

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

Intangible assets

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

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

Art work and diamonds

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

Art work 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 income statement in the period in which the item is derecognised.

Inventories

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

3. Significant accounting policies (continued)

Financial instruments

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

Financial assets

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments, other than those financial assets designated as at fair value through profit and loss, of which interest income is excluded in net gains or losses.

Loans and receivables

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

Financial assets at fair value through profit or loss

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (Continued)

Available-for-sale financial assets

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities and equity

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to ultimate holding company/fellow subsidiaries/a minority shareholder of a subsidiary and bank loans are subsequently measured at amortised cost using the effective interest method.

Equity instruments

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

Financial guarantee contracts

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

Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment loss on tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement 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 balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

3. Significant accounting policies (continued)

Foreign currencies (continued)

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.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated from the respective functional currency of the group entities into Hong Kong dollars at the rate of exchange prevailing at the balance sheet date, and their income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used.

Leases

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

The Group as lessor

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

The Group as lessee

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

Rentals payable under operating leases are charged to profit and loss on a straight line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

4. Key sources of estimation

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

Estimated impairment of interest in a jointly controlled entity

In determining whether there is an impairment loss, the Group takes into consideration the estimation of future cash flows to be generated by the jointly controlled entity. The amount of the impairment loss is measured as the difference between the carrying amount of the interest in jointly controlled entity and the share of the present value of estimated future cash flows expected to be generated by the jointly controlled entity. As at 31 December 2008, the interest in a jointly controlled entity is HK$62.3 million (2007: HK$55.7 million), while included in the cost of investment is goodwill of HK$34.3 million at 31 December 2008 (2007: HK$34.3 million). Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. Capital risk management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of bank loans, and equity attributable to equity holders 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, new share issues as well as raising bank borrowings.

6. Financial instruments

(a) Financial risk management objectives

The Group

The financial instruments are fundamental to the Group's daily operations. The risks associated with the 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.

6. Financial instruments (continued)

(b) Categories of financial instruments

	The Group		The Company	
	2008 HK$ (in millions)	2007 HK$ (in millions)	**2008 HK$ (in millions)**	2007 HK$ (in millions)
Financial assets				
Loans and receivables (including cash and cash equivalents)	**7,694.6**	7,973.2	**2,990.9**	—
Financial assets at fair value through profit or loss	**13.1**	57.2	**—**	—
Available-for-sale financial assets	**5.5**	—	**—**	—
	7,713.2	8,030.4	**2,990.9**	—
Financial liabilities				
Amortised cost	**10,184.8**	10,331.1	**6.5**	—
Obligations under finance leases	**381.4**	171.5	**—**	—
Financial guarantee obligations	**27.8**	42.3	**—**	—
	10,594.0	10,544.9	**6.5**	—

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

(c) Credit risk management

The Group

As at the balance sheet date, 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 consolidated balance sheets; and

- the amount of financial guarantee obligations and contingent liabilities disclosed in note 34 and 45 respectively.

6. Financial instruments (continued)

(c) Credit risk management (continued)

The Group has concentration of credit risk of 82% (2007: 55%) on the advances and receivables from the Group's five largest gaming promotors. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual advances and receivables from gaming promoters at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group also considers the relevant commissions accrued at the balance sheet date to the relevant gaming promoters, the continuous profitable business relationship with and the potential commissions payable to the relevant gaming promoters subsequent to the balance sheet date and the financial background of the relevant gaming promoters to ascertain the recoverability of the advances to and receivables from gaming promoters. As a result, the directors of the Company consider that the Group's exposure to credit risk on these advances and receivables is significantly reduced.

In addition, the management has considered the strong financial background and good creditability of the fellow subsidiary and the investee company, and consider that there is no significant credit risk on these receivables from related companies.

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

(d) Interest rate risk management

The Group

The Group is exposed to cashflow interest rate risk in relation to its bank balances and bank loans with variable-rate. The Group is also exposed to fair value interest rate risk in relation to its fixed-rate pledged bank deposits, amount due from an investee and amount due to a minority shareholder of a subsidiary. 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 sensitivity analyses below have been determined based on the exposure to interest rates for bank loans and bank balances at the respective relevant balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank loans and bank balances that have floating rates.

6. Financial instruments (continued)

(d) Interest rate risk management (continued)

If interest rates on bank loans and bank balances had been 100 basis points higher and all other variables were held constant, the potential effect on profit for the year (net of interest expenses capitalised in construction in progress) is as follows, an opposite impact with same magnitude would be resulted if the interest rate had been 100 basis points lower:

	The Group	
	2008	2007
	HK$	HK$
	(in millions)	(in millions)
Increase in profit for the year	**34.0**	14.2

(e) Price risk management

The Group

The Group is exposed to equity price risk on the investment in listed equity securities operating in the entertainment and hotel industry sector and quoted on the Stock Exchange. The Group currently does not have a policy to hedge such risk. However, the management monitors market price exposure and will consider hedging significant market price exposure should the need arise.

The sensitivity analyses below have been determined based on the exposure to equity price risk on the investment in trading securities at the respective relevant balance sheet date. If the market bid price on the investment in trading securities had been 10% higher/lower the potential effect on profit for the period is as follows:

	The Group	
	2008	2007
	HK$	HK$
	(in millions)	(in millions)
Change in profit for the year	**1.3**	5.7

(f) Liquidity risk management

The Group

The directors of the Company consider that the Group's holding of bank balances and cash, bank deposits, together with net cash flow from operating activities and committed credit facilities, are expected to provide adequate sources of funding to enable the Group to meet in full its financial obligations due for the foreseeable future and manage its liquidity position. In addition, the management of the Group expects to fund the remaining estimated construction costs of its development projects in MSAR through a proper balance between internal generated funds and credit facilities secured by the projects' assets. Details of the capital risk management are discussed in note 5.

6. Financial instruments (continued)

(f) Liquidity risk management (continued)

The following table details the Group's expected maturity of the major financial liabilities that are exposed to liquidity risk.

	Weighted average effective interest rate %	On demand HK$ (in millions)	Not more than 3 months HK$ (in millions)	Over 3 months but not more than 6 months HK$ (in millions)	Over 6 months but not more than 1 year HK$ (in millions)	Over 1 year HK$ (in millions)	Total undiscounted cash flow HK$ (in millions)	Carrying amount HK$ (in millions)
THE GROUP								
At 31 December 2008								
Trade payables		—	784.8	43.5	33.9	—	862.2	862.2
Chips liabilities		1,561.5	—	—	—	—	1,561.5	1,561.5
Other payables		—	989.2	203.9	113.8	—	1,306.9	1,306.9
Amount due to a minority shareholder of a subsidiary	5.62%	—	—	—	—	900.5	900.5	610.2
Obligations under finance leases	6.04%	—	6.6	10.0	19.9	503.3	539.8	381.4
Bank loans	3.76%	—	303.1	295.4	594.3	5,143.0	6,335.8	5,844.0
		1,561.5	2,083.7	552.8	761.9	6,546.8	11,506.7	10,566.2
At 31 December 2007								
Trade payables	—	—	882.8	26.1	3.8	—	912.7	912.7
Chips liabilities	—	2,206.6	—	—	—	—	2,206.6	2,206.6
Other payables	—	—	1,138.8	70.4	157.7	262.8	1,629.7	1,629.7
Amount due to ultimate holding company	—	114.9	—	—	—	—	114.9	114.9
Amounts due to fellow subsidiaries	—	201.7	—	—	—	—	201.7	201.7
Amount due to a minority shareholder of a subsidiary	6.48%	—	—	—	—	554.5	554.5	330.9
Obligations under finance leases	6.18%	—	4.3	4.3	8.7	233.6	250.9	171.5
Bank loans and overdrafts	6.78%	26.6	65.1	65.5	230.2	5,389.1	5,776.5	4,934.6
		2,549.8	2,091.0	166.3	400.4	6,440.0	11,647.5	10,502.6
THE COMPANY								
At 31 December 2008								
Trade and other payables	—	—	5.5	1.0	—	—	6.5	6.5

6. Financial instruments (continued)

(g) Fair value of financial instruments

The Group and the Company

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in these financial statements approximate their fair values at the respective balance sheet dates.

7. Business and geographical segments

Business segments

For management purposes, the Group is currently organised into two divisions — gaming operations, and hotel and catering operations. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Gaming operations — operation of casinos and related facilities.
Hotel and catering operations — operation of hotel, catering and related services.

Segment information about these businesses is presented below:

2008

	Gaming operations HK$ (in millions)	Hotel and catering operations HK$ (in millions)	Eliminations HK$ (in millions)	Total HK$ (in millions)
REVENUE				
From external	27,992.4	172.6	—	28,165.0
Inter-segment sales	—	58.0	(58.0)	—
Total	27,992.4	230.6	(58.0)	28,165.0
RESULTS				
Segment results	1,148.0	(273.8)	—	874.2
Unallocated corporate expenses				(4.8)
Loss on fair value changes on investment in trading securities				(44.1)
Share of losses of an associate				(1.5)
Share of profits of a jointly controlled entity				6.6
Finance costs				(158.2)
Profit before taxation				672.2
Taxation				(16.7)
Profit for the year				655.5

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

BUSINESS SEGMENTS (CONTINUED)

	Gaming operations HK$ (in millions)	Hotel and catering operations HK$ (in millions)	Total HK$ (in millions)
ASSETS			
Segment assets	9,533.8	7,615.6	17,149.4
Interest in an associate			64.6
Interest in a jointly controlled entity			62.3
Unallocated corporate assets			1,644.3
Total assets			18,920.6
LIABILITIES			
Segment liabilities	4,067.5	520.4	4,587.9
Bank loans	2,641.2	3,202.8	5,844.0
Other unallocated corporate liabilities			1,052.4
Total liabilities			11,484.3

Other information

	Gaming operations HK$ (in millions)	Hotel and catering operations HK$ (in millions)	Unallocated HK$ (in millions)	Total HK$ (in millions)
Capital additions	260.6	1,763.7	0.5	2,024.8
Depreciation and amortisation	622.1	163.0	1.6	786.7
Loss on disposal of property, plant and equipment	15.0	—	—	15.0
Intangible assets written off	—	6.2	—	6.2
Loss on fair value changes on investment in trading securities	—	—	44.1	44.1

In 2007, the Group's operation was regarded as a single segment, being the gaming operations.

7. Business and geographical segments (continued)

Geographical segments

Analysis of the Group's turnover and results and the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical area in which the assets are located has not been presented as the Group's operations and assets are situated in MSAR in which its revenue was derived principally therefrom. Accordingly, no geographical segments are presented.

8. Gaming revenue

	2008 HK$ (in millions)	2007 HK$ (in millions)
Gaming revenue from		
— VIP gaming operations	**15,970.0**	20,613.6
— mass market table gaming operations	**11,063.7**	10,676.4
— slot machine operations	**957.0**	854.7
— others	**1.7**	1.9
	27,992.4	32,146.6

9. Finance costs

	2008 HK$ (in millions)	2007 HK$ (in millions)
Interest on		
— bank borrowings wholly repayable within five years	**(225.3)**	(87.7)
— finance leases	**(18.0)**	—
Less: Amount capitalised in construction in progress	**113.1**	87.6
Imputed interest on amount due to a minority shareholder of a subsidiary	**(28.0)**	(7.0)
	(158.2)	(7.1)

10. Profit before taxation

	2008 HK$ (in millions)	2007 HK$ (in millions)
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 11)	**44.6**	39.0
Other staff's retirement benefits scheme contributions	**63.2**	61.1
Less: Forfeited contributions	**(19.4)**	(11.2)
	43.8	49.9
Other staff costs	**3,288.8**	2,966.4
	3,377.2	3,055.3
Allowance for doubtful debts	**24.5**	—
Amortisation of intangible assets (included in operating and administrative expenses)	**6.4**	4.7
Auditors' remuneration	**12.3**	13.4
Depreciation of property, plant and equipment	**769.0**	572.1
Intangible assets written off	**6.2**	—
Loss on disposal of property, plant and equipment	**15.0**	0.4
Loss on fair value changes on investment in trading securities	**44.1**	—
Operating lease rentals in respect of		
— land use rights	**11.3**	10.6
— rented premises	**374.9**	374.1
— slot machines under		
— contingent rentals	**4.4**	57.0
— fixed rentals	**0.1**	0.2
and after crediting:		
Dividend income from trading securities	**1.3**	3.8
Gain on partial disposal of interest in a jointly controlled entity	**—**	2.8
Income from amortisation of financial guarantee obligations	**14.5**	15.5
Interest income from		
— a fellow subsidiary	**18.0**	—
— bank deposits	**50.6**	62.5
— loan to an investee company	**—**	4.9
— ultimate holding company	**—**	0.1

11. Directors' and employees' emoluments

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

	2008 Fees HK$ (in millions)	2008 Salaries and other benefits HK$ (in millions)	2008 Total HK$ (in millions)	2007 Fees HK$ (in millions)	2007 Salaries and other benefits HK$ (in millions)	2007 Total HK$ (in millions)
Executive directors:						
Dr. Ho Hung Sun, Stanley ("Dr. Ho")	**24.3**	**—**	**24.3**	23.3	—	23.3
Dr. So Shu Fai	**4.3**	**—**	**4.3**	3.5	—	3.5
Mr. Ng Chi Sing	**3.8**	**0.9**	**4.7**	3.5	0.9	4.4
Mr. Rui José da Cunha	**1.4**	**—**	**1.4**	1.4	—	1.4
Ms. Leong On Kei, Angela	**1.7**	**0.4**	**2.1**	—	0.4	0.4
Mr. Shum Hong Kuen, David	**0.4**	**—**	**0.4**	—	—	—
Non-executive director:						
Dato' Dr. Cheng Yu Tung	**6.0**	**—**	**6.0**	5.8	—	5.8
Independent non-executive directors:						
Mr. Tse Hau Yin	**0.3**	**0.5**	**0.8**	—	0.2	0.2
Mr. Shek Lai Him, Abraham	**0.2**	**—**	**0.2**	—	—	—
Mr. Chau Tak Hay	**0.2**	**—**	**0.2**	—	—	—
Mr. Lan Hong Tsung, David	**0.2**	**—**	**0.2**	—	—	—
	42.8	**1.8**	**44.6**	37.5	1.5	39.0

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

	2008 HK$ (in million)	2007 HK$ (in million)
Employee		
— salaries and allowances	**8.6**	7.4

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

12. TAXATION

The charge represents current year taxation detailed below:

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

In addition, pursuant to the approval letter dated 2 December 2008 issued by the Finance Services Bureau ("FSB") of the MSAR government, SJM's shareholders were obligated to pay a tax of MOP18.0 million (equivalent to HK$17.5 million) (the "Special Tax") for each of the years 2007 to 2011. During the year, the Company, as a shareholder of SJM after the Group Reorganisation, was obligated to pay MOP17.2 million (equivalent to HK$16.7 million).

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

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

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

	2008 HK$ (in millions)	**%**	2007 HK$ (in millions)	%
Profit before taxation	**672.2**		1,493.4	
Tax at the applicable income tax rate	**(80.7)**	**(12.0)**	(179.2)	(12.0)
Effect of tax exemption granted to SJM	**161.7**	**24.1**	214.9	14.4
Effect of share of results of an associate and a jointly controlled entity	**0.6**	**0.1**	0.8	—
Effect of income that is not taxable in determining taxable profits	**3.0**	**0.4**	3.1	0.2
Effect of expenses that are not deductible in determining taxable profits	**(26.5)**	**(3.9)**	(22.0)	(1.4)
Tax loss for the year not recognised	**(57.5)**	**(8.6)**	(17.8)	(1.2)
Utilisation of tax losses previously not recognised	**0.3**	**—**	—	—
Special tax	**(16.7)**	**(2.5)**	—	—
Others	**(0.9)**	**(0.1)**	—	—
Tax charge and effective tax rate for the year	**(16.7)**	**(2.5)**	(0.2)	—

Included in current liabilities at 31 December 2008 was an amount of HK$21.6 million (2007: HK$21.6 million) for CT provision made in previous year.

13. Dividends

	2008 HK$ (in millions)	2007 HK$ (in millions)
Dividends paid by SJM to its former shareholders prior to the Group Reorganisation	**3,500.0**	—
Final dividend of HK6.0 cents per share proposed	**300.0**	—
	3,800.0	—

The final dividend of HK6.0 cents per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting. It is calculated on the basis of 5,000,000,000 shares in issue at the date of this report.

14. Earnings per share

The calculation of the basic earnings per share for the year is based on the consolidated profit attributable to equity holders of the Company and on the weighted average number of 4,327,185,792 (2007: 3,750,000,000) shares in issue during the year on the assumption that the Group Reorganisation and the capitalisation issue as detailed in note 38 have been effective on 1 January 2007.

No diluted earnings per share is presented as there were no potential dilutive shares during the year.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$ (in millions)	Chips HK$ (in millions)	Furniture, fixtures and equipment HK$ (in millions)	Gaming equipment HK$ (in millions)	Leasehold improvements HK$ (in millions)	Motor vehicles HK$ (in millions)	Vessel HK$ (in millions)	Construction in progress HK$ (in millions)	Total HK$ (in millions)
THE GROUP									
COST									
At 1 January 2007	30.1	298.3	575.0	251.1	379.0	6.1	13.7	3,752.6	5,305.9
Additions	52.2	18.0	244.3	192.0	179.3	0.4	—	3,609.0	4,295.2
Disposals	—	—	(9.9)	—	—	—	—	—	(9.9)
Transfers	1,088.5	—	1,206.0	—	6.1	—	—	(2,300.6)	—
At 31 December 2007	1,170.8	316.3	2,015.4	443.1	564.4	6.5	13.7	5,061.0	9,591.2
Additions	—	9.9	166.1	87.9	44.1	2.6	—	1,603.7	1,914.3
Disposals	—	—	(22.5)	—	(26.1)	—	—	—	(48.6)
Transfers	2,884.5	—	1,483.5	—	1,789.5	—	—	(6,157.5)	—
At 31 December 2008	**4,055.3**	**326.2**	**3,642.5**	**531.0**	**2,371.9**	**9.1**	**13.7**	**507.2**	**11,456.9**
DEPRECIATION									
At 1 January 2007	1.3	144.6	170.5	87.7	200.1	1.2	5.5	—	610.9
Provided for the year	69.9	73.9	219.1	83.5	123.1	1.2	1.4	—	572.1
Eliminated on disposals	—	—	(3.6)	—	—	—	—	—	(3.6)
At 31 December 2007	71.2	218.5	386.0	171.2	323.2	2.4	6.9	—	1,179.4
Provided for the year	83.7	61.9	319.3	114.2	187.0	1.5	1.4	—	769.0
Eliminated on disposals	—	—	(10.2)	—	(17.2)	—	—	—	(27.4)
At 31 December 2008	**154.9**	**280.4**	**695.1**	**285.4**	**493.0**	**3.9**	**8.3**	**—**	**1,921.0**
NET BOOK VALUES									
At 31 December 2008	**3,900.4**	**45.8**	**2,947.4**	**245.6**	**1,878.9**	**5.2**	**5.4**	**507.2**	**9,535.9**
At 31 December 2007	1,099.6	97.8	1,629.4	271.9	241.2	4.1	6.8	5,061.0	8,411.8

At the balance sheet date, the Group's buildings in MSAR were erected on land which is held under medium-term land use right.

Included in construction in progress at 31 December 2008 was net interest capitalised of HK$4.9 million (2007: HK$87.6 million).

Also, at 31 December 2008, pursuant to the gaming concession held by the Group, certain of the Group's property, plant and equipment with an aggregate net book value of HK$2,752.4 million (2007: HK$2,665.2 million) for the Group's gaming business have to be returned to the MSAR government upon completion of the term of the concession in 2020.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture, fixtures and equipment HK$ (in millions)	Leasehold improvements HK$ (in millions)	Total HK$ (in millions)
THE COMPANY			
COST			
Additions during the year and balance at 31 December 2008	**0.3**	**0.2**	**0.5**
DEPRECIATION			
Provided for the year and balance at 31 December 2008	**0.1**	**–**	**0.1**
NET BOOK VALUES			
At 31 December 2008	**0.2**	**0.2**	**0.4**
At 31 December 2007	—	—	—

16. INVESTMENTS IN SUBSIDIARIES

	The Company 2008 HK$ (in millions)	2007 HK$ (in millions)
Unlisted shares, at cost	**3,972.3**	—

Details of the Company's principal subsidiaries at 31 December 2008 are set out in note 50.

17. LAND USE RIGHTS

	2008 HK$ (in millions)	2007 HK$ (in millions)
THE GROUP		
CARRYING VALUE		
At 1 January	**815.0**	842.2
Additions during the year	**110.5**	6.6
Released and capitalised to construction in progress during the year	**(27.7)**	(23.2)
Released to income statement during the year	**(11.3)**	(10.6)
At 31 December	**886.5**	815.0

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

18. INTANGIBLE ASSETS

	Casino game license HK$ (in millions)	Restaurant license HK$ (in millions)	Total HK$ (in millions)
THE GROUP			
COST			
At 1 January 2007	—	—	—
Additions during the year	63.2	6.2	69.4
At 31 December 2007	63.2	6.2	69.4
Written-off during the year	—	(6.2)	(6.2)
At 31 December 2008	**63.2**	**—**	**63.2**
AMORTISATION			
At 1 January 2007	—	—	—
Amortised for the year	4.7	—	4.7
At 31 December 2007	4.7	—	4.7
Amortised for the year	6.4	—	6.4
At 31 December 2008	**11.1**	**—**	**11.1**
CARRYING VALUES			
At 31 December 2008	**52.1**	**—**	**52.1**
At 31 December 2007	58.5	6.2	64.7

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

During the year, the restaurant license was terminated and was written off accordingly.

19. Art work and diamonds

	HK$ (in millions)
THE GROUP	
COST AND CARRYING VALUE	
At 1 January 2007	—
Additions during the year	278.9
At 31 December 2007	278.9
Additions during the year	2.8
At 31 December 2008	**281.7**

The amount represents the aggregate cost of art work and diamonds held by the Group. In the opinion of the directors, after referencing to professional valuation reports, the residual value of the art work and diamonds approximates its carrying amount at the balance sheet date. Therefore, no impairment is provided for the years ended 31 December 2008 and 31 December 2007.

20. Interest in an associate

	The Group	
	2008 HK$ (in millions)	2007 HK$ (in millions)
Cost of investment	**25.0**	25.0
Discount on acquisition	**6.8**	6.8
Share of post-acquisition profits	**32.8**	28.8
	64.6	60.6

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

20. Interest in an associate (continued)

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

	2008 HK$ (in millions)	2007 HK$ (in millions)
Total assets	**465.7**	626.3
Total liabilities	**(333.9)**	(502.7)
Net assets	**131.8**	123.6
Group's share of associate's net assets	**64.6**	60.6

	2008 HK$ (in millions)	2007 HK$ (in millions)
Revenue	**491.4**	2,164.9
Profit for the year	**8.1**	41.1
Group's share of results of an associate for the year*	**(1.5)**	0.4

* The amounts have been adjusted for the unrealised profits of HK$5.5 million for the year ended 31 December 2008 (2007: HK$19.7 million).

21. Interest in a jointly controlled entity

	The Group	
	2008 HK$ (in millions)	2007 HK$ (in millions)
Cost of investment	**39.7**	39.7
Share of post-acquisition profits	**22.6**	16.0
	62.3	55.7

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

Chong Fung is regarded as a jointly controlled entity as each of the two joint venturers possesses 50% of the voting power of the entity.

21. Interest in a jointly controlled entity (continued)

At the balance sheet date, included in the cost of investment is goodwill of HK$34.3 million arising on acquisition of the jointly controlled entity.

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

	2008 HK$ (in millions)	2007 HK$ (in millions)
Total assets	**98.0**	81.4
Total liabilities	**(40.8)**	(37.8)
Net assets	**57.2**	43.6
Group's share of jointly controlled entity's net assets	**28.0**	21.4

	2008 HK$ (in millions)	2007 HK$ (in millions)
Revenue	**18.0**	18.9
Profit for the year	**13.5**	14.0
Group's share of profit of a jointly controlled entity for the year	**6.6**	7.0

22. Available-for-sale investments in equity securities

The group

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

23. Deposits made on acquisitions

	The Group 2008 HK$ (in millions)	2007 HK$ (in millions)
Deposits made on acquisitions of		
— land use rights	**65.8**	65.8
— property, plant and equipment	**153.2**	155.8
	219.0	221.6

24. Amounts due from fellow subsidiaries

The group

The non-current balance is related to lease receivables (see note 35) that carry interest at 5.86% and 6.18% (2007: 6.18%) per annum (the "Lease Receivables"). The balance under current assets at 31 December 2007 was unsecured and interest-free.

25. Pledged bank deposits

The group

At 31 December 2008, deposits amounting to HK$145.6 million (2007: HK$145.6 million) have been pledged to secure the bank facilities granted to a subsidiary of the Company. The banking facilities represent a guarantee amounting to HK$485.4 million for the period from 4 January 2006 to 31 March 2007 and reduced to HK$291.3 million for the period from 1 April 2007 to 10 February 2008. The amount further reduced to HK$145.6 million from 11 February 2008 to the earlier of 180 days after the expiry of the gaming concession contract or 31 March 2020, which is in favour of the MSAR government against the legal and contractual financial obligations of SJM under the gaming concession contract. As to the nature of the facility, the pledged bank deposit is classified as non-current assets.

In addition, at 31 December 2008, deposit amounting to HK$0.3 million (2007: HK$0.3 million), has been pledged to secure a bank guarantee amounting to HK$0.3 million in favour of the MSAR government to guarantee the financial ability of a wholly-owned subsidiary to send back their imported labour to their respective home countries and is therefore classified as current assets.

As at 31 December 2008, the remaining deposits under current assets amounting to HK$268.5 million (2007: Nil) have been pledged in favour of the MSAR government for the payment of land premium of a subsidiary.

At 31 December 2008, the pledged bank deposits carry fixed interest rates at 0.26% to 3.94% (2007: 3.38%) per annum.

26. Trade and other receivables

	The Group 2008 HK$ (in millions)	2007 HK$ (in millions)
Advances to gaming promoters	**426.9**	376.4
Other receivables from gaming promoters	**215.5**	126.8
Prepayments	**61.9**	79.7
Others	**225.7**	216.7
	930.0	799.6

The following is the aged analysis of advances to gaming promoters at the balance sheet date:

	The Group 2008 HK$ (in millions)	2007 HK$ (in millions)
Age		
0 to 90 days	**107.1**	135.3
91 to 180 days	**102.7**	9.8
181 to 365 days	**120.6**	77.3
Over 365 days	**96.5**	154.0
	426.9	376.4

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

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

At the balance sheet date, except for the amount of HK$50.0 million which is secured by an irrevocable standby letter of credit in favour of SJM, the advances to gaming promoters and other receivables from gaming promoters are interest-free, unsecured and repayable on demand.

26. Trade and other receivables (continued)

Movement in the allowance for doubtful debts

	The Group 2008 HK$ (in millions)	2007 HK$ (in millions)
At 1 January 2007 and 31 December 2007	**—**	—
Allowance for doubtful debts	**24.5**	—
At 31 December 2008	**24.5**	—

Included in the allowance for doubtful debts are individually impaired receivables from gaming promoters with an aggregate balance of HK$24.5 million (2007: Nil) since the management considered the prolonged outstanding balances from individual gaming promoters were uncollectible.

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

Relationship of related companies	The Group 2008 HK$ (in millions)	2007 HK$ (in millions)
STDM group and its associates	**39.8**	85.7
An associate	**70.8**	55.5
Companies in which certain directors of the Company and/or their close family members have beneficial interests	**26.7**	54.6
Company in which a director of a subsidiary of the Company has a beneficial interest	**2.6**	12.3
	139.9	208.1

27. Amount due from ultimate holding company

The Group

The amount due from ultimate holding company arisen from the Chips Agreement as defined in note 48(a)(ii) is unsecured, interest-free and is expected to realise within twelve months.

28. Amount due from an associate

The Group

The amount is unsecured, interest-free and is repayable on demand.

29. Amount due from a jointly controlled entity

The group

The amount is unsecured, interest-free and is repayable on demand.

30. Amount due from an investee company

The group

The amount represents loan to the investee which is unsecured, interest-free and is repayable on demand. It was provided to the investee in proportion to the Group's shareholdings in the investee.

31. Investment in trading securities

The group

The investment in trading securities comprised equity shares listed on the Stock Exchange and were carried at market bid price at the balance sheet date.

32. Trade and other payables

	The Group	
	2008	2007
	HK$	HK$
	(in millions)	(in millions)
Trade payables	**862.2**	912.7
Special gaming tax payable	**844.2**	903.5
Chips liabilities	**1,561.5**	2,206.6
Payables for acquisition of property, plant and equipment	**30.2**	52.7
Payables for purchase of intangible assets	**—**	22.6
Construction payables	**357.3**	611.7
Accrued staff costs	**184.8**	390.8
Rentals payables	**57.0**	49.4
Payables to gaming promoters	**—**	13.8
Withholding tax payable for gaming promoters	**3.5**	5.1
Withholding tax payable on employees' professional tax	**4.5**	4.2
Other payables	**677.6**	488.7
	4,582.8	5,661.8

32. Trade and other payables (continued)

The following is the aged analysis of trade payables at the balance sheet date:

	The Group	
	2008	2007
	HK$	HK$
	(in millions)	(in millions)
Age		
0 to 90 days	**704.9**	872.8
91 to 180 days	**64.8**	31.5
181 to 365 days	**92.5**	7.3
Over 365 days	**—**	1.1
	862.2	912.7

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

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

	The Group	
	2008	2007
	HK$	HK$
Relationship of related companies	**(in millions)**	(in millions)
STDM group and its associates	**223.6**	282.0
An associate	**172.6**	178.8
Companies in which certain directors of the Company and/or their close family members have beneficial interests	**190.0**	440.0
Company in which a director of a subsidiary of the Company has a beneficial interest	**3.1**	8.8
	589.3	909.6

33. Amounts due from subsidiaries

The Company

The amounts are unsecured, interest-free and are repayable on demand.

34. Financial guarantee obligations

The Group

At the balance sheet date, the financial guarantee obligations represent financial guarantee contract issued by the Group, which will be expired in the year 2010 with maximum guarantee amount of HK$179.8 million provided by the Group, to a related company in which Dr. Ho has a beneficial interest.

35. Obligations under finance leases

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
	(in millions)	(in millions)	**(in millions)**	(in millions)
Amounts payable under finance leases				
— within one year	**36.5**	17.3	**16.0**	7.0
— between one to two years	**39.8**	17.3	**18.5**	7.4
— between two to five years	**119.5**	51.9	**62.5**	25.2
— after five years	**344.0**	164.4	**284.4**	131.9
	539.8	250.9	**381.4**	171.5
Less: Future finance charges	**158.4**	79.4		
Present value of lease obligations	**381.4**	171.5		
Less: Amounts due for settlement within one year shown under current liabilities			**16.0**	7.0
Amounts due for settlement after one year			**365.4**	164.5

As at 31 December 2008, the Group has entered into certain lease agreements for a term of 10 years (the "Agreements") with a finance company together with a fellow subsidiary of the Group to lease certain aircrafts in MSAR in which the aircrafts were then immediately sub-leased to the fellow subsidiary. These Agreements have terms of renewal and purchase option clauses. Pursuant to the Agreements, the Group is entitled to recover any amounts and charges payable to the finance company under the Agreements from the fellow subsidiary. The amounts are denominated in United States Dollars and carry an effective interest rate of 5.86% and 6.18% per annum at 31 December 2008 (2007: 6.18% per annum). The Group's obligations under finance leases are secured by the leased aircrafts held by the fellow subsidiary and the 100% shareholding of Sky Reach Investments Limited ("Sky Reach") held by the Group.

At 31 December 2008, the relevant lease receivables from the fellow subsidiary for the Agreements which have equivalent repayment terms as the obligations under finance leases amounted to HK$381.4 million (2007: HK$171.5 million) out of which HK$365.4 million (2007: HK$164.5 million) is recorded as amount due from a fellow subsidiary in the non-current assets. The remaining amount of HK$16.0 million at 31 December 2008 (2007: HK$7.0 million) is included in trade and other receivables in current assets. HK$7.0 million originally classified as amounts due from fellow subsidiaries under current assets as at 31 December 2007 relating to these lease receivables was reclassified to trade and other receivables for consistent disclosure as at 31 December 2008.

36. Bank loans

	The Group 2008 HK$ (in millions)	2007 HK$ (in millions)
The syndicated secured bank loans are repayable:		
Within one year	**1,020.0**	100.0
Between one to two years	**1,040.0**	1,020.0
Between two to five years	**3,784.0**	3,788.0
	5,844.0	4,908.0
Less: Amount due within one year shown under current liabilities	**1,020.0**	100.0
Amount due after one year	**4,824.0**	4,808.0

At the balance sheet date, the Group's syndicated secured bank loans carried interest ranging from 1.4% to 2.1% per annum over 3-month Hong Kong Inter-Bank Offered Rate and are all denominated in Hong Kong dollars. The purpose of the loans is to finance certain construction projects in MSAR. At 31 December 2008, the loans are secured by certain of the Group's property, plant and equipment, and land use right with carrying values of HK$6,062.3 million (2007: HK$6,082.5 million) and HK$836.7 million (2007: HK$764.0 million) respectively. In addition, the bank loans are secured by the followings:

(i) an assignment of all receivables and income from hotel operation of Ponte 16 property;

(ii) an assignment of all receivables of Grand Lisboa - Property Investment Company Limited ("Grand Lisboa - Investment") and SJM (limited to the income after taxes, levies, commission and allowance to junkets derived from the Grand Lisboa casino);

(iii) floating charges over all assets (except immovable property) and legal charges over certain bank accounts of certain subsidiaries with an aggregate carrying value of HK$6,439.0 million (2007: HK$4,253.9 million); and

(iv) share pledges over the shares of certain subsidiaries.

37. Amount due to a minority shareholder of a subsidiary

The Group

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

At 31 December 2008, interest on the amount due to a minority shareholder of the subsidiary of HK$610.2 million (2007: HK$330.9 million) has been computed based on the principal amount of HK$900.5 million (2007: HK$554.5 million) at an original effective interest rate of approximately 5.62% (2007: 6.48%) per annum and a projection on the timing of realisation of surplus funds representing the cash available in the relevant subsidiary of the Group after estimated payments of all operating expenses and payables including but not limited to bank loans and third party loans which are due for repayments together with the accrued interests.

38. Share capital

	Authorised Number of shares	Authorised Amount HK$	Issued and fully paid Number of shares	Issued and fully paid Amount HK$
Ordinary shares of HK$1 each				
— at 1 January 2007 and 31 December 2007	10,000	10,000	1	1
— increase in authorised share capital	14,999,990,000	14,999,990,000	—	—
— issued pursuant to the Group Reorganisation	—	—	269,999,999	269,999,999
— capitalisation issue	—	—	3,480,000,000	3,480,000,000
— issue of shares	—	—	1,250,000,000	1,250,000,000
— at 31 December 2008	**15,000,000,000**	**15,000,000,000**	**5,000,000,000**	**5,000,000,000**

On 11 January 2008, the then sole shareholder of the Company resolved to increase the authorised share capital of the Company from HK$10,000 to HK$15,000,000,000 by the creation of an additional 14,999,990,000 shares.

On 17 January 2008, 269,999,999 shares of HK$1 each were issued in consideration for the acquisition of the entire issued Type A shares in the share capital of SJM.

According to the resolution of the then sole shareholder of the Company dated 11 January 2008, 3,480,000,000 ordinary shares of HK$1 each, totalling HK$3,480,000,000, was capitalised to the Group's share premium account.

On 16 July 2008, 1,250,000,000 shares of HK$1 each of the Company were issued at HK$3.08 per share by way of global offering.

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

The share capital at 31 December 2007 represented the aggregate issued capital of the Company, SJM Holdings (Nominee) Limited and SJM.

39. Reserves

	Share premium HK$ (in millions)	Retained profits HK$ (in millions)	Total HK$ (in millions)
THE COMPANY			
At 1 January 2007 and 31 December 2007	—	—	—
Arising on Group Reorganisation	2,731.4	—	2,731.4
Issue of shares	2,600.0	—	2,600.0
Capitalisation issue	(3,480.0)	—	(3,480.0)
Expenses incurred in connection with the issue of shares	(224.0)	—	(224.0)
Profit for the year	—	332.0	332.0
At 31 December 2008	**1,627.4**	**332.0**	**1,959.4**

40. Unrecognised deferred taxation

At 31 December 2008, the Group has unutilised tax losses of HK$624.8 million (2007: HK$148.3 million) available for offset against future profits. No deferred tax assets has been recognised in respect of these losses due to the unpredictability of future profit streams. These unrecognised tax losses will expire as follows:

	The Group	
	2008 HK$ (in millions)	2007 HK$ (in millions)
Tax losses expire in:		
2010	**145.5**	148.3
2011	**479.3**	—
	624.8	148.3

The Company has no significant unprovided deferred taxation for the year or at the balance sheet date.

41. Operating lease commitments

The group

At the balance sheet date, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group			
	Rented premises		Slot machines	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
	(in millions)	(in millions)	**(in millions)**	(in millions)
Within one year	**313.2**	312.4	**0.1**	0.2
In the second to fifth year inclusive	**1,174.2**	998.7	**0.4**	0.7
After five years	**1,280.3**	1,251.6	**0.1**	0.4
	2,767.7	2,562.7	**0.6**	1.3

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

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

The company

At the balance sheet date, the Company was committed to make future minimum lease payments of HK$0.4 million (2007: Nil) to a fellow subsidiary in respect of rented premises under non-cancellable operating leases which fall due within one year.

42. Capital commitments

	The Group 2008 HK$ (in millions)	2007 HK$ (in millions)
Capital expenditure in respect of property, plant and equipment		
— authorised but not contracted for	**566.1**	328.1
— contracted for but not provided in the financial statements	**835.4**	1,867.7

The Company has no significant capital commitments at the balance sheet date.

43. Other commitments

The group

In 2004, SJM entered into an agreement with a Portuguese school in Macau for the use of a piece of land currently occupied by the school. The consideration comprises the construction of a new school in Taipa Island in MSAR for an amount not exceeding HK$97.1 million and a donation of HK$184.5 million. At 31 December 2008, deposits of HK$65.5 million (2007: HK$65.5 million) were paid of which HK$46.1 million (2007: HK$46.1 million) was refundable pursuant to the relevant agreement.

44. Pledge of asset

The group

On 26 April 2005, SJM and SJM-Investment Limited have entered into a subordination agreement to subordinate the amount receivable from its subsidiary of HK$120 million to a bank to secure a term loan facility granted to a wholly-owned subsidiary of an investee company of a subsidiary to the extent of HK$120 million. The subordinate agreement is still effective as at the balance sheet date.

45. Contingent liabilities and guarantees

	The Group			
	2008		2007	
	Maximum guarantees given HK$ (in millions)	**Credit facilities utilised HK$ (in millions)**	Maximum guarantees given HK$ (in millions)	Credit facilities utilised HK$ (in millions)
Guarantees given to banks in respect of credit facilities granted to				
— an associate	**67.3**	**1.1**	67.3	2.2
— investee companies	**86.5**	**557.4**	86.5	673.3
— a related company in which a director of the Company, Dr. Ho, has a beneficial interest	**179.8**	**179.8**	269.7	269.7
	333.6	**738.3**	423.5	945.2

At the balance sheet date, the Group was a guarantor in respect of a deed entered into between a shareholder of Zhen Hwa and an independent third party for a construction project in MSAR. Pursuant to the deed, the Group has guaranteed the performance of Zhen Hwa under the deed and agreed to indemnify the third party, against all liabilities, losses, damages, costs and expenses suffered or incurred by the third party by reason of any act, failure, default or omission on the part of Zhen Hwa in performing and observing its obligations under and in connection with the warranty.

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

The Company has no significant contingent liabilities at the balance sheet date.

46. Retirement benefits schemes

The group

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

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

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

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

47. Major non-cash transaction

During the year, the Group entered into additional Agreements (as defined in note 35) with present value of minimum lease payments of HK$222.3 million (2007: HK$171.5 million).

48. Related party transactions

The group

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

(a) Related party transactions

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

Relationship of related companies	Nature of transactions	The Group 2008 HK$ (in millions)	2007 HK$ (in millions)
STDM group and its associates (as defined under Chapter 14A of the Listing Rules)	Hotel accommodation	**83.0**	129.3
	Hotel management and operation	**100.4**	126.2
	Entertainment and staff messing	**78.8**	79.9
	Dredging services	**43.7**	83.5
	Transportation	**346.1**	492.0
	Promotional and advertising services	**18.5**	17.0
	Maintenance services	**59.5**	67.4
	Property rentals	**73.1**	56.0
	Share of administration expenses	**47.4**	41.2
	Aircraft sublease income	**30.4**	—
Companies other than above in which STDM, certain directors of the Company including Dr. Ho, Dato' Dr. Cheng Yu Tung, Ms. Leong On Kei, Angela, Dr. So Shu Fai and/or their close family members including Mr. Ho Yau Lung, Lawrence, Ms. Ho Chiu Ha, Maisy, Ms. Ho Chiu Yee, Josephine and Ms. Ho Yuen Ki, Winnie, have beneficial interests	Entertainment	**23.4**	35.0
	Property rentals	**78.3**	63.4
	Purchase of property, plant and equipment	**33.3**	48.8
	Promotion card commission expenses	**25.4**	38.0
	Insurance expenses	**50.9**	45.4
	Construction costs paid	**823.1**	1,569.9
	Service fees in relation to the operation of a slot hall	**12.6**	12.0
	Hotel accommodation	**31.0**	145.6
	Promotion and advertising expenses	**41.6**	30.8
An associate	Construction costs paid	**427.5**	1,635.9
Company in which a director of a subsidiary of the Company, Mr. Lam Wah Ying, Eddie, has a beneficial interest	Printing and stationery expenses	**4.4**	6.2

48. Related party transactions (continued)

The Group (continued)

(a) Related party transactions (Continued)

(ii) In 2002, SJM was granted a concession to operate casinos in MSAR. For this purpose, STDM transferred its gaming assets to SJM. SJM has been borrowing casino chips from STDM for the purpose of its business operation since SJM, as a new concessionaire from 2002, does not have sufficient casino chips to meet its business needs. According to the gaming concession contract, SJM is permitted to use STDM's casino chips, both in treasury and those put in circulation by STDM prior to 1 April 2002 and should honour such casino chips. In order to regulate the borrowing and use of STDM chips, the Group entered into a chips agreement with STDM dated 18 June 2008 (the "Chips Agreement") regarding the honouring and borrowing of STDM chips. Under the Chips Agreement, the Group has agreed to honour the STDM chips in circulation upon their redemption by patrons or clients. In addition, STDM has agreed to reimburse the STDM chips presented by the Group to STDM, by paying to the Group the aggregate face value of chips so presented in cheque within the same quarter when such presentation takes place. During the year ended 31 December 2008, the amount received and receivable on reimbursement of STDM chips in circulation amounted to HK$368.1 million (2007: HK$31.0 million).

(iii) The Group entered into a products and services master agreement dated 18 June 2008 with STDM (the "Products and Services Master Agreement") for the provision of products and services. The type of products and services includes hotel accommodation, hotel management and operation, entertainment and staff messing, dredging services, transportation, promotional and advertising services, travel agency services and maintenance services. The Products and Services Master Agreement is for a term of three years, provided that the Group may at any time, by giving at least three months' prior written notice of termination to STDM, terminate the agreement earlier. The amount of transactions during the year was disclosed in note 48(a)(i) above.

(iv) The Group entered into a premises leasing master agreement dated 18 June 2008 with STDM (the "Premises Leasing Master Agreement") for the leasing of properties by STDM or the members of the STDM group to the Group. The term of each implementing lease will be for a term commencing on a date specified in the relevant implementing lease and ending on a date not later than 31 March 2020. The amount of transactions during the year was disclosed in note 48(a)(i) above.

(v) The Group entered into an agreement with STDM dated 18 June 2008 (the "Administrative Cost Sharing Agreement") whereby STDM and its associates have agreed to continue to share administrative services including, among others, general public relations work, promotional functions, arranging ticketing and hotel accommodations, transportation and the provision of storage services with the Group and the Group has agreed to pay for the shared services on a cost basis. The amount of administrative costs shared between the Group and the STDM group is calculated based on an estimate of (i) the actual time spent by each department for providing services to us and the STDM group respectively, recorded on time sheets during a trial period of three months and (ii) the floor area occupied, respectively, by the Group and the STDM group for storage services. The amount of transactions during the year was disclosed in note 48(a)(i) above.

48. Related party transactions (continued)

The group (continued)

(a) Related party transactions (Continued)

(vi) Regarding the aircraft lease arrangement disclosed in note 35, the Group received minimum lease payments of HK$30.4 million from the fellow subsidiary, and repaid the same amount of minimum lease payments to the finance company during the year ended 31 December 2008.

(b) Save as disclosed in note 36, in addition to the securities provided by the Group to the relevant bank, the syndicated secured bank loans are also secured by a minority shareholder of a subsidiary of the Group, the details of the securities are set out as follows:

(i) a corporate guarantee up to a maximum amount of HK$860 million;

(ii) an unconditional and irrevocable funding undertaking for the purpose of satisfying the construction costs of certain of the Ponte 16 property which include (i) the land premium and all other premiums and sums of money payable to the Governmental Agency of MSAR in respect of Ponte 16 property; (ii) all construction costs and all operating costs to be incurred; and (iii) all financial costs and expenses, including interest payable in respect of the syndicated secured bank loans facility;

(iii) an unconditional and irrevocable undertaking for the purpose of ensuring the completion of the construction of Ponte 16 property; and

(iv) a share pledge over all shares in Pier 16 - Property Development Limited.

(c) In October 2007, the Group was granted options ("Options") without specific consideration by STDM for the following six months to acquire certain MSAR properties upon listing of the Company's shares on the Stock Exchange for a consideration of HK$6,299 million, equivalent to the fair value determined by an independent valuer, Savills (Macau) Limited, as at various dates between June 2007 and November 2007. In April 2008, the Group exercised certain Options to purchase certain MSAR properties, namely, 15/16 of the building known as Hotel Lisboa and Nam Van Lake Lot 11A from STDM for an aggregate consideration of HK$4,655 million representing their fair values. Under the relevant option agreements, each of STDM and SJM is required to enter into a promissory sale and purchase agreement, and within 90 days thereafter, they will become mutually bound to execute a deed of sale and purchase and complete the transaction, unless further agreed that the deed be executed on a later date. As at 31 December 2008, STDM and SJM have not entered into any promissory sales and purchase agreements.

48. Related party transactions (continued)

The company

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

(i) penalties incurred by SJM for any non-criminal violations of relevant laws or regulations pertaining to anti-money laundering, where such violations occurred prior to the listing of the shares of the Company on the Stock Exchange; and

(ii) losses or contingency provisions incurred by SJM in connection with any judgement of any lawsuit, as set out in the paragraph headed "Litigation" in Appendix VII to the Prospectus, to which SJM is a party and which is pending at the time of listing of the shares of the Company on the Stock Exchange.

49. Post balance sheet events

On 20 March 2009, SJM, a subsidiary of the Company, and STDM executed Deeds of Settlement and Variation by which the terms of the Option (as defined in note 48(c)) for Nam Van Lake Lot 11A were cancelled and the terms of the Option for Hotel Lisboa were replaced with an agreement that the Hotel Lisboa building would be jointly redeveloped by STDM and SJM. No redevelopment agreement between SJM and STDM was entered into up to the date of these financial statements.

50. Principal subsidiaries

Details of the Company's principal subsidiaries at 31 December 2008 and 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ quota capital	Attributable proportion of nominal value of issued share capital/quota capital indirectly held by the Company	Principal activity
Brilliant Sky Investments Limited	British Virgin Islands/ MSAR	Share - US$1	100%	Investment holding
Grand Lisboa - Hotel Administration Company Limited	MSAR	Ordinary shares - MOP1,000,000	100%	Hotel operation
Grand Lisboa - Investment	MSAR	Ordinary shares - MOP1,000,000	100%	Property holding
Honour State International Limited	British Virgin Islands/ MSAR	Share - US$1	100%	Securities holding
Nam Van Lake View Investment Limited	MSAR	Quota capital - MOP1,000,000	100%	Property holding
Pier 16 - Entertainment Group Corporation Limited	MSAR	Quota capital - MOP25,000	51%	Provision of management services of casino operation
Pier 16 - Management Limited	MSAR	Quota capital - MOP25,000	51%	Hotel operation
Pier 16 - Property Development Limited	MSAR	Ordinary shares - MOP10,000,000	51%	Property holding
Sky Reach	British Virgin Islands/ MSAR	Share - US$1	100%	Provision of aircraft leasing services
SJM*	MSAR	Ordinary shares - Type A shares MOP270,000,000 - Type B shares MOP30,000,000	100%	Casino operations and investment holding
SJM - F&B Services Limited	MSAR	Quota capital - MOP25,000	100%	Provision of food and beverage services

* SJM's shares were divided into two categories, namely, Type A shares and Type B shares representing 90% and 10% equity interest in SJM respectively. The Company is interested in 100% of the Type A shares while the Type B shares are held by Dr. Ho, the managing director of SJM, so as to comply with the relevant requirements under MSAR law. Type B shares have restricted rights and only entitle the holder of Type B shares to an aggregate amount of MOP1 of dividend payable. Therefore, the Company is effectively entitled to a 100% economic interest in SJM. In addition, in the opinion of the directors, holders of Type A shares will always have voting control of SJM in its shareholders' meetings, and will be able, by means of such voting power, to control the composition of the board of directors of SJM.

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.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Financial Summary

	Year ended 31 December			
	2005 HK$ (in millions)	2006 HK$ (in millions)	2007 HK$ (in millions)	**2008** **HK$** **(in millions)**
RESULTS				
Gaming revenue	33,406.3	34,196.3	32,146.6	**27,992.4**
Profit before taxation	5,386.2	2,644.0	1,493.4	**672.2**
Taxation	(12.7)	(220.1)	(0.2)	**(16.7)**
Profit for the year	5,373.5	2,423.9	1,493.2	**655.5**
Attributable to				
— equity holders of the Company	5,373.5	2,423.9	1,533.5	**796.1**
— minority interests	—	—	(40.3)	**(140.6)**
	5,373.5	2,423.9	1,493.2	**655.5**

	As at 31 December			
	2005 HK$ (in millions)	2006 HK$ (in millions)	2007 HK$ (in millions)	**2008** **HK$** **(in millions)**
ASSETS AND LIABILITIES				
Total assets	9,572.8	11,708.9	18,039.4	**18,920.6**
Total liabilities	(4,927.5)	(6,872.7)	(11,479.3)	**(11,484.3)**
Net assets	4,645.3	4,836.2	6,560.1	**7,436.3**

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

SJM HOLDINGS LIMITED
澳門博彩控股有限公司

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