

## IMPORTANT

If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.



# 澳門博彩控股有限公司 SJM Holdings Limited

(incorporated in Hong Kong with limited liability under the Companies Ordinance)  
**GLOBAL OFFERING**

Number of Offer Shares	:	1,250,000,000 (subject to adjustment and the Over-Allotment Option)
Number of Hong Kong Public Offering Shares	:	187,500,000 Shares (subject to adjustment)
Number of International Offering Shares	:	1,062,500,000 Shares (subject to adjustment and the Over-Allotment Option)
Offer Price	:	not more than HK\$4.08 per Offer Share payable in full on application in Hong Kong dollars, plus brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, subject to refund
Nominal value	:	HK\$1.00 per Share
Stock Code	:	880

**Sole Global Coordinator, Bookrunner, Sponsor and Lead Manager**

**Deutsche Bank**



The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 38D of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this Prospectus or any of the other documents referred to above.

We expect to determine the Offer Price by agreement with the Global Coordinator on behalf of the Underwriters on the Price Determination Date. The Price Determination Date is expected to be on or around 3 July 2008 and, in any event, not later than 7 July 2008. The Offer Price will be not more than HK\$4.08 and is currently expected to be not less than HK\$3.08 unless otherwise announced. Applicants for Hong Kong Public Offering Shares are required to pay, on application, the maximum offer price of HK\$4.08 for each Hong Kong Public Offering Share together with 1% brokerage, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee subject to refund if the Offer Price as finally determined should be lower than HK\$4.08.

The Global Coordinator (on behalf of the Underwriters, and with our consent) may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this Prospectus (which is HK\$3.08 to HK\$4.08 per Share) at any time prior to the morning of the last day for the lodging of applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Public Offering Shares and/or the indicative offer price range will be published in the South China Morning Post (in English), the Hong Kong Economic Times and the Hong Kong Economic Journal (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Public Offering Shares have been submitted prior to the day which is the last day for the lodging of applications under the Hong Kong Public Offering, then even if the number of Hong Kong Public Offering Shares and/or the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offering Shares."

If, for whatever reason, we and the Global Coordinator are not able to agree on the Offer Price, the Global Offering (including the Hong Kong Public Offering) will not proceed.

The Global Offering may be terminated by the Global Coordinator at any time prior to 8:00 a.m. on the Listing Date following the occurrence of certain events. See the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" set out in this Prospectus.

26 June 2008

## EXPECTED TIMETABLE<sup>(1)</sup>

Latest time to lodge <b>PINK</b> Application Forms for Eligible Employees employed in Hong Kong .....	5:00 p.m. on Monday, 30 June 2008
Latest time to lodge <b>PINK</b> Application Forms for Eligible Employees employed in Macau .....	12:00 noon on Tuesday, 1 July 2008
Application lists open <sup>(2)</sup> .....	11:45 a.m. on Wednesday, 2 July 2008
Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms .....	12:00 noon on Wednesday, 2 July 2008
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(3)</sup> ...	12:00 noon on Wednesday, 2 July 2008
Latest time to complete electronic applications under <b>White Form eIPO</b> service through the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(4)</sup> .....	11:30 a.m. on Wednesday, 2 July 2008
Latest time to complete payment of <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....	12:00 noon on Wednesday, 2 July 2008
Application lists close .....	12:00 noon on Wednesday, 2 July 2008
Price Determination Date <sup>(5)</sup> .....	Thursday, 3 July 2008
<b>(1):</b>	
Announcement of the Offer Price, indication of the level of interest in the International Offering, level of applications in the Hong Kong Public Offering and basis of allocation of the Hong Kong Public Offering Shares to be published in the South China Morning Post (in English), the Hong Kong Economic Times and the Hong Kong Economic Journal (in Chinese) on .....	Wednesday, 9 July 2008
<b>(2):</b>	
Results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see paragraph headed " <b>Publication of Results</b> " in the section headed "How to Apply for Hong Kong Public Offering Shares") from .....	Wednesday, 9 July 2008
<b>(3):</b>	
A full announcement of the Hong Kong Public Offering containing (1) and (2) above will be published on the Stock Exchange's website at <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> and the Company's website at <a href="http://www.sjmholdings.com">www.sjmholdings.com</a> from .....	Wednesday, 9 July 2008
Despatch of share certificates with respect to wholly or partially successful applications on or before <sup>(6)</sup> .....	Wednesday, 9 July 2008
Despatch of refund cheques with respect to wholly successful (if applicable) or wholly or partially unsuccessful applications on or before <sup>(7)</sup> .....	Wednesday, 9 July 2008
Dealings in Shares on the Stock Exchange to commence on .....	Thursday, 10 July 2008

- (1) All times refer to Hong Kong local time. Details of the structure and conditions of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this Prospectus.

## EXPECTED TIMETABLE<sup>(1)</sup>

- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 am, and 12:00 noon on Wednesday, 2 July 2008, the application lists will not open on that day. See the paragraph headed “Effect of bad weather on the last application day” in the section headed “How to Apply for Hong Kong Public Offering Shares” in this Prospectus.
- (3) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Public Offering Shares — Applying by giving electronic application instructions to HKSCC” in this Prospectus.
- (4) Applicants will not be permitted to submit their application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. Applicants who have already submitted their application and obtained an application reference number from the designated website prior to 11:30 a.m. will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) The Price Determination Date, being the date on which the Offer Price is determined, is expected to be on or about Thursday, 3 July 2008 and, in any event, will be no later than Monday, 7 July 2008. If, for any reason, the Offer Price is not agreed by Monday, 7 July 2008, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) Share certificates for the Hong Kong Public Offering Shares are expected to be issued on Wednesday, 9 July 2008, but will only become valid certificates of title at 8:00 a.m. on Thursday, 10 July 2008 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting” in this Prospectus has not been exercised.
- (7) Applicants who applied for 1,000,000 Public Offer Shares or more and have indicated in their Application Form that they wish to collect refund cheque(s) (if applicable) and share certificate(s) (if applicable) in person may do so from our Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 am. to 1:00 p.m. on Wednesday, 9 July 2008 or any other date notified by us in the newspapers as the date of despatch of share certificate(s)/refund cheque(s). Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorised representative bearing a letter of authorisation from his corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected share certificate(s) and refund cheque(s) will be dispatched by ordinary post at the applicant’s own risk to the address specified in the relevant Application Form. Applicants who have applied for less than 1,000,000 Public Offer Shares or have applied for 1,000,000 Public Offer Shares or more but have not indicated in the Application Form that they wish to collect share certificate(s) and/or refund cheque(s) in person, such share certificate(s) (if applying by using a **WHITE** Application Form) and/or refund cheque(s) (if applicable) will be sent to the address on the Application Form on Wednesday, 9 July 2008 by ordinary post at the applicant’s own risk. For further information, see the section headed “How to Apply for Hong Kong Public Offering Shares” in this Prospectus.

**For details of the structure and conditions of the Global Offering, including conditions of the Hong Kong Public Offering, you should refer to the section headed “Structure of the Global Offering” in this Prospectus.**

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*You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorised by the Company, the Global Coordinator, the Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering.*

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## SUMMARY

*This summary is intended to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document carefully before you decide to invest in our Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in our Offer Shares are set out in the section headed "Risk Factors" in this Prospectus. You should read that section carefully before you decide whether to invest in our Offer Shares.*

## OVERVIEW

SJM is one of six Concessionaires and Sub-Concessionaires permitted by the Macau Government to operate casino games in Macau and is the largest casino operator in Macau in terms of gaming revenue, market share and number of casinos as at 31 December 2007, according to the DICJ. SJM operates the most extensive portfolio of casinos in Macau out of the six Concessionaires and Sub-Concessionaires and offers a wide array of gaming experiences that cater to different types of gaming patrons.

As at 31 December 2007, SJM operated 18 of the 28 casinos in Macau, featuring a total of 305 VIP gaming tables in 75 VIP rooms, 1,107 mass market gaming tables and 3,702 slot machines compared to 253 VIP gaming tables, 653 mass market gaming tables and 2,381 slot machines as at 31 December 2005. For the years 2005, 2006 and 2007, SJM's gaming revenue was HK\$33,406.3 million, HK\$34,196.3 million and HK\$32,146.6 million, respectively. On 1 February 2008, SJM commenced operations of Casino Ponte 16, which included 105 mass market gaming tables and 297 slot machines. As at the Latest Practicable Date, SJM operated nine Self-Promoted Casinos and 10 Third Party-Promoted Casinos. Self-Promoted Casinos are casinos for which promotional and marketing efforts are handled by SJM's Marketing Department, and Third Party-Promoted Casinos are casinos for which marketing efforts are handled by the Mass Market Service Providers. For further details, see "Business — Marketing". As at 31 December 2005, 2006 and 2007, SJM's gaming tables accounted for approximately 65.3%, 43.5% and 32.3% of the total number of gaming tables in Macau respectively. As at 31 December 2005, 2006 and 2007, SJM's slot machines accounted for approximately 69.6%, 41.8% and 27.9% of the total number of slot machines in Macau respectively.

SJM has a large and stable network of Gaming Promoters that brings VIP gaming patrons from around the world through their respective networking, marketing and promotional efforts. As at the Latest Practicable Date, 12 of SJM's casinos (excluding Casino Kingsway and Casino Macau Palace which are under renovation) feature VIP rooms that are reserved exclusively for high-stakes gaming patrons who are brought in by SJM's VIP Room Gaming Promoters. SJM also allocates particular rooms and tables for the priority use of certain of its Gaming Promoters to encourage them to bring their gaming patrons to SJM's casinos. Through SJM's agreements with STDM, which has investments of over HK\$7 billion in Macau's transportation, hospitality and services sectors, SJM is able to offer "one-stop shop" services to Gaming Promoters and their patrons, enhancing their overall gaming experience and promoting loyalty to SJM's casinos.

We have in-depth knowledge of mass market gaming operations in Macau. As at the Latest Practicable Date, SJM had 13 casinos (excluding Casino Macau Palace) that serve the mass market with table games and slot machines, and four casinos exclusively providing table games (excluding

Casino Kingsway). SJM also has four slot machines-only operations, which are authorised gaming areas and considered casino operations. Several of SJM's casinos feature themed gaming halls, such as the Pharaoh's Palace at Club VIP Legend and the Greek Mythology at Casino New Century, providing mass market patrons with a diversified range of gaming experiences. A number of SJM's casinos, such as Casino Jai Alai and Casino Oriental, are located near key transport gateways, including the Macau Maritime Terminal, in order to target single day visitors, tour groups and vacation travellers. Casino Lisboa has been for many years a popular destination in Macau for gaming patrons, contributing to the strength and name recognition of the "Lisboa" brand in Greater China and Asia.

SJM's gaming operations are restricted under the Concession to casino games, slot machine gaming and other games authorised by the Macau Government in Macau. SJM does not presently engage in any gaming operations outside of Macau nor does SJM engage in bookmaking transactions in or outside Hong Kong. In addition, SJM does not engage in pari-mutuel gaming, such as horse racing or dog racing, internet betting, cruise ship gaming or any other form of gaming, nor is it permitted to do so under the terms of its Concession Contract. SJM currently intends to focus its casino operations in Macau only, but we will consider other opportunities as they arise.

SJM plans to develop clusters of gaming properties in various strategic locations within Macau to offer a wide variety of gaming experiences, in order to attract a broad spectrum of gaming patrons and to keep them within the clusters of SJM's casinos. The following is a brief description of SJM's completed and planned projects in the four strategically located areas, namely Lisboa District, Inner Harbour District, Outer Harbour District and Cotai:

- *Lisboa District* — SJM opened Phase I of the Grand Lisboa in February 2007, which consisted of mass market gaming tables and slot machines. As at 31 December 2007, there were 235 mass market gaming tables and 756 slot machines at the Grand Lisboa. In August 2007, SJM opened the Grand Lisboa VIP rooms, which, as at 31 December 2007, consisted of five VIP rooms with a total of 52 tables. We expect SJM to open three additional VIP rooms with 28 tables in the Grand Lisboa by the end of 2008. We expect Phase II of the Grand Lisboa, which will include a hotel, to be completed in the second half of 2008. On 17 April 2008, pursuant to two purchase option agreements entered into between STDM and SJM, SJM exercised its options to purchase the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A, in the Lisboa District. See "Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM." SJM plans to redevelop and expand the Hotel and Casino Lisboa into a multi-purpose development, which may consist of residential apartments, a shopping mall, spa facilities, hotels and convention rooms. Furthermore, SJM plans to develop other gaming operations in the Lisboa District, including L'Hermitage, which will be an exclusive club style casino. The above plans are subject to relevant government approvals and finalisation of commercial terms.
- *Inner Harbour District* — SJM has a 51% equity interest in Pier 16 - Property Development, which is developing Ponte 16, a multi-function resort development in the Inner Harbour District. SJM commenced operations of a portion of the casino on 1 February 2008, which included 105 mass market gaming tables and 297 slot machines. Upon completion, we expect Casino Ponte 16 to consist of approximately four VIP rooms

## SUMMARY

with 24 tables, 110 mass market gaming tables and 320 slot machines. We expect the Ponte 16 development to be fully completed by the end of 2008.

- *Outer Harbour District* — In the Outer Harbour District, adjacent to the Macau Maritime Terminal, SJM plans to transform and develop the site of the existing New Yaohan Department Store into Oceanus, a multi-level casino facility. Oceanus will be connected to the ferry terminal via an air-conditioned walkway. SJM plans to commence development of Oceanus in the second half of 2008.
- *Cotai* — SJM has prepared preliminary plans for, and applied for the necessary land concessions in relation to, two mixed-use developments in Cotai; one development would be situated directly across from the new convention centre and the other development would be adjacent to the Macau East Asian Games Dome.

Many large casino operators worldwide engage in certain gaming-related businesses primarily to service and cater to their casino patrons and promote their casino operations. Like other Concessionaires and Sub-Concessionaires in Macau, and casino operators elsewhere, SJM will invest and engage in such gaming-related businesses in Macau as appropriate to support its overall casino operations and compete effectively with other Concessionaires and Sub-Concessionaires, as permitted by the terms of SJM's Concession and subject to the Macau Government's approval.

### COMPETITIVE STRENGTHS

- SJM's extensive portfolio of existing casinos and future developments allows it to offer a diversified range of gaming experiences to target different segments of the gaming market.
- SJM has an experienced management team with a proven track record in operating gaming and gaming-related activities in Macau.
- Our financial position and cash flow from operations provide us with flexibility to undertake operational enhancements.
- SJM is able to leverage its large and stable network of Gaming Promoters to continue to expand its customer base of VIP gaming patrons.
- SJM's Lisboa brand is well known.

### OUR BUSINESS STRATEGIES

- We seek to grow SJM's business through the development of strategically located gaming clusters in Macau to target different segments of the gaming market.
- We seek to improve our operating margins through cost reduction initiatives and improvement of efficiency.
- SJM will continue to actively manage its portfolio by expanding and upgrading its existing casinos in line with our development strategy to improve their overall yield.
- We seek to better leverage our financial structure and maintain an attractive return to Shareholders by adopting a prudent level of debt financing and an appropriate dividend policy.

## **RISK FACTORS**

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterised as: (i) risks relating to our business, (ii) risks relating to the gaming industry in Macau, (iii) risks relating to Macau and China and (iv) risk relating to the Shares. In addition, there are certain risks relating to the Global Offering. These risks are summarised below. For a full description of the risks involved in our operations, see “Risk Factors.” As SJM is currently our only operating subsidiary, any risk factor which could have a material and adverse effect on SJM’s financial condition and results of operations could have a corresponding effect on the Company’s financial condition and results of operations.

### *Risks Relating to our Business*

- SJM faces intense competition in Macau.
- SJM could encounter substantial cost increases or delays in the development of one or more of its new projects, which could prevent or delay the opening of such projects.
- The performance of SJM’s new casinos, casino resorts and certain gaming-related businesses in which SJM plans to invest and engage may not have the desired impact on our overall revenues.
- SJM may face labour shortages in the future which could limit its ability to effectively operate its gaming and gaming-related operations or delay the construction of one or more of its new projects.
- We may require external debt or equity financing to complete our future investment projects, which may not be available on satisfactory terms or at all.
- The failure to fulfill conditions imposed under our loan facilities may limit our ability to conduct our operations or obtain additional financing.
- Our results of operations are highly dependent on SJM’s VIP gaming operations.
- The winnings of players in SJM’s casinos could exceed SJM’s casino winnings.
- Theoretical win rates for SJM’s casino operations depend on a variety of factors, some beyond its control.
- SJM’s insurance coverage may not be adequate to cover all possible operational losses that it could suffer. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future.
- We depend on the continued service of key management personnel. If we fail to retain SJM’s key management personnel, our business may suffer.
- STDM and Dr. Ho have the ability to exercise substantial influence or control over us, which allows them to influence or control our business in ways that might not be in the interests of other Shareholders.
- SJM relies on the services of service providers, including Gaming Promoters and Mass Market Service Providers, to market its businesses and attract gaming patrons.
- SJM’s business depends on its ability to attract and retain a sufficient number of employees to run its gaming operations.
- SJM faces the risk of fraud or cheating by its gaming patrons.



## SUMMARY

- We or SJM may become involved in, or be subject to, litigation from time to time, including litigation initiated by shareholders of STDM and/or its associates.
- If we fail to establish an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud.
- SJM's anti-money laundering policies and compliance with applicable anti-money laundering laws may not be sufficient in preventing the occurrence of money laundering activities at its casinos.
- We may face allegations, complaints or reports made by various third parties, which could affect our reputation, corporate image and ability to conduct or expand our operations.
- SJM may be exposed to credit risk as a result of extending credit to its gaming patrons and Gaming Promoters.
- SJM's payment of dividends in the past should not be treated as indicative of our future dividend policy.
- Fluctuations in our net current liabilities could adversely affect our business, financial condition and results of operations.
- SJM may not be able to obtain desirable sites for the expansion of its operations.
- SJM may not be able to renew leases or other contractual arrangements for the use of existing casino space on satisfactory terms or at all.
- The Macau Government may unilaterally terminate the Concession Contract for cause without compensation, or SJM may fail to secure its extension.
- Local taxation may increase and current tax exemptions may not be extended.
- The registration by the Group of certain trademarks in Hong Kong and Macau are still pending and may not be approved.

### *Risks Relating to the Gaming Industry in Macau*

- Regulatory or governmental policies that affect the Macau gaming industry could change.
- The Macau Government could grant additional rights to conduct gaming in the future, which could significantly increase the already intense competition in Macau's gaming industry and negatively impact SJM's revenue and market share.
- The number of visitors to Macau, particularly visitors from mainland China, may decline or travel to Macau may be disrupted.
- The operation of illegal casinos in mainland China could affect the gaming industry in Macau.
- A downturn in the economy could lead to reductions in discretionary consumer spending in the gaming industry.
- Macau's transportation infrastructure may not be adequate to support the development of Macau's gaming industry.

### *Risks Relating to Macau and China*

- Conducting business in Macau has certain economic and political risks.
- Currency restrictions could be imposed and exchange rates could change.

***Risks Relating to the Shares***

- If SJM fails to comply with applicable gaming or other laws, the Stock Exchange could cancel our listing.
- An active trading market for our Shares may not develop, which could have a material and adverse effect on our Share price and on your ability to sell your Shares.
- As the Offer Price is higher than the net tangible book value per Share, you will experience immediate dilution in the book value of the Shares purchased by you.
- If our Shares cease to be listed on the Stock Exchange, Shareholders may become subject to Macau regulations relating to transfers of shares and suitability requirements for significant shareholders.
- The market price and trading volume for our Shares may be volatile.
- Certain statistics, industry data and other information relating to the economy and the gaming industry contained in this Prospectus is derived from official government sources and may not be reliable.
- Substantial future sales or perceived sales of our Shares in the public market could cause the price of our Shares to decline.
- Our forecast profit attributable to equity holders of the Company for the six months ending 30 June 2008 may not necessarily give an accurate indication of, and should not be interpreted as a guidance of, our full year financial results for 2008.
- You should read the entire Prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any financial projections, valuations or other forward looking information.

## SUMMARY

### KEY TERMS AND CONDITIONS RELATING TO CONCESSION GRANTED TO SJM

The following table sets out some of the major terms and conditions of the Concession Contract:

Committed investment	MOP4.7 billion (HK\$4.6 billion) <sup>(1)</sup>
Term	18 years to 31 March 2020
Special gaming tax	35% of gaming revenue
Annual gaming premium	MOP30.0 million (HK\$29.1 million) per annum fixed premium MOP300,000.0 (HK\$291,262.1) per annum per VIP gaming table MOP150,000.0 (HK\$145,631.1) per annum per mass market gaming table MOP1,000.0 (HK\$970.9) per annum per electric or mechanical gaming machine including slot machine
Special levy	
Contribution to a public foundation in Macau	1.6% of gaming revenue — for promotion, development or study of culture, society, economy, education, science and charity events <sup>(2)(4)</sup>
Contribution to the MSAR	1.4% of gaming revenue — for urban development, tourism promotion and social security <sup>(3)(4)</sup>
Total	3.0% of gaming revenue <sup>(4)</sup>

(1) Total investment committed by SJM in Grand Lisboa and Ponte 16 is approximately HK\$8.8 billion upon completion, of which HK\$8.2 billion has been invested for construction and development as at 30 April 2008.

(2) Under the Concession Contract, SJM is required to contribute 1.6% of gaming revenue to a public foundation designated by the Macau Government.

(3) During the negotiation of the Concession Contract, it was agreed between SJM and the MSAR that SJM would contribute only 1.4% of the gaming revenue taking into consideration SJM's commitment to be jointly responsible with STD M for Macau's navigation channel dredging service.

(4) The contribution percentages are subject to changes upon re-negotiation between SJM and the MSAR in 2010.

The Concession Contract also contains various general covenants and obligations, including those listed below:

SJM shall, amongst other obligations:

- submit periodic, detailed financial and operating reports to the Macau Government and furnish any other information that the Macau Government may request;
- arrange for its casinos to remain open for operations on a daily basis;
- ensure the proper management and operation of casino games;
- hire staff with appropriate qualifications;
- undertake and operate casino games in a fair and honest manner and free from the influence of criminal activities;
- safeguard and ensure the MSAR's tax revenue from operation of casino games;
- maintain required insurance coverage; and
- return the gaming equipment and apparatus in Macau to the MSAR on 31 March 2020 or upon termination of the Concession, if at an earlier date.

## SUMMARY

The Macau Government has the right to unilaterally terminate the Concession Contract for cause, after providing SJM with the opportunity to remedy, for SJM's non-compliance with fundamental obligations under the Concession Contract and the applicable MSAR laws such as:

- operation of casino games without permission or operation of business beyond the scope of the Concession;
- abandonment of approved business or suspension of business without justifiable reasons for more than seven consecutive days or 14 non-consecutive days within one calendar year;
- transfer of all or part of SJM's gaming operations in Macau in violation of the relevant laws and administrative regulations governing the operation of casino games;
- failure to pay taxes, premiums, levies or other amounts payable to the MSAR;
- refusal or failure to resume operations or failure to continue operations due to on-going serious disruption or insufficiency of its organisation or operations following the temporary assumption of operations by the Macau Government;
- repeated refusal of the inspection and supervision of the Macau Government or repeated failure to comply with decisions of the Macau Government, in particular, DICJ's Instructions;
- repeated non-compliance with fundamental obligations stipulated in the applicable laws under the concession regime;
- failure to complete the construction projects specified in the Investment Plan by their required dates or suitable alternatives approved by the Macau Government;
- refusal or failure to provide or replenish the Bank Guarantee in the Concession Contract within the prescribed period;
- bankruptcy or insolvency;
- non-compliance with Macau laws, regulations and/or DICJ's Instructions for the purpose of AML and CTF;
- fraudulent activity to the detriment of the public interest; and
- serious violation of the applicable rules for the operation of casino games or harm to fairness of the casino games.

There are no renewal conditions imposed under the Concession Contract. The Concession Contract has been granted for a term of 18 years, until 31 March 2020, and will expire upon its term. Up to six months prior to the expiry date, the Concession Contract may be extended by the Macau Government for a maximum of two additional years, up to a limit of 20 years. Beyond such 20 years limit, it may be exceptionally extended by the Macau Government, if duly justified, up to a further limit of five years.

### **ANTI-MONEY LAUNDERING PROCEDURES, SYSTEMS AND CONTROLS**

Based on Deloitte & Touche Enterprise Risk Services Ltd.'s ("DTERS") report of 15 November 2007, SJM is implementing additional measures and procedures to continue to enhance its internal control system. Based on the review by DTERS, there are no areas of significant

deficiencies with respect to our internal controls or anti-money laundering compliance procedures, systems and controls. However, DTERS has highlighted certain non-significant deficiencies with respect to our internal controls and anti-money laundering compliance procedures, systems and controls, which we continue to remediate on an ongoing basis. See “Risk Factors — Risks Relating to Our Business — If we fail to establish an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud,” “Risk Factors — SJM’s anti-money laundering policies and compliance with applicable money-laundering laws may not be sufficient in preventing the occurrence of money laundering activities at its casinos” and “Appendix III — Summary of the Review of Anti-Money Laundering Procedures, Systems and Controls.”

## **PROPERTIES RELATING TO SJM’S CASINOS**

All properties where SJM operates its casinos and slot machines operations have been approved by the Macau Government for gaming operations. As at the Latest Practicable Date, SJM operated substantially all of its gaming operations pursuant to valid and existing lease or other occupancy agreements and relevant Mass Market Services Agreements. See “Risk Factors — Risks Relating to Our Business” and “Business — Casino Properties.” In relation to the remainder of its gaming operations, SJM or its subsidiaries hold legal titles to the other properties where SJM conducts its gaming operations. In addition, SJM or its subsidiaries are in the process of obtaining properties and have exercised options to purchase two properties in order to further develop SJM’s gaming and gaming-related businesses. See “Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM.”

## **LEGAL PROCEEDINGS**

As at the Latest Practicable Date, SJM and STDM were named as co-defendants in 97 pending labour dispute claims filed by 97 former employees of STDM and SJM who were seeking damages totaling approximately MOP85.8 million (HK\$83.3 million).

In 2005, SJM’s 51% indirectly owned subsidiary, Pier 16 - Property Development, initiated legal proceedings in the Macau Judicial Court to obtain an order for the eviction of the remaining seven occupants, who are occupying part of the construction site of the Ponte 16 development project. Four of the occupants had challenged the legality of the granting of the leasehold interest to Pier 16 - Property Development by the Macau Government. In June 2007, the Macau Court issued a pre-trial judgment that preliminarily dismissed the challenges of the occupants. Three of the occupants appealed the judgment and the appeal was admitted by the Macau Court, to be decided after a decision on the merits is issued. The decision on the merits of these proceedings, which was issued on 22 April 2008, remains subject to appeal by the parties as at the Latest Practicable Date.

In addition, a number of our direct and indirect shareholders and affiliates are parties in lawsuits in Macau and Hong Kong filed either by Ms. Ho Yuen Ki, Winnie (“Ms. Winnie Ho”) and Moon Valley Inc. (“MVI”) or by STDM and other parties. These include lawsuits seeking to challenge the validity of certain resolutions connected with the Reorganisation and the Global Offering and passed by STDM. Plaintiffs in these lawsuits have also filed a number of lawsuits in Macau and Hong Kong (i) relating to alleged unpaid debts and other financial entitlements and the exercise of alleged specific rights as shareholders of STDM and (ii) claiming that STDM and its directors, officers and shareholders and SJM have committed libel in certain statements. In addition, Ms. Winnie Ho and MVI have filed lawsuits in Macau seeking to challenge the identity of shareholders and the composition of the board of directors of STDM.

## SUMMARY

For further information regarding these legal proceedings, including those with Ms. Winnie Ho, see “Business — Legal Proceedings” on pages 135 to 140 of this Prospectus.

### FINANCIAL INFORMATION

#### *Historical Financial Information*

The following tables set forth our summary historical income statement account data for each of fiscal years 2005, 2006 and 2007 and our summary historical balance sheet data as at 31 December 2005, 2006 and 2007. We have derived the summary historical income statement account data for each of fiscal years 2005, 2006 and 2007 and the summary historical balance sheet data as at 31 December 2005, 2006 and 2007 from our audited financial information set out in Appendix I — Accountants’ Report, which have been prepared in accordance with HKFRS issued by the HKICPA. This financial information relates to historical results of operations and financial positions of the business in which we previously engaged and which we have assumed pursuant to the Reorganisation in contemplation of the Global Offering.

	Year ended 31 December		
	2005	2006	2007
	HK\$	HK\$	HK\$
	(in millions, except for per share amounts)		
<b>Combined income statement data:</b>			
Gaming revenue			
VIP gaming operations	23,699.8	23,887.7	20,613.6
Mass market table gaming operations	8,981.6	9,339.0	10,676.4
Slot machine operations	721.9	967.7	854.7
Others <sup>(1)</sup>	3.0	1.9	1.9
	33,406.3	34,196.3	32,146.6
Special gaming tax, special levy and gaming premium	(12,882.1)	(13,226.5)	(12,497.6)
	20,524.2	20,969.8	19,649.0
Food and beverage income	—	—	80.5
Cost of food and beverage	—	—	(45.0)
Other income	146.9	137.2	105.9
Sub-concession income	1,560.0	177.1	—
Marketing and promotional expenses	(13,497.4)	(14,569.4)	(12,433.3)
Operating and administrative expenses	(3,315.9)	(4,074.1)	(5,864.0)
Finance costs	—	—	(7.1)
Share of results of associates	(34.7)	(3.4)	0.4
Share of profits of a jointly controlled entity	3.1	6.8	7.0
	5,386.2	2,644.0	1,493.4
Taxation	(12.7)	(220.1)	(0.2)
	5,373.5	2,423.9	1,493.2
Profit for the year	5,373.5	2,423.9	1,493.2
Attributable to:			
Equity holders of the Company	5,373.5	2,423.9	1,533.5
Minority interests	—	—	(40.3)
	5,373.5	2,423.9	1,493.2
Dividends	7,176.1	2,233.0	—
Earnings per share-Basic <sup>(2)</sup>	143.3 cents	64.6 cents	40.9 cents

(1) Others include revenue received from the operation of Pachinko and Tombola in 2005, and Tombola only in 2006 and 2007.

(2) The calculation of the basic earnings per share for the year is based on the profit for the year attributable to equity holders of the Company and on the assumption that 3,750,000,000 Shares had been in issue during the Track Record Period.

## SUMMARY

	As at 31 December		
	2005	2006	2007
	HK\$	HK\$	HK\$
(in millions)			
<b>Combined balance sheet data:</b>			
Non-current assets			
Property, plant and equipment	1,537.4	4,695.0	8,411.8
Land use rights	833.2	842.2	815.0
Intangible assets	—	—	64.7
Art work and diamonds	—	—	278.9
Interests in associates	33.5	58.2	60.6
Interest in a jointly controlled entity	44.0	50.8	55.7
Available-for-sale investments in equity securities	—	—	—
Deposits made on acquisitions	187.1	219.8	221.6
Amount due from a fellow subsidiary	—	—	164.5
Pledged bank deposits	196.8	202.6	145.6
Bank deposits	400.0	—	—
Total non-current assets	<u>3,232.0</u>	<u>6,068.6</u>	<u>10,218.4</u>
Current assets			
Inventories	—	—	21.0
Trade and other receivables <sup>(1)</sup>	496.1	620.8	792.6
Amount due from ultimate holding company	61.6	362.5	—
Amounts due from fellow subsidiaries	22.1	22.1	197.9
Amounts due from associates	20.0	20.0	20.0
Amount due from a jointly controlled entity	15.0	15.0	14.3
Amount due from an investee company	219.9	219.9	180.2
Investment in trading securities	73.5	57.2	57.2
Pledged bank deposits	0.3	0.3	0.3
Bank deposits	100.0	100.0	—
Bank balances and cash	5,332.3	4,222.5	6,537.5
Total current assets	<u>6,340.8</u>	<u>5,640.3</u>	<u>7,821.0</u>
Current liabilities			
Trade and other payables <sup>(2)</sup>	4,481.6	6,214.5	5,661.8
Amount due to ultimate holding company	—	—	114.9
Amounts due to fellow subsidiaries	201.7	201.7	201.7
Amount due to a minority shareholder of a subsidiary	67.0	178.5	—
Financial guarantee obligations	17.9	15.6	14.5
Obligations under finance leases due within one year	—	—	7.0
Dividend payable	88.8	—	—
Taxation	12.7	220.2	21.6
Bank loans due within one year	—	—	100.0
Bank overdrafts	—	—	26.6
Total current liabilities	<u>4,869.7</u>	<u>6,830.5</u>	<u>6,148.1</u>
Net current assets / (liabilities)	<u>1,471.1</u>	<u>(1,190.2)</u>	<u>1,672.9</u>
Total assets less current liabilities	<u>4,703.1</u>	<u>4,878.4</u>	<u>11,891.3</u>
Non-current liabilities			
Amount due to a minority shareholder of a subsidiary	—	—	330.9
Financial guarantee obligations	57.8	42.2	27.8
Obligations under finance leases due after one year	—	—	164.5
Bank loans due after one year	—	—	4,808.0
	<u>57.8</u>	<u>42.2</u>	<u>5,331.2</u>
Net assets	<u>4,645.3</u>	<u>4,836.2</u>	<u>6,560.1</u>
Capital and reserves			
Share capital	194.2	194.2	291.3
Reserves	4,446.4	4,637.3	6,073.7
Equity attributable to equity holders of the Company	<u>4,640.6</u>	<u>4,831.5</u>	<u>6,365.0</u>
Minority interests	4.7	4.7	195.1
Total equity	<u>4,645.3</u>	<u>4,836.2</u>	<u>6,560.1</u>

(1) Trade and other receivables consist primarily of advances made to Gaming Promoters in connection with gaming chips sold to them for the benefit of gaming patrons, as well as prepayments and other receivables.

(2) Trade and other payables consist of trade payables, payables to Gaming Promoters, special gaming tax payables, chips liabilities, payables for the acquisition of property, plant and equipment, construction payables, accrued staff costs, rental payables, other payables, withholding tax payable on employee's professional tax, temporary receipt from MGM Grand Paradise as deposit for a piece of land to be used for the operation of a casino as authorised under the MGM Sub-Concession Agreement and withholding tax payables for Gaming Promoters.

## SUMMARY

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following table sets forth our unaudited pro forma adjusted net tangible assets based on our audited combined net tangible assets as at 31 December 2007. See “Appendix I — Accountants’ Report.”

	Audited combined net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2007 <sup>(1)</sup>	Estimated net proceeds from the Global Offering assuming that the Over-Allotment Option is not exercised <sup>(2)</sup>	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share <sup>(3)</sup>
	HK\$ (in millions)	HK\$ (in millions)	HK\$ (in millions)	HK\$
Based on an Offer Price of HK\$3.08 per Share . . . . .	6,266.0	3,388.4	9,654.4	1.93
Based on an Offer Price of HK\$4.08 per Share . . . . .	6,266.0	4,596.5	10,862.5	2.17

- (1) The audited combined net tangible assets of the Group attributable to equity holders of the Company is arrived at after deducting the Group’s intangible assets and goodwill included in a jointly controlled entity as at 31 December 2007.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$3.08 and HK\$4.08 per Share, after deduction of the underwriting fees and other related expenses payable by the Company in connection with the Global Offering. No account has been taken for any Shares which may fall to be issued pursuant to the exercise of the Over-Allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after making the adjustments referred to in the preceding paragraph and on the basis that a total of 5,000,000,000 Shares were in issue (including Shares in issue as at the date of this Prospectus and those Shares to be issued pursuant to the Global Offering but without taking into account of any Shares which may fall to be issued upon the exercise of the Over-Allotment Option).
- (4) The property interests of the Group as at 31 March 2008 have been valued by Savills Valuation and Professional Services Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix V to this Prospectus. The above adjustment does not take into account the surplus of HK\$2,641.5 million arising from the revaluation of the property interests of the Group by comparing to the net book value of these properties of HK\$6,273.3 million as at 31 March 2008. The revaluation surplus will not be incorporated in the Group’s financial statements. If the revaluation surplus is to be included in the Group’s financial statements an additional depreciation expense of the Group of HK\$81.6 million per annum would be charged.

### SELECTED OPERATING DATA

The following table sets forth gaming revenue and net gaming revenue relating to the Group’s operations for the relevant periods.

	Year ended 31 December					
	2005		2006		2007	
	HK\$	%	HK\$	%	HK\$	%
	(in millions, except for percentages)					
VIP gaming . . . . .	23,699.8	70.9	23,887.7	69.9	20,613.6	64.1
Mass market table gaming operations . . . . .	8,981.6	26.9	9,339.0	27.3	10,676.4	33.2
Slot machine operations . . . . .	721.9	2.2	967.7	2.8	854.7	2.7
Others <sup>(1)</sup> . . . . .	3.0	0.0	1.9	0.0	1.9	0.0
Gaming revenue . . . . .	33,406.3	100.0	34,196.3	100.0	32,146.6	100.0
Special gaming tax, special levy and gaming premium . . . . .	(12,882.1)	(38.6)	(13,226.5)	(38.7)	(12,497.6)	(38.9)
Net gaming revenue . . . . .	20,524.2	61.4	20,969.8	61.3	19,649.0	61.1

- (1) Others consists of revenue received from the operation of Pachinko and Tombola in the first quarter of 2005, and Tombola only in the third and fourth quarters of 2005, 2006 and 2007.



## SUMMARY

The following table sets forth the number of VIP gaming tables, mass market gaming tables and slot machines together with their respective average winnings per table for the relevant periods.

	Year ended 31 December					
	2005		2006		2007	
	No. of tables	HK\$ (in millions)	No. of tables	HK\$ (in millions)	No. of tables	HK\$ (in millions)
VIP gaming	253	96.7	308	80.7	305	66.1
Mass market	653	15.2	894	11.7	1,107	9.8
Slot machines	2,381	0.4	2,738	0.3	3,702	0.2

### PROFIT FORECAST

In the absence of any unforeseen circumstances and on the bases set out in Appendix IV to this Prospectus, certain profit forecast data of our Group for the six months ending 30 June 2008 are set forth below:

Forecast combined profit attributable to equity holders of the Company <sup>(1)(2)</sup>	. . . . . not less than HK\$559 million
Forecast earnings per Share <sup>(3)</sup>	. . . . . not less than HK\$0.11

- (1) The bases and assumptions on which the forecast combined profit attributable to equity holders of the Company for the six months ending 30 June 2008 have been prepared are summarised in Appendix IV to this Prospectus.
- (2) The forecast combined profit attributable to equity holders of the Company for the six months ending 30 June 2008 prepared by the Directors is based on the Group's unaudited combined management accounts for the four months ended 30 April 2008 and a forecast of the combined results of the Group for the two months ending 30 June 2008 on the basis that the current Group structure had been in existence throughout the six financial months ending 30 June 2008. The forecast has been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by the Group as stated in the Accountants' Report set out in Appendix I to this Prospectus.
- (3) The calculation of the forecast earnings per Share is based on the assumption that the Company had been listed since 1 January 2008 and a total number of 5,000,000,000 Shares were in issue throughout the six month period.

### OFFER STATISTICS

	Based on an Offer Price of HK\$3.08 per Share	Based on an Offer Price of HK\$4.08 per Share
Market capitalisation of our Shares <sup>(1)</sup>	HK\$15,400 million	HK\$20,400 million
Adjusted net tangible asset value per Share <sup>(2)</sup>	HK\$1.93	HK\$2.17

- (1) The calculation of market capitalisation is based on 5,000,000,000 Shares expected to be issued following completion of the Global Offering, assuming no exercise of the Over-Allotment Option.
- (2) The adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the section headed "Financial Information — Adjusted Net Tangible Assets" in this Prospectus and on the basis of a total of 5,000,000,000 Shares expected to be issued following completion of the Global Offering and assuming that the Over-Allotment Option is not exercised.

### DIVIDEND POLICY

We intend to distribute 50% of our net profit as dividends for periods subsequent to the Global Offering. The payment and the amount of any dividends will depend on our financial condition, results of operations, cash flow, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

Dividends may be paid only out of our distributable profits as permitted under Hong Kong law, which does not restrict the payment of dividends to non-resident holders of our securities.

## SUMMARY

Our ability to pay dividends depends substantially on the payment of dividends to us by SJM. SJM must comply with the laws and regulations of the MSAR and SJM's articles of association in declaring and paying dividends to us. Pursuant to Section 432 of the Macau Commercial Code, at least 10% of SJM's profits of the accounting period must be retained as legal reserve until such legal reserve reaches an amount equal to one-fourth of the share capital. The Group transferred profit as legal reserve for fiscal years 2005 and 2007 in compliance with this legal reserve requirement. The Group did not transfer any profit as legal reserve in 2006 as they had sufficient legal reserves for the period.

After contribution to the legal reserve, if applicable, SJM's board will propose the dividends, which will be approved by SJM's shareholders at their discretion and distributed to the holders of type A shares and the holder of type B shares based upon, but not limited to, approval by SJM's shareholders. The type A shares and the type B shares represent 90% and 10% of SJM's issued share capital held by us and SJM's managing director, Dr. Ho, respectively. The articles of association of SJM provide that the holder of type B shares is only entitled to an aggregate amount of MOP1.0 of the total dividends payable by SJM from time to time. Moreover, upon liquidation of SJM, the rights attaching to the type B shares are limited to a liquidation payment of up to a maximum equal to the total par value of these type B Shares, which is equal to MOP100.0 per share. As a result, the Company will receive all dividends declared and paid by SJM less MOP1.0. See "History and Reorganisation — Reorganisation."

### DECLARED DIVIDENDS

Our operating subsidiary, SJM paid dividends of approximately HK\$7,176.1 million in fiscal year 2005 comprising a HK\$1,963.2 million final dividend for fiscal year 2004, HK\$5,212.3 million interim dividend for fiscal year 2005 and HK\$0.6 million of dividends distributed in specie. In August 2006, SJM paid an interim dividend of HK\$2,233.0 million and no further or final dividend was paid in 2006.

Prior to the Company and SJM Holdings (Nominee) Limited becoming shareholders of SJM, on 15 January 2008, the shareholders of SJM approved (1) the distribution to the then present shareholders of SJM of MOP2,575 million (HK\$2,500 million) as distribution of free reserves, subject to the condition that the proposed listing of the Company on the Stock Exchange was completed on or before a date (the "latest listing date") being the date by which the 2008 annual general meeting of SJM was held, or a later date resolved at such 2008 annual general meeting (the "Special Dividend"); and (2) the distribution to the then present shareholders of SJM of MOP1,030 million (HK\$1,000 million) as an advance on profit for the year 2007 (the "2007 interim dividend"). At the annual general meeting of SJM held on 31 March 2008, SJM's shareholders passed a resolution to approve, for the purpose of the Special Dividend, the extension of the latest listing date to 31 December 2008 or a later date to be resolved at a general meeting summoned by SJM for such purpose. The 2007 interim dividend was paid in March 2008. The payment of the Special Dividend is conditional upon the Company's listing. Such dividend will not be paid out of the proceeds of the Global Offering. Investors in the Global Offering should note that they will not be entitled to share in the Special Dividend.

Future declarations of dividends by SJM will be subject to the discretion of SJM's shareholders and will depend upon SJM's profitability, financial condition, cash requirements and availability and other relevant factors. The Company's ability to pay dividends will also depend on the amount of dividends, if any, received by us from SJM.

## **USE OF PROCEEDS**

We estimate that our net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, will be approximately HK\$3,992.4 million (US\$511.9 million) (assuming an Offer Price of HK\$3.58 per Share, being the mid-point of our offer price range of HK\$3.08 to HK\$4.08 per Share, and that the Over-Allotment Option is not exercised). If the Over-Allotment Option is exercised in full, our net proceeds calculated on the same assumption will increase to approximately HK\$4,640.2 million (US\$594.9 million). The Company currently plans to use the net proceeds from the Global Offering as follows:

- Approximately HK\$1,300.0 million of the net proceeds will be used to partly finance SJM's acquisition of the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A. For further details in respect of these acquisitions, see "Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM";
- Approximately HK\$2,293.2 million of the net proceeds will be used for part of SJM's project funding, including for the Grand Lisboa, Ponte 16, Oceanus, The Pearl and L'Hermitage. For further details in respect of the expected investments and time for development and completion of these projects, see "Financial Information — Historical and Planned Capital Expenditures"; and
- The balance of approximately HK\$399.2 million (or 10%) of the net proceeds will be used for general corporate purposes.

Pending the use of the net proceeds of the Global Offering for the purposes described above, we intend to place the net proceeds, to the extent permitted by relevant laws and regulations, in short-term deposits with authorised financial institutions and/or licensed banks in Hong Kong and Macau.

If the Offer Price is set at the lowest end of the price range (HK\$3.08 per Share) and the Over-Allotment Option is not exercised at all, the net proceeds will be approximately HK\$3,388.4 million. As a result of the reduced amount raised, only approximately HK\$1,749.5 million will be used for future project funding purposes and approximately HK\$338.8 million for general corporate purposes. The application of the net proceeds to finance SJM's acquisitions remains unchanged as above.

If the Offer Price is set at the highest end of the price range (HK\$4.08 per Share) and the Over-Allotment Option is not exercised at all, the net proceeds will be approximately HK\$4,596.5 million. In the event that the Offer Price is set at the highest end of the price range, the additional net proceeds will be used for future project funding purposes. The amount used for general corporate purposes will not exceed 10% of the total net proceeds.

In the event that the Over-Allotment Option is exercised in full, and assuming an Offer Price of HK\$3.08 per Share, being the lowest end of the price range, the additional net proceeds in excess of the net proceeds with an Offer Price at the lowest end of the price range (HK\$3.08 per Share), and no exercise of the Over-Allotment Option will be approximately HK\$557.3 million. If the Offer Price is set at the highest end of the price range and with the full exercise of the Over-Allotment Option, the additional net proceeds in excess of the net proceeds with an Offer Price at the highest end of the price range (HK\$4.08 per Share) and no exercise of the Over-Allotment Option will be approximately HK\$738.2 million. Such additional net proceeds will be used for future project funding purposes.

## DEFINITIONS

*In this Prospectus, the following terms have the following meanings unless the context otherwise requires. Certain technical terms are explained in the section headed “Glossary” in this Prospectus.*

*SJM Holdings Limited is a limited liability company incorporated in Hong Kong under the Companies Ordinance. The Company’s principal subsidiary, SJM, is a holder of a concession for the operation of casino games in Macau. Unless the context otherwise requires, in this Prospectus, references to “we,” us,” “the Group” or “our Group” include the Company and all of its subsidiaries, including SJM. For the avoidance of doubt, only SJM is engaged in the casino gaming business in Macau, and no other member of the Group has any casino gaming operation in Macau, Hong Kong or elsewhere.*

“AML”	anti-money laundering;
“Application Form(s)”	white application form(s), yellow application form(s), green application form(s) and pink application form(s) or, where the context so requires, any of them;
“Articles of Association” or “Articles”	the articles of association of the Company adopted on 11 January 2008;
“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors of the Company;
“Brilliant Sky Investments Limited”	Brilliant Sky Investments Limited, a limited liability company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of SJM - Investment, which is engaged in the holding of art work and diamond;
“business day”	any day (other than Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business;
“BVI”	British Virgin Islands;
“CAGR”	compound annual growth rate;
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of part of the share premium account of the Company referred to in the paragraph headed “Resolutions of Our Shareholders” in Appendix VII to this Prospectus;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant;

## DEFINITIONS

“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant;
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation;
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant;
“Chinese Government”	the government of the PRC, including the central government and all governmental and political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, as the context requires, any one or more of them;
“Chong Fung”	Chong Fung Real Estate Investment Limited, or Companhia de Investimento de Fomento Predial Chong Fung Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 21 March 2003 under the laws of Macau and a jointly controlled entity of our Company, 49% owned by SJM - Investment and 51% owned by See Lucky, which is engaged in property investment;
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Company,” “our Company,” or “the Company”	SJM Holdings Limited, a limited liability company incorporated in Hong Kong under the Companies Ordinance on 17 February 2006;
“Concession” or “Concession Contract”	the Concession Contract for the operation of casino games dated 28 March 2002 between the MSAR and SJM, as amended and supplemented by a supplemental agreement between the same parties dated 19 April 2005;
“Concessionaire(s)”	the holder(s) of a concession for the operation of casino games in the MSAR. As at the Latest Practicable Date, the Concessionaires were SJM, Galaxy and Wynn Macau;
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules;
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the context of this Prospectus means the controlling shareholders of our Company, namely STDM, through STDM - Investments, and Dr. Ho;
“Cotai”	the land reclamation area located in Macau between the islands of Coloane and Taipa;

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“CTF”	counter-terrorism financing;
“Deutsche Bank” or “Sponsor” or “Bookrunner”	Deutsche Bank AG, Hong Kong Branch, which is deemed to be licenced for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance) under the SFO and a licenced bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong);
“DICJ”	Gaming Inspection and Coordination Bureau (“ <i>Direcção de Inspeção e Coordenação de Jogos</i> ”) under the Secretariat for Economy and Finance of the MSAR;
“Director(s)”	one or more of the directors of the Company;
“Dr. Ho”	Dr. Ho Hung Sun, Stanley, the chairman of the Company and one of our Controlling Shareholders;
“Drug Trafficking (Recovery of Proceeds) Ordinance”	the Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong);
“DSEC”	the Statistics and Census Bureau of the MSAR (“ <i>Direcção dos Serviços de Estatística e Censos</i> ”);
“DSF” or “MSAR Finance Department”	the Finance Services Bureau of the Macau Government (“ <i>Direcção dos Serviços de Finanças</i> ”);
“Early Success Limited”	Early Success Limited, a company incorporated under the laws of BVI on 5 January 2006 and a subsidiary of the Company owned as to 100% by Pier 16 - Property Development;
“Efort Limited”	Efort Limited, or Efort Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 10 October 2006 under the laws of Macau, a subsidiary of the Company 96% owned by SJM - Investment and 4% owned by SJM - F&B;
“Eligible Employees”	persons who had been employees of our Company, SJM and SJM’s wholly-owned subsidiaries (other than the Directors and their associates) since 1 January 2007 and remain employees as at 25 June 2008;
“Employee Preferential Offer”	our offer of up to 62,500,000 Shares to Eligible Employees as described in the section headed “Structure of the Global Offering — Employee Preferential Offer”;
“FATF”	the Financial Action Task Force on Money Laundering, an inter-governmental body created in 1989 to develop and promote policies to combat money laundering and terrorist financing;

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“FITS”	the Facilitated Individual Travel Scheme;
“Full Extent Limited”	Full Extent Limited, a company incorporated under the laws of BVI on 6 January 2006 and a subsidiary of the Company owned as to 100% by Mega Profit Limited;
“Galaxy”	Galaxy Casino, S.A., a company incorporated in Macau on 30 November 2001, one of the three Concessionaires;
“Gambling Ordinance”	the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong);
“Gaming Commission”	the Macau Gaming Commission (“ <i>Comissão Especializada Para Sector dos Jogos de Fortuna ou Azar</i> ”);
“GDP”	nominal gross domestic product;
“GIF”	the Financial Information Bureau of the Macau Government (“ <i>Gabinete de Informação Financeira</i> ”);
“Global Coordinator”	Deutsche Bank, the sole global coordinator for the Global Offering;
“Global Offering”	the Hong Kong Public Offering and the International Offering;
“Grand Lisboa - Hotel Administration”	Grand Lisboa - Hotel Administration Company Limited, or Grand Lisboa-Hotéis e Administração, S.A., a joint stock company (“ <i>sociedade anónima</i> ”) incorporated on 25 March 2004 under the laws of Macau, formerly known as Lisbon Tower-Hotel Administration Company Limited and a subsidiary of the Company 99.8% owned by Mega Profit Limited, 0.1% owned by Sure Vision Limited and 0.1% owned by Power Boost Limited, which is engaged in hotel administration;
“Grand Lisboa - Property Investment”	Grand Lisboa - Property Investment Company Limited, or Grand Lisboa-Investimentos em Propriedades, S.A., a joint stock company (“ <i>sociedade anónima</i> ”) incorporated on 25 March 2004 under the laws of Macau, formerly known as Lisbon Tower-Property Investment Company Limited and a subsidiary of the Company 99.8% owned by Mega Profit Limited, 0.1% owned by Full Extent Limited and 0.1% owned by Sharp Outlook Limited, which is engaged in property investment;
“Greater China”	the People’s Republic of China, Hong Kong, Macau and Taiwan;
“Green Application Form(s)”	the Application Form(s) to be completed by White Form eIPO Service Provider;

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“HKFRS”	Hong Kong Financial Reporting Standards;
“HKICPA”	Hong Kong Institute of Certified Public Accountants;
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“HKSCC Nominees”	HKSCC Nominees Limited;
“Hong Kong” or “HKSAR”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong dollar” or “HK\$” and “cents”	Hong Kong dollar and cents respectively, the lawful currency of Hong Kong;
“Hong Kong Public Offering”	our initial offer of 125,000,000 Shares for subscription by the public in Hong Kong and our offers of up to 62,500,000 Shares to Eligible Employees under the Employee Preferential Offer, for cash (subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus) at the Offer Price (plus brokerage fee of 1.0% of the Offer Price, Stock Exchange trading fee of 0.005% of the Offer Price and SFC transaction levy of 0.004% of the Offer Price), on the terms and subject to the conditions described in this Prospectus and the Application Forms;
“Hong Kong Public Offering Shares”	the Shares offered by us for subscription under the Hong Kong Public Offering, comprising the Public Offer Shares and the Reserved Shares;
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting — Hong Kong Underwriters,” being the underwriters of the Hong Kong Public Offering;
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 25 June 2008, relating to the Hong Kong Public Offering and entered into by, among others, the Global Coordinator, the Hong Kong Underwriters and us, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses” in this Prospectus;
“Independent Third Party(ies)”	parties not being Connected Persons of the Company within the meaning of the Listing Rules;
“Instruction”	compliance order or recommendation issued by the DICJ addressed to a Concessionaire regarding changes to applicable statutes or the interpretation of such statutes.
“International Offering”	the conditional placing by the International Underwriters of the International Offering Shares with institutional and professional investors, for cash at the Offer Price (plus brokerage fee of 1.0% of the Offer Price, Stock Exchange trading fee of 0.005% of the Offer Price and SFC transaction levy of 0.004% of the



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Offer Price), as further described in the section headed “Structure of the Global Offering — The International Offering” in this Prospectus;

“International Offering Shares”	1,062,500,000 Shares initially being offered by us for subscription under the International Offering together, where relevant, with any additional new Shares which may be issued pursuant to any exercise of the Over-Allotment Option;
“International Underwriters”	the group of underwriters led by Deutsche Bank and expected to enter into the International Underwriting Agreement to underwrite the International Offering;
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, to be entered into on or about 3 July 2008 by, among others, the Global Coordinator, the International Underwriters and us, as further described in the section headed “Underwriting — The International Offering” in this Prospectus;
“Investment Plan”	the plan which is part of SJM’s Concession Contract, under which SJM committed to invest a total amount of MOP4.7 billion (HK\$4.6 billion) by 27 March 2009 in the development of projects such as the Fisherman’s Wharf (by June 2007), Ponte 16 (by December 2007) and Grand Lisboa (by June 2008) and any remainder amount to be further used to develop SJM’s other gaming-related projects or projects that have relevant public interest for the MSAR, as endorsed by the Macau Government;
“Jet Asia”	Companhia de Aviação Jet Asia Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 25 March 1997 under the laws of Macau and a subsidiary of STDM;
“Latest Practicable Date”	19 June 2008, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information in this Prospectus;
“Lisboa District”	the area in the Macau Peninsula centred around the Grand Lisboa and the Casino Lisboa;
“Listing Committee”	Listing Committee of the Stock Exchange;
“Listing Date”	the date, expected to be on or about 10 July 2008, on which our Shares are first listed and from which dealings therein are permitted to take place on the Stock Exchange;
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange;

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“Macau” or “MSAR”	the Macau Special Administrative Region of the PRC;
“Macau Canidrome”	Macau (Yat Yuen) Canidrome Co. Ltd., or Companhia de Corridas de Galgos Macau (Yat Yuen) S.A., a joint stock company (“ <i>sociedade anónima</i> ”) incorporated in 1962 under the laws of Macau and a concessionaire for the operation of greyhound racing in Macau;
“Macau Government”	the local government of the MSAR, established on 20 December 1999 and the Portuguese administration before this date;
“Macau Horse Racing Company”	Macau Horse Racing Company Limited, or Companhia de Corridas de Cavalos de Macau, S.A.R.L. a joint stock limited liability company (“ <i>sociedade anónima de responsabilidade limitada</i> ”) incorporated on 29 June 1977 under the laws of Macau and a concessionaire for the operation of horse racing in Macau;
“Macau SLOT”	SLOT — Sociedade de Lotarias e Apostas Mútuas de Macau Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 12 January 1987 and a concessionaire for the operation of instant lottery and sports lotteries in Macau;
“Macau Success”	Macau Success Limited, a limited liability company incorporated in Bermuda whose shares are listed on the Stock Exchange;
“Mega Profit Limited”	Mega Profit Limited, a company incorporated under the laws of BVI on 2 February 2007 and a subsidiary of the Company owned as to 100% by SJM - Investment;
“Melco”	Melco International Development Limited, a limited liability company incorporated in Hong Kong whose shares are listed on the Stock Exchange;
“Melco Group”	Melco and its associates;
“Melco PBL”	Melco PBL Gaming (Macau) Limited, or Melco PBL Jogos (Macau), S.A., a joint stock company (“ <i>sociedade anónima</i> ”) incorporated on 10 May 2006 under the laws of Macau which is 0.01% owned by Melco PBL Nominee Three Limited, 10% owned by Lawrence Ho Yau Lung, a son of Dr. Ho, with the remaining 89.99% owned by Melco PBL Investments Limited;
“MGM Grand Paradise”	MGM Grand Paradise Limited, a joint stock company (“ <i>sociedade anónima</i> ”) incorporated on 17 June 2004 under the

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laws of Macau which is directly and indirectly owned as to 50% by Ms. Pansy Ho, a daughter of Dr. Ho, with the remaining 50% owned by an Independent Third Party;

“MGM Sub-Concession”	the sub-concession entered into between SJM and MGM Grand Paradise with the authorisation of the Macau Government for the operation by MGM Grand Paradise of casino games as a Sub-Concessionaire;
“Mocha Management”	Mocha Slot Management Limited, or Gestão de Slot Mocha Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 3 September 2003 under the laws of Macau 96% owned by Mocha Slot Group Limited and 4% owned by Lawrence Ho Yau Lung;
“Mocha Slot”	Mocha Slot Group Limited, a limited liability company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of a member of the joint venture group of companies between Melco and PBL;
“MOP” or “pataca”	Macau pataca, the lawful currency of the MSAR;
“Nam Van Lake View”	Nam Van Lake View Investment Limited, or Nam Van Lake View Investimentos Limitada, a limited liability company by quotas ( <i>sociedade por quotas</i> ) incorporated on 20 November 2003 under the laws of Macau and is a subsidiary of the Company 99.9% owned by SJM - Investment and 0.1% owned by Vast Base Limited, which is engaged in property holding;
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage fee, Stock Exchange trading fee and SFC transaction levy) at which Hong Kong Public Offering Shares are to be subscribed pursuant to the Hong Kong Public Offering and International Offering Shares are to be offered pursuant to the International Offering, to be determined as described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this Prospectus;
“Offer Share(s)”	the Hong Kong Public Offering Shares and the International Offering Shares;
“OSCO”	the Organised and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong);
“Over-Allotment Option”	the option to be granted by us to the Global Coordinator, pursuant to the International Underwriting Agreement, to require us to allot and issue up to an aggregate of 187,500,000 additional Shares at the Offer Price solely to cover over-allocations in the International Offering, if any, exercisable at

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any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering;

“PBL”	Consolidated Media Holdings Limited (formerly known as Publishing and Broadcasting Ltd), a company incorporated under the laws of Australia in 1994 whose shares are listed on the Australian Stock Exchange;
“Pearl River Delta”	the area that occupies the low-lying areas alongside the Pearl River estuary in southern Guangdong Province where the river flows into the South China Sea;
“Pier 16 - Entertainment”	Pier 16 - Entertainment Group Corporation Limited, or Grupo de Entretenimento Ponte 16 Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 21 June 2007 under the laws of Macau and a subsidiary of the Company 96% owned by Pier 16 - Property Development and 4% owned by Early Success Limited, which will be engaged in the provision of management services for casino operations;
“Pier 16 - Management”	Pier 16 - Management Limited, or Ponte 16 - Gestão, Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 13 June 2005 under the laws of Macau and a subsidiary of the Company 96% owned by Pier 16 - Property Development and 4% owned by Early Success Limited, which is engaged in project management;
“Pier 16 - PR Marketing”	Pier 16 - PR Marketing Limited, or Ponte 16 - Relações Públicas e Marketing Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 31 August 2007 under the laws of Macau and a subsidiary of the Company 96% owned by Pier 16 - Property Development and 4% owned by Early Success Limited, which will be engaged in marketing services;
“Pier 16 - Property Consultancy”	Pier 16 - Property Consultancy Services Limited, or Ponte 16 - Serviços de Consultoria Imobiliária, Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 9 October 2007 under the laws of Macau and a subsidiary of the Company 96% owned by Pier 16 - Property Development and 4% owned by Early Success Limited, which will be engaged in leasing services;
“Pier 16 - Property Development”	Pier 16 - Property Development Limited, or Ponte 16 - Desenvolvimento Predial, S.A., a joint stock company ( <i>sociedade anónima</i> ) incorporated on 20 February 2004 under the laws of Macau and a subsidiary of the Company 50.999%

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owned by SJM - Investment, 49% owned by World Fortune and 0.001% owned by Vast Base Limited, which is engaged in the construction of hotels and casinos;

“Pier 16 - Recruitment”	Pier 16 - Recruitment Limited, or Ponte 16 - Recrutamento Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 31 August 2007 under the laws of Macau and a subsidiary of the Company 96% owned by Pier 16 - Property Development and 4% owned by Early Success Limited, which will be engaged in group recruitment services;
“Pier 16 - Resort”	Pier 16 - Resort Hotel Management Limited, or Ponte 16 - Gestão de Estância de Veraneio e Hotéis, Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 28 February 2007 under the laws of Macau and a subsidiary of the Company 96% owned by Pier 16 - Property Development and 4% owned by Early Success Limited, which is engaged in resort hotel management;
“Pier 16 - Strategic Alliance”	Pier 16 - Strategic Alliance Limited, or Ponte 16 - Alianca Estratégica, Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 9 October 2007 under the laws of Macau and a subsidiary of the Company 51% owned by SJM - Investment and 49% owned by World Fortune, which will be engaged in investment holding for restaurant and bar businesses operated in Pier 16 - Resort;
“Power Boost Limited”	Power Boost Limited, a company incorporated under the laws of BVI on 9 January 2006 and a subsidiary of the Company owned as to 100% by Mega Profit Limited;
“PRC,” “China” or “mainland China”	People’s Republic of China excluding, for the purpose of this Prospectus only, Hong Kong, Macau and Taiwan, unless the context otherwise requires;
“Price Determination Date”	the date, expected to be on or about 3 July 2008, on which the Offer Price is fixed for the purpose of the Global Offering, and in any event no later than 7 July 2008;
“Prospectus”	the prospectus of this Global Offering;
“Public Offer Shares”	125,000,000 Shares initially being offered by us for subscription by the public in Hong Kong under the Hong Kong Public Offering;
“Regulation S”	Regulation S under the Securities Act;

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“Reorganisation”	the corporate reorganisation of the shareholdings of the Group as more particularly described in the section headed “History and Reorganisation”;
“Reserved Shares”	up to 62,500,000 Shares being offered by us for subscription by Eligible Employees under the Employee Preferential Offer;
“RMB” and “renminbi”	renminbi, the lawful currency of China;
“ROVE(s)”	report(s) of certain large gaming transactions (equal to or exceeding HK\$/MOP500,000 or their equivalents in other currencies) which must be filed to the DICJ pursuant to the DICJ’s anti-money laundering guideline (“ <i>Relatório de Operações de Valor Elevado</i> ”);
“S.A.”	a <i>sociedade anónima</i> , a joint stock company whose capital is represented by shares and whose shareholders’ identities are not disclosed in public records (except for the initial shareholders incorporating the company);
“SARS”	severe acute respiratory syndrome;
“Securities Act”	the United States Securities Act of 1933, as amended;
“See Lucky”	See Lucky Investments Limited, a limited liability company incorporated in BVI on 25 August 2005 and is owned as to 50% by Mr. Li Chi Keung and 37.5% by Ms. Wong Hoi Ping, both directors of Chong Fung, with the remaining 12.5% owned by an Independent Third Party;
“SFC”	The Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$1.00 each in the capital of the Company;
“Shareholder(s)”	holder(s) of Share(s) of the Company from time to time;
“Sharp Outlook Limited”	Sharp Outlook Limited, a company incorporated under the laws of BVI on 6 January 2006 and a subsidiary of the Company owned as to 100% by Mega Profit Limited;
“SHB”	Seng Heng Bank Limited, a licensed bank in Macau incorporated under the laws of Macau on 10 January 1972, which, prior to 28 January 2008, was a subsidiary of STDM and after 28 January 2008, ceased to be a subsidiary of STDM and is currently an Independent Third Party;
“Shun Tak Holdings”	Shun Tak Holdings Limited, a limited liability company incorporated under the laws of Hong Kong on 6 October 1972 whose shares are listed on the Stock Exchange;

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“SJM”	Sociedade de Jogos de Macau, S.A., a joint stock company (“ <i>sociedade anónima</i> ”), incorporated on 28 November 2001 under the laws of Macau and a Concessionaire and, following the Reorganisation, a subsidiary of the Company 90% (less 1 share) owned by the Company with 1 share owned by SJM Holdings (Nominee) Limited and the remaining 10% owned by Dr. Ho;
“SJM Employment”	SJM Employment Agency Limited, or Agência de Emprego SJM Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 22 March 2005 under the laws of Macau and a subsidiary of the Company 99% owned by SJM - Investment and 1% owned by Winning Reward Limited, which is engaged in the provision of employment agency services;
“SJM - F&B”	SJM - F&B Services Limited, or SJM - Serviços de Alimentos e Bebidas, Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 15 November 2006 under the laws of Macau and a subsidiary of the Company 96% owned by SJM - Investment and 4% owned by Power Boost Limited, which is engaged in the provision of food and beverages services;
“SJM - Investment”	SJM - Investment Limited, or SJM - Investimentos Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 5 November 2003 under the laws of Macau and a subsidiary of the Company 99.9% owned by SJM and 0.1% owned by Charm Class Limited;
“Sky Reach”	Sky Reach Investments Limited, a limited liability company incorporated under the laws of the British Virgin Islands on 6 July 2007 and a wholly-owned subsidiary of SJM - Investment, which is engaged in aircraft leasing;
“Sociedade de Desenvolvimento Unido de Macau” or “Unido”	Sociedade de Desenvolvimento Unido de Macau, S.A.R.L., a joint stock limited liability company (“ <i>sociedade anónima de responsabilidade limitada</i> ”) incorporated on 9 February 1982 under the laws of Macau and a subsidiary of the Company 73.4% owned by Grand Lisboa - Property Investment, 21% owned by Grand Lisboa - Hotel Administration and 5.6% owned by SJM - Investment which is engaged in the construction of hotel and casino;
“sq.m.”	square meter(s);
“STDM”	Sociedade de Turismo e Diversões de Macau, S.A., a joint stock company (“ <i>sociedade anónima</i> ”) incorporated on 18 May 1962 under the laws of Macau and one of our Controlling Shareholders through STDM - Investments;

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“STDM - Investments”	STDM - Investments Limited, or Investimentos - STDM, Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated under the laws of Macau on 28 November 2001, and a direct Shareholder of the Company, 99.99% owned by STDM and 0.01% owned by Dr. Ho;
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about the Price Determination Date between Dr. Ho and Deutsche Bank, whether on its own or through its affiliates;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“sub-concession”	the sub-concession entered into between a Concessionaire and a Sub-Concessionaire with the authorisation of the Macau Government for the operation by a Sub-Concessionaire of casino games in the MSAR;
“Sub-Concessionaire(s)”	holder(s) of a sub-concession for the operation of casino games in the MSAR. As at the Latest Practicable Date, the Sub-Concessionaires are Venetian Macau, MGM Grand Paradise and Melco PBL;
“subsidiary(ies)”	has the meaning ascribed to it under section 2 of the Companies Ordinance;
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Sure Vision Limited”	Sure Vision Limited, a company incorporated under the laws of BVI on 9 January 2006 and a subsidiary of the Company owned as to 100% by Mega Profit Limited;
“Track Record Period”	the fiscal years 2005, 2006 and 2007;
“Underwriters”	the Hong Kong Underwriters and the International Underwriters;
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement;
“United Glory”	United Glory Company Limited or Sociedade United Glory, S.A., a joint stock company (“ <i>sociedade anónima</i> ”) incorporated on 19 December 2003 under the laws of Macau;
“United Nations (Anti-Terrorism Measures) Ordinance”	the United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong);



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“United States” or “U.S.”	United States of America, its territories, its possessions and all areas subject to its jurisdiction;
“U.S. dollar” or “US\$”	United States dollar, the lawful currency of the United States;
“Value Convergence Holdings”	Value Convergence Holdings Limited, a limited liability company incorporated under the laws of Hong Kong on 24 September 1999, whose shares are listed on the Stock Exchange;
“Vast Base Limited”	Vast Base Limited, a company incorporated under the laws of BVI on 6 January 2006 and a subsidiary of the Company owned as to 100% by SJM - Investment;
“Venetian Macau”	Venetian Macau S.A., a joint stock company (“ <i>sociedade anónima</i> ”) incorporated on 21 June 2002 under the laws of Macau, and a holder of a sub-concession entered into with Galaxy with the authorisation of the Macau Government;
“we,” “us,” “the Group” or “our Group”	except where the context otherwise requires, references to “we,” “us,” “the Group” or “our Group” mean (as the case requires) the Company and all of its subsidiaries, including SJM. With respect to any time prior to the Reorganisation becoming effective, references to “we” and “us” include the businesses in which subsidiaries of the Company were engaged and which remain following the Reorganisation. Whenever “we” is used in the context of the Concession, the Concession Contract, casinos or of any other gaming operation in Macau, “we” exclusively refers to SJM;
“White Form eIPO”	the application for Hong Kong Public Offering Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> ;
“White Form eIPO Service Provider” or “eIPO Service Provider”	the White Form eIPO service provider designated by the Company, as specified on the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> ;
“Wing Hing Lottery”	Wing Hing Lottery Company Limited, or Sociedade de Lotarias Wing Hing, Limitada, a limited liability company by quotas (“ <i>sociedade por quotas</i> ”) incorporated on 5 February 1965 under the laws of Macau and a concessionaire for the operation of Chinese lottery in Macau;
“Winning Reward Limited”	Winning Reward Limited, a company incorporated under the laws of BVI on 5 January 2006 and a subsidiary of the Company owned as to 100% by SJM - Investment;

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“World Fortune”

World Fortune Limited, a limited liability company incorporated in Hong Kong and an indirect wholly owned subsidiary of Macau Success; and

“Wynn Macau”

Wynn Resorts (Macau) S.A., a joint stock company (*sociedade anónima*) incorporated on 17 October 2001 under the laws of Macau, and one of the three Concessionaires.

## GLOSSARY

*This glossary contains definitions of certain technical terms used in this Prospectus as they relate to us. Some of these definitions may not correspond to standard industry definitions.*

“average gaming tables / slot machines”	for any period, the sum of the month-end number of gaming tables or slot machines, as the case may be, for each month during that period divided by the number of months during such period;
“average net-win per table / slot machine”	for any period, total net-win for such period divided by average gaming tables or slot machines, as applicable;
“Baccarat”	a card game between two hands (banker and player) where the winning hand totals closest to 9 discounting all units of 10;
“Bank Guarantee”	a bank guarantee required under the Concession Contract that can be drawn on first demand by the MSAR to satisfy any obligations of SJM as a Concessionaire even after the Concession Contract is terminated;
“Blackjack”	a card game where players try to beat the dealer by getting closest to 21 without going over;
“cage”	a secure room within a casino with a facility that allows patrons to exchange cash for chips required to participate in gaming activities, or to exchange redeemable chips for cash;
“casino games”	games of fortune or chance or other games in casinos authorised by the Macau Government;
“casino”	gaming facility that provides casino games consisting of table games operated in VIP areas or mass market areas, electronic games, slot machines and other casino games that may be authorised by the Macau Government from time to time;
“chips”	tokens issued by casinos to gaming patrons in exchange for cash or credit, which may be used to place bets on gaming tables, in lieu of cash;
“collaborators”	individuals who work as agents for Gaming Promoters in their respective authorised operations in exchange for commissions or other considerations;
“drop amount”	for table games, the amount of money either in cash, credit slips or chips contained in a drop box. For slot machines, the amount of coins and bank notes in the drop box, plus any electronic money transfers made to the slot machine through the use of a cashless wagering system;

## GLOSSARY

“drop box”	a box or container that serves as a repository for coins, bank notes, chips and credit slips;
“e c Chips”	non-redeemable promotional gaming chips that an e c Card member can purchase with cash rebates;
“fills”	for table games, the refilling of a dealer’s chip tray with chips delivered from the cage; for slot machines and electronic games, the refilling of a machine’s container with coins and bank notes;
“Fish-prawn-crab”	a dice game where players try to predict the outcome of the next roll;
“Gaming Promoters”	individuals or corporations licensed by and registered with the Macau Government to promote games of fortune and chance or other casino games to patrons, through the arrangement of certain services, including transportation, accommodation, dining and entertainment, whose activity is regulated by the Administrative Regulation no. 6/2002;
“hold rate”	for any period, the percentage obtained by dividing total net-win by total non-redeemable chip sales or net-win as percentage of chips sales. A higher hold rate means a higher net-win generated from each dollar of chip sales;
“mass market gaming sections”	designated areas in a casino where gaming patrons and visitors play mass market table games;
“Mass Market Service Providers”	entities which provide marketing services, including publicity, customer development and introduction and coordination of activities and other services under the Mass Market Services Agreements to SJM for the Third Party-Promoted Casinos;
“Mass Market Services Agreement”	agreement entered into between a Mass Market Service Provider and SJM in relation to the services provided by the Mass Market Services Provider for the marketing of Third Party-Promoted Casinos with the authorisation of the Macau Government;
“MGM Sub-Concession Agreement”	the trilateral agreement executed by the MSAR, SJM and MGM Grand Paradise, comprising a set of instruments, including the MGM Sub-Concession Contract, which contain the terms pursuant to which MGM Grand Paradise shall be entitled to operate casino games in the MSAR as a Sub-Concessionaire;
“MGM Sub-Concession Contract”	the administrative contract for the operation of casino games in the MSAR, executed by SJM and MGM Grand Paradise, under the MGM Sub-Concession Agreement;

## GLOSSARY

“net-win”	the gross gaming revenue from gaming activities, which is the difference between gaming wins and losses to the casino operator; for table games, net-win equals the drop amount plus credit slips (receipts for chips returned from a gaming table chip tray to the treasury, indicating income to the table) and less fills to the table. For slot machines, net-win equals the drop amount less fills to the slot machine and jackpot payouts;
“non-redeemable chips”	chips issued by a casino to VIP Room Gaming Promoters for wagering in their respective VIP rooms that are non-redeemable for cash by gaming patrons;
“Pachinko”	a gaming device, popular in Japan, similar to a pinball machine which is used for amusement and prizes;
“pari-mutuel gaming”	a betting system in which all bets of a particular type are placed together in a pool, used in gambling on horse racing, greyhound racing, and other sporting events of relatively short duration in which participants finish in a ranked order;
“pit bosses”	supervisors of gaming operations;
“Private Label Card Programme”	a programme operated by SJM for its VIP Room Gaming Promoters to record credit points with respect to the allowances provided to all VIP Room Gaming Promoters;
“redeemable chips”	chips issued and redeemable for cash;
“Self-Promoted Casinos”	SJM’s casinos for which promotional and marketing efforts are handled by SJM’s Marketing Department;
“Self-Promoted Slot Machines”	SJM’s slot machines operations which are operated and serviced by SJM;
“SJM Junket Debit Cards”	the debit cards issued under the Private Label Card Programme to all VIP Room Gaming Promoters with respect to allowance arrangements between the VIP Room Gaming Promoters and SJM;
“slot machine operations”	gaming areas authorised by the Macau Government where slot machines are housed. For purpose of this Prospectus, slot machine operations include slot areas located within Self-Promoted Casinos and Third Party-Promoted Casinos;

## GLOSSARY

“slot machines”	traditional gaming machines operated by a single player and electronic multiple-player gaming machines. In this Prospectus, the number of slot machines is counted on the same basis used by the DICJ, namely, the number of slot machines equals the number of single-player electronic gaming machines plus the number of player-positions on multiple-player electronic gaming machines;
“Slot Machine Services Agreement”	agreement entered into between a Slot Machine Service Provider and SJM in relation to the services provided by the Slot Machine Service Provider to SJM’s Third Party-Serviced Slot Machine Operations with the authorisation of the Macau Government;
“Slot Machine Service Providers”	entities which SJM engages to be responsible for the maintenance and repair of slot machines and spare parts, as well as marketing and expenses relating to the design, decoration, renovation and improvement of SJM’s Third Party-Serviced Slot Machine Operations under the relevant Slot Machine Services Agreements;
“sub-concession contract”	the administrative contract for the operation of casino games in the MSAR, executed by a Concessionaire and a Sub-Concessionaire, under the sub-concession agreements;
“Third Party-Promoted Casinos”	casinos for which marketing efforts are handled by the Mass Market Services Providers;
“Third Party-Serviced Slot Machine Operations”	SJM’s slot machine operations which are serviced by Slot Machine Service Providers pursuant to Slot Machine Services Agreements;
“Tombola”	a game of chance in which randomly selected numbers are drawn and players match those numbers to numbered tickets;
“VIP baccarat”	baccarat played in the VIP rooms;
“VIP rooms”	rooms or designated areas within a casino where high-wagering patrons gamble, and for which marketing and promotion are undertaken by SJM’s Gaming Promoters; and
“VIP Room Gaming Promoters”	Gaming Promoters who have designated VIP rooms or use VIP areas in SJM’s casinos reserved exclusively for their high-wagering patrons.

## FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures to implement such strategies;
- our dividend distribution plans;
- any capital expenditure plans, particularly plans relating to the expansion and upgrading of SJM's gaming and gaming-related facilities;
- our operations and business prospects, including development plans for our existing and new businesses; and
- future developments and the competitive environment in the gaming industry.

The words “anticipate,” “believe,” “could,” “expect,” “intend,” “may,” “plan,” “potential,” “project,” “seek,” “should,” “will,” “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance and are subject to risks, uncertainties and assumptions, including the risk factors as disclosed in this Prospectus. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- general economic, market and business conditions;
- the commercial performance of SJM's gaming operations;
- changes or volatility in foreign exchange rates, equity prices or other rates or prices;
- the effects of competition in the gaming industry on the demand for and net-win of SJM's table games and/or slot machines;
- various business opportunities that we may pursue;
- changes in the regulatory policies in relation to the gaming industry in Macau; and
- changes in the general political, economic, legal and social conditions in China.

Certain statements in the “Financial Information” section are forward-looking statements.

Forward-looking events or circumstances contemplated in this Prospectus might not occur in the manner we expect. Accordingly, you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contemplated in this Prospectus, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contemplated in this Prospectus are qualified by reference to this cautionary statement.

## RISK FACTORS

*You should carefully consider all of the information in this Prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that we are a Hong Kong company with all of our business and operations located in Macau. As a result, we are governed by a legal and regulatory environment that may differ from that which prevails in other countries. As SJM is currently our only operating subsidiary, any risk factor which could have a material and adverse effect on SJM's financial condition and results of operations could have a corresponding effect on the Company's financial condition and results of operations. Our business, cash flow, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

#### ***SJM faces intense competition in Macau.***

The gaming and gaming-related businesses in Macau are highly competitive and we expect SJM to encounter intense and increasing competition as other developers and operators are expected to complete and open new projects in the near future. SJM currently competes primarily with five other Concessionaires or Sub-Concessionaires in Macau. All of the Concessionaires, including SJM, and the Sub-Concessionaires are currently constructing or are planning to construct additional casinos and mixed-use developments. Since the opening of more casinos by SJM's competitors, SJM's market share in terms of gaming revenue decreased from approximately 74.7% in 2005 to approximately 62.2% in 2006 to approximately 39.9% in 2007. SJM's gaming revenue was approximately HK\$33.4 billion in 2005, increased to approximately HK\$34.2 billion in 2006 and decreased to approximately HK\$32.1 billion in 2007. During the Track Record Period, SJM's gaming revenues have not grown and its market share in terms of gaming revenue has decreased as competitors have opened new casinos. In addition, the opening of additional casinos and casino resorts by SJM and its competitors will result in a significant increase in VIP rooms, gaming tables and slot machines as well as hotels, other entertainment and convention centre facilities, services and amenities, which will further intensify competition in Macau's gaming industry and may saturate the gaming industry in Macau. We cannot assure you that demand in Macau's gaming industry will increase in line with or outpace the supply of casino gaming tables and slot machines in the future. We also cannot assure you that the increase in SJM's casinos and casino resorts will lead to a corresponding increase in SJM's revenue or that SJM will be able to maintain or grow its market share in the future or otherwise compete effectively.

A number of SJM's competitors have extensive experience and a well-established presence in the management and operation of mixed-use developments, particularly in mass market casino gaming operations. In addition, some of SJM's competitors may have access to greater financial resources than we do or provide services and gaming products that SJM does not provide. The construction, operation and management of mixed-use properties and other recreational facilities is a relatively new development strategy for SJM. We cannot assure you that SJM's development strategy and mixed-use properties will enable it to successfully compete with the newly-developed mixed-use properties in Macau. If SJM does not compete effectively with its competitors, its business, cash flow, financial condition, results of operations and prospects may be materially and adversely affected.



## RISK FACTORS

*SJM could encounter substantial cost increases or delays in the development of one or more of its new projects, which could prevent or delay the opening of such projects.*

SJM has several new gaming and gaming-related projects under development, including Phase II of the Grand Lisboa and Ponte 16. The completion of these projects is subject to a number of contingencies, including adverse developments in applicable legislation, delays in obtaining or inability to obtain necessary licences, approvals or permits, cost overruns or unanticipated cost increases, unforeseen engineering, environmental and/or geological problems, changes to plans and specifications, shortages of, and price increases in, energy, materials, equipment and labour, labour disputes or work stoppages, personal injuries to workers and other persons, disputes with and defaults by contractors and subcontractors, weather interference or delays, fires, typhoons and other natural disasters, difficulties with respect to land acquisition and other unanticipated circumstances or cost increases that may arise. The occurrence of any of these developments could increase the total costs or delay or prevent the construction or opening of the new projects, which could materially adversely affect our business, financial condition and results of operations.

On 8 February 2007, the Macau Government issued an occupancy permit in favour of SJM's subsidiary, Unido, with respect to the premises of Casino Grand Lisboa and the DICJ had authorised SJM to open a casino on the same premises. See "Business — Casino Properties." With respect to Ponte 16, certain occupants of properties that form part of the Ponte 16 project have appealed the pre-trial decisions of their counterclaims with regard to eviction proceedings brought against them. Although the decision on the merits of these proceedings was issued on 22 April 2008, as at the Latest Practicable Date this decision remains subject to appeal. See "Business — Legal Proceedings." In the event that the appeals are successful, Pier 16 - Property Development, which is 51% owned by SJM, would be responsible for all court costs of the proceedings and may be forced to reduce the amount of land subject to development in Ponte 16, in particular, the retail area projected to occupy parts of the Ponte 16 site. This would result in a reduction of the financial return projected for that area, such as rentals and service fees. Under the Macau Land Law, the Macau Government may authorise the reduction of the disputed properties from the land concession, thereby reducing the area of the project with the same or similar effect of a successful appeal.

In addition, the Macau Government is entitled to terminate SJM's Concession, after providing SJM with the opportunity to remedy, if it fails to complete the construction projects or suitable alternatives approved by the Macau Government on the schedule and in accordance with the terms of the Investment Plan. SJM commenced its mass market and VIP gaming operations at the Grand Lisboa in February 2007 and August 2007, respectively, and its gaming operations at Ponte 16 in February 2008. However, as at the Latest Practicable Date, SJM had not yet obtained occupancy permits for certain non-casino portions of these projects. Under the schedule specified in the Investment Plan, construction of Ponte 16 and Grand Lisboa was required to be completed by December 2007 and June 2008, respectively. On 4 June 2008, DICJ issued a certificate affirming that, as of 4 June 2008, SJM had fulfilled its obligations under the Concession. As at 30 April 2008, we had incurred approximately HK\$8.2 billion in expenses for the construction and development of the Grand Lisboa and Ponte 16. While we believe SJM has met its investment obligations under the Investment Plan through these investments, SJM has not yet received a certificate from the Macau Government to that effect.

We estimate that the total cost of the construction of the Grand Lisboa and Ponte 16 will be approximately HK\$8.8 billion. We cannot assure you that the actual construction costs will not exceed the costs we have projected and budgeted. In addition, construction costs, particularly labour costs, are increasing in Macau and we believe that they are likely to continue to increase during the construction

## RISK FACTORS

period of the new projects for several reasons, including the significant increase in building activity and the ongoing labour shortage in Macau. Continuing increases in construction costs in Macau will increase the risk that construction will not be performed on time, within budget or at all.

***The performance of SJM's new casinos, casino resorts and certain gaming-related businesses in which SJM plans to invest and engage may not have the desired impact on our overall revenues.***

Our growth strategy is focused on the continued upgrade of SJM's existing casinos and development of new casinos and casino resorts within Macau, including developments in the Lisboa District, the Inner Harbour District, the Outer Harbour District and in Cotai. See "Business — Our New Projects." We have incurred and will continue to incur significant capital expenditures and fixed costs associated with the development of these casinos and casino resorts. We cannot assure you that we will be able to successfully implement our current plans for the upgrade and development of these casinos and casino resorts or that we will be able to maintain or improve on our current operating margins. We also cannot assure you that the increase in SJM's casinos and casino resorts will lead to a corresponding increase in SJM's revenue or that SJM will be able to maintain or grow its market share in the future or otherwise compete effectively. Any failure on our part to successfully implement our current plans for the upgrade and development of these casinos and casino resorts would adversely affect our business, financial condition and results of operations.

SJM also plans to invest and engage in gaming-related businesses, such as hotels, spa facilities, retail facilities, convention rooms and food and beverage outlets, subject to government authorisation, where applicable, that are intended to support its overall gaming operations. With the exception of several food and beverage outlets at the Grand Lisboa, which commenced operations in February 2007, SJM does not currently engage in such gaming-related businesses. In addition to SJM's investment in these businesses, we expect SJM to incur additional costs as well as dedicating additional management resources to maintain these businesses. SJM's investment into these new businesses will require it to dedicate additional managerial, technical, financial, production, operational and other resources to these businesses, as well as to hire additional skilled personnel and manage relationships with a greater number of customers, suppliers, equipment vendors and other third parties.

We cannot assure you that these gaming-related businesses will be successful or that SJM's investments in these businesses will have the desired effect on our overall revenues. Moreover, we cannot assure you that the additional expenses incurred and management resources dedicated to, these businesses will not adversely affect our existing operations.

***SJM may face labour shortages in the future which could limit its ability to effectively operate its gaming and gaming-related operations or delay the construction of one or more of its new projects.***

Macau provides a relatively limited market for the supply of workers, both for SJM's existing gaming and gaming-related operations as well as for the construction of its new projects. Given the limited pool of workers available and the growing number of gaming and gaming-related operations being developed in Macau, SJM currently faces significant competition for the services of these workers, which may require that it increase the wages of these workers in the future. For the years 2005, 2006 and 2007, salary and wage expenses were HK\$1,438.9 million, HK\$1,890.9 million and HK\$3,055.3 million, respectively. Continuing increases in the wages of these workers may limit SJM's ability to effectively operate its gaming and gaming-related operations or delay the construction of one or more of its new projects.

Furthermore, under the Macau Gaming Law, concession contracts and sub-concession contracts, workers who are Macau residents must receive priority consideration for employment in all

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construction contracts undertaken in satisfaction of required capital investment plans. This requirement may further contribute to increased costs of labour as demand continues to grow. Risks associated with this priority include the reduced availability of qualified construction workers, a possible industry-wide increase in the wages of these workers, increased delays in the completion of existing projects and additional administrative procedures required to import additional workers.

***We may require external debt or equity financing to complete our future investment projects, which may not be available on satisfactory terms or at all.***

We have in the past funded our capital investment projects primarily through cash generated from our operations and external bank borrowings. We will require additional funding in the future for our capital investment projects, which we may raise through external financing. As at the Latest Practicable Date, our total estimated capital expenditures for our capital investment projects is approximately HK\$21.5 billion. External debt or equity financing by SJM (but not by the Company) may require the approval of or communication to the Macau Government. In addition, SJM's or our ability to obtain debt or equity financing on acceptable terms depends on a variety of factors that are beyond our and SJM's control, including market conditions, investors' and lenders' perceptions of, and demand for, debt and equity securities of gaming companies, credit availability and interest rates. The availability of, and likely terms for, debt financing may be adversely affected by recent developments in the sub-prime lending market in the United States, which have impacted the global credit markets in recent months, the full effect of which is yet to be determined. As a result, we cannot assure you that we or SJM will be able to obtain sufficient funding from external sources as required on terms satisfactory to us, or at all, to finance future capital investment projects. If we or SJM are unable to obtain such funding, SJM's business, cash flow, financial condition, results of operations and prospects could be materially and adversely affected.

***The failure to fulfill conditions imposed under our loan facilities may limit our ability to conduct our operations or obtain additional financing.***

As at 30 April 2008, we had outstanding indebtedness of HK\$6,621.1 million, of which HK\$3,813.0 million was outstanding under a term loan facility agreement with SHB to finance a portion of the construction and development costs of Grand Lisboa and HK\$1,360.0 million was outstanding under a term loan facility agreement with a syndicate of banks led by SHB to finance a portion of the construction and development costs of Ponte 16. See "Financial Information — Indebtedness." These loan facilities impose certain conditions, including financial and operating covenants that, among other things, require us to maintain specified financial ratios and consolidated tangible net worth which may limit our ability to conduct our operations or obtain additional financing. Our failure to comply with any of these covenants or to meet our payment obligations could result in an event of default which, if not cured or waived in time, could result in the acceleration of those and other outstanding debt obligations and the enforcement of security and guarantees given in respect of them. We may not have sufficient working capital or liquidity to satisfy our debt obligations in the event of an acceleration of all or a portion of our outstanding obligations.

***Our results of operations are highly dependent on SJM's VIP gaming operations.***

We do not have any operations other than SJM's gaming and gaming-related operations, and as such we are exposed to operational risks due to SJM's concentration in one industry and geographic market. Furthermore, a substantial portion of our total revenue is derived from SJM's VIP gaming operations. SJM's VIP gaming operations accounted for 70.9%, 69.9% and 64.1% of our total revenue in 2005 and 2006 and 2007, respectively. Results in the VIP gaming operations can be subject to significant short-term volatility because of the amounts wagered. Significant deviations from statistical net-win

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norms in SJM's VIP gaming operations could have an adverse effect on SJM's earnings. In addition, a limited number of VIP gaming patrons could be responsible for a significant portion of SJM's VIP gaming revenue during a particular period. We experienced a decline in the proportion of our revenues from SJM's VIP gaming operations from 2005 to 2007. A further decline in the proportion of our revenues from SJM's VIP gaming operations, the loss of key Gaming Promoters or VIP gaming patrons, a reduction in play by VIP gaming patrons or significant gaming losses to SJM's VIP gaming patrons could materially and adversely affect our business, cash flow, financial condition, results of operations and prospects.

***The winnings of players in SJM's casinos could exceed SJM's casino winnings.***

Our profits are mainly derived from the difference between SJM's casino winnings and the casino winnings of players in SJM's casinos. Since there is an inherent element of chance in the gaming industry, SJM does not have full control over its winnings or the winnings of players in its casinos. If the winnings of players in SJM's casinos exceed SJM's winnings, we may record a loss from SJM's gaming operations, which could materially and adversely affect our business, cash flow, financial condition, results of operations and prospects.

***Theoretical win rates for SJM's casino operations depend on a variety of factors, some beyond its control.***

The gaming industry is characterized by an element of chance. In addition to the element of chance, theoretical win rates are also affected by other factors, including players' skill and experience, the mix of games played, the financial resources of players, the spread of table limits, the volume of bets played and the amount of time players spend on gambling. These factors, alone or in combination, have the potential to negatively impact SJM's win rates, which may materially and adversely affect our business, cash flow, financial condition, results of operations and prospects.

***SJM's insurance coverage may not be adequate to cover all possible operational losses that it could suffer. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future.***

Under the terms of the Concession Contract, SJM is required to carry certain types of insurance policies for the entire duration of the Concession. As at the Latest Practicable Date, SJM maintained all-risk property insurance for all gaming-related properties and inventories (such as chips used in its casino and slot machine operations and substantially all of its other owned and leased properties, buildings and equipment). SJM is also required by the Concession Contract to carry general third-party liability insurance in connection with the operation of casino games located in the MSAR and the development of gaming-related services included in the Concession that are not already covered by existing insurance policies. As at the Latest Practicable Date, SJM maintained third-party liability insurance for personal injury or loss of or damage to the property arising from accidents on its properties or relating to its operations and vehicles. In addition, as at the Latest Practicable Date, SJM carried occupational injury and third party liability insurance for its employees, which complies with applicable Macau laws, regulations and requirements under the Concession Contract. We cannot assure you that SJM's insurance coverage will be adequate to cover all losses in the event of a major casualty. In addition, certain events such as nuclear events, acts of war or terrorism, and epidemic outbreaks are excluded from coverage by these insurance policies. As a result, certain acts and events could expose us to significant uninsured losses. If we or SJM incur losses or damages for amounts exceeding the limits of the insurance coverage, or for claims outside the scope of the insurance coverage, our business, financial condition and results of operations could be materially and adversely affected. In addition to the damages caused directly by a casualty loss such as fire, natural disasters, acts of war or terrorism, SJM might

## RISK FACTORS

suffer a disruption of its business or be subject to claims by third parties who may be injured or harmed as a result of these events. SJM does not carry business interruption insurance.

Moreover, SJM might be unable to renew or replace its existing insurance policies when they expire on commercially reasonable terms, or at all, which could result in substantially higher insurance costs or significantly increase SJM's risk of loss or damage due to uninsured events. In addition, any failure to renew or replace an insurance policy that is required under the Concession Contract may affect SJM's ability to operate.

***We depend on the continued service of key management personnel. If we fail to retain SJM's key management personnel, our business may suffer.***

Our ability to maintain our competitive position is dependent to a large degree on the continued service of SJM's key management personnel such as the directors, Dr. Ho, Dr. So Shu Fai, Mr. Ng Chi Sing and Mr. Rui José da Cunha. If we were to lose the services of any of SJM's key management personnel, which we have not insured against, and were unable to adequately replace them, it could have a material adverse effect on our business and operations.

The pool of experienced management personnel in Macau's gaming industry is limited and competition for such personnel is intense and likely to intensify as competition in Macau's gaming and gaming-related businesses increases. The retirement or loss of service of any key management personnel or our inability to attract and retain additional senior management personnel could hinder our ability to effectively manage our business, and implement our growth and development strategies which could have a material and adverse effect on our business, cash flow, financial condition, results of operations and prospects. We do not currently carry key person insurance for any member of our senior management team.

***STDM and Dr. Ho have the ability to exercise substantial influence or control over us, which allows them to influence or control our business in ways that might not be in the interests of the other Shareholders.***

Upon completion of this Global Offering, STDM, through STDM - Investments, will own approximately 61% of our outstanding Shares. Dr. Ho, our Chairman and SJM's Managing Director, will maintain ownership, directly and indirectly, of approximately 32.204% of the issued capital of STDM. Accordingly, STDM and Dr. Ho are our Controlling Shareholders under the Listing Rules and have the ability to exercise significant influence over our business policies and affairs, such as the selection of our Board and approval of any action requiring the approval of our Shareholders, including the adoption of amendments to the Articles of Association and the approval of a merger, sale of substantially all of our assets or other corporate transactions. In addition, STDM, through STDM - Investments, has the ability to control the selection of our senior management through its control of the Board, and Dr. Ho will be able to exercise significant influence over this selection. The concentration of ownership might also delay, defer or even prevent a change in control of our Company and might make some transactions more difficult or impossible without the support of STDM and Dr. Ho. The interests of STDM and Dr. Ho might conflict with the interests of other Shareholders, and STDM or Dr. Ho may take actions, through their concentration of ownership, that are not in the best interests of Shareholders. For example, currently Dr. Ho and his associates are interested in a variety of businesses, including hotels, property development, investment, transportation, banking and entertainment. Although Dr. Ho has undertaken a non-competition agreement to not engage in certain competitive businesses (as defined in "Relationship with our Controlling Shareholders — Undertakings by STDM and Dr. Ho"), STDM and Dr. Ho might still

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engage in certain non-casino gaming businesses in Macau, including greyhound racing, horse racing, Chinese lottery, instant lottery and sports lottery.

For additional information regarding the share ownership of, and our relationship with Our Controlling Shareholders, please see “Relationship with our Controlling Shareholders.”

***SJM relies on the services of service providers, including Gaming Promoters and Mass Market Service Providers, to market its businesses and attract gaming patrons.***

SJM relies on Gaming Promoters to promote its VIP rooms and Mass Market Service Providers to market the mass market gaming sections in its Third Party-Promoted Casinos. As at 31 December 2007, SJM had entered into agreements with 73 VIP Room Gaming Promoters and nine Mass Market Service Providers. For the years 2005, 2006 and 2007, marketing and promotional expenses were HK\$13,497.4 million, HK\$14,569.4 million and HK\$12,433.3 million, respectively.

Under existing Macau gaming laws and regulations, a Gaming Promoter must be licenced by the DICJ and must register and enter into an agreement with one of the Concessionaires or Sub-Concessionaires. See “Regulation — Gaming Promoters Regulation.” Gaming Promoters are required to renew their licences on an annual basis. We cannot assure you that SJM’s Gaming Promoters will successfully obtain and renew their licences with the DICJ as required. If a significant number of SJM’s existing Gaming Promoters fail to do so, they will be prohibited from conducting gaming-promotion activities, including promotional activities for SJM’s VIP rooms. In this event, SJM’s business, financial condition and results of operations could be materially and adversely affected.

As at the Latest Practicable Date, SJM had entered into gaming promoter agreements with 73 Gaming Promoters and Mass Market Services Agreements with each of its Mass Market Service Providers. As at the Latest Practicable Date, SJM has entered into a new form of Mass Market Services Agreement with five of its nine Mass Market Service Providers, and is currently in negotiations to replace existing Mass Market Services Agreements with its remaining four Mass Market Service Providers. Under the new form Mass Market Services Agreement, Mass Market Service Providers are responsible for providing additional services for SJM’s Third Party-Promoted Casinos, which we expect will allow SJM to reduce its operational costs and focus greater management and marketing resources on its Self-Promoted Casinos. We cannot assure you that SJM will be able to enter into the new form Mass Market Services Agreements with its remaining Mass Market Service Providers or that the revised agreements will be approved by the Macau Government. If, for any reason, SJM is unable to enter into the new form Mass Market Services Agreements with such Mass Market Service Providers, it will remain bound by the terms of its existing Mass Market Services Agreements, which are less favorable to SJM, and could lose the services of certain Mass Market Service Providers upon the expiration of existing Mass Market Services Agreements.

Under the terms of SJM’s gaming promoter agreements, SJM’s Gaming Promoters provide marketing and promotional services to SJM on an exclusive basis. SJM’s Mass Market Service Providers also work exclusively with SJM at each of SJM’s Third Party-Promoted Casinos. SJM monitors the activities and performance of its Gaming Promoters and Mass Market Service Providers in order to enforce SJM’s rights under these agreements, however we cannot assure you that SJM’s Gaming Promoters and/or Mass Market Service Providers will comply with these agreements or that SJM would be able to effectively enforce its rights against them in the event of their non-compliance. Moreover, we cannot assure you that affiliates of our Gaming Promoters will not work with our competitors. In addition, SJM may lose the services of its Gaming Promoters and/or Mass Market Service Providers to other Concessionaires or Sub-Concessionaires in the future. If SJM loses a

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significant number of its Gaming Promoters and/or Mass Market Service Providers to other Concessionaires or Sub-Concessionaires, or if, as a result of increased competition, SJM is obliged to increase the fees and/or commissions that it pays to its Gaming Promoters or Mass Market Service Providers to retain their services, its business, cash flow, financial condition, results of operations and prospects could be materially and adversely affected. See “Business — Marketing.”

***SJM’s business depends on its ability to attract and retain a sufficient number of employees to run its gaming operations.***

Our success relies on SJM’s ability to attract, train, retain and motivate employees, including dealers, pit bosses and security personnel. As at 31 December 2005, 2006 and 2007 SJM employed 14,355, 14,537 and 17,467 employees, respectively. Competition for employees has increased significantly as new casinos and hotels have opened for business. Employees are required to meet stringent standards under Macau laws and must possess certain requisite gaming knowledge. These regulations and requirements have resulted in significant competition among gaming operators in Macau for eligible employees. This competition has made it more difficult to attract and retain employees.

We cannot assure you that SJM will be able to successfully compete for the limited supply of casino employees. Moreover, in recruiting their casino employees, SJM and other gaming operators must give priority consideration to Macau residents pursuant to their concession contracts. As a result of these factors, there is currently a general shortage of employees in Macau’s gaming industry. The expected increase in competition for qualified gaming industry personnel could result in a further significant increase in labour costs, which could have a material and adverse effect on SJM’s and our financial condition and results of operations. SJM has at times experienced difficulties in recruiting and retaining eligible employees. If SJM is unable to attract, retain and train eligible casino employees, its ability to compete effectively with other Concessionaires and Sub-Concessionaires in Macau, and its business, cash flow, financial condition, results of operations and prospects may be adversely affected.

***SJM faces the risk of fraud or cheating by its gaming patrons.***

SJM recognizes the possibility that players in its casinos may attempt or commit fraud or cheat in order to increase winnings, at times in collusion with employees of SJM’s casinos. Failure to discover such schemes in a timely manner could result in losses in SJM’s gaming operations. In addition, negative publicity related to such schemes could have a material and adverse effect on our reputation, thereby adversely affecting our business, cash flow, financial condition, results of operations and prospects.

***We or SJM may become involved in, or be subject to, litigation from time to time, including litigation initiated by shareholders of STDM and/or its associates.***

We or SJM might become involved in, or be subject to, litigation from time to time in the normal course of our business and operations. A number of our direct and indirect shareholders and affiliates are parties in lawsuits in Macau and Hong Kong filed either by Ms. Winnie Ho and MVI or by STDM and other parties. As of the Latest Practicable Date, there were 33 such lawsuits pending in Macau and four such lawsuits pending in Hong Kong. Dr. Ho, Mr. Rui José da Cunha, Dr. So Shu Fai and Ms. Leong On Kei, Angela are also named as parties in some of these actions. These include lawsuits filed in Macau by Ms. Winnie Ho and certain of her affiliates, including MVI, seeking to challenge the validity of certain resolutions connected with the Reorganisation and the Global Offering and passed by STDM. Plaintiffs in these lawsuits have also filed a number of lawsuits in Macau and Hong Kong involving STDM, its directors and shareholders relating to (i) alleged unpaid debts and

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other financial entitlements, (ii) the exercise of alleged specific rights as shareholders of STDM and (iii) allegations against these parties and SJM for libel. In addition, Ms. Winnie Ho and MVI have filed lawsuits in Macau seeking to challenge the identity of shareholders and the composition of the board of directors of STDM. As at the Latest Practicable Date, SJM and STDM were also named as co-defendants in 97 pending labour dispute claims filed by 97 former employees of STDM and SJM who were seeking damages totaling approximately MOP85.8 million (HK\$83.3 million). These 97 labour disputes, which relate mainly to employment issues at STDM prior to 2002, include claims for unpaid remuneration for services provided on days of annual leave and public holidays, paid maternity leave, and health compensation as a result of working in an environment that allows cigarette smoking. There are also ongoing proceedings in the Macau Judicial Court initiated by SJM's 51% indirectly owned subsidiary, Pier 16 - Property Development, to obtain an order for the eviction of the remaining seven occupants who are occupying part of the construction site of the Ponte 16 development project. Although the decision on the merits of these proceedings was issued on 22 April 2008, as at the Latest Practicable Date, this decision remains subject to appeal, which may delay the course of the development. See "Business — Legal Proceedings."

Such claims, regardless of their merit, could harm SJM's and our reputation, corporate image and, ultimately, our Share price. The Directors believe, based on the advice of Macau legal advisors, that these proceedings will have no effect on (i) the status, standing or activities of SJM; (ii) the validity, efficacy, substance, nature or content of the Reorganisation; (iii) the validity of the Global Offering or the listing of the Shares on the Stock Exchange or (iv) the position of third parties acquiring Shares in the Global Offering. While we believe that any challenge to the validity of the Reorganisation and Global Offering will not have any effect on the validity thereof, we cannot assure you that any such challenge would not, pending its resolution, create uncertainties or have other material adverse effects on the Global Offering, as well as the trading price of our Shares. In particular, if any one or more of the following are successful: (i) the plaintiffs in their libel lawsuit against SJM; (ii) the 97 pending labour disputes against STDM and SJM; or (iii) the defendants in the proceedings relating to Ponte 16 development project, then (in addition to the impact of any damages that may be awarded against SJM), our reputation, corporate or directors' image and our Share price may be adversely affected. Furthermore, if the plaintiffs succeed in all or some of the other claims (i.e., those against parties other than SJM), our reputation, corporate or directors' image and our Share price may nevertheless still be affected by such outcome. See "Business — Legal Proceedings." Moreover, we cannot assure you that similar or other claims will not be made against SJM or the Company in the future or that such claims, the threat of such claims, or the adverse publicity related to such claims or the threat of such claims, would not have a material adverse effect on SJM's business, cash flow, financial condition, results of operations, prospects or Share price.

STDM - Investments, by resolution of its shareholders, has approved providing a surety in favour of the Company for the due and punctual payment of obligations the Company may incur in relation to specified penalties and litigation losses. In addition, STDM, by resolution of its board of directors, has approved providing a surety in favour of STDM - Investments for the due and punctual payment of obligations STDM - Investments may incur in relation to payment obligations of the Company arising as a result of the enforcement by the Company against STDM - Investments of the surety referred to above. The validity and enforceability of the sureties resolved by STDM - Investments in favour of the Company and by STDM in favour of STDM - Investments are dependent on the satisfaction of the court in which enforcement is sought that STDM - Investments (or STDM, as relevant) had an own interest justifying the provision of the surety. The relevant interest is identified in the resolutions concerning the respective sureties, however, adjudication of this matter



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remains with the court. For further information relating to the sureties provided by STDM - Investments and STDM, see “Business — Legal Proceedings.”

***If we fail to establish an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud.***

As a public listed company in Hong Kong, we expect that we will have to dedicate a significant amount of management, operational and financial resources to enhance and maintain our internal controls in the future. This will increase our administrative and other operating expenses.

We continue to review our internal control policies and procedures on an ongoing basis and are in the process of implementing measures to improve and remedy certain deficiencies identified through the assistance of an independent third-party consultant, who specializes in internal control and anti-money laundering policies and procedures. However, we cannot assure you that we will be able to successfully address these issues on an ongoing basis. Furthermore, given the constantly changing environment in the gaming industry, we cannot assure you that, even if we are able to address existing deficiencies, there will not be additional new deficiencies in our internal control policies and procedures and/or anti-money laundering issues will not arise. Any such deficiency, if material or significant, could adversely affect our management’s ability to monitor, evaluate and manage our business and operations, or lead to substantial business or operational risk or inaccurate financial reporting, which could have a material adverse effect on our business, cash flow, financial condition, results of operations and prospects.

***SJM’s anti-money laundering policies and compliance with applicable anti-money laundering laws may not be sufficient in preventing the occurrence of money laundering activities at its casinos.***

The casino gaming industry is prone to potential money laundering and other illegal activities and SJM may not be able to completely prevent money laundering and other illegal activities from occurring within its casino premises. SJM has put in place controls to detect and prevent money laundering in its casino operations and has, since 2005, maintained an anti-money laundering compliance department. Through its internal controls review, SJM has uncovered areas in its existing anti-money laundering measures that require improvement. We cannot assure you that SJM’s historic, current or future anti-money laundering measures have been or will be effective in preventing or detecting all money laundering activities. In addition, if we, SJM or any of SJM’s employees, Gaming Promoters, or Mass Market Service Providers are found or suspected to be involved in money laundering activities or other illegal activities, SJM’s Concession could, in certain circumstances, be terminated by the Macau Government.

STDM - Investments, the direct controlling shareholder of the Company, has resolved to indemnify the Company upon the listing in respect of any non-criminal fines that may be imposed on SJM as a result of any non-compliance or breach of AML rules by SJM prior to the listing. However, due to the fact that, under Macau law, criminal fines may not be assigned, nor may any third party be subrogated to the duty to pay such fines, STDM - Investments will not indemnify the Company for any criminal fines imposed on SJM as a result of non-compliance or breach of AML rules by SJM.

Under Macau gaming laws, SJM is jointly and severally liable for any misconduct by its Gaming Promoters or Mass Market Service Providers which may occur in its casinos, regardless of its knowledge of, or involvement in, such misconduct. Under Macau gaming laws and DICJ’s Instructions, a Concessionaire or Sub-Concessionaire has the obligation to supervise the activities of its

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Gaming Promoters, Mass Market Service Providers, their directors, employees and collaborators conducted within its casinos, and to ensure such persons' compliance with applicable laws and regulations. A Concessionaire or Sub-Concessionaire is obligated to inform the Macau Judiciary Police and the DICJ of any suspicious activities carried out by its Gaming Promoters or Mass Market Service Providers. In particular, any money laundering activities that come to the Concessionaire's or Sub-Concessionaire's knowledge must be reported. In the event of a breach of this requirement, the Macau Government may in its discretion take enforcement action against the Concessionaire or Sub-Concessionaire, the Gaming Promoter or Mass Market Service Provider, or each concurrently. If SJM becomes liable to pay a fine, including any fine imposed as a result of the misconduct of its Gaming Promoters or Mass Market Service Providers, any direct shareholder holding over 10% of its share capital will be jointly and severally liable for the payment of such fines. If SJM becomes implicated in any material misconduct of any Gaming Promoter or Mass Market Service Provider, SJM may, among other things, be deemed to have committed an administrative infringement, which is punishable by a fine. Serious breaches or repeated misconduct by SJM's Gaming Promoters or Mass Market Service Providers could ultimately result in the termination of SJM's Concession.

Many of SJM's Gaming Promoters target and serve VIP gaming patrons in markets outside of Macau and many of them own or operate other business interests and activities unrelated to SJM's business operations of which we may not have knowledge. SJM has supervised and regulated, and will continue to supervise and regulate, its Gaming Promoters' operations and activities as required under the relevant regulations and gaming promoter agreements. However, despite SJM's efforts, we cannot assure you that the activities of SJM's Gaming Promoters or the activities of their business associates and gaming patrons comply with applicable laws and regulations, such as usury or anti-money laundering laws or regulations, foreign exchange controls or sanctions imposed by the Office of Foreign Assets Controls of the U.S. Department of the Treasury. Any incidents of non-compliance, or allegations, investigations or press reports relating to incidents of non-compliance with anti-money laundering or other laws and regulations, involving SJM or its casinos, employees, gaming patrons or Gaming Promoters, or violations of laws or regulations of jurisdictions outside Macau by SJM's Gaming Promoters, or their respective business associates or gaming patrons, whether or not justified, could harm our reputation or corporate image or otherwise have a material and adverse effect on our business, cash flow, financial condition, results of operations, prospects and Share price.

***We may face allegations, complaints or reports made by various third parties, which could affect our reputation, corporate image and ability to conduct or expand our operations.***

There have been negative press reports regarding SJM's casino operations in the past, and there may be such negative press reports in the future, in Hong Kong and elsewhere. In addition, there have been and we may continue to face allegations and complaints made by various third parties and in media reports in relation to our and certain of our shareholders' compliance with applicable anti-money laundering laws or association with other illegal activities. Whether or not justified, any incidents, regulatory investigations or reports through the media or other third parties of possible money laundering or other illegal activities involving SJM, or, with respect to gaming activities prior to 2002, STDM, or their casinos, employees, patrons, Gaming Promoters, or shareholders, could harm our reputation and our corporate image, or otherwise affect our ability to conduct or expand our business, both in Macau and abroad, and may therefore have a material and adverse effect on our business, cash flow, financial condition, results of operations, prospects and Share price.

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### ***SJM may be exposed to credit risk as a result of extending credit to its gaming patrons and Gaming Promoters.***

SJM is permitted under Macau law to grant credit to its gaming patrons. Historically, SJM has granted unsecured credit to gaming patrons on a limited basis in amounts that have not been material. The unsecured credit granted to gaming patrons in the years 2005, 2006 and 2007 was HK\$0.6 million, HK\$6.0 million and HK\$5.5 million, respectively. No secured credit was granted to gaming patrons during the same periods. All credit granted to gaming patrons during the Track Record Period has been fully settled. However, increasing competition for gaming patrons in the mass market segment may create pressure for casino operators to extend credit on an unsecured basis to these gaming patrons. If SJM extends more credit to gaming patrons in the future, it would increase its credit risk.

In addition, SJM is exposed to credit risk because it grants gaming credit to its Gaming Promoters. Generally, SJM maintains the right to offset commissions payable to its Gaming Promoters against credit extended to them. However, we cannot assure you that the accrued or other commissions payable to the Gaming Promoters will be sufficient to offset the credit extended to these promoters. If SJM accrues large receivables from its Gaming Promoters against which it is unable to offset commissions payable, its business, cash flow, results of operations, financial condition and prospects could be materially and adversely affected.

### ***SJM's payment of dividends in the past should not be treated as indicative of our future dividend policy.***

SJM paid dividends of HK\$7,176.1 million, and HK\$2,233.0 million in the financial years ended 31 December 2005 and 2006, and prior to the Company becoming a shareholder of SJM, on 15 January 2008, SJM approved a dividend of MOP3,605 million (HK\$3,500 million) payable to SJM's shareholders as at the date of the resolution, of such amount, MOP2,575 million (HK\$2,500 million) is conditional upon the Company's listing. However, we cannot assure you that we will pay the same level of dividends, if any, in the future. The amount and frequency of any payment of dividends by us depends on several factors, including, our results of operations and earnings, capital requirements and surplus, general financial conditions, applicable law, and other factors considered relevant by our Board of Directors.

### ***Fluctuations in our net current liabilities could adversely affect our business, financial condition and results of operations.***

Several factors determine whether SJM will record a net current assets or net current liabilities amount at the end of any financial period. Such factors include, but are not limited to: changes in current assets such as trade and other receivables, investment in trading securities and bank balances and cash; and fluctuations in current liabilities, which include items such as trade and other payables, current tax liabilities, and financial guarantees obligations. At 31 December 2006 and 2007, the Group recorded net current liabilities in the amount of HK\$1,190.2 million and net current assets in the amount of HK\$1,672.9 million, respectively. This was mainly due to substantial working capital being spent on the construction of Grand Lisboa and Ponte 16 in 2006 and the partial completion of these projects in 2007. Construction payables of HK\$644.6 million as at 31 December 2006 included in current liabilities were attributed to the Group's net current liabilities of HK\$1,190.2 million as at 31 December 2006. Our business and operations may be negatively and adversely affected due to any changes in current assets or current liabilities that result in the reporting of net liabilities for any given financial period.

***SJM may not be able to obtain desirable sites for the expansion of its operations.***

There is a limited supply of desirable sites for the development of new casinos in Macau. If SJM is unable to secure desirable sites or obtain the land use rights and other licences and/or approvals for sites required to expand SJM's gaming business as we intend, SJM's business, financial condition and results of operations may be materially and adversely affected. SJM currently has plans to expand its gaming business to a number of new sites in Macau. SJM has secured the use of these sites except for two sites in Cotai.

In addition, third parties may interfere with SJM's use of its properties, which could cause interruption to its operations. For example, Pier 16 - Property Development is in the process of legal proceedings in Macau to evict occupants of a part of the Ponte 16 site. Although the decision on the merits of these proceedings was issued on 22 April 2008, as at the Latest Practicable Date, this decision remains subject to appeal. The maximum exposure in these proceedings, should they be decided against Pier 16 - Property Development, would be approximately MOP830,000 (HK\$805,825) plus court fees. However, pursuant to the terms of the leasehold contract entered with the Macau Government, Pier 16 - Property Development would also be responsible for the eviction of the occupants and relocation of any buildings and materials these occupants occupied and possessed.

Consequently, Pier 16 - Property Development has applied for an extension of the initial term for the completion of the entire Ponte 16 development so as to ensure that it has sufficient time to fulfill its obligations under the leasehold contract to complete the construction work in relation to Ponte 16 or to reduce the land subject to development in Ponte 16, with impact on the size and the related financial return projected for the retail area such as rental and service fees that would otherwise be accounted for as receivables of the retail area.

Approximately 37,458 sq.m. (comprising approximately 30,848 sq.m. of shopping area inclusive of any ancillary facilities, and 6,610 sq.m. of parking facilities) of the Ponte 16 development project may be affected by any potential delay, and as a consequence, construction of these facilities may be temporarily suspended. As a result of any possible delay, we estimate the potential loss of rental income to be approximately HK\$100 million per annum, which is less than 10% of the expected total turnover of the Ponte 16 development project. See "Business — Legal Proceedings."

***SJM may not be able to renew leases or other contractual arrangements for the use of existing casino space on satisfactory terms or at all.***

As at the Latest Practicable Date, SJM operated most of its casinos and slot machine operations under leases or other contractual arrangements for the use of casino space with terms that vary from one year to 18 years. See "Business — Casino Properties." We cannot assure you that SJM will be able to renew its existing leases or comparable contractual arrangements on commercially reasonable terms upon their expiration. In addition, we cannot assure you that SJM will be able to relocate its casinos to comparable locations or lease other properties on commercially reasonable terms in the event of a termination of a lease or comparable contractual arrangement. If SJM is unable to renew or replace its existing leases or comparable contractual arrangements, or if its future rental rates are significantly higher than the current rates, its operations could be disrupted and our business, cash flow, results of operations, financial condition and prospects could be materially and adversely affected.

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

SJM's Concession Contract expires on 31 March 2020, unless extended pursuant to the Macau Gaming Law. Upon expiration of the Concession Contract, all of SJM's casinos, gaming assets and equipment and ownership rights to the casino properties in Macau will revert to the MSAR without compensation to SJM. Moreover, beginning in April 2009, the Macau Government may exercise its right to redeem the Concession Contract by providing SJM with at least one-year prior written notice. In such event, SJM is entitled to fair compensation. The amount of such compensation will be determined based on the earnings of the Grand Lisboa during the taxable year prior to the redemption, before deducting interest, depreciation and amortisation, multiplied by the number of remaining years before expiration of the Concession. We cannot assure you that SJM will be able to renew or extend the Concession Contract on terms favourable to SJM or at all. If the Macau Government chooses to redeem the Concession Contract, the compensation paid may not adequately compensate SJM for the loss of its future earnings. If the Concession Contract is not renewed or extended upon its stated expiration date, or if the Macau Government exercises its early redemption right, we will cease to generate any revenue from SJM's operations, which is currently our only source of revenue. For further information on SJM's Concession, see "The Concession."

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

***Local taxation may increase and current tax exemptions may not be extended.***

If the MSAR decides to increase the effective rate of special gaming tax or to amend existing laws and regulations applicable to SJM's business or the Concession, or if the MSAR and SJM mutually agree to raise the amount of the gaming premium, Bank Guarantee or make other amendments to the Concession Contract, SJM may incur substantial compliance costs and our financial condition, results of operations and cash flow may be materially and adversely affected.

Until 31 December 2006, SJM enjoyed a special exemption from payment of complementary tax, which acts as a tax on profit, granted by the Chief Executive of the MSAR pursuant to the Dispatch of Chief Executive No. 30/2004. SJM subsequently applied to the Chief Executive of the MSAR for an extension of the complementary tax exemption, approval of which was granted on 8 December 2007, effective 1 January 2007 until 31 December 2011. We cannot assure you that, following completion of this extension, the Chief Executive of the MSAR will approve a subsequent extension of the complementary tax exemption. If the Chief Executive of the MSAR or the MSAR

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does not approve this extension, SJM could become subject to the complementary tax at a progressive rate not exceeding 12% beginning 1 January 2012, which could have a material and adverse effect on SJM's financial condition, results of operations and cash flows.

The exemption from the complementary tax does not apply to the dividends to be distributed by SJM. However, under a special arrangement between SJM and the MSAR, in each of the years ended 31 December 2005 and 2006, SJM made an annual payment of MOP12.0 million (HK\$11.7 million) to the MSAR as complementary tax on dividends distributed to its shareholders. We cannot assure you that the MSAR will permit this arrangement to continue or that this arrangement will not change in the future. If such special arrangement changes or is discontinued, dividends and other distributions that we receive from SJM may become subject to complementary tax at a rate of up to 12%, which could have a material and adverse effect on our financial condition, results of operations and cash flow.

***The registration by the Group of certain trademarks in Hong Kong and Macau are still pending and may not be approved.***

Certain members of the Group applied for registration of various trademarks in Hong Kong and Macau. See the section headed "Statutory and General Information — Intellectual Property Rights" in Appendix VII to this prospectus. As at the Latest Practicable Date, we have six pending material trademark applications in Hong Kong and 59 pending material trademark applications in Macau. There is no assurance that any of our pending trademark applications will be granted by the relevant authorities. Although we are not aware of any legal impediments in completing the registrations, we cannot assure you that the registrations will be successfully completed. If we fail to secure the registration of any of these material trademarks under application, our business may be adversely affected.

### **RISKS RELATING TO THE GAMING INDUSTRY IN MACAU**

***Regulatory or governmental policies that affect the Macau gaming industry could change.***

Gaming operations in Macau are regulated by the Macau Government. The Macau Government has authority over the scope of permitted business activities and the corporate affairs of the Concessionaires and Sub-Concessionaires. The gaming laws and regulations of Macau continue to develop and evolve. A court or administrative or regulatory body may render an interpretation of these laws and regulations, or an administrative body may issue new or modified regulations, that differ from our interpretation. In addition, new laws or revisions to existing laws may impose more obligations on Concessionaires and Sub-Concessionaires, requiring them to expend significant compliance costs and efforts. For example, the Macau Government has recently revised its anti-money laundering law. Accordingly, regulatory changes with respect to the gaming industry may have a material and adverse effect on SJM's business and results of operations or require SJM to incur significant compliance costs.

In addition, we believe the Macau Government will seek and consider various proposals to ensure the sustainability of the Macau gaming industry. Public officials may, from time to time, make or comment on new proposals relating to the Macau gaming industry. For example, on 22 April 2008 the MSAR Chief Executive discussed, in response to legislative counsellors' questions, certain proposals that could affect the gaming industry in Macau, including proposals relating to the number of Concessionaires and Sub-Concessionaires, approval of new land resources for gaming purposes, grant of new applications for casinos, the relocation of slot machine centres from residential areas and treatment of new service contracts for VIP gaming promoters. Although such proposals do not

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currently represent formal legislation or policy, they may, however, influence investors' views of the development and sustainability of the Macau gaming industry and the Company's prospects.

The Concession Contract is a contract of administrative nature, which could be subject to discretionary interpretation by the Macau Government. SJM's activities in Macau are subject to administrative review and approval by various agencies of the Macau Government. We cannot assure you that we will be able to obtain all necessary approvals. If we do not, our long-term business strategy and operations may be materially and adversely affected. The laws of Macau permit appeal to the courts with respect to administrative actions. However, such redress is not frequently tested in relation to gaming-related issues.

***The Macau Government could grant additional rights to conduct gaming in the future, which could significantly increase the already intense competition in Macau's gaming industry and negatively impact SJM's revenue and market share.***

SJM is one of six entities authorised by the Macau Government to operate gaming activities in Macau. Although the Macau Government has agreed under the existing concession contracts that it will not grant any additional concessions before 1 April 2009, has publicly stated that only one sub-concession may be issued under each concession and has recently expressed its intention to adopt certain measures that will affect the development of the gaming industry in Macau, we cannot assure you that the Macau Government will not change its policies to issue additional concessions or authorise additional sub-concessions in the future. If the Macau Government were to allow competitors to operate in Macau through the grant of additional concessions or authorisation of additional sub-concessions, SJM would face additional competition, which could significantly increase the already intense competition in Macau and negatively impact SJM's revenue and market share.

***The number of visitors to Macau, particularly visitors from mainland China, may decline or travel to Macau may be disrupted.***

SJM's VIP and mass market gaming patrons typically come from nearby destinations in Asia, including Greater China, South Korea and Japan. Increasingly, a significant number of gaming patrons come to SJM's casinos from mainland China.

In 2007, approximately 27 million visitors traveled to Macau, of whom approximately 14.9 million or 55.1%, were from mainland China, according to DSEC.

The large investments that SJM and its competitors are making in expanding, renovating, and developing existing hotels and casinos, and the construction of new hotels and casinos, are based, in part, on projections regarding the number of visitors, and in particular, visitors from mainland China. As a result, general economic conditions and policies in China could have a significant impact on SJM's and our financial prospects. Any slowdown in economic growth or reversal of China's current policies of liberalising restrictions on travel and currency movements could disrupt the number of visitors from mainland China to SJM's casinos in Macau as well as the amounts they are willing to spend in the casinos.

In June 2008, news media reported that certain restrictions are being placed on exit visa applicants for travel to Macau by authorities in Guangdong and other provinces. While there has been no official confirmation of such reports as at the Latest Practicable Date, under the reported measures, residents of Guangdong and other provinces are no longer permitted to enter Macau on double-entry permits. Rather, these residents are restricted to single-entry permits for a period of seven days per month. In addition, we understand that authorities have extended the application process to varying

degrees in different cities. This policy, and any further tightening, may have the effect of reducing the number of visitors to Macau from mainland China, which would adversely affect tourism and the gaming industry in Macau.

Casinos in Macau, including SJM, compete for gaming patrons with casinos located in other countries in Asia, such as Malaysia, North and South Korea, Vietnam and the Philippines, as well as other countries located elsewhere in the world, such as Australia, Portugal, New Zealand and the United States, including Las Vegas and Atlantic City. As at the Latest Practicable Date, STDM invested in companies with gaming operations in Portugal, North Korea and Vietnam. In addition, STDM or Dr. Ho may engage in gaming operations in other countries in the future. Although the client portfolio of STDM's casinos outside Macau is different from SJM's client portfolio, we cannot assure you that competition between SJM's gaming operations and any current or future operations of STDM or Dr. Ho will not arise. Cruise ships operating out of Hong Kong and other ports in Asia that offer gaming may also compete with Macau for gaming patrons. Recently, Singapore has legalised casino gaming and other Asian countries or territories, such as Japan and Thailand, as well as Taiwan, have also taken steps or are considering taking steps to do so in the future. If Macau's status as the main casino gaming destination in Asia were to be eroded by legalised gaming in other countries or territories within the region, the number of gaming patrons visiting Macau could be negatively affected, which would likely have a material adverse effect on SJM's business, cash flow, financial condition, results of operations and prospects.

Macau is also susceptible to severe typhoons. A major typhoon, inclement weather or other natural disaster may severely disrupt transportation links to Macau, such as the Macau International Airport or high-speed ferry from Hong Kong, which are the primary avenues of transportation to Macau for most visitors. In addition, the occurrence of natural disasters in mainland China, such as earthquakes, floods or tornados, may adversely affect the number of visitors to Macau.

Furthermore, the recurrence of SARS and other similar outbreaks such as avian flu may also affect the number of visitors to Macau. In early 2003, businesses, particularly in the travel and tourism industry, in mainland China, Hong Kong, Macau and some other parts of Asia suffered substantial losses as a result of the outbreak of SARS, and SJM's business and results of operations were also adversely affected. Since 2005, there have been reports on the occurrences of avian flu, and some confirmed human cases, in various parts of mainland China including Guangdong Province, which is contiguous to Macau.

If any of these events were to occur, SJM's and our business, cash flow, financial condition, results of operations and prospects could be materially and adversely affected, particularly if the events were to disrupt visitor arrivals during SJM's peak business seasons of summer and long public holidays in China, such as Chinese New Year or the National Day holiday.

### ***The operation of illegal casinos in mainland China could affect the gaming industry in Macau.***

Currently, Macau is the only region in China offering legal casino gaming. Although the Chinese Government has strictly enforced its regulations prohibiting domestic gaming operations, there may be casinos in parts of mainland China that are operated illegally and without licenses. Competition from illegal casinos in mainland China could adversely affect our business, cash flow, financial condition, results of operations and prospects.



***A downturn in the economy could lead to reductions in discretionary consumer spending in the gaming industry.***

Demand for gaming activities and gaming-related services, like other forms of entertainment, depends significantly on discretionary consumer spending and is particularly sensitive to economic downturns. Changes in consumer preferences and behaviour or a decrease in discretionary consumer spending on gaming and gaming-related services caused by various factors beyond our control, such as fears of war or recession, changes in consumer confidence in the economy and general economic conditions, could reduce consumer demand for the gaming and gaming-related services SJM offers, thereby materially and adversely affecting SJM's and our business, cash flow, financial condition, results of operations and prospects.

***Macau's transportation infrastructure may not be adequate to support the development of Macau's gaming industry.***

In order for Macau to become a world-class gaming and tourist destination, the flight, ferry and bus transportation capacity in Macau must increase significantly. Macau's current internal road system is prone to traffic congestion mainly due to the increase in private cars. To improve Macau's transportation infrastructure, the Macau Government has announced a number of infrastructure projects to facilitate travel. These projects, which are in various stages of planning or development, include construction of the Hong Kong-Zhuhai-Macau Bridge, expansion of the Macau International Airport, construction of a light railway system, new ferry terminal and improved pedestrian walkways and boundary crossings. However, we cannot assure you that any of these projects will be approved or completed in time to cope with the anticipated increase in transportation demand, or that they will be completed at all. Macau's failure to adequately address the problems with its transportation infrastructure could limit the number of visitors arriving in Macau which could in turn have a material and adverse effect on SJM's business, cash flow, financial condition, results of operations and prospects.

## **RISKS RELATING TO MACAU AND CHINA**

***Conducting business in Macau has certain economic and political risks.***

All of our business operations are in Macau. As a result, our business development plans, financial condition and results of operations may be materially and adversely affected by political, social and economic developments in Macau and China and by changes in governmental policies or changes in laws or regulations or the interpretation of these laws and regulations. We could be adversely affected by changes in Macau's and China's political, economic and social conditions, changes in foreign exchange regulations, measures that may be introduced to control inflation, such as interest rate increases and changes in the rate or method of taxation. In addition, our operations are exposed to the risk of changes in laws and policies that govern operations of Macau-based companies. These changes may have a material and adverse effect on our business, cash flow, financial condition, results of operations and prospects.

***Currency restrictions could be imposed and exchange rates could change.***

Our revenue derived from SJM's gaming operations in Macau is denominated in patacas and Hong Kong dollars. SJM is currently prohibited from accepting wagers in renminbi. The Chinese Government currently maintains certain restrictions limiting the amount of renminbi that can be converted into foreign currency, including the pataca. Restrictions on the conversion of the renminbi may impede the flow of gaming patrons from mainland China to Macau, limit the amount of money

## RISK FACTORS

gaming patrons from mainland China can spend on gaming activities, inhibit the growth of the gaming industry in Macau and negatively impact our financial condition and results of operations. In addition, the pataca is pegged against the Hong Kong dollar which in turn is pegged against the U.S. dollar. As such, our revenue derived from SJM's gaming operations may be subject to currency fluctuation risks which may have an adverse effect on our business, cash flow, financial condition, results of operations and prospects.

### **RISKS RELATING TO THE SHARES**

***If SJM fails to comply with applicable gaming or other laws, the Stock Exchange could cancel our listing.***

Pursuant to the guidelines issued by the Stock Exchange in relation to "Gambling Activities Undertaken by Listing Applicants and/or Listed Issuers," dated 11 March 2003, if we, through our subsidiary SJM, are engaged in gambling activities and in the operation of such activities (i) fail to comply with the applicable gambling laws in the areas where such activities operate and/or; (ii) contravene the Gambling Ordinance, our business may be considered unsuitable for listing under Rule 8.04 of the Main Board Listing Rules. As a result, the Stock Exchange may require us to take remedial actions, and may suspend the dealings in, or may cancel the listing of, our Shares.

***An active trading market for our Shares may not develop, which could have a material and adverse effect on our Share price and on your ability to sell your Shares.***

Prior to the Global Offering, there was no public market for our Shares. The initial offer price range for our Shares was the result of negotiations between us and the Global Coordinator on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied to list and deal in our Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active trading market for our Shares will develop following the Global Offering or in the future. If an active public market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected.

***As the Offer Price is higher than the net tangible book value per Share, you will experience immediate dilution in the book value of the Shares purchased by you.***

The Offer Price will be higher than the net tangible book value per Share of the outstanding Shares issued to the existing shareholders. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible book value of HK\$2.05 per Share (assuming an offer price of HK\$3.58 per Share, being the midpoint of the stated offer price range of HK\$3.08 to HK\$4.08 per Share) and the existing shareholders will receive an increase in the net tangible book value per Share of their Shares. If the Underwriters exercise their Over-Allotment Option or we issue additional Shares in the future, you may experience further dilution.

***If our Shares cease to be listed on the Stock Exchange, Shareholders may become subject to Macau regulations relating to transfers of shares and suitability requirements for significant shareholders.***

If our Shares cease to be listed on the Stock Exchange, our Shareholders would become subject to Macau regulations relating to transfers of shares and suitability requirements for significant shareholders. Under these regulations, approval of the Macau Government would be required for transfers of shares, or of any rights over such shares, of any of the direct or indirect shareholders of

## RISK FACTORS

SJM, including us and our Shareholders, provided that such shares or rights are directly or indirectly equivalent to an amount that is equal to or higher than 5% of the share capital of SJM. In addition, SJM's shareholders who own directly 5% or more of SJM's share capital would be required to apply for and undergo a finding of suitability process and on-going suitability assessment and, for that purpose, could be investigated by the Macau gaming authorities at any time. For further information on these requirements, see "The Concession — The Concession Regime — The Concession Contract." We cannot assure you that our Shares will remain listed on the Stock Exchange and that our Shareholders will not become subject to these requirements.

***The market price and trading volume for our Shares may be volatile.***

The price and trading volume of our Shares might be highly volatile. Factors such as variations in our turnover, earnings and cash flows and announcements of new investments, strategic alliances and acquisitions, could cause the market price of our Shares to change substantially. Any such developments might result in large and sudden changes in the volume and price at which our Shares will trade. We cannot assure you that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange have experienced substantial price volatility in the past and it is possible that our Shares will be subject to changes in price that may not be directly related to our financial or business performance.

***Certain statistics, industry data and other information relating to the economy and the gaming industry contained in this Prospectus is derived from official government sources and may not be reliable.***

Statistics, industry data and other information relating to the economy and the industry contained in this Prospectus have been derived from various official government publications with information provided by Macau, Hong Kong, Chinese and other government agencies. We cannot assure you or make any representation as to the accuracy or completeness of such information. Neither we nor any of our respective affiliates or advisors, nor the Global Coordinator or any of its affiliates or advisors, have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economy and the industry derived from official government sources may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official government sources might be inaccurate or might not be comparable to statistics produced from other sources. In all cases, you should give careful consideration as to how much weight or importance you should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

***Substantial future sales or perceived sales of our Shares in the public market could cause the price of our Shares to decline.***

Sales of our Shares in the public market after the Global Offering, or the perception that these sales could occur, could cause the market price of our Shares to decline. Upon completion of this Global Offering, we will have 5,000,000,000 Shares outstanding, or 5,187,500,000 Shares outstanding if the Underwriters exercise their Over-Allotment Option. Holders of our Shares, including holders of share options, will be able to sell their Shares upon the expiration of certain lock-up periods. See "Underwriting." We cannot predict what effect, if any, market sales of securities held by our

## RISK FACTORS

significant Shareholders or any other Shareholders or the availability of these securities for future sale will have on the market price of our Shares.

***Our forecast profit attributable to equity holders of the Company for the six months ending 30 June 2008 may not necessarily give an accurate indication of, and should not be interpreted as a guidance of, our full year financial results for 2008.***

Our Directors forecast that for the six months ending 30 June 2008, our combined profit attributable to equity holders of the Company will be no less than HK\$559 million. The bases and assumptions on which the forecast combined profit attributable to equity holders of the Company for the six months ending 30 June 2008 has been prepared are set out in Appendix IV to this Prospectus.

Our business and results of our operations are affected by a number of factors, including the development of Macau's gaming and tourism markets, competition among gaming operators in Macau's gaming market, increased demand for the resources required for the construction, development and operation of gaming and gaming-related operations, our mix of VIP rooms and tables, mass market casinos and tables, Self-Promoted Casinos and Third Party-Promoted Casinos and future finance costs and depreciation associated with our construction and development projects. See "Financial Information — Factors Affecting Results of Operations". In addition, past experience also indicates that we may experience peaks in our revenue during certain major holidays, such as the Labour Day holiday in early May and the National Day holiday in early October, primarily due to an increase in visits by PRC residents.

Due to the fact that these factors, many of which are beyond our control, could vary materially between the first half of 2008 and the second half of 2008, our forecast profit attributable to equity holders of the Company for the six months ending 30 June 2008 may not necessarily give an accurate indication of, and should not be interpreted as a guidance of, our full year financial results for 2008. Given that many of these factors are subject to rapid change, our management has taken the view that it is more appropriate for us to limit our forecast profit attributable to equity holders of the Company to the first half of 2008.

***You should read the entire Prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any financial projections, valuations or other forward looking information.***

There has been media coverage in certain Hong Kong news publications regarding us and the Global Offering which includes certain projections, valuations and other forward looking information that are not directly attributable to statements made by us. We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of any press articles or other media and that such press articles or other media were not prepared or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward looking information, or of any assumptions underlying such projections, valuations or other forward looking information, included in or referred to by the media. To the extent that any such statements are inconsistent, or conflict, with the information contained in this Prospectus, we disclaim them. Accordingly, prospective investors should not rely on any such information contained in press articles or other media. Potential investors making a decision as to whether to apply for Shares should rely solely on the information contained in this Prospectus and the Application Forms and not place any reliance on any other information.

**WAIVERS IN RELATION TO RULE 10.04 OF THE LISTING RULES**

Up to 62,500,000 Shares (representing 5% of the total number of Shares initially available under the Global Offering) are available for subscription by Eligible Employees under the Employee Preferential Offer. Rule 10.04 of the Listing Rules restricts any person who is an existing shareholder of our Company from subscribing for or purchasing shares of our Company if such Shares are offered to him on a preferential basis or if preferential treatment is given to him. The Stock Exchange has granted a waiver from the requirement that any offer made to employees of our Company, our subsidiaries or associated companies on a preferential basis cannot be made to the existing shareholders of our Company, such that Eligible Employees who are existing shareholders of our Company may apply for Reserved Shares in the Employee Preferential Offer. This waiver is subject to the following conditions:

- (i) the public will hold at least 25% of our total issued share capital upon completion of the Global Offering;
- (ii) not more than 62,500,000 Shares or 5% of the Shares initially available under the Global Offering, whichever is lower, will be allocated to the Eligible Employees; and
- (iii) none of the Eligible Employees is a Director or an associate of such Director and will not become a substantial shareholder of the Company as a result of the allocation of Shares under the Employee Preferential Offer.

We applied for the waiver because currently 21 of our key operational management staff have indirect interests in our Shares through United Glory. These employees are among some of the most important management layers of the Group and have contributed significantly to the development and current performance of the Group. Without the grant of the waiver, Rule 10.04 of the Listing Rules would result in these key employees being disqualified from participating in the Employee Preferential Offer, which will reduce the effectiveness of the employee preferential offer in fulfilling our objectives of allowing our valued staff to be given preferential treatment in compliance with the Listing Rules. Taking into account our intention to foster employee ownership and the fact that the Shares of our key employees were obtained by them as part of existing employee incentive arrangements and were not issued pursuant to any preferential arrangements entered into just prior to the Global Offering, we believe that such waiver should be applied for in relation to the Employee Preferential Offer.

See “Structure of the Global Offering — Hong Kong Public Offering — Reserved Shares” for details of the Employee Preferential Offer.

## **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This Prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (as amended) and the Listing Rules for the purpose of giving information to the public with regard to our Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Prospectus misleading.

## **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this Prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this Prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

## **UNDERWRITING**

This Prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this Prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The listing of our Shares on the Stock Exchange is sponsored by the Sponsor, Deutsche Bank AG, Hong Kong Branch. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters, subject to agreement on the Offer Price between the Global Coordinator (on behalf of the Underwriters) and the Company on the Price Determination Date. The International Offering is managed by the Global Coordinator. The International Underwriting Agreement is expected to be entered into on or about 3 July 2008 subject to agreement on the Offer Price between us and the Global Coordinator, on behalf of the Underwriters. If, for any reason, the Offer Price is not agreed upon between us and the Global Coordinator, on behalf of the Underwriters, the Global Offering will not proceed. For further details of the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this Prospectus.

## **SELLING RESTRICTIONS**

No action has been taken in any jurisdiction other than Hong Kong to permit any public offering of the Offer Shares or the distribution of this Prospectus. Accordingly this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such offer or invitation.

The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

### *United States*

The Offer Shares have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in reliance on an exemption from registration under the Securities Act.

The Offer Shares are being offered and sold outside the United States in reliance on Regulation S.

The Offer Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy of this Prospectus or the circular relating to the International Offering. Any representation to the contrary is a criminal offence in the United States.

### *Canada*

The Offer Shares may only be offered in those jurisdictions in Canada and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell the Offer Shares. The Prospectus is not, and under no circumstances is to be construed as, an advertisement or public offering of the Offer Shares in Canada. No securities commission in Canada has reserved or in any way passed upon this Prospectus or the merits of the offering and any representations to the contrary is an offence.

### *United Kingdom*

This document is being distributed only to, and is directed only at, persons that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”) or (ii) high net worth entities or other persons falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. Any investment or investment activity to which this document relates is available in the United Kingdom only to relevant persons, and will be engaged in only with such persons. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of any Offer Shares except in circumstances in which section 21(1) of the FSMA does not apply to us.

### *European Economic Area*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), an offer of Offer Shares has not been made or will not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that an offer of Offer Shares

may, with effect from and including the Relevant Implementation Date, be made to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospective Directive) subject to obtaining the prior consent of the Underwriters for such offer; or
- (d) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive as implemented in each Relevant Member State,

provided that no Offer Shares shall result in a requirement for the publication by the Company or the Underwriters of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a relevant member state and each person who initially acquires any Offer Shares or to whom any offer of Offer Shares is made will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Offer Shares to the public” in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe the Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### *Italy*

The offering of the Offer Shares has not been registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”), in accordance with Italian securities legislation. Accordingly, the Offer Shares may not be offered, sold or delivered, and copies of this Prospectus or any other document relating to the Offer Shares may not be distributed in the Republic of Italy unless such offer, sale or delivery of Offer Shares or distribution of copies of this Prospectus or other documents relating to the Offer Shares in the Republic of Italy is:

- (a) made by investment firms (as defined by Legislative Decree No. 58 of 24 February 1998) (“*Legislative Decree No. 58*”), banks and financial companies enrolled in the special register provided for by article 107 of Legislative Decree No. 385 of 1 September 1993, to the extent duly authorised to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the relevant provisions of Legislative Decree No. 58;



- (b) made only to professional investors pursuant to article 30, paragraph 2 and article 100 of Legislative Decree No. 58 and as defined in articles 25 and 31(2) of CONSOB Regulation No. 11522 of 1 July 1998, as amended; and
- (c) in compliance with any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy or any other Italian regulatory authority.

### *Singapore*

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Offer Shares may not be circulated or distributed, nor may Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Offer Shares are subscribed or purchased under Section 275 by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares pursuant to an offer made under Section 275 except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

### *Japan*

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption

from the registration requirements of, otherwise in compliance with, the Financial Instruments and Exchange Law of Japan, and otherwise in compliance with any other applicable requirements of Japanese law. As used in this paragraph, a “resident of Japan” includes any person residing in Japan, any corporation or other entity organised under the laws of Japan.

### ***Macau***

The Offer Shares may not be offered in Macau except under the terms of and in compliance with the Macau Financial System Act and any other laws in Macau that may apply to the offer and sale of the Offer Shares in Macau. The Offer Shares are not registered or otherwise authorized for public offer under the Financial System Act of Macau, thus may not be offered or sold in Macau, unless such offer is made by credit or other financial institutions duly licensed in Macau and upon their communication to the Macau Monetary Authority. The Employee Preferential Offer will not involve an offer to the public in Macau but will be restricted to the Eligible Employees who will receive this Prospectus and the PINK Application Forms in respect of the Reserved Shares on a strictly private basis and in their sole capacity as Eligible Employees.

### ***PRC***

This Prospectus does not constitute a public offer or an invitation for offer of the Offer Shares, whether by way of sale or subscription, in the PRC and has not been circulated or distributed in the PRC. The Offer Shares are not being offered or sold and may not be offered or sold directly or indirectly in the PRC or to or for the benefit of, legal or natural persons of the PRC except pursuant to applicable laws and regulations of the PRC. For the purposes of this paragraph, PRC does not include, Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

### ***Australia***

This Prospectus is not a disclosure document under Chapter 6D of the Corporations Act 2001 (Cth) (the “Australian Corporations Act”), has not been and will not be lodged with the Australian Securities and Investments Commission as a disclosure document for the purposes of the Australian Corporations Act and does not purport to include the information required of a disclosure document under Chapter 6D of the Australian Corporations Act. The Offer Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for or buy the Offer Shares may be issued, and no draft or definitive offering circular, advertisement or other offering material relating to any of the Offer Shares may be distributed in Australia except where disclosure to investors is not required under Chapter 6D of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. Accordingly,

- (i) the offer of the Offer Shares under this Prospectus is only made to select persons who are “Sophisticated Investors” that meet the criteria set out in Section 708(8) of the Australian Corporations Act or “Professional Investors” as referred to in Section 708(11) and as defined in Section 9 of the Australian Corporations Act or investors who received the offer through an Australian financial services licensee where all of the criteria set out in section 708(10) of the Australian Corporations Act have been satisfied or persons to whom it is otherwise lawful to offer the Offer Shares without disclosure under Chapter 6D of the Australian Corporations Act under one or more exemptions set out in Section 708 of the Australian Corporations Act,
- (ii) this Prospectus may only be made available in Australia to those persons who are able to demonstrate that they are within one of the categories of persons as set forth in clause (i) above,

- (iii) as any offer of the Offer Shares under this document will be made without disclosure in Australia under Chapter 6D of the Australian Corporations Act, the offer of the Offer Shares for resale in Australia within 12 months may, under section 707 of the Australian Corporations Act, require disclosure to investors under Chapter 6D if none of the exemptions in section 708 apply to that resale. Accordingly, any person who acquires the Offer Shares pursuant to this Prospectus should not, within 12 months of acquisition of the Offer Shares, offer, transfer, assign or otherwise alienate those Offer Shares to investors in Australia except in circumstances where disclosure to investors is not required under Chapter 6D of the Corporations Act or unless a complaint disclosure document is prepared and lodged with the Australian Securities and Investments Commission; and
- (iv) the offeree must be sent a notice stating in substance that by accepting this offer, the offeree represents that the offeree is such a person as set forth in clause (i) above, and, unless permitted under the Australian Corporations Act, agrees not to sell or offer for sale within Australia any of the Offer Shares sold to the offeree within 12 months after its transfer to the offeree under this Prospectus.

The provisions that define the exempt categories of person as set forth in clause (i) above are complex, and if you are in any doubt as to whether you fall within one of these categories, you should seek appropriate professional advice regarding those provisions.

This Prospectus is intended to provide general information only and has been prepared without taking into account any particular person's objectives, financial situation or needs. Investors should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs. Investors should review and consider the contents of this Prospectus and obtain financial advice specific to their situation before making any decision to make an application for the Offer Shares.

### ***Switzerland***

This Prospectus is being communicated in Switzerland or from Switzerland to a limited number of investors only without any public offering. Each copy of this document is addressed to a specifically named recipient and shall not be passed to a third party.

### ***Korea***

A registration statement for the offering and sale of the Offer Shares has not been filed with the Financial Supervisory Commission of Korea. Accordingly, the Offer Shares may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the benefit of any Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea), except as otherwise permitted by applicable Korean laws and regulations. Furthermore, a holder of the Offer Shares shall be prohibited from offering, delivering or selling any Offer Shares, directly or indirectly, in Korea or to any Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea), except as may be permitted by applicable Korean laws and regulations.

### ***Malaysia***

No approval has been obtained from the Securities Commission of Malaysia ("SC") pursuant to the Capital Markets and Services Act 2007 ("CMSA") to make available, offer for subscription or purchase, or issue an invitation to subscribe for or purchase the Offer Shares in Malaysia, nor do the

Offer Shares come within the classes or categories of transactions or securities exempted from the requirement to obtain such approval set out in Schedule 5 of the CMSA. This Prospectus is not a prospectus within the meaning of the CMSA and neither has this Prospectus been approved by, registered nor lodged with the SC or any authority in Malaysia. No issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase in Malaysia, any of the Offer Shares to which this Prospectus relate is made, nor shall any of the Offer Shares be made available pursuant to this Prospectus. Neither this Prospectus nor any other offering document or material relating to the Offer Shares may be circulated or distributed, directly or indirectly, in Malaysia.

### *New Zealand*

This Prospectus is not a registered prospectus or investment statement for the purposes of the New Zealand Securities Act 1978 (the “New Zealand Securities Act”) and does not contain all the information typically included in a registered prospectus or investment statement. The offer of the Offer Shares does not constitute an “offer of securities to the public” for the purposes of the New Zealand Securities Act and, accordingly, there is neither a registered prospectus nor an investment statement available in respect of the offer.

The offer is only being made to persons who are not members of the public, being persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. No person may offer, invite, sell or deliver any security or distribute any documents (including this Prospectus) to any person in New Zealand except in accordance with all of the legal requirements of New Zealand, including the Securities Act. By receiving this Prospectus:

- (i) you are deemed to represent and warrant that your principal business is the investment of money or you, in the course of and for the purpose of your business, habitually invest money, as those expressions are used in section 3(2)(a)(ii) of the New Zealand Securities Act 1978; and
- (ii) you acknowledge that no prospectus or investment statement under the New Zealand Securities Act 1978 will be prepared for the Offer, and any information provided to you as concerns the offer is not required to, and may not, contain all of the information that would be contained in such a prospectus or investment statement.

### *United Arab Emirates*

The Offer Shares and this Prospectus have not been reviewed, approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This document is strictly private and confidential and has not been reviewed, deposited or registered with any licensing authority or governmental agency in the United Arab Emirates. The Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the United Arab Emirates, except (i) in compliance with all applicable laws and regulations of the United Arab Emirates, and (ii) through persons or corporate entities authorized and licensed to engage in brokerage activity and/or trade in respect of foreign securities in the United Arab Emirates. The information contained in this Prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and is addressed only to persons who are sophisticated investors.

The Offer Shares will not be offered or sold in the Dubai International Financial Centre (the “DIFC”) unless such offer is (a) deemed to be an “Exempt Offer”, made in accordance with the Offered Securities Rules of the Dubai Financial Services Authorities (the “Rules”); (b) made to Qualified Investors as defined in the Rules; and (c) made through a duly authorized firm in the DIFC. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with “Exempt Offers”. The Dubai Financial Services Authority has not approved this Prospectus nor taken steps to verify the information set out in it, and has no responsibility for it. The Offer Shares may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares should conduct their own due diligence on the Offer Shares. If you do not understand the contents of this Prospectus, you should consult an authorised financial advisor.

### ***Kuwait***

The Offer Shares have not been licensed for offering in Kuwait by the Ministry of Commerce and Industry or the Central Bank of Kuwait or any other relevant Kuwaiti government agency. No private or public offering of the Offer Shares is being made in Kuwait, and no agreement relating to the sale of the Offer Shares will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Offer Shares in Kuwait.

### ***Saudi Arabia***

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering, private placement, or an exempt private placement of the Offer Shares in the Kingdom of Saudi Arabia, or possession or distribution or the direct or indirect marketing thereof of any offering materials in relation thereto. Further, this Prospectus has not been reviewed by the Capital Market Authority (“CMA”), and the CMA is not responsible for the performance of the Company or the Underwriters. Prospective purchasers of the Offer Shares should conduct their own due diligence on the accuracy of the information relating to the Offer Shares. If you do not understand the contents of this document you should consult an authorized financial advisor.

### ***Bahrain***

This Prospectus has not been reviewed by the Central Bank of Bahrain (“CBB”). This Prospectus may not be circulated within the Kingdom of Bahrain nor may any of interests in the Company be offered for subscription or sold, directly or indirectly, nor may any invitation or offer to subscribe for any Offer Shares in the Company be made to persons in the Kingdom of Bahrain. The CBB is not responsible for the performance of neither the Company nor the Underwriters.

### ***Qatar***

The investment described in this Prospectus has not been offered, sold or delivered and will not be offered, sold or delivered, at any time, directly or indirectly in the State of Qatar in a manner that would constitute a public offering, public advertisement or in any similar manner, public advertisement or in any similar manner. This Prospectus and the Offer Shares have not been, and will not be, registered with or approved by the Qatar Financial Market Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank for public offer, distribution or otherwise, in Qatar. This Prospectus and any other offering materials relating to the offer of the Offer Shares, as well as information contained therein (i) may not be supplied to the public in Qatar or used in connection with any offer for subscription of the Offer Shares to the public in Qatar, (ii) are intended for the original

recipient only and may not be provided to any other person; and (iii) are not for circulation in the State of Qatar, are intended for the original recipients only and may not be reproduced or distributed to, or used by, any other person or for any other purpose.

## **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-Allotment Option). Dealings in our Shares on the Stock Exchange are expected to commence on 10 July 2008. Save as disclosed in this Prospectus, no part of the Share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

## **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, and dealing in or the exercise of any rights in relation to our Shares. None of our Company, the Global Coordinator, the Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, dealing in, or exercise of any rights in relation to our Shares.

## **OVER-ALLOTMENT AND STABILISATION**

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Global Coordinator, as stabilising manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions (including stock borrowing arrangements) with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements and any stabilising activity will be entered into in accordance with the stabilising laws, rules and regulations in place in Hong Kong. However there is no obligation on the Global Coordinator or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the sole and absolute discretion of the Global Coordinator and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued under the Over-Allotment Option, namely 187,500,000 Shares, which is approximately 15% of the Shares initially available under the Global Offering.

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Global Coordinator, or any person acting for it, may maintain a long position in our Shares. The size of the long position, and the period for which the Global Coordinator, or any person acting for it, will

maintain the long position is at the discretion of the Global Coordinator and is uncertain. In the event that the Global Coordinator liquidates this long position by making sales in the open market, this may lead to a decline in the market price of our Shares.

Stabilising action by the Global Coordinator, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilising period, which begins on the Listing Date and ends 30 days from the last day for the lodging of applications under the Hong Kong Public Offering. The stabilising period is expected to end on 1 August 2008. As a result, demand for our Shares, and their market price, may fall after the end of the stabilising period. A public announcement will be made within seven days after the end of the stabilising period in accordance with the Securities and Futures (Price Stabilising) Rules of the SFO.

Any stabilising action taken by the Global Coordinator, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Bids for, or market purchases, of the Shares by the Global Coordinator, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by subscribers or purchasers.

In connection with the Global Offering, the Global Coordinator may over-allocate up to and not more than an aggregate of 187,500,000 Shares and cover such over-allocations by exercising the Over-Allotment Option in full or in part, by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the Global Offering, Deutsche Bank, whether on its own or through its affiliates, may borrow up to 187,500,000 Shares from Dr. Ho, equivalent to the maximum number of Shares to be issued on full exercise of the Over-Allotment Option, under the Stock Borrowing Agreement.

## **PROCEDURE FOR APPLICATION FOR HONG KONG PUBLIC OFFERING SHARES**

The procedure for applying for Hong Kong Public Offering Shares is set out in “How to Apply for Hong Kong Public Offering Shares” and on the relevant Applications Forms.

## **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure and conditions of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering.”

## **ROUNDING**

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

## **EXCHANGE RATE CONVERSION**

Solely for convenience, this Prospectus contains translations of Hong Kong dollars and patacas into U.S. dollars and translations of patacas into Hong Kong dollars. Unless otherwise indicated, translations of Hong Kong dollars and patacas into U.S. dollars in this Prospectus were made at the rate of HK\$7.80 = US\$1.00 and MOP8.04 = US\$1.00, respectively, and patacas into Hong Kong dollars at the rate of MOP1.03 = HK\$1.00. Such translations are for reference only. These are provided by way of illustration only and no representation is made, and none should be construed as being made, that

the U.S. dollar and patacas amounts set out in this Prospectus could have been or could be converted into Hong Kong dollars at any particular rate on such date or any other date.

**HONG KONG REGISTER OF MEMBERS AND STAMP DUTY**

The Company's register of members will be maintained by its registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

Dealings in the Shares registered on the Company's register of members will be subject to Hong Kong stamp duty.



<b>PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
--

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<b>Executive Directors</b>		
Dr. Ho Hung Sun, Stanley	1 Repulse Bay Road Hong Kong	Chinese
Dr. So Shu Fai	23-C Po Garden 9 Brewin Path Hong Kong	Chinese
Mr. Ng Chi Sing	Flat A, 35/F Birchwood Place 96 MacDonnell Road Hong Kong	Chinese
Mr. Rui José da Cunha	Rua Santa Clara Edifício Ribeiro Flat A, 5/F Macau	Portuguese
Ms. Leong On Kei, Angela	4 Repulse Bay Road Hong Kong	Chinese
Mr. Shum Hong Kuen, David	Flat B, 8/F, Victoria Heights 43A Stubbs Road Hong Kong	Chinese
<b>Non-executive Director</b>		
Dato' Dr. Cheng Yu Tung	12 Repulse Bay Road Hong Kong	Chinese
<b>Independent Non-executive Directors</b>		
Mr. Chau Tak Hay	C14, Woodland Heights 2 Wong Nai Chung Gap Road Hong Kong	Chinese
Mr. Lan Hong Tsung, David	Flat 4B, Skylight Tower No. 64 Bonham Road Hong Kong	Chinese
Mr. Shek Lai Him, Abraham	Flat C, 13/F 39 MacDonnell Road Hong Kong	Chinese
Mr. Tse Hau Yin	22, Mt. Butler Drive Jardine's Lookout Hong Kong	Chinese

## PARTIES INVOLVED IN THE GLOBAL OFFERING

### PARTIES INVOLVED

<b>Global Coordinator and Bookrunner</b>	Deutsche Bank AG, Hong Kong Branch 55/F Cheung Kong Center 2 Queen's Road Central Hong Kong
<b>Sponsor</b>	Deutsche Bank AG, Hong Kong Branch 55/F Cheung Kong Center 2 Queen's Road Central Hong Kong
<b>Legal Advisors to our Company</b>	<i>As to Hong Kong and U.S. Law</i> Baker & McKenzie 14/F Hutchison House 10 Harcourt Road Hong Kong  <i>As to Macau Law</i> C&C Advogados Avenida da Praia Grande, 759 3rd Floor Macau  João Nuno Riquito & Associados Advogados AIA Tower, 10th Floor, 1004 251-A — 301 Avenida Comercial de Macau Macau
<b>Legal Advisors to the Underwriters</b>	<i>As to Hong Kong Law</i> Linklaters 10th Floor, Alexandra House Chater Road Hong Kong  <i>As to U.S. Law</i> Shearman & Sterling LLP 12/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong  <i>As to Macau Law</i> Gonçalves Pereira, Rato, Ling, Vong & Cunha Avenida da Amizade Macau Landmark Office Tower 23, 2301-2302 Macau

## PARTIES INVOLVED IN THE GLOBAL OFFERING

### **Auditors and Reporting Accountants**

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

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

### **Property Valuers**

Savills Valuation and Professional Services Limited  
23/F, Two Exchange Square  
8 Connaught Place  
Hong Kong

### **Receiving Bankers**

Bank of China (Hong Kong) Limited  
1 Garden Road  
Hong Kong

The Bank of East Asia, Limited  
10 Des Voeux Road  
Central  
Hong Kong

Industrial and Commercial Bank of China (Asia)  
Limited  
33/F, ICBC Tower  
3 Garden Road  
Central  
Hong Kong

Standard Chartered Bank (Hong Kong) Limited  
15/F, Standard Chartered Tower  
388 Kwun Tong Road  
Kwun Tong  
Hong Kong

## CORPORATE INFORMATION

<b>Registered Office</b>	Unit 14-Unit 16 15 <sup>th</sup> Floor China Merchants Tower Shun Tak Centre 168-200 Connaught Road Central Hong Kong
<b>Qualified Accountant and Company Secretary</b>	Mr. Mok Wing Kai, Henry <i>FCCA, FCCA, ACIS, ACS</i>
<b>Compliance Advisor</b>	OSK Asia Capital Limited 11/F Hip Shing Hong Centre 55 Des Voeux Road Central Hong Kong
<b>Authorised Representatives</b>	Dr. So Shu Fai 23-C Po Garden 9 Brewin Path Hong Kong  Mr. Ng Chi Sing Flat A, 35/F Birchwood Place 96 MacDonnell Road Hong Kong
<b>Audit Committee</b>	Mr. Tse Hau Yin ( <i>Chairman</i> ) Mr. Chau Tak Hay Mr. Shek Lai Him, Abraham
<b>Remuneration Committee</b>	Dr. So Shu Fai ( <i>Chairman</i> ) Mr. Lan Hong Tsung, David Mr. Shek Lai Him, Abraham Mr. Tse Hau Yin Ms. Leong On Kei, Angela
<b>Nomination Committee</b>	Dr. So Shu Fai ( <i>Chairman</i> ) Mr. Lan Hong Tsung, David Mr. Shek Lai Him, Abraham Mr. Tse Hau Yin Mr. Chau Tak Hay Ms. Leong On Kei, Angela Mr. Shum Hong Kuen, David
<b>Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17 <sup>th</sup> Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

**Principal Bankers**

Seng Heng Bank Limited  
Avenida da Amizade n.º 555  
Macau Landmark  
Torre Banco Seng Heng  
18.º andar  
Macau

BNP Paribas Hong Kong Branch  
59-63/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

BNP Paribas Macau Branch  
Avenida Almeida Ribeiro, n.º 61  
Central Plaza, 10.º  
Loja C  
Macau

Banco Weng Hang, S.A.  
Avenida de Almeida Ribeiro, n.ºs 221-241  
Macau

Calyon, Hong Kong Branch  
27/F Pacific Place Two  
88 Queensway Road  
Hong Kong

Industrial and Commercial Bank of China Limited,  
Macau Branch  
Alameda Dr. Carlos D' Assumpção, n.º 393 - 437  
Edif. Dynasty Plaza, Lojas Y, Z, AA, AB  
Macau

Bank of China Limited, Macau Branch  
Avenida Dr. Mário Soares  
Edif. Banco da China, r/c  
Macau

## INDUSTRY OVERVIEW

*This section and other sections of this Prospectus contain information relating to Macau, Hong Kong and the PRC, and the Macau gaming and tourism industry and Macau gaming markets. The information has been derived from various publications of government agencies of Macau, Hong Kong, China and other government agencies. Unless noted otherwise, all statistics relating to Macau's general economy and industries are derived from the publications of DSEC and the DICJ. While we and our Directors have taken reasonable care in the extraction, compilation and reproduction of the information derived from government sources, we cannot assure you as to the accuracy or completeness of such information. Neither we nor any of our respective affiliates or advisors, nor the Global Coordinator, the Sponsor, the Underwriters, or any of their respective affiliates or advisors have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from government sources, and such information may not be consistent with available from other sources and should not be unduly relied upon. See "Risk Factors — Risks Relating to the Shares."*

### OVERVIEW OF MACAU

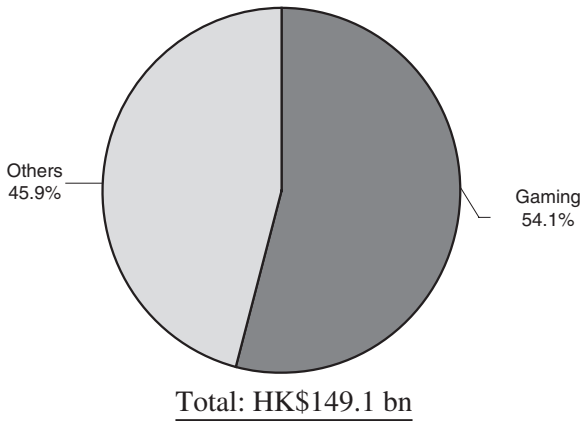
The MSAR was established on 20 December 1999 after more than 400 years of Portuguese administration. The MSAR is a part of China's territory, located on the Southeast coast of China to the west of the Pearl River Delta. Macau consists of the Macau peninsula and the islands of Taipa and Coloane. Three bridges link the Macau peninsula to Taipa while the two islands are connected by the land reclamation area known as Cotai.

The MSAR has been one of the most rapidly growing economies in Asia since the liberalisation of the gaming industry in 2002 and it is also the only territory within China where casino operations have been legalised. Macau is one of the most popular destinations for gaming in Asia and has more casinos than any other region in Asia. In 2007, total revenues generated by casinos in Macau were approximately US\$10.3 billion, exceeding those of the Las Vegas Strip by more than 50% in the same period. The liberalisation of the gaming industry in Macau has attracted a large amount of capital into the region from local, regional and international investors.

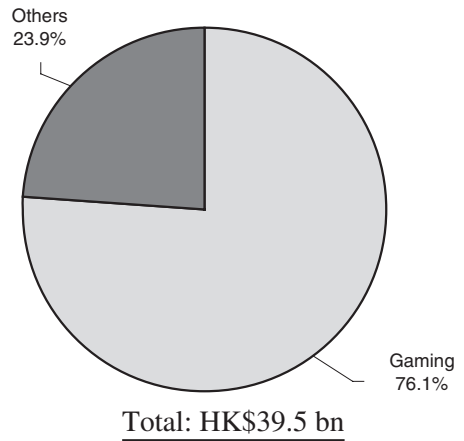
## INDUSTRY OVERVIEW

The gaming industry along with tourism comprise the largest components, and are the major growth drivers, of Macau's economy. The gaming industry is the most important contributor to the MSAR economy, with approximately 54.1% of Macau's GDP and 76.1% of Macau's tax revenues in 2007 being derived from gaming and gaming-related industries.

2007 Macau GDP Composition:<sup>(1)</sup>



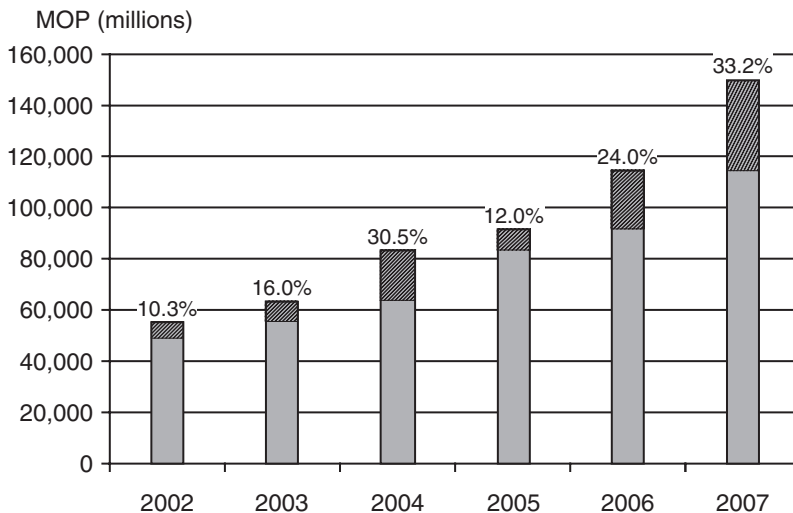
2007 MSAR Tax Revenue:<sup>(2)</sup>



Source: (1) DSEC  
(2) DSF

Although Macau was affected by the 1997 Asian financial crisis, the global financial downturn in 2001 and the impact of SARS in 2003, the economy rebounded and grew at a CAGR of 22.9% from 2002 to 2007. We believe that this growth was largely driven by the liberalisation of Macau's gaming industry, the significant investments associated with the expansion and development of the gaming industry, a rapid rise in the number of visitors from mainland China and an increase in Macau's spending on public infrastructure projects.

The following chart sets forth Macau's GDP at current prices in MOP million from 2002 to 2007 and the percentage increase from year to year:



Source: DSEC

## INDUSTRY OVERVIEW

The rapid growth of the overall economy has also resulted in a decline in the overall unemployment rate in Macau, with inflation, as measured by the consumer price index, remaining relatively stable.

Macau's population as at 31 December 2007 was estimated to be 538,100, of which Macau's labour force was estimated to be 322,800. Of this, approximately 22.7% were employed by the cultural, recreational, gaming and other service sectors. In 2007, Macau's GDP was MOP153.6 billion (HK\$149.1 billion), an increase of 33.2% compared to the previous year.

Gaming revenue in Macau derives from (i) casino gaming, which primarily consists of gaming tables and slot machines, and (ii) non-casino gaming, which consists of greyhound racing, horse racing, sports lottery and instant lottery. In 2007, approximately 99% of Macau's total gaming revenue was derived from casino gaming.

	2002		2003		2004		2005		2006		2007	
	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%
	(in millions, except for percentages)											
Casino gaming revenue . . . . .	21,534	94.4	27,837	94.6	40,173	95.1	44,706	97.7	54,974	98.4	80,604	99.0
Non-casino gaming revenue . . . . .	1,278	5.6	1,595	5.4	2,071	4.9	1,055	2.3	872	1.6	801	1.0
Total . . . . .	22,812	100.0	29,432	100.0	42,244	100.0	45,761	100.0	55,846	100.0	81,405	100.0

Source: DICJ

Post liberalisation of the gaming industry, the number of casinos, tables and slot machines in Macau has grown and this growth is expected to continue.

	As at 31 December					
	2002	2003	2004	2005	2006	2007
Gaming Tables . . . . .	339	424	1,092	1,388	2,762	4,375
% change . . . . .	—	25.1%	157.5%	27.1%	99.0%	58.4%
Slot Machines . . . . .	808	814	2,254	3,421	6,546	13,267
% change . . . . .	—	0.7%	176.9%	51.8%	91.3%	102.7%
Casinos . . . . .	11	11	15	17	24	28
% change . . . . .	—	0.0%	36.4%	13.3%	41.2%	16.7%

Source: DICJ

In 2007, Macau's total revenue from casino gaming reached MOP83.0 billion (HK\$80.6 billion). In the same year, Macau's gaming industry generated MOP30.9 billion (HK\$30.0 billion), in special gaming tax revenue for the Macau Government. The following table sets forth Macau's GDP, special gaming tax revenue, and growth rates from 2002 to 2007:

	GDP <sup>(1)</sup>	Nominal growth	Special gaming tax revenue <sup>(2)</sup>	Nominal growth
	(HK\$ millions)	(%)	(HK\$ millions)	(%)
2002 . . . . .	53,222	10.3	7,540	N/A
2003 . . . . .	61,715	16.0	10,271	36.2
2004 . . . . .	80,550	30.5	14,793	44.0
2005 . . . . .	90,244	12.0	16,814	13.7
2006 . . . . .	111,924	24.0	20,143	19.8
2007 . . . . .	149,134	33.2	30,046	49.2

Source: (1) DSEC  
(2) DSF



## INDUSTRY OVERVIEW

In 2007, Macau's gaming revenue increased more than 45% compared to 2006, surpassing the Las Vegas Strip as the world's biggest casino market, followed by Atlantic City. The following table shows the gaming revenue of Macau compared to that of the Las Vegas Strip and Atlantic City between 2002 and 2007:

	Gaming Revenue						CAGR (2002-2007) (%)
	2002	2003	2004	2005	2006	2007	
	(HK\$ billions)						
Macau .....	21.5	27.8	40.1	44.7	55.0	80.6	30.3%
Las Vegas Strip .....	36.3	37.1	41.6	47.1	52.2	53.3	8.0%
Atlantic City .....	32.9	33.9	36.5	38.0	39.5	38.4	3.1%

Sources: DICJ; Nevada Gaming Control Board; New Jersey Casino Control Commission.

### MACAU'S CASINO GAMING INDUSTRY

#### *VIP and Mass Market Casino Gaming*

Macau's gaming industry has historically focused on casino gaming, with a particular emphasis on the VIP segment. In 2007, revenue from all gaming activities in Macau accounted for approximately 54.1% of total GDP in Macau. Total gaming revenue in Macau grew from MOP22.1 billion (HK\$21.5 billion) in 2002 to approximately MOP83.0 billion (HK\$80.6 billion) in 2007, reflecting a CAGR of 30.3%, while GDP for the same period grew from MOP54.8 billion (HK\$53.2 billion) to MOP153.6 billion (HK\$149.1 billion), representing a CAGR of 22.9%.

#### **VIP market**

VIP gaming has historically been the major component of Macau's gaming industry. VIP gaming patrons are typically high-stakes patrons who play VIP baccarat almost exclusively in dedicated VIP rooms or designated casino areas. VIP gaming operations are generally less subject to seasonal variations and face limited competition from mass market gaming operations and non-casino gaming activities.

VIP gaming patrons are usually brought to VIP rooms by Gaming Promoters. SJM has adopted this business model of using Gaming Promoters for VIP operations which was initially developed by STDM and remains the industry standard in Macau. See "Business — Arrangements With VIP Room Gaming Promoters." Marketing and promotion of VIP rooms through this business model is implemented between Concessionaires or Sub-Concessionaires and their Gaming Promoters. In addition, Gaming Promoters, particularly VIP Room Gaming Promoters, are incentivised to bring VIP gaming patrons to patronise designated VIP rooms by compensation systems based on the net-win of the VIP rooms and/or the amount of non-redeemable chips sold in the VIP rooms.

#### **Mass market**

Following the granting of new concessions in 2002 and the Chinese Government's implementation of FITS, Macau's gaming industry has witnessed significant growth in mass market casino gaming operations. However, most mass market gaming patrons are not high-stakes patrons. Mass market patrons' desire to visit casinos may be influenced by a number of factors, such as the variety and quality of services and amenities offered, the ambience, promotions and diversity of games in the casinos, the location of and ease of transportation to the casinos, and the presence of other attractions and gaming-related facilities.

## INDUSTRY OVERVIEW

The following table provides a breakdown of revenue derived from casino gaming in Macau for the periods indicated:

	Year ended 31 December											
	2002		2003		2004		2005		2006		2007	
	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%
	(in millions, except for percentages)											
VIP gaming operations . . . . .	15,864	73.7	21,532	77.4	28,916	72.0	28,023	62.7	35,711	65.0	54,138	67.2
Mass market table gaming operations . . . . .	5,436	25.3	6,067	21.8	10,627	26.5	15,466	34.6	17,268	31.4	22,975	28.5
Slot machine operations . . . . .	224	1.0	229	0.8	621	1.5	1,214	2.7	1,993	3.6	3,489	4.3
Others <sup>(1)</sup> . . . . .	10	—	9	—	9	—	3	—	2	—	2	—
<b>Total . . . . .</b>	<u>21,534</u>	<u>100.0</u>	<u>27,837</u>	<u>100.0</u>	<u>40,173</u>	<u>100.0</u>	<u>44,706</u>	<u>100.0</u>	<u>54,974</u>	<u>100.0</u>	<u>80,604</u>	<u>100</u>

Source: DICJ

(1) Figures include gaming revenue from the operation of Pachinko and Tombola.

### *Demand for Gaming and Gaming-Related Services*

According to the DSEC, approximately 27 million visitors arrived in Macau in 2007, of which approximately 14.9 million, or 55.1%, were from mainland China. Gaming patrons can reach Macau in a relatively short period of time using various means of transportation, including by car or bus from Guangdong province, by high-speed ferry or helicopter from Hong Kong and Shenzhen and by air from elsewhere in China and other Asian countries. We believe that the easy access from major population centres provided by these diverse means of transportation facilitates Macau's development as a popular gaming destination in Asia.

We believe that the Chinese and Macau Governments have long recognised that the growth and development of Macau's economy depend significantly on the continued success of Macau's casino gaming industry. The growth and expansion of the casino gaming industry is likely to support the growth of other industries including but not limited to construction, lodging, real estate, retail, tourism and transportation.

The following public policies implemented by the Chinese Government are expected to continue to have a positive influence on the development of the gaming industry of Macau:

- **FITS.** Since July 2003, residents of selected areas of mainland China have been allowed to visit Macau and Hong Kong under FITS, under which approval requirements are significantly reduced and the application process is expedited. Since the introduction of FITS, visitors to Macau from mainland China have outnumbered visitors from Hong Kong. FITS has been extended to additional areas of mainland China, and, as at the Latest Practicable Date, encompassed more than 45 municipalities, including Beijing, Chongqing, Guangzhou, Shanghai and Tianjin. In 2007, visitor arrivals to Macau from mainland China increased by 24.1% over 2006, to 14.9 million. In June 2008, news media reported that certain restrictions are being placed on exit visa applicants for travel to Macau by authorities in Guangdong and other provinces. While there has been no official confirmation of such reports as at the Latest Practicable Date, under the reported measures, residents of Guangdong and other provinces are no longer permitted to enter Macau on double-entry permits. Rather, these residents are restricted to single-entry permits for a period of seven days per month. In addition, we understand that authorities have extended the application process to varying degrees in different cities.

## INDUSTRY OVERVIEW

- **Chinese Government policy with respect to gaming.** Macau is the only region in China offering legal casino gaming, and the Chinese Government has strictly enforced its regulations prohibiting domestic gaming operations and discouraging unlicensed gaming operations along China's borders.
- **Chinese Government's relaxation of foreign exchange controls.** The Chinese Government has recently undertaken a number of measures to relax its controls on renminbi. Currently, each PRC resident is allowed to carry a maximum RMB20,000 (approximately HK\$21,026) in a single trip abroad, but mainland China visitors to Macau may now charge spending on their credit cards or bank charge cards.

The growth of Macau's gaming industry has correlated positively with the continued economic growth and development of mainland China. We believe that the emergence of the middle class in China represents a significant long-term growth opportunity for Macau's gaming industry.

Macau also draws a significant number of visitors from Hong Kong. The principal means of transportation to Macau from Hong Kong is the high-speed ferry service. The high-speed ferry offers frequent services to and from Macau on a 24-hour basis and extra services during peak seasons and public holidays, with each trip taking approximately one hour. Macau is also accessible from Hong Kong by helicopter with trips taking approximately 20 minutes.

In addition to visitors from mainland China and Hong Kong, a substantial number of visitors to Macau are from nearby countries and territories in Asia, such as Taiwan and various countries in Southeast Asia. The following table illustrates the number of visitors by region with respect to the periods indicated:

	2002		2003		2004		2005		2006		2007	
	No. of visitors	%	No. of visitors	%	No. of visitors	%	No. of visitors	%	No. of visitors	%	No. of visitors	%
	(in thousands, except for percentages)											
Mainland												
China . . . . .	4,240.4	36.8	5,742.0	48.3	9,529.7	57.1	10,463.0	55.9	11,985.6	54.5	14,866.4	55.1
Hong Kong . . . . .	5,101.4	44.2	4,623.2	38.9	5,051.1	30.3	5,614.9	30.0	6,940.7	31.6	8,174.1	30.3
Taiwan . . . . .	1,532.9	13.3	1,022.8	8.6	1,286.9	7.7	1,482.5	7.9	1,437.8	6.5	1,444.1	5.3
Southeast Asia . . . . .	169.9	1.5	146.5	1.2	260.5	1.6	396.1	2.1	693.4	3.1	1,179.4	4.4
Others . . . . .	486.2	4.2	353.4	3.0	544.4	3.3	754.7	4.1	940.6	4.3	1,329.0	4.9
Total . . . . .	11,530.8	100.0	11,887.9	100.0	16,672.6	100.0	18,711.2	100.0	21,998.1	100.0	26,993.0	100.0

Source: DSEC

The Macau International Airport opened in 1995, enabling direct air service to and from many major cities in Asia. Currently more than 15 airlines offer air service between Macau and over 30 destinations, including Beijing, Nanjing, Shanghai, Tianjin, Xiamen, Bangkok, Jakarta, Kuala Lumpur, Manila, Osaka, Seoul, Singapore, Sydney, Taipei and Tokyo. As air travel to and from Macau becomes increasingly developed and convenient, we expect that it will encourage more visitors to Macau.

Although both VIP and mass market gaming have benefited from the increasing number of visitors to Macau, mass market gaming has shown stronger growth since 2003 relative to VIP gaming. We expect the growth rate for mass market gaming revenue will continue to outpace growth in VIP gaming revenue because of the following factors:

- **The influx of mainland Chinese visitors.** As it is easier and relatively inexpensive for residents of mainland China to visit Hong Kong and Macau as compared to other overseas destinations, FITS is expected to encourage the influx of mainland Chinese visitors to the two cities.

- **Opening of new casinos and resorts.** The opening of new mixed-use developments, together with the entertainment business, sports events, conventions, exhibitions and trade shows that they will bring to Macau, will also help to transform Macau into a major travel destination, attracting more regional visitors and visitors from outside the Asia-Pacific region.
- **UNESCO world heritage list.** The Macau Government has devoted substantial resources to marketing campaigns that promote Macau's history, cultural heritage and hotel and convention facilities, aiming to turn Macau into a premier integrated gaming and tourism centre. On 15 July 2005, the United Nations Educational, Scientific and Cultural Organisation (UNESCO) identified and inscribed the "Historic Centre of Macau" comprising eight squares and twenty-two monuments, in its prestigious World Heritage List, pursuant to the terms of the Convention Concerning the Protection of the World Culture and Natural Heritage.

In addition, we believe that improved transportation to and within Macau will also contribute to continued growth in visitation and mass market gaming. A number of infrastructure projects to facilitate travel have been recently completed or are in various stages of planning or development:

- **Hong Kong-Zhuhai-Macau Bridge.** The project linking the three areas, would include a bridge with total length of around 30 km, boundary crossing facilities, access roads and associated works. In January 2007, the three local governments established the HZMB Task Force to implement the project, which is expected to open around 2015.
- **Inner Harbour Ferry Terminal.** In February 2008 the Macau Maritime Administration opened the new Inner Harbour Ferry Terminal, providing increased berths and customs counters for transfer to and from neighboring Mainland cities.
- **Lotus Flower Bridge and boundary crossing.** Renovations have been completed for the bridge linking Cotai and Hengqin Island in mainland China, and the associated boundary crossing, which reopened to traffic in May 2007.
- **Macau International Airport expansion.** The Macau International Airport has begun an expansion project to double its capacity from the current 6 million passengers.
- **Macau Light Railway System.** The Macau Government has conducted public consultations concerning the proposed elevated light rail system and reviewed proposals for consultancy. It was announced in October 2006 that the railway could be in operation four years after acceptance of tender. The first phase would extend approximately 20 km, with 23 stations starting at the border gate and serving Macau peninsula including the Macau Maritime Terminal, as well as Cotai, Macau International Airport and the new ferry terminal at Pac On.
- **Pac On Ferry Terminal.** A temporary ferry terminal on Taipa near Macau International Airport opened in October 2007. It aims to handle increasing visitor traffic between Hong Kong and Macau and facilitate sea linkage service for air transfer.

### *Supply of Gaming and Gaming-related Services*

The Concessionaires and the Sub-Concessionaires have committed to invest in Macau pursuant to their respective concession and sub-concession contracts in order to develop projects such as

## INDUSTRY OVERVIEW

casinos, hotels, convention facilities, and facilities for retailing, dining, entertainment and recreation. We believe that this substantial financial commitment by the Concessionaires and Sub-Concessionaires will stimulate further revenue growth in Macau's gaming and tourism industries.

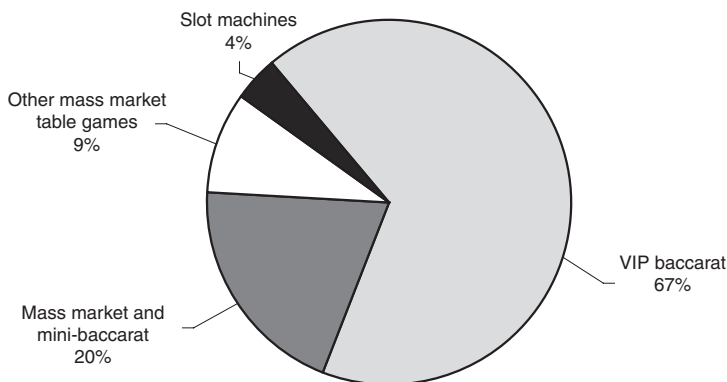
Revenue generated by table games in Macau has historically exceeded revenue generated by slot machines by a wide margin. Baccarat has been the most popular table game in Macau since the 1970s, followed by various other traditional western and Asian casino games, such as blackjack and fish-prawn-crab. According to the DICJ, in 2007, approximately 67.2% of gross revenue from casino games was derived from VIP baccarat and approximately 19.9% of gross revenue from casino games was derived from baccarat played in the mass market sections in casinos.

The following table shows a breakdown of the gross revenue from different casino games in Macau for the years 2002 to 2007:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(HK\$ billions, except for percentages)					
VIP baccarat . . . . .	15.9	21.5	28.9	28.0	35.7	54.1
% change (yoy) . . . . .	—	35%	34%	-3%	28%	52%
Mass market baccarat and mini-baccarat . . . . .	2.6	3.0	5.8	10.1	11.6	16.0
% change (yoy) . . . . .	—	15%	93%	74%	15%	38%
Other mass market table games . . . . .	2.8	3.1	4.9	5.4	5.7	7.0
% change (yoy) . . . . .	—	11%	58%	10%	6%	23%
Slot machines . . . . .	0.2	0.2	0.6	1.2	2.0	3.5
% change (yoy) . . . . .	—	0%	200%	100%	67%	75%
Total . . . . .	21.5	27.8	40.2	44.7	55.0	80.6

Source: DICJ

The following chart illustrates the gaming revenue breakdown in Macau by type of game for 2007:



Source: DICJ

As at 31 December 2007, there were 28 casinos in Macau with a total of 4,375 gaming tables, and SJM was the largest operator accounting for approximately 32.3% of the gaming tables in Macau.

## INDUSTRY OVERVIEW

The following table illustrates the supply of gaming tables in Macau for the periods indicated:

	As at 31 December					
	2002	2003	2004	2005	2006	2007
<u>No of gaming tables</u>						
SJM .....	339	424	713	906	1,202	1,412
Other operators .....	—	—	379	482	1,560	2,963
Total .....	339	424	1,092	1,388	2,762	4,375
Growth .....	—	25.1%	157.5%	27.1%	99.0%	58.4%
<u>Market share<sup>(1)</sup></u>						
SJM .....	100% <sup>(2)</sup>	100%	85.1%	74.7%	62.2%	39.9%
Other operators .....	—	—	14.9%	25.3%	37.8%	60.1%
	100%	100%	100%	100%	100%	100%
	<b>Year Ended 31 December</b>					
	2003	2004	2005	2006	2007	
	(HK\$ millions)					
<u>Gaming Revenue</u>						
SJM .....	27,837.1	34,180.4	33,406.3	34,196.3	32,146.6	
Other operators .....	—	5,992.4	11,299.5	20,777.5	48,457.3	
	27,837.1	40,172.8	44,705.8	54,973.8	80,603.9	

Source: DICJ, Company Data

(1) In terms of gaming revenue.

(2) As of 1 April 2002.

The increase in the number of gaming and gaming-related facilities is likely to continue Macau's transformation into a premier integrated gaming and tourism centre. The completion of new world-class gaming and gaming-related facilities in Macau could attract a greater number of gaming patrons and potentially result in an increase in total gaming revenue in Macau.

### ***Concessionaires and Sub-Concessionaires***

Six entities are currently authorised to operate casinos in Macau. SJM currently competes with Galaxy and Wynn Macau, the two other Concessionaires as well as Venetian Macau, Melco PBL and MGM Grand Paradise, the three Sub-Concessionaires.

As at the Latest Practicable Date, SJM operated 19 of the 30 casinos in Macau whilst Galaxy operated five casinos, Venetian Macau and Melco PBL each operated two casinos, and Wynn Macau and MGM Grand Paradise each operated one casino. Each of the other Concessionaires and Sub-Concessionaires currently compete with SJM with respect to VIP gaming and mass market gaming (including slot machines).

Galaxy was awarded a gaming concession in 2002 and opened five casinos between July 2004 and October 2006. Galaxy is reported to be opening additional casinos by 2009. Under its concession contract with the MSAR, Galaxy is obligated to invest at least MOP8.8 billion (HK\$8.5 billion) by 26 June 2009.

Wynn Macau was also awarded a concession in 2002. Wynn Macau opened its casino in September 2006. Wynn Macau is obligated to invest at least MOP4.0 billion, (HK\$3.9 billion) by 24 June 2009 under its concession contract with the MSAR.

## INDUSTRY OVERVIEW

Galaxy entered into a sub-concession with Venetian Macau in December 2002. Venetian Macau currently operates two casinos in Macau, which opened in May 2004 and August 2007, respectively. The sub-concession contract between Galaxy and Venetian Macau requires Venetian Macau to invest and be responsible for MOP4.4 billion (HK\$4.3 billion) of Galaxy's original investment obligations in Macau for gaming and gaming-related facilities by 19 December 2009.

SJM entered into a sub-concession with MGM Grand Paradise on 19 April 2005. MGM Grand Paradise opened its first casino in December 2007.

Wynn Macau entered into a sub-concession with Melco PBL in 2006. Melco PBL operates two casinos, which opened in May 2007 and June 2008, respectively. The joint venture is currently developing a resort in Cotai, expected to be fully completed in the second quarter of 2009. The sub-concession contract between Wynn Macau and Melco PBL requires Melco PBL to invest at least MOP4.0 billion (HK\$3.9 billion) in Macau for one resort-hotel-casino complex to be concluded and open to the public in December 2010. Melco PBL's investment obligation is in addition to Wynn Macau's original investment obligations of at least MOP4.0 billion (HK\$3.9 billion).

All of the Concessionaires, including SJM, and the Sub-Concessionaires, are currently constructing or have announced plans to construct further new gaming and gaming-related facilities to satisfy their investment obligations under the concessions or sub-concessions, or in excess of their obligations. A significant number of these new gaming and gaming-related facilities are expected to be completed in 2009 and 2010 which is likely to result in an increase of casinos, VIP rooms, gaming tables, slot machines and hotel rooms thus further intensifying competition in Macau's gaming industry.

### HISTORY

SJM Holdings Limited was incorporated as a limited liability company in Hong Kong on 17 February 2006. Our operating subsidiary, SJM, conducts casino gaming operations and gaming-related activities in Macau. SJM and our other subsidiaries undertake a number of construction projects to develop resort-style hotel casinos and other gaming-related facilities, including retail facilities and food and beverage outlets, as well as the expansion and maintenance of our existing network of casinos.

STDM, our largest Controlling Shareholder, held the exclusive gaming concession from the Macau Government to engage in gaming operations in Macau from 1962 to 2002. STDM was incorporated in Macau and is owned by a number of corporate and individual shareholders. Dr. Ho alone is directly and indirectly interested in more than 30% of its equity share capital. In 2002, the MSAR liberalised the gaming industry by granting three gaming concessions to casino operators in Macau through an international tender process upon the expiration of the STDM concession. The Macau Government required all potential participants in the tender to meet certain qualification requirements before they could participate in the tender. Participants in the tender were required to be incorporated in Macau and engaged exclusively in the operation of casino games, with the exception that participants could also engage in gaming-related activities with prior approval from the Macau Government. SJM has received approval from the Macau Government to conduct Tombola. In addition, according to the Macau Gaming Law and the concession contracts, 10% of the new Concessionaire's issued share capital must be held by its managing director, who must be appointed by each Concessionaire and must be a permanent Macau resident.

In addition to casino gaming, STDM engaged in other businesses (including hospitality, property investments, financial services, overseas investments, real estate and infrastructure) prior to the incorporation of SJM. SJM was incorporated on 28 November 2001 to participate in the tender for the new gaming concession. As of 31 December 2006, SJM had an authorised, issued and paid up share capital of MOP200.0 million (HK\$194.2 million), which was divided into: 1,600,000 type I shares (privileged); 200,000 type II shares (privileged qualifying); and 200,000 type III shares (basic ordinary), all with a par value of MOP100.0 each. STDM, through STDM - Investments (a company controlled by STDM), held 1,600,000 type I shares and Dr. Ho held 200,000 type II shares. The holders of type I shares and type II shares each had the same rights, but type II shares were required to be held by the Managing Director. Each of the holders of type I and type II shares had additional voting rights over and above those attaching to holders of type III shares and, in particular, the holders of type I and type II shares ranked ahead of holders of type III shares in terms of their respective entitlements to distributions of dividends and, upon liquidation of SJM, distributions of assets. Holders of type I, type II and type III shares were entitled to one vote for every 40, 40 and 50 shares held, respectively. The holders of type I and type II shares received 15% of the early distributable profit, resolved to be distributed as dividends by SJM, and the balance of the amount resolved to be distributed was shared by all shareholders, including holders of type I and of type II shares, among themselves. Out of the net available assets of SJM upon its liquidation, holders of type I and type II shares were entitled to the return of the par value of the shares to them, with the balance (if any) being shared by all shareholders pro rata among themselves. United Glory and four senior management personnel between them held 200,000 type III shares in aggregate.

Upon SJM's receipt of the Concession on 1 April 2002, SJM acquired some of its gaming and gaming-related assets and equipment from STDM. As at 1 April 2002, SJM paid HK\$1,160.1 million



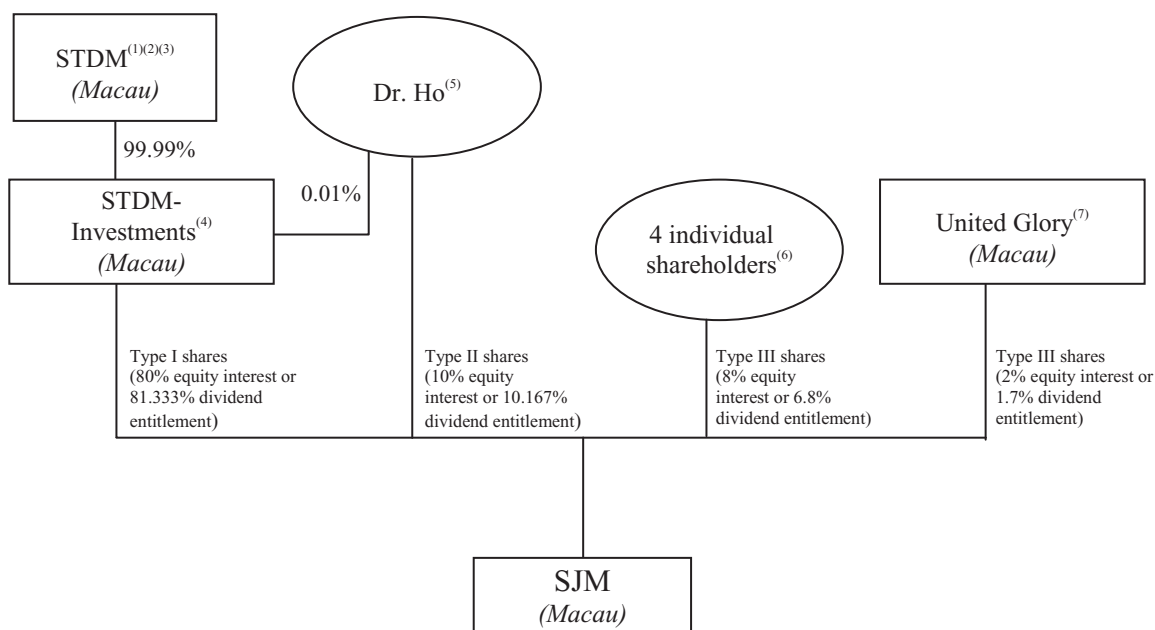
## HISTORY AND REORGANISATION

in consideration for the acquisition of gaming and gaming-related assets of STDM; the consideration was based on the net book value of such gaming and gaming-related assets. We are not aware of any dispute over, nor any legal proceedings resulting from, the transfer of gaming assets by STDM to SJM. SJM also hired some former employees and management staff of STDM. In 2002, SJM, upon winning the tender (together with two other gaming operators), became one of the three casino gaming Concessionaires under Macau's concession regime. After the reversion of STDM's gaming assets to the Macau Government (as provided under Section 40 of the Macau Gaming Law and as stated in the Concession Contract), and the transfer of some of the gaming assets to SJM (as stated in the Concession Contract), STDM continued to engage in hospitality services, financial services, overseas investments, and real estate and infrastructure development and investment.

In May 2004, SJM and its subsidiaries purchased certain land use rights, bank balances and cash and amounts owed to fellow subsidiaries. This was achieved by the acquisition of the entire equity of Unido from its ultimate holding company for a consideration of HK\$383.4 million, which was based on the equivalent previous acquisition cost paid by the ultimate holding company for acquiring Unido. In March 2005, SJM and its subsidiaries disposed of certain of its subsidiaries, (Alfa, S.A., Breve, S.A., Terra C Sub, S.A., Dinâmica, S.A., Tempo-Desenvolvimento, S.A. and Propriedades Sub F, S.A.) for a total consideration of HK\$0.1 million. In May 2006, SJM and its subsidiaries also disposed of another subsidiary, Keentalent Investments Limited, for a consideration of HK\$8,000. In April 2007, SJM and its subsidiaries disposed of a 2% interest in Chong Fung for a consideration of MOP 5.0 million. As a result of such disposal, the Group's interest in Chong Fung reduced from 51% to 49% and Chong Fung ceased to be a subsidiary of the Company. For accounting purposes, Chong Fung has been treated as a jointly controlled entity of the Company before and after such disposal.

### REORGANISATION

For the purpose of the Global Offering, our Company became the holding company of SJM as a result of the Reorganisation. Prior to the Reorganisation, the simplified shareholding structure of SJM was as follows:



## HISTORY AND REORGANISATION

- (1) As at the Latest Practicable Date, STDM had 44 corporate and individual shareholders. Of these shareholders, Dr. Ho, together with Lanceford Co. Ltd., a company controlled by him, owns approximately 32.204% of the equity share capital of STDM. Henry Fok Foundation (being an Independent Third Party) and Interdragon, Limited own approximately 26.576% and 10.796% of the equity share capital of STDM, respectively. None of the remaining shareholders owns more than 10% of the equity share capital of STDM. Mr. Shum Hong Kuen, David and Ms. Leong On Kei, Angela, Directors of the Company, are also shareholders of STDM and are interested in approximately 0.732% and 0.235% of the equity share capital of STDM, respectively.

As at the Latest Practicable Date, the full list of shareholders based on share scripts sighted, deeds executed and decisions taken in certain court proceedings is as follows:

<u>Name of shareholder</u>	<u>Approximate percentage of equity interest in STDM</u>
Lanceford Co. Ltd. . . . . .	26.816%
Henry Fok Foundation . . . . .	26.576%
Interdragon, Limited . . . . .	10.796%
Many Town Co. Ltd . . . . .	9.606%
Ho Yuen Ki, Winnie <sup>#</sup> . . . . .	7.347%
Ho Hung Sun, Stanley . . . . .	5.388%
Shun Tak Holdings Ltd . . . . .	4.985%
Hung Hin Chun . . . . .	0.915%
Shum Kwok Kuen . . . . .	0.915%
Shum Yue Tim . . . . .	0.915%
Shum Hong Kuen, David . . . . .	0.732%
Tsoi Fok Mo Kan . . . . .	0.595%
Ho Yuen Wing, Louise . . . . .	0.457%
Yip Yuen Yuen, Susie . . . . .	0.457%
Fok Chan Yin Fong . . . . .	0.457%
Leong On Kei, Angela . . . . .	0.235%
Chan Un Chan . . . . .	0.235%
Ho Yuen Hung, Nanette . . . . .	0.223%
Lee To . . . . .	0.183%
Chan Fook Shing . . . . .	0.183%
Chan Fook Man . . . . .	0.183%
Chan Fook Leung . . . . .	0.183%
Lai Ho Shuk Chun . . . . .	0.137%
Wong Luen Kong . . . . .	0.137%
Wong Yiu Fai . . . . .	0.137%
Ho Chiu King, Pansy . . . . .	0.117%
Chui Yau . . . . .	0.091%
Fung Yuen Chak . . . . .	0.091%
Lei Mok Lan, Clara Lei . . . . .	0.091%
Lei Pak Iu . . . . .	0.091%
Yip Ping Yan . . . . .	0.091%
Ung Lai Tong . . . . .	0.091%
San Mimi Kit Yee . . . . .	0.076%
Chan Kit Ying, Sandra . . . . .	0.076%
Lui Kai Chiu . . . . .	0.059%
Chung Shiu Man, Ivy . . . . .	0.046%
Fung Shiu Wai . . . . .	0.046%
Lee Chung To . . . . .	0.046%
Tse Yuk Lin . . . . .	0.046%
Chan Choi Mei . . . . .	0.030%
Chan Yuen Ling, Elaine . . . . .	0.030%
Chen Jianming . . . . .	0.030%
Chan Kit Yuk . . . . .	0.030%
To Pui King . . . . .	0.023%
Total . . . . .	100%

This list reflects the list of shareholders used for STDM shareholders' meetings pending the reconstitution of the share register of STDM. See "Risk Factors – Risks Relating to Our Business – We or SJM may become involved in, or be subject to, litigation from time to time, including litigation initiated by shareholders of STDM and/or its associate."

<sup>#</sup> Based on copy share scripts only. The purported transfer of shares from Ms. Ho Yuen Ki, Winnie to Moon Valley Foundation Limited is still pending.

- (2) Lanceford Co. Ltd is a company wholly-owned by Dr. Ho. Henry Fok Foundation is a charitable foundation established in Macau. Interdragon, Limited is directly owned as to 40% by STDM and indirectly owned as to 60% by Shun Tak Holdings. Many Town Co. Ltd is owned as to 93.30% by United Worldwide Investment S.A., 3.4% by Permanent Ltd., an Independent Third Party, and 3.3% by Braniff Assets Limited, an Independent Third Party, and United Worldwide Investment S.A. is in turn owned as to 50% by Cheng Yu Tung and 50% by Cheng Kar Shun.

## HISTORY AND REORGANISATION

- (3) Based on information extracted from the 2007 annual report published by Shun Tak Holdings in April 2008, the shareholdings in the issued share capital of Shun Tak Holdings are as follows:

<b>Shareholder</b>	<b>Approximate percentage of issued shares in Shun Tak Holdings</b>
Dr. Ho <sup>(i)</sup> .....	12.45%
STDM .....	11.32%
Shun Tak Shipping Company, Limited .....	13.23%
Ms. Pansy Ho <sup>(ii)</sup> .....	8.89%
Ms. Daisy Ho <sup>(iii)</sup> .....	5.08%
Ms. Maisy Ho <sup>(iv)</sup> .....	1.06%
Other directors of Shun Tak Holdings .....	1.18%
Other public shareholders .....	<u>46.79%</u>
<b>Total</b> .....	<u>100.00%</u>

- (i) Including shares held by Sharikat Investments Limited, Dareset Limited and Lanceford Co. Limited, all of which are wholly-owned by Dr. Ho.
- (ii) Including shares held by Beeston Profits Limited and Classic Time Developments Limited, both of them are wholly-owned by Ms. Pansy Ho.
- (iii) Including shares held by St. Lukes Investments Limited, which is wholly-owned by Ms. Daisy Ho.
- (iv) Including shares held by LionKing Offshore Limited, which is wholly-owned by Ms. Maisy Ho.
- (4) STDM directly holds 99.99% interest in STDM - Investments. The remaining 0.01% interest is held by Dr. Ho.
- (5) Dr. Ho is also a shareholder of STDM and is directly and indirectly interested in approximately 32.204% of the entire issued share capital of STDM.
- (6) The four individuals are Dr. So Shu Fai (holding 4% equity interest or 3.4% dividend entitlement), Mr. Ng Chi Sing (holding 3% equity interest or 2.55% dividend entitlement), Ms. Leong On Kei, Angela (holding 0.5% equity interest or 0.425% dividend entitlement) and Mr. Rui José da Cunha (holding 0.5% equity interest or 0.425% dividend entitlement). Dr. So Shu Fai and Mr. Ng Chi Sing are also shareholders of United Glory and are each interested in approximately 1% of the entire issued share capital of United Glory. Ms. Leong On Kei, Angela is also a shareholder of STDM and is interested in approximately 0.235% of the entire issued share capital of STDM.
- (7) In 2002, by way of a shareholders' resolution passed by STDM, STDM granted 10% equity interest in the shares of SJM to SJM's key employees. United Glory was incorporated as a corporate entity holding the share interests of some of these key employees of SJM.

The major steps of the Reorganisation involved the following:

The type I, II and III shares of SJM were each redefined as type A shares with each type A share having the same rights. Accordingly, the shareholdings of each holder of type I, II and III shares have been re-adjusted amongst all shareholders based on the respective dividend entitlement of their shares.

On 21 August 2007, SJM shareholders resolved to increase the issued share capital of SJM from MOP200.0 million (HK\$194.2 million) to MOP300.0 million (HK\$291.3 million), by the creation of 1,000,000 new shares to be paid up by applying the reserves of SJM in favour of all SJM shareholders. Of the 1,000,000 new shares, 700,000 shares are type A shares and 300,000 shares are type B shares. The par value of each of the type A and type B shares is MOP100. The 700,000 new type A shares were issued by SJM to the existing holders of type A shares on a pro-rata basis and at par, by applying the reserves of SJM. The 300,000 new type B shares were issued to SJM's managing director at par value, by applying the reserves of SJM, in order to satisfy the Macau law requirement that at least 10% of the issued share capital of a gaming Concessionaire is held by its managing director.

The type B shares have restricted rights and will only entitle the holder of these shares an aggregate amount of up to MOP 1 of the dividends payable. Moreover, upon liquidation of SJM, the rights attaching to the type B shares are limited to a liquidation payment of a maximum amount equal to the total par value of these type B shares.

## HISTORY AND REORGANISATION

For the characteristics of the type B shares, please see “— Ownership of and Control over SJM.”

In consideration of the then holders of type A shares of SJM transferring their shareholdings in SJM to us, we issued and allotted our Shares to them in proportion to their then shareholdings in SJM. For the purpose of satisfying the Macau law requirement that a Macau limited liability company must have a minimum of three shareholders, one type A share of SJM was subsequently transferred by the Company to SJM Holdings (Nominee) Limited, a company wholly-owned by the Company.

The Macau Government has approved the transfers of shares in SJM to us, in support of the listing of our Shares on the Stock Exchange; and its approval was given on the basis that, if the approval of the Stock Exchange of such listing of our Shares has not been given on or before 31 December 2008, the shares of SJM have to be re-transferred to the original shareholders. Therefore, the transfers of shares in SJM to us were made on terms that if listing approval of the Stock Exchange is not given on or before 31 December 2008 (or such later date as may be permitted by the Macau Government), those shares have to be re-transferred to the original shareholders for a nominal consideration of HK\$1.

The table below sets out the subsidiaries which the Group acquired or disposed of during the Track Record Period:

<u>Name of the subsidiary acquired</u>	<u>Consideration (HK\$ million)</u>	<u>Basis of consideration</u>
Sociedade de Desenvolvimento Unido de Macau S.A.R.L. . . . . .	383.4	STDM’s original investment cost
<u>Name of the subsidiary disposed of</u>	<u>Consideration (HK\$)</u>	<u>Basis of consideration</u>
Chong Fung <sup>(1)</sup> . . . . .	4,854,368	Market price
Keentalent Investments Limited <sup>(2)</sup> . . . . .	8,000	At cost
Alfa, S.A. <sup>(2)</sup> , Breve, S.A. <sup>(2)</sup> , Dinâmica, S.A. <sup>(2)</sup> , Propriedades Sub F, S.A. <sup>(2)</sup> , Tempo-Desenvolvimento, S.A. <sup>(2)</sup> , Terra C Sub, S.A. <sup>(2)</sup> . . . . .	— <sup>(3)</sup>	— <sup>(3)</sup>

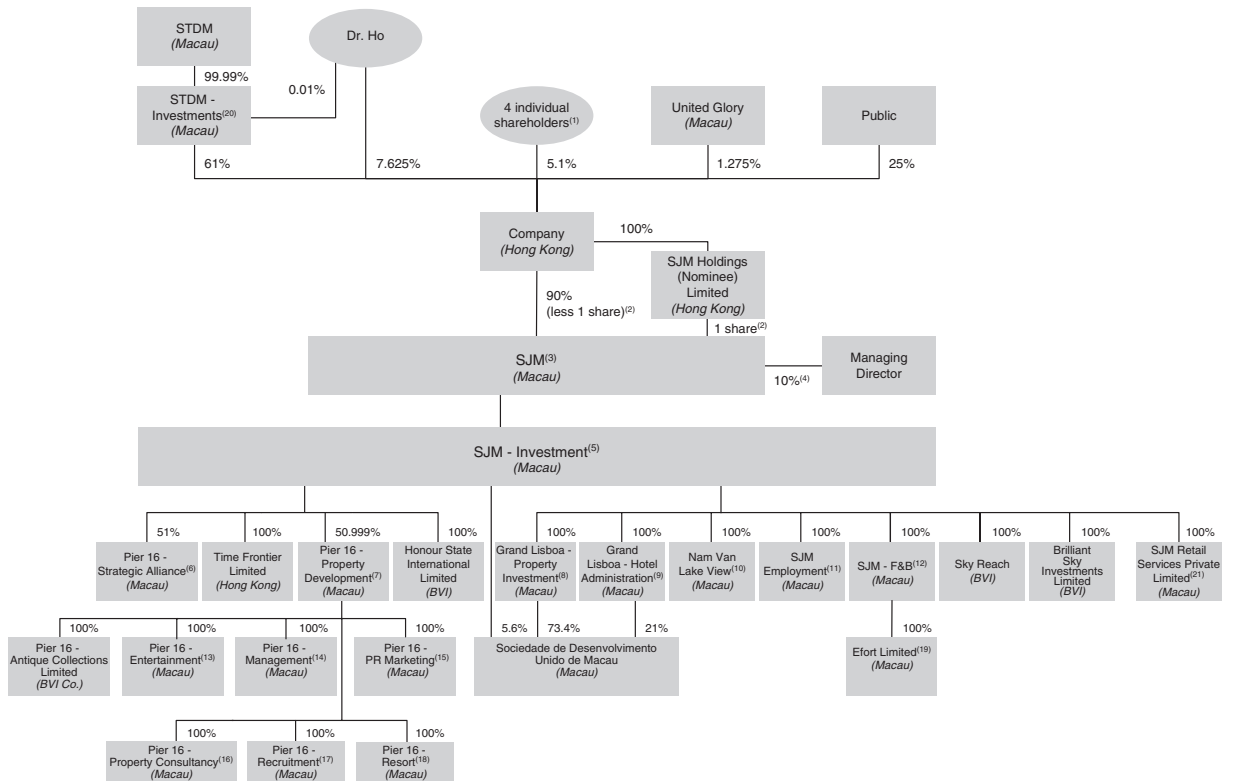
(1) Chong Fung is a property investment company.

(2) Dormant at the time of disposal.

(3) Disposal of these subsidiaries was made in connection with the MGM Sub-Concession Agreement and consideration cannot be segregated individually. The total consideration for the disposal of Alfa, S.A., Breve, S.A., Dinâmica, S.A., Propriedades Sub F, S.A., Tempo-Desenvolvimento, S.A. and Terra C Sub, S.A. was HK\$0.1 million.

## HISTORY AND REORGANISATION

Immediately after the Reorganisation and the Global Offering (assuming that the Over-Allotment Option is not exercised), the simplified shareholding and corporate structure of our Company will be as follows:



- (1) The four individual shareholders are Dr. So Shu Fai (holding 2.550% equity interest), Mr. Ng Chi Sing (holding 1.913% equity interest), Mr. Rui José da Cunha (holding 0.319% equity interest) and Ms. Leong On Kei, Angela (holding 0.319% equity interest).
- (2) The aggregate 90% interest of the Company and SJM Holdings (Nominee) Limited in the issued share capital of SJM is equivalent to 100% interest of the type A shares in SJM, therefore corresponding to 100% minus 1 pataca of the economic interest of SJM.
- (3) The Company directly holds 2,699,999 shares in SJM and it also indirectly, through our wholly-owned subsidiary, SJM Holdings (Nominee) Limited, holds the remaining one share in SJM.
- (4) Dr. Ho is the managing director of SJM. His 10% interest in the issued share capital of SJM is equivalent to 100% interest of the type B shares in SJM.
- (5) SJM directly holds 99.9% interest in SJM - Investment and it also indirectly, through our wholly-owned subsidiary, Charm Class Limited, holds the remaining 0.1% in SJM - Investment.
- (6) The remaining interest in Pier 16 - Strategic Alliance is indirectly owned as to 49% by Macau Success Limited, a company incorporated under the laws of Bermuda whose shares are listed on the Stock Exchange and a substantial shareholder of Pier 16 - Strategic Alliance.
- (7) The remaining interest in Pier 16 - Property Development is directly owned as to 49% by World Fortune Limited incorporated in Hong Kong, a subsidiary of Macau Success Limited, and as to 0.001% by our wholly owned subsidiary Vast Base Limited.
- (8) SJM - Investment directly holds 99.8% interest in Grand Lisboa - Property Investment and it also indirectly, through its wholly-owned subsidiary Mega Profit Limited which in turn through its two wholly-owned subsidiaries, Full Extent Limited and Sharp Outlook Limited, holds the remaining 0.2% in Grand Lisboa - Property Investment.
- (9) SJM - Investment directly holds 99.8% interest in Grand Lisboa - Hotel Administration and it also indirectly, through its wholly-owned subsidiary Mega Profit Limited which in turn through its two wholly-owned subsidiaries, Sure Vision Limited and Power Boost Limited, holds the remaining 0.2% in Grand Lisboa - Hotel Administration.
- (10) SJM - Investment directly holds 99.9% interest in Nam Van Lake View and it also indirectly, through our wholly-owned subsidiary, Vast Base Limited, holds the remaining 0.1% in Nam Van Lake View.
- (11) SJM - Investment directly holds 99% interest in SJM Employment and it also indirectly, through our wholly-owned subsidiary, Winning Reward Limited, holds the remaining 1% in SJM Employment.
- (12) SJM - Investment directly holds 96% interest in SJM - F&B and it also indirectly, through its wholly-owned subsidiary Mega Profit Limited which in turn through its wholly-owned subsidiary Power Boost Limited, holds the remaining 4% in SJM - F&B.
- (13) Pier 16 - Property Development directly holds 96% interest in Pier 16 - Entertainment and it also indirectly, through our indirectly non-wholly owned subsidiary, Early Success Limited, holds the remaining 4% in Pier 16 - Entertainment.

- (14) Pier 16 - Property Development directly holds 96% interest in Pier 16 - Management and it also indirectly, through our indirectly non-wholly owned subsidiary, Early Success Limited, holds the remaining 4% in Pier 16 - Management.
- (15) Pier 16 - Property Development directly holds 96% interest in Pier 16 - PR Marketing and it also indirectly, through our indirectly non-wholly owned subsidiary, Early Success Limited, holds the remaining 4% in Pier 16 - PR Marketing.
- (16) Pier 16 - Property Development directly holds 96% interest in Pier 16 - Property Consultancy and it also indirectly, through our indirectly non-wholly owned subsidiary, Early Success Limited, holds the remaining 4% in Pier 16 - Property Consultancy.
- (17) Pier 16 - Property Development directly holds 96% interest in Pier 16 - Recruitment and it also indirectly, through our indirectly non-wholly owned subsidiary, Early Success Limited, holds the remaining 4% in Pier 16 - Recruitment.
- (18) Pier 16 - Property Development directly holds 96% interest in Pier 16 - Resort and it also indirectly, through our indirectly non-wholly owned subsidiary, Early Success Limited, holds the remaining 4% in Pier 16 - Resort.
- (19) SJM - Investment directly holds 96% interest in Efort Limited. The remaining 4% in Efort Limited, is owned by SJM - F&B which is owned as to 96% by SJM - Investment and as to 4% by a wholly-owned subsidiary Power Boost Limited.
- (20) See note (4) under the paragraph headed "Reorganisation".
- (21) SJM - Investment directly holds 96% interest in SJM Retail Services Private Limited and it also indirectly, through our wholly-owned subsidiary, Merry Year Limited, holds the remaining 4% in SJM Retail Services Private Limited.
- (22) For principal activities engaged by the subsidiaries, please refer to I-1 and I-2 of the Accountants' Report in this Prospectus.

### *Ownership of and Control over SJM*

As a result of the Reorganisation, the Company, although only owning 90% of the issued share capital of SJM, will directly or indirectly have effectively 100% economic interest in SJM and will have 90% voting control of SJM. This is due to the special characteristics of type B shares as explained below.

### **Characteristics of type B shares**

The characteristics of type B shares as set out in the articles of association of SJM are summarised below:

- **Voting power:** As the type B shares amount to 10% of the issued share capital of SJM, the holder of type B shares has 10% voting right at any general meeting of SJM.
- **Dividend entitlement:** The type B shares will only entitle the holder of these shares up to an aggregate amount of MOP 1 of the dividends payable.
- **Change of law:** If Macau law changes so that a mandatory holding of 10% of the issued share capital of SJM by its managing director is no longer required, the type B shares shall be compulsorily re-purchased by SJM at par and be cancelled and, as a consequence, the Company will own 100% of the then issued share capital of SJM.
- **Change of managing director:** Any termination of service or replacement of the managing director will trigger a compulsory purchase by SJM of the type B shares and a subsequent transfer of type B shares to the new managing director. The compulsory purchase and the subsequent transfer of type B shares by SJM shall always be at par.
- **Maintenance of shareholdings:** If the issued share capital of SJM is increased, SJM will also issue new type B shares on a pro rata basis to the managing director at par, so as to maintain type B shares at 10% of the total issued share capital of SJM at any time for compliance with Macau law.
- **Liquidation:** Upon liquidation of SJM, the rights attaching to the type B shares are limited to a liquidation payment of up to a maximum equal to the total par value of these type B shares.

To alter or amend the articles of association of SJM, including amendments of the characteristics of type B shares in SJM, a special resolution is required. In accordance with the articles

of association of SJM, a special resolution must be passed in a general meeting if shareholders representing more than three-fourths of the share capital of SJM are present or represented at the meeting and if the resolution is passed by more than two-thirds of the votes of the shareholders present or represented at the meeting. The holder of type B shares is not entitled to vote in a general meeting on any matters in which he has a conflict of interest. In any event, the holder of type B shares, having only 10% of the total voting power at a shareholders' meeting of SJM, will not be able to block the passing of any resolutions at any such shareholders' meeting of SJM.

### ***Protection in Articles against Improper Alteration to the Characteristics of the Type B Shares in SJM***

The Articles of Association of the Company contain provisions that guard against the improper alteration of the characteristics of the type B shares in SJM by Interested Shareholders (as defined below) of the Company. According to the Articles, any Shareholders' resolution that, if implemented, proposes or decides for or against or otherwise has the effect of changing, varying or in any way altering the characteristics of the type B shares in SJM at any time in future, such resolution must be passed by way of a special resolution in the manner as described in the paragraph below. Furthermore, in accordance with the Articles, no director will be entitled to vote on any matter relating to a B Shares Resolution (as defined below) in which he or any of his associates is/are materially interested at any meeting of our Board, to avoid any potential conflict of interest.

The Articles further provide that if any resolution or other corporate action of our Company is proposed which may in any way affect, directly or indirectly, any characteristics of the type B shares in SJM in any respect (each a "B Shares Resolution") then, a shareholders' meeting of our Company must be held to consider the B Shares Resolution. Any such B Shares Resolution must be passed by a special majority vote of the Independent Shareholders (as defined below). B Shares Resolutions include, without limitation:

- a resolution of the Company proposing or approving or disapproving a resolution to be passed by SJM to authorise the issue of further type B shares in SJM to the managing director, such that his aggregate holding of type B shares will exceed 10% of the total issued share capital of SJM or the issue of any similar shares to the managing director;
- a resolution of the Company proposing or approving or disapproving a resolution to be passed by SJM to modify the rights, restrictions, or characteristics of the type B shares in SJM as described in the paragraph headed "Ownership of and Control over SJM" above; or
- any other actions of the Company that constitute or could give rise to an alteration of any of the characteristics of the type B shares in SJM.

As provided in the Articles, for any proposed B Shares Resolution, the following Shareholders will not be entitled to vote in any such shareholders' meeting of the Company: the holder of the type B shares; his associates (as defined under the Listing Rules); and any other persons who are otherwise connected with him (who are for that reason or otherwise directly or indirectly interested in the alteration or whose interests are different from the other Shareholders of the Company) (such Shareholders together the "Interested Shareholders"). Only Shareholders who are not Interested Shareholders (the "Independent Shareholders") will be entitled to vote on any B Shares Resolutions.

## HISTORY AND REORGANISATION

In accordance with the Articles, any such B Shares Resolution must be passed by way of a special majority vote of the Independent Shareholders, as follows:

- the B Shares Resolution is approved by at least 75% of the votes attaching to the shares held by the Independent Shareholders and such votes are cast either in person or by proxy at a duly convened meeting of the Independent Shareholders; and
- the number of votes cast against the B Shares Resolution at such meeting is not more than 10% of the votes attaching to all shares held by the Independent Shareholders.

Furthermore, the Articles also contain a provision that any amendment to the Articles which would have the effect of amending, removing or overriding any provision of the Articles relating to the characteristics of type B shares in SJM (as mentioned above) requires approval by the same special majority of Independent Shareholders as is required for approval of a B Shares Resolution. For further details, please refer to the section headed “Summary of Articles of Association—Matters Requiring Special Majority Votes” in this Prospectus.

Therefore, without the approval of the Company, the above characteristics of type B shares cannot be altered. As mentioned above, for any proposed B Shares Resolutions to be passed, independent shareholders’ approval must first be obtained.



**THE CONCESSION REGIME**

Following its decision to open Macau’s gaming industry, the MSAR granted three concessions in March 2002 following an international tender process, under the terms of the Macau Gaming Law and other related legislation which authorises the Macau Government to award up to three gaming concessions. Our operating subsidiary, SJM, upon winning the tender along with two other companies, became one of the three Concessionaires in Macau under the concession regime. The Macau Government subsequently and successively authorised three sub-concessions permitting each of SJM, Galaxy and Wynn Macau to enter into the sub-concession contracts with its respective Sub-Concessionaire to operate casino games in Macau. The sub-concessions and the granting of the sub-concessions, which are contemplated in both the Macau Gaming Law and the Concession Contracts, are prohibited unless specifically authorised by the Macau Government. The existing concessions and sub-concessions do not place any limit on the number of gaming facilities that may be operated under each concession or sub-concession, although governmental approval is required before a casino commences operations. As at the Latest Practicable Date, SJM operated 19 of the 30 casinos in Macau. Of the remaining casinos in Macau, Galaxy operated five casinos, Venetian Macau and Melco PBL each operated two casinos, and Wynn Macau and MGM Grand Paradise each operated one casino. For more information on the Concessionaires and Sub-Concessionaires, see “Industry Overview — Concessionaires and Sub-Concessionaires.”

A Concessionaire or Sub-Concessionaire may increase the number of gaming tables it operates upon sending an advance notice to the DICJ. The DICJ considers the general market conditions in the gaming industry such as the supply and demand of gaming tables and the general economic outlook of Macau in approving the request.

Details of the concessions are set forth below:

<b><u>Concessionaire<sup>(1)</sup>:</u></b>	<b><u>SJM</u></b>	<b><u>Galaxy</u></b>	<b><u>Wynn Macau</u></b>
Sub-Concessionaires:	MGM Grand Paradise	Venetian Macau	Melco PBL
Committed investment of the Concessionaire:	MOP4.7 billion (HK\$4.6 billion)	MOP8.8 billion <sup>(2)</sup> (HK\$8.5 billion)	MOP4.0 billion <sup>(3)</sup> (HK\$3.9 billion)
Term:	18 years to 31 March 2020	20 years to 26 June 2022	20 years to 26 June 2022
Special levy:			
Contribution to a public foundation in Macau for promotion, development and study of culture, society, economy, education, science and charity events:	1.6% of gaming revenue <sup>(5)</sup>	1.6% of gaming revenue <sup>(5)</sup>	1.6% of gaming revenue <sup>(5)</sup>
Contribution to the MSAR for urban development, tourism promotion and social security of the MSAR:	1.4% of gaming revenue <sup>(4)(5)</sup>	2.4% of gaming revenue <sup>(5)</sup>	2.4% of gaming revenue <sup>(5)</sup>
Total:	3.0% of gaming revenue <sup>(5)</sup>	4.0% of gaming revenue <sup>(5)</sup>	4.0% of gaming revenue <sup>(5)</sup>

Source: DICJ

(1) The MSAR is precluded by the Macau Gaming Law from granting more than three gaming concessions. Under the concession contracts, the MSAR undertook to SJM, Galaxy and Wynn Macau not to grant any additional gaming concessions before 1 April 2009. The Macau Government subsequently and successively authorised three sub-concessions permitting each of SJM, Galaxy and Wynn Macau to enter into the sub-concession contract with its respective Sub-Concessionaire to operate casino games in Macau.

## THE CONCESSION

- (2) Under the sub-concession contract between Galaxy and Venetian Macau, as authorised by the Macau Government. Venetian Macau is responsible for MOP4.4 billion of Galaxy's original investment obligations of MOP8.8 billion under the Galaxy concession.
- (3) Under the sub-concession contract between Wynn Macau and Melco PBL, as authorised by the Macau Government. Melco PBL is required to invest at least MOP4.0 billion in Macau for one resort-hotel-casino complex to be concluded and open to the public in December 2010.
- (4) Under the Concession Contract, the MSAR and SJM agreed that SJM would only contribute only 1.4% of the gaming revenue taking into consideration SJM's commitment to be jointly responsible with STDM for Macau's navigation channel dredging service with the support of the corresponding consideration costs. There are no similar arrangements between the MSAR and the other two Concessionaires.
- (5) The contribution percentages are subject to changes upon re-negotiation between the Concessionaires and the MSAR in 2010.

The following information in connection with contributions to the Macau Government is common to all Concessionaires and Sub-Concessionaires:

Special gaming tax:	35% of gaming revenue; plus
Annual gaming premium:	<ul style="list-style-type: none"><li>● MOP30 million (HK\$29.1 million) per annum fixed premium;</li><li>● MOP300,000 (HK\$291,262.1) per annum per VIP gaming table;</li><li>● MOP150,000 (HK\$145,631.1) per annum per mass market gaming table; and</li><li>● MOP1,000 (HK\$970.9) per annum per electric or mechanical gaming machine including slot machines.</li></ul>

Source: *DICJ*

Following the granting of the concessions in 2002, each of SJM, Galaxy and Wynn Macau entered into a concession contract, which sets out the terms and conditions of its concession with the MSAR. SJM executed its Concession Contract with the MSAR on 28 March 2002, which was subsequently amended on 19 April 2005 and published in the Macau Official Gazette on 4 May 2005. The Concession Contract for SJM, as amended, contains similar terms and conditions as those in the other concession contracts. See "Regulation — Overview of Macau's Regulatory Framework on Gaming Operations — Overview." The Concessionaires and the Sub-Concessionaires entered into sub-concession contracts, which were authorised by the Macau Government.

### ***The Concession Contract***

The Concession Contract and its related laws and regulations set out the terms and conditions upon which the MSAR granted the concession to SJM. Under the Concession Contract, SJM holds an 18-year concession beginning on 1 April 2002 and expiring on 31 March 2020 to operate casino games and other gaming areas as approved and authorised by the Macau Government. SJM may operate other gaming-related activities, provided that it receives prior approval from the Macau Government. Upon expiration of the Concession Contract on 31 March 2020, the MSAR may grant an extension of up to a maximum of seven years to SJM pursuant to Macau Gaming Law.

The Concession Contract requires approval of the Macau Government for transfers of shares in SJM, or of any rights over or inherent to such shares, including the grant of voting rights or other stockholder's rights to persons other than the original owners, as well as for the creation of any charge,

## THE CONCESSION

lien or encumbrance on such shares. Furthermore, the Concession Contract requires approval of the Macau Government for transfers of shares, or of any rights over such shares, in any of the direct or indirect stockholders in SJM, provided that such shares or rights are directly or indirectly equivalent to an amount that is equal to or higher than 5% of SJM's share capital. As provided in the Concession Contract, this approval requirement will not apply, however, if the securities are listed and tradable on a stock market and the Concession does not require the listing of a shareholder of SJM to be approved by the Macau Government. In addition, the Concession Contract requires that the Macau Government be given notice of the creation of any encumbrance or the grant of voting rights or other stockholder's rights to persons other than the original owners on shares in any of the direct or indirect stockholders in SJM, provided that such shares or rights are indirectly equivalent to an amount that is equal to or higher than 5% of SJM's share capital. This notice requirement will not apply, however, to securities listed as tradable on a stock exchange. In addition, SJM, as a Concessionaire, must obtain prior approval from the Macau Government for the issuance of shares or bonds or the listing of its shares. This requirement only applies to SJM, and not to its respective shareholders. The transfer or creation of encumbrances over SJM's assets is also subject to similar approval and reporting requirements for shares. To ensure SJM's suitability and financial capacity as a Concessionaire, the Macau Government requires SJM's directors, certain key employees and shareholders holding 5% or more of SJM's share capital to apply for, and be subject to, suitability assessment and on-going suitability review. The Macau Government may investigate the relevant individuals at any time and may deny the application for, or a finding of, suitability for any cause it deems reasonable. SJM is also required to notify and obtain prior approval from the Macau Government before it may provide loans to, or enter into similar contracts with, SJM's board of directors, shareholders and key employees in its casinos. In addition, the Chief Executive of the MSAR, at his or her discretion, has the right to require that SJM's issued share capital be increased if necessary and duly justified on a case-by-case basis.

Furthermore, the casinos, gaming equipment and other assets allocated to the exploitation and operation of gaming activity, which are subject to reversion to the MSAR on 31 March 2020 or upon termination of the Concession if at an earlier date, shall also not be subject to any pledge, charge or other encumbrances, save and except with prior authorisation from the MSAR.

The criteria for determining whether a particular asset must revert to the MSAR upon the termination of the Concession are set out by both the Macau Gaming Law (Law 16/2001) and the Concession Contract.

There are two different situations which present two different criteria:

- (a) As stated in clause 41 of the Concession Contract and in article 37 of the Macau Gaming Law, certain assets may be made available to SJM as part of the Concession. While such assets must be returned to the MSAR by the end of the Concession, during the Concession SJM is entitled to the possession, usage and fruition of such assets. According to clause 111 of the Concession Contract, the only such asset made available to SJM was the original Casino Lisboa, and for a determined period.
- (b) As stated in clause 43 of the Concession Contract and in article 40 of the Macau Gaming Law, certain assets of SJM are revertible to the MSAR. Under the terms of the Concession Contract and Macau Gaming Law, the casinos as well as equipment used in gaming shall revert, free without any compensation, automatically to the MSAR.

## THE CONCESSION

Clause 42 of the Concession Contract specifies that such casinos should be perfectly defined (when functioning in premises with non-casino areas), setting the criteria that only such gaming areas should be considered part of the casino.

The MSAR imposes a special gaming tax on the Concessionaires and Sub-Concessionaires at the rate of 35% of gaming revenue, payable on a monthly basis. The special gaming tax accounted for approximately 61.4%, 75.8% and 76.1% of the MSAR's total public revenue for fiscal years 2005, 2006 and 2007, making it the biggest contributor to the MSAR's public revenue. The MSAR also requires the Concessionaires and Sub-Concessionaires to pay a percentage of the gaming revenue as special levy to be given to (i) a public foundation designated by the MSAR that funds educational programs and other events and (ii) the Macau Government for urban development, tourism promotion and social security. Until 31 December 2006, SJM enjoyed a special exemption from payment of complementary tax, which acts as a tax on profit, pursuant to the Dispatch of Chief Executive No. 30/2004. SJM subsequently applied to the Chief Executive of the MSAR for this renewal of a exemption, approval of which was granted on 8 December 2007, effective 1 January 2007 until 31 December 2011. All Concessionaires and Sub-concessionaires currently in operation, with the exception of MGM Grand Paradise, which commenced gaming operations on 18 December 2007, have been granted this special exemption from complementary tax. The relevant exemption periods are:

- (a) For SJM: Fiscal year 2007 until fiscal year 2011 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 333/2007, dated 8 December 2007.
- (b) For Venetian Macau: Fiscal year 2004 until fiscal year 2008 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 250/2004, dated 30 September 2004.
- (c) For Galaxy: Fiscal year 2004 until fiscal year 2008 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 249/2004, dated 30 September 2004.
- (d) For Wynn Macau: Fiscal year 2006 until fiscal year 2010 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 283/2006, dated 19 September 2006.
- (e) For Melco PBL: Fiscal year 2007 until fiscal year 2011 (inclusive), pursuant to the Dispatch from the Chief Executive of MSAR No. 180/2007, dated 7 June 2007.

SJM is also required to remit annually to the MSAR a gaming premium with a fixed portion and a variable portion based on the number and type of gaming tables and electronic gaming machines operated by SJM as described below. The fixed portion is MOP30.0 million, while the variable portion is dependent upon the number of gaming tables or gaming machines. The variable portion of the gaming premium shall not be less than MOP45.0 million per annum. SJM is required to pay the fixed portion of the gaming premium by the 10th of January of each year or upon the request of the MSAR, make the payment on a monthly basis, and one-twelfth of the variable portion of the gaming premium must be paid by the 10th day of each month. SJM is required under clause 33 of the Concession Contract and section 432 of the Macau Commercial Code to maintain a legal reserve fund equal to one-fourth of its share capital. In addition, the Concession Contract requires SJM to provide, for the first five years ending on 31 March 2007, a Bank Guarantee of an amount not exceeding MOP700.0 million (HK\$679.6 million), and replace it with a Bank Guarantee of an amount not exceeding MOP300.0 million (HK\$291.3 million) to cover the period from 1 April 2007 to 27 September 2020, 180 days after the termination of the Concession Contract. The guarantee for the first five years has been reduced from MOP700.0 million (HK\$679.6 million) to MOP500.0 million (HK\$485.4 million) pursuant to a notice from the Chief Executive of the MSAR dated 20 April 2005.

## THE CONCESSION

Under the terms of the Concession Contract, SJM is required to carry certain types of insurance policies for the entire duration of the Concession. As at the Latest Practicable Date, SJM maintained all-risk property insurance for substantially all of its owned and leased properties, buildings, equipment and gaming-related inventories such as chips relating to its casino and slot machine operations. SJM is also required by the Concession Contract to carry general third-party liability insurance in connection with the operation of casino games located in the MSAR and the development of gaming-related services included in the Concession that are not already covered by existing insurance policies.

Our Macau legal advisors have considered the DICJ's confirmation dated 4 June 2008 which confirms full compliance by SJM of all of its obligations as a gaming concessionaire in the MSAR.

There are no renewal conditions imposed under the Concession Contract. However, the Macau Government may impose new conditions for renewal. See "Risk Factors — Risks Relating to Our Business — The Macau Government may unilaterally terminate the Concession Contract for cause without compensation, or SJM may fail to secure its extension." The Concession Contract has been granted for a term of 18 years, until 31 March 2020, and will expire upon its term. Up to six months prior to the expiry date, the Concession Contract may be extended by the Macau Government for a maximum of two additional years, up to a limit of 20 years. Beyond such 20 years limit, it may be exceptionally extended by the Macau Government, if duly justified, up to a further limit of five years.

The following table sets out some of the major terms and conditions of the Concession Contract:

Committed investment	MOP4.7 billion (HK\$4.6 billion) <sup>(1)</sup>
Term	18 years to 31 March 2020
Special gaming tax	35% of gaming revenue
Annual gaming premium	MOP30.0 million (HK\$29.1 million) per annum fixed premium MOP300,000.0 (HK\$291,262.1) per annum per VIP gaming table MOP150,000.0 (HK\$145,631.1) per annum per mass market gaming table MOP1,000.0 (HK\$970.9) per annum per electric or mechanical gaming machine including slot machines
Special levy	
Contribution to a public foundation in Macau	1.6% of gaming revenue — for promotion, development or study of culture, society, economy, education, science and charity events <sup>(2)(4)</sup>
Contribution to the MSAR	1.4% of gaming revenue — for urban development, tourism promotion and social security <sup>(3)(4)</sup>
Total	3.0% of gaming revenue <sup>(4)</sup>

(1) Total investment committed by SJM in Grand Lisboa and Ponte 16 is approximately HK\$8.8 billion upon completion, of which HK\$8.2 billion has been invested for construction and development as at 30 April 2008.

(2) Under the Concession Contract, SJM is required to contribute 1.6% of gaming revenue to a public foundation designated by the Macau Government.

(3) During the negotiation of the Concession Contract, it was agreed between SJM and the MSAR that SJM would contribute only 1.4% of the gaming revenue taking into consideration SJM's commitment to be jointly responsible with STDM for Macau's navigation channel dredging service.

(4) The contribution percentages are subject to changes upon re-negotiation between SJM and the MSAR in 2010.

## THE CONCESSION

The Concession Contract also contains various general covenants and obligations, including those listed below:

SJM shall, amongst other obligations:

- submit periodic, detailed financial and operating reports to the Macau Government and furnish any other information that the Macau Government may request;
- arrange for its casinos to remain open for operations on a daily basis;
- ensure the proper management and operation of casino games;
- hire staff with appropriate qualifications;
- undertake and operate casino games in a fair and honest manner and free from the influence of criminal activities;
- safeguard and ensure the MSAR's tax revenue from operation of casino games;
- maintain required insurance coverage; and
- return the gaming equipment and apparatus in Macau to the MSAR on 31 March 2020 or upon termination of the Concession, if at an earlier date.

The Macau Government has the right to unilaterally terminate the Concession Contract for cause, after providing SJM with the opportunity to remedy, for SJM's non-compliance with fundamental obligations under the Concession Contract and the applicable MSAR laws such as:

- operation of casino games without permission or operation of business beyond the scope of the Concession;
- abandonment of approved business or suspension of business without justifiable reasons for more than seven consecutive days or 14 non-consecutive days within one calendar year;
- transfer of all or part of SJM's gaming operations in Macau in violation of the relevant laws and administrative regulations governing the operation of casino games;
- failure to pay taxes, premiums, levies or other amounts payable to the MSAR;
- refusal or failure to resume operations or failure to continue operations due to on-going serious disruption or insufficiency of its organisation or operations following the temporary assumption of operations by the Macau Government;
- repeated refusal of the inspection and supervision of the Macau Government or repeated failure to comply with decisions of the Macau Government, in particular, DICJ's Instructions;
- repeated non-compliance with fundamental obligations stipulated in the applicable laws under the concession regime;
- failure to complete the construction projects specified in the Investment Plan by their required dates or suitable alternatives approved by the Macau Government;
- refusal or failure to provide or replenish the Bank Guarantee or surety in the Concession Contract within the prescribed period;
- bankruptcy or insolvency;

## THE CONCESSION

- non-compliance with Macau laws, regulations and/or DICJ's Instructions for the purpose of AML and CTF;
- fraudulent activity to the detriment of the public interest; and
- serious violation of the applicable rules for the operation of casino games or harm to fairness of the casino games.

These events could ultimately lead to the termination of SJM's Concession without compensation to SJM or even result in potential liability to SJM. Upon such termination, all of SJM's casinos, slot machine operations and related equipment and property rights to the casino premises in Macau would be automatically transferred to the MSAR without compensation to SJM and we would cease to generate any revenue from SJM's gaming operations. Our Macau legal advisors are of the view that unlawful granting of credit by SJM's Gaming Promoters or Mass Market Service Providers would not be considered a serious breach by SJM that would lead to termination of SJM's concession, but such eventual breach of the gaming credit law would rather constitute a breach by such Gaming Promoters that would lead to the impeachment of such Gaming Promoters' continuation of credit granting or, ultimately, the termination of the respective promoter's licence. Nevertheless and although remote, if SJM, repeatedly and systematically disrespected or did not impose measures to prevent the continuation of such breaches by the respective Gaming Promoter and/or Mass Market Service Provider, then, ultimately, it could lead to a termination of the Concession if seen by the MSAR Government as a systematic disrespect of a fundamental obligation contained in the Concession regime.

Beginning in April 2009, the Macau Government may exercise its right to redeem the Concession Contract by providing SJM with at least one-year prior written notice. In such event, SJM is entitled to fair compensation. The amount of such compensation will be determined based on the earnings of the Grand Lisboa during the taxable year prior to the redemption, before deducting interest, depreciation and amortisation, multiplied by the number of remaining years before expiration of the Concession.

In addition, SJM must comply with certain fundamental obligations as required and set out by law and the Concession Contract. The breach of these fundamental obligations, including but not limited to acquiring the necessary funds to punctually and completely fulfil any obligation regarding its business and any necessary investment obligation in accordance with the provisions of the Concession Contract and implementing the plans according to the provisions of the Investment Plan, provides the Macau Government the right to terminate the Concession.

### **Investment obligations under the Concession Contract**

As part of the requirements under the Concession Contract, SJM must make certain capital investments of a pre-agreed value in Macau within a specified period. The Macau Government may request or approve the request to make changes in the plans and specifications of SJM's properties in Macau. Under the Investment Plan, SJM is obligated to invest in the construction and development of Fisherman's Wharf (by June 2007), Ponte 16 (by December 2007) and the Grand Lisboa (by June 2008). In relation to the investment obligations, SJM is only required to construct and develop such projects and to fulfil, at least, the minimum amount of investment committed on the Concession Contract and there are no obligations imposed to maintain any of the projects, with the exception of any casinos that might be located on such properties in order to comply with the rules and obligations concerning the mandatory reversion to the MSAR by the end of the concession. If SJM fails to invest at least MOP4.7 billion (HK\$4.6 billion), after completing the three construction projects as set out in

the Investment Plan, SJM is obligated to invest the unused portion of the MOP4.7 billion either in projects relating to its gaming operations, subject to the Macau Government's approval, or in other major public infrastructure constructions as designated by the Macau Government. SJM completed the construction of Fisherman's Wharf in December 2005. SJM distributed its interests in Fisherman's Wharf in December 2005 prior to our Reorganisation. The investment cost in Fishermen's Wharf before SJM distributed its interest in December 2005 was HK\$57.2 million. SJM reached an agreement with the Macau Government on 25 January 2006 to carve out Fisherman's Wharf from SJM's investment obligation as specified under the Investment Plan. As a result of this agreement, none of the capital expenditures incurred by SJM in the construction of Fisherman's Wharf were credited by the Macau Government towards SJM's required MOP4.7 billion investment obligation. On 4 June 2008, DICJ issued a certificate affirming that, as of 4 June 2008, SJM had fulfilled its obligations under the Concession. We therefore believe SJM has met its required investment obligations through its investments in the Grand Lisboa and Ponte 16. SJM is currently constructing the Grand Lisboa and Ponte 16. Phase I of the Grand Lisboa was completed in February 2007 with the opening of its mass market gaming floors. VIP rooms commenced operations in August 2007. Phase II, which includes a hotel, is expected to be completed in the second half of 2008. Phase I of Ponte 16 commenced operations on 1 February 2008 while the rest of the Ponte 16 facilities is expected to be completed by the end of 2008. See "Risk Factors — Risk Related to our Business — SJM could encounter substantial cost increase or delays in the development of one or more of its new projects, which could prevent or delay the opening of such projects." Total investment committed by SJM in these projects is approximately HK\$8.8 billion upon completion, of which HK\$8.2 billion has been invested for construction and development as at 30 April 2008.

### *The Sub-Concession Contract*

As authorised by the Macau Government, SJM entered into a sub-concession contract with MGM Grand Paradise on 19 April 2005 to operate casino games and a hotel casino resort which opened in December 2007. MGM Grand Paradise paid SJM US\$200.0 million (HK\$1,560.0 million) as consideration for the MGM Sub-Concession. Under the terms of the MGM Sub-Concession, MGM Grand Paradise paid SJM HK\$177.1 million, representing the difference between a pre-agreed amount and the actual land premium amount that MGM Grand Paradise paid to the Macau Government.

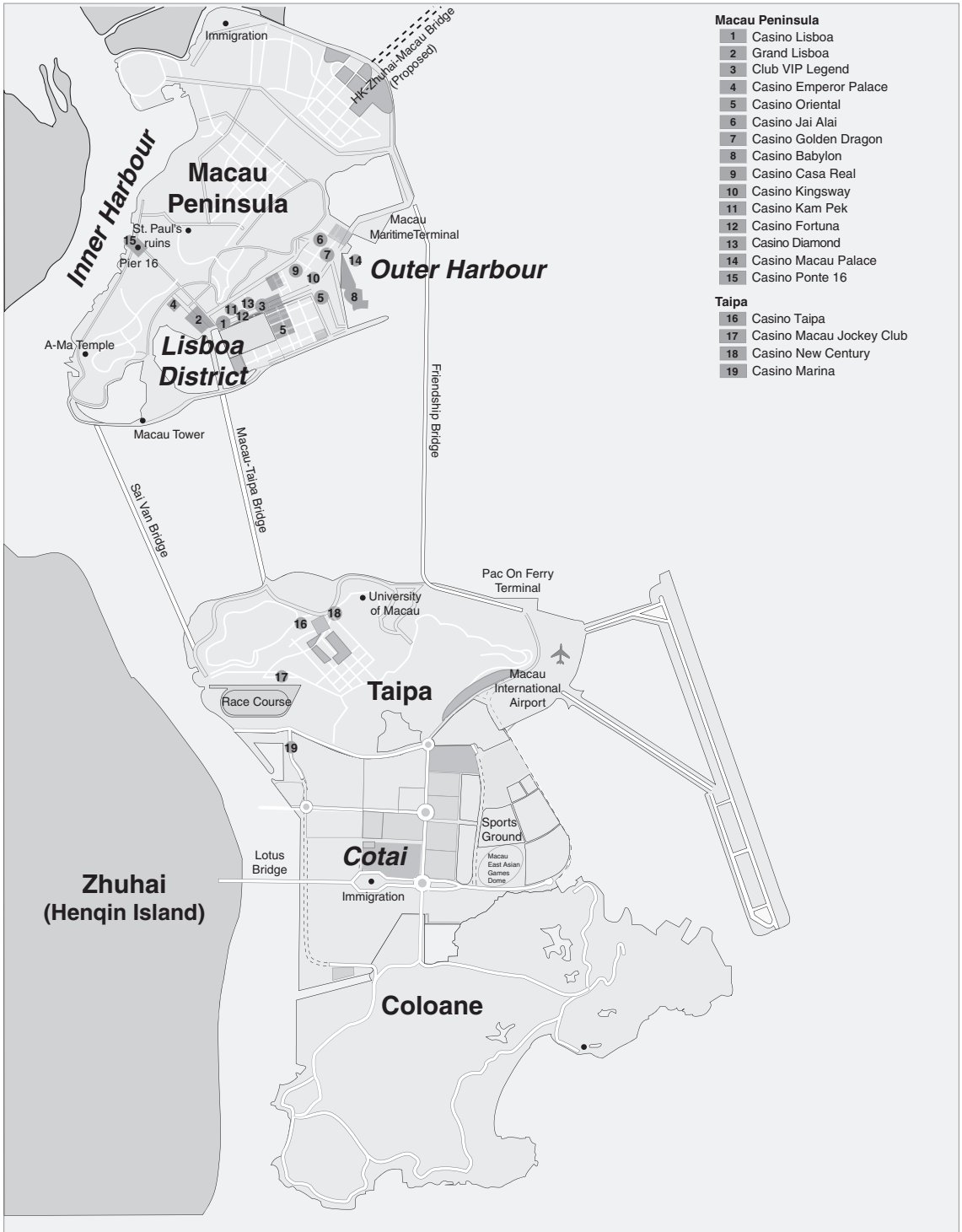
The MGM Sub-Concession sets out the terms and conditions of the sub-concession entered into between SJM and MGM Grand Paradise for the operation by MGM Grand Paradise of casino games in the MSAR, as authorised by the Macau Government. The Macau Government issued letters on 19 April 2005 and 20 April 2005, which approved the MGM Sub-Concession, undertaking obligations towards MGM Grand Paradise on the MGM Sub-Concession and exonerating SJM from any and all liabilities arising out of the MGM Sub-Concession. Each of SJM and MGM Grand Paradise has its own obligations towards the Macau Government and neither is responsible for the compliance by the other of its own obligations. SJM is not liable in any way for, and will not suffer any consequences arising from, the lack of fulfillment of any of MGM Grand Paradise's obligations or requirements under the MGM Sub-Concession, or from its own act.

Under the MGM Sub-Concession, MGM Grand Paradise holds a 15-year sub-concession beginning on 19 April 2005 and expiring on 31 March 2020 to operate casino games in casinos and other gaming areas as approved and authorised by the Macau Government from time to time. Under the terms of the MGM Sub-Concession, MGM Grand Paradise is required to pay a special levy of 4% of its gaming revenue along with a fixed and variable portion of the gaming premium on the same terms as those specified in the Concession Contract.



*You should read the whole document before you decide to invest in the Offer Shares, and you should not rely solely on key or summarised information. The financial information in this section has been extracted from “Appendix I — Accountants’ Report.”*

The following map shows SJM’s existing casinos.



Note: Map not drawn to scale.

**OVERVIEW**

SJM is one of six Concessionaires and Sub-Concessionaires permitted by the Macau Government to operate casino games in Macau and is the largest casino operator in Macau in terms of gaming revenue, market share and number of casinos as at 31 December 2007, according to the DICJ. SJM operates the most extensive portfolio of casinos in Macau out of the six Concessionaires and Sub-Concessionaires and offers a wide array of gaming experiences that cater to different types of gaming patrons.

As at 31 December 2007, SJM operated 18 of the 28 casinos in Macau, featuring a total of 305 VIP gaming tables in 75 VIP rooms, 1,107 mass market gaming tables and 3,702 slot machines compared to 253 VIP gaming tables, 653 mass market gaming tables and 2,381 slot machines as at 31 December 2005. For the years 2005, 2006 and 2007, SJM's gaming revenue was HK\$33,406.3 million, HK\$34,196.3 million and HK\$32,146.6 million, respectively. On 1 February 2008, SJM commenced operations of Casino Ponte 16, which included 105 mass market gaming tables and 297 slot machines. As at the Latest Practicable Date, SJM operated nine Self-Promoted Casinos and 10 Third Party-Promoted Casinos. Self-Promoted Casinos are casinos for which promotional and marketing efforts are handled by SJM's Marketing Department, and Third Party-Promoted Casinos are casinos for which marketing efforts are handled by the Mass Market Service Providers. For further details, see "Business — Marketing". As at 31 December 2005, 2006 and 2007, SJM's gaming tables accounted for approximately 65.3%, 43.5% and 32.3% of the total number of gaming tables in Macau respectively. As at 31 December 2005, 2006 and 2007, SJM's slot machines accounted for approximately 69.6%, 41.8% and 27.9% of the total number of slot machines in Macau respectively.

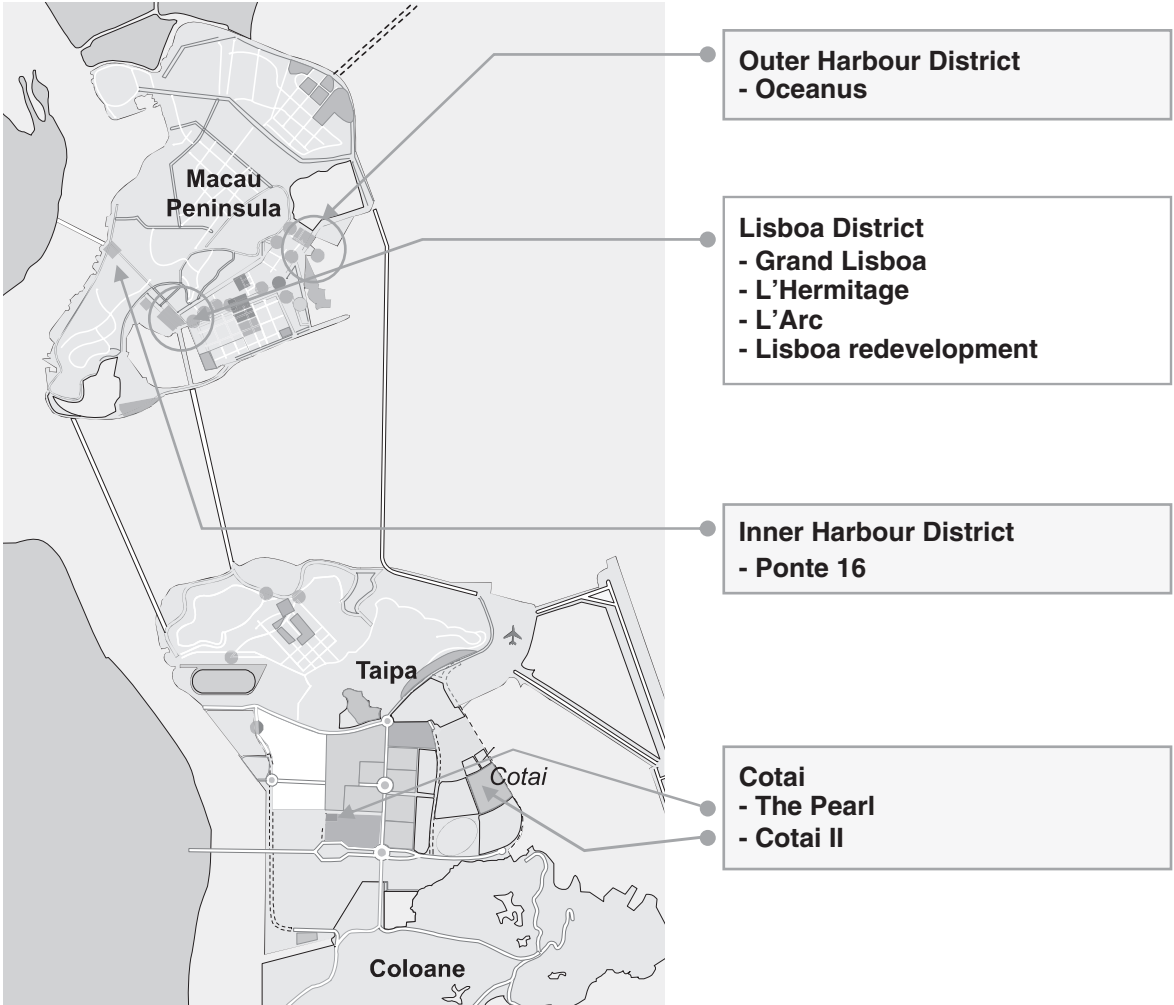
SJM has a large and stable network of Gaming Promoters that brings VIP gaming patrons from around the world through their respective networking, marketing and promotional efforts. As at the Latest Practicable Date, 12 of SJM's casinos (excluding Casino Kingsway and Casino Macau Palace which are under renovation) feature VIP rooms that are reserved exclusively for high-stakes gaming patrons who are brought in by SJM's VIP Room Gaming Promoters. SJM also allocates particular rooms and tables for the priority use of certain of its Gaming Promoters to encourage them to bring their gaming patrons to SJM's casinos. Through SJM's agreements with STDM, which has investments of over HK\$7 billion in Macau's transportation, hospitality and services sectors, SJM is able to offer "one-stop shop" services to its Gaming Promoters and their patrons, enhancing their overall gaming experience and promoting loyalty to SJM's casinos.

We have in-depth knowledge of mass market gaming operations in Macau. As at the Latest Practicable Date, SJM had 13 casinos (excluding Casino Macau Palace) that serve the mass market with table games and slot machines, and four casinos exclusively providing table games (excluding Casino Kingsway). SJM also has four slot machines-only operations, which are authorised gaming areas and considered casino operations. Several of SJM's casinos feature themed gaming halls, such as the Pharaoh's Palace at Club VIP Legend and the Greek Mythology at Casino New Century, providing mass market patrons with a diversified range of gaming experiences. A number of SJM's casinos, such as Casino Jai Alai and Casino Oriental, are located near key transport gateways, including the Macau Maritime Terminal, in order to target single day visitors, tour groups and vacation travellers. Casino Lisboa has been for many years a popular destination in Macau for gaming patrons, contributing to the strength and name recognition of the "Lisboa" brand in Greater China and Asia.

SJM's gaming operations are restricted under the Concession to casino games, slot machine gaming and other games authorised by the Macau Government in Macau. SJM does not presently

engage in any gaming operations outside of Macau nor does SJM engage in bookmaking transactions in or outside Hong Kong. In addition, SJM does not engage in pari-mutuel gaming, such as horse racing or dog racing, internet betting, cruise ship gaming or any other form of gaming, nor is it permitted to do so under the terms of its Concession Contract. SJM currently intends to focus its casino operations in Macau only, but we will consider other opportunities as they arise.

SJM plans to develop clusters of gaming properties in various strategic locations within Macau to offer a wide variety of gaming experiences, in order to attract a broad spectrum of gaming patrons and to keep them within the clusters of SJM’s casinos. The following map indicates SJM’s completed and planned projects in the four strategically located areas, namely Lisboa District, Inner Harbour District, Outer Harbour District and Cotai:



Note: Map not drawn to scale.

For further information regarding SJM’s new projects, including its casino gaming operations and properties under development, see “— Our New Projects.”

On 17 April 2008, pursuant to two purchase option agreements entered into between STDM and SJM, SJM exercised its options to purchase the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A in the Lisboa District. We believe the exercise of these options will assist SJM in developing its gaming and gaming-related business. See “Relationship with

our Controlling Shareholders — Purchase Option Agreements between STDM and SJM.” These options provide SJM an opportunity to develop new properties and further expand the scope of its operations. These potential developments may consist of gaming operations, residential development, hotels, spa facilities, retail and entertainment facilities.

Many large casino operators worldwide engage in certain gaming-related businesses primarily to service and cater to their casino patrons and promote their casino operations. Like other Concessionaires and Sub-Concessionaires in Macau, and casino operators elsewhere, SJM will invest and engage in such gaming-related businesses in Macau as appropriate to support its overall casino operations and compete effectively with other Concessionaires and Sub-Concessionaires, as permitted by the terms of SJM’s Concession and subject to the Macau Government’s approval.

### **COMPETITIVE STRENGTHS**

***SJM’s extensive portfolio of existing casinos and future developments allows it to offer a diversified range of gaming experiences to target different segments of the gaming market.***

SJM operates the most extensive portfolio of casinos in Macau which we believe allows it to better target different types of gaming patrons through the positioning of each of SJM’s casinos. SJM’s extensive casino portfolio appeals to a broad spectrum of gaming patrons, from the modern Grand Lisboa and historic Casino Lisboa, which appeal to VIP and high-stakes mass market patrons, to conveniently located casinos, such as Casino Jai Alai and Casino Oriental near the Macau Maritime Terminal, which appeal to single day visitors. In addition, SJM also operates themed gaming halls in certain casinos to provide a variety in layout and ambience to its mass market gaming patrons. On 17 April 2008, SJM exercised options to purchase the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A from STDM. See “Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM.” We believe the exercise of these options will assist SJM in developing its gaming and gaming-related businesses.

***SJM has an experienced management team with a proven track record in operating gaming and gaming-related activities in Macau.***

SJM’s long-serving senior management team has more collective experience in casino management and operation in Macau than any other casino operator management team. SJM has fortified this core team with the addition of experienced professionals from the international gaming industry. We believe that SJM’s senior management team, which has a combination of in-depth local knowledge of gaming in Macau and specialised and international expertise, places SJM in a strong position to take advantage of the opportunities offered by the liberalisation of gaming in Macau.

SJM has, since 2006, expanded its strategic and operational management team through the addition of over 150 experienced personnel from Macau and overseas. They range from management personnel, who implement and execute our growth strategy, to gaming floor managers, casino shift managers and pit bosses, who oversee SJM’s day-to-day casino operations.

***Our financial position and cash flow from operations provide us with flexibility to undertake operational enhancements.***

As a result of SJM’s well-established operations, we have been able to generate operating cash flows during the Track Record Period. This has provided us the financial strength to undertake large-scale development programmes and operational enhancements, such as the recent construction of the

Grand Lisboa and Ponte 16, the renovation of the Casino Lisboa and the upgrading of SJM's information technology systems.

Our financial capability, together with the proceeds from the Global Offering, positions us well to pursue attractive development and growth opportunities, which may include the purchase or lease of desirable locations for future developments. These steps are designed with a view to enhancing SJM's competitiveness. We believe that our financial capability also increases our ability to take advantage of any additional opportunities that may arise from time to time to enhance shareholder value.

***SJM is able to leverage its large and stable network of Gaming Promoters to continue to expand its customer base of VIP gaming patrons.***

SJM has a large and stable network of Gaming Promoters that attracts VIP gaming patrons from Asia and elsewhere to play in SJM's VIP rooms. As at the Latest Practicable Date, 73 Gaming Promoters have entered into exclusive agreements with SJM.

SJM continuously seeks to leverage its relationships, and enhance its cooperation with its Gaming Promoters, to expand its base of VIP gaming patrons. SJM offers various commission schemes to its Gaming Promoters based on (i) non-redeemable chips purchased, (ii) a percentage of net-win after certain expenses, (iii) percentage of net-win before expenses, or (iv) a combination of these three commission schemes. We believe the breadth of SJM's gaming operations allows it to offer these compensation alternatives and is a competitive advantage.

***SJM's Lisboa brand is well known.***

We believe that the strength and name recognition of the "Lisboa" brand is a valuable asset. Based on its long history in Macau, we believe that the Casino Lisboa is a major destination in Macau for many gaming patrons from Greater China and Asia.

## **OUR BUSINESS STRATEGIES**

The following table sets forth SJM's gaming revenue compared to the gaming revenues of its competitors and total gaming revenues in Macau for the periods indicated:

<u>Gaming revenue</u>	Year ended 31 December					
	2005		2006		2007	
	HK\$	%	HK\$	%	HK\$	%
	(in millions, except for percentages)					
SJM .....	33,406.3	74.7	34,196.3	62.2	32,146.6	39.9
Others .....	11,299.5	25.3	20,777.5	37.8	48,457.3	60.1
Total casino gaming revenue in Macau .....	<u>44,705.8</u>	<u>100.0</u>	<u>54,973.8</u>	<u>100.0</u>	<u>80,603.9</u>	<u>100.0</u>

Source: DICJ.

Macau's total casino gaming revenue increased from HK\$44,705.8 million in 2005 to HK\$80,603.9 million in 2007, representing a CAGR of 34.3%. Visitation to Macau during this period also increased at a CAGR of 20.2%, from approximately 18.7 million visitors in 2005 to approximately 27.0 million visitors in 2007, according to DSEC. Increasingly, a significant number of visitors and gaming patrons to Macau were from mainland China. Of the 27 million visitors to Macau in 2007, 14.9 million, or 55.1%, were from mainland China, according to DSEC. We expect Macau's total gaming revenue and the number of visitors to Macau to continue to grow over the next few years.

We believe that the growth of total gaming revenues in Macau and the number of visitors to Macau presents us with an opportunity to grow our revenues and benefit from the growth in the total market. We believe that gaming revenue growth and visitation to Macau have been, and will continue to be, driven by a combination of factors, including: (i) Macau's proximity to major Asian population centres; (ii) the liberalisation of restrictions on travel to Macau from mainland China and of currency restrictions to permit Chinese travellers to take larger sums of foreign currency out of mainland China; (iii) the increase in regional wealth, leading to a large and growing middle- and upper middle-class in Asia with more disposable income; (iv) infrastructure improvements that are expected to facilitate more convenient travel to and within Macau; and (v) an increasing supply of casino, hotel and entertainment offerings in Macau, including large mixed-use developments. We believe that our knowledge of the Macau gaming industry and the breadth and diversity of SJM's casino offerings provide us with a platform to capitalise on the opportunities in the overall growth of the Macau gaming industry.

We seek to capture this growth by implementing the following strategies:

***We seek to grow SJM's business through the development of strategically located gaming clusters in Macau to target different segments of the gaming market.***

SJM plans to develop clusters of gaming properties at prime sites within Macau. These gaming clusters will offer a wide variety of gaming experiences and are designed to attract different segments of the gaming market, and keep them within the clusters. The proposed gaming clusters will consist of SJM's existing casinos, as well as new casinos that are under construction or development. For further information regarding SJM's new projects, including its casino gaming operations and properties under development, see "— Our New Projects."

We believe there are several key districts in Macau where gaming traffic will be concentrated. We plan to capture such gaming traffic with SJM's existing and potential casino developments in the Lisboa District, the Inner Harbour District, the Outer Harbour District and in Cotai. SJM is in the process of purchasing and leasing properties in order to implement this plan. For example, pursuant to options granted to it by STDM, SJM has exercised options to purchase two properties, the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A. We believe the exercise of these options will assist SJM in developing its gaming and gaming-related businesses. See "Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM."

***We seek to improve our operating margins through cost reduction initiatives and improvement of efficiency.***

We are currently deploying a comprehensive cost reduction programme in all of SJM's Self-Promoted Casinos. The programme consists of the following elements:

***Improved Allocation of VIP Rooms.*** SJM has consolidated 33 VIP rooms representing 88 tables from its various casinos into a new VIP room managed by SJM in Casino Lisboa, and will continue to improve the efficiency of its VIP rooms through the reassignment and reallocation of VIP rooms amongst its Gaming Promoters. This will enable SJM to better utilise the resources designated to its VIP operations, allowing SJM to capture greater economies of scale as well as to improve the gaming experience of its gaming patrons and its overall VIP gaming operation. Through this reassignment and reallocation, we expect SJM to improve its profit margins by reducing overall costs such as staff cost, utilities and rents.

*New Mass Market Services Agreements.* SJM has entered into new agreements with certain of its Mass Market Service Providers, under which the Mass Market Service Providers would pay for the operational costs of SJM's Third Party-Promoted Casinos, while SJM would retain a certain percentage of the net-win after taxes and levies. This is expected to result in cost savings for SJM in these casinos. In addition, more responsibility for the marketing of Third Party-Promoted Casinos will be transferred to the Mass Market Service Providers and SJM's marketing efforts will be more focused on our core Self-Promoted Casinos. SJM intends to enter into new agreements with all of its Mass Market Service Providers by the end of 2008. For further information relating to SJM's new agreements with its Mass Market Service Providers, see "— Marketing."

*Upgrading Information Technology System.* SJM will continue to implement a comprehensive upgrade of its information technology systems to increase efficiency through multiple channels, such as automation of its gaming, cash and chips processes and improving its use of labour through more efficient staff scheduling and rostering. This will enable SJM to improve its operating margins. SJM has already upgraded its information technology systems in the Grand Lisboa, Casino Lisboa, Casino Jai Alai and Casino Oriental and will continue to implement these upgrades throughout its Self-Promoted Casinos over the next 18 months. In April 2008, SJM introduced a rostering system at Casino Oriental and Casino Jai Alai. It also plans to introduce an automated system for handling human resource records including payroll and benefits for our expanding workforce. The information technology systems in SJM's Third Party-Promoted Casinos will be upgraded on a case-by-case basis, depending on cost efficiency and the needs and requirements of each particular casino.

***SJM will continue to actively manage its portfolio by expanding and upgrading its existing casinos in line with our development strategy to improve their overall yield.***

To keep pace with the challenges and opportunities presented by the increase in visitors to Macau and competition in the gaming market, SJM will continue to upgrade its existing casinos. In February 2007, SJM completed the expansion of Casino Lisboa. As at the Latest Practicable Date, Casino Lisboa has 16 VIP rooms with 70 VIP tables, 157 mass market gaming tables and 247 slot machines. Renovation and expansion of Casino Oriental, which began in 2006, was completed and the casino resumed operations in February 2007.

***We seek to better leverage our financial structure and maintain an attractive return to Shareholders by adopting a prudent level of debt financing and an appropriate dividend policy.***

Prior to 2007, we funded SJM's capital requirements and developments through operating cash flows without substantial reliance on debt financing. As a public company, we will seek to establish a more efficient debt-to-equity ratio, as we undertake increased capital expenditure required by our growth strategy. At the same time we will seek to provide a certain level of current income to shareholders through a dividend payment policy of approximately 50% of net earnings, subject to a number of considerations. See "Financial Information — Dividend Policy."

## **SJM CASINOS**

As at the Latest Practicable Date, SJM operated 19 casinos in Macau, including nine Self-Promoted Casinos and 10 Third Party-Promoted Casinos, of which 13 casinos (excluding Casino Macau Palace) are equipped with both table games and slot machines, and four casinos (excluding Casino Kingsway) are equipped with table games exclusively. SJM also has four slot machines-only operations, which are authorised gaming areas and considered casino operations. As at 31 December

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2007, SJM's casinos offered 17 different table games and featured a total of 1,412 gaming tables, of which 305 were VIP and 1,107 were mass market gaming tables, which represented approximately 32.3% of the total gaming tables in Macau. In addition, SJM also operated 3,702 slot machines in its casinos. On 1 February 2008, SJM commenced operations of Casino Ponte 16, including 105 mass market gaming tables and 297 slot machines. For the years 2005, 2006 and 2007, average net-win per table per day for VIP rooms were approximately HK\$265,000, HK\$221,000 and HK\$181,000, respectively. For the same period, average net-win per table per day for mass market games were approximately HK\$42,000, HK\$32,000 and HK\$27,000, respectively.

The following tables set out the number of VIP and Mass market tables, Self-Promoted Slot Machines and third party-serviced slot machines at SJM's casinos and slot machines-only operations as at the following dates:

	As at 1 January				As at 31 December			
	2005				2005			
	VIP tables	Mass market tables	SJM-serviced slot machines	Third-party serviced slot machines	VIP tables	Mass market tables	SJM-serviced slot machines	Third-party serviced slot machines
<b>Self-promoted</b>								
Casino Lisboa	111	130	233	—	120	133	213	—
Grand Lisboa	—	—	—	—	—	—	—	—
Casino Jai Alai	12	50	208	—	12	52	326	—
Casino Oriental	7	6	—	—	7	6	—	—
Casino Marina	8	12	37	—	8	12	37	—
Casino Kingsway <sup>(1)</sup>	4	4	—	164	4	4	—	189
Casino Macau Palace <sup>(2)</sup>	5	7	51	—	5	6	51	—
Casino Taipa	—	8	10	—	—	8	10	—
Yat Yuen Canidrome Slot Lounge	—	—	71	—	—	—	92	—
Casino Kam Pek — Arabian Nights <sup>(3)</sup>	13	11	—	279	12	39	—	303
China Hotel <sup>(5)</sup>	—	—	90	—	—	—	90	—
Casino Diamond <sup>(7)</sup>	3	3	—	—	—	—	—	—
Subtotal	<u>163</u>	<u>231</u>	<u>700</u>	<u>443</u>	<u>168</u>	<u>260</u>	<u>819</u>	<u>492</u>
<b>Third Party-Promoted</b>								
Casino New Century <sup>(6)</sup>	12	120	49	—	12	100	49	—
Club VIP Legend	28	89	108	—	33	73	—	283
Casino Golden Dragon	—	—	—	—	12	67	131	—
Casino Casa Real	6	43	123	—	14	43	—	—
Casino Macau Jockey Club	8	13	—	—	11	38	—	—
Casino Diamond <sup>(6)</sup>	—	—	—	—	—	40	61	—
Casino Fortuna	—	—	—	—	3	32	—	—
Tiger Slot Lounge	—	—	—	—	—	—	—	200
Hotel Royal <sup>(7)</sup>	—	—	—	69	—	—	—	81
Taipa Square <sup>(8)</sup>	—	—	—	—	—	—	—	130
Hotel Sintra <sup>(9)</sup>	—	—	—	—	—	—	—	135
Subtotal	<u>54</u>	<u>265</u>	<u>280</u>	<u>69</u>	<u>85</u>	<u>393</u>	<u>241</u>	<u>829</u>
Total	<u>217</u>	<u>496</u>	<u>980</u>	<u>512</u>	<u>253</u>	<u>653</u>	<u>1,060</u>	<u>1,321</u>



## BUSINESS

	As at 31 December 2006				As at 31 December 2007			
	VIP tables	Mass market tables	SJM-serviced slot machines	Third-party serviced slot machines	VIP tables	Mass market tables	SJM-serviced slot machines	Third-party serviced slot machines
<b>Self-promoted</b>								
Casino Lisboa	124	152	229	—	95	128	227	—
Grand Lisboa	—	—	—	—	52	235	756	—
Casino Jai Alai	12	79	321	—	3	100	295	—
Casino Oriental	6	—	—	—	6	40	100	—
Casino Marina	8	12	37	—	8	11	—	—
Casino Kingsway <sup>(1)</sup>	4	4	—	—	—	—	—	—
Casino Macau Palace <sup>(2)</sup>	5	6	51	—	—	—	—	—
Winner's Bar Slot Lounge	—	—	115	—	—	—	119	—
Casino Taipa	—	8	—	—	—	8	—	—
Yat Yuen Canidrome Slot Lounge	—	—	97	—	—	—	216	—
Casino Kam Pek — Arabian Nights <sup>(3)</sup>	12	31	—	—	6	7	—	—
Casino Kam Pek Louvre <sup>(3)</sup>	—	—	—	—	—	25	—	—
Macau Jockey Club Slot Lounge	—	—	219	—	—	—	217	—
Subtotal	<u>171</u>	<u>292</u>	<u>1,069</u>	<u>—</u>	<u>170</u>	<u>554</u>	<u>1,930</u>	<u>—</u>
<b>Third Party-Promoted</b>								
Casino New Century	9	112	204	—	16	120	204	—
Club VIP Legend	41	76	—	290	41	73	—	336
Casino Kam Pek — Louvre <sup>(3)</sup>	6	32	—	—	—	—	—	—
Casino Golden Dragon	12	67	131	—	11	67	107	—
Casino Casa Real	19	53	—	—	16	53	—	—
Casino Emperor Palace	21	52	—	348	25	52	—	342
Casino Macau Jockey Club <sup>(4)</sup>	14	35	77	—	14	29	77	—
Casino Diamond <sup>(6)</sup>	12	43	72	—	9	40	85	—
Casino Fortuna	3	42	—	—	3	43	—	—
Casino Babylon	—	90	—	347	—	62	—	221
Tiger Slot Lounge	—	—	—	200	—	—	—	200
Casino Kam Pek — Paradise Entertainment <sup>(3)</sup>	—	—	—	—	—	14	—	200
Subtotal	<u>137</u>	<u>602</u>	<u>484</u>	<u>1,185</u>	<u>135</u>	<u>553</u>	<u>473</u>	<u>1,299</u>
Total	<u>308</u>	<u>894</u>	<u>1,553</u>	<u>1,185</u>	<u>305</u>	<u>1,107</u>	<u>2,403</u>	<u>1,299</u>

## BUSINESS

	As at 30 April 2008				Commencement date of operations under the Concession Contract
	VIP tables	Mass market tables	SJM-serviced slot machines	Third-party serviced slot machines	
<b>Self-promoted</b>					
Casino Lisboa	83	142	247	—	1 April 2002
Grand Lisboa	52	235	673	—	11 February 2007
Casino Jai Alai	3	100	305	—	1 April 2002
Casino Oriental	6	40	100	—	1 April 2002
Casino Marina	—	10	—	—	1 April 2002
Casino Kingsway <sup>(1)</sup>	—	—	—	—	1 April 2002
Casino Macau Palace <sup>(2)</sup>	—	—	—	—	1 April 2002
Winner's Bar Slot Lounge	—	—	119	—	1 September 2006
Casino Taipa	—	8	—	—	1 April 2002
Yat Yuen Canidrome Slot Lounge	—	—	216	—	1 April 2002
Casino Kam Pek — Arabian Nights <sup>(3)</sup>	9	1	—	—	31 January 2005
Casino Kam Pek Louvre <sup>(3)</sup>	—	25	—	—	
Macau Jockey Club Slot Lounge	—	—	243	—	8 December 2006
Subtotal	<u>153</u>	<u>561</u>	<u>1,903</u>	<u>—</u>	
<b>Third Party-Promoted</b>					
Casino Ponte 16	—	105	—	299	1 February 2008
Casino New Century	7	129	204	—	1 April 2002
Club VIP Legend	41	73	—	346	1 April 2002
Casino Kam Pek — Louvre <sup>(3)</sup>	—	—	—	—	25 January 2006
Casino Golden Dragon	8	21	107	—	5 January 2005
Casino Casa Real	4	45	—	—	2 October 2004
Casino Emperor Palace	16	52	—	335	5 January 2006
Casino Macau Jockey Club <sup>(4)</sup>	14	21	77	—	21 January 2004
Casino Diamond <sup>(6)</sup>	12	29	85	—	1 April 2002
Casino Fortuna	—	48	—	—	7 February 2005
Casino Babylon	—	62	—	221	23 December 2006
Tiger Slot Lounge	—	—	—	200	23 September 2005
Casino Kam Pek — Paradise Entertainment <sup>(3)</sup>	—	14	—	200	28 December 2007
Subtotal	<u>102</u>	<u>599</u>	<u>473</u>	<u>1,601</u>	
Total	<u>255</u>	<u>1,160</u>	<u>2,376</u>	<u>1,601</u>	

- (1) Casino Kingsway has been closed for renovation since 30 June 2007 and is expected to become a Third Party-Promoted Casino after renovation, which is expected to be completed in the first half of 2008. Although Casino Kingsway is closed, it is still authorised to operate casino games referred to above. Pursuant to an agreement dated 19 March 2007, SJM - Investment purchased from China Star Entertainment Limited a 1% interest in Kingsway Hotel Limited, the owner of the property in which Casino Kingsway is located, as a strategic investment.
- (2) Casino Macau Palace has been closed for renovations since 25 October 2007.
- (3) Casino Kam Pek commenced operations on 1 April 2002. Casino Kam Pek — Arabian Nights, which is self-promoted, commenced operations on the first and second floors of Casino Kam Pek on 8 August 2005. Casino Kam Pek — Louvre, which was third-party promoted, commenced operations on the fourth and fifth floors of Casino Kam Pek on 25 January 2006 and became self-promoted on 1 November 2007. Casino Kam Pek — Paradise Entertainment, which is third party-promoted, commenced operations on the third floor of Casino Kam Pek on 28 December 2007. Casino Kam Pek — Arabian Nights, Casino Kam Pek — Louvre and Casino Kam Pek — Paradise Entertainment together are considered as one casino.
- (4) Located in Hotel Grandview, including slot hall.
- (5) China Hotel commenced operations in January 2004 and ceased operations on 8 March 2006.
- (6) Casino Diamond became a Third Party-Promoted Casino in December 2005.
- (7) Hotel Royal (slot machine operations) commenced operations on 1 April 2002 and ceased operations on 21 September 2006.
- (8) Taipa Square (slot machine operations) commenced operations on 24 March 2005 and ceased operations on 21 September 2006.
- (9) Hotel Sintra (slot machine operations) commenced operations on 18 November 2005 and ceased operations on 21 September 2006.

*Casino Segments*

SJM divides its casinos into two operating segments — VIP gaming and mass market gaming, which includes table games and slot machines. SJM offers exclusively baccarat table games in its VIP rooms. A variety of table games, including baccarat, are offered in the mass market gaming sections. Slot machines are also offered in the mass market gaming sections. The following table sets forth a breakdown of revenue derived from SJM’s gaming operations for the periods indicated:

	Year ended 31 December					
	2005		2006		2007	
	HK\$	%	HK\$	%	HK\$	%
	(in millions, except for percentages)					
VIP gaming operations . . . . .	23,699.8	70.9	23,887.7	69.9	20,613.6	64.1
Mass market table gaming operations . . . . .	8,981.6	26.9	9,339.0	27.3	10,676.4	33.2
Slot machine operations . . . . .	721.9	2.2	967.7	2.8	854.7	2.7
Others <sup>(1)</sup> . . . . .	3.0	0.0	1.9	0.0	1.9	0.0
Total . . . . .	<u>33,406.3</u>	<u>100.0</u>	<u>34,196.3</u>	<u>100.0</u>	<u>32,146.6</u>	<u>100.0</u>

(1) Others consists of revenue received from the operation of Pachinko and Tombola in 2005, and Tombola only in 2006 and 2007.

## BUSINESS

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

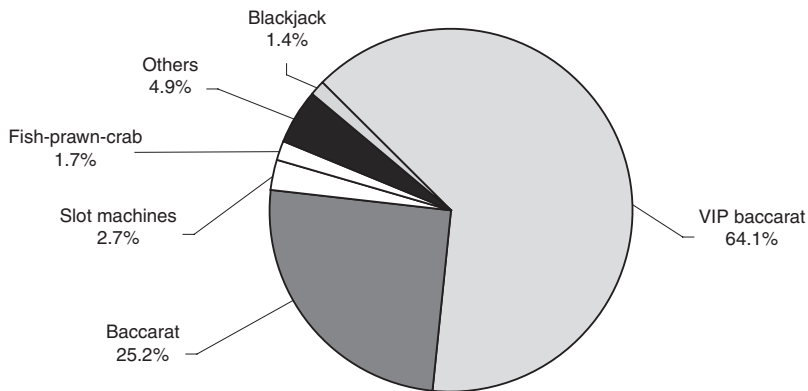
	Year ended 31 December		
	2005	2006	2007
	HK\$	HK\$ (in millions)	HK\$
<i>Self-Promoted Casinos (excluding Grand Lisboa)</i>			
VIP gaming operations	17,529.6	15,257.0	11,323.1
Mass market table gaming operations	4,364.2	3,722.2	2,949.3
Slot machine operations	438.4	429.7	296.6
Others <sup>(1)</sup>	3.0	1.9	1.9
Gaming revenue	<u>22,335.2</u>	<u>19,410.8</u>	<u>14,570.9</u>
<i>Third-Party Promoted Casinos</i>			
VIP gaming operations	6,170.2	8,630.7	6,818.6
Mass market table gaming operations	4,617.4	5,616.8	5,569.0
Slot machine operations	283.5	538.0	399.7
Gaming revenue	<u>11,071.1</u>	<u>14,785.5</u>	<u>12,787.3</u>
<i>Grand Lisboa (self-promoted)</i>			
VIP gaming operations	0.0	0.0	2,471.9
Mass market table gaming operations	0.0	0.0	2,158.1
Slot machine operations	0.0	0.0	158.4
Gaming revenue	<u>0.0</u>	<u>0.0</u>	<u>4,788.4</u>
Total gaming revenue	<u>33,406.3</u>	<u>34,196.3</u>	<u>32,146.6</u>
VIP gaming operations	23,699.8	23,887.7	20,613.6
Mass market table gaming operations	8,981.6	9,339.0	10,676.4
Slot machine operations	721.9	967.7	854.7
Others <sup>(1)</sup>	3.0	1.9	1.9
Total	<u>33,406.3</u>	<u>34,196.3</u>	<u>32,146.6</u>

(1) Others consists of revenue received from the operation of Pachinko and Tombola in 2005, and Tombola only in 2006 and 2007.

The following table sets forth the number of tables for VIP gaming, mass market table games and slot machines together with their respective average winnings per table for the relevant periods.

	Year ended 31 December					
	2005		2006		2007	
	No. of tables	HK\$ (in millions)	No. of tables	HK\$ (in millions)	No. of tables	HK\$ (in millions)
VIP gaming	253	96.7	308	80.7	305	66.1
Mass market	653	15.2	894	11.7	1,107	9.8
Slot machines	2,381	0.4	2,738	0.3	3,702	0.2

The chart below sets out a breakdown of SJM's gaming revenue by type of games for the year ended 31 December 2007:



### **VIP**

SJM's VIP gaming operations consist of VIP rooms that offer exclusively baccarat table games. VIP baccarat has been the largest source of our gaming revenue. In 2005, 2006 and 2007, VIP baccarat generated approximately HK\$23,699.8 million, HK\$23,887.7 million and HK\$20,613.6 million, respectively, representing approximately 70.9%, 69.9% and 64.1% of our gaming revenue for the respective periods. SJM's VIP rooms usually have a minimum bet of HK\$1,000 per hand and a maximum net pay-out of HK\$3.0 million per game. As at 31 December 2007, SJM had 75 VIP rooms with 305 gaming tables.

SJM utilises Gaming Promoters to attract VIP gaming patrons to play in its VIP rooms. Gaming Promoters generally have extensive experience in gaming operations and close relationships with their VIP gaming patrons. SJM works closely with its Gaming Promoters to provide them with gaming packages to meet their needs.

We expect SJM's VIP gaming operations to continue to be a significant part of SJM's gaming operations as SJM expands and leverages its network of Gaming Promoters. See “— Arrangements with VIP Room Gaming Promoters.”

### **Mass market**

#### *Table games*

SJM offers various types of table games in the mass market gaming sections of its casinos, with minimum bets ranging from HK\$/MOP20 - 3,000. In 2005, 2006 and 2007, SJM's mass market table games generated approximately HK\$8,981.6 million, HK\$9,339.0 million and HK\$10,676.4 million, representing approximately 26.9%, 27.3% and 33.2%, respectively, of our gaming revenue for the same periods. As at 31 December 2007, SJM had 1,107 mass market gaming tables.

We believe that SJM's extensive portfolio of casinos enables it to understand and meet the needs of gaming patrons. SJM currently offers an array of table games, including blackjack, baccarat, Q-poker and 3-card poker, as well as traditional Asian games such as fish-prawn-crab. In addition, SJM intends to continue to explore opportunities to introduce new table games.

- In April 2006, SJM entered into an agreement with a third-party to launch a new table game named “LIVE Baccarat.” LIVE Baccarat is played pursuant to the same rules as

traditional baccarat, with a gaming table and a live dealer, except that in LIVE Baccarat, gaming results are transmitted to electronic terminals where payout is determined and recorded by computer. LIVE Baccarat has multiple playing consoles, allowing more players to sit in at each game, and increase playing speed. As at 31 March 2008, 80 LIVE Baccarat terminals had been installed in Casino Lisboa, 277 in Casino Kam Pek — Paradise Entertainment, 120 in Casino Jai Alai and 40 in Casino New Century.

- In April 2007, SJM introduced the game of Jazzbeme Baccarat Insurance at Casino Lisboa. Jazzbeme Baccarat Insurance is a variation of traditional baccarat that allows a player to place a bet to insure an advantageous baccarat hand against a loss or tie.
- In August 2007, SJM launched the game of craps at the Grand Lisboa. Craps is a traditional casino table game which is played by one or more players who take turns rolling dice and making a variety of bets on the outcome of the dice roll.
- In August 2007, SJM launched the game of Makccarat, a variation of the traditional game of Baccarat, at the Casino Lisboa.
- In February 2008, SJM launched Texas Hold'em Poker, a variation of the game of Poker, at the Grand Lisboa. As at 31 March 2008, eight tables at the Grand Lisboa offered Texas Hold'em Poker and SJM will consider expanding facilities for this game depending upon demand.
- In May 2008, SJM launched the card game Casino War at the Grand Lisboa.

In testing and launching new games, SJM benefits from the size and diversity of its portfolio of casino offerings, which gives it the flexibility to experiment with different table games without significant impact on SJM's operations.

The number, variety and geographic diversity of SJM's casino offerings also enable it to anticipate and respond quickly to changes in market demand. We believe that the development of strategically located gaming clusters at prime sites within Macau will further expand and enhance the choice of gaming experiences SJM is able to offer to mass market gaming patrons.

#### *Slot machines*

SJM offers a wide selection of slot machines in its casinos. Slot machines in SJM's casinos typically have minimum play of HK\$/MOP0.05 - 10, and jackpots that can exceed HK\$1 million. In 2005, 2006 and 2007, SJM's slot machine games generated approximately HK\$721.9 million, HK\$967.7 million and HK\$854.7 million, representing approximately 2.2%, 2.8% and 2.7%, respectively, of our gaming revenue for the same periods. As at 31 December 2007, SJM operated 3,702 slot machines in its casinos.

We expect the demand for slot machine games and mass market table games operations to rise with the increase in the number of visitors to Macau. We believe that demand for slot machine games and mass market table games will grow at a greater rate than VIP gaming operations over the next few years. On 22 April 2008, however, the MSAR Chief Executive discussed, in response to legislative counselors' questions, certain proposals that could affect the gaming industry in Macau, including proposals relating to the relocation of slot machine centres from residential areas. Such policies are not currently in place and we do not believe that such slot machine policy, if implemented, would have a material impact on our operations as gaming revenue from slot machine operations accounted for approximately only 2.2%,

2.8% and 2.7% of our gaming revenue in 2005, 2006 and 2007, respectively. We believe that, if such policy was implemented, only a small portion of our slot machine operations could potentially be affected. See “Risk Factors — Risks Relating to the Gaming Industry in Macau — Regulatory or governmental policies that affect the Macau gaming industry could change.”

We continue to work with major manufacturers of electronic gaming machines to offer and market new games to meet and drive market demand.

## **OUR NEW PROJECTS**

SJM plans to develop several new projects in various strategic locations in Macau in order to capture a broad spectrum of gaming patrons, including visitors at points of entry to Macau, developing critical mass in developed areas and expanding into newly developed areas where gaming traffic is expected to be concentrated. We will seek to capture demand for gaming by grouping SJM’s existing and potential casino developments to create gaming clusters centred around the Lisboa District, the Inner Harbour District, the Outer Harbour District and Cotai. As at 30 April 2008, SJM has invested a total of HK\$8.2 billion in these projects.

### ***Lisboa District***

*Grand Lisboa.* The Grand Lisboa is located at the heart of central Macau, adjacent to the historic Casino Lisboa and close to other major landmarks, including the Bank of China Building and Clube Militar de Macau. Phase I of the Grand Lisboa, which consisted of mass market gaming tables and slot machines, commenced operations in February 2007. As at 31 December 2007, there were 235 mass market gaming tables and 756 slot machines at the Grand Lisboa. In August 2007, SJM opened the Grand Lisboa VIP rooms, which, as at 31 December 2007, consisted of five VIP rooms with a total of 52 tables. We expect SJM to open three additional VIP rooms with 28 tables by the end of 2008. We expect Phase II of the Grand Lisboa, which will include a hotel facility, to be completed in the second half of 2008. When completed, the Grand Lisboa will feature a hotel tower with approximately 431 guest rooms and suites, 268 mass market gaming tables, 12 VIP rooms and up to 786 slot machines on eight levels of podium space. The Grand Lisboa also includes a four storey basement carpark, a grand ballroom, restaurants and a gift gallery. The Grand Lisboa is connected to the Casino Lisboa by an overhead bridge and a pedestrian subway. The two properties together constitute SJM’s flagship operation in Macau.

As at the Latest Practicable Date, SJM had procured all necessary regulatory approvals from the Macau Government in connection with the construction of the Grand Lisboa. However, as at the Latest Practicable Date, we have yet to receive the occupancy permit for the commercial use of the hotel rooms. When fully completed, the Grand Lisboa is expected to have a gross floor area of approximately 135,443 sq.m. on a site area of approximately 11,626 sq.m. Since its opening, the Grand Lisboa has attracted approximately 13 million visitors.

*Redevelopment of Hotel and Casino Lisboa.* On 17 April 2008, SJM exercised its option to purchase the remaining 15/16 portion of the building known as Hotel Lisboa from STDM. See “Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM.” SJM plans to redevelop and expand Hotel and Casino Lisboa into a multi-purpose development. We expect the casino portion of Hotel and Casino Lisboa to include approximately 60 VIP gaming tables, 300 mass market gaming tables and 1,000 slot machines. The non-casino portion of the Hotel and Casino Lisboa may consist of residential apartments, a shopping mall, spa facilities, and hotel and convention rooms. Redevelopment of Hotel and Casino Lisboa is expected to commence in 2009 and

to be completed by the first quarter of 2012. In April 2008, SJM invited six architectural firms from Asia, Europe and the United States to submit concept design proposals for the redevelopment, each of which have accepted. We expect to display the initial design concepts to the public in July 2008. Any redevelopment of Hotel and Casino Lisboa is subject to the relevant government and regulatory approvals. When fully completed, the redeveloped Hotel and Casino Lisboa is expected to have a gross floor area of approximately 250,000 to 300,000 sq.m. on a site area of approximately 17,215 sq.m.

*L' Hermitage.* SJM is also developing L'Hermitage, which will be an exclusive club style casino marketed to high net worth individuals to allow SJM to build direct relationships with these players. Construction of L'Hermitage commenced in the fourth quarter of 2007 and is expected to be completed in the third quarter of 2008. When completed, we expect L'Hermitage to comprise 32 VIP gaming tables and occupy a gross floor area of approximately 4,360 sq.m. Commencement of operations of L'Hermitage is subject to approval by the Macau Government. L'Hermitage is expected to complement SJM's Casino Lisboa and Grand Lisboa, and further develop and expand the Lisboa District into a more prominent gaming centre. STDM and SJM are in advanced negotiations for STDM to lease the premises for Casino L'Hermitage to SJM. SJM intends to lease such premises from STDM at market rates after STDM has obtained the relevant occupancy permit.

*L'Arc.* SJM is also developing a Third Party-Promoted Casino, named L'Arc, which will occupy the first three floors of a new high-rise building, located near the Lisboa District. We expect the casino to be completed in the first quarter of 2009, and comprise 30 VIP gaming tables, 153 mass market gaming tables and 420 slot machines, occupying a gross floor area of approximately 7,500 sq.m.

*Nam Van Lake Lot 11-A.* On 17 April 2008, SJM exercised its option to purchase Nam Van Lake Lot 11-A from STDM, which occupies approximately 2,885 sq.m. of land with a gross floor area of approximately 26,633 sq.m. See "Relationship with our Controlling Shareholders — Purchase Options Agreement between STDM and SJM." SJM is considering various plans for the use or redevelopment of this property.

### ***Inner Harbour District***

*Ponte 16.* When fully completed, Ponte 16 will be a multi-functional resort in the Inner Harbour District, comprising a casino with approximately four VIP rooms with 24 tables, 110 mass market gaming tables and 320 slot machines (subject to Macau Government approval), a hotel — the "Sofitel Macau at Ponte 16" — with approximately 408 guest rooms and deluxe suites, retail shops, restaurants, bars, a spa and wellness centre with swimming pool, and entertainment facilities surrounding the clock tower situated at Macau's historic Pier 16. A waterfront promenade will provide a venue for outdoor performances and other leisure activities. SJM commenced operations of Casino Ponte 16 on 1 February 2008 and expects to commence operations of the hotel's 408 guest rooms and suites by the end of 2008. However, as at the Latest Practicable Date, SJM had not yet obtained occupancy permits for certain non-casino portions of this project. When fully completed, Ponte 16 is expected to occupy approximately 23,066 sq.m. of land with a total gross floor area of approximately 126,500 sq.m.

Ponte 16 is a joint venture project between SJM and World Fortune, a subsidiary of Macau Success. The two parties established Pier 16 - Property Development, owned as to 51% by the Group and 49% by World Fortune, to undertake the development of this project.



Pier 16 - Property Development has obtained the construction licence and the land grant required for the development of Ponte 16 pursuant to a land concession agreement with the Macau Government. Certain portions of the Ponte 16 property are currently subject to litigation. See “— Legal Proceedings.”

### ***Outer Harbour District***

*Oceanus.* SJM plans to develop the site of the existing New Yaohan Department Store into Oceanus, a multi-level casino facility to serve gaming patrons who arrive at one of the principal entry-points to Macau. SJM plans to commence development in the second half of 2008, subject to obtaining the necessary government approvals. We expect the facility to offer approximately eight VIP gaming tables, 300 mass market gaming tables and 600 slot machines with room for expansion as demand dictates. We expect the first phase of the development of Oceanus to be completed in the second quarter of 2009, and to occupy a gross floor area of approximately 25,466 sq.m. on a site area of approximately 6,952 sq.m.

### ***Cotai***

*The Pearl.* SJM is planning the development of a mixed-use property in Cotai, situated directly across from the new convention centre in Cotai, to provide conveniently located gaming, lodging and entertainment facilities for convention and exhibition visitors. Facilities may consist of a casino and hotel, plus food and beverage outlets, a spa, meeting spaces and service apartments. We expect The Pearl to offer approximately 36 VIP gaming tables, 200 mass market gaming tables and 1,000 slot machines. We expect The Pearl to be fully completed by the end of 2010 and occupy a gross floor area of approximately 150,000 sq.m. on a site area of approximately 10,000 sq.m., including a casino with approximately 200 mass market gaming tables, 36 VIP gaming tables and 1,000 slot machines. The construction and launch of this development is subject to various requirements, including obtaining the necessary construction licences, government approvals and land grants.

*“Cotai II”.* A second site in Cotai has been applied for, situated adjacent to the Macau East Asian Games Dome. We expect Cotai II to be fully completed by the first quarter of 2012 and to occupy an initial gross floor area of approximately 220,000 sq.m. on a site area of approximately 73,856 sq.m. Facilities may consist of casinos, hotels, food and beverage outlets, spas, meeting spaces and service apartments. The construction and launch of this development is subject to various requirements, including obtaining the necessary construction licences, government approvals and land grants.

Both land applications for The Pearl and Cotai II have been lodged with the Macau Government and are awaiting approval. On 22 April 2008, however, the MSAR Chief Executive discussed, in response to legislative counselors’ questions, certain proposals that could affect the gaming industry in Macau, including proposals relating to the approval of new land resources for gaming purposes and grant of new applications for casinos. Such policies are not currently in place and we do not believe that such policies, if implemented, would apply to land applications that have already been submitted. However, we cannot assure you that the MSAR will approve such land application proposals. See “Risk Factors — Risks Relating to the Gaming Industry in Macau — Regulatory or governmental policies that affect the Macau gaming industry could change.”

**MARKETING**

We use a variety of methods to promote and market SJM's VIP and mass market gaming operations at the corporate level and the individual casino level. Our marketing efforts at the corporate level focus on the recognition of the "Lisboa" name, the identification of SJM's business operations with Macau and our broad network of relationships with travel service providers. The marketing of specific casinos and their gaming products involves our marketing team working together with operations, information technology and other departments to develop targeted approaches toward appropriate customer categories. Marketing and promotional expenses for the years 2005, 2006 and 2007 were HK\$13,497.4 million, HK\$14,569.4 million and HK\$12,433.3 million, respectively.

For VIP gaming, SJM works closely with its Gaming Promoters to provide VIP gaming tour packages that are tailored to the individual preferences of their VIP gaming patrons. To better retain and attract Gaming Promoters, SJM uses four compensation schemes, consisting of a combination of commissions, allowances and fees, to incentivise its Gaming Promoters. For details on SJM's VIP gaming operations, see "— SJM's Casinos — Casino Segments — VIP" and "— Arrangements with VIP Room Gaming Promoters."

SJM's casinos are divided into Self-Promoted Casinos and Third Party-Promoted Casinos. Self-Promoted Casinos are casinos for which promotional and marketing efforts are handled by SJM's Marketing Department, and Third Party-Promoted Casinos are casinos for which marketing efforts are handled by Mass Market Service Providers pursuant to Mass Market Services Agreements. During 2005, 2006 and 2007, SJM engaged eight, nine and nine Mass Market Service Providers, respectively, all of which are independent third parties. SJM's operation of Third Party-Promoted Casinos is part of SJM's expansion strategy. SJM's operation of Third Party-Promoted Casinos allows it to further diversify its presence in Macau without incurring significant capital expenditures. In addition, SJM's Third Party-Promoted Casinos are generally targeted to the regional market, which allows SJM to extend its reach in a relatively short period of time.

Third Party-Promoted Casinos are not operated by the Mass Market Service Providers, rather, SJM operates the Third Party-Promoted Casinos (in accordance with the Concession Contract) while the Mass Market Service Providers are responsible for general services, including: provision, renovation and fitting out of the premises, purchase and installation of gaming equipment, cleaning services utilities, food and beverage services, promotion, publicity, marketing, customer development and other ancillary services. SJM's Internal Audit Department is responsible for reviewing the internal controls and security of these Third Party-Promoted Casinos.

Under the terms of the Mass Market Services Agreements, Mass Market Service Providers receive a percentage of net-win after taxes and levies and, in return, reimburse SJM for a portion of the operational costs incurred by SJM. SJM receives the remaining net-win after taxes, levies and the amount paid to Mass Market Service Providers. For the years 2005, 2006 and 2007, SJM's operational costs for Third Party-Promoted Casinos, which were subsequently reimbursed by Mass Market Service Providers, amounted to HK\$3.6 million, HK\$4.1 million and HK\$4.7 million, respectively. These amounts were reimbursed on an actual cost basis. Mass Market Service Providers work exclusively with SJM at each of SJM's Third Party-Promoted Casinos.

As part of SJM's cost reduction strategy, SJM has entered into a new form of Mass Market Services Agreement with five of its nine Mass Market Service Providers. As of the Latest Practicable Date, the DICJ approved two of these new form agreements (with one of such agreements covering

two Third Party-Promoted Casinos) and three of these new form agreements have been submitted to the DICJ for approval. SJM is in negotiations to replace its remaining Mass Market Services Agreements with the new form Mass Market Services Agreement by the end of 2008. Under the new form Mass Market Services Agreements, Mass Market Service Providers are responsible for additional services for the Third Party-Promoted Casinos, including the hiring of key operational staff, suggesting the number of gaming tables, games selection, betting limits and opening hours of each table, as well as the number of dealers, supervisors, pit bosses and other staff. Under the new form agreements, Mass Market Services Providers are also responsible to recruit, train, promote, determine compensation and other benefits, and terminate employees, subject to SJM's review and determination. See "Risk Factors — Risks Relating to Our Business — SJM relies on the services of service providers, including Gaming Promoters and Mass Market Service Providers, to market its businesses and attract gaming patrons."

The new form Mass Market Services Agreements are effective until the end of the Concession, unless (i) SJM and the Mass Market Service Providers mutually agree to terminate the agreements, (ii) SJM loses the Concession, or (iii) the Mass Market Service Provider is subsequently authorised to operate its own casino games. As consideration for their services, Mass Market Service Providers are paid a certain percentage of the gross gaming income generated by casino games and slot machines. In accordance with the Concession Contract, SJM remains liable for all taxes, levies, contributions and premiums generally payable in relation to the gaming operations of the Third Party-Promoted Casinos. In order to monitor the performance of Mass Market Service Providers to prevent misconduct and ensure that Mass Market Service Providers comply with all relevant rules and regulations, key operational staff of the Third Party-Promoted Casinos are employed by SJM, the treasury and surveillance functions are under the control of SJM, and SJM's internal audit department regularly inspects the systems of the Third Party-Promoted Casinos to ensure compliance with its anti-money laundering policies and all other relevant rules and regulation.

SJM expects to significantly reduce its operational costs, including reductions in payroll and rental expenses, as a result of entering into the new form Mass Market Service Agreements. In addition, SJM expects the new form Mass Market Service Agreements will allow it to focus greater management and marketing resources on its Self-Promoted Casinos.

The amount of profit shared by the Mass Market Service Providers for the years 2005, 2006 and 2007 was HK\$2,152.9 million, HK\$2,463.6 million and HK\$2,322.3 million, respectively.

The Directors believe, having received advice in such respect from the Company's Macau legal advisors, that the Third Party-Promoted Casinos, the Mass Market Services Agreements and the engagement of Mass Market Service Providers under the original and new form of the Mass Market Services Agreements, which were approved by Macau Government, are lawful under Macau law and comply with the applicable laws and the Concession Contract.

The following sets forth certain strategies and techniques SJM employs in marketing its Self-Promoted Casinos and business operations:

#### ***Loyalty Card Programmes***

SJM utilises three loyalty card programmes, the MET (Macau Entertainment and Tourism) Card, the e c Card and the Grand Lisboa Card, to target mass market gaming patrons. All gaming patrons are eligible to join these loyalty card programmes, none of which charge a membership fee.

SJM joined the MET Card programme, launched by ETP (Macau) Limited, in March 2003. Dr. So Shu Fai and Mr. Ng Chi Sing are directors of ETP (Macau) Limited, which is an Independent Third Party to the Group. The MET Card programme, which is not subject to any membership or annual fee, aims to promote tourism and the gaming industry in Macau by offering discounts and rewards for money spent at participating merchants, including hotels, restaurants, retail shops, transportation providers, sightseeing venues and casinos, some of which are owned by STDM or its associates, and some of which, including Casino Lisboa and Casino Jai Alai, are operated by SJM. Bonus points are credited to the member's account and can be redeemed for cash chips, products, services, discounts and other rewards at participating merchants. The bonus points are credited to the members' account simultaneously when they spend the money at participating merchants. As at 31 December 2007, the MET Card programme had 205,345 individuals enrolled.

SJM launched the e c Card programme in 2004, targeting high-stakes mass market patrons. e c Card is a pre-paid membership card allowing members to purchase special chips ("e c Chips") in designated casinos. e c Card members may not exchange e c Chips for cash, however they may use e c Chips for cash rebates and may participate in promotional campaigns reserved for members. In addition to being a platform for SJM to launch various promotional and marketing campaigns, the e c Card database allows SJM to gather certain marketing information, such as members' gaming and consumption patterns at its casinos, to assess the effectiveness of promotional and marketing programmes and to design appropriate programmes for mass market gaming patrons at SJM's casinos. As at 31 December 2007, the e c Card programme had 204,503 members.

The Grand Lisboa Card allows mass market gaming patrons of the Grand Lisboa to accumulate bonus points at gaming tables or slot machines, which are credited to the members' account simultaneously. Amounts wagered, time spent and hands played count towards accumulating bonus points, which members can redeem at food and beverage outlets in the Grand Lisboa or for ferry tickets and hotel accommodation. Card members are also entitled to free shuttle bus service and other privileges and promotions that are provided by SJM. As at 31 December 2007, the Grand Lisboa Card programme had 126,076 members.

In addition, SJM operates a Private Label Card Programme for its VIP Room Gaming Promoters as a means to encourage their gaming promotion and stimulate VIP gaming by granting the VIP Gaming Promoters certain food and beverage, hotel and transportation allowances, based upon the value of the respective chips' sales. Under the Private Label Card Programme, SJM issues SJM Junket Debit Cards to all of its VIP Room Gaming Promoters. The SJM Junket Debit Cards are used to record and store credit points for allowance arrangements between the VIP Room Gaming Promoters and SJM. The VIP Room Gaming Promoters can use their SJM Junket Debit Cards to acquire goods and services provided by various designated merchants, which in turn can be provided to their VIP gaming patrons as inducement to play in SJM's casinos. Each time the VIP Room Gaming Promoters use the SJM Junket Debit Cards, credit points are deducted from their accounts. See "Connected Transactions — Arrangements with VIP Room Gaming Promoters." The Group makes full provision for the bonus points and credit points stored in the relevant cards at month end in the Group's accounts. The related expenses resulting from the redemption of cash, chips or services and the cash rebates earned by the members of the loyalty cards programs, Private Label Card Program and SJM Junket Debit Card for the years 2005, 2006 and 2007 were HK\$837.8 million, HK\$816.7 million and HK\$669.9 million, respectively.

### ***Transportation Services***

SJM's fleet of buses and limousines provide transportation for patrons among certain casinos to and from the border gate and Macau Maritime Terminal. Drivers and attendants receive specific training in customer services.

### ***Promotions, Special Events and Advertising***

SJM regularly hosts special events such as the "Millionth Customer Award," casino or casino-area openings, holiday celebrations, and offers special awards of prizes and jackpots. In addition, SJM sponsors events such as the Macau Grand Prix. SJM also holds promotional gaming tournaments such as the annual SJM International Real Players Baccarat Tournament, the Celebrities Charity Baccarat Tournament, the Charity Texas Hold'em Poker Tournament and regular lucky draw contests for cash and other prizes, such as tickets to the Macau Grand Prix and the Beijing Olympics. Subject to local regulations, SJM uses media placements and visual displays in connection with its promotions, special events and seasonal celebrations in order to increase patronage.

### ***Customer Relationship Management***

SJM employs a computer system for recording and handling data in relation to table and player tracking which enables SJM to tailor its marketing and services more precisely to customers' needs and tastes. SJM also places emphasis on training in customer relationship management and recognises staff excellence in service via programmes such as the Grand Lisboa Premium Service Awards programme.

### ***Entertainment***

In addition to entertainment venues within certain properties, SJM provides free entertainment, such as stage shows, television broadcasting and free internet, for patrons in Grand Lisboa. SJM's entertainment offerings are reviewed and revised periodically to respond to the preferences of its patrons.

### ***Network of Gaming Promoters and Travel Agents***

As a result of SJM's broad array of gaming products, name-recognition and experience, an extensive network of Gaming Promoters and travel agents regularly source new and repeat visitors to SJM's casinos.

## **KEY SUPPORT FUNCTIONS**

Our operations are supported by the following functions: human resources, information technology, research and development, marketing, security, surveillance, training, and treasury operations.

### ***Human Resources***

Our Human Resources Department, together with our Performance Improvement Department, is responsible for recruiting, training and retaining employees, especially those engaged in gaming operations, such as attendants, dealers and supervisors. As at 31 March 2008, our Human Resources Department consisted of 90 employees.

We encourage continuing education, academic pursuits and career development by SJM's employees. SJM offers full scholarships as part of the employee benefit programme to its employees to study degree courses relating to hospitality and gaming and non-degree courses, such as language and computer courses, at Macau Millennium College, as well as secondary school courses at Millennium

Secondary School. We believe that such scholarships have helped to strengthen employee morale and loyalty. SJM has put in place guidelines, policies and handbooks for its employees in order to provide them with information regarding their rights, benefits and responsibilities. Information such as working hours, payroll, annual leave, weekly rest, statutory holidays, maternity leave, health benefits, security, training and evaluation, and evacuation and emergency procedures are detailed in such materials. In addition, since 2004, SJM has entered into employment contracts, which specifically address its human resources policies, with all of its employees. We believe we have complied with such guidelines and policies in all material respects. These handbooks and guidelines have been put in place to ensure that SJM and its employees have a clear understanding of their respective rights, benefits and responsibilities in order to comply with Macau labour laws and to provide the information and knowledge to its employees in order to protect their interests as well as the interests of SJM and to prevent any labour disputes. In order to increase awareness of SJM's human resources policies among its staff, SJM circulated its guidelines, policies and handbooks to its staff in May 2004 and has, since January 2007, started to make its human resources policies available to its employees via its intranet.

### ***Information Technology***

In line with our strategic goal of improving operating margins through upgrading information technology, SJM has recently undertaken several significant IT initiatives. We will continue to upgrade and expand the automation of SJM's operations over the near-to-medium term. Recently, SJM has installed new systems for gaming management and player tracking, for efficient rostering of employees in a 24-hour per day environment and for handling human resource records, including payroll and benefits for our expanding workforce. Additional upgrades have been implemented to enhance SJM's internal communications network and our website. As at 31 March 2008, our Information Technology Department consisted of 99 employees.

### ***Research and Development***

SJM actively explores and develops new casino games. As at the Latest Practicable Date, five staff members were engaged in research and development. During the Track Record Period, SJM introduced several new table games in its casinos, see “— SJM's Casinos — Casino Segments — Mass Market — Table Games”. In deciding which games to offer to its customers, SJM is principally concerned with the preferences of its patrons and statistical gaming results. To develop new casino games, SJM undertakes studies to examine the attractiveness and feasibility of proposed casino games, submits the relevant results to its Research and Statistics Department for computer simulation and analysis of net win, and tests the proposed casino games under simulated casino conditions. If the simulation results are satisfactory, SJM submits the proposed casino games, along with the playing guides and statistical analysis, to the DICJ for its opinion, which in turn may recommend such games to the Secretary of Economy and Finance for approval. After obtaining approval, SJM may offer the new casino games to its patrons.

### ***Marketing***

SJM's Marketing Department creates innovative marketing campaigns and programmes to market its mass market gaming operations within its Self-Promoted Casinos. See “— Marketing.” As at 31 March 2008, the Marketing Department consisted of 267 employees.

### ***Security***

SJM employs a dedicated security team responsible for ensuring the security of its casinos, in particular, for its gaming floors and cage and treasury facilities. The responsibilities of SJM's security

team include (i) maintaining order and the safety of casino employees and gaming patrons within SJM's gaming facilities; (ii) protecting and guarding SJM's gaming facilities against criminal and illegal activities; and (iii) escorting the transfer of cash and chips within SJM's casinos.

SJM's security officers are screened and trained in areas including law enforcement, crisis management, communications and customer service. SJM divides each of its casinos into different security patrol sections and deploy its security officers according to the nature of the assignment. As at 31 March 2008, SJM employed 2,242 security officers.

### *Surveillance*

SJM has an advanced electronic surveillance network which includes a large network of fixed and scanning video cameras, colour television monitors and digital recording devices installed at SJM's casinos. There is a minimum of one camera, and often two or three cameras, operating at each gaming table. In aggregate, SJM had approximately 9,000 cameras in its casinos as at 31 March 2008. In addition to helping protect against fraud and other undesirable activities, the electronic surveillance network supports SJM's security team in maintaining order and safety in its casinos. Fixed surveillance cameras monitor cages, slot machines and areas outside the casino and are supplemented by scanning cameras, which monitor all gaming tables and selected areas inside the casino. As at 31 March 2008, the Surveillance Department consisted of 316 employees.

### *Training*

SJM provides continuing professional training to its employees through its Performance Improvement Department. The Performance Improvement Department operates a formal training centre in Macau devoted exclusively to the training and development of SJM employees. As at 31 March 2008, SJM had 18 full-time trainers having an average of 17 years of professional gaming experience and an average of 6.5 years of training experience. SJM provides an array of training courses to its employees on subjects such as casino gaming, customer service and management in a mock casino environment. SJM's training centre features 150 gaming tables, training rooms and four modern classrooms that can accommodate up to 240 people.

### *Treasury*

SJM's Treasury Department consists of the central treasury office located at the Grand Lisboa, satellite treasury offices in other casinos and numerous cashier and cage personnel. As at 31 March 2008, SJM had approximately 1,394 employees working in the Treasury Department.

Each day, SJM's treasury staff tabulates the total net-win for SJM's gaming tables, the results of which are verified by the DICJ. Each week, coins and notes from slot machines are collected and counted by SJM's staff in its slot machines department and treasury offices, under the supervision of the DICJ. In addition, gaming tax receipts and tax payment schedules are provided to the DICJ on a monthly basis and cash count reports are provided to the DICJ on a quarterly basis. SJM's treasury staff also conducts semi-annual chip counts.

In 2005, there was an incident involving a treasury staff member stealing HK\$2.0 million from one of SJM's casino treasuries. The entire incident was recorded by SJM's surveillance recording system. SJM reported the case to the police immediately and filed a claim with its insurance broker. SJM recovered approximately 85% of the stolen amount through insurance. Except as disclosed above, we are not aware of any other material incidents that occurred during the Track Record Period.

## **ARRANGEMENTS WITH VIP ROOM GAMING PROMOTERS**

The Gaming Promoter system in Macau was developed to promote VIP gaming operations. A VIP Room Gaming Promoter may or may not have a VIP room designated exclusively for its VIP gaming patrons. A VIP Room Gaming Promoter enters into a gaming promoter agreement with the Concessionaire pursuant to which the VIP Room Gaming Promoter agrees to provide promotional services to the Concessionaire in consideration of commission or other forms of remuneration including for example, a share of net-win from the VIP room, chip commissions, fees and allowances. Such VIP Room Gaming Promoters provide services exclusively to SJM unless otherwise agreed to by SJM. SJM engages VIP Room Gaming Promoters to promote VIP rooms in both its Self-Promoted Casinos and Third Party-Promoted Casinos based on their market knowledge, customer relations and financial stability and experience with VIP gaming patrons and operations. For the years 2005, 2006 and 2007, SJM engaged 77, 78 and 75 VIP Room Gaming Promoters, respectively. As at the Latest Practicable Date, we have entered into agreements with 73 VIP Room Gaming Promoters. More than half of SJM's VIP Room Gaming Promoters have had relationships with SJM since the commencement of SJM's operations in April 2002.

The gaming promoter agreements are valid for three years from the day of signing, and are automatically renewed for three years if the agreement has not been terminated or breached, until the expiry of SJM's Concession. The commissions paid to VIP Room Gaming Promoters are calculated on a monthly basis.

SJM's VIP Room Gaming Promoters may receive their commissions based on four different commission schemes:

- Chip commission only;
- Percentage of net-win after expenses (including gaming tax and allowance to Gaming Promoters);
- Percentage of net-win before expenses; or
- Combination of chip commission and percentage of net-win.

The chip commission only scheme for VIP rooms is a new commission scheme that SJM began to offer in August 2007 in the Grand Lisboa in conjunction with the opening of the Grand Lisboa's VIP rooms. Under the combination of chip commission and percentage of net-win scheme, the chip commission portion is a fixed percentage of the amount of chips purchased from SJM and is standardised for all VIP Room Gaming Promoters. Under the chip commission only scheme, the chip commission is variable depending on the amount of chips purchased by VIP Room Gaming Promoters.

Generally, the different commission schemes provide VIP Room Gaming Promoters the ability to diversify their commission base to balance short-term volatility, which the Company is better able to manage given its overall scale and volume. Overall, marketing and promotional expenses have consistently been approximately 38-43% of gross gaming revenues in the Track Record Period. See "Financial Information — Description of Components of Results of Operations — Marketing and promotional expenses".

Under the gaming promoter agreements, SJM's VIP Room Gaming Promoters are required to purchase a minimum amount of non-redeemable chips from SJM and provide them to VIP gaming patrons either directly or indirectly through their collaborators. The minimum amount of non-



redeemable chips on a monthly or annual basis serves as target levels of chip sales to the relevant Gaming Promoters. However, such target levels of chip sales do not constitute any form of guarantee income to the Group. All winnings are paid in redeemable chips.

In addition to commissions, VIP Room Gaming Promoters also receive food and beverage allowances and hotel and transportation allowances, which are provided in the form of credit points recorded in a computer system maintained by SJM. VIP Room Gaming Promoters can use the credit points to acquire goods or services at designated merchants, purchase ferry and helicopter tickets at STD M's ticket counters and reserve rooms at designated hotels by charging the transactions on the SJM Junket Debit Cards. See "Connected Transactions — Exempt Continuing Connected Transactions — Arrangements with VIP Room Gaming Promoters." SJM provides allowances rather than cash payments to its VIP Room Gaming Promoters to encourage them to provide complimentary tickets, entertainment and hotel accommodation to their VIP gaming patrons to induce them to play in SJM's VIP rooms. The amount expensed from allowances provided to SJM's VIP Room Gaming Promoters for the years 2005, 2006 and 2007 was HK\$1,331.4 million, HK\$1,337.6 million and HK\$1,014.2 million, respectively. There were no disputes regarding the amounts payable to SJM's VIP Room Gaming Promoters during the Track Record Period.

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

SJM's VIP Room Gaming Promoters may utilise their respective employees and other collaborators, such as junket operators, to assist in the operation and promotion of the VIP rooms. SJM does not have a contractual relationship with the collaborators and does not manage or have any commercial, legal or other relationship with the collaborators and does not pay them any fees.

Under the gaming promoter agreements between SJM and its VIP Room Gaming Promoters, SJM's VIP Room Gaming Promoters agree to fully comply with all applicable laws and regulations of the MSAR as well as SJM's regulations, rules and procedures, including, but not limited to, those relating to gaming, Gaming Promoter licensing, gaming credit extension, internal controls and anti-money laundering laws and regulations. SJM's VIP Room Gaming Promoters further agree to ensure that their collaborators and other relevant personnel fully comply with all applicable laws and regulations of the MSAR as well as SJM's regulations, rules and procedures. SJM has established complaint channels for reporting any misconduct by its VIP Room Gaming Promoters and their collaborators, supervises and monitors activities in its VIP rooms, and has set up surveillance systems in its VIP rooms to prevent any misconduct by its Gaming Promoters. See "Internal Controls and Anti-money Laundering." SJM is not liable or jointly liable for any misconduct on the part of its Gaming Promoters or Mass Market Service Providers that occurs outside of its casinos.

Our Macau legal advisors have reviewed documents, including but not limited to a list of the VIP Room Gaming Promoters engaged by SJM in the promotion of its business under the Gaming Promoters Regulation, SJM's agreements with its VIP Room Gaming Promoters, letters submitted by SJM to the DICJ in relation to agreements with VIP Room Gaming Promoters and Mass Market

Service Providers, DICJ's approval of such agreements and DICJ's list of licensed VIP Room Gaming Promoters and have conducted their own due diligence investigation and received confirmations from SJM that all of its business operations involving its VIP Room Gaming Promoters and Mass Market Service Providers are duly formalized and in compliance with the relevant laws, regulations and/or approvals by the MSAR Government. Our Macau legal advisors are of the opinion that the gaming promotion activities being carried out by SJM's VIP Room Gaming Promoters and Mass Market Service Providers under their respective agreements with SJM are in compliance with Macau laws and regulations.

From time to time, SJM extends temporary credit, interest-free, to its Gaming Promoters, which is repayable in the month following the granting of the credit. The amount of such temporary credit is limited to and secured by the accrued commissions payable to SJM's Gaming Promoters. Given the nature of the commission schemes offered to Gaming Promoters, it is possible that an advance granted to a Gaming Promoter, which at the time of grant was within the accrued commissions, may at the end of the month exceed the accrued commissions, if, for instance, the tables promoted by the Gaming Promoter suffer a decrease in hold rate or net-win rate which result in a decrease in the Gaming Promoter's overall accrued commissions after the advance is granted. SJM may also grant credit to be repaid by installments and revolving credit facilities with preapproved credit lines to its Gaming Promoters. Although the amount of such credit may exceed accrued commissions payable to the Gaming Promoters, it is generally secured by cheques or other forms of security such as bank guarantees or letters of credit from the Gaming Promoters to SJM. This credit is only temporary credit provided against unpaid commissions of the 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 payable may be granted to Gaming Promoters who have good credit histories and track records of large business volumes to ease their temporary cash flow problems. SJM's Treasury Department provides monthly reports, with aging analysis, on the status of advances granted to SJM's Gaming Promoters. Each advance must be approved by at least one Director. Before any advance is approved, the Directors are provided with information on the amount owed by and the commission payable to a Gaming Promoter. In the event that a Gaming Promoter fails to repay credit granted by SJM, SJM has the right, pursuant to its gaming promoter agreements, to withhold accrued commissions payable to the Gaming Promoter to offset the credit extended until full repayment is made. The balance of SJM's advances to its Gaming Promoters as at 31 December 2005, 2006 and 2007 was HK\$261.4 million, HK\$379.2 million and HK\$376.4 million, respectively. The balance of SJM's advances to its Gaming Promoters has increased for the corresponding periods due to increased competition. The balance due from SJM's Gaming Promoters as at 31 December 2005, 2006 and 2007, as a percentage of revenue for the corresponding periods, was 0.8%, 1.1% and 1.2%, respectively.

In order to minimise credit risk, the management of the Group has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that necessary follow-up action is taken to recover overdue debts. The Group reviews the recoverable amount of each individual advance and receivable from SJM's VIP Room Gaming Promoters at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. As a result, the Directors consider that the Group's exposure to credit risk on these advances and receivables is significantly reduced.

Our Macau legal advisors have confirmed that all credit extended by SJM is lawful credit pursuant to the Gaming Credit Administrative Regulation No. 5/2004 and is enforceable in Macau courts. During the Track Record Period, SJM did not experience any material default with respect to credit extended to its Gaming Promoters. There was no provision for overdue advances and receivables from SJM's VIP Room Gaming Promoters during the Track Record Period.

### **ARRANGEMENTS WITH SLOT MACHINE SERVICE PROVIDERS**

During the Track Record Period, SJM utilised Slot Machine Service Providers to assist with the marketing of SJM's Third Party-Serviced Slot Machine Operations. As at 31 December 2005, 2006 and 2007, SJM had seven (being five Mocha Slot Lounges, Tiger and Legend), four (Tiger, Legend, Babylon and Emperor) and five (Tiger, Legend, Babylon, Emperor and Paradise Entertainment) Third Party-Serviced Slot Machine Operations, respectively. As at 21 September 2006, SJM terminated its agreement with Mocha Slot and has since engaged other Slot Machine Service Providers and has also focused more of its marketing efforts on its Self-Promoted Slot Machine Operations.

SJM has entered into Slot Machine Services Agreements with its Slot Machine Service Providers which expire at the latest on 31 March 2020. As at 31 December 2005, 2006 and 2007, SJM had agreements with three, three and four Slot Machine Service Providers, respectively. Under the Slot Machine Services Agreements, the Slot Machine Service Providers are responsible for the acquisition and setup of slot machines, and the expenses relating to the design, decoration, renovation, maintenance and improvement of the Third Party-Serviced Slot Machine Operations. The actual operations of the Third Party-Serviced Slot Machine Operations, including treasury and surveillance, are all solely operated by SJM (in accordance with the Concession Contract) and, under the terms of the Slot Machine Services Agreements, the Slot Machine Service Providers reimburse SJM for certain expenses. Based on the understanding of our directors, the Slot Machine Service Providers acquire their slot machines from vendors authorised by the Macau Government. The Slot Machine Services Providers are entitled to a certain percentage of the total net-win derived from Third Party-Serviced Slot Machine Operations. SJM is responsible for paying the special gaming tax, special levy and gaming premium to the MSAR Government.

A Slot Machine Services Agreement may be terminated if either SJM or the Slot Machine Service Provider (i) defaults on the Slot Machine Services Agreement and fails to remedy the fault and indemnify the damages suffered by the other party within 21 days of receiving written notice; (ii) enters into liquidation, or is subject to bankruptcy proceedings or resolves to enter into liquidation; or (iii) ceases to legally exist; or if the Concession is terminated.

In relation to Self-Promoted Slot Machine Operations, the Company bears all related operating and capital cost items.

### **GAMING PATRONS**

The majority of SJM's VIP and mass market gaming patrons come from nearby destinations in Asia, including Greater China, South Korea and Japan. According to DSEC, approximately 55.1% of visitors to Macau in 2007 were from mainland China.

Gaming is conducted on a cash basis, and SJM generally does not grant gaming credit directly to its gaming patrons. However, SJM does occasionally grant short-term gaming credit to selected VIP gaming patrons on a case-by-case basis. In such cases, SJM does not charge interest nor require any

security. The repayment terms of gaming credit also vary on a case-by-case basis based on the performance of the relevant gaming patrons and their sound financial background. For the years 2005, 2006 and 2007, the amount of gaming credit granted to gaming patrons was approximately HK\$0.6 million, HK\$6.0 million and HK\$5.5 million, respectively. The credit period granted to gaming patrons was one month, and gaming patrons typically repaid the gaming credit granted within six weeks. The Directors confirm that there was no write-off or provision for advances to gaming patrons during the Track Record Period.

## **SUPPLIERS**

SJM depends on its suppliers to provide it with products and services such as ferry tickets, hotel rooms, catering services, floral arrangements, dredging services, construction and other administrative services. In 2005, 2006 and 2007, SJM's five largest suppliers accounted for approximately 39.3%, 51.6% and 52.1% of total purchases, respectively. In 2005, 2006 and 2007, SJM's single largest supplier accounted for approximately 14.6%, 35.4% and 20.6% of its total purchases, respectively. In 2007, SJM's five largest suppliers were Hip Hing Engineering (Macau) Co., Ltd., an Independent Third Party (approximately 19.7% of total purchases); Far East Hydrofoil Co., Ltd. ("Far East Hydrofoil") (approximately 5.7% of total purchases); Zhen Hwa Harbour Construction Company Limited, an associate of the Group (approximately 20.6% of total purchases); STDM, through Hotel Lisboa Macau (approximately 3.6% of total purchases); and STDM (approximately 2.5% of total purchases). In general, suppliers grant credit periods of 30-60 days to us.

STDM is our largest Controlling Shareholder. Far East Hydrofoil is approximately 42.6% owned indirectly by Shun Tak Holdings (in which Dr. Ho, Dr. So Shu Fai and Mr. Shum Hong Kuen, David are directors and shareholders and Dr. Cheng Yu Tung is a director), approximately 28.4% owned indirectly by STDM and approximately 29.0% owned by an Independent Third Party. STDM provides SJM with administration and dredging services, catering, hotel accommodation and transportation, and Far East Hydrofoil provides SJM with ferry tickets.

For further information regarding the percentages of supplies from STDM and other companies connected with Dr. Ho, see "Relationship with our Controlling Shareholders."

## **COMPETITION**

### *Competition with Concessionaires and Sub-Concessionaires*

The casino gaming business is highly competitive with six Concessionaires and Sub-Concessionaires currently authorised to operate casinos in Macau. SJM currently competes with Galaxy and Wynn Macau, the two other Concessionaires, as well as with Venetian Macau, Melco PBL and MGM Grand Paradise, the three Sub-Concessionaires.

As at the Latest Practicable Date, SJM operated 19 of the 30 casinos in Macau whilst Galaxy operated five casinos, Venetian Macau and Melco PBL each operated two casinos, and Wynn Macau and MGM Grand Paradise each operated one casino. For further information on the Concessionaires and Sub-Concessionaire, see "Industry Overview — Concessionaires and Sub-Concessionaires." All casino operators in Macau currently compete with SJM with respect to both VIP and mass market gaming.

With respect to VIP gaming, we believe that competitive factors include relationships with Gaming Promoters, the existing base of VIP gaming patrons, the number of VIP rooms and VIP

gaming tables, the interior decoration and facilities of VIP rooms, knowledge of the local gaming market and preferences of VIP gaming patrons, commission and compensation schemes, house advantage (i.e., the odds that casinos have in winning against their patrons), services and amenities provided and the overall VIP gaming experience. Competition in Macau's VIP gaming segment has intensified and we expect that it will continue to intensify over the next few years as SJM's competitors open more casinos and VIP rooms for operation. We intend to leverage our know-how and gaming industry experience, SJM's extensive and diverse gaming facilities and SJM's large and stable network of Gaming Promoters to provide SJM with a competitive advantage over other casino operators.

With respect to mass market gaming, we believe that competitive factors include ambience, location, variety and diversity of games, promotions and other services, attractions and amenities. We expect competition in mass market casino gaming operations to intensify significantly over the next few years as new competing casinos come into operation. However, we expect to compete favourably with respect to each of these competitive factors due to SJM's large network of casinos and the prime locations of SJM's casinos in strategic areas. We believe that the diversity of SJM's casinos, which include large and small casinos, as well as mixed-use developments, also differentiates SJM from its competitors, who currently concentrate on primarily large mixed-use developments.

The existing concessions and sub-concessions do not place any limit on the number of gaming facilities that may be operated under each concession or sub-concession, although governmental approval is required before a casino commences operations.

SJM and the other Concessionaires and Sub-Concessionaires have announced expansion plans to develop, or are in the process of developing, additional casinos or gaming-related facilities, including mixed-use properties in Macau as part of, or in addition to, their investment obligations under the concessions or sub-concessions.

A significant number of these new casinos and gaming-related facilities are expected to be completed by 2010. The completion of these casinos and gaming-related services and facilities will increase the number of casinos, VIP rooms, gaming tables and slot machines in Macau, thus further intensifying competition in Macau's gaming industry. In addition, the opening of these casinos and gaming-related facilities is likely to increase the competition for senior management, trained casino employees, the services of Gaming Promoters and land for future expansion. Competition may further increase in the future should the MSAR grant additional concessions or authorise additional sub-concessions.

We believe that, through our strategy of developing new casinos and redeveloping SJM's current casinos in key locations throughout Macau, SJM will be able to target, attract and capture the various segments of the gaming market through clustering SJM's existing and future casino developments to create gaming clusters. SJM has exercised options to acquire two additional strategic assets from our Controlling Shareholder to assist in effectively competing with other casino operators. In addition, many of SJM's casinos are specifically designed around selected themes to attract mass market patrons and visitors, which we believe may enhance SJM's competitiveness in mass market gaming by providing variety in layout and ambience to mass market patrons. Loyalty programmes such as MET Card, e c Card and Grand Lisboa Card also allow SJM to collect and analyse its gaming patrons' playing and consumption patterns, which should in turn enable SJM to offer attractive games and to design effective promotional programmes for its gaming patrons.

**INTELLECTUAL PROPERTY**

SJM's brand names, notably the Lisboa brand, are valuable assets for its gaming operations.

***Trademarks and Domain Names***

As at the Latest Practicable Date, our Group had two registered material trademarks in Hong Kong, 59 registered material trademarks in Macau, six pending material trademark applications in Hong Kong and 59 pending material trademark applications in Macau. The material trademarks relate to our corporate names and logos, casinos and other gaming-related businesses, such as hotels, food and beverage outlets and entertainment facilities etc. For further details, see "Appendix VII — Statutory and General Information." As at the Latest Practicable Date, we are the registered owners of 13 material domain names. For further details, see "Appendix VII — Statutory and General Information — Intellectual Property Rights."

**CASINO PROPERTIES*****Existing Properties*****Casino Lisboa**

The total casino floor area of the Casino Lisboa is approximately 29,074 sq.m., which comprises: (i) the original casino area as at the date of termination of STDM's gaming concession on 31 March 2002, consisting of approximately 7,586 sq.m. (the "original Casino Lisboa") and (ii) the new casino area built by SJM since the grant of the Concession on 1 April 2002, consisting of approximately 21,229 sq.m. (the "new Casino Lisboa"). The original Casino Lisboa reverted to the Macau Government from STDM on 31 March 2002, at the end of STDM's gaming concession. Pursuant to the Concession Contract, SJM was authorised to operate gaming activity in the original Casino Lisboa. Also pursuant to the Concession Contract, the original Casino Lisboa was allocated to SJM by means of a temporary transfer of all equipment and appliances used for the operation of casino games. On 6 July 2007, the Macau Government and STDM executed a deed to formalise the reversion of the original Casino Lisboa to the Macau Government. Also on 6 July 2007, by the same deed and upon settlement of the remaining consideration due from the valuation of the original Casino Lisboa, the property title of the original Casino Lisboa was subsequently transferred in favour of SJM from the Macau Government.

**Grand Lisboa**

The Grand Lisboa occupies a site area of approximately 11,626 sq.m. and has a total casino floor area of approximately 20,304 sq.m. On 8 February 2007, the Macau Government issued an occupancy permit in favour of SJM's subsidiary, Unido, with respect to the premises of Casino Grand Lisboa and the DICJ authorised SJM to open a casino on the same premises. See "—Properties Under Development—Grand Lisboa" for information on the development of the Grand Lisboa.

**Casino Ponte 16**

Casino Ponte 16 occupies a portion of a site area of approximately 23,066 sq.m. and has a total casino floor area of approximately 26,688 sq.m. SJM commenced operations of Casino Ponte 16 on 1 February 2008. See "—Properties Under Development—Ponte 16" for information on the development of Ponte 16.

### **Casino Macau Palace**

SJM owns the vessel where Casino Macau Palace is operated. Casino Macau Palace has been closed for renovations since 25 October 2007.

### **Casino Kam Pek**

Casino Kam Pek consists of the Casino Kam Pek—Louvre, Casino Kam Pek—Arabian Nights and Casino Kam Pek — Paradise Entertainment. SJM's subsidiary, Chong Fung, a jointly controlled entity of our Company, owns the 4th and 5th floors of the building where Casino Kam Pek—Louvre operates. SJM leases the 1st and 2nd floors of the building where Casino Kam Pek—Arabian Nights operates. A third party owns the 3rd floor of the building where Casino Kam Pek—Paradise Entertainment operates. SJM has entered into a service agreement with a service provider to operate Casino Kam Pek—Paradise Entertainment which expires on 27 November 2011. Under the terms of the service agreement, the service provider is responsible for the acquisition, setup, maintenance and repair of all slot machines, as well as rents, utilities, design, decoration, renovation, improvement and other expenses, including staff recruitment, training and compensation, necessary for the operation of the casino. The actual operations of the casino, including treasury and surveillance, are all solely operated by SJM in accordance with the Concession Contract. Under the terms of the service agreement, the Macau Government receives its contributions first, based on the net-win of the casino, and the service provider and SJM share the balance, receiving approximately 40% and 20% of the net-win, respectively.

### ***Leases and Licences***

As at the Latest Practicable Date, all properties on which SJM operated casinos and slot machine operations were approved by the Macau Government for gaming operations and SJM had procured the necessary approvals from the Macau Government to operate 19 casinos and slot machine operations on those properties pursuant to valid and existing occupancy agreements or other similar contractual agreements.

The following table sets out information relating to occupancy agreements for SJM's casinos and slot machine operations as at the Latest Practicable Date:

	<b>Floor Area</b>	<b>Term<sup>(1)</sup></b>	<b>Expiry Date</b>
	(sq.m.)	(years)	
Casino Lisboa .....	21,229	18	31 Mar. 2020
Casino Jai Alai .....	9,691	10	31 Mar. 2012
Casino Oriental .....	4,065	10	31 Dec. 2015
Casino Marina .....	3,242	10	9 Dec. 2009
Casino Kingsway <sup>(3)</sup> .....	N/A	—	—
Casino Kam Pek — Arabian Nights			
1st Floor .....	2,115	5	31 Dec. 2008
2nd Floor .....	2,216	5	19 Feb. 2009
Casino Kam Pek — Paradise Entertainment .....	3,211	4	31 Aug. 2011
Casino Taipa .....	795	1	30 Jun. 2008
Yat Yuen Canidrome Slot Lounge .....	1,106	—	31 Dec. 2009
Winner's Bar Slot Lounge .....	576	3	31 Aug. 2009
Casino New Century (includes "Greek Mythology") <sup>(4)</sup> .....	N/A	Same as Concession Contract	
Casino Emperor Palace <sup>(4)</sup> .....	N/A	Same as Concession Contract	
Club VIP Legend (includes "Orbit Slot" and "Pharaoh's Palace") <sup>(4)</sup> .....	N/A	Same as Concession Contract	
Casino Golden Dragon <sup>(4)</sup> .....	N/A	Same as Concession Contract	
Casino Casa Real <sup>(4)</sup> .....	N/A	Same as Concession Contract	
Casino Diamond <sup>(4)</sup> .....	N/A	Same as Concession Contract	
Casino Macau Jockey Club <sup>(2)(4)</sup> .....	N/A	Same as Concession Contract	
Casino Fortuna <sup>(4)</sup> .....	N/A	Same as Concession Contract	
Casino Babylon (includes "Flamingo Slot") <sup>(4)</sup> .....	N/A	Same as Concession Contract	
Tiger Slot Lounge <sup>(4)</sup> .....	N/A	Same as Concession Contract	

(1) For renewal periods, see "Appendix V — Property Valuation."

(2) Includes Macau Jockey Club Slot Lounge.

(3) Pursuant to an agreement dated 19 March 2007, SJM — Investment purchased from China Star Entertainment Limited 1% interest in Kingsway Hotel Limited, the owner of the property in which Casino Kingsway is located. According to an agreement dated 22 June 2007 between SJM — Investment, Kingsway Hotel Limited and Most Famous Enterprises Limited, Dr. Ho will be appointed Chairman of Kingsway Hotel Limited.

(4) Third-Party Promoted Casinos/Slot Halls.

We expect SJM to commence negotiations with relevant landlords on a timely basis and renew all leases that expire in 2008 and 2009.

### ***Properties Under Development***

For SJM's overall plan to further expand its business, including its casino gaming operations and the properties under development, see "— Our New Projects."

### **Grand Lisboa**

Grand Lisboa – Property Investment accepted a land concession contract with respect to the Grand Lisboa site on 22 May 2008. Based on the land concession contract, the Grand Lisboa site has a total area of approximately 11,626 sq.m. and is valid for an initial period of 25 years from the date on which the approval of the land concession is published in the Macau Official Gazette. The estimated amount of land premium as at 30 April 2008 was approximately MOP222.9 million, of which approximately MOP110.7 million (HK\$107.5 million) was paid as at 30 April 2008.



According to our Macau legal advisors, Grand Lisboa – Property Investment will obtain valid legal title to the Grand Lisboa site upon the completion and conclusion of land grant formalities, including the settlement of the remainder of the land premium, publication of the approval of its land concession agreement in the Macau Official Gazette and registration of the land concession agreement with the Macau Property Registry. Within 30 days of registering the strata title in respect of the building, Grand Lisboa — Property Investment is obligated to transfer the casino unit to SJM. On 8 February 2008, the Macau Government issued an occupancy permit in favour of SJM’s subsidiary, Unido, with respect to the premises of Casino Grand Lisboa and the DICJ authorised SJM to open a casino on the same premises.

### **Ponte 16**

SJM commenced operations of Casino Ponte 16 on 1 February 2008, expects to commence operations of the 408 guest rooms and suites of Sofitel Macau at Ponte 16 and complete the entire first phase of the Ponte 16 development by the end of 2008. For further information about the Ponte 16 development, see “— Our New Projects — Inner Harbour District.”

Legal title to the Ponte 16 site is held 51% by the Group. The Ponte 16 site has a total area of approximately 23,066 sq.m. based on a land concession dated 27 January 2005 granted by the Macau Government in favour of Pier 16 - Property Development for an initial period of 25 years, commencing on 14 February 2005. The estimated amount of land premium as at 30 April 2008 was approximately MOP281.2 million (HK\$273.0 million), of which approximately MOP89.9 million (HK\$87.3 million) was paid up to 30 April 2008. In 2005, Pier 16 - Property Development initiated legal proceedings in the MSAR to evict seven occupants from part of the Ponte 16 site. The decision on the merits of these proceedings, which was issued on 22 April 2008, remains subject to appeal by the parties as at the Latest Practicable Date. See “— Legal Proceedings.”

### ***Future and Other Developments***

SJM has prepared preliminary plans and applied for the necessary land concessions in relation to two mixed-use developments in Cotai. In addition, SJM has exercised options granted to it by STDM to purchase two properties, the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A, at fair market value. See “Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM.” STDM may grant SJM further options to purchase or lease properties in the future. For further details on the options granted by STDM, see “Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM.”

## **INSURANCE**

Under the terms of the Concession Contract, SJM is required to carry certain types of insurance policies for the entire duration of the Concession. As at the Latest Practicable Date, SJM maintained all-risk property insurance for all gaming-related properties and inventories (such as chips used in its casino and slot machine operations) and substantially all of its other owned and leased properties, buildings and equipment. SJM is also required by the Concession Contract to carry general third-party liability insurance in connection with the operation of casino games located in the MSAR and the development of gaming-related services included in the Concession that are not already covered by

existing insurance policies. As at the Latest Practicable Date, SJM maintained third-party liability insurance for personal injury or loss of or damage to the property arising from accidents on its properties or relating to its operations and vehicles. However, certain events such as nuclear events, acts of war or terrorism, and epidemic outbreaks are excluded from coverage by the third-party liability insurance policy. In addition, as at the Latest Practicable Date, SJM carried occupational injury and third party liability insurance for its employees, in compliance with applicable Macau laws, regulations and requirements under the Concession Contract.

Under the Concession Contract, SJM carries insurance coverage for property, buildings and equipment, employee injury and third-party liability, for all of its gaming operations.

SJM does not currently maintain business interruption insurance. To cover physical loss or damage of money including cash, notes, redeemable chips and non-redeemable chips, SJM carries insurance policies for cash in transit and for cash kept in designated premises including its casinos.

SJM continues to review and assess its risk portfolio and make necessary and appropriate adjustments to its insurance practices in line with its expanded operations and with requirements under the Concession Contract or other laws in the MSAR.

## **EMPLOYEES**

As at 31 December 2007, SJM had 17,467 full-time employees, which represented an increase of over 2,930 employees since 31 December 2006. The increase in full-time employees was primarily attributable to SJM's opening of the Grand Lisboa.

As at 31 December 2007, approximately 200 of SJM's full-time employees were management and administrative personnel and approximately 11,150 were gaming staff, comprising approximately 8,320 dealers, 1,300 pit bosses and 1,530 gaming floor attendants and other gaming operation supervisors. SJM's employee turnover rate increased from approximately 7.9% in 2005 to approximately 23.9% in 2006, but declined to 20.4% in 2007.

Total remuneration of substantially all of SJM's employees comprises of basic salaries, bonuses and tips received from gaming patrons. Our employees earned aggregate compensation of HK\$1,438.9 million, HK\$1,890.9 million and HK\$3,055.3 million in 2005, 2006 and 2007, respectively. Compensation paid to our gaming staff represented approximately 85.4% of the aggregate compensation paid to our employees in 2007.

We participate in defined contribution retirement plans for our employees who have entered into employment contracts with SJM or other members of the Group. We are required to contribute a portion of our employees' total wages to the Company's pension plan. Our net contributions for 2005, 2006 and 2007 were approximately HK\$33.5 million, HK\$19.3 million, and HK\$49.9 million, respectively. In addition, employees who participate in the pension plan contribute a percentage of their salary. Pursuant to our defined contribution retirement plan, employees' entitlement to employer's provident fund contribution is dependent on the length of their employment service. Upon employees' resignations, the amount of employer's contribution not entitled by the employees will be set off against future contributions by the employer. The reason for the decrease in our net contribution in retirement plans in 2006 was mainly due to increased staff turnover, and as a result, the amount of employer contribution which was forfeited was set off against our future contribution obligations, and therefore our net contributions were significantly lower than in previous years. The reason for the

increase in our net contribution in retirement plans in 2007 was mainly due to increased head count. Upon retirement, employees who have participated are entitled to pension payments.

We currently face significant competition for the services of our employees, which could limit SJM's ability to effectively operate its gaming and gaming-related operations in Macau and require us to increase the wages of our employees. See "Risk Factors — Risks Relating to Our Business — SJM may face labour shortages in the future which could limit its ability to effectively operate its gaming and gaming-related operations or delay the construction of one or more of its new projects."

As at the Latest Practicable Date, we had approximately 18,300 employees. Our work force was employed under employment contracts which specify the employee's position, responsibilities, remuneration and grounds for termination. To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, we have not employed any illegal labour. We have not experienced any strikes or other labour disturbances which have interfered with its operations. All employees who are unable to work due to illness or disability are entitled to receive certain benefits during their period of absence from the workplace in accordance with Macau law.

## **LEGAL PROCEEDINGS**

### *(a) Labour disputes*

As at the Latest Practicable Date, SJM and STDM were named as co-defendants in 97 pending labour dispute claims filed by 97 former employees of STDM and SJM who were seeking damages totaling approximately MOP85.8 million (HK\$83.3 million). These 97 labour disputes are claims relating to employment issues including unpaid remuneration for services provided on days of annual leave and public holidays, paid maternity leave and health compensation claims as a result of working in an environment that allows cigarette smoking. The claims relate mainly to employment issues at STDM prior to 2002 and are currently pending. The first claims were filed in December 2002, following the international public bid for the three concessions. SJM, upon being granted a concession and with the agreement of the Macau Government, considered it appropriate to hire the former employees of STDM in Macau. Thereafter, an agreement was signed on 19 July 2002 between the Rights and Interests Council of the General Association of the Workers, the Macau Labour Department, the Association of STDM Workers and SJM for SJM to enter into new contracts with the former STDM employees. Subsequently, approximately 310 former employees of STDM, who did not accept this arrangement, started filing petitions against STDM. In 2003, STDM and the workers signed a declaration statement in which the workers acknowledged payment and agreed that no other compensation was due and that they would not initiate further legal proceedings against STDM in relation to these matters.

Despite this, approximately three years later, several of the former employees who signed the declaration statement started filing petitions in court. The Macau Judicial Base Court, the Macau Second Instance Court and, on 28 February 2008, the Macau Last Instance Court, have already ruled in favour of STDM in 157 of the cases, of which 129 are still subject to appeal. Furthermore, after the decisions in favour of STDM, 106 plaintiffs withdrew their petitions. Seven similar claims filed previously against STDM and SJM were dismissed for lack of facts during the Track Record Period. We have been advised by our Macau legal advisors that the 97 pending labour disputes mentioned above will not have a material impact on SJM's business operations or the interest of the Shareholders. To date, SJM has paid damages of approximately MOP8,177.2 (HK\$7,939.0) in relation to these labour disputes.

The Directors believe that the proceedings relating to labour claims constitute normal occurrences that may be faced by any company with significant operations such as SJM.

The surety provided by STDM - Investments will cover the litigation losses (if any) arising out of the claims referred to in this paragraph (a) to which SJM is a party. For further information relating to the surety provided by STDM - Investments, see paragraph (e) below “Surety provided by STDM - Investments and STDM for specified penalties and litigation losses.”

*(b) Disputes relating to Ponte 16 leasehold*

In 2005, SJM’s 51% indirectly owned subsidiary, Pier 16 - Property Development, initiated legal proceedings in the Macau Judicial Court to obtain an order for the eviction of the remaining seven occupants, who are occupying part of the construction site of the Ponte 16 development project. Four of the occupants had challenged the legality of the granting of the leasehold interest to Pier 16 - Property Development by the Macau Government. In June 2007, the Macau Court issued a pre-trial judgment that preliminarily dismissed the challenges of the occupants. Three of the occupants appealed the judgment and the appeal was admitted by the Macau Court to be decided after a decision on the merits is issued. The decision on the merits of these proceedings was issued on 22 April 2008. The Court’s decision (i) recognised the Group’s lawful title under the Land Concession to an area of 23,066 sq.m. subject to the leasehold; (ii) ordered the defendants to vacate the disputed area, conditional upon the Group’s payment of compensation (the value of such compensation to be determined by the Court or as otherwise agreed between the parties) or waiver of such compensation by the occupants; (iii) dismissed all related counterclaims and (iv) denied the Group’s plea to be indemnified by the defendants in respect of the additional development costs for the Ponte 16 project as a result of their continued occupation. The Group has appealed the Court’s decision in respect of items (ii) and (iv) above and, as at the Latest Practicable Date, the decision remains subject to appeal by the defendants. The maximum exposure in these proceedings, should they be decided against Pier 16 - Property Development, would be approximately MOP830,000 (HK\$805,825) plus court fees. However, pursuant to the terms of the leasehold contract entered into with the Macau Government, Pier 16 - Property Development would also be responsible for the eviction and the relocation of such occupants and/or the materials that these occupants held and possessed, which position was confirmed in the decision of the proceedings. Consequently, Pier 16 - Property Development has applied for an extension of the initial term for the completion of the entire Ponte 16 development so as to ensure that it has sufficient time to fulfill its obligations under the leasehold contract to complete the construction work in relation to Ponte 16 or to reduce the land subject to development in Ponte 16, with impact on the size and the related financial return projected for the retail area such as rental and service fees that would otherwise be accounted for as receivables of the retail area.

The occupancy permit for the casino portion of the Ponte 16 development was issued on 24 January 2008 and the DICJ authorised SJM to open the casino. On 1 February 2008, SJM commenced operations of Casino Ponte 16. Approximately 37,458 sq.m. (comprising approximately 30,848 sq.m. of shopping area inclusive of any ancillary facilities, and 6,610 sq.m. of parking facilities) of the Ponte 16 development project may be affected by any potential delay, and as a consequence, construction of the above facilities may be temporarily suspended. We estimate that these delays would cost SJM approximately HK\$100 million per annum in potential rental income, which represents less than 10% of Ponte 16’s expected annual total turnover. However, we believe this loss of rental income would be partially offset by forgone construction costs of approximately HK\$500 million (at present value), as well as savings of financial costs and inflation as a result of such delays.

The surety provided by STDM - Investments will cover the litigation losses (if any) arising out of the claims referred to in this paragraph (b) to which SJM is a party. For further information relating to the surety provided by STDM - Investments, see paragraph (e) below “Surety provided by STDM - Investments and STDM for specified penalties and litigation losses.”

*(c) Legal proceedings involving our Shareholders and affiliates*

A number of our direct and indirect shareholders and affiliates are parties in lawsuits in Macau and Hong Kong. As of the Latest Practicable Date, there were 33 pending lawsuits filed either by Ms. Winnie Ho and MVI or by STDM and other parties in Macau and four pending lawsuits filed in Hong Kong. Dr. Ho, Mr. Rui Jose da Cunha, Dr. So Shu Fai and Ms. Leong On Kei, Angela are also named as parties in some of these actions. There has been media coverage in Macau and Hong Kong and other jurisdictions containing various allegations, including advertisements from Ms. Winnie Ho, that relate to the following claims and other matters.

- (i) Four pending lawsuits filed by purported shareholders of STDM seeking to challenge the validity of certain resolutions indirectly connected with the Reorganisation and the Global Offering and passed by STDM.*

STDM is named as a party in lawsuits filed in Macau by Ms. Winnie Ho and certain of her affiliates, including MVI, challenging among other things the validity of certain resolutions connected with the Reorganisation and the Global Offering and passed by STDM. As of the Latest Practicable Date, Ms. Winnie Ho and MVI, claiming to be a shareholder of STDM, had brought a total of six lawsuits against STDM in respect of resolutions of its shareholders relating to the Reorganisation. None of these proceedings challenge the Reorganisation Acts (as defined below) and two of these proceedings have already been finally decided against the plaintiffs.

The Reorganisation, the objective of which was to cause 100% of the economic interest of SJM to be held by the Company (through the ownership of 90% of SJM’s share capital), related to the reorganisation of the share capital of SJM and the Company, and it did not involve a reorganisation of STDM or STDM - Investments. A limited number of resolutions and corporate acts were required to authorise and implement the Reorganisation (collectively the “Reorganisation Acts”).

No resolutions of shareholders or directors of STDM were required in connection with the Reorganisation. Meetings of shareholders and directors of STDM and meetings of shareholders of STDM - Investments were held and resolutions adopted to give such shareholders and directors the opportunity to express their views on the Reorganisation and the Global Offering, and to have their views recorded. However, under applicable Macau law, these resolutions have no operative effect insofar as the Reorganisation is concerned, and accordingly the existence, validity or invalidity of any resolution of shareholders or directors of STDM or STDM - Investments is not capable of affecting the validity of the Reorganisation or the Global Offering.

Because the Reorganisation did not require any approval or action of STDM, no legal proceedings against any resolution of STDM can affect the validity of the Reorganisation. Accordingly, even if all or any resolutions of STDM shareholders were ruled to be null and void by the Macau court, or any litigation is ruled in favour of Ms. Winnie Ho or MVI, the Directors believe, based

on advice received from Macau counsel, that such rulings would have no adverse effect on the Reorganisation. The plaintiffs' motions for preliminary injunctions on these claims were denied by the Macau court.

*(ii) Two pending lawsuits seeking to challenge the identity of shareholders of STDM.*

The shareholders register of STDM is lost and STDM has instituted proceedings in the Macau court for the reconstitution of the shareholders register. Ms. Winnie Ho and MVI are parties to these proceedings, challenging some of the terms proposed by STDM for such reconstitution, claiming that a number of shareholders should not have the status of shareholders and that an alleged transfer of STDM shares should be recorded in favour of MVI. The loss of the shareholders register and these proceedings do not adversely affect STDM, STDM - Investments or SJM, because the loss of the shareholders register has no effect on the ownership of the shares of STDM and on voting rights attaching to the shares. In addition, Ms. Winnie Ho and MVI have sought a declaratory judgment to the effect that a number of STDM's shareholders should not be considered as such.

As discussed above, no resolutions of STDM shareholders were necessary for the Reorganisation and, accordingly, these proceedings and any consequential challenge to resolutions of the shareholders of STDM cannot affect the validity of the Reorganisation.

*(iii) Four pending lawsuits seeking to challenge the composition of the board of directors of STDM.*

Ms. Winnie Ho and MVI have brought proceedings in respect of the STDM shareholders resolution dated 30 March 2007 to re-elect the board of directors of STDM. The composition of the board of directors of STDM prior to 30 March 2007 has not been challenged. In any event, as discussed above, no resolutions of directors of STDM were required in connection with the Reorganisation. Therefore, any acts executed by any director of STDM, or by the board itself, in connection with the Reorganisation or the Global Offering, as well as any connected transactions, are not subject to challenge on these grounds. Furthermore, given that the composition of the board of directors of STDM remained unchanged after 30 March 2007, as well as the fact that, under peremptory statutory law, such directors maintain their statutory position, with all duties and powers until a court prospectively rules to the contrary, any acts executed by any director of STDM, or by the board itself, in connection with the Reorganisation and the Global Offering as well as any connected transactions, are not subject to challenge on these grounds.

Accordingly, the Directors believe, based on advice received from Macau legal advisors, that even if judgment were given for Ms. Winnie Ho or MVI in the foregoing actions, this could not affect the validity of the Reorganisation and the Global Offering.

Ms. Winnie Ho or her affiliates either do not have standing or would have no grounds to challenge the Reorganisation Acts or any of the relevant resolutions of shareholders or directors of SJM or STDM - Investments. Accordingly, the Directors believe, based on advice received from Macau counsel, that they will not be successful in challenging the validity of the Reorganisation or the Global Offering, either by the existing claims or any future claims that may be filed in Macau. Ms. Winnie Ho and MVI have brought a total of four lawsuits against STDM, directly or indirectly, in respect of the STDM shareholders resolution dated 30 March 2007 to re-elect the board of directors of STDM. As of the Latest Practicable Date, one of these lawsuits has been finally decided against the plaintiffs, pending the Court's decision regarding the value of the cost of proceedings to be paid by the plaintiffs.

*(iv) Twenty-seven other pending lawsuits in Macau and Hong Kong.*

In addition to the lawsuits discussed above, there are a number of lawsuits that have been filed in Macau and Hong Kong involving STDM, its directors and shareholders relating to (i) alleged unpaid debts and other financial entitlements, (ii) the exercise of alleged specific rights as shareholders of STDM and (iii) allegations against these parties and SJM for libel.

Except for the libel case, neither the Company nor SJM is a party to the foregoing cases. The Directors believe, based on advice from Hong Kong legal advisors, that the maximum exposure of SJM in the libel case is not expected to exceed HK\$3 million, with legal costs of approximately HK\$2 million. The surety provided by STDM - Investments will cover the litigation losses (if any) arising out of the claims referred to in this paragraph (c)(iv) with respect to the libel case to which SJM is a party. For further information relating to the surety provided by STDM - Investments, see paragraph (e) below “Surety provided by STDM - Investments and STDM for specified penalties and litigation losses.”

The Directors believe, based on the advice of Macau legal advisors, that the proceedings described above under “Legal Proceedings” will have no effect on (i) the status, standing or activities of SJM; (ii) the validity, efficacy, substance, nature or content of the Reorganisation; (iii) the validity of the Global Offering or the listing of the Shares on the Stock Exchange or (iv) the position of third parties acquiring Shares in the Global Offering.

While we believe, based on the advice received by the Company as set out above, that any challenge to the validity of the Reorganisation and the Global Offering will not have any effect on the validity thereof, we cannot assure you that any such challenge would not, pending its resolution, create uncertainties or have other material adverse effects on the Global Offering, as well as on the trading price of our Shares.

*(d) Directors' view on legal proceedings*

The Directors believe, based on advice received by the Company as set out above, that 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 or assets of SJM, the validity or legality of its Reorganisation and/or the listing of the Company or the interests of its Shareholders. However, the claims referred to in (a) through (c) above, regardless of their merits, could harm SJM's and our reputation, corporate image and, ultimately, our Share price.

*(e) Surety provided by STDM - Investments and STDM for specified penalties and litigation losses*

STDM - Investments, by resolution of its shareholders, has approved providing a surety in favour of the Company for the due and punctual payment of obligations the Company may incur in relation to:

- 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; and
- Losses or contingency provisions incurred by SJM in connection with any judgment of any lawsuit to which SJM is a party and which is pending at the time of the Listing. (The relevant lawsuits are described above in (a) *Labour disputes*, (b) *Disputes relating to Ponte 16 leasehold*, and the libel case described above in (c)(iv).)

Any surety provided by STDM - Investments will not cover liability arising out of conduct of a criminal character as such liability cannot be met by a third party under Macau law.

STDM, by resolution of its board of directors, has approved providing a surety in favour of STDM - Investments for the due and punctual payment of obligations STDM - Investments may incur in relation to payment obligations of the Company arising as a result of the enforcement by the Company against STDM - Investments of the surety referred to above.

As the sureties are limited to penalties for violations that may have been committed by SJM prior to Listing and losses arising from lawsuits to which SJM is a party pending at the time of Listing, the sureties would not be available to cover (i) any penalties or losses incurred by SJM in connection with any such violations or lawsuits occurring after the time of the Listing or (ii) any violations by or legal proceedings against any other party, including the Company.

A claim under the surety provided by STDM - Investments may only be made by the Company, and as such this surety is not enforceable by or for the direct benefit of shareholders of the Company. Pursuant to our articles of association, in deciding on whether the surety provided by STDM - Investments has become enforceable and whether the Company will make claims against STDM - Investments under the surety, only Directors who do not have a conflict of interest can decide the matter. A claim under the surety provided by STDM may only be made by STDM - Investments, and as such this surety is likewise not enforceable by or for the direct benefit of shareholders of the Company.

The validity and enforceability of the sureties resolved by STDM - Investments in favour of the Company and by STDM in favour of STDM - Investments are dependent on the satisfaction of the court in which enforcement is sought that STDM - Investments (or STDM as relevant) had an own interest justifying the provision of the surety. The relevant interest is identified in the resolutions concerning the respective sureties, however, adjudication of this matter remains with the court.

To the best of our knowledge, other than those disclosed in this section and the section headed “Risk Factors — Risks Relating to Our Business — We or SJM might become involved in, or be subject to, litigation from time to time, including litigation initiated by shareholders of STDM and/or its associates” in this Prospectus and in Appendix VII to this Prospectus, without prejudice to the Director’s belief mentioned above, there is no current litigation, arbitration or administrative proceedings or any pending or threatened litigation, arbitration or administrative proceedings against us or any of our Directors that could have a material and adverse effect on our business, financial condition or results of operation.



## INTERNAL CONTROL

SJM has established internal control policies and procedures for the management of its casinos and other operations. These include but are not limited to the following:

- table game management (such as table fills and credits, table opening and closing, gaming payouts, and safeguarding of cash and chips on tables);
- cash and chips management (such as drop box collection, counting procedures at all cashiers and treasury offices, and banking procedures);
- gaming inventory management (such as the acquisition, dispatching and safeguarding of chips, playing cards, dice and dominoes);
- management of SJM's Gaming Promoters (such as commission and allowances); and
- financial closing and reporting.

Inspectors from the DICJ are involved in inspecting and monitoring key processes, such as the issuance of chips, table fills and credits, drop box collections and the counting of cash and chips, on a daily basis. Weekly revenues from slot machines and daily revenues from table games are verified by the DICJ. SJM's dealers, supervisors, cashiers, cash and chips counters and also security and surveillance personnel are subject to a rotation plan in order to mitigate the risk of wrongdoing resulting from collusion.

SJM employs special technologies and techniques in its gaming facilities to prevent and detect potential fraudulent and counterfeiting activities. These methods include the use of cards and chips with embedded authentication features, infra-red readers, money note scanners, electronic card readers and a 24-hour CCTV surveillance system. All gaming equipment inventory and card sorting and storage are also under 24-hour CCTV surveillance. Playing cards are locked away in SJM's playing-card room and a log book is kept for the issuance and receipt of playing cards to and from gaming areas.

Access to all sensitive areas such as count rooms, inventory store rooms, cashiers and treasury offices is safeguarded with the use of physical access controls, including staff identification cards, passwords, keys, double-layered doors and security guards. SJM communicates closely with the Macau Police Department and key entrances at certain SJM casinos are guarded by armed police. Daily delivery of all gaming table drop boxes to SJM central treasury headquarters are also escorted by security officers or armed police.

The AML Compliance Department of SJM maintains a register to capture information on Gaming Promoters (e.g. responsible persons, commission schemes, licence numbers, etc.). See “— Anti-Money Laundering.”

SJM also employs a team of internal auditors to perform operational and financial audits on a regular basis. As at the Latest Practicable Date, there were 13 internal auditors. The head of the Internal Audit Department has over 30 years working experience in audit and financial management. He joined SJM in 2002 and has led the Internal Audit Department of SJM for over five years. He is a fellow member of the Chartered Association of Certified Accountants in the United Kingdom. The other internal auditors include mostly university graduates who have accounting degrees and on average have relevant internal audit experience of five years or more.

SJM has developed a comprehensive manual of policies and procedures for its financial closing and reporting process. The manual covers accounts preparation, recording, reconciliations and reporting. The AML Compliance Department updates the policies and procedures accordingly whenever there are changes in the AML laws and regulations, which are published in the government gazette. Any new legal and regulatory changes are communicated to SJM by the DICJ in the form of Instructions. Whenever SJM receives a new Instruction from the DICJ, SJM revises its AML policies and procedures in accordance with the requirements stated in the instruction. Any unclear issues in the Instruction are discussed with the DICJ via meetings to achieve a common understanding and interpretation of the regulatory requirements. In principle, approval given by the DICJ for SJM's AML policies and procedures is one-off. It is sufficient to send any subsequent minor revisions to the government for information and record only, which is done annually. However, if there are any major changes in the relevant laws and regulations, i.e. when a new Instruction is issued by the DICJ, SJM is required to substantially amend its AML policies and procedures and to submit the revised version to the DICJ for approval.

Monthly and quarterly financial reports are prepared by SJM's Accounts Department and reviewed by SJM's management. SJM is also required to provide periodic reports to the DICJ which include, but are not limited to: (i) quarterly trial balances; (ii) quarterly cash count reports; (iii) annual lists of bank balances; (iv) annual lists of fixed assets; and (v) monthly gaming tax payment schedules. The DICJ also performs periodic site audits and obtains third party confirmations relating to SJM including those from SJM's banks.

Prevention and investigation of fraud and cheating in SJM's casinos is primarily carried out by the Operations Department with the cooperation of other casino departments, namely the Treasury and Surveillance Departments. The Treasury Department is the first point of contact when customers buy chips at the casino, such as on the public floor, and alerts the other relevant departments whenever there is a large amount of buy-in in accordance with SJM's casino policy and procedure. Dealers, supervisors, pit bosses, attendants and casino shift managers of Tables Games Operations Department are trained to identify and detect any suspicious activities in the conduct of gaming by players. The Table Games Operations and Surveillance Department also sorts the used cards after each round to ensure completeness of the cards.

In addition, large betting activities or any irregular activity reported by casino operations or the Security Department are monitored specifically by the Surveillance Department. The Surveillance Department monitors all activities in the casino through the use of network of closed circuit television cameras which are strategically placed throughout the casino. Whenever there is a table loss of a certain value at any one time, close-up and enlarged images of the table activities are reviewed to detect any potential cheating element. High resolution video images of the gaming activities recorded are archived normally for seven days or until such period as SJM's management deems fit.

In terms of expenditure, SJM has established a defined expense authorisation policy and procedure which requires approval from the authorised members of its senior management. A purchasing manual has been developed and, for sizable projects, SJM deploys tendering procedures as part of its selection of vendors and service providers.

SJM's key departments have job description manuals in which roles and responsibilities are clearly specified and communicated. Employee handbooks are issued to all new recruits and new recruits working on the casino floor are required to attend SJM's training programmes. A performance

evaluation system has also been put in place for staff evaluation, feedback and performance improvement purposes.

Based on Deloitte & Touche Enterprise Risk Services Ltd.'s ("DTERS") report of 15 November 2007, SJM is implementing additional measures and procedures to continue to enhance its internal control system. Based on the review by DTERS, there are no areas of significant deficiencies with respect to our internal controls or anti-money laundering compliance procedures, systems and controls. However, DTERS has highlighted certain non-significant deficiencies with respect to our internal controls and anti-money laundering compliance procedures, systems and controls, which we continue to remediate on an ongoing basis. See "Risk Factors — Risk Relating to Our Business — If we fail to establish an effective system of internal controls, we may be unable to accurately report our financial results or detect and prevent fraud," "Risk Factors — SJM's anti-money laundering policies and compliance with applicable money-laundering laws may not be sufficient in preventing the occurrence of money laundering activities at its casinos" and "Appendix III — Summary of the Review of Anti-Money Laundering Procedures, Systems and Controls."

### *Internal Control Measures Relating to Chips*

SJM employs stringent internal control measures on the creation, issue and redemption of chips. Such measures include the following:

- A director must approve all orders for new chips before any purchase order can be issued to the chips manufacturer;
- the DICJ governs the issuance of new chips. Before issuance of any new chips, SJM must submit to the DICJ samples of the new chips to be issued and other details, including the intended location(s) of the new chips and the number of chips to be issued in such location(s), for record-keeping purposes;
- chips that are not yet in circulation are stored in a secured warehouse. Access to the warehouse requires both an access key and a security access code, kept separately by the Treasury Department and the Accounts Department, and the presence of representatives from each department;
- SJM employs a dual inventory accounting system. SJM's Treasury Department and Accounts Department each keeps and maintains its own accounting records, supported by different computer systems. In addition, the two departments conduct daily cross checks to reconcile balances; and
- within the Accounts Department, the personnel who prepare chips accounts are segregated from the personnel who are responsible for physically counting and handling the chips. Personnel who prepare the chips accounts do not physically count or handle any chips.

As at 1 April 2002, when the Concession officially started, a certain quantity of casino chips of STDM were in circulation. Pursuant to the Concession Contract with the MSAR, SJM is permitted to use STDM Chips, whether they are in treasury or in circulation, provided that SJM is required to honour STDM Chips presented for payment ("redemption") by patrons and clients.

In order to safeguard against the illegitimate circulation of STDM Chips from STDM's warehouses, any movement of such chips by STDM must be authorised by a treasurer of STDM and any movement of such chips by SJM must be both authorised by a supervisor of SJM's Treasury

## INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

Department and endorsed by the manager of SJM's Finance and Accounts Department. Furthermore, in order to ensure that no STDM Chips stored in STDM warehouses enter into circulation (other than for purposes of the Chips Borrowing Agreement), the Group has undertaken the following internal control measures at all STDM warehouses where STDM Chips are stored:

- (i) keys to the warehouses are separately maintained by STDM's and SJM's management personnel;
- (ii) electronic security systems have been installed at all warehouses;
- (iii) warehouses are guarded by SJM's and/or STDM's Security Department(s) to prevent unauthorised entry;
- (iv) surveillance cameras have been installed to monitor entry and exit at the warehouses;
- (v) persons entering or exiting the warehouses must be accompanied by SJM's and/or STDM's Security Department(s);
- (vi) stock records are kept by the Accounts Departments of both SJM and STDM and are reconciled on a monthly basis;
- (vii) SJM's treasury staff conducts comprehensive physical counts of STDM Chips on an annual basis;
- (viii) SJM's treasury staff conducts physical spot counts of STDM Chips on a regular basis;
- (ix) SJM's treasury staff reconciles the movement of chips between STDM and SJM on a monthly basis;

The Internal Audit Department of SJM conducts periodic inspections of the STDM warehouses and performs counts of selected chip inventories on a non-scheduled basis. In addition, on a quarterly basis, SJM, in the presence of SJM casino supervisors and representatives from DICJ, physically counts the chips on SJM's gaming tables and reports on the total number of chips in circulation.

The Company has implemented its procedures and internal control measures with respect to chip movement without exception throughout the Track Record Period and DTERS has not identified any significant deficiencies in respect of these procedures and internal controls. In this regard, the Company believes it has sufficient and effective procedures and internal controls in place to safeguard against the illegitimate circulation of STDM Chips.

Apart from the above, the Audit Committee of the Company will also consider appointing an independent audit firm to perform periodic counts of STDM Chips stored in STDM's warehouses commencing in 2008.

The aggregate face value of the STDM Chips stored in STDM's warehouses was HK\$11,898 million and HK\$15,065 million as at 31 March 2002 and 31 December 2007, respectively.

All STDM Chips and SJM chips have embedded authentication features. The placement and the type of authentication markings in different series of chips are different. In addition, SJM and STDM both have different series of chips with different appearances for different casinos. Each series of chips has different denominations and the appearance of each denomination is also different. During the Track Record Period, no counterfeited chips were redeemed and, therefore, no loss was recorded.

SJM has established elaborate recording and control systems with respect to the chips in issue and in circulation. It has separate inventory accounts for different series of SJM chips and STDM Chips with separate ledgers and inventory accounting systems for each casino, and each ledger is further broken down into different denominations. As such, with respect to SJM chips, SJM has detailed accounts recording (i) the total number of SJM chips received from the chip manufacturer; (ii) the SJM chips in inventory; and (iii) SJM chips issued, i.e., taken out from the inventory for use in its casino operations. Except for item (i) above, the same inventory accounting system applies to STDM Chips. SJM also has an elaborate accounting system to record STDM Chips borrowed from STDM. Such accounts record the different series of STDM Chips borrowed for use in different casinos as well as the different denominations of the chips borrowed.

For inventory accounting and control purposes, SJM's Treasury Department counts and calculates the total number of chips (both SJM chips and STDM Chips) in SJM's possession each day. In addition to the daily chip counting by the treasury, SJM, on a quarterly basis, physically counts the chips in its treasury and warehouses in the presence of the representatives of SJM's Internal Audit, Accounts and Treasury Departments. The Internal Audit Department also periodically conducts inspection of chip warehouses and counting of selected chip inventories on a non-scheduled basis. Also on a quarterly basis, SJM, in the presence of the representatives of SJM's casino supervisors and the DICJ, physically counts the chips on gaming tables, and reports on the total number of chips in issue and in circulation. SJM is required to interrupt the operation of each casino for the purpose of quarterly chip counting. Based on the quarterly counting, SJM obtains the amount of SJM's chips liabilities and the amount of STDM Chips in circulation by the methods discussed below:

- **SJM's chips liabilities**

The amount of SJM's chips liabilities is obtained by comparing the aggregate face value of SJM chips in issue against the aggregate face value of the SJM chips in SJM's possession (including SJM chips in inventory and SJM chips on the gaming tables).

- **STDM Chips in circulation**

The amount of STDM Chips in circulation is obtained by comparing the aggregate face value of STDM Chips borrowed (including the number of STDM Chips borrowed on and after 1 April 2002) against the aggregate face value of STDM Chips in SJM's possession (including STDM Chips in inventory and STDM Chips on the gaming tables).

For chips honouring and borrowing arrangements between STDM and SJM, see "Connected Transactions — Chips Agreement."

## ANTI-MONEY LAUNDERING

### *Regulatory Regime*

For Macau's regulatory regime on anti-money laundering measures that are applicable to SJM, see "Regulation — Anti-Money Laundering Regulations." The DICJ issued a certificate of compliance to SJM to certify that since 2002 up till the date of the certificate, 4 June 2008, SJM has complied with all of its obligations and the relevant laws and regulations as required under the Concession Contract as well as all relevant laws and regulations relating to AML.

### *Anti-Money Laundering Controls*

SJM has put in place controls to detect and prevent money laundering in casino operations and has, since 2005, set up an anti-money laundering compliance department, (the “AML Compliance Department”). As at the Latest Practicable Date, there were ten staff members, including one compliance officer, two assistant compliance officers, one senior executive assistant, two executive assistants and four clerks. The head of the AML Compliance Department, Mr. Kong Kuai Sang, joined SJM in 2002 and has over 20 years of experience in casino management. Assistant compliance officers and executive assistants are all university graduates. SJM continuously updates its anti-money laundering policies in order to ensure full compliance with any relevant new laws, administrative regulations, guidelines and instructions. Various departments and functional groups are involved in and contribute to the compliance with the anti-money laundering policies: training department, treasury, both VIP operations and mass market operations, cage, surveillance, security, human resources and internal audit. The personnel in the AML Compliance Department are required to keep up with regulations on AML regulations by closely monitoring any new guideline issued by the DICJ concerning anti-money laundering measures and discuss with the DICJ if necessary. On 4 June 2008, SJM’s anti-money laundering policies and procedures have been certified by the Macau Government as being in full compliance with all regulations. Between 4 June 2008 and the Latest Practicable Date, SJM has not received any notification from the Macau Government that it is not in full compliance with all anti-money laundering regulations applicable to SJM.

SJM’s anti-money laundering policies require:

- full compliance with all anti-money laundering legal and regulatory requirements in the MSAR;
- regular assessment of the risks of money laundering in SJM’s operations and indicators of suspicious activity;
- a system of procedures and controls designed to detect and report suspicious activity in gaming operations through Treasury, Operations, Security, Surveillance and Human Resources Departments;
- background checks, where, amongst others, suspicious activity is identified, to identify known criminals, money launderers, terrorists and sanctioned individuals and organisations;
- strict controls over the issuance of cheques requiring identification of patrons, verification of winnings and background checks for anti-money laundering purposes;
- a system to monitor the activities of SJM’s Gaming Promoters, on an on-going basis, for potential money laundering activities, and to report to the GIF any detected suspicious activity on the part of SJM’s Gaming Promoters;
- the AML Compliance Department to compile and analyse all relevant anti-money laundering reports and data and fulfil regulatory obligations;
- all concerned staff to receive comprehensive training on SJM’s anti-money laundering mission, policy, procedures and controls and job specific information on indicators of suspicious activity; and
- an annual review regarding implementation and effectiveness of the anti-money laundering compliance programme conducted by SJM’s Internal Audit Department.

The key safeguards in SJM's anti-money laundering policies include the following three areas:

- Detecting and reporting any suspicious activities in gaming operations, which includes:
  - training of staff to detect indicators of suspicious activity, regardless of transaction size, appropriate to their job function and to report suspicious money laundering activity;
  - recording and record keeping of transactions in VIP rooms and reporting of any suspicious activity;
  - risk-sensitive recording and record keeping of transactions in mass market gaming sections and reporting of any suspicious activity;
  - risk-sensitive record keeping and identification requirements for patrons purchasing or selling chips and reporting of any suspicious activity related to cage transactions;
  - outsourcing of foreign exchange and credit card desks to a third party who is experienced in managing foreign exchange and credit card operations. The foreign exchange desks in SJM's casinos are subject to the anti-money laundering requirements and independent supervision of Macau Monetary Authority;
  - monitoring and reporting of suspicious activity conducted by the Security and Surveillance Departments;
  - enhanced and ongoing background screening of all employees in higher risk functions;
- Appropriate control over the issuance of cheques, if patrons request a cheque in lieu of cash:
  - the patron must produce an official government-issued identification document, such as a passport or identification card — operations staff then record and verify the identity of the patron and confirm that the patron is the individual requesting the cheque;
  - operations staff record and verify that the amount of the cheque is less than or equal to the amount of the patron's winnings, which are verified and confirmed by the pit bosses;
  - a background check is conducted against databases of known criminals, money launderers, terrorists and sanctioned individuals and organisations;
  - if any of these conditions cannot be fulfilled, the patron's request for a cheque will not be granted;
  - in the event that the conditions are fulfilled and the background check is negative, the patron must sign to acknowledge receipt of the cheque; and
  - SJM only issues cheques to gaming patrons as payees; and
- Monitoring of Gaming Promoters, meaning that:
  - Gaming Promoters must have obtained a Gaming Promoter licence from the Macau Government, the application of which involves a comprehensive vetting process.

## INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

- Gaming Promoters must enter into gaming promoter agreements with SJM, requiring the Gaming Promoters to:
  - acknowledge their anti-money laundering responsibilities;
  - comply with SJM's general directives and internal control measures;
  - promptly inform SJM and the competent entities including the DICJ and GIF of any potential money laundering activities by their collaborators, employees or gaming patrons; and
  - provide SJM with access to their accounting books, records and all relevant information upon request if required to fulfil their anti-money laundering compliance obligations.

In addition, SJM's AML Compliance Department is responsible for ongoing monitoring of SJM's Gaming Promoters for evidence of money laundering activities. Key safeguards include:

- identification of beneficial owners, controllers, directors, employees and collaborators and verification of their personal information;
- analysis of known connections and associations of SJM's Gaming Promoters and their underlying VIP gaming patrons and performance of background checks against databases of suspect individuals, organisations and Connected Persons;
- review of anti-money laundering incident reports, cash inflow of the VIP rooms, junket chips purchases, cheque requisition activities and ROVEs relating to SJM's Gaming Promoters;
- issuing cheques to SJM's Gaming Promoters only on a crossed, payee basis to pre-approved payees only; issuing cheques only after verifying the authority of Gaming Promoter representatives, requiring declaration by SJM's Gaming Promoters relating to cheque usage, and recording and verifying SJM's Gaming Promoters' personal data; and
- upon detecting suspicious activity by SJM's Gaming Promoters, ensuring appropriate follow up action, including requests for information, inspection of books and records, enhanced monitoring, restrictions on business activity and, under severe circumstances, cessation of the business relationship.

On 13 November 2006, the DICJ issued a guideline concerning anti-money laundering measures and anti-terrorism measures, which was in line with the 40 recommendations and nine special recommendations of FATF. The guideline requires reporting of certain gaming transactions equal to or exceeding HK\$/MOP500,000 or their equivalents in other currencies to the DICJ, and all suspicious activities, to the GIF. For further details, see "Regulation — Anti-Money Laundering Regulations."



## INTERNAL CONTROLS AND ANTI-MONEY LAUNDERING

After a series of discussions with the DICJ, SJM revised its anti-money laundering policies and submitted the revised policies to the DICJ in April 2007, and subsequently obtained approval from the Macau Government. The revised policy covers the following additional reporting requirements, which have been implemented by the Group:

- Treasury Department staff members are required to fill out a ROVE for any of the following transactions with an amount equal to or larger than HK\$/MOP500,000:
  - Gaming Promoters purchasing junket chips by cash, cheque or cashier order or exchanging cash chips for cash; and
  - SJM issuing cheques or paying commissions to Gaming Promoters.
- Casino operations staff members are required to fill out a ROVE for SJM issuing any winning check or jackpot pay out to gaming patrons with an amount equal to or larger than HK\$/MOP500,000; and
- Cage staff are required to fill out a ROVE for any customer or Gaming Promoter purchasing cash chips or promotional chips using cash or exchanging cash chips for cash with an amount equal to or larger than HK\$/MOP500,000.

All ROVEs are to be submitted with their full supporting documents to the AML Compliance Department for consolidation into a ROVE summary for each 15 days and then submitted to the DICJ. All ROVEs and their supporting documents must be kept by SJM for five years.

SJM has consistently put in place internal controls and procedures in relation to its gaming operations in all its casinos since the commencement of its Concession. Based on SJM's confirmations, our Macau legal advisors have advised that SJM's gaming operations and internal controls have complied with the existing anti-money laundering laws and regulations in Macau since the commencement of its Concession. In addition, as regards compliance with anti-money laundering laws and regulations in Hong Kong, the Company confirms that, to the best of its knowledge after due enquiry, and based on advice received from Hong Kong legal advisors on the application of the Drug Trafficking (Recovery of Proceeds) Ordinance, the United Nations (Anti-Terrorism Measures) Ordinance and OSCO, no member of the Group is in violation of these ordinances. The Company confirms that there are no actions or lawsuits by any government agency against it in relation to money laundering activities. For the legal concerns presented by OSCO, see "Regulation — Regulations relating to Hong Kong — OSCO."

**OVERVIEW OF MACAU'S REGULATORY FRAMEWORK ON GAMING OPERATIONS***Overview*

The operation of casino games or other games authorised by the Macau Government in the MSAR is subject to general administrative, civil and criminal laws and to the specific gaming laws, in particular, Law No. 16/2001. Law No. 16/2001 introduced and established the legal framework and the principal rules for operation of casino games and further sets out the governing framework for regulation of casinos in Macau.

The operation of casino games or other games in Macau is reserved to the MSAR, and the concession regime restricts the operation of such games to private companies incorporated in Macau that have concessions granted by the MSAR pursuant to the concession contracts and applicable gaming laws and regulations. Pursuant to Law No. 16/2001, the MSAR granted concessions to our subsidiary SJM, Wynn Macau and Galaxy under an international public tender. The Macau Government also authorised three sub-concessions, one by Galaxy to Venetian Macau, one by SJM to MGM Grand Paradise and one by Wynn Macau to Melco PBL. It is provided under SJM's Concession, as well as in Galaxy's and Wynn Macau's concession contracts, that the Concessionaires cannot enter into sub-concessions without the authorisation of the Macau Government. The Macau Government has stated in public announcements that only three sub-concessions will be permitted. See "The Concession."

*The DICJ's Role and Authority*

The DICJ is the primary regulator and supervisory institution of the MSAR's gaming industry. The DICJ plays an active role in fulfilling the objectives set forth in Law No. 16/2001. The main objectives of Law No. 16/2001 are (i) that Concessionaires and Sub-Concessionaires carry on adequate operation of casino games or other forms of gaming, (ii) that parties involved in the operation, management and supervision of casino games or other forms of gaming are eligible to perform their functions and undertake respective responsibilities, (iii) that operation of casino games or other forms of gaming is performed in a just, honest manner and free from criminal influences and (iv) that MSAR's public interests relating to special gaming tax and other contributions are well protected by maintaining effective controls and procedures.

Pursuant to Administrative Regulation No. 34/2003, the DICJ is entrusted with the responsibility to assist and support the Chief Executive of the MSAR in the definition and execution of economic policies for operation of casino games or other forms of gaming in the MSAR. The DICJ's principal responsibilities are to:

- collaborate in the definition, coordination and execution of economic policies for the operation of casino games or other forms of gaming and gaming activities offered to the public;
- examine, supervise and monitor the activities of Concessionaires and Sub-Concessionaires, especially compliance with their legal, statutory and contractual obligations;
- examine, supervise and monitor the suitability and financial capability of Concessionaires and Sub-Concessionaires or other parties stipulated by the law;
- collaborate with the Macau Government in the process for authorisation and classification of locations and places for operation of casino games or other forms of gaming;

- authorise and certify all equipment and apparatus used by Concessionaires and Sub-Concessionaires within the approved business scope stipulated in their respective concessions;
- issue licences for Gaming Promoters;
- examine, supervise and monitor the activities of Gaming Promoters, especially relating to their compliance with their legal, statutory and contractual obligations and other responsibilities stipulated in other applicable legislation;
- examine, supervise and monitor the eligibility of Gaming Promoters, their collaborators and key employees;
- investigate and penalise any administrative violations according to the applicable substantive and procedural laws;
- ensure that the relationship between the Concessionaires and Sub-Concessionaires, the Macau Government and the public is in compliance with applicable regulations and is in the best interest of the MSAR; and
- perform any task not mentioned above but with a similar nature according to the orders of the Chief Executive of the MSAR or applicable laws.

Among other requirements, Concessionaires and Sub-Concessionaires are required to submit to the DICJ for record or inspection all significant documentation and periodic reports regarding their business and operation, as well as to submit to the DICJ all matters requiring the Macau Government's approval or authorisation as required by laws, the concession or sub-concession contracts, as applicable (such as changes in shareholding structure, changes in control, directorship and key employees, gaming equipment and other matters related to operation of casino games).

In addition, the DICJ is responsible for assessing the taxes and other amounts payable by Concessionaires and Sub-Concessionaires to the MSAR. The DICJ continuously monitors Concessionaires' and Sub-Concessionaires' daily operations and tabulation of net-win generated from casino games including casino table games and slot machines through various control procedures conducted in the casinos.

### ***Gaming Commission***

The Gaming Commission was created by the MSAR Chief Executive's Dispatch No. 120/2000, of 4 July 2000, further amended by Dispatch No. 194/2003. The Gaming Commission is a specialised commission directly reporting to and presided over by the MSAR Chief Executive, with the responsibility to formulate policies and facilitate the development of Macau's gaming operations and relevant regulatory framework.

## **REGULATIONS RELATING TO MACAU'S GAMING INDUSTRY**

The following are the pertinent laws and regulations relating to us and the gaming industry in Macau:

***Law No. 16/2001, published in Macau Official Gazette No.39-I of 24 September 2001 ("Macau Gaming Law")***

The Macau Gaming Law established the legal framework and the principal rules for the operation of casino games or other forms of gaming in the MSAR. It sets forth the objectives of the

legal system governing the operation of casino games and it defines the permitted types of casino games, places, locations and periods for operation. It further sets forth principal rules for the concession regime and provides for obligations of the Concessionaires including submitting their accounts and records to the Macau Government, and special gaming tax to the MSAR.

***Administrative Regulation No. 26/2001 (“Gaming Tender Regulation”)***

The Gaming Tender Regulation sets forth the terms of the public tender procedures for the granting of concessions for the operation of casino games, and the eligibility and financial capacity requirements of bidders (also applicable to the sub-concessions). It was amended by Administrative Regulation No. 34/2001 and No. 4/2002, rectified in the Macau Official Gazette 13/2002 of 1 April 2002, on 2 November 2001 and 1 April 2002, respectively, and supplemented by the following administrative releases:

- (i) Dispatch of the Chief Executive No. 215/2001 (setting out the fixed annual premium payable by the Concessionaires as consideration of the granting of concessions for the operation of casino games);
- (ii) Dispatch of the Chief Executive No. 216/2001 (creating the First Public Bidding Committee in charge of Games of Fortune or Chance in Casino for the granting of concessions);
- (iii) Dispatch of the Chief Executive No. 217/2001 (opening the international public tender for the granting of the three concessions for the operation of casino games);
- (iv) Dispatch of the Secretary for Economy and Finance dated 21 November 2001 (delegating the power to the First Public Bidding Committee in charge of casino games to authorise local or international renowned firms for the first tender to prepare risk evaluation reports);
- (v) Dispatch of the Chief Executive No. 250/2001 (setting the framework applicable to the association of tenderers and the respective admissible terms);
- (vi) Dispatch of the Chief Executive No. 26/2002 (granting three gaming concessions); and
- (vii) Dispatch of the Chief Executive No. 76/2002 (granting SJM’s gaming concession).

***The Concession Contract, as Amended***

The MSAR granted SJM a Concession by Dispatch from the Chief Executive No. 26/2002 on a provisional basis. After SJM satisfied the capital and guarantee requirements under the Macau Gaming Law and Gaming Tender Regulation, and the eligibility and financial capacity of its shareholders were verified by the Macau Government, SJM’s Concession was granted by Dispatch and the Concession Contract was executed by public deed on 28 March 2002.

After negotiation with the Macau Government regarding the MGM Sub-Concession between SJM and MGM Grand Paradise, and subsequently with its authorisation, an amendment to the Concession Contract was made on 19 April 2005 to address necessary references made to the MGM Sub-Concession as well as to bring certain clauses up to the same terms of other gaming concession contracts. The amendments also included SJM’s revised Investment Plan and revisions relating to granting SJM the conditions as favourable as those granted to the other Concessionaires.

The Concession Contract details the rights of SJM and its obligations towards the Macau Government and in particular to the DICJ. The Concession Contract provides that the MSAR shall not grant any additional concessions for the operation of casino games before 1 April 2009. Please refer to the section headed “The Concession” for further details on all material rights and obligations under the Concession Contract.

Until 31 December 2006, SJM enjoyed a special exemption from payment of complementary tax, which acts as a tax on profit, pursuant to the Dispatch of Chief Executive No. 30/2004. SJM subsequently applied to the Chief Executive of the MSAR for an extension of the complementary tax exemption, approval of which was granted on 8 December 2007, effective 1 January 2007 until 31 December 2011. The exemption from complementary tax on corporate income does not apply to dividends distributed by SJM. However, under a special arrangement entered into between the MSAR and SJM dated 30 April 2004, in each of the years ended 31 December 2005 and 2006, SJM made an annual payment of MOP12.0 million (HK\$11.7 million) to the MSAR as complementary tax on dividends distributed to its shareholders. See “Risk Factors — Risks Relating to Our Business — Local taxation may increase and current tax exemptions may not be extended.”

### ***The Rules of Casino Games***

The Macau Government has promulgated additional rules to supplement the rules of casino games set forth in Section 55 of the Macau Gaming Law. These supplemental rules were approved by the External Dispatches of the Secretary for Economy and Finance Nos. 41/2003, 42/2003, 55/2004, 56/2004, 57/2004, 58/2004, 59/2004, 60/2004, 61/2004, 65/2004, 89/2004, 73/2005, 69/2006, 30/2007, 42/2007, 63/2007, 64/2007, and 67/2007, which set out or renewed the detailed procedures and rules of certain casino games, namely football poker, wheel of fortune, baccarat, soccer poker, black jack, fish-prawn-crab, roulette, Q poker, cussec, fantan and stud poker.

### ***Administrative Regulation No. 6/2002, Enacted on 1 April 2002 (“Gaming Promoters Regulation”)***

The Gaming Promoters Regulation sets forth the requirements and procedures to engage and operate casino gaming promotion activities. Please see “— Gaming Promoters Regulation.”

### ***Administrative Regulation No. 5/2004, Enacted on 14 June 2004 (“Gaming Credit Administrative Regulation”)***

The Gaming Credit Administrative Regulation governs the granting of gaming credit in the MSAR and authorises the (i) Concessionaires, (ii) Sub-Concessionaires and (iii) Gaming Promoters who enter into a contract with a Concessionaire or Sub-Concessionaire to grant gaming credits. Pursuant to the Gaming Credit Law, the granting of gaming credit is limited to the following three circumstances: (i) a Concessionaire or a Sub-Concessionaire as a creditor may grant gaming credits to a gaming patron as a borrower; (ii) an authorised Gaming Promoter as a creditor may grant gaming credits to a gaming patron as a borrower; or (iii) a Concessionaire or a Sub-Concessionaire as a creditor may grant gaming credits to an authorised Gaming Promoter as a borrower. It also forbids the assignment or transfer in any form of the power to grant gaming credits. The Gaming Credit Administrative Regulation provides for the obligations of the credit grantors towards the DICJ and scope of the DICJ’s supervision. Specifically, the granting of gaming credits is enforceable as a civil debt pursuant to Article 4 of the Gaming Credit Administrative Regulation.

Under the Gaming Credit Administrative Regulation (“GCAR”), restrictions and conditions imposed on Concessionaires include:

- (i) to act prudently and have an integral conduct with full respect to the laws, regulations and professional conduct (Section 9, GCAR);
- (ii) to keep all information obtained while providing credit confidential (Section 10, GCAR), except for exceptions enumerated in Section 11, GCAR;
- (iii) to collaborate with the DICJ to enable its supervision as well as to provide information requested by the Judiciary Police while investigating a crime (Section 15, GCAR);
- (iv) as the obligation to repay the debt is qualified as a civil obligation under Section 4, GCAR, the credit grantors and the granting of credit shall also be subject to the restrictions and limitations established in the Macau Civil Code, namely the limits of usury established in Section 1073; these limits are triple the legal interest rate for remuneration of the loan and for compensation the limit is five times the legal interest rate — currently 9.75%, stipulated in the Executive Order no. 29/2006, applicable ex vi Section 552, Civil Code). Contracts stipulating higher interests may be annulled based upon usury or the interests statutorily reduced to the legal limit (Section 1073, nos. 3 and 4).

Pursuant to Section 16 of the GCAR, the acts taken while granting credit under the GCAR shall not be considered usury for gaming, and are thus expressly excluded from the Law no. 8/96/M prohibiting illicit gaming.

***Law No. 8/96/M, Enacted on 22 July 2002 (“Law on Illicit Gaming”)***

The Law on Illicit Gaming prohibits all forms of operation, promotion or assistance to gaming outside the authorised areas, as well as any fraudulent gaming in authorised areas, or any unlicensed granting of loans or gaming credits to gaming patrons.

**GAMING PROMOTERS REGULATION**

***Compulsory Licencing and Registration Requirements for Gaming Promoters***

The DICJ initiated the first licensing process in Macau for Gaming Promoters, under the transition arrangements introduced by the Gaming Promoters Regulation. Pursuant to a notice issued by the DICJ on 21 April 2006, the DICJ prescribed a deadline for the first licensing process of 1 June 2006 by which date the Gaming Promoters who have not yet been licenced must be licenced by the DICJ and registered with a Concessionaire or a Sub-Concessionaire in order to be permitted to carry on gaming promotion activities in the MSAR. As at the Latest Practicable Date, all Gaming Promoters who provide patrons to SJM have been licenced by the DICJ. The DICJ offers a register of licenced Gaming Promoters for public inspection.

Gaming Promoters must also be registered with one or more than one Concessionaire or Sub-Concessionaire, unless otherwise restricted by contract. The Gaming Promoters must also execute a contract with the Concessionaire or Sub-Concessionaire after obtaining Gaming Promoter licences.

The Gaming Promoters Regulation restricts the operation of gaming promotion to licenced corporate entities, commercial partnerships or individuals that are registered as entrepreneurs with the MSAR Finance Department and meet the relevant requirements promulgated by the DICJ. In order to obtain a licence for gaming promotion, the applicant must submit its application for suitability

assessment by the DICJ, which includes assessment of the suitability of the Gaming Promoters' key employees. When the Gaming Promoter is a commercial partnership or a company, the suitability of the Gaming Promoter's directors and shareholders holding 5% or more of the share capital is also assessed. A Gaming Promoter licence is valid until 31 December in the year it is granted and can be renewed each year upon submission of an application to the DICJ. The renewal application must include a signed declaration by the legal representative of the relevant Concessionaire that it is the intention of the Concessionaire to operate with such Gaming Promoter in the following year. Gaming Promoters that are sole proprietors are subject to compulsory assessment of their suitability every three years, and Gaming Promoters that are commercial partnerships or companies are subject to compulsory assessment every six years. Extraordinary suitability assessment may be conducted also by the DICJ.

Concessionaires and Sub-Concessionaires are jointly liable towards the Macau Government for the activities conducted by the Gaming Promoters, Gaming Promoters' employees and collaborators, within their respective casino premises. Gaming Promoters are jointly liable for the activities of their employees and collaborators within the casino premises of Concessionaires and Sub-Concessionaires and for their compliance with applicable laws and regulations. Failure by the Gaming Promoters or the Concessionaires or Sub-concessionaires to fulfil their major obligations under the Gaming Promoters Regulation may result in the following consequences:

- the issue of a non-suitability report;
- refusal to grant a new gaming promotion licence or to renew an existing licence;
- upon notice by the Concessionaire or Sub-Concessionaire to the DICJ, suspension of the gaming promotion activities of Gaming Promoters; and
- administrative liability arising out of violation of the Gaming Promotion Regulation without prejudice of contractual liability of the Gaming Promoter towards the Concessionaire.

### ***Major Obligations Imposed upon Gaming Promoters***

Gaming Promoters are required to comply with the following obligations:

- to register with Concessionaires or Sub-Concessionaires and operate under the terms agreed in a written contract submitted to the DICJ (including, in particular, the amount and payment method of commissions or other agreed remunerations, the nature of their activities in the casinos, including the designation of any gaming rooms or other premises within the casinos, the amounts and forms of required securities and guarantees and the waiver indicating that Concessionaires or Sub-Concessionaires and Gaming Promoters agree to submit to the exclusive jurisdiction of the MSAR courts and defer to Macau Laws);
- to execute written contracts with their collaborators and submit copies of such contracts to the DICJ;
- to submit annually, through Concessionaires or Sub-Concessionaires, a list containing the identification of their chosen collaborators for the following year, and copies of their identification documents and no criminal record certificates or equivalent documents to the DICJ for approval;
- to comply with laws and regulations relating to Gaming Promoters and Gaming Promoter-related announcements and instructions issued by the DICJ;

- to accept auditing carried out by the DICJ and the MSAR Finance Department;
- to make all books and records available for the inspection and review by the DICJ and the MSAR Finance Department and provide any additional information and materials upon their request;
- to perform all contractual obligations, especially obligations to gaming patrons;
- to comply with the reasonable instructions issued by the Concessionaires or Sub-Concessionaires to the extent that such instructions do not interfere with the Gaming Promoters' autonomy;
- to perform all contractual obligations stipulated in the written contracts with Concessionaires or Sub-Concessionaires; and
- to comply with all legal and regulatory requirements required by the laws and regulations of the MSAR.

***Major Obligations Imposed upon Concessionaires and Sub-Concessionaires***

Concessionaires and Sub-Concessionaires are required to comply with the following obligations with respect to their Gaming Promoters:

- to submit to the DICJ annually a list of Gaming Promoters with whom they intend to operate in the following year (the Macau Government, through the DICJ, determines annually the maximum number of Gaming Promoters and issues licences to the Gaming Promoters identified in lists provided to it by the Concessionaires and Sub-Concessionaires);
- to submit to the DICJ, prior to the 10th of each month, a detailed list of the amounts of commissions or other remunerations paid to each Gaming Promoter in the previous month, as well as the amounts of taxes withheld;
- to prepare and maintain an updated list of the names of registered Gaming Promoters, their directors, key employees and collaborators for submission to the DICJ quarterly;
- to inform the DICJ or proper authorities of any fact that may affect the solvency of their Gaming Promoters;
- to maintain and update the book records with their Gaming Promoters;
- to supervise the activities of their Gaming Promoters, in particular their compliance with legal and contractual obligations;
- to inform the authorities of any potential criminal activity by their Gaming Promoters, in particular potential money laundering activities;
- to promote a healthy relationship with registered Gaming Promoters;
- to settle commissions or other remunerations agreed upon with their Gaming Promoters in a timely manner; and
- to pay withholding taxes for their Gaming Promoters in a timely manner.



## **ANTI-MONEY LAUNDERING REGULATIONS**

The MSAR has been a member of the Asia/Pacific Group on Money Laundering (“APG”) since 2000. As a member of APG, the MSAR undertook to implement the 40 recommendations and nine special recommendations of the FATF between 1990 and 2004. As at 24 July 2007, the APG and Offshore Group of Banking Supervisors (“OGBS”), in their “Mutual Evaluation Report on Macao, China Against the FATF 40 Recommendations (2003) and 9 Special Recommendations,” determined that, despite non-compliance with Special Recommendation 9 relating to cross border declaration and disclosure, Macau had demonstrated a strong commitment towards implementing laws and institutional bodies to enhance its compliance with international anti-money laundering standards. The MSAR Legislative Assembly approved a new anti-money laundering law on 23 March 2006 to combat money laundering by further strengthening the record-keeping and reporting requirements relating to suspicious activities.

The following are the pertinent laws and regulations relating to the anti-money laundering regulations in Macau that have recently been enacted (the “new anti-money laundering law”):

### ***Law No. 2/2006, published in Macau Official Gazette No. 14 of 3 April 2006***

The purpose of this law is for the prevention and suppression of the crimes of money laundering. The new anti-money laundering law took effect on 4 April 2006. However, regarding the duties imposed upon the subject entities in relation to the new anti-money laundering law, this law only came into effect on 12 November 2006.

The new anti-money laundering laws require casino operators, Gaming Promoters, and other entities such as financial institutions, insurance companies, exchange houses, money remittance companies and professionals to assist the Macau Government in its efforts to combat money laundering activities. The entities mentioned must comply with the following duties as set out in Section 7:

- (1) identify contracting parties, clients or users whenever any transactions with such parties may indicate money laundering practices or involve high transaction amounts within the context of the particular activity;
- (2) identify the transactions and/or operations referred to in the preceding item;
- (3) refuse to carry on the transactions or operations whenever the relevant information necessary to fulfil the duties set forth in items (1) and (2) is not provided;
- (4) maintain, for a reasonable period of time, documents and records relating to the duties set forth in items (1) and (2);
- (5) report transactions and/or operations when they indicate money laundering practices or transactions; and
- (6) collaborate with all authorities in charge of anti-money laundering measures.

The centralisation, analysis and general monitoring of compliance with these duties is entrusted to the GIF.

Under the new anti-money laundering laws, corporate entities and associations are responsible and liable for money laundering when the crime is committed in their name and corporate interest,

(i) by their corporate bodies or representatives, or (ii) by a person under their authority, when the crime became possible by virtue of an unlawful breach of the vigilance or control duties pending on such entity.

***Law No. 3/2006, published in Macau Official Gazette No. 15 of 10 April 2006***

The purpose of this anti-terrorism law is for the prevention and suppression of the crimes of terrorism and financing of terrorist acts in Macau. The anti-terrorism law took effect on 11 April 2006.

***Administrative Regulation No. 7/2006, published in Macau Official Gazette No. 20 of 15 May 2006***

The MSAR Administrative Regulation No.7/2006 sets out in detail the duties of relevant entities set forth in the new anti-money laundering law and anti-terrorism law, establishing the supervision and monitoring mechanism and determining the penalties for non-compliance. The administrative regulation has been in force since 12 November 2006.

***Dispatch No. 227/2006, published in Macau Official Gazette No. 32 of 7 August 2006***

Under this dispatch, the Chief Executive of the Macau Government created the GIF for the specific task of centralising, monitoring, analysing and providing information gathered in relation to actions against money laundering and financing of terrorism to police and judicial authorities. The GIF has the power to (i) request information from any private or public entity and (ii) provide information to foreign entities in compliance with any third party, including international agreements or other international instruments to which MSAR is a party.

***Instruction No. 2/2006, issued by the DICJ on 13 November 2006***

The instructions were issued in relation to compliance with the provisions of Section 2, No. 2 of the Administrative Regulation No. 7/2006, to define the minimal compulsory duties, rules and procedures for Concessionaires and Sub-Concessionaires, including corporate entities entrusted by their management, lottery or sports betting Concessionaires and Gaming Promoters, under the new anti-money laundering laws. Any breach of these duties can result in fines or administrative action from the DICJ, leading to heavy fines under the terms of the Administrative Regulation No. 7/2006.

The following are other laws and regulations in Macau which also relate to anti-money laundering:

***Section 34 of the Gaming Law***

This section imposes a duty on the external auditors of the Concessionaires, Sub-Concessionaires and managing companies of gaming operations to inform the DICJ and the Finance Department about any facts that may give rise to a suspicion of that entity, the members of that relevant corporate bodies or their employees of being involved in money laundering.

***Section 30 of the Gaming Promoters Regulation***

This section provides that the Concessionaires and Sub-Concessionaires must inform the relevant authorities about any fact indicating Gaming Promoters and their collaborators involved in acts of money laundering.

Please also refer to “Internal Controls and Anti-Money Laundering” and “Risk Factors — Risks Relating to Our Business.”

### LEGISLATIVE DEVELOPMENTS

In order to better address the needs of the existing concession regime and to facilitate the modernisation of the gaming industry in the MSAR, the Macau Government and its Legislative Assembly have been revising the existing gaming regulations and are expected to enact new legislation or amend existing legislation to strengthen the legal framework on gaming activities. The MSAR Legislative Assembly enacted legislation in 2004 allowing Concessionaires or Sub-Concessionaires to extend gaming credits to gaming patrons and to enforce gaming debts. Future legislation may cover operation of gaming areas, gaming chips and tokens, slot machines and offenses related to gaming and may change or update existing legislation.

### ENVIRONMENTAL REGULATIONS

SJM, as well as all organisations in Macau have to comply with the environmental principles of environment protection policy according to the Macau Ordinance, namely in respect of noise, pollution and construction nuisance.

All new projects and construction have to comply with Macau environmental ordinance and international conventions applicable in Macau, which require that plans and projects that may affect the environment and health of the citizens must be done with a study of environmental impact. The conditions of the study are regulated by law and after detailed analysis on the impact the Government may authorise the relevant projects, as well as any alteration on project or construction is also under approval of the Government (Construction Bureau). These rules and regulations are established namely in Decree-Laws nos. 79/85/M and no. 44/91/M regarding construction, Decree-Law no. 34/93/M regarding noise and Decree no. 123/98/M on measures to deal with electrical accidents, etc. SJM also has to comply with the provisions of the Decree-Law no. 37/89/M which establishes the rules and conditions to abide by in relation to the environment in office and commercial spaces.

Based upon the inquiries made with the Company and its confirmations that there were no environmental pollution incidents discovered during the Track Record Period, and that all the required permits and environmental approvals for construction were obtained and that there was no administrative penalty imposed upon the Group as a result of violation of environmental rules and regulations as stated by the Company in a letter dated 11 July 2007 and in the absence of any complaints stating otherwise, our Macau legal advisors are of the opinion that, the Group complies with Macau regulations and environmental rules and regulations in force.

Considering that the Macau environmental rules applicable are construction related and therefore do not directly apply to SJM but to its subsidiaries involved in the construction and development of the investment projects of SJM, such as Ponte 16 and Grand Lisboa, SJM has been closely monitoring the execution of the projects and liaising with the management and responsible project teams of such subsidiaries to convey its recommendations and ensure that all applicable laws and regulations are being complied with at all times.

### LABOUR AND SAFETY REGULATIONS

Pursuant to Macau laws and regulations, Macau employers must register their employees under the mandatory Social Security Fund (pursuant to Decree-Law no. 58/93/M - Sections 3 and 4), make

social security contributions for each of its employees (Dispatch no. 45/GM/98 and contract insurance to protect the rights and interests of their employees in the event of working accident and/or professional disease (as required from the Company in Clause 40, no. 1 of the Concession Contract). In the particular case of gaming concessionaires, there is a general obligation to make annual contributions for urban development, tourism promotion and social security (Section 22, no. 8 of the Gaming Law and the Concession Contract).

The Company's Directors are of the view that the Group complies with applicable labour and safety regulations, including taking insurance and registering social security. The Company plans to establish a risk assessment function to provide analysis and evaluation of all categories of risk including labour and safety and prepare an analysis and recommendation to senior management to facilitate the management of risk.

Besides social security registration and providing insurance for all of its employees, SJM contributes to the pension plan for the retirement of its employees and has been granting scholarship sums in support of the education of the children of its employees. SJM has also appointed a manager for its Human Resources Department, whose responsibilities include, among other things, procuring employees' benefit and welfare packages. Amongst the initiatives to enhance its employees' education and welfare, SJM has also granted scholarships in support of employees' continuous education. Also, to enhance the leadership ability of senior staff, a team building program was completed in July 2007. Such programs may be continued in the future if management determines that they are beneficial and contribute to an upgrade in SJM's management.

The Company's Directors are of the view that, through frequent communications with representatives of the employees, the Group has maintained generally good relations with its employees during the Track Record Period, as evidenced by the declining number of new labour disputes. See "Business—Legal Proceedings."

In compliance with the Gaming Law and the Concession Contract, SJM has been giving annual contributions from its gaming revenue, of 1.6% to a public foundation in Macau for promotion, development and study of culture, society, economy, education, science and charity events and 1.4% to the MSAR for urban development, tourism promotion and social security of the MSAR.

## **REGULATIONS RELATING TO HONG KONG**

Three laws of general application in Hong Kong relate to money laundering. Regulations or guidelines have also been promulgated for certain industries, but none are of specific application to the Company and its subsidiaries. The three laws of general application are the Drug Trafficking (Recovery of Proceeds) Ordinance, the United Nations (Anti-Terrorism Measures) Ordinance, and OSCO. Each of these ordinances defines various offences in relation to money laundering.

### ***Drug Trafficking (Recovery of Proceedings) Ordinance***

The Drug Trafficking (Recovery of Proceeds) Ordinance provides for the tracing, confiscation and recovery of the proceeds of drug trafficking and defines various offences in relation to the laundering of proceeds of drug trafficking. The offences most likely to apply to the Company are:

- (a) dealing with property known or believed to represent proceeds of drug trafficking (section 25); and

- (b) failing to disclose to the authorities knowledge or suspicion that any property represents any person's proceeds of drug trafficking or was used, or is intended to be used, in connection with drug trafficking (section 25A).

### ***United Nations (Anti-Terrorism Measures) Ordinance***

The United Nations (Anti-Terrorism Measures) Ordinance implements various directives and covenants of the United Nations with respect to anti-terrorism policies, including a decision of the Security Council of the United Nations in its Resolution 1373 of 28 September 2001 relating to measures for the prevention of terrorist acts and certain of the Special Recommendations on Terrorist Financing of the Financial Action Task Force. In relation to money laundering, the provisions most likely to be relevant to the Company are sections 6, 7, 8 and 12 of such ordinance.

Section 6(1) provides that where the Secretary for Security has reasonable grounds to suspect that any funds held by any person are terrorist property, the Secretary for Security may direct that the funds not be made available to any person except under the authority of a licence granted by the Secretary for Security.

Section 7 provides that a person may not provide or collect funds by any means with the intention that the funds be used or knowing that the funds will be used to commit one or more terrorist acts, whether or not the funds are actually so used.

Section 8 further provides that no person may, except under the authority of a licence granted by the Secretary for Security, make any funds or financial or related services available to or for the benefit of a person who the first-mentioned person knows or has reasonable grounds to believe is a terrorist or terrorist associate.

Section 12 requires that where a person knows or suspects that any property is terrorist property, then the person must disclose to an authorised officer the information or other matter on which the knowledge or suspicion is based as soon as practicable.

### ***OSCO***

OSCO is the anti-money laundering legislation of the broadest application in Hong Kong. OSCO creates two money laundering offences, namely:

- (a) dealing with property known or believed to represent the proceeds of an indictable offence (section 25(1)); and
- (b) failing to disclose to the authorities knowledge or suspicion that any property represents any person's proceeds of an indictable offence or was used, or is intended to be used, in connection with an indictable offence (section 25A(1) and (7)).

### ***The Gambling Ordinance***

Under the Gambling Ordinance, operating, managing or controlling a gambling establishment is an indictable offence in Hong Kong.

The Stock Exchange announced in March 2003 that it has no objections to foreign casinos being listed in Hong Kong so long as the activity is legal in the foreign jurisdiction and is not unlawful under the Gambling Ordinance.

## REGULATION

The Company confirms that, to the best of its knowledge after due enquiry, and based on advice received from Hong Kong legal advisors on the application of the Drug Trafficking (Recovery of Proceeds) Ordinance, the Gambling Ordinance, the United Nations (Anti-Terrorism Measures) Ordinance and OSCO, no member of the Group is in violation of these ordinances.

The Company will use its best endeavours to seek to ensure that the operation of SJM's casino gaming activities in Macau is in compliance with all applicable laws in Macau and does not contravene the Gambling Ordinance.

## FINANCIAL INFORMATION

*You should read the following discussion in conjunction with our combined financial statements and selected historical combined financial data, in each case, together with the accompanying notes thereto included elsewhere in this Prospectus. Our combined financial statements have been prepared in accordance with the HKFRS.*

### SELECTED FINANCIAL DATA

The combined income statement data for each of the fiscal years 2005, 2006 and 2007 and the combined balance sheet data as at 31 December 2005, 2006 and 2007 have been derived from the audited combined financial statements and related notes thereto which have been included in Appendix I to this Prospectus. These combined audited financial statements and the related notes thereto have been prepared in accordance with the HKFRS and have been audited by Deloitte Touche Tohmatsu and H.C. Watt & Company Limited, independent auditors. The financial data in the table below reflect the Reorganisation and have been prepared as if the current structure of our Company had been in existence at the beginning of the relevant periods.

The following table sets forth our selected combined income statement data for each of the fiscal years 2005, 2006 and 2007 and our combined balance sheet data as at 31 December 2005, 2006 and 2007.

	Year ended 31 December		
	2005	2006	2007
	HK\$	HK\$	HK\$
	(in millions, except for per share amounts)		
<b>Combined income statement data:</b>			
Gaming revenue			
VIP gaming operations	23,699.8	23,887.7	20,613.6
Mass market table gaming operations	8,981.6	9,339.0	10,676.4
Slot machine operations	721.9	967.7	854.7
Others <sup>(1)</sup>	3.0	1.9	1.9
	33,406.3	34,196.3	32,146.6
Special gaming tax, special levy and gaming premium	(12,882.1)	(13,226.5)	(12,497.6)
	20,524.2	20,969.8	19,649.0
Food and beverage income	—	—	80.5
Cost of food and beverage	—	—	(45.0)
Other income	146.9	137.2	105.9
Sub-concession income	1,560.0	177.1	—
Marketing and promotional expenses	(13,497.4)	(14,569.4)	(12,433.3)
Operating and administrative expenses	(3,315.9)	(4,074.1)	(5,864.0)
Finance costs	—	—	(7.1)
Share of results of associates	(34.7)	(3.4)	0.4
Share of profits of a jointly controlled entity	3.1	6.8	7.0
	5,386.2	2,644.0	1,493.4
Taxation	(12.7)	(220.1)	(0.2)
	5,373.5	2,423.9	1,493.2
Profit for the year	5,373.5	2,423.9	1,493.2
Attributable to:			
Equity holders of the Company	5,373.5	2,423.9	1,533.5
Minority interests	—	—	(40.3)
	5,373.5	2,423.9	1,493.2
Dividends	7,176.1	2,233.0	—
Earnings per share-Basic <sup>(2)</sup>	143.3 cents	64.6 cents	40.9 cents

(1) Others include revenue received from the operation of Pachinko and Tombola in 2005, and Tombola only in 2006 and 2007.

(2) The calculation of the basic earnings per share for the year is based on the profit for the year attributable to equity holders of the Company and on the assumption that 3,750,000,000 Shares had been in issue during the Track Record Period.

## FINANCIAL INFORMATION

	As at 31 December		
	2005	2006	2007
	HK\$	HK\$	HK\$
	(in millions)		
<b>Combined balance sheet data:</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1,537.4	4,695.0	8,411.8
Land use rights	833.2	842.2	815.0
Intangible assets	—	—	64.7
Art work and diamonds	—	—	278.9
Interests in associates	33.5	58.2	60.6
Interest in a jointly controlled entity	44.0	50.8	55.7
Available-for-sale investments in equity securities	—	—	—
Deposits made on acquisitions	187.1	219.8	221.6
Amount due from a fellow subsidiary	—	—	164.5
Pledged bank deposits	196.8	202.6	145.6
Bank deposits	400.0	—	—
<b>Total non-current assets</b>	<b>3,232.0</b>	<b>6,068.6</b>	<b>10,218.4</b>
<b>Current assets</b>			
Inventories	—	—	21.0
Trade and other receivables <sup>(1)</sup>	496.1	620.8	792.6
Amount due from ultimate holding company	61.6	362.5	—
Amounts due from fellow subsidiaries	22.1	22.1	197.9
Amounts due from an associate	20.0	20.0	20.0
Amount due from a jointly controlled entity	15.0	15.0	14.3
Amount due from an investee company	219.9	219.9	180.2
Investment in trading securities	73.5	57.2	57.2
Pledged bank deposits	0.3	0.3	0.3
Bank deposits	100.0	100.0	—
Bank balances and cash	5,332.3	4,222.5	6,537.5
<b>Total current assets</b>	<b>6,340.8</b>	<b>5,640.3</b>	<b>7,821.0</b>
<b>Current liabilities</b>			
Trade and other payables <sup>(2)</sup>	4,481.6	6,214.5	5,661.8
Amount due to ultimate holding company	—	—	114.9
Amounts due to fellow subsidiaries	201.7	201.7	201.7
Amount due to a minority shareholder of a subsidiary	67.0	178.5	—
Financial guarantee obligations	17.9	15.6	14.5
Obligations under finance leases due within one year	—	—	7.0
Dividend payable	88.8	—	—
Taxation	12.7	220.2	21.6
Bank loans due within one year	—	—	100.0
Bank overdrafts	—	—	26.6
<b>Total current liabilities</b>	<b>4,869.7</b>	<b>6,830.5</b>	<b>6,148.1</b>
<b>Net current assets / (liabilities)</b>	<b>1,471.1</b>	<b>(1,190.2)</b>	<b>1,672.9</b>
<b>Total assets less current liabilities</b>	<b>4,703.1</b>	<b>4,878.4</b>	<b>11,891.3</b>
<b>Non-current liabilities</b>			
Amount due to a minority shareholder of a subsidiary	—	—	330.9
Financial guarantee obligations	57.8	42.2	27.8
Obligations under finance leases due after one year	—	—	164.5
Bank loans due after one year	—	—	4,808.0
	57.8	42.2	5,331.2
<b>Net assets</b>	<b>4,645.3</b>	<b>4,836.2</b>	<b>6,560.1</b>
<b>Capital and reserves</b>			
Share capital	194.2	194.2	291.3
Reserves	4,446.4	4,637.3	6,073.7
<b>Equity attributable to equity holders of the Company</b>	<b>4,640.6</b>	<b>4,831.5</b>	<b>6,365.0</b>
<b>Minority interests</b>	<b>4.7</b>	<b>4.7</b>	<b>195.1</b>
<b>Total equity</b>	<b>4,645.3</b>	<b>4,836.2</b>	<b>6,560.1</b>

(1) Trade and other receivables consist primarily of advances made to Gaming Promoters in connection with gaming chips sold to them for the benefit of gaming patrons, as well as prepayments and other receivables.

(2) Trade and other payables consist of trade payables, payables to Gaming Promoters, special gaming tax payables, chips liabilities, payables for the acquisition of property, plant and equipment, construction payables, accrued staff costs, rental payables, other payables, withholding tax payable on employee's professional tax, temporary receipt from MGM Grand Paradise as deposit for a piece of land to be used for the operation of a casino as authorised under the MGM Sub-Concession Agreement and withholding tax payables for Gaming Promoters.



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

*The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with the combined financial statements and the related notes included elsewhere in this Prospectus. Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. See "Forward-Looking Statements."*

### **Overview**

SJM is one of six Concessionaires and Sub-Concessionaires permitted by the Macau Government to operate casino games in Macau and is the largest casino operator in Macau in terms of gaming revenue, market share and number of casinos as at 31 December 2007, according to the DICJ. SJM operates the most extensive portfolio of casinos in Macau out of the six Concessionaires and Sub-Concessionaires and offers a wide array of gaming experiences that cater to different types of gaming patrons.

As at 31 December 2007, SJM operated 18 of the 28 casinos in Macau, featuring a total of 305 VIP gaming tables in 75 VIP rooms, 1,107 mass market gaming tables and 3,702 slot machines compared to 253 VIP gaming tables, 653 mass market gaming tables and 2,381 slot machines as at 31 December 2005. For the years 2005, 2006 and 2007, SJM's gaming revenue was HK\$33,406.3 million, HK\$34,196.3 million and HK\$32,146.6 million, respectively. On 1 February 2008, SJM commenced operations of Casino Ponte 16, which included 105 mass market gaming tables and 297 slot machines. As at the Latest Practicable Date, SJM operated nine Self-Promoted Casinos and 10 Third Party-Promoted Casinos. Self-Promoted Casinos are casinos for which promotional and marketing efforts are handled by SJM's Marketing Department, and Third Party-Promoted Casinos are casinos for which marketing efforts are handled by the Mass Market Service Providers. For further details, see "Business — Marketing". As at 31 December 2005, 2006 and 2007, SJM's gaming tables accounted for approximately 65.3%, 43.5% and 32.3% of the total number of gaming tables in Macau respectively. As at 31 December 2005, 2006 and 2007, SJM's slot machines accounted for approximately 69.6%, 41.8% and 27.9% of the total number of slot machines in Macau respectively.

SJM has a large and stable network of Gaming Promoters that brings VIP gaming patrons from around the world through their respective networking, marketing and promotional efforts. As at the Latest Practicable Date, 12 of SJM's casinos (excluding Casino Kingsway and Casino Macau Palace which are under renovation) feature VIP rooms that are reserved exclusively for high-stakes gaming patrons who are brought in by SJM's VIP Room Gaming Promoters. SJM also allocates particular rooms and tables for the priority use of certain of its Gaming Promoters to encourage them to bring their gaming patrons to SJM's casinos. Through SJM's agreements with STDM, which has investments of over HK\$7 billion in Macau's transportation, hospitality and services sectors, SJM is able to offer "one-stop shop" services to Gaming Promoters and their patrons, enhancing their overall gaming experience and promoting loyalty to SJM's casinos.

We have in-depth knowledge of mass market gaming operations in Macau. As at the Latest Practicable Date, SJM had 13 casinos (excluding Casino Macau Palace) that serve the mass market with table games and slot machines, and four casinos exclusively providing table games (excluding Casino Kingsway). SJM also has four slot machines-only operations, which are authorised gaming areas and considered casino operations. Several of SJM's casinos feature themed gaming halls, such as

the Pharaoh's Palace at Club VIP Legend and the Greek Mythology at Casino New Century, providing mass market patrons with a diversified range of gaming experiences. A number of SJM's casinos, such as Casino Jai Alai and Casino Oriental, are located near key transport gateways, including the Macau Maritime Terminal, in order to target single day visitors, tour groups and vacation travellers. Casino Lisboa has been for many years a popular destination in Macau for gaming patrons, contributing to the strength and name recognition of the "Lisboa" brand in Greater China and Asia.

SJM's gaming operations are restricted under the Concession to casino games, slot machine gaming and other games authorised by the Macau Government in Macau. SJM does not presently engage in any gaming operations outside of Macau nor does SJM engage in bookmaking transactions in or outside Hong Kong. In addition, SJM does not engage in pari-mutuel gaming, such as horse racing or dog racing, internet betting, cruise ship gaming or any other form of gaming, nor is it permitted to do so under the terms of its Concession Contract. SJM currently intends to focus its casino operations in Macau only, but we will consider other opportunities as they arise.

SJM plans to develop clusters of gaming properties in various strategic locations within Macau to offer a wide variety of gaming experiences, in order to attract a broad spectrum of gaming patrons and to keep them within the clusters of SJM's casinos. For further information relating to SJM's development plans, see "Business — Our New Projects".

On 17 April 2008, pursuant to two purchase option agreements entered into between STDM and SJM, SJM exercised its options to purchase the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A in the Lisboa District. We believe the exercise of these options will assist SJM in developing its gaming and gaming-related business. See "Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM." These options provide SJM an opportunity to develop new properties and further expand the scope of its operations. These potential developments may consist of gaming operations, residential development, hotels, spa facilities, retail and entertainment facilities.

Many large casino operators worldwide engage in certain gaming-related businesses primarily to service and cater to their casino patrons and promote their casino operations. Like other Concessionaires and Sub-Concessionaires in Macau, and casino operators elsewhere, SJM will invest and engage in such gaming-related businesses in Macau as appropriate to support its overall casino operations and compete effectively with other Concessionaires and Sub-Concessionaires, as permitted by the terms of SJM's Concession and subject to the Macau Government's approval.

### ***Basis of Presentation***

SJM Holdings Limited was incorporated as a limited company in Hong Kong under the Companies Ordinance on 17 February 2006. Our principal activity is to act as a holding company of our subsidiaries.

In connection with the initial listing of the Shares of our Company on the Main Board of the Stock Exchange, a group reorganisation was carried out, as further detailed under "History and Reorganisation" and "Statutory and General Information — Further Information About Our Company — Changes in the Share Capital of Our Subsidiaries" in Appendix VII to this Prospectus. The Reorganisation effectively involved the transfer of SJM and its subsidiaries to us through a share swap

with the previous shareholders of SJM and the issue of Type B shares with limited share rights to our Managing Director to satisfy Macau law requirements.

The financial information is prepared as if the current group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation or establishment or effective date of acquisition or up to the effective date of disposal where this is a shorter period.

### ***Factors Affecting Results of Operations***

The major factors affecting our financial condition and results of operations are set out below:

#### **Growth of Macau's gaming and tourism markets**

The local gaming and tourism markets have continued to benefit from a combination of macroeconomic and demographic drivers, and government-sponsored infrastructure and visitation programmes in Macau and China. The granting of three new concessions in 2002 and subsequent exercise of three sub-concessions contributed to the growth of the gaming and tourism markets by increasing the supply of gaming facilities. In addition, the expansion of FITS to encompass more than 45 municipalities including Beijing, Chongqing, Guangzhou, Shanghai and Tianjin, has contributed to the significant increase in the total number of visitors to Macau, which grew from approximately 11.9 million visitors in 2003 to 27.0 million visitors in 2007, representing a CAGR of 22.7%. See "Risk Factors — Risks Relating to the Gaming Industry in Macau — The number of visitors to Macau, particularly visitors from mainland China, may decline or travel to Macau may be disrupted." Macau's casino gaming revenue increased by HK\$35,898.1 million, or 80.3%, to HK\$80,603.9 million in 2007 from HK\$44,705.8 million in 2005.

The majority of visitors to Macau since 2003 have been from mainland China. The number of mainland Chinese visitors increased from 10.5 million in 2005 to 12.0 million in 2006. In the year ended 31 December 2007, there were 14.9 million Mainland Chinese visitors to Macau representing 55.1% of the total visitors to Macau during 2007. Continued strong economic growth leading to large and growing middle and upper-middle classes in Asia with large disposable incomes have contributed to this increase in the number of mainland Chinese and other Asian visitors to Macau. These factors present a significant long-term growth opportunity for Macau's gaming industry and for us. See "Industry Overview."

#### **Competition**

##### *Competition for patrons*

Following the MSAR's decision to open Macau's gaming market, there has been a significant increase in the number of gaming operators. At present, there are a total of six gaming operators, including SJM, under concessions and sub-concessions in Macau. The existing concessions and sub-concessions do not place any limit on the number of gaming facilities that may be operated under each concession or sub-concession. Each of the three Concessionaires, SJM, Galaxy and Wynn Macau, as well as the three Sub-Concessionaires, Venetian Macau, Melco PBL and MGM Grand Paradise, have already commenced operating casinos and have announced expansion plans to develop additional casinos in Macau. See "Industry Overview."

In conjunction with the increase in the number of casino operators and casinos, the number of gaming tables has also increased. The total number of gaming tables in Macau increased from 1,388 as at 31 December 2005 to 4,375 as at 31 December 2007, representing a CAGR of 77.5%, and the total gaming revenue derived from casino games increased from HK\$44,705.8 million to HK\$80,603.9

million during the same period, representing a CAGR of 24.8%. The increase in the total number of gaming tables in Macau has contributed to the overall increase in gaming revenue.

SJM's total number of gaming tables also increased from 1,202 as at 31 December 2006 to 1,412 as at 31 December 2007. However, SJM's gaming revenue decreased during the same period, from HK\$34,196.3 million for 2006 to HK\$32,146.6 million for 2007. SJM's net-win per gaming table also decreased from HK\$39.1 million per annum for 2005 to HK\$22.4 million per annum for 2007 as a result of increased competition and SJM increasing the proportion of its mass market gaming tables. The amounts of average daily net-win per VIP table, mass market table and slot machine at SJM's casinos were approximately HK\$181,012, HK\$26,909 and HK\$674, respectively, for 2007.

We expect that the number of gaming tables in Macau will continue to increase due to the opening of new larger-scale themed and mixed-use developments, similar to those located on the Las Vegas Strip. Since 2004, with the opening of the first competing casino in Macau, competition from other operators has reduced SJM's market share and inhibited our revenue growth. Therefore, we expect revenue per table to continue to decline and our margins to be reduced.

We also expect advances made to Gaming Promoters as a percentage of revenue to increase due to increased competition. SJM's advances to Gaming Promoters were HK\$261.4 million (or 0.8% as a percentage of revenue) as at 31 December 2005, HK\$379.2 million (or 1.1% as a percentage of revenue) as at 31 December 2006 and HK\$376.4 million (or 1.2% as a percentage of revenue) as at 31 December 2007.

#### *Competition for resources*

As a result of the expansion of the gaming industry in Macau and increased demand for the resources required for the construction, development and operation of gaming and gaming-related operations, prices for such resources have increased significantly, thereby increasing our costs and expenses and reducing our operating and net margins. Such resources include land, labour and services, including construction services and the services of Gaming Promoters and Mass Market Service Providers. As a consequence, our overall operating and administrative expenses as a percentage of gaming revenue have increased from 9.9% in 2005 to 18.3% in 2007.

#### **Casino mix**

The relative numbers of VIP rooms and tables compared to mass market casinos and tables, and the relative numbers of Self-Promoted Casinos and Third Party-Promoted Casinos operated by SJM may vary from time to time. We refer to these relative proportions as SJM's casino mix. As the different segments and operating formats have different characteristics in relation to revenue generation and cost structure, a change in SJM's casino mix can have a significant impact on our operating results. Because SJM provides additional services and incurs certain expenses with respect to its VIP gaming patrons, the margins derived from SJM's VIP gaming operations are generally less than those from SJM's mass market gaming operations. For the years 2005, 2006 and 2007, VIP gaming tables generated approximately HK\$23,699.8 million, HK\$23,887.7 million and HK\$20,613.6 million, respectively, representing approximately 70.9%, 69.9% and 64.1% of our gaming revenue for the respective periods. For the same periods, mass market table games and slot machines generated in aggregate HK\$9,703.5 million, HK\$10,306.7 million and HK\$11,531.1 million, respectively, representing approximately 29.1%, 30.1% and 35.9% of our gaming revenue for the respective periods. In addition, because SJM pays commissions to Mass Market Service Providers in connection with the

mass market operations at its Third Party-Promoted Casinos, but not at its Self-Promoted Casinos, margins derived from the mass market gaming operation of Self-Promoted Casinos are generally higher than those for Third Party-Promoted Casinos. For the years 2005, 2006 and 2007, Self-Promoted Casinos generated approximately HK\$22,335.2 million, HK\$19,410.8 million and HK\$19,359.3 million, respectively, representing approximately 66.9%, 56.8% and 60.2% of our gaming revenue for the respective periods. For the same periods, Third Party-Promoted Casinos generated HK\$11,071.1 million, HK\$14,785.5 million and HK\$12,787.3 million, respectively, representing approximately 33.1%, 43.2% and 39.8% of our gaming revenue for the respective periods.

### **Future finance costs and depreciation**

As part of our growth strategy and to fulfil SJM's obligations under the Investment Plan, SJM is undertaking a significant expansion and construction programme. Projects currently under construction include Phase II of the Grand Lisboa and Ponte 16, and L'Hermitage. SJM also has plans to develop Oceanus, a multi-level casino facility in the outer Harbour District as well as two Third Party-Promoted Casinos in the Lisboa District and two mixed-use developments in Cotai. In order to complete these construction and development projects, we will incur significant capital expenditures, which we intend to fund through a combination of internal resources and external debt and equity financing, including the proceeds of the Global Offering. Our results of operations have been, and will continue to be affected by increased finance costs, including interest expense, and depreciation. Our subsidiaries, Pier 16 - Property Development and Grand Lisboa - Property Investment, have entered into term loan facilities with banks to finance a portion of the construction and development costs of the Grand Lisboa and Ponte 16 projects. See "—Indebtedness." In addition, the revenue generated from new projects may not meet expectations, thereby affecting our profit margins.

Under the Investment Plan, SJM is obligated to invest in constructing, developing and maintaining the Grand Lisboa and Ponte 16 in Macau before 27 March 2009. If SJM fails to invest at least MOP4.7 billion (HK\$4.6 billion), pursuant to the Investment Plan, SJM is obligated to invest the unused portion of the MOP4.7 billion (HK\$4.6 billion), either in projects relating to its gaming operations subject to the Macau Government's approval or in other major public infrastructure constructions as designated by the Macau Government. For further information on these development projects, please see "The Concession" and "Business — Properties Under Development."

### ***Description of Components of Results of Operations***

#### **Gaming revenue**

SJM generates all of its gaming revenue from its casino operations, which include table gaming and slot machines. All obligatory payments under the Concession Contract are paid from gaming revenues, including (i) the 35% special gaming tax on SJM's gaming revenue in Macau, (ii) the annual fixed gaming premium, and (iii) the 3% special levy which comprises 1.6% of gaming revenue payable to a public foundation designated by the Macau Government for the public foundation's use in connection with the promotion, development or study of culture, society, economy, education, science and charity events in Macau, and 1.4% of gaming revenue payable to the MSAR for urban development, tourism promotion and social security. SJM divides its gaming revenue into four segments: VIP gaming operations, mass market table gaming operations, slot machine operations and others.

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The following table sets forth a breakdown of our gaming revenue derived from SJM's gaming operations and net gaming revenue after the deduction of special gaming tax, special levy and gaming premium for the periods indicated:

	Year ended 31 December					
	2005		2006		2007	
	HK\$	%	HK\$	%	HK\$	%
	(in millions, except for percentages)					
VIP gaming operations	23,699.8	70.9	23,887.7	69.9	20,613.6	64.1
Mass market table gaming operations	8,981.6	26.9	9,339.0	27.3	10,676.4	33.2
Slot machine operations	721.9	2.2	967.7	2.8	854.7	2.7
Others <sup>(1)</sup>	3.0	0.0	1.9	0.0	1.9	0.0
Gaming revenue	33,406.3	100.0	34,196.3	100.0	32,146.6	100.0
Special gaming tax, special levy and gaming premium	(12,882.1)	(38.6)	(13,226.5)	(38.7)	(12,497.6)	(38.9)
Net gaming revenue	<u>20,524.2</u>	<u>61.4</u>	<u>20,969.8</u>	<u>61.3</u>	<u>19,649.0</u>	<u>61.1</u>

(1) Others consists of revenue received from the operation of Pachinko and Tombola in 2005, and Tombola only in 2006 and 2007.

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

	Year ended 31 December		
	2005	2006	2007
	HK\$	HK\$	HK\$
	(in millions)		
<i>Self-Promoted Casinos (excluding Grand Lisboa)</i>			
VIP gaming operations	17,529.6	15,257.0	11,323.1
Mass market table gaming operations	4,364.2	3,722.2	2,949.3
Slot machine operations	438.4	429.7	296.6
Others <sup>(1)</sup>	3.0	1.9	1.9
Gaming revenue	<u>22,335.2</u>	<u>19,410.8</u>	<u>14,570.9</u>
<i>Third-Party Promoted Casinos</i>			
VIP gaming operations	6,170.2	8,630.7	6,818.6
Mass market table gaming operations	4,617.4	5,616.8	5,569.0
Slot machine operations	283.5	538.0	399.7
Gaming revenue	<u>11,071.1</u>	<u>14,785.5</u>	<u>12,787.3</u>
<i>Grand Lisboa (self-promoted)</i>			
VIP gaming operations	0.0	0.0	2,471.9
Mass market table gaming operations	0.0	0.0	2,158.1
Slot machine operations	0.0	0.0	158.4
Gaming revenue	<u>0.0</u>	<u>0.0</u>	<u>4,788.4</u>
Total gaming revenue	<u>33,406.3</u>	<u>34,196.3</u>	<u>32,146.6</u>
VIP gaming operations	23,699.8	23,887.7	20,613.6
Mass market table gaming operations	8,981.6	9,339.0	10,676.4
Slot machine operations	721.9	967.7	854.7
Others <sup>(1)</sup>	3.0	1.9	1.9
Total	<u>33,406.3</u>	<u>34,196.3</u>	<u>32,146.6</u>

(1) Others consists of revenue received from the operation of Pachinko and Tombola in 2005, and Tombola only in 2006 and 2007.

During the Track Record Period, SJM increased the number of mass market gaming tables and slot machines by entering into agreements with Mass Market Service Providers for the marketing of the mass market gaming operations in certain casinos. As a result, the percentage of gaming revenue from mass market casino gaming operations increased from 26.9% of total gaming revenue in 2005 to 33.2% of total gaming revenue in 2007, and the percentage of gaming revenue from VIP casino gaming operations correspondingly dropped from 70.9% of total gaming revenue in 2005 to 64.1% of total gaming revenue in 2007. For the years 2005, 2006 and 2007, average net-win per VIP gaming table was HK\$96.7 million, HK\$80.7 million, and HK\$66.1 million, respectively, while average net-win per mass market gaming for the same periods was HK\$15.2 million, HK\$11.7 million and HK\$9.8 million, respectively. Average net-win per slot machine was HK\$0.4 million in 2005, HK\$0.3 million in 2006 and HK\$0.2 million in 2007.

### **Food and beverage income and cost of food and beverage**

In February 2007, SJM opened the Grand Lisboa and commenced operation of several food and beverage outlets in the casino. We expect SJM to generate more food and beverage income as it plans to invest and engage in more gaming-related business in the future.

### **Other income**

Other income consists primarily of interest on bank deposits, other interest income from loans to a joint venture party, revenue from the operation of foreign exchange counters in certain of SJM's casinos and amortisation of financial guarantee representing the release of the financial guarantee obligation relating to financial guarantees provided by the Group to its associate Zhen Hwa Harbour Construction Company Limited ("Zhen Hwa") and a related company Macau Fisherman's Wharf International Investment Limited ("Fisherman's Wharf International"), which was disposed in 2005. Financial guarantees provided by the Group to non-Group companies and associates are recorded as financial liabilities at their fair value. As the underlying obligation matures, the fair value of the financial guarantee is reduced period by period over its term, and the relevant financial liabilities are amortised and recorded as other income in the corresponding period.

### **Sub-concession income**

On 19 April 2005, SJM and MGM Grand Paradise entered into the MGM Sub-Concession Contract where SJM received a payment from MGM Grand Paradise of US\$200.0 million (HK\$1,560.0 million) in 2005 as consideration for the MGM Sub-Concession Contract. See "The Concession." In addition, pursuant to the terms of the sub-concession contract, MGM Grand Paradise was required to pay SJM HK\$177.1 million as the difference between a pre-agreed figure and the amount of land premium actually paid by MGM Grand Paradise to the Macau Government. Due to the timing of obtaining title to the relevant land use right by MGM Grand Paradise, the HK\$177.1 million was recognised as income by SJM in 2006.

### **Marketing and promotional expenses**

Marketing and promotional expenses consist of commissions, fees and allowances paid to VIP Room Gaming Promoters and commissions paid to Mass Market Service Providers and general marketing and promotional activities. For the VIP gaming segment, marketing and promotional expenses consist of commissions in cash and marketing and promotional expenses payable to VIP Room Gaming Promoters, and commissions in kind in the form of ferry and helicopter tickets and

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hotel accommodation payable to VIP Room Gaming Promoters. In relation to the mass market gaming segment, marketing and promotional expenses consist of commissions in cash payable to Mass Market Service Providers, Private Label Card commissions payable to gaming patrons and marketing and promotional expenses for the mass market gaming segment. See “Business—Arrangements With VIP Room Gaming Promoters.”

The following table sets forth a breakdown of marketing and promotional expenses for the periods indicated:

	Year ended 31 December					
	2005		2006		2007	
	HK\$	%	HK\$	%	HK\$	%
	(in millions, except for percentages)					
<b>VIP market</b>						
Commission in cash <sup>(1)</sup> .....	9,906.7	73.4	10,661.6	73.2	8,902.3	71.6
Fees and allowances <sup>(2)</sup> .....	1,331.4	9.8	1,337.6	9.2	1,014.2	8.2
	11,238.1	83.2	11,999.2	82.4	9,916.5	79.8
<b>Mass market</b>						
Commission in cash <sup>(3)</sup> .....	2,152.9	16.0	2,463.6	16.9	2,322.3	18.7
ec Card and MET Card commission and Grand Lisboa Card points rewards <sup>(4)</sup> .....	81.4	0.6	83.5	0.6	109.4	0.8
	2,234.3	16.6	2,547.1	17.5	2,431.7	19.5
<b>General marketing and promotional activities</b> .....	25.0	0.2	23.1	0.1	85.1	0.7
<b>Total</b> .....	13,497.4	100.0	14,569.4	100.0	12,433.3	100.0

- (1) Paid to VIP Room Gaming Promoters and includes related marketing and promotional expenses.  
(2) Includes vessel and helicopter tickets and hotel accommodations provided to VIP Room Gaming Promoters.  
(3) Paid to Mass Market Service Providers.  
(4) Paid to patrons and includes related marketing and promotional expenses.

For the years 2005, 2006 and 2007, marketing and promotional expenses accounted for approximately 40.4%, 42.6% and 38.7%, respectively, of SJM’s gaming revenue.

### Operating and administrative expenses

Operating and administrative expenses primarily consist of staff salaries and benefits, rental payments and service fees, utilities, other costs such as entertainment expenses incurred by SJM, repairs and maintenance, depreciation, security expenses, dredging expenses, insurance and building management fees. SJM pays a certain percentage of the total net-win derived from Third Party-Serviced Slot Machine Operations to the Slot Machine Service Providers as service fees for their services as well as for rental payments for the leasing of slot machines. The largest component of other costs is entertainment expenses, which constitutes a significant portion of SJM’s operating and administrative expenses. In the years 2005, 2006 and 2007, SJM entertainment expenses were HK\$443.6 million, HK\$386.5 million and HK\$422.6 million, respectively, representing 33.9%, 26.1% and 20.3% of other costs for the same periods. Entertainment expenses in these periods mainly represented the provision of food and beverage, hotel rooms and ferry and helicopter tickets as well as other allowances granted to SJM’s patrons by the Company or through the issuance of VIP cards. The issuance of the VIP cards and the amount of allowances granted are each subject to the discretion of SJM’s senior management. VIP cards are issued to special gaming patrons based on their past visits and chips purchased record and value to SJM of his current and future patronage, and the VIP status is



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reviewed annually. Other significant components of other costs of operating and administrative expenses includes repair and maintenance, which in 2005, 2006 and 2007 were HK\$112.2 million, HK\$110.9 million and HK\$103.0 million, respectively, and service fees which in 2005, 2006 and 2007 were HK\$94.3 million, HK\$99.7 million and HK\$107.9 million, respectively. For a further detailed breakdown of other costs, please refer to “Appendix I — Accountants’ Report”.

The table below sets forth a breakdown of SJM’s principal operating and administrative costs and as a percentage of total operating and administrative expenses.

	Year ended 31 December					
	2005		2006		2007	
	HK\$	%	HK\$	%	HK\$	%
	(in millions, except for percentages)					
Salaries and benefits .....	1,438.9	43.4	1,890.9	46.4	3,055.3	52.0
Rental payments and service fees <sup>(1)</sup> .....	446.4	13.5	527.8	13.0	519.2	8.9
Utilities .....	122.9	3.7	173.7	4.3	211.5	3.6
Other costs .....	1,307.7	39.4	1,481.7	36.3	2,078.0	35.5
Total .....	3,315.9	100.0	4,074.1	100.0	5,864.0	100.0

(1) Includes rental payments for the leasing of slot machines as well as service fees paid to the Slot Machine Service Providers for their services.

### Share of profits of a jointly controlled entity

Share of profits of a jointly controlled entity refers to SJM’s pro rata share of the results of operations of Chong Fung, a company incorporated in Macau which held an interest in a portion of a commercial building in Macau during the Track Record Period. From 18 May 2004 through 30 December 2005, SJM, through SJM - Investment, held a 51% interest in Chong Fung, while Smart Leader Enterprises Ltd. and Comluck Development Ltd., which are Independent Third Parties, held the remaining 49% interest pursuant to a joint venture arrangement entered into with SJM-Investment on 11 May 2004. Under the joint venture arrangement, SJM and the other parties together each appointed two directors to the board of directors of Chong Fung, and the basis of profit sharing among the parties was based on the percentage of shareholding. On 30 December 2005, Smart Leader Enterprises Ltd. and Comluck Development Ltd. transferred their interests in Chong Fung to See Lucky Investments Limited, an Independent Third Party. In April 2007, SJM - Investment disposed a 2% interest in Chong Fung to See Lucky Investments Limited. However, in accordance with our accounting policy, we accounted for SJM’s interest in Chong Fung, a jointly controlled entity, under the equity method of accounting and reflected SJM’s share of the profits or losses in Chong Fung in our combined income statement.

### Share of results of associates

Share of results of associates refers to SJM’s pro rata share of the results of operations of Fisherman’s Wharf International, a Macau incorporated company that is engaged in the development of the Fisherman’s Wharf, and Zhen Hwa, a construction and investment holding company incorporated in Macau. Zhen Hwa has been retained by Hip Hing Engineering (Macau) Company Limited as a subcontractor for the construction of the Grand Lisboa. From May 2003 to December 2005, SJM, through SJM - Investment, held a 45% ownership interest in Fisherman’s Wharf International, with the remaining interest being held by Ms. Leong On Kei, Angela, a director of SJM, and two Independent Third Parties. Prior to the Reorganisation, in December 2005, SJM distributed its

interest in Fisherman's Wharf to SJM's shareholders. During the Track Record Period, SJM also held a 49% interest in Zhen Hwa, with the remaining interest being held by China Harbour Engineering Co., an Independent Third Party. We acquired the interest in Fisherman's Wharf International and Zhen Hwa on 1 April 2002 and 6 December 2004 respectively.

In accordance with our accounting policies, we account for SJM's interest in these associate companies under the equity method of accounting, and reflect SJM's share of the profits or losses in the associate companies in our combined income statement.

### **Taxation, levies and premium**

We and our subsidiaries are incorporated in different jurisdictions, with different taxation requirements.

Under the current laws of Hong Kong, we are exempt from income tax as long as our income neither arises in, nor is derived from, Hong Kong. On that basis, we have not provided for any Hong Kong income tax in our financial statements.

Under the current laws of the BVI, our BVI subsidiaries are exempt from income tax on foreign derived income. In addition, there are no withholding taxes in the BVI.

Substantially all of our revenue is derived from our subsidiary SJM's gaming operations in Macau. Under the Concession Contract, SJM is required to pay a special gaming tax of 35% of gaming revenue and applicable withholding taxes, 3% of its gaming revenue as a special levy and an annual gaming premium which comprises of a fixed portion and a variable portion based on the number and type of its gaming tables and electronic gaming machines. See "The Concession."

Pursuant to Article 28 of Law No. 16/2001, the Chief Executive of the MSAR approved a special exemption of complementary tax, which is a tax on corporate income payable on SJM's gaming revenues. Pursuant to the Dispatch of Chief Executive No. 30/2004, this special tax exemption was granted for the period from 1 April 2002 to 31 December 2006. SJM subsequently applied for a renewal of this exemption, approval of which was granted on 8 December 2007, effective 1 January 2007 until 31 December 2011. The exemption from complementary tax on corporate income does not apply to dividends distributed by SJM. However, under a special arrangement entered into between the MSAR and SJM dated 30 April 2004, in each of the years ended 31 December 2005 and 2006, SJM made an annual payment of MOP12.0 million (HK\$11.65 million) to the MSAR as complementary tax on dividends distributed to its shareholders. See "Risk Factors — Risks Relating to Our Business — Local taxation may increase and current tax exemptions may not be extended."

According to the demand note issued by the MSAR Finance Department on 15 December 2006, the MSAR Finance Department intended to impose on SJM complementary taxes on certain other income for the year ended 31 December 2005, including the sub-concession income of HK\$1,560.0 million. Subsequent to an opposition filed by SJM, the Reassessment Committee of the MSAR Finance Department issued a notification on 28 January 2007, providing that SJM would be granted partial exemption from the complementary tax. However, the sub-concession income would not be granted any exemption, since the sub-concession income is not considered to be an income generated from gaming operations, but from an autonomous act, within the commercial activity of SJM. Other income

of HK\$146.9 million, HK\$137.2 million and HK\$105.9 million in 2005, 2006 and 2007, respectively, was exempted from complementary tax. The additional complementary tax liabilities of HK\$187.2 million attributable to the sub-concession income of HK\$1,560.0 million was calculated at 12% complementary tax rate, representing the under provision of complementary tax on the sub-concession income recognised in the prior year.

During 2006, the complementary tax liabilities of SJM attributable to the sub-concession income of HK\$177.1 million, which was a payment made pursuant to the land adjustment price as provided under a term of the MGM Sub-Concession Contract, was HK\$21.3 million.

Pursuant to the tax searches conducted by our Macau legal advisors with the Macau Tax Department, there are no outstanding amounts due from the Group to the Macau Government on account of tax as at 31 December 2007.

### **Minority interests**

Minority interests relate to the proportion of profit attributable to minority shareholders in non-wholly-owned subsidiaries.

### ***Critical Accounting Policies***

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our combined financial statements. We have identified certain accounting policies that are significant to the preparation of our financial statements. These significant accounting policies, which are important for the understanding of our financial condition and results of operations, are set forth in detail in Section E of the Accountants' Report in Appendix I to this Prospectus. The accounting policies usually involve subjective assumptions and estimates, and complex judgments relating to accounting items such as asset values and impairment losses. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. We set out below the accounting policies used in the preparation of our financial statements that we believe involve the most significant estimates and judgments.

### **Revenue recognition**

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

Revenue from food and beverage sales 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 from investment 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.

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When the buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a land use right and amortised on 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 land and buildings in MSAR where the cost of the land use right cannot be reliably separated from the total cost of land and buildings, the cost of land and buildings is depreciated and amortised on a straight line basis over their estimated useful lives of 18 years.

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective leases or three years, whichever is shorter.

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:

Buildings .....	2.5%-7.6%
Chips .....	25%
Furniture, fixtures and equipment .....	7.6%-50%
Gaming equipment .....	25%
Motor vehicles .....	20%
Vessel .....	10%

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 year in which the item is derecognised.

### Financial instruments

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 in note 39 of "Appendix I—Accountants' Report". The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. 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 three categories: 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 with respect to each category of financial assets are set out below.

### *Loans and receivables*

Loans and receivables (including bank deposits and balances, trade and other receivables, amounts due from ultimate holding company/fellow subsidiaries/associates/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.

### *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.

### *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 with respect to financial liabilities and equity instruments are set out below.

### *Financial liabilities*

Financial liabilities, including trade and other payables, amounts due to ultimate holding company/fellow subsidiaries/a minority shareholder of a subsidiary, bank loans and dividend payable 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 the cumulative gain or loss that has 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 is recognised in profit or loss.

### *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

Amounts due from lessees 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.

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

### *Results of operations*

The following table sets forth certain information relating to SJM's results of operations and this information as a percentage of gaming revenue for the periods indicated. The historical results for any full-year or interim period are not necessarily indicative of results for any future period.

	Year ended 31 December					
	2005		2006		2007	
	HK\$	%	HK\$	%	HK\$	%
	(in millions, except for percentages)					
Gaming revenue . . . . .	33,406.3	100.0	34,196.3	100.0	32,146.6	100.0
Special gaming tax, special levy and gaming premium . . . . .	(12,882.1)	(38.6)	(13,226.5)	(38.7)	(12,497.6)	(38.9)
	20,524.2	61.4	20,969.8	61.3	19,649.0	61.1
Food and beverage income . . . . .	—	—	—	—	80.5	0.3
Cost of food and beverage . . . . .	—	—	—	—	(45.0)	(0.1)
Other income . . . . .	146.9	0.4	137.2	0.4	105.9	0.3
Sub-concession income . . . . .	1,560.0	4.7	177.1	0.5	—	—
Marketing and promotional expenses . . . . .	(13,497.4)	(40.4)	(14,569.4)	(42.6)	(12,433.3)	(38.7)
Operating and administrative expenses . . . . .	(3,315.9)	(9.9)	(4,074.1)	(11.9)	(5,864.0)	(18.2)
Finance costs . . . . .	—	—	—	—	(7.1)	(0.1)
Share of results of associates . . . . .	(34.7)	(0.1)	(3.4)	0.0	0.4	0.0
Share of profits of a jointly controlled entity . . . . .	3.1	0.0	6.8	0.0	7.0	0.0
Profit before taxation . . . . .	5,386.2	16.1	2,644.0	7.7	1,493.4	4.6
Taxation . . . . .	(12.7)	0.0	(220.1)	(0.6)	(0.2)	0.0
Profit for the year . . . . .	5,373.5	16.1	2,423.9	7.1	1,493.2	4.6

### **2007 compared to 2006**

*Gaming revenue.* Gaming revenue decreased by HK\$2,049.7 million, or 6.0%, to HK\$32,146.6 million in 2007 from HK\$34,196.3 million in 2006. After subtracting the 35% special gaming tax, 3% special levy and annual gaming premium paid to the MSAR, the net gaming revenue decreased by HK\$1,320.8 million, or 6.3%, to HK\$19,649.0 million in 2007 from HK\$20,969.8 million in 2006. Set forth below is a description of total gaming revenue in SJM's VIP casino gaming operations, mass market casino gaming operations and slot machine operations:

- VIP casino gaming operations:* Gaming revenue from VIP casino gaming operations decreased by HK\$3,274.1 million, or 13.7%, to HK\$20,613.6 million in 2007 from HK\$23,887.7 million in 2006. The decrease was due primarily to an overall decrease in chips sales of HK\$133,462.7 million, or 16.0%, from HK\$831,869.9 million in 2006 to HK\$698,407.2 million in 2007 as a result of increased competition. This decrease in gaming revenue from VIP casino gaming operations was partially offset by (i) gaming revenue from VIP gaming operations at the Grand Lisboa which commenced in August 2007 of HK\$2,471.9 million and added chip sales of HK\$72,676.6 million at the Grand Lisboa, of which HK\$626.4 million and HK\$20,443 million, respectively, were from the nine months ended 30 September 2007, and (ii) an increase in hold rate of 0.1% to 3.0% in 2007 from 2.9% in 2006.

SJM had 95 VIP rooms with 308 VIP gaming tables as at 31 December 2006 and 75 VIP rooms with 305 VIP gaming tables as at 31 December 2007. The average number of VIP gaming tables increased to 312 in 2007 from 296 in 2006 despite the net subtraction of three VIP gaming tables in 2007, primarily due to the addition of 52 new VIP tables at the Grand Lisboa. The average net-win per VIP table decreased by HK\$14.6 million per table to HK\$66.1 million in 2007 from HK\$80.7 million in 2006. Gaming revenue from VIP casino gaming operations comprised 64.1% of SJM's gaming revenue in 2007, compared to 69.9% in 2006.

- *Mass market casino gaming operations:* Gaming revenue from mass market casino gaming operations increased by HK\$1,337.4 million, or 14.3%, to HK\$10,676.4 million in 2007 from HK\$9,339.0 million in 2006. The increase was due primarily to the opening of new casinos and themed gaming halls by SJM during this year, including the opening of casino operations at the Grand Lisboa in February 2007, which had gaming revenue from mass market casino gaming operations of HK\$2,158.1 million following its opening in February 2007, of which HK\$1,535.1 million was from the nine months ended 30 September 2007. SJM's new casinos and themed gaming halls allowed SJM to benefit from the overall increase in visitors to Macau and the resulting increase in turnover. With the opening of its new casinos and themed gaming halls, SJM had 894 mass market tables as at 31 December 2006 and 1,107 mass market gaming tables as at 31 December 2007. The average number of mass market gaming tables increased to 1,087 in 2007 from 797 in 2006, due to the net addition of 213 mass market gaming tables in 2007, including 235 mass market gaming tables at the Grand Lisboa. However, the average net-win per mass market gaming table decreased by HK\$1.9 million per table to HK\$9.8 million in 2007 from HK\$11.7 million in 2006. Gaming revenue from mass market casino gaming operations comprised 33.2% of total gaming revenue in 2007, compared to 27.3% in 2006.
- *Slot machine operations and others:* Gaming revenue from slot machine operations and others decreased by HK\$113.0 million, or 11.7%, to HK\$856.6 million in 2007 from HK\$969.6 million in 2006. The decrease was due primarily to the cessation of SJM's agreement with Mocha Slot in September 2006, which had contributed HK\$414.1 million in gaming revenue in 2006. The decrease was partially offset by the addition of additional slot machines in other SJM slot machine operations, including the Grand Lisboa, which had gaming revenue from slot machine operations and others of HK\$158.4 million following its opening in February 2007 of which HK\$104.7 million was from the nine months ended 30 September 2007. SJM had 2,738 slot machines as at 31 December 2006 and 3,702 slot machines as at 31 December 2007. The average number of slot machines in 2007 increased to 3,475 compared to 2,765 in 2006, due to the net addition of 964 slot machines in 2007, including 756 slot machines at the Grand Lisboa. The average net-win per slot machine decreased by HK\$0.1 million per machine to HK\$0.2 million in 2007 from HK\$0.3 million in 2006. Gaming revenue from slot machine operations and others comprised 2.7% of total gaming revenue in 2007, compared to 2.8% in 2006.

*Food and beverage income.* SJM opened the Grand Lisboa in February 2007, and operated several food and beverage outlets in Grand Lisboa. In 2007, we recorded income of HK\$80.5 million from such food and beverage outlets. SJM did not operate any food and beverage outlets prior to the opening of the Grand Lisboa in February 2007.



*Cost of food and beverage.* In 2007, the cost of providing food and beverages at the Grand Lisboa amounted to HK\$45.0 million.

*Other income.* Other income decreased by HK\$31.3 million, or 22.8%, to HK\$105.9 million in 2007 from HK\$137.2 million in 2006. The decrease was due primarily to a decrease of interest income of HK\$48.4 million to HK\$67.5 million in 2007 from HK\$115.9 million in 2006, as we used internal funds for the development of Grand Lisboa and Ponte 16. This decrease was partially offset by an increase in other income items such as gain on exchange and gain on disposal of assets.

*Sub-concession income.* No sub-concession income was received in 2007 as compared to sub-concession income of HK\$177.1 million received in 2006.

*Marketing and promotional expenses.* Marketing and promotional expenses decreased by HK\$2,136.1 million, or 14.7%, to HK\$12,433.3 million in 2007 from HK\$14,569.4 million in 2006. The decrease, which was generally in line with the decrease in revenue from VIP casino gaming operations, was partially offset by an increase of HK\$863.5 million in marketing and promotional expenses relating the Grand Lisboa's mass market and VIP gaming operations, of which HK\$235.9 million was incurred in the nine months ended 30 September 2007, as mass market and VIP gaming operations at the Grand Lisboa commenced in February 2007 and August 2007, respectively. Marketing and promotional expenses fell from 42.6% of SJM's gaming revenue in 2006 to 38.7% of SJM's gaming revenue in 2007. Major components of SJM's marketing and promotional expenses include:

- *Commissions:* Total commissions decreased by HK\$1,877.2 million, or 14.2%, to HK\$11,331.5 million in 2007 from HK\$13,208.7 million in 2006. Commissions in connection with VIP casino gaming operations decreased by HK\$1,759.3 million, or 16.5%, to HK\$8,902.3 million in 2007 from HK\$10,661.6 million in 2006. The decrease, which was in line with the general decline in gaming revenue from VIP gaming operations, was partially offset by increased commissions of HK\$860.1 million in connection with VIP casino gaming operations at the Grand Lisboa, of which HK\$233.4 million was from the nine months ended 30 September 2007, as VIP gaming operations at the Grand Lisboa commenced in August 2007. Commissions paid to Mass Market Service Providers and for premium accounts decreased by HK\$141.3 million, or 5.7%, to HK\$2,322.3 million in 2007 from HK\$2,463.6 million for 2006, mainly due to a decline in gaming revenue generated by Third Party-Promoted Casinos and certain Mass Market Service Providers changing to the new form Mass Market Services Agreements, which resulted in lower levels of commissions being paid out. The decrease was partially offset by increased commissions of HK\$3.4 million in connection with premium account operations of the Grand Lisboa, of which HK\$2.6 million was from the nine months ended 30 September 2007.
- *Fees and allowances:* Fees and allowances paid to SJM's VIP Room Gaming Promoters for the marketing and promotion of SJM's VIP casino gaming operations decreased by HK\$323.4 million, or 24.2%, to HK\$1,014.2 million in 2007 from HK\$1,337.6 million in 2006. The decrease, which was in line with the general decline in chip sales, was partially offset by an increase of HK\$35.3 million in fees and allowances paid in connection with VIP casino gaming operations at the Grand Lisboa, of which HK\$9.9 million was incurred in the nine months ended 30 September 2007, as VIP gaming operations commenced at the Grand Lisboa in August 2007.

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- *General marketing and promotional activities.* Expenses for marketing promotional activities increased by HK\$62.0 million, or 268.4%, to HK\$85.1 million in 2007 from HK\$23.1 million in 2006. The increase was due primarily to the increase of promotional events.

*Operating and administrative expenses.* Operating and administrative expenses increased by HK\$1,789.9 million, or 43.9%, to HK\$5,864.0 million in 2007 from HK\$4,074.1 million in 2006. The increase was due primarily to the following:

- Staff salaries and benefits increased by HK\$1,164.4 million, or 61.6%, to HK\$3,055.3 million in 2007 from HK\$1,890.9 million in 2006. The increase was due to (i) an increase in wages and (ii) an increase in staff numbers as a result of the opening of new casinos and the expansion of existing casinos. SJM's staff increased by 2,930 employees to 17,467 employees as at 31 December 2007 from 14,537 employees as at 31 December 2006, of which 3,648 employees were employed at the Grand Lisboa and represented HK\$531.8 million, or 17.4% of the overall staff salaries and benefits. The increase in salaries and benefits was partially offset by the decrease in discretionary bonus payments (determined based on profit) as a result of a decline in profit.
- Rental payments and service fees decreased by HK\$8.6 million, or 1.6%, to HK\$519.2 million in 2007 from HK\$527.8 million in 2006. The decrease was primarily due to the decrease in slot machine service fees as a result of the cessation of SJM's service agreement with Mocha Slot. The decrease was partially offset by an increase in rental payments for the expansion of slot machine operations and an increase of rental payments for existing self-promoted casinos and VIP rooms.
- Utilities increased by HK\$37.8 million, or 21.8%, to HK\$211.5 million in 2007 from HK\$173.7 million in 2006. The net increase was primarily due to an overall increase of electricity costs of HK\$59.5 million, of which HK\$43.6 million was incurred in the nine months ended 30 September 2007, predominantly by the Grand Lisboa, which was partially offset by the credit note of HK\$24.5 million issued in the current period by Casino Golden Dragon for utilities costs in the previous period.
- Other costs increased by HK\$596.3 million, or 40.2%, to HK\$2,078.0 million in 2007 from HK\$1,481.7 million in 2006. The increase was due primarily to the increase in depreciation expenses associated with gaming equipment, including chips and gaming machinery, of HK\$278.7 million, the purchase of gaming accessories of HK\$22.9 million, cleaning expenses and maintenance fees of HK\$49.0 million, entertainment expenses of HK\$36.1 million, insurance including staff medical insurance, of HK\$32.0 million, staff training of HK\$30.7 million for the Grand Lisboa and Casino Ponte 16 employees and other expense items of HK\$76.1 million resulting from the expansion of SJM's operations. In addition, increase in other costs were due to one-off opening expenses for the Grand Lisboa of HK\$50.8 million and advertising expenses for the Grand Lisboa of HK\$20.0 million in 2007, of which HK\$12.0 million was incurred in the nine months ended 30 September 2007.

*Share of results of associates.* The profit recognised under share of profits of associates was HK\$0.4 million in 2007, compared to losses recognized under share of losses of associates of HK\$3.4 million in 2006. Share of profits and losses of associates in 2006 and 2007 comprised of the share of profits and losses of Zhen Hwa.

*Finance Costs.* Finance costs, which comprise imputed interest on a loan from a minority shareholder of a subsidiary and bank overdraft interest, increased to HK\$7.1 million in 2007 from nil in 2006.

*Share of profits of a jointly controlled entity.* Share of results of a jointly controlled entity increased by HK\$0.2 million, from HK\$6.8 million in 2006, to HK\$7.0 million in 2007. The share of results of a jointly controlled entity in 2007 reflected the share of the profit of Chong Fung for the year.

*Taxation.* Tax decreased by HK\$219.9 million, from HK\$220.1 million for 2006, to HK\$0.2 million for 2007 as we did not have any land concession income, sub-concession income, and SJM did not distribute dividends to its shareholders in 2007.

*Profit.* Profit decreased by HK\$930.7 million, or 38.4%, to HK\$1,493.2 million in 2007 from HK\$2,423.9 million in 2006. The decrease was due primarily to a decrease in gaming revenue from VIP casino gaming operations, SJM's receipt of sub-concession income in the amount of nil from MGM Grand Paradise in 2007 compared to HK\$177.1 million in 2006, an increase in operating and administrative expenses and other factors stated above. Net profit margin in 2007 was 4.6%, compared to 7.1% in 2006.

## **2006 compared to 2005**

*Gaming revenue.* Gaming revenue increased by HK\$790.0 million, or 2.4%, to HK\$34,196.3 million for 2006 from HK\$33,406.3 million for 2005. After subtracting the 35% special gaming tax, 3% special levy and annual gaming premium paid to the MSAR, the net gaming revenue increased by HK\$445.6 million, or 2.2%, to HK\$20,969.8 million for 2006 from HK\$20,524.2 million for 2005. Set forth below is a description of total gaming revenue in SJM's VIP casino gaming operations, mass market casino gaming operations and slot machine operations:

- *VIP casino gaming operations:* Gaming revenue from VIP casino gaming operations increased by HK\$187.9 million, or 0.8%, to HK\$23,887.7 million for 2006 from HK\$23,699.8 million for 2005. The increase was due primarily to an increase in chip sales resulting from an increase in the number of VIP Room Gaming Promoters, which promoted additional VIP rooms for new casinos and existing casinos. The average number of SJM's VIP gaming tables increased to 296 in 2006 as compared to 245 in 2005, an increase of 20.8%. This resulted in an increase in chips sales by HK\$32.2 billion, or 4%, to HK\$831.9 billion for 2006 from HK\$799.7 billion for 2005, partially offset by a decrease in hold rate of 0.09%, or 3%, to 2.87% for 2006 from 2.96% for 2005. SJM had 95 VIP rooms as at 31 December 2006 as compared to 81 VIP rooms as at 31 December 2005. The average net-win per VIP table decreased by HK\$16.0 million per table to HK\$80.7 million in 2006 from HK\$96.7 million in 2005. Gaming revenue from VIP casino gaming operations comprised 69.9% of SJM's gaming revenue in 2006, compared to 70.9% in 2005.
- *Mass market casino gaming operations:* Gaming revenue from mass market casino gaming operations increased by HK\$357.4 million, or 4.0%, to HK\$9,339.0 million for 2006 from HK\$8,981.6 million for 2005. The increase was due primarily to the opening by SJM of new casinos and themed gaming halls during this period, which allowed SJM to benefit from the increase in visitors to Macau and the resulting increase in turnover. These new casinos and themed gaming halls in aggregate added more than 200 mass market

gaming tables to SJM's mass market casino gaming operations. The average number of mass market gaming tables increased to 797 in 2006 from 591 in 2005, representing an increase of 34.9% over the year. The average net-win per mass market gaming table decreased by HK\$3.5 million per table to HK\$11.7 million in 2006 from HK\$15.2 million in 2005. Gaming revenue from mass market casino gaming operations comprised 27.3% of total gaming revenue in 2006, compared to 26.9% in 2005.

- *Slot machine operations and others:* Gaming revenue from slot machine operations and others increased by HK\$244.7 million, or 33.8%, to HK\$969.6 million for 2006 from HK\$724.9 million for 2005. The increase was due primarily to the increase in the number of slot machines in SJM's casinos, the number of visitors to Macau, and the increase in aggregated drop at SJM's slot machines. The average number of slot machines in 2006 increased to 2,765 compared to 1,949 in 2005, an increase of 41.9%. The average net-win per slot machine decreased by HK\$0.1 million per machine to HK\$0.3 million in 2006 from HK\$0.4 million in 2005. Gaming revenue from slot machine operations and others comprised 2.8% of total gaming revenue in 2006, compared to 2.2% in 2005. Pachinko was discontinued in March 2005.

*Other income.* Other income decreased by HK\$9.7 million, or 6.6%, to HK\$137.2 million for 2006 from HK\$146.9 million for 2005. The decrease was due primarily to the decrease in financial guarantee amortisation from HK\$30.2 million for 2005 to HK\$17.9 million for 2006. In 2005, the Group distributed its interest in Fisherman's Wharf as dividend in specie, unrealizable profit of amortization of financial guarantees approximately amounting to HK\$14.5 million was recognized as income at the time of disposal.

*Sub-concession income.* Sub-concession income of HK\$177.1 million constituted a payment to SJM by MGM Grand Paradise under the terms of the sub-concession contract, pursuant to which MGM Grand Paradise agreed to pay SJM for the difference between a pre-agreed figure and the land premium actually paid by MGM Grand Paradise to the Macau Government. Due to the timing of obtaining title to the relevant land use right by MGM Grand Paradise, the amount of HK\$177.1 million was recognised as other income by SJM in 2006, rather than 2005 when the amount of land premium was fixed. Sub-concession income of HK\$1,560.0 million recorded in 2005 represents the consideration paid by MGM Grand Paradise to SJM for entering into the sub-concession.

*Marketing and promotional expenses.* Marketing and promotional expenses increased by HK\$1,072.0 million, or 7.9%, to HK\$14,569.4 million for 2006 from HK\$13,497.4 million for 2005. The increase was due primarily to increased commissions, fees and allowances paid to Gaming Promoters for the marketing and promotion of SJM's VIP casino gaming operations in response to increased competition for the services of these Gaming Promoters. Marketing and promotional expenses increased from 40.4% of SJM's gaming revenue in 2005 to 42.6% of SJM's gaming revenue in 2006. Major components of SJM's marketing and promotional expenses include:

- *Commissions:* Total commissions increased by HK\$1,067.7 million, or 8.8%, to HK\$13,208.7 million for 2006 from HK\$12,141.0 million for 2005. Commissions in connection with VIP casino gaming operations increased by HK\$754.9 million, or 7.6%, to HK\$10,661.6 million for 2006 from HK\$9,906.7 million for 2005 as a result of increased chip sales. In addition, commissions paid to Mass Market Service Providers increased by HK\$310.7 million or 14.4% to HK\$2,463.6 million for 2006 from

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HK\$2,152.9 million for 2005, mainly due to the opening of three new casinos during 2006.

- *Fees and allowances:* Fees and allowances paid to VIP Room Gaming Promoters for the marketing and promotion of SJM's VIP casino gaming operations increased by HK\$6.2 million, or 0.5%, to HK\$1,337.6 million for 2006 from HK\$1,331.4 million for 2005 in line with the increase in VIP gaming revenue.

*Operating and administrative expenses.* Operating and administrative expenses increased by HK\$758.2 million, or 22.9%, to HK\$4,074.1 million for 2006 from HK\$3,315.9 million for 2005. The increase was due primarily to the following:

- Staff salaries and benefits increased by HK\$452.0 million, or 31.4%, to HK\$1,890.9 million for 2006 from HK\$1,438.9 million for 2005. The increase was due to an increase in wages and an increase in SJM's staff by 182 employees to 14,537 employees as at 31 December 2006 from 14,355 employees as at 31 December 2005. This increase in salaries and benefits was partially offset by the decrease in discretionary bonus payments (determined based on gaming revenue).
- Rental payments and service fees increased by HK\$81.4 million, or 18.2%, to HK\$527.8 million for 2006 from HK\$446.4 million for 2005. The increase was due to an increase in slot machine rental payments and service fees paid to the Slot Machine Service Providers due to the increase in revenues from slot machines operations and the new LIVE Baccarat gaming machines, VIP room rental payments for the newly opened Casino Emperor Palace and Casino Kam Pek—Louvre and the increase in monthly rental payments for Casino Oriental. Since Third Party-Promoted Casinos are leased or owned by Mass Market Service Providers, SJM is required to pay rent to the Mass Market Service Providers for the VIP rooms operated by SJM which are situated within the Third Party-Promoted Casinos. SJM operated 42 VIP rooms situated in Third Party-Promoted Casinos as at 31 December 2006, as compared to 27 VIP rooms situated in Third Party-Promoted Casinos as at 31 December 2005.
- Utilities increased by HK\$50.8 million, or 41.3%, to HK\$173.7 million for 2006 from HK\$122.9 million for 2005. The increase was due primarily to the electricity costs of new casino areas including Casino Golden Dragon, Casino Lisboa and Casino Kam Pek—Louvre. In particular, the electricity costs for Casino Golden Dragon of HK\$24.5 million was a debit note under review.
- Other costs increased by HK\$174.0 million, or 13.3%, to HK\$1,481.7 million for 2006 from HK\$1,307.7 million for 2005. The increase was due primarily to the increase in depreciation expenses associated with gaming equipment, including chips and gaming machinery, and maintenance fees resulting from the expansion of SJM's operations, partially offset by a decrease in entertainment expenses. Listing costs and related expenses of HK\$47.9 million were also recognised as expenses in 2006.

*Share of results of associates.* The loss recognised under share of losses of associates decreased by HK\$31.3 million from a loss of HK\$34.7 million in 2005 to a loss of HK\$3.4 million in 2006 because no share of losses of associates from Fisherman's Wharf International was recorded in 2006 while performance of Zhen Hwa improved during 2006. SJM's interest in Fisherman's Wharf International was distributed as dividends in specie to shareholders of SJM in 2005.

*Share of profits of a jointly controlled entity.* Share of results of a jointly controlled entity increased by HK\$3.7 million from HK\$3.1 million in 2005 to HK\$6.8 million, in 2006. The share of results of a jointly controlled entity in 2006 reflected the share of the profit of Chong Fung for the year.

*Taxation.* Pursuant to the arrangement with the MSAR Finance Department, SJM made provisions of HK\$35.0 million on complementary tax obligations in connection with the dividends paid to its shareholders for 2002, 2003 and 2004. SJM paid taxes of HK\$23.3 million in 2004 for its distribution of dividends for 2002 and 2003. SJM paid an additional tax of MOP12.0 million, or HK\$11.7 million, in 2005 to the MSAR, on the declared dividends SJM paid in 2004.

According to the demand note issued by the MSAR Finance Department on 15 December 2006, the MSAR Finance Department intended to impose complementary tax on certain other income for the year ended 31 December 2005, including the sub-concession income of HK\$1,560.0 million. On 28 January 2007, subsequent to the opposition filed by SJM, the Reassessment Committee of MSAR Finance Department issued a notification, stating that SJM was granted partial exemption to complementary tax, but no exemption was granted in relation to the sub-concession income, as it was not considered as income generated from gaming operations, but from an autonomous act, within the commercial activity of SJM. The additional complementary tax liabilities to SJM attributable to the sub-concession income for the year was HK\$187.2 million, representing the under-provision of complementary tax on the sub-concession income recognised in prior year.

During 2006, the complementary tax liabilities to SJM attributable to the sub-concession income of HK\$177.1 million was HK\$21.3 million and was calculated at a rate of 12%.

*Profit.* Profit decreased by HK\$2,949.6 million, or 54.9%, to HK\$2,423.9 million for 2006 from HK\$5,373.5 million for 2005. The decrease was due primarily to SJM's receipt of sub-concession income in the amount of HK\$1,560.0 million from MGM Grand Paradise in 2005, compared to sub-concession income in relation to the land premiums of HK\$177.1 million in 2006, and other factors stated above. Net profit margin for 2006 was 7.1%, compared to 16.1% for 2005.

### ***Liquidity and Capital Resources***

SJM's primary uses of cash are for investing in gaming facilities and equipment, funding of capital expenditures, working capital, normal recurring expenses and dividends. To date, SJM has financed its liquidity requirements primarily from its internally generated cash flows. In the future, we will incur significant additional capital expenditures which we intend to fund through a combination of internal resources and debt and equity finance, including the proceeds of the Global Offering.

As of 31 December 2007, SJM had bank balances and cash of HK\$6,537.5 million and HK\$145.9 million pledged bank deposits.

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The following table sets forth a summary of SJM's cash flows for the periods indicated.

	Year ended 31 December		
	2005	2006	2007
	HK\$	HK\$ (in millions)	HK\$
Net cash inflow from operating activities	4,975.4	4,173.9	1,087.5
Net cash outflow from investing activities	(4,717.2)	(4,886.0)	(3,995.5)
Net cash (outflow)/inflow from financing activities	(433.8)	(397.7)	5,196.4
Net (decrease)/increase in cash and cash equivalents	(175.6)	(1,109.8)	2,288.4
Cash and cash equivalents as at 1 January	5,507.9	5,332.3	4,222.5
Cash and cash equivalents at the end of year	<u>5,332.3</u>	<u>4,222.5</u>	<u>6,510.9</u>

### Cash inflow from operating activities

Cash inflow from operating activities reflects the net increase or decrease in operating profit, adjusted for non-cash items, such as depreciation and amortisation and share of results of associates and a jointly controlled entity, and changes in working capital items, such as increases or decreases in trade and other receivables and trade and other payables.

Cash inflow from operating activities decreased by HK\$3,086.4 million or 74.0%, to HK\$1,087.5 million for 2007 compared to HK\$4,173.9 million for 2006. The decrease was due primarily to a decrease in profit before taxation of HK\$1,150.6 million, an increase in trade and other receivables of HK\$227.7 million and a decrease in trade and other payables of HK\$456.4 million as compared to an increase in trade and other payables of HK\$1,480.0 million in 2006.

Cash inflow from operating activities decreased by HK\$801.5 million or 16.1%, to HK\$4,173.9 million for 2006 compared to HK\$4,975.4 million for 2005. The decrease was due primarily to a decrease in profit before taxation of HK\$2,742.2 million, partially offset by an increase in trade and other payables of HK\$1,480.0 million for 2006.

### Cash outflow from investing activities

The principal items affecting net cash outflow from investing activities have been capital expenditures for property, plant and equipment, including furniture, fixtures and equipment, gaming equipment, leasehold improvements and construction in progress. In 2007, net cash outflow from investing activities decreased by HK\$890.5 million, or 18.2%, to HK\$3,995.5 million from HK\$4,886.0 million for 2006. The decrease in cash outflow was primarily the result of the repayment from the ultimate holding company for advances made in connection to the development of new projects and renovation at SJM's casinos and no advance was made to the ultimate holding company in 2007 as compared to an advance to the ultimate holding company of HK\$2,113.5 million in 2006. The decrease was partially offset by an increase in purchases of property, plant and equipment, which was primarily attributable to construction in progress for the development of the Grand Lisboa and Ponte 16, as well as to the renovation and fitting-out work at SJM's casinos and acquisition of art work, diamond and intangible assets.

In 2006, net cash outflow from investing activities was approximately HK\$4,886.0 million. Of this amount, HK\$3,087.2 million related to the purchases of property, plant and equipment, which was primarily attributable to construction in progress for the development of the Grand Lisboa, which amounted to approximately HK\$2,352.0 million, and Ponte 16, which amounted to approximately

HK\$195.7 million, as well as to the renovation and fitting-out work at SJM's casinos. The increase in cash outflow was partially offset by decrease in advances to the ultimate holding company, to the immediate holding company, to shareholders and to associates, which were made in connection to the development of new projects and the renovation at SJM's casinos. The overall increase in cash outflow from investing activities for the reasons stated above contributed to a decrease in total current assets for 2006, which in turn contributed to the change from a position of net current assets in 2005 to net current liabilities in 2006.

In 2005, net cash outflow from investing activities was approximately HK\$4,717.2 million. Of this amount, HK\$775.6 million related to an increase in purchases of property, plant and equipment and HK\$3,600.8 million related to advances to the ultimate holding company, to associates, to the immediate holding company and to shareholders, all of which were primarily attributable to construction in progress for the development of the Grand Lisboa and Casino Ponte 16, as well as to renovation and fitting-out work at SJM's casinos.

#### **Cash inflow/outflow from financing activities**

The items that have contributed to cash outflow from financing activities are payments of dividends to SJM's shareholders, capital contributions from minority shareholders of subsidiaries, repayments to fellow subsidiaries, and advances from minority shareholders of subsidiaries. Dividends paid to SJM's shareholders amounted to nil in 2007, HK\$509.2 million in 2006 and HK\$415.2 million in 2005. Advances from minority shareholders of subsidiaries, made in connection to the development of new projects and the renovation at SJM's casinos, amounted to HK\$376.0 million in 2007, HK\$111.5 million in 2006 and HK\$62.0 million in 2005. In 2007, cash inflow from financing activities was HK\$5,196.4 million, compared to cash outflow of HK\$397.7 million for 2006, due primarily to the net proceeds from bank loans in the amount of HK\$4,908.0 million. Cash outflow from financing activities was HK\$397.7 million in 2006 and HK\$433.8 million in 2005.

#### ***Working Capital Statement***

Taking into account cash generated from operating activities, short-term and long-term bank loans and proceeds from the Global Offering, our Directors are of the opinion that, after taking into account the Special Dividend mentioned in the paragraph headed "— Dividend Policy," the working capital available to the Group is sufficient for the Group's requirements for the 12 months following the date of this Prospectus.



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### *Indebtedness*

The following table illustrates our Group's indebtedness as at 30 April 2008:

	As at 30 April 2008
	HK\$ (in millions) (unaudited)
<b>Current</b>	
Amount due to ultimate holding company <sup>(1)</sup> .....	457.9
Amount due to a fellow subsidiary <sup>(1)</sup> .....	282.6
Financial guarantee obligations .....	14.5
Obligations under finance leases due within one year .....	6.5
Bank loans due within one year .....	<u>550.0</u>
	<u>1,311.5</u>
<b>Non-current</b>	
Amount due to a minority shareholder of a subsidiary .....	501.6
Financial guarantee obligations .....	22.9
Obligations under finance leases due after one year .....	162.1
Bank loans due after one year .....	<u>4,623.0</u>
	<u>5,309.6</u>
<b>Total</b> .....	<u><u>6,621.1</u></u>

(1) Among these amounts, the non-trade amount of HK\$373.2 million will be settled prior to the Listing Date.

On 1 March 2007, our subsidiary Grand Lisboa - Property Investment entered into a term loan facility for an amount of up to HK\$1.5 billion with SHB (the "Bridging Term Loan") to finance a portion of the construction and development cost of the Grand Lisboa. Borrowings under the Bridging Term Loan bear interest at the rate of 1.3% per annum over the three-month Hong Kong inter-bank offered rate, subject to adjustment from time to time, and mature on 31 August 2008. Borrowings are secured by an irrevocable undertaking by Grand Lisboa - Property Investment and SJM to execute a first legal mortgage, revocable power of attorney, contractor-all-risks insurance, and a promissory note provided by Grand Lisboa - Property Investment and endorsed by SJM as guarantor. In June 2007, the entire amount of HK\$1.5 billion had been drawn and in December 2007, the entire amount of HK\$1.5 billion had been repaid. On 29 October 2007, our subsidiary Grand Lisboa - Property Investment entered into a term loan facility with certain banks for a syndicated loan of HK\$5.0 billion (the "Grand Lisboa Facility Agreement"). Borrowings under the Grand Lisboa Facility Agreement bear interest at the rate of 1.4% per annum over the one-, two-, three- or six- month Hong Kong inter-bank offered rate (as specified by Grand Lisboa - Property Investment), subject to adjustment from time to time, and mature no later than 29 October 2012. Borrowings under the Grand Lisboa Facility Agreement are secured by promissory mortgage and land security assignment, assignments of receivables, a land consent, repayment guarantees, funding and completion undertakings, share pledges, assignments of various contract rights, a promissory note, a subordination agreement, floating charges and pledges over bank accounts. The Grand Lisboa Facility Agreement and related agreements contain certain financial and operating covenants that, among other things, require SJM to maintain specified financial ratios and consolidated tangible net worth and may limit the ability of SJM, Grand Lisboa - Hotel Administration and Grand Lisboa - Property Investment to:

- create or permit any security over their assets;
- transfer, lease or otherwise dispose of their assets;

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- engage in new business activities;
- make loans or advance or grant credit;
- give guarantees or indemnities for the obligations of other persons; or
- allot or issue new or replacement shares (this limitation applies to SJM and Grand Lisboa - Property Investment exclusively).

In addition, this loan facility may limit the ability of Grand Lisboa - Property Investment to:

- finance the acquisition of new assets;
- enter into any merger or corporate reconstruction arrangement;
- utilize proceeds of the loan facility;
- lease property;
- raise money or incur additional indebtedness; or
- redeem share capital.

The Grand Lisboa Facility Agreement also includes certain customary events of default which, if any of them occurs, may limit the ability of Grand Lisboa - Property Investment to:

- declare, pay or make dividends or distributions;
- repay loans or interest on loans; or
- make payments to its members.

As at 30 April 2008, HK\$3,813.0 million of the syndicated loan had been drawn down by Grand Lisboa - Property Investment and the Bridging Term Loan had been fully repaid.

On 28 June 2007, our subsidiary Pier 16 - Property Development entered into a term loan facility (the "Pier 16 Facility Agreement") for an amount of up to HK\$1.6 billion with a syndicate of banks led by SHB to finance a portion of the construction and development cost of the Ponte 16 project. Borrowings under the Pier 16 Facility Agreement bear interest at the rate of 2.1% per annum over the Hong Kong inter-bank offered rate, subject to adjustment from time to time, and mature not later than 28 June 2012. Borrowings are secured by mortgage over land, repayment guarantees, funding and completion undertakings, share pledges, floating charges, assignments of various contract rights and certain promissory notes provided by shareholders of Pier 16 - Property Development. The Pier 16 Facility Agreement and related agreements contain certain financial and operating covenants that, among other things, may limit the ability of SJM, Pier 16 - Property Development and certain of our subsidiaries to:

- transfer or otherwise dispose of their assets or property;
- enter into any merger or corporate reconstruction arrangement; or
- engage in new business activities.

In addition, this loan facility may limit the ability of Pier 16 - Property Development to:

- create or permit any security over its assets;

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- finance the acquisition of new assets;
- utilize proceeds of the loan facility;
- raise money or incur additional indebtedness;
- make loans or advance or grant credit;
- give guarantees or indemnities for the obligations of other persons;
- allot or issue new or replacement shares; or
- redeem share capital.

In addition, pledge agreements entered into by certain of our subsidiaries may limit the ability of these subsidiaries to pay dividends. The loan also includes certain customary events of default which, if any of them occurs, may limit the ability of Pier 16 - Property Development to:

- declare, pay or make dividends or distributions;
- repay loans or interest on loans; or
- make payments to its members.

In this connection, SJM or its subsidiaries have provided funding and completion undertakings, repayment guarantees, share pledges, assignments of receivables and endorsed a promissory note in the amount of HK\$900.0 million as security for the obligations of Pier 16 - Property Development under the Pier 16 Facility Agreement. As at the Latest Practicable Date, an amount of HK\$1,360.0 million was outstanding under the Pier 16 Facility Agreement.

Except as indicated above, and apart from intra-group liabilities and certain other commitments and contingent liabilities disclosed in this Prospectus, our Company and our subsidiaries did not have, as at 30 April 2008, outstanding liabilities or any mortgages, charges, debentures or other loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

### *Contingent Liabilities*

As at 30 April 2008, the Group had total contingent liabilities of HK\$692.8 million.

On 1 March 2007, SJM entered into various agreements, including an irrevocable undertaking to execute a first legal mortgage and to endorse a promissory note, in relation to borrowings under the Bridging Term Loan between Grand Lisboa - Property Investment and SHB. The Bridging Term loan was fully repaid on 17 December 2007. On 28 June 2007, SJM entered into various agreements, including funding and completion undertakings and repayment guarantees, in relation to borrowings under the Pier 16 Facility Agreement between Pier 16 - Property Development and a syndicate of banks led by SHB. On 29 October 2007, SJM entered into various agreements, including funding and completion undertakings and repayment guarantees, in relation to borrowings under the Grand Lisboa Facility Agreement between Grand Lisboa - Property Investment and a syndicate of banks led by SHB. See “— Indebtedness.”

In addition, as at 30 April 2008, the Group had issued guarantees in the aggregate amount of HK\$687.8 million in favour of banks in connection with banking facilities granted to related parties and associates and related companies, consisting of HK\$534.0 million guaranteed by SJM for

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Fisherman's Wharf International, HK\$80.0 million guaranteed by SJM - Investment for Emperor Entertainment Hotel Management Limited, HK\$67.3 million guaranteed by SJM - Investment for Zhen Hwa and HK\$6.5 million guaranteed by SJM - Investments for Casino Kingsway. Emperor Entertainment Hotel Management Limited is a wholly owned subsidiary of Luck United Holdings Limited in which the Group has 19.99% equity interest. The Group provided a guarantee in proportion to its shareholding in Luck United Holdings Limited. All the above guarantees are of a trade nature and will not be released prior to the listing of the Company.

The fair value of these financial guarantees is set out below:

	Current			Non-current		
	At 31 December			At 31 December		
	2005	2006	2007	2005	2006	2007
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(in millions)					
Financial guarantee contracts issued by the Group to:						
- a related company in which a director has beneficial interest . . . . .	14.5	14.5	14.5	56.7	42.2	27.8
- an associate . . . . .	3.4	1.1	—	1.1	—	—
	17.9	15.6	14.5	57.8	42.2	27.8

As at 30 April 2008, SJM - Investment was a guarantor with respect to a deed entered into between a shareholder of Zhen Hwa and an Independent Third Party for a construction project in Macau. Pursuant to the deed, SJM - Investment had guaranteed the performance of Zhen Hwa under the deed and agreed to indemnify the third party against all liabilities, losses, damages, cost 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 or in connection with the warranty.

In addition, as at 30 April 2008, SJM had issued guarantees in the aggregate amount of MOP5.3 million, or HK\$5.1 million, in favour of the Macau Government to guarantee SJM's financial ability (i) in respect of civil litigation proceedings between SJM and its employees and (ii) to send foreign workers employed by SJM back to their respective home countries.

As at 31 December 2005, SJM was a guarantor with respect to a deed entered into between Macau Horse Racing Company and Hong Kong Jockey Club, for telecast rights and rights to placing bets on horse races in Hong Kong. The deed was terminated on 6 September 2006.

On 15 January 2008, Wing Hang Bank Limited provided a guarantee of MOP273.0 million (HK\$265.0 million) to Pier 16 — Property Development in favour of the MSAR as a guarantee for the land premium of Ponte 16. This guarantee is backed by an equivalent of cash deposits by the Group with Wing Hang Bank Limited.

### ***Contractual Obligations and Other Commitments***

As at 30 April 2008, the Group had provided guarantees of approximately HK\$1,178.3 million to the Macau Government and to banks in connection with banking facilities granted to related parties.

To support SJM's obligations under the Concession Contract, SHB has issued a guarantee in the amount of MOP700.0 million (HK\$679.6 million), initially in favour of the Macau Government. In accordance with the MSAR Chief Executive notice dated 20 April 2005, the required guarantee for the

first five years ending on 31 March 2007 has been reduced from MOP700.0 million (HK\$679.6 million), to MOP500.0 million (HK\$485.4 million). Prior to 3 March 2006, the guarantee was secured by: (1) a bank deposit of MOP200.0 million (HK\$194.2 million), which was made by SJM, (2) a first legal mortgage over the Regency Hotel, which is owned by subsidiaries of STD M, in the amount of MOP500.0 million (HK\$485.4 million); (3) a promissory note in the amount of MOP700.0 million (HK\$679.6 million), executed by SJM and endorsed by STD M; (4) an assignment of the management agreement for the Regency Hotel held by Macau Hotel Co. Ltd., a related party; and (5) an assignment of insurance policies of Regency Hotel. The guarantee was reduced to MOP500.0 million (HK\$485.4 million), from 4 January 2006. From 1 April 2007, the amount of the guarantee was further reduced to MOP300.0 million (HK\$291.3 million). The guarantee expires on 27 September 2020, unless the Concession is terminated in advance of this date. As a result of the reduction in required guarantee, SJM planned to cancel or reduce certain of the security originally securing the guarantee. On 3 March 2006, SHB issued a release letter agreeing to release certain collateral under the MOP500.0 million (HK\$485.4 million) guarantee. Under the release letter, the first legal mortgage for MOP500.0 million (HK\$485.4 million) on Regency Hotel, the assignment of the management agreement for the Regency Hotel, and the assignment of all insurance policies of the Regency Hotel were all released on 30 March 2006. In addition, SHB has already released STD M as the endorsing party on the MOP700.0 million (HK\$679.6 million) promissory note, and the parties entered into a new promissory note in the amount of MOP500.0 million (HK\$485.4 million), issued by SJM. The amount of the pledged deposit was increased to MOP150 million (HK\$145.6 million) from MOP85.7 million (HK\$83.2 million) on 1 October 2007.

On 1 March 2007, SJM entered into various agreements, including an irrevocable undertaking to execute a first mortgage and to endorse a promissory note, in relation to borrowings under the Bridging Term Loan between Grand Lisboa - Property Investment and SHB. The Bridging Term Loan was fully repaid on 17 December 2007. On 28 June 2007, SJM entered into various agreements, including funding and completion undertakings and repayment guarantees, in relation to borrowings under the Pier 16 Facility Agreement between Pier 16 - Property Development and a syndicate of banks led by SHB. On 29 October 2007, SJM entered into various agreements, including funding and completion undertakings and repayment guarantees, in relation to borrowings under the Grand Lisboa Facility Agreement between Grand Lisboa - Property Investment and a syndicate of banks led by SHB. See “—Indebtedness.”

SJM also entered into a multi-currency letter of credit facility with Calyon Bank on 1 November 2006, in the amount of US\$15.0 million (HK\$117.0 million), in order to finance its purchase of new gaming chips required in connection with the opening of new casinos. SJM executed a promissory note in the amount of US\$16.5 million (HK\$128.7 million), in favour of Calyon Bank for the issuance of the letter of credit. As at 31 December 2007, approximately €0.2 million (HK\$2.0 million) has been drawn under this letter of credit.

In 2004, SJM entered into an agreement with the Fundação Escola Portuguesa de Macau for the use of a piece of land currently occupied by a Portuguese school. The consideration comprises the construction of a new school in Taipa Island in Macau for an amount not exceeding HK\$97.1 million and a donation of HK\$184.5 million. As at 31 December 2005, 31 December 2006 and 31 December 2007, deposits of HK\$65.5 million were paid.

As at 31 December 2007, the Group’s contractual obligations in relation to operating leases for SJM’s casinos require payments of HK\$275.8 million within one year, HK\$933.2 million in the second

to fifth years and HK\$1,192.3 million thereafter. The Group is also obligated to pay HK\$87.3 million to the Macau Government for acquisition of land use rights for the Ponte 16 project and at the Latest Practicable Date, the full amount of HK\$87.3 million had been settled by the Group.

On 20 June 2008, SJM, as lessee, conditionally entered into a long-term lease with a subsidiary of STDM, as lessor, and STDM, as lessor guarantor, for the site of the New Yaohan Department Store, which SJM intends to be the site of Oceanus, a multi-level casino facility. For further information on Oceanus, see “Business — Our New Projects — Outer Harbour District — Oceanus.” The lease will commence within 30 days from the in-principle approval or deemed in-principle approval authorisation granted by the Macau Government to SJM for the operation of Oceanus, but not later than January 2009, unless otherwise agreed between the lessor and lessee. Under the long-term lease, the lessor is obligated to contribute approximately MOP130.0 million (HK\$126.2 million) and SJM is obligated to contribute approximately MOP1,090.0 million (HK\$1,058.3 million) to the construction costs of the lease site. SJM expects the total costs to complete the project will be approximately MOP1,143.9 million (HK\$1,110.6 million). SJM is also obligated to pay rent of MOP5.0 million (HK\$4.9 million) per month for the first six years, after which the rent will be maintained or increased in accordance with market conditions, but in no event will it be less than MOP5.0 million (HK\$4.9 million) per month.

#### ***Off-Balance Sheet Arrangements***

We consider an off-balance sheet arrangement to be any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) a retained or a contingent interest in transferred assets, (2) an obligation under derivative instruments classified as equity, or (3) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging, or research and development arrangements with the Company. As at 31 December 2007, we did not have any off-balance sheet arrangements.

#### ***Historical and Planned Capital Expenditures***

For the years 2005, 2006 and 2007, SJM incurred HK\$284.0 million, HK\$324.7 million and HK\$423.6 million respectively, in capital expenditures, which were used primarily for the construction and development of new casinos and mixed-use developments, principally Grand Lisboa, Ponte 16 and Fisherman’s Wharf, and to renovate, upgrade and maintain existing casinos.

Under the Investment Plan, SJM is committed to invest a total amount of MOP4.7 billion (HK\$4.6 billion) by 27 March 2009, including investment in the construction, development and maintenance of the Grand Lisboa (by June 2008) and Ponte 16 (by December 2007). If SJM fails to invest at least MOP4.7 billion (HK\$4.6 billion), pursuant to the Investment Plan, SJM is obligated to invest the unused portion either in projects relating to its gaming operations, subject to the Macau Government’s approval, or in other major public infrastructure constructions as designated by the Macau Government. On 4 June 2008, DICJ issued a certificate affirming that, as of 4 June 2008, SJM had fulfilled its obligations under the Concession. We therefore believe SJM has met its required investment obligations through its investments in the Grand Lisboa and Ponte 16. For further information on these development projects, please see “The Concession” and “Business — Properties Under Development.”

Ponte 16 is a joint venture project between SJM and World Fortune. See “Business — Our New Projects — Inner Harbour District.” Total project investment of Ponte 16 is anticipated to be approximately HK\$2.8 billion, of which approximately HK\$0.6 billion will be contributed by SJM. As

at 31 December 2007, SJM contributed HK\$0.5 billion towards the Ponte 16 project. SJM commenced operations of a portion of the casino on 1 February 2008, and expects to complete the entire development of Ponte 16 by the end of 2008. Total project investment of the Grand Lisboa is anticipated to be approximately HK\$7.6 billion. As at 31 December 2007, SJM had contributed HK\$5.8 billion towards the Grand Lisboa project. Phase I of the Grand Lisboa, which consisted of mass market gaming tables and slot machines, commenced operations in February 2007. In August 2007, SJM opened the Grand Lisboa VIP rooms, which, as at 31 December 2007, consisted of five VIP rooms. We expect SJM to open additional VIP rooms in mid-2008. We expect Phase II of the Grand Lisboa, which will include a hotel facility, to be completed in the second half of 2008.

In addition to capital expenditures related to the development of the new Grand Lisboa and Ponte 16, SJM also plans to incur capital expenditures of approximately HK\$19,000 million to be used for the renovation, upgrading and maintenance of its existing casinos and the development of new casinos, including Casino Lisboa (HK\$12,000 million), Oceanus (HK\$1,110.6 million), The Pearl (HK\$5,300 million) and L'Hermitage (HK\$250 million).

We will fund these capital expenditures through a combination of internal resources and debt and equity finance, including the proceeds of the Global Offering.

These investment plans are preliminary and subject to change based upon the execution of our business plan, the progress of our capital projects, market conditions and outlook on future business conditions.

### ***Receivables and Payables***

SJM's trade and other receivables primarily relate to advances made to Gaming Promoters in connection with gaming chips, prepayments and other receivables.

Trade and other receivables increased from HK\$496.1 million as at 31 December 2005 to HK\$620.8 million as at 31 December 2006 and to HK\$792.6 million as at 31 December 2007. The increase in trade and other receivables from 31 December 2005 to 31 December 2007 was due primarily to an increase in advances made to Gaming Promoters and an increase in other receivables. The advances made to Gaming Promoters increased by HK\$115.0 million, from HK\$261.4 million as at 31 December 2005 to HK\$376.4 million as at 31 December 2007 mainly due to increased competition resulting in an increase in the amount of credits granted. The increase was partially offset by a decrease of two VIP Room Gaming Promoters, from 77 as at 31 December 2005 to 75 as at 31 December 2007. Since only Directors are authorised to grant advances to Gaming Promoters and such advances are based on the Gaming Promoters' creditability, financial background and relationship with SJM, in the opinion of the Directors, the advances made to Gaming Promoters are highly recoverable as SJM maintains the right to offset commissions payable to its Gaming Promoters against credit extended to them. Other receivables from Gaming Promoters increased by HK\$118.0 million from HK\$8.8 million as at 31 December 2005 to HK\$126.8 million as at 31 December 2007 due primarily to an increase of promotional expenses receivable from gaming promoters of HK\$115.4 million. Prepayments increased by HK\$36.9 million from HK\$42.8 million as at 31 December 2005 to HK\$79.7 million as at 31 December 2007 due primarily to an increase of HK\$6.2 million of prepaid advertising fees, HK\$9.5 million of prepaid insurance and HK\$33.3 million of prepaid listing expenses. Other receivables increased by HK\$26.6 million, from HK\$183.1 million as at 31 December 2005 to HK\$209.7 million as at 31 December 2007 due primarily to an increase of HK\$25.3 million of

bank interest receivable and rental and other deposits, and partially offset by a decrease of HK\$3.1 million in reserves for jackpots of slot machine games.

Trade and other payables comprise of primarily trade payables, payables to Gaming Promoters, special gaming tax payable, chips liabilities, payables for the acquisition of property, plant and equipment, construction payables, accrued staff costs, rental payables, temporary receipt in advance from MGM Grand Paradise as deposit in connection with the acquisition of a piece of land to be used for the operation of a casino by MGM Grand Paradise as authorised under the MGM Sub-Concession Agreement, withholding tax payable on employee's professional tax, other payables, and withholding tax payables for Gaming Promoters.

SJM's chips liabilities do not include liability for STDM Chips. Before the MSAR granted SJM the Concession in 2002, STDM was the exclusive casino operator in Macau. During the 40 years of its operation from 1962 to 2002, STDM issued and put into circulation redeemable chips ("STDM Chips") on a regular basis to its patrons, including those for the VIP and mass market casino gaming operations. As of 1 April 2002, when SJM succeeded STDM as one of the gaming operators in Macau, the aggregate face value of all STDM Chips in circulation was approximately HK\$1.4 billion. Under the Concession Contract, SJM is obligated to redeem the STDM Chips. STDM has agreed, without security, to reimburse SJM for the STDM Chips redeemed by SJM on behalf of STDM at the face value of the STDM Chips upon presentation. See "Connected Transactions — Non-Exempt Continuing Connected Transactions — Chips Agreement."

We accrue 5% of operating profit on a monthly basis to provide funds for discretionary bonuses to employees.

Trade and other payables increased from HK\$4,481.6 million as at 31 December 2005, to HK\$6,214.5 million as at 31 December 2006, but decreased to HK\$5,661.8 million as at 31 December 2007. The decrease in trade and other payables from 31 December 2006 to 31 December 2007 was due primarily to a decrease in trade payables, construction payables and payables for acquisition of property, plant and equipment, partially offset by an increase in chips liabilities, accrued staff cost and other payables. Trade payables decreased by HK\$500.8 million from HK\$1,413.5 million as at 31 December 2006 to HK\$912.7 million as at 31 December 2007, construction payables decreased by HK\$32.9 million from HK\$644.6 million as at 31 December 2006 to HK\$611.7 million as at 31 December 2007, payables for acquisition of property, plant and equipment decreased by HK\$86.0 million from HK\$138.7 million as at 31 December 2006 to HK\$52.7 million as at 31 December 2007. Chip liabilities increased by HK\$22.0 million from HK\$2,184.6 million as at 31 December 2006 to HK\$2,206.6 million as at 31 December 2007. The increase in chips liabilities was due to the increase in the demand of chips resulting from the opening of Grand Lisboa. Accrued staff cost increased by HK\$149.4 million from HK\$241.4 million as at 31 December 2006 to HK\$390.8 million as at 31 December 2007. The increase in accrued staff cost was due to the increase in the number of staff resulting from the opening of the Grand Lisboa. Other payables increased HK\$97.5 million from HK\$391.2 million as at 31 December 2006 to HK\$488.7 million as at 31 December 2007. The increase in trade and other payables from 31 December 2005 to 31 December 2006 was due primarily to increases in chips liabilities, constructions payables and other payables. Chips in circulation increased by HK\$1,211.5 million, from HK\$973.1 million as at 31 December 2005 to HK\$2,184.6 million as at 31 December 2006. The increase in chips liabilities was due primarily to the increase in the demand for chips resulting from the expansion of SJM's gaming operations. In addition, construction payables



increased from HK\$323.3 million as at 31 December 2005 to HK\$644.6 million as at 31 December 2006. The increase was due primarily to the increase in project costs for the developments of (i) Grand Lisboa, which amounted to HK\$302.8 million in 2005 and HK\$518.2 million in 2006 and (ii) Ponte 16, which amounted to HK\$20.5 million in 2005 and HK\$126.4 million in 2006. Other payables increased by HK\$248.5 million, from HK\$142.7 million as at 31 December 2005 to HK\$391.2 million as at 31 December 2006. The increase was due primarily to the increase in accrued expenses of HK\$47.8 million from HK\$66.2 million as at 31 December 2005 to HK\$114.0 million as at 31 December 2006 and the increase in the deposits received from patrons and customer staff by HK\$199.9 million from HK\$59.7 million as at 31 December 2005 to HK\$259.6 million as at 31 December 2006. The increase in trade and other payables for the reasons stated above contributed to an increase in total current liabilities for 2006, which in turn contributed to the change from a position of net current assets in 2005 to net current liabilities in 2006.

### ***Quantitative and Qualitative Disclosures about Market Risks***

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

#### **Foreign currency exchange risk**

We receive revenues from operations primarily in Hong Kong dollars, and we also receive a portion of revenues in other currencies including United States dollars and Macau patacas. SJM reports gaming revenues to the Macau Government in Macau patacas, and special gaming tax, levies and premiums are paid in Hong Kong dollars and Macau patacas. Our costs and expenses are predominantly denominated in Macau patacas and Hong Kong dollars. The Macau pataca is directly linked to the Hong Kong dollar which in turn is directly linked to the U.S. dollar. Accordingly, we do not expect fluctuations in the values of these currencies to have a material impact on our operations. We do not hedge our foreign exchange risk.

#### **Interest rates**

We may enter into debt financing to fund our capital expenditure programme or for other purposes from time to time. See “— Indebtedness.” Accordingly, we are exposed to risk arising from the fluctuation of interest rates on indebtedness. We do not currently hedge our interest rate exposure, although we may consider doing so in the future.

#### **Inflation**

In 2005, 2006 and 2007, the inflation rates in Macau were 4.4%, 5.2% and 6.1%, respectively. Costs for goods and services, including labour, construction services and services of Gaming Promoters, have increased at a greater rate than inflation generally, and have had an adverse effect on our results of operations, and those of other casino operators. See “— Results of Operations.”

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following table sets forth our unaudited Pro Forma adjusted net tangible assets based on our audited combined net tangible assets as at 31 December 2007. See “Appendix I — Accountants’ Report.”

	Audited combined net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2007 <sup>(1)</sup>	Estimated net proceeds from the Global Offering assuming that the Over-Allotment Option is not exercised <sup>(2)</sup>	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share <sup>(3)</sup>
	HK\$ (in millions)	HK\$ (in millions)	HK\$ (in millions)	HK\$
Based on an Offer Price of HK\$3.08 per Share . . . . .	<u>6,266.0</u>	<u>3,388.4</u>	<u>9,654.4</u>	<u>1.93</u>
Based on an Offer Price of HK\$4.08 per Share . . . . .	<u>6,266.0</u>	<u>4,596.5</u>	<u>10,862.5</u>	<u>2.17</u>

- (1) The audited combined net tangible assets of the Group attributable to equity holders of the Company is arrived at after deducting the Group’s intangible assets and goodwill included in a jointly controlled entity as at 31 December 2007.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$3.08 and HK\$4.08 per Share, after deduction of the underwriting fees and other related expenses payable by the Company in connection with the Global Offering. No account has been taken for any Shares which may fall to be issued pursuant to the exercise of the Over-Allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after making the adjustments referred to in the preceding paragraph and on the basis that a total of 5,000,000,000 Shares were in issue (including Shares in issue as at the date of this Prospectus and those Shares to be issued pursuant to the Global Offering but without taking into account of any Shares which may fall to be issued upon the exercise of the Over-Allotment Option).
- (4) The property interests of the Group as at 31 March 2008 have been valued by Savills Valuation and Professional Services Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix V to this Prospectus. The above adjustment does not take into account the surplus of HK\$2,641.5 million arising from the revaluation of the property interests of the Group by comparing to the net book value of these properties of HK\$6,273.3 million as at 31 March 2008. The revaluation surplus will not be incorporated in the Group’s financial statements. If the revaluation surplus is to be included in the Group’s financial statements an additional depreciation expense of the Group of HK\$81.6 million per annum would be charged.

### PROFIT FORECAST FOR THE SIX MONTHS ENDED 30 JUNE 2008

In the absence of any unforeseen circumstances and on the bases set out in Appendix IV to this Prospectus, certain profit forecast data of our Group for the six months ending 30 June 2008 are set forth below:

Estimated combined profit attributable to equity holders of the Company <sup>(1)(2)</sup> . . . . .	not less than HK\$559 million
Estimated earnings per Share <sup>(3)</sup> . . . . .	not less than HK\$0.11

- (1) The bases and assumptions on which the forecast of combined profit attributable to equity holders of the Company for the six months ending 30 June 2008 have been prepared are summarised in Appendix IV to this Prospectus.
- (2) The forecast combined profit attributable to equity holders of the Company for the six months ending 30 June 2008 prepared by the Directors is based on the Group’s unaudited combined management accounts for the four months ended 30 April 2008 and a forecast of the combined results of the Group for the two months ending 30 June 2008 on the basis that the current Group structure had been in existence throughout the six financial months ending 30 June 2008. The forecast has been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by the Group as stated in Accountants’ Report set out in Appendix I to this Prospectus.
- (3) The calculation of the forecast earnings per Share is based on the assumption that the Company had been listed since 1 January 2008 and a total number of 5,000,000,000 Shares were in issue throughout the six month period.

## **DIVIDEND POLICY**

We intend to distribute 50% of our net profit as dividends for periods subsequent to the Global Offering. The payment and the amount of any dividends will depend on our financial condition, results of operations, cash flow, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

Dividends may be paid only out of our distributable profits as permitted under Hong Kong law, which does not restrict the payment of dividends to non-resident holders of our securities.

Our ability to pay dividends depends substantially on the payment of dividends to us by SJM. SJM must comply with the laws and regulations of the MSAR and SJM's articles of association in declaring and paying dividends to us. Pursuant to Section 432 of the Macau Commercial Code, at least 10% of SJM's profits of the accounting period must be retained as legal reserve until such legal reserve reaches an amount equal to one-fourth of the share capital. The Group transferred profit as legal reserve for fiscal years 2005 and 2007 in compliance with this legal reserve requirement. The Group did not transfer any profit as legal reserve in 2006 as they had sufficient legal reserves for the period.

After contribution to the legal reserve, if applicable, SJM's board will propose the dividends, which will be approved by SJM's shareholders' at their discretion and distributed to the holders of type A shares and the holder of type B shares based upon, but not limited to, approval by SJM's shareholders. The type A shares and the type B shares represent 90% and 10% of SJM's issued share capital held by us and SJM's managing director, Dr. Ho, respectively. The articles of association of SJM provide that the holder of type B shares is only entitled to an aggregate amount of MOP1 of the total dividends payable by SJM from time to time. Moreover, upon liquidation of SJM, the rights attaching to the type B shares are limited to a liquidation payment of up to a maximum equal to the total par value of these type B shares, which is equal to MOP100.0 per share. As a result, the Company will receive all dividends declared and paid by of SJM less MOP1. See "History and Reorganisation—Reorganisation."

Our operating subsidiary, SJM, paid dividends of approximately HK\$7,176.1 million in fiscal year 2005 comprising HK\$1,963.2 million final dividend for fiscal year 2004, HK\$5,212.3 million interim dividend for fiscal year 2005 and HK\$0.6 million of dividends distributed in specie. In August 2006, SJM paid an interim dividend of HK\$2,233.0 million and no further or final dividend was paid in 2006.

Prior to the Company and SJM Holdings (Nominee) Limited becoming shareholders of SJM, on 15 January 2008, the shareholders of SJM approved (1) the distribution to the then present shareholders of SJM of MOP2,575 million (HK\$2,500 million) as distribution of free reserves, subject to the condition that the proposed listing of the Company on the Stock Exchange was completed on or before a date (the "latest listing date") being the date by which the 2008 annual general meeting of SJM was held, or a later date resolved at such 2008 annual general meeting (the "Special Dividend"); and (2) the distribution to the then present shareholders of SJM of MOP1,030 million (HK\$1,000 million) as an advance on profit for the year 2007 (the "2007 interim dividend"). At the annual general meeting of SJM held on 31 March 2008, SJM's shareholders passed a resolution to approve, for the purpose of the Special Dividend, the extension of the latest listing date to 31 December 2008 or a later

date to be resolved at a general meeting summoned by SJM for such purpose. The 2007 interim dividend was paid in March 2008. The payment of the Special Dividend is conditional upon the Company's listing. Such dividend will not be paid out of the proceeds of the Global Offering. Investors in the Global Offering should note that they will not be entitled to share in the Special Dividend.

Future declarations of dividends by SJM will be subject to the discretion of SJM's shareholders, and will depend upon SJM's profitability, financial condition, cash requirements and availability and other relevant factors. The Company's ability to pay dividends will also depend on the amount of dividends, if any, received by us from SJM.

#### **DISTRIBUTABLE RESERVES**

The Company had no reserves available for distribution to the Shareholders as at 31 December 2007.

#### **NO MATERIAL AND ADVERSE CHANGE**

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since 31 December 2007 (being the date to which our latest combined financial information was prepared, as set out in the Accountants' Report in Appendix I to this Prospectus).

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

*For the purpose of this section of this Prospectus, STDM, through STDM - Investments, and Dr. Ho are the Controlling Shareholders of our Company.*

### RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Prior to the Reorganisation, STDM was indirectly interested (through STDM - Investments) in approximately 80.0% of the issued share capital (with an 81.333% dividend entitlement) of SJM. Immediately following completion of the Global Offering, STDM (through STDM - Investments) will be indirectly interested in approximately 61.0% of our then issued share capital (if the Over-Allotment Option is not exercised) or approximately 58.795% of our then issued share capital (if the Over-Allotment Option is exercised in full) and will be our Controlling Shareholder. Dr. Ho is a shareholder of STDM and is directly interested and indirectly interested (through Lanceford Company Limited) in approximately 32.204% of the issued share capital. Dr. Ho will also be directly interested in approximately 7.625% of our then issued share capital (if the Over-Allotment Option is not exercised) or approximately 7.350% of our then issued share capital (if the Over-Allotment Option is exercised in full). Dr. Ho and STDM are therefore the Controlling Shareholders of our Company. See “History and Reorganisation” and “Appendix VII — Statutory and General Information.”

#### *Our Business*

SJM has conducted casino gaming operations in Macau (“Casino Gaming Business”) since the liberalisation of the Macau casino gaming industry in 2002. SJM and our other subsidiaries are also undertaking a number of construction projects, including the Grand Lisboa and Ponte 16, to develop mixed-use developments and other gaming-related facilities as well as the expansion and maintenance of our existing network of casinos.

#### *Dr. Ho’s Interest in Melco*

Melco is interested in approximately 37.9% of the issued share capital of Melco Crown Entertainment Limited, which is an owner and developer of casino gaming and entertainment casino resort facilities in Macau and a NASDAQ listed company. Melco Crown Entertainment Limited is interested in approximately 90% of the share capital of Melco PBL, a Sub-Concessionaire since September 2006. According to its annual report, in 2007 Melco Crown Entertainment Limited (previously known as Melco PBL Entertainment (Macau) Limited) had revenue and net losses of approximately US\$358.6 million and approximately US\$178.2 million, respectively.

Elixir Group Limited, a subsidiary of Melco, is a supplier of surveillance equipment, information technology services and system integration and maintenance services to the Group. The amounts paid by the Group to Melco Group for such services for each of the three years ended 31 December 2005, 2006 and 2007 were approximately HK\$230.4 million, HK\$338.7 million and HK\$87.2 million, respectively.

As at the Latest Practicable Date, Dr. Ho was directly interested 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 9.60% in the issued share capital of Melco (these interests are collectively referred to as the “Gaming Interest”).

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Dr. Ho is a minority shareholder of Melco and is not a member of the board of directors of Melco or a senior manager 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 PBL.

Having considered the above, the Directors and our Sponsor are of the view that the competition from Melco is not material to the Group.

None of our Directors (including the independent non-executive Directors) assume any directorship or management role in Melco. Melco is operated independently from SJM.

Details of Dr. Ho's and his associates' interests in Melco, as provided in Melco's 2007 annual report published in April 2008, are as follows:

Name	Nature of interest under the SFO	Number of shares interested	Number of underlying shares interested	Approximate percentage in total issued share capital of Melco <sup>(1)</sup>
Ho, Lawrence Yau Lung . . . . .	Corporate	404,041,630 <sup>(2)</sup>	117,912,694 <sup>(3)</sup>	42.49%
	Personal	7,232,612	—	0.59%
Lo Sau Yan, Sharen . . . . .	Family	411,274,242 <sup>(4)</sup>	117,912,694 <sup>(3)</sup>	43.08%
Dr. Ho . . . . .	Corporate	3,127,107 <sup>(5)</sup>	117,912,694 <sup>(3)</sup>	9.85%
	Personal	18,587,789	—	1.51%

(1) As at 31 December 2007, the total number of issued shares of Melco was 1,228,475,716 shares.

(2) Ho, Lawrence Yau Lung ("Lawrence Ho") is the son of Dr. Ho. 115,509,024 shares of Melco are held by Lasting Legend Ltd., representing approximately 9.40% of the issued share capital of Melco and 288,532,606 shares of Melco are held by Better Joy Overseas Ltd., representing approximately 23.49% of the issued share capital of Melco. Lasting Legend Ltd. and Better Joy Overseas Ltd. are owned by persons and trusts associated with Lawrence Ho.

(3) Pursuant to an agreement dated 11 May 2005 entered into between Great Respect Limited, MPEL (Greater China) Limited and Melco, convertible loan notes of Melco in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5 September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares of Melco, representing 8.76% of the enlarged issued share capital of Melco, will be issued by Melco. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries of which include Lawrence Ho and his family members. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust. The shareholders of Melco have approved the issue of the convertible loan notes without the necessity for the making of an offer under Rule 26 of the Takeovers Code on conversion of the convertible loan notes. Hence, no offer under Rule 26 of the Takeovers Code will be made on full conversion.

(4) Lo Sau Yan, Sharen is the spouse of Lawrence Ho and is deemed to be interested in the shares in which Lawrence Ho is interested under the SFO.

(5) Dr. Ho also holds 3,127,107 shares and 18,587,789 shares in Melco through a controlled corporation, Lanceford Company Limited and in person, respectively.

### ***Dr. Ho's Interest in Shun Tak Holdings***

Shun Tak Holdings is a conglomerate with core businesses in the transportation, property, hospitality and investment sectors. As at the Latest Practicable Date, Dr. Ho was interested in approximately 12.37% of the issued share capital of Shun Tak Holdings. Dr. Ho is also Group Executive Chairman of Shun Tak Holdings.

Apart from the shareholding of Shun Tak Holdings in STDM, the Directors are of the view that the business of Shun Tak Holdings is not in competition with that of the Group.

### ***Dr. Ho's Interest in Value Convergence Holdings***

Value Convergence Holdings is engaged in investment banking and financial services. As at the Latest Practicable Date, Dr. Ho was interested in approximately 2.0% in the issued share capital of Value Convergence Holdings.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As Value Convergence Holdings is not engaged in casino gaming business, the Directors are of the view that the business of Value Convergence Holdings is not in competition with that of the Group.

### *Dr. Ho's Interest in Estoril Sol, SGPS, S.A.*

Estoril Sol, SGPS, S.A. is a holding company incorporated in Portugal, which owns 100% of Estoril Sol III, S.A. and Varzim Sol, S.A., which in turn own and operate casinos in Portugal. As at the Latest Practicable Date, STDM and Dr. Ho were interested in approximately 91.85% and 6.15% of the issued share capital of Finansol-Sociedade de Controlo, SGPS, S.A., respectively, which in turn was interested in approximately 57.95% of the issued share capital of Estoril Sol, SGPS, S.A.

As Estoril Sol, SGPS, S.A. only operates casinos in Portugal and its client portfolio is entirely different from that of the Group, the Directors are of the view that the business of Estoril Sol, SGPS, S.A. is not in competition with that of the Group as it is the current intention of the Group to focus on SJM's casino gaming operation in Macau only.

### *Interests of STDM and Dr. Ho in Other Non-Casino Gaming Businesses*

Apart from SJM's casino gaming business, STDM and/or Dr. Ho also have interests in other Macau non-casino gaming concessionaires, namely greyhound racing, horse racing, Chinese lottery, sports lottery and instant lottery (collectively referred to as "Non-Casino Gaming Businesses"). Details of STDM's and some of our Directors' direct shareholding interests in the Non-Casino Gaming Business, as at the Latest Practicable Date are as follows:

	<u>Macau Canidrome (Greyhound racing)</u>	<u>Macau Horse Racing Company (Horse racing)</u>	<u>Macau SLOT (Instant lottery and sports lotteries)</u>	<u>Wing Hing Lottery (Chinese lottery)</u>
STDM .....	20.0%	16.5%	48.0%	—
Dr. Ho .....	20.0%	—	—	24.2%
Ng Chi Sing .....	—	—	4.0%	—

As at the Latest Practicable Date, positions held by certain of our Directors in the Non-Casino Gaming Business are as follows:

<u>Name of Director</u>	<u>Macau Canidrome</u>	<u>Macau Horse Racing Company</u>	<u>Macau SLOT</u>	<u>Wing Hing Lottery</u>
Dr. Ho	Chairman	Chairman	—	Director
So Shu Fai	Vice-Chairman	Director	Director	—
Ng Chi Sing	Director	—	Manager	Director
Rui José da Cunha	Company Secretary	Director and Company Secretary	—	—
Leong On Kei, Angela	Executive Director	Vice-Chairman	—	—
Cheng Yu Tung	Vice-Chairman	Vice-Chairman	—	—

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Summary operational and financial data of each of the Non-Casino Gaming Businesses are as follows:

	For the year ended 31 December 2007		As at 31 December 2007	
	Turnover MOP million	Net Profit/ (loss) MOP million	Total Assets MOP million	Number of staff employed
<b>Macau Canidrome</b> .....	458.6	12.4	78.1	339 <sup>(2)</sup>
<b>Macau Horse Racing Company</b> .....	2,080.1	(281.1)	732.5	1,783 <sup>(2)</sup>
<b>Macau SLOT<sup>(1)</sup></b> .....	6,637.5	55.2	548.9	674
<b>Wing Hing Lottery</b> .....	24.8	(0.2)	19.4	43

(1) Data is for 2006.

(2) Also includes staff employed on a part-time basis.

As the Group is not engaged in any of the above Non-Casino Gaming Businesses, the Directors and the Sponsor are of the view that none of the Non-Casino Gaming Businesses is in competition or is likely to be in competition with that of the Group and that Rule 8.10 of the Listing Rules does not apply to the Company in respect of the Non-Casino Gaming Business.

During the Track Record Period, a total of 23 people have occupied the positions of directors in each of the Non-Casino Gaming Businesses. Of those people, seven of them are also Directors or members of senior management of SJM.

### **Reasons for the exclusion of the Non-Casino Gaming Businesses**

The Directors do not intend to acquire the Non-Casino Gaming Businesses currently owned by STDM and Dr. Ho because they are of the view that:

- (i) the Non-Casino Gaming Businesses are not closely associated with, and cannot meet the future development strategy of, the Group;
- (ii) the concessions required for such Non-Casino Gaming Businesses are different from that held by SJM;
- (iii) the Non-Casino Gaming Businesses are of a different nature and comparatively smaller scale than those operated by the Group;
- (iv) the Non-Casino Gaming Businesses are not in line with the business development strategy of the Group; and
- (v) the injection of such Non-Casino Gaming Businesses into our Group is subject to approval by the Macau Government.

As such, the Directors (including the non-executive Directors) consider that it is inappropriate to include the Non-Casino Gaming Businesses in the Group.

### ***Interests of Dr. Ho and STDM in Casino Gaming Operations***

As at the Latest Practicable Date, STDM invested in companies with gaming operations in Portugal, North Korea and Vietnam. Dr. Ho, Dr. So Shu Fai and STDM, in aggregate, were indirectly interested in approximately 59.0% of the issued share capital of companies operating casinos in Portugal. In addition, STDM was indirectly interested in approximately 44.35% of the issued share capital of a company with gaming operations in Vietnam and indirectly interested in 100% of the



## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

issued share capital of a company with gaming operations in North Korea. During the Track Record Period, the companies (Estoril Sol III, S.A. and Varzim Sol, S.A.) holding gaming concessions and operating casinos in Portugal did not share any common directors with the Group. However, Dr. Ho and Dr. So Shu Fai were directors of the company with gaming operations in Vietnam. Save as mentioned above, there were no overlapping directors or senior management personnel among the Group and the companies with overseas gaming operations.

Selective operational and financial data for each of these companies operating casinos in Portugal, North Korea and Vietnam are as follows:

	For the year ended 31 December 2007		As at 31 December 2007	
	Turnover	Net Profit/(Loss)	Total Assets	Number of staff employed
Casinos in Portugal . . . . .	Euro 254.6 million	Euro 14.9 million	Euro 371.1 million	1,227
Casino in North Korea . . . . .	US\$1.8 million	US\$(1.0 million)	US\$22.6 million	42
Casino in Vietnam . . . . .	US\$7.9 million	US\$0.1 million <sup>(1)</sup>	US\$26.8 million <sup>(1)</sup>	137

(1) Consolidated figure which includes both casino gaming and other businesses.

As the client portfolio of STDM in these countries is entirely different from that of the Group, the Directors are of the view that the casino gaming business of STDM outside Macau is not in competition with that of the Group. Moreover, the Group currently intends to focus its casino operations in Macau only.

### *Interests of STDM in Macau Hotels*

Following our listing, STDM will continue to own and operate hotels and other real estate developments and facilities in Macau. STDM's hotel operations are distinct from our gaming-related business. SJM's mixed-use developments include Grand Lisboa and Ponte 16. The hotels located at these developments will be ancillary to our Casino Gaming Business and are being developed by us to provide lodging and other services ancillary to SJM's casino gaming operations for the purpose of attracting more casino patrons.

Following completion of these hotels, we intend to engage a third party hotel management company to manage Sofitel Macau at Ponte 16 and we intend to manage hotel operations at the Grand Lisboa ourselves.

## INDEPENDENCE FROM STDM

Having considered all relevant factors, we are satisfied that we can conduct our business independently of STDM and its associates (the "STDM Group") after the Global Offering:

### *Independence of our Board and our Senior Management and Senior Management of SJM*

The Board of our Company consists of a total of 11 Directors, including six executive Directors, one non-executive Director and four independent non-executive Directors.

The Directors are of the view that the Company is able to operate independently from STDM notwithstanding that (i) Dr. Ho and Ms. Leong On Kei, Angela are directors of STDM and Dato' Dr. Cheng Yu Tung is the registered representative of Many Town Company Limited as a corporate

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

director of STDM; and (ii) Mr. Ho Alan Reginald John, a member of the senior management of SJM, holds a concurrent management role in STDM Group, for the following reasons:

- (a) each Director will be entitled to one vote at Board meetings and decisions of the Board will be passed by simple majority vote. Dr. Ho, Ms. Leong On Kei, Angela, and Dato' Dr. Cheng Yu Tung only account for three members of the Board which will have 11 members in total;
- (b) in the event of a conflict of interest, all Directors with a conflicting interest shall absent themselves from that meeting, or part of that meeting, and abstain from discussing and voting or discussing when a conflicted resolution is to be discussed and voted on;
- (c) when considering connected transactions, the resolution is subject to signing-off by independent non-executive Directors;
- (d) the majority of the Board (including the independent non-executive Directors) is independent from STDM and it is the Board as a whole, and not individual Directors, which makes decisions for the Company;
- (e) our day-to-day operations are managed by our management team, and all non-Board members of our senior management, other than Mr. Ho Alan Reginald John, are independent from STDM;
- (f) Dato' Dr. Cheng Yu Tung is a non-executive Director of the Company and does not participate in the day-to-day decision making of the Company. As such, his role as the registered representative of Many Town Company Limited as a corporate director of STDM, does not create any material conflict of interest in his duty as a Director of the Company; and
- (g) the Board has four independent non-executive Directors with extensive corporate governance and financial experience to serve as independent non-executive directors of the Company, and to review, enhance and implement measures to manage any conflict of interests between STDM and the Group in order to protect minority shareholders' interests. When considering connected transactions, the resolution is subject to the approval of independent non-executive Directors.

The decision-making mechanism of the Board set out in the Articles of Association also includes provisions to avoid conflicts of interest by providing, among other things, that (i) each Director is entitled to one vote at Board meetings and decisions of the Board would be passed by simple majority vote; and (ii) in the event of a conflict of interest, all Directors with a conflicting interest shall absent themselves from that meeting, or part of that meeting, and abstain from voting when a conflicted resolution is to be discussed and voted on.

As such, when a conflict of interest situation arises, all Directors with a conflicting interest shall absent themselves from that meeting, or part of that meeting, and therefore abstain from discussing and voting and hence would be unable to intervene with the decision of the Board on any matter in which STDM may be interested. Furthermore, following the listing of the Company on the Stock Exchange, the Board is required to comply with the provisions of the Listing Rules. In particular, connected transactions shall be referred to the independent non-executive Directors for review and, where appropriate, to independent shareholders for approval on advice by independent financial advisors.

Based on the above, the Board is satisfied that the Board as a whole, together with the Company's management team and SJM's management team, is able to perform the managerial role in our Group independently.

### *Operational independence*

Following a public tender process to grant new gaming concessions and upon SJM's receipt of the Concession, STDM transferred some of its gaming-related assets and equipment to SJM in 2002. We have full control over our assets to continue SJM's casino gaming business independently of STDM Group.

Our directors and management are responsible for the conduct of our business. We have established our own organisation structure made up of functional departments, each with specific areas of responsibility. We have also established a set of internal controls to facilitate the effective operation of our business. We have been operating independently from the STDM Group during the Track Record Period and thereafter as we have not shared our AML Compliance Department, Accounts Department, Marketing Department, or Treasury Department with STDM or its associates. Transactions with members of the STDM Group are governed by agreements entered into in the ordinary course of our business and on terms which we believe are fair and reasonable. These transactions with the STDM Group have included provision of hotel accommodation, hotel management and operation, entertainment, staff messing, dredging and transportation services, purchase of fixed assets and consumables, leasing of premises as casinos, offices or for other business purposes, and chips honouring and borrowing services with the STDM Group. Even if the STDM Group cannot provide the materials, buildings and/or services upon reasonable terms, the Company is entitled to choose a third party who can provide such things other than dredging services upon comparable terms. More details on these transactions are set out in the section headed "Connected Transactions." Due to Macau's small size and STDM being a large conglomerate with over 40 years of operation in Macau, it is inevitable that the Group utilises certain services provided by STDM and/or its associates during the course of its business operation. However, the Company believes that it would not be difficult to locate an equivalent third party supplier with similar qualities and delivery schedule for the following reasons:

### *Hotel accommodation*

According to information from the DSEC, as at 30 April 2008, there were 16,195 guest rooms available in hotels and other similar establishments in Macau, whereas the STDM Group owns or operates four hotels in Macau, namely Hotel Lisboa, Hotel Sintra, Regency Hotel and the Westin Resort Macau offering a total of 1,845 rooms, and owns 50% of the Pousada Marina Infante Hotel which has 298 rooms. With the recent opening of a number of hotels in Macau, including five-star hotels operated by international conglomerates, the Directors are of the view that there is a wide range of choices of hotels in Macau other than those owned and operated by the STDM Group.

### *Hotel management and operation, entertainment and staff messing and maintenance services*

The hotel management and operation, entertainment and staff messing services and maintenance services provided by the STDM Group are not unique and are not different from those hotel management and operation, entertainment and staff messing and maintenance services provided by other service providers in Macau. Therefore, the Directors are of the view that it would not be difficult for SJM to locate other third party hotel management and operation, entertainment and staff messing and maintenance services providers.

### *Transportation services*

In terms of access to Macau, the STDM Group provides aviation and marine transport services to us. The Company believes that although East Asia Airline Limited, a subsidiary of STDM, is the only helicopter service provider in Macau, there are also regular flights between Macau and other major cities provided by other local and international airlines. In respect of the marine transport services provided by an associate of STDM, the Company is of the view that Far East Hydrofoil Co. Ltd. is only one of several marine transport service providers in Macau.

### *Leasing of premises*

STDM is only one of the sources of premises for lease in Macau. The Directors are of the view that, even if relevant premises are not available from the STDM Group, except for additional relocation and decoration costs incurred by the Company, it would not be difficult for the Company to source third party providers to satisfy its need for other premises for its casino operations.

### *Chips honouring and borrowing services*

SJM uses its best efforts to replace STDM Chips as soon as possible. SJM has been engaging in regular communications with the chips manufacturers independent from the STDM Group for the manufacture of chips for its current usage and future consumption.

In respect of the connected transactions with the STDM Group for leasing of certain premises set out in the section headed “Connected Transactions - Premises Leasing Master Agreement” of this Prospectus, the Company believes that if the STDM Group is unable to provide the relevant premises, the resulting relocation and decoration costs to the Company would be approximately MOP 220.8 million (HK\$214.4 million).

In respect of the connected transactions with the STDM Group, there will be the following internal control mechanisms in place to avoid any possibility of having the price compromised with the STDM Group:

- SJM has its own personnel separate from that of the STDM Group to liaise, negotiate and agree with the corresponding personnel of the STDM Group in relation to details of every connected transaction.
- Connected transactions between SJM and the STDM Group are subject to regular review by the Internal Audit Department of SJM, the personnel of which are separate from that of the STDM Group.
- Any connected transactions between the Company and the STDM Group will be subject to review by the Audit Committee of the Company.
- Following the listing of the Company on the Stock Exchange, the Board is required to comply with the provisions of the Listing Rules and depending on the size of the transactions, they may need to be referred to the independent non-executive Directors for review and, where appropriate, for independent shareholders’ approval and advice by independent financial advisors.

### *Our Financing*

Our financial auditing system is independent from STDM Group and employs a sufficient number of dedicated financial accounting personnel responsible for financial auditing of our Company's accounts. We have independent bank accounts and independent tax registration.

Our treasury operations are handled by our Treasury Department. This department, whose functions include financing, treasury and cash management, operates independently from the STDM Group and shares no functions or resources with any member of the STDM Group.

Our choice of financial institutions is mainly based on the credit standing of the institutions and the terms offered by them.

Based on the above, our Directors believe that we are able to maintain a reasonable level of financial independence from the STDM Group.

### **UNDERTAKINGS BY STDM AND DR. HO**

#### *Undertakings by STDM*

Pursuant to undertakings dated 18 June 2008 (the "STDM Undertakings"), STDM has undertaken to us that so long as our Shares continue to be listed on the Stock Exchange and so long as STDM remains as our Controlling Shareholder, STDM will not, and shall procure that its associates will not, purchase or subscribe for, either directly or indirectly, any further share capital or securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital in Melco or to increase their aggregate interest in Melco beyond 222 shares, provided that STDM may purchase or subscribe for share capital or securities in Melco to maintain its percentage shareholding of 0.000000181% in Melco.

Notwithstanding the above, it has been agreed that STDM may:

1. carry on, engage in, invest in, and/or be interested in, other Non-Casino Gaming Businesses in Macau, including but not limited to Chinese lottery, greyhound racing, horse racing, instant lottery and sports lotteries and any other business which does not compete or is not likely to compete with the Casino Gaming Business currently engaged or will from time to time be engaged by us in Macau;
2. hold shares and other securities in any of our subsidiaries; and
3. engage in and/or discharge any duty, service or act for the benefit of any of our subsidiaries as may be determined in the absolute discretion of the independent committee of the Board comprising the independent non-executive Directors of our Company from time to time (the "Independent Board Committee").

Pursuant to the STDM Undertakings, STDM has also undertaken to us that, STDM will not, and will procure that its associates will not, hold and/or be interested in any shares or other securities in any company which engages or is involved in any activity or business which directly or indirectly competes with the Casino Gaming Business of SJM, provided that in the case that such shares or securities are listed on a recognised stock exchange, the shareholding held by STDM and/or its associates together in such company, directly or indirectly, does not exceed 5% of the issued share capital of such listed company, and provided further that STDM and its associates are not entitled to

appoint a majority of the directors of such listed company and that at all times there is another shareholder (together, where appropriate, with its associates) holding a larger percentage of shares in such listed company than the aggregate shareholding of STDM and its associates in that listed company.

Furthermore, pursuant to the STDM Undertakings, STDM has undertaken that, if it becomes aware of any venue in Macau that is suitable for casino or slot machine operations, it will notify us of such opportunity. For example, STDM and SJM entered into purchase option agreements whereby STDM granted to SJM, or to such direct or indirect subsidiary of SJM as it may designate for such purpose, for a period of six months commencing from the date of the respective agreements, the right to exercise an option to purchase the properties at pre-determined option prices set under the terms and conditions of the agreements. Pursuant to two purchase option agreements dated 17 October 2007, SJM has exercised its options to purchase two properties, the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A. Details of these arrangements are set out in the paragraph headed "Purchase Option Agreements between STDM and SJM" under this section of the Prospectus.

STDM has also agreed to provide all necessary information (including but not limited to (i) confirmation stating equity interests and directorships, if any, in other businesses (ii) copies of audited accounts of companies in which it has an interest) to us for the enforcement of the STDM Undertakings. It will also make an annual declaration in our annual report on its compliance with the STDM Undertakings. At least on an annual basis, our independent non-executive Directors will consider whether STDM has complied with the STDM Undertakings.

#### ***Non-Competition Undertakings by Dr. Ho***

Pursuant to a non-competition agreement between Dr. Ho and us dated 18 June 2008 (the "Non-Competition Agreement"), Dr. Ho has undertaken to us that so long as our shares are listed on the Stock Exchange and so long as Dr. Ho remains as our Director, Dr. Ho will not, and will procure that his associates will not, compete with us by participating in or providing any support to, any activity or business which competes or is likely to be in competition with the Casino Gaming Business currently engaged or will from time to time be engaged by us in Macau. The Casino Gaming Business include, without limitation, mass market gaming and VIP gaming, slot machine operations and other businesses directly incidental to the operation of such casino gaming and slot machine operations in Macau. Pursuant to the Non-Competition Agreement, it has been agreed that Dr. Ho may:

1. carry on, engage in, invest in, and/or be interested in, other Non-Casino Gaming Businesses in Macau, including but not limited to Chinese lottery, greyhound racing, horse racing, instant lottery, sports lotteries and any other business which does not compete or is not likely to compete with the Casino Gaming Business;
2. hold shares and other securities in any of our subsidiaries; and
3. engage in and/or discharge any duty, service or act for the benefit of any of our subsidiaries as may be determined in the absolute discretion of the Independent Board Committee.

Pursuant to the Non-Competition Agreement, it has been agreed that Dr. Ho and his associates will not increase the Gaming Interest in Melco, provided however that Dr. Ho and his associates may purchase or subscribe for share capital or securities in Melco to maintain the Gaming Interest's percentage.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The non-competition undertakings also restrict Dr. Ho and his associates from holding and/or being interested in any shares or other securities in any company which engages or is involved in any activity or business which directly or indirectly competes with the Casino Gaming Business, provided that in the case that such shares or securities are listed on a recognised stock exchange, the shareholding held by Dr. Ho and/or his associates together in such company, directly or indirectly, does not exceed 5% of the issued share capital of such listed company, and provided further that Dr. Ho and his associates are not entitled to appoint a majority of the directors of such listed company and that at all times there is another shareholder (together, where appropriate, with its associates) holding a larger percentage of shares in such listed company than the aggregate shareholding of Dr. Ho and his associates in that listed company.

Dr. Ho has undertaken to provide us with all necessary information (including but not limited to (i) confirmation stating equity interests and directorships, if any, in other businesses or (ii) copy of audited accounts of companies in which Dr. Ho is interested in) and updated information relating to:

- (a) changes, if any, of the aggregate interest held by Dr. Ho and his associates in the total share capital of Melco; and
- (b) the aggregate interest in shares or securities of Dr. Ho and his associates in any company which engages or is involved in any activity or business which directly or indirectly competes with the Casino Gaming Business.

Furthermore, pursuant to the Non-Competition Agreement, 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, he will notify us of such business opportunity immediately upon becoming aware of it. Dr. Ho has also agreed to procure that such business opportunity is first offered to us upon terms which are fair and reasonable. The Independent Board Committee will decide whether to take up such business opportunity. It is only after we have declined such opportunity that Dr. Ho may pursue such business opportunity. If we decide to take up any business opportunity offered to us by Dr. Ho, we will disclose such decision by public announcement and in addition will comply with the disclosure requirements of the Listing Rules.

In addition, it is further provided in the Non-Competition Agreement that if there is any disagreement between Dr. Ho and us 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, the matter will be determined by the Independent Board Committee whose decision will be final and binding.

We will disclose in our annual report decisions on matters reviewed by the Independent Board Committee regarding (a) the business opportunities offered by Dr. Ho to us; and (b) whether any activity or business or proposed activity or business of STDM and Dr. Ho or any of its associates directly or indirectly competes or may lead to competition with the Casino Gaming Business. STDM and Dr. Ho will make an annual declaration in our annual report on his compliance with the undertakings under the Non-Competition Agreement. At least on an annual basis our independent non-executive Directors will consider whether STDM and Dr. Ho has complied with the terms set out in the Non-Competition Agreement.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Each of the STDM Undertakings and the Non-Competition Agreement is conditional upon (a) the approval by the Listing Committee of the Stock Exchange for the listing and trading of our Shares; and (b) all the conditions precedent in the Underwriting Agreements in relation to the initial public offering of our Shares being fulfilled (or waived) and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated according to the terms and conditions or other provisions thereof.

### PURCHASE OPTION AGREEMENTS BETWEEN STDM AND SJM

Pursuant to two purchase option agreements dated 17 October 2007 between STDM and SJM, STDM granted to SJM, or to such direct or indirect subsidiary of SJM as it may designate for such purpose, during a period of six months commencing from the date of the respective agreement, the right to exercise an option to purchase the properties at pre-determined option prices upon the terms and conditions of the respective purchase option agreement. The option price corresponds to the fair market value of each respective property which was determined based on valuation conducted by an independent appraiser. Details of the properties and the corresponding option prices which are the subject of the respective purchase option agreements are set out below:

<u>Location of the property</u>	<u>Gross floor area<sup>(1)</sup></u> <small>(in sq.m.)</small>	<u>Option price</u> <small>(in millions)</small>
1. Avenida de Lisboa n°s 2-4, Edifício Hotel Lisboa, Macau <sup>(2)</sup> (Hotel Lisboa) . . . . .	128,612	HK\$4,295
2. Fecho da Baía da Praia Grande, Lote 11, Zona A, Nam Van, Macau <sup>(3)</sup> (Nam Van Lake Lot 11-A) . . . . .	26,633	HK\$ 360

- (1) The information is extracted from valuation reports issued by an independent property valuer.
- (2) STDM is the registered co-owner of the property, in co-ownership with SJM, with the proportion of 1/16 owned by SJM, and 15/16 owned by STDM.
- (3) STDM is the ultimate owner of the property registered with the Macau Property Registry in favour of its indirect subsidiary, Sociedade de Investimento Imobiliário San Keng Van, S.A.R.L.

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 remaining 15/16 portion of the building known as Hotel Lisboa, 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. In respect of Nam Van Lake Lot 11-A, each of SJM and STDM's subsidiaries which holds that property (the "relevant subsidiaries") is similarly required to enter into a promissory sale and purchase agreement relating to the property, failing which, STDM and SJM must enter into a promissory sale and purchase agreement relating to the shares in the relevant subsidiaries. Within 90 days thereafter, the parties concerned will become mutually bound to execute a deed of sale and purchase in respect of the property or a deed of transfer of shares in the relevant subsidiaries and complete the transaction. Whilst no time frame is specified in the option agreements for the entry into the respective promissory sale and purchase agreements, SJM intends to require STDM to enter into such agreements after the Listing Date.



## **CONNECTED PERSONS**

We have entered into certain agreements or transactions with entities which will become Connected Persons (as defined under Chapter 14A of the Listing Rules) of our Company upon listing, and such agreements or transactions will constitute connected transactions or continuing connected transactions of our Company under the Listing Rules. These entities include:

- (i) **STDM:** Immediately following completion of the Global Offering, STDM will, through its wholly owned subsidiary STDM - Investments, own approximately 61% of our Company's then issued share capital if the Over-Allotment Option is not exercised (or 58.795% if the Over-Allotment Option is exercised in full). STDM will therefore be the Controlling Shareholder, and hence a Connected Person, of our Company by virtue of Rule 14A.11(1) of the Listing Rules.
- (ii) Certain associates (as defined under Chapter 14A of the Listing Rules) of STDM, excluding our Group: Such associates will be Connected Persons of our Company by virtue of Rule 14A.11(4) of the Listing Rules.

## **EXEMPT CONTINUING CONNECTED TRANSACTIONS**

We have entered into certain agreements or transactions which will, upon our listing, constitute exempt continuing connected transactions of our Company.

### ***Non-Competition Undertakings by STDM***

Pursuant to undertakings dated 18 June 2008 (the "STDM Undertakings"), STDM has undertaken to us that, apart from maintaining its current investments in Melco, it will not compete with the casino gaming businesses currently engaged, or will from time to time be engaged, by us in Macau. (See "Relationship with our Controlling Shareholders — Undertakings by STDM and Dr. Ho — Undertakings by STDM").

Since there is no consideration payable by the Group to STDM under the STDM Undertakings, the connected transactions under the STDM Undertakings will be de minimis transactions which will be exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

### ***Non-Competition Undertakings by Dr. Ho***

The Company entered into a non-competition agreement dated 18 June 2008 with Dr. Ho (the "Non-Competition Agreement"), under which Dr. Ho has undertaken to us that, apart from maintaining his current investments in Melco, he will not compete with the operation of casino gaming businesses currently engaged, or will from time to time be engaged, by us in Macau. (See "Relationship with our Controlling Shareholders — Undertakings by STDM and Dr. Ho — Non-Competition Undertakings by Dr. Ho").

Since there is no consideration payable by the Group to Dr. Ho under the Non-Competition Agreement, the connected transactions under the Non-Competition Agreement will be de minimis transactions which will be exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

### ***Sharing of Administrative Services***

The Group has been sharing, and will continue to share, with STDM and its associates (the “STDM Group”) certain services including, among others, general public relations work, promotional functions, arranging ticketing and hotel accommodations, transportation and the provision of storage services. Such services will be provided by STDM through the following departments of STDM: Public Relations Department, Services Department, Transportation Department and General Services Department. Accordingly, SJM entered into an agreement with STDM dated 18 June 2008 (the “Administrative Cost Sharing Agreement”) whereby STDM has agreed to continue to share the above administrative services with us and we have agreed to pay for the shared services on a cost basis.

For the fiscal years 2005, 2006 and 2007, the aggregate fees paid by the Group for the sharing of such administrative services amounted to approximately HK\$61.5 million, HK\$41.4 million and HK\$41.2 million, respectively.

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. Our Directors are of the view that the cost of such administrative services is allocated to the Group and the STDM Group on a fair and equitable basis. Since the transactions under the Administrative Cost Sharing Agreement fall within the meaning of sharing of administrative services under Rule 14A.31(8) of the Listing Rules, the transactions are exempt from reporting, announcement and independent shareholders’ approval requirements.

### ***Macau Success Security Arrangements***

Pier 16 - Property Development, a subsidiary of our Company, was incorporated in Macau and is held 51% by the Group and 49% by World Fortune. World Fortune is a subsidiary of Macau Success Limited (“MSL”), where MSL, being the holding company of World Fortune, and World Fortune, a substantial shareholder of Pier 16 - Property Development, are Connected Persons of our Company.

## CONNECTED TRANSACTIONS

Pursuant to a facility agreement dated 28 June 2007 (the “Pier 16 Facility Agreement”) entered into between, among others, Pier 16 - Property Development and a group of financial institutions (the “Lenders”), the Lenders have agreed to grant a syndicated loan facility of HK\$1.6 billion to Pier 16 - Property Development for the development of Ponte 16 (the “Project”) on the condition that certain securities have to be provided by the shareholders of Pier 16 - Property Development and MSL. On the same day, SJM - Investment executed a share pledge over all the shares in Pier 16 - Property Development in favour of the security agent (the “Security Agent”). Also, on the same day, MSL and World Fortune executed certain security documents (collectively the “MSL Securities”) in favour of a Security Agent for the Lenders in order to support the borrowings of Pier 16 - Property Development. Details of the MSL Securities are set out as follows:

<u>Security document</u>	<u>Main terms of the obligation</u>
Corporate guarantee .....	MSL provides a guarantee to the Lenders up to a maximum amount of HK\$860 million.
Funding undertaking .....	an unconditional and irrevocable undertaking by MSL to provide or procure the provision of funds required by Pier 16 - Property Development in relation to the Project, proportional to MSL’s 49% equity interest.
Completion undertaking .....	an unconditional and irrevocable undertaking by MSL to the Security Agent that Pier 16 - Property Development will duly perform and comply with the completion of the Project.
Share pledge over MSL’s shares in Pier 16 - Property Development .....	Share pledge has been given by World Fortune in favour of the Security Agent.

The MSL Securities provided by MSL and World Fortune are on normal commercial terms and for the benefit of Pier 16 - Property Development. No security over the assets of our Group is granted with respect to the MSL Securities. Based on the above, the MSL Securities will constitute connected transactions of our Company after the Listing Date which are exempted from reporting, announcement and independent shareholders’ approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As a result of our Reorganisation, we have also entered into certain other agreements or transactions with members of STDM Group which will, upon our listing, constitute non-exempt continuing connected transactions of our Company under Chapter 14A of the Listing Rules. These transactions include:

<u>Transactions</u>	<u>Parties</u>
<i>Continuing connected transactions between our Company (and our subsidiaries) and the STDM Group</i>	
<b>Services provided by the STDM Group to the Group</b>	
Products and Services Master Agreement .....	The Company and STDM
Premises Leasing Master Agreement .....	The Company and STDM
Chips Agreement .....	SJM and STDM
Purchase Option Agreements .....	SJM and STDM
<b>Services provided by the Group to the STDM Group</b>	
Aircraft Sublease Agreements .....	Sky Reach and Jet Asia

Details of these continuing connected transactions and the associated annual caps, and certain principal terms of the relevant agreements are set out below.

***Products and Services Master Agreement***

After SJM was granted the Concession from the MSAR and the STDM Group transferred the assets for the operation of the casino gaming to SJM in 2002, the STDM Group retained certain assets and businesses, including hotel and transportation operations, which are only indirectly related to SJM’s casino gaming business. In the view of our Directors, various members of the STDM Group have been and will continue to provide certain products and services from these assets and businesses to the Group after the listing. As STDM is our Controlling Shareholder and therefore a Connected Person of our Company under the Listing Rules, the Company plans to regulate our relationship in this regard by entering into an agreement dated 18 June 2008 with STDM (the “Products and Services Master Agreement”) which contains the principles, guidelines, terms and conditions for the provision of such products and services by the STDM Group to us. The main terms and conditions of the Products and Services Master Agreement are summarised below:

*Types of products and services.* The products and services to be provided by various members of the STDM Group to us can be categorised as follows:

- (i) hotel accommodation<sup>(1)</sup>
- (ii) hotel management and operation<sup>(2)</sup>
- (iii) entertainment and staff messing<sup>(3)</sup>
- (iv) dredging services<sup>(4)</sup>
- (v) transportation<sup>(5)</sup>
- (vi) promotional and advertising services<sup>(6)</sup>
- (vii) travel agency services<sup>(7)</sup>
- (viii) maintenance services<sup>(8)</sup>

- 
- (1) Provision of hotel accommodation to SJM’s gaming patrons and guests.
  - (2) Provision of hotel management and operation services to the Group and assist in the purchase of fixed assets and consumables for Grand Lisboa Hotel.
  - (3) Provision of food and beverages and other entertainment services for SJM’s staff.
  - (4) Provision of dredging services.
  - (5) Provision of jetfoil tickets, vehicle transportation services, helicopter services and private jet services for SJM’s gaming patrons and guests.
  - (6) Provision of sponsoring of gaming events and advertising services.
  - (7) Provision of ticketing services for members of the Group.
  - (8) Provision of electrical and engineering maintenance services for casinos and other premises and other engineering services including tender reviewing and construction related services (engineering services).

*General terms and price.* The Products and Services Master Agreement provides that:

- the quality of the relevant products and services to be provided will be satisfactory to us;
- the price at which the relevant products and services are to be provided must be fair and reasonable; and
- 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.

*Price determination.* Under the Products and Services Master Agreement, the provision of each type of product or service must be made in accordance with and not exceeding the relevant market price; or where there is no relevant market price, then according to and not exceeding the contractual price.

## CONNECTED TRANSACTIONS

For the provision of products or services under the Products and Services Master Agreement:

- “market price” means the price at which the same or comparable type of products or services are provided by Independent Third Parties in the place where such products or services are provided, or in the vicinities thereof, in the ordinary course of business; and
- “contractual price” means the actual cost incurred in providing such products or services plus a profit margin not exceeding 6%.

*Rights and obligations.* Pursuant to the Products and Services Master Agreement, we reserve our right to choose to receive products and services from Independent Third Parties other than those for dredging services for the Macau Government provided by STDM to SJM as required under the Concession Contract. Similarly, the STDM Group may provide products and services to other third parties, subject always to the obligation on the part of the STDM Group to give us priority in the provision of those products and services required by us in accordance with the Products and Services Master Agreement.

*Term and termination.* The Products and Services Master Agreement is for a term of three years, provided that we may at any time, by giving at least three months’ prior written notice of termination to STDM, terminate the agreement earlier. The Products and Services Master Agreement may be renewed by the parties before expiry provided that the requirements of the Listing Rules in relation to connected transactions are always complied with.

*Implementation agreements.* It is envisaged that from time to time and as required, an implementation agreement for a particular type of product or services will be entered into between the relevant service companies providing the relevant products or services and us. Termination of an implementation agreement may be effected from time to time by the parties to the relevant product and service implementation agreement by giving at least three months’ written notice of termination to the other party or parties in relation to any one or more categories of products or services.

Pursuant to the Products and Services Master Agreement, each product and service implementation agreement sets out the specific product or service, quantity, price, duration and other relevant specifications, which reflect the requirements of our Company or our subsidiaries, and the market conditions at the time. The terms and conditions of these implementation agreements strictly follow the terms as set out in the Products and Services Master Agreement. If any of the provisions of any implementation agreement conflicts with any provisions of the Products and Services Master Agreement, the provisions of the Products and Services Master Agreement will prevail.

## CONNECTED TRANSACTIONS

*Historical figures.* The following table sets out the historical expenditures in relation to the provision of the products and services which are the subject matters of the Products and Services Master Agreement for the fiscal years 2005, 2006 and 2007:

	Year ended 31 December		
	2005	2006	2007
	HK\$	HK\$	HK\$
	(in millions)		
<b>Expenditures</b>			
(i) Hotel accommodation <sup>(1)</sup>	159.6	156.1	129.3
(ii) Hotel management and operation <sup>(2)</sup>	0.1	5.6	126.2
(iii) Entertainment and staff messing <sup>(3)</sup>	117.2	100.2	79.9
(iv) Dredging services	70.0	75.7	83.5
(v) Transportation <sup>(4)</sup>	612.7	527.7	492.0
(vi) Promotional and advertising services <sup>(5)</sup>	4.7	6.3	17.0
(vii) Travel agency services <sup>(6)</sup>	1.2	0.9	0.8
(viii) Maintenance services <sup>(7)</sup>	39.7	59.3	67.4

- (1) In 2007, there was a decrease in the average monthly chip sales for VIP rooms as compared to 2005 and 2006 due to increased competition from other Concessionaires and increased focus by Concessionaires on the VIP market. As the hotel accommodation credit points are based on chip sales made through VIP Room Gaming Promoters, the hotel accommodation credit points given to VIP Room Gaming Promoters decreased accordingly, which in turn, resulted in the decrease in hotel accommodation expenditures in 2007 at designated hotels. This decrease was in line with the decrease in average monthly chip sales.
- (2) SJM engaged the STDM Group to provide hotel management and operation services to the Group and assist in the purchase of fixed assets and consumables for the pre-opening of Grand Lisboa Hotel. The significant increase of the expenditures in 2007 was due to the opening of the restaurants in Grand Lisboa Hotel and the engagement of the STDM Group by SJM to provide hotel management and operation services to run the restaurants in Grand Lisboa Hotel.
- (3) The gradual decrease in entertainment and staff messing in 2006 and 2007 was mainly due to a general decrease in the overall entertainment expenditure of the Company, for which some of the food and beverage operations are no longer run by operators associated with STDM and the Company shifts the entertainment and staff messing to the restaurants in Grand Lisboa Hotel after their opening.
- (4) In 2006, the Company discontinued the offer of free promotional ferry tickets to mass market gaming patrons.
- (5) The increase in promotional and advertising services was mainly due to the entering into of a new contract in March 2007 with the STDM Group regarding the customised advertising on helicopters operated by East Asia Airlines Limited which is a subsidiary of STDM and the increase of promotional events of the Company.
- (6) For each of the fiscal years 2005, 2006 and 2007, each of the percentage ratios (as defined under the Listing Rules) (other than profit ratio) on the expenditure of travel agency services was on an annual basis less than 0.1%. These transactions will constitute de minimis transactions exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules and therefore no waiver from the Stock Exchange is required.
- (7) Maintenance services include electrical and engineering maintenance services for casinos and other premises and other engineering services including tender reviewing and construction related services.

## CONNECTED TRANSACTIONS

*Annual caps.* Our Directors estimate that the amounts payable by us to the STDM Group under the Products and Services Master Agreement in the years ending 31 December 2008, 2009 and 2010 will be as follows:

	Year ending 31 December		
	2008	2009	2010
	HK\$	HK\$	HK\$
	(in millions)		
<b>Expenditures</b>			
(i) Hotel accommodation <sup>(1)</sup>	110	25	25
(ii) Hotel management and operation <sup>(2)</sup>	150	38	-
(iii) Entertainment and staff messing <sup>(3)</sup>	95	75	85
(iv) Dredging services <sup>(4)</sup>	98	114	134
(v) Transportation <sup>(5)</sup>	612	693	758
(vi) Promotional and advertising services <sup>(6)</sup>	26	29	35
(vii) Maintenance services <sup>(7)</sup>	81	89	98

- (1) The amount of hotel accommodation mainly represents the amount payable by us to the relevant hotels for hotel rooms charges attributed to SJM's casino patrons. The proposed annual caps are determined by taking into account the expected change in room night consumption, the opening of Grand Lisboa Hotel in 2008, and the acquisition of Hotel Lisboa in 2008 or 2009. It is expected to have a decrease in room rate consumption from 2008 to 2010 after the opening of our Grand Lisboa Hotel which will reduce our room rate consumption with the STDM Group.
- (2) The proposed annual caps are determined by reference to the 31 December 2007 figure. As Grand Lisboa Hotel is expected to be opened in 2008, it is expected that there will be an increase in hotel management and operation fees due to the increase in around 430 additional hotel rooms. However, SJM exercised its option to purchase the remaining 15/16 portion of the building known as Hotel Lisboa in April 2008. Following the acquisition of Hotel Lisboa, SJM plans to manage it together with Grand Lisboa Hotel on its own and no longer engage STDM to provide management and operation services. Therefore, no cap has been set for 2010.
- (3) The amount of entertainment and staff messing mainly represents the amount payable by us for the entertainment expenses and consumption incurred by our staff, including our management, and VIP card holders. The proposed annual caps are determined by the expected decrease in entertainment expenses and consumption due to the acquisition of Hotel Lisboa. As a result of such acquisition, SJM will own all Hotel Lisboa entertainment facilities and food and beverages outlets which are currently used by its staff.
- (4) The amount of dredging services represents the service fees payable to STDM for their dredging services. The proposed annual caps are determined by reference to the average historical growth rate of approximately 9.2% for the fiscal years 2005, 2006 and 2007 taking into account the expected inflation rate.
- (5) The amount of transportation mainly represents the amount payable by us to the STDM Group for transportation services, including marine transport and air transport, consumed by SJM's VIP gaming patrons. The air transport services provided by the STDM Group include helicopter and jet services. Such jet services are expected to commence in or around the second quarter of 2008. The proposed annual caps are determined by reference to an expected increase in the number of VIP gaming patrons as a result of the opening of additional VIP rooms in Grand Lisboa Hotel and two new casinos in 2008 and the average historical growth rate for the fiscal years 2005, 2006 and 2007.
- (6) The amount of promotional and advertising services represents the amount payable by us to the STDM Group for their promotional and advertising services. The proposed annual caps are determined by the contract for the customised advertising on helicopters operated by East Asia Airlines Limited and determined by reference to an expected increase in the advertising and promotional expenses due to keen competition in the market.
- (7) The proposed annual caps are determined by reference to the 31 December 2007 figure. As Pier 16 was opened in February 2008 and Grand Lisboa Hotel is expected to be opened in 2008, it is expected that there will be an increase in maintenance services fee due to additional maintenance services to be provided for the new casinos and the additional hotel rooms. In 2009, a further increase in maintenance services fee is also expected as Oceanus is currently planned to be opened in 2009.

### ***Premises Leasing Master Agreement***

For the purpose of its casino gaming operations, the Group has entered into various lease arrangements with STDM or its group members as landlords to lease premises for use as casinos, offices or for other business purposes. STDM and its group members hold and engage in a variety of businesses including hotels, property development and investments. In order to regulate the leasing of properties by STDM or the members of the STDM Group to us, our Company and STDM entered into an agreement dated 18 June 2008 (the "Premises Leasing Master Agreement") which contains terms and conditions for the lease of premises by the STDM Group to us. Payment under the Premises Leasing Master Agreement comprises four components: rental, utility charges, air conditioning

services charges and building management fees. The main terms and conditions of the Premises Leasing Master Agreement are summarised below:

*General terms and price.* In relation to the premises to be leased or provided by the STDM Group to us:

- the quality and conditions of the premises to be provided should be satisfactory to us;
- the rental, utility charges, air conditioning services charges and building management fees of the relevant premises to be provided must be fair and reasonable; and
- 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.

*Rent determination:* The relevant rental of such premises 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.

*Utility charges determination:* The relevant utility charges payable by us are based on the actual utility consumption whereas air conditioning expenses and building management fees of such premises (where the party receiving the building management fees is a member of the STDM Group) are determined in accordance with and not exceeding the relevant market price. Where there is no relevant market price, then such fees are determined according to and not exceeding the contractual price.

With respect to utility charges:

- “market price” means the price at which the same or comparable type of services are provided by Independent Third Parties in the place where such services are provided, or in the vicinities thereof, in the ordinary course of business; and
- “contractual price” means the actual cost incurred in providing such services plus a profit margin not exceeding 6%.

*Rights and obligations.* It is provided in the Premises Leasing Master Agreement that we have the right to rent premises from Independent Third Parties. Similarly, the STDM Group may provide premises to other third parties, subject always to the obligation on the part of the STDM Group to give priority to lease those premises required by us in accordance with the principles, terms and conditions of the Premises Leasing Master Agreement.

*Term and termination.* The Premises Leasing Master Agreement is for a term commencing on 18 June 2008 and ending on 31 March 2020 provided that at any time during the term of the Premises Leasing Master Agreement, the Company may, by giving not less than three months’ prior written notice, terminate the agreement.



## CONNECTED TRANSACTIONS

*Terms of the implementing lease.* For each of the premises to be leased to us pursuant to the Premises Leasing Master Agreement, the parties will enter into a separate lease agreement. It is further provided in the Premises Leasing Master Agreement that each implementing lease provides the following principal provisions:

(a) *Term and termination*

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 provided that:

- (i) at any time during the contractual term, either party may, by not less than three months' notice in writing, terminate the lease earlier;
- (ii) before the expiry of the contractual term, each party may, by giving not less than 18 months' prior written notice, notify the other party of its intention not to renew the relevant lease; and
- (iii) the requirements of the Listing Rules in relation to connected transactions are always complied with subject to renewal of the relevant lease after expiry of its initial term.

(b) *Rent*

The rent for each of the premises under each implementing lease will not be higher than the rent for the same or comparable type of premises provided by Independent Third Parties in the ordinary course of business. The rent for each of the premises will be subject to review and mutual agreement every three years by the parties to the relevant implementing lease, provided that an independent property valuer to be appointed by the parties to the relevant implementing lease confirms that such updated rental is not higher than the market rent.

(c) *Other terms*

Each implementing lease will set out the details of the lease of each of the premises, including the specific quality, condition, rent, duration and other relevant specifications, which reflect the requirements of the relevant members of the Group, and the market conditions at the material time. The terms and conditions of these implementing leases will strictly follow the binding principles, guidelines and terms as set out in the Premises Leasing Master Agreement.

The term of the Premises Leasing Master Agreement exceeds three years. The contractual term of each implementing lease will also exceed three years given the Group's business needs. The rental for long term leases are generally cheaper than that for short term leases. It is normal business practice to maintain long term leases for casinos in order to reduce renovation and other administrative costs that may be incurred in casino relocation.

Based on the above reasons, our Directors including the independent non-executive Directors and our Sponsor are of the opinion that a term exceeding three years is required for the Premises Leasing Master Agreement and each of the individual implementing leases and confirm that it is normal business practice for contracts of this type to be of such minimum duration.

## CONNECTED TRANSACTIONS

During the Track Record Period, we leased premises for the following casino gaming and slot machine operations from the STDM Group:

<u>Casino Gaming and Slot Machine Operations</u>	<u>Floor Area</u> sq.m.	<u>Lease term</u> (years)	<u>Lease expiration date</u>
Casino Lisboa . . . . .	21,229	18	31 March 2020
Casino Kam Pek—Arabian Nights . . . . .	2,115	5	31 December 2008
Casino Marina . . . . .	3,242	10	8 December 2009
Casino Taipa* . . . . .	795	1	30 June 2008
Tiger Slot Lounge . . . . .	1,102	5	21 April 2010

\* Casino Taipa is situated at the Regency Hotel. As this hotel is going to be refurbished, the term of this lease will expire on 30 June 2008.

*Historical figures.* For each of the fiscal years 2005, 2006 and 2007, the aggregate fees paid by us to the STDM Group for the leasing of premises amounted to approximately HK\$51.2 million, HK\$49.6 million, and HK\$61.3 million, respectively.

*Annual caps.* Our Directors estimate that the aggregate fees payable by us to the STDM Group under the Premises Leasing Master Agreement and the individual implementing leases for the years 2008, 2009 and 2010 will be approximately HK\$150 million, HK\$205 million and HK\$206 million, respectively. The proposed annual caps are determined by reference to the terms of the new leasing agreement between the Company or its subsidiaries (as the case may be) and STDM and the existing contractual terms of other rental agreements.

The substantial increase in the annual caps is due to the following reasons:

1. Our Group only paid a nominal annual rent of approximately HK\$8.9 million, HK\$10.0 million and HK\$11.4 million for the fiscal years 2005, 2006 and 2007, respectively, to STDM for the leasing of certain premises at Casino Lisboa. However, our Group had, on behalf of STDM, paid removal compensation to the previous tenants for early termination of some of the existing leases between STDM and those tenants which amounted to approximately HK\$18.0 million for the period from 2005 to 2007. Pursuant to the terms of a new leasing agreement between our Company and STDM, the Company will be paying an annual rent, determined according to the market rental of similar premises, of approximately HK\$30.4 million, HK\$11.7 million and nil for the years 2008, 2009 and 2010, respectively.
2. Rental payments for casinos in other hotels, offices and quarters as at 31 December 2007 were HK\$48.8 million.
3. Pursuant to the terms of a new lease agreement for our registered office entered into between our Company and Top Ease (H.K.) Limited, which is a subsidiary of STDM, the Company will be paying an annual rent, determined according to the contractual terms of the lease agreement, of approximately HK\$1.51 million for each of the years 2008 and 2009 and approximately HK\$1.66 million for the year of 2010.
4. Pursuant to the terms of the new lease agreements for New Yaohan Building and Casino L'Hermitage entered or to be entered into between our Company and STDM, the Company will be paying the aggregate annual rent, determined according to the contractual terms of the lease agreements, of approximately HK\$45.6 million for the year 2008 and HK\$97.3 million for each of the years of 2009 and 2010.

The proposed annual caps are expected to remain at the same level in the next three years in accordance with the Premises Leasing Master Agreement and the relevant implementing leases. Savills Valuation and Professional Services Limited, an independent property valuer, has confirmed that the terms and conditions of the Premises Leasing Master Agreement and those of the implementing leases are fair and reasonable to the parties thereto and the rental payment is comparable to the prevailing market rate and is fair and reasonable.

### *Chips Agreement*

#### **Background**

As at 1 April 2002, when the Concession was executed with the MSAR under the concession regime, a certain quantity of casino chips of STDM (the “STDM Chips”) were in circulation in the market. Pursuant to its Concession Contract with the MSAR, SJM is permitted to use the STDM Chips, whether they are in treasury or in circulation provided that SJM honours the STDM Chips presented for payment (the “redemption”) by patrons and clients. The aggregate face value of such STDM Chips in circulation as at 1 April 2002 was approximately MOP1,391.5 million (HK\$1,351.0 million) as stated in STDM’s management accounts for the period ended 31 March 2002 as approved by STDM. As at 1 April 2002, an additional amount of STDM Chips of an aggregate face value of approximately MOP16.5 billion (HK\$16.0 billion) was in SJM’s possession, which SJM borrowed from STDM.

Since the beginning of the Concession, SJM has been borrowing additional STDM Chips from STDM for the purpose of its casino gaming operations. As a new Concessionaire whose business commenced immediately in 2002, SJM was not able to acquire sufficient casino chips of its own to meet its business needs. Currently, SJM still does not have sufficient casino chips of its own to meet its business needs owing partly to the limited number and production capacity of chips manufacturers in the past, testing of the latest security features to be included in newly acquired chips, and recent business expansion. It is intended that once SJM has sufficient casino chips of its own, it will no longer borrow casino chips from STDM and the STDM chips will not be resold or used to settle winnings payable to SJM’s gaming patrons. The amount of SJM chips in circulation were HK\$973.1 million, HK\$2,184.6 million and HK\$2,206.6 million as at 31 December 2005, 2006 and 2007, respectively.

SJM continues to order new SJM chips from the chips manufacturers to ensure that it will have sufficient chips to sustain its business operations. SJM generally requires an average of approximately six months to procure necessary chips after placing a purchase order with a chips manufacturer. In circumstances where SJM places multiple purchase orders with a chips manufacturer, less urgent orders may take longer to produce. The longest period SJM has required in the past to procure less urgent chips orders was 16 months. It is expected that by the fourth quarter of 2009, SJM will have sufficient chips of its own and will be able to return all the STDM Chips borrowed from STDM.

To regulate the borrowing and use of STDM Chips, SJM entered into an agreement with STDM dated 18 June 2008 (the “Chips Agreement”) regarding the honouring and borrowing of STDM Chips. 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.

For internal control measures relating to chips, see “Internal Controls and Anti-Money Laundering — Internal Control.”

### **Chips honouring arrangement**

Under the Chips Agreement, SJM has agreed to honour the STDM Chips in circulation upon their redemption by patrons or clients. The STDM Chips so redeemed may be resold by SJM or used to settle winnings payable to its patrons. In consideration of SJM's undertaking, STDM has agreed, in turn, to reimburse the STDM Chips presented by SJM to STDM, by paying to SJM the aggregate face value of chips so presented in cheque within the same quarter when such presentation takes place. Pursuant to the Chips Agreement, during the time when the aggregate face value of the STDM Chips in SJM's possession is greater than the aggregate face value of the borrowed STDM Chips as determined from the quarterly chips audit, SJM is entitled to (although it may choose not to) present the STDM Chips to STDM for reimbursement subject to a maximum amount at each time which shall be equal to the difference between the aggregate face value of the STDM Chips in SJM's possession and the aggregate value of the borrowed STDM Chips. However, SJM cannot present the STDM Chips to STDM for reimbursement during the time when the aggregate face value of the STDM Chips held by SJM is less than the aggregate face value of the borrowed STDM Chips.

Pursuant to the Chips Agreement, STDM has also undertaken to indemnify SJM for any losses, claims, damages, costs, expenses or any other liabilities which SJM may suffer as a result of or in connection with the honouring of the STDM Chips in circulation except any losses arising from games of fortune or chances in SJM's casinos.

According to the financial information provided by STDM, STDM currently has shareholders' funds of approximately MOP25.0 billion (HK\$24.3 billion) (without taking into account its interest in the Group). The Directors believe that STDM has the financial ability to perform its payment obligations under the indemnity provided under the Chips Agreement.

### **Chips borrowing arrangement**

Pursuant to the Chips Agreement, in addition to the STDM Chips lent to SJM on 1 April 2002, STDM also agrees to lend additional STDM Chips to SJM free of charge as required by SJM from time to time to meet the demand for casino chips for the casino gaming operations of SJM. SJM may use the borrowed STDM Chips only for casino gaming purposes, which include, without limitation, selling the borrowed STDM Chips to its patrons and clients for their face value and settling winnings payable to its patrons in the ordinary course of business. SJM's obligation to return the STDM Chips borrowed from STDM will only be discharged by the return of the STDM Chips to STDM in an amount whose aggregate face value is equal to the aggregate face value of the STDM Chips borrowed, and not by any other means.

For any redeemed STDM Chips, SJM may re-circulate the chips or return such chips in kind, i.e., not in cash, to STDM so as to reduce the amount of the STDM Chips borrowed from STDM. There is no distinction between the STDM Chips being put into circulation by STDM prior to 1 April 2002 and those STDM Chips borrowed by SJM which were subsequently put into circulation by SJM. As such, SJM may return any STDM Chips to STDM to settle the chips borrowed from STDM under the chips borrowing arrangement.

The STDM chips in circulation arrangement works in parallel, but is not to be confused, with the chips borrowing arrangement. Under the STDM chips borrowing arrangement, SJM may borrow further STDM Chips from STDM, and return such STDM Chips in kind, not in cash. In other words, what are lent and returned are the physical objects of the STDM Chips, not their face value.

## CONNECTED TRANSACTIONS

For the fiscal years 2005, 2006 and 2007, due to business expansion, SJM has borrowed additional STDM Chips from STDM, has re-circulated some STDM Chips redeemed by its patrons and clients and has not presented any chips to STDM for redemption. The net return of aggregate face value of STDM Chips to STDM were approximately HK\$2,382.5 million, HK\$1,938.8 million and HK\$1,434.6 million for the fiscal years 2005, 2006 and 2007, respectively.

As the then aggregate face value of the STDM Chips on hand was less than the then aggregate face value of STDM Chips borrowed as determined from each of the quarterly chips audits for the year ended 31 December 2005, SJM was not entitled to present the STDM Chips to STDM for reimbursement. Accordingly, there was also no maximum quarter-end balance of the amount SJM was entitled to reimburse from STDM on presentation of the STDM Chips in circulation for the year 2005.

As SJM progressively returned the STDM Chips borrowed, the aggregate face value of STDM Chips on hand was greater than the aggregate face value of the STDM Chips borrowed as at 31 December 2006 and 31 December 2007. Although SJM is entitled to redeem such amount, or HK\$434.1 million as at 31 December 2007, SJM has decided not to present any chips to STDM for redemption as SJM intends to set off the redemption amount payable by STDM against the current payables to STDM prior to listing, or HK\$306.9 million as at 31 December 2007. The net balance as at 31 December 2007 was HK\$127.2 million. Such net balance will be settled in cash. The gross physical STDM Chips as at 31 December 2007, of HK\$434.1 million will be presented to STDM prior to listing. As at 31 December 2006 and 2007, the amount SJM is entitled to redeem from STDM on presentation of STDM Chips in circulation was HK\$403.1 million and HK\$434.1 million, respectively. The maximum quarter-end balance of the amount SJM is entitled to redeem from STDM on presentation of the STDM Chips in circulation for the year ended 31 December 2006 and 2007 were HK\$403.1 million and HK\$498.4 million, respectively.

As at 31 December 2007, the aggregate face value of the STDM Chips borrowed from STDM by SJM was approximately HK\$12.8 billion and the aggregate face value of the STDM Chips in SJM's possession was approximately HK\$13.2 billion.

SJM will use its best efforts to replace the STDM Chips as soon as possible. In this regard, SJM has been engaging in regular communications with chips manufacturers independent from the STDM Group for the manufacture of chips for its current usage and future consumption. Under these arrangements, SJM anticipates that it will have sufficient chips of its own by the fourth quarter of 2009. Upon having sufficient SJM chips, SJM will use its own chips and the STDM Chips will be returned to STDM.

The chips borrowing arrangement can be terminated as soon as:

- (i) SJM returns all borrowed STDM Chips to STDM;
- (ii) all STDM Chips in circulation have been redeemed; or
- (iii) SJM has sufficient number of SJM chips in appropriate denominations with an aggregate face value larger than the aggregate face value of the STDM Chips in circulation.

**Corporate Governance Measures**

The Company and SJM plan to put in place the following corporate governance measures at the Company’s level and at SJM’s level to ensure that any decision by SJM for redemption of the STDM Chips is made in the interests of the Company’s shareholders as a whole and is communicated to the Company’s investors on a timely basis:

At the Company’s level:

- (a) only the Directors who are independent from STDM may vote on matters regarding SJM’s redemption;
- (b) the majority of the Board (including the independent non-executive Directors) is independent from STDM and it is the Board as a whole, and not individual Directors which makes decisions for the Company;
- (c) the Board has four independent non-executive Directors with extensive corporate governance and financial experience to serve as independent non-executive directors of the Company, and to review, enhance and implement measures to manage any conflict of interests between STDM and the Group in order to protect minority shareholders’ interests; and
- (d) the Company will publish in its interim and annual reports the aggregate face value of the STDM Chips redeemed over the preceding period(s).

At SJM’s level:

- (a) all SJM directors are also Directors of the Company; and
- (b) only SJM directors who are independent from STDM may vote when making a decision regarding redemption.

**Continuing Connected Transactions**

The presentation of the STDM Chips by SJM to STDM for reimbursement constitutes connected transactions for purposes of the Listing Rules.

*Annual caps.* The following sets out the estimated amount of the total face value of the STDM Chips to be redeemed by SJM for the years 2008, 2009 and 2010:

	Year ending 31 December		
	2008	2009	2010
	HK\$	HK\$	HK\$
	(in millions)		
Amount receivable on reimbursement of the STDM Chips in circulation . . . . .	917	917	917

**Purchase Option Agreements**

As set out in the section headed “Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM” in this Prospectus, on 17 April 2008, SJM exercised its options to purchase the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A at HK\$4,295 million and HK\$360 million, respectively, pursuant to the two purchase option agreements dated 17 October 2007 entered into between STDM and SJM. 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 remaining 15/16 portion of the building known as Hotel Lisboa, 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. In respect of Nam Van Lake Lot 11-A, each of SJM and STDM's subsidiaries which holds that property (the "relevant subsidiaries") is similarly required to enter into a promissory sale and purchase agreement relating to the property, failing which, STDM and SJM must enter into a promissory sale and purchase agreement relating to the shares in the relevant subsidiaries. Within 90 days thereafter, the parties concerned will become mutually bound to execute a deed of sale and purchase in respect of the property or a deed of transfer of shares in the relevant subsidiaries and complete the transaction. Whilst no time frame is specified in the option agreements for the entry into the respective promissory sale and purchase agreements, SJM intends to require STDM to enter into such agreements after the Listing Date.

The above-mentioned promissory sale and purchase agreements and deeds will, upon our listing, constitute non-exempt connected transactions of our Company under Chapter 14A of the Listing Rules. For further details, please refer to the section headed "Relationship with our Controlling Shareholders — Purchase Option Agreements between STDM and SJM" in this Prospectus.

*Historical figures.* During the Track Record Period, no payment has been made by SJM to STDM under the purchase option agreements.

*Annual caps.* The amount payable by SJM to STDM or the relevant subsidiaries to purchase the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A will be HK\$4,655 million in aggregate. The Directors expect that the purchase monies for the acquisitions of the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A will be payable in 2008 or 2009, and therefore the proposed annual cap for the three years ending 31 December 2010 will be HK\$4,655 million, HK\$4,655 million and nil, respectively.

### ***Aircraft Sublease Agreements***

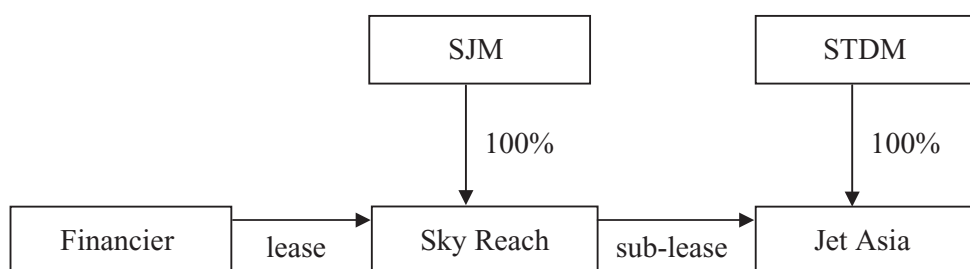
In May 2007, Jet Asia, a wholly owned subsidiary of STDM, entered into a term sheet with a financier, an Independent Third Party, to arrange for a finance lease transaction in respect of six aircraft pursuant to which Sky Reach Investments Limited ("Sky Reach"), a wholly owned subsidiary of the Company, would enter into lease agreements for the six aircraft with this Independent Third Party. In December 2007, two aircraft lease agreements were entered into between Sky Reach and this Independent Third Party for the leasing of two aircraft to Sky Reach, and two aircraft sublease agreements were entered into between Sky Reach and Jet Asia, pursuant to which Sky Reach agreed to sublease two aircraft to Jet Asia. In May 2008, one aircraft lease agreement was entered into between Sky Reach and this Independent Third Party for the leasing of the aircraft to Sky Reach, and one aircraft sublease agreement was entered into between Sky Reach and Jet Asia for the subleasing of the aircraft to Jet Asia. It is anticipated that lease agreements and sublease agreements for the remaining three aircraft between that Independent Third Party and Sky Reach, and between Sky Reach and Jet Asia will take effect in 2008. Upon listing of the Company, the six aircraft sublease agreements between Sky Reach and Jet Asia (the "Aircraft Leases") for the six aircraft (the "Six Aircraft") will constitute connected transactions of the Company.

## CONNECTED TRANSACTIONS

The Six Aircraft have been or will be leased by the Group under finance lease arrangements with the aforesaid financier, an Independent Third Party. The finance lease documentation for the first two aircraft took effect in December 2007, the finance lease documentation for the third aircraft took effect in May 2008 and the finance lease documentation for the remaining three aircraft are expected to take effect in 2008.

The rationale for structuring the arrangement in the current way is that the Company would like to provide chartered jet transportation services to cater to and attract new VIP gaming patrons primarily from South East Asian countries to our casinos. The Group currently neither holds any licences nor has any intention to operate chartered jet services and has thus sought to use Jet Asia to provide these services, which is at present one of the licensed chartered jet operators in Macau with the requisite industry experience and all necessary ancillary facilities to operate chartered jet services. In seeking to expand its fleet to accommodate our increased demand, Jet Asia had sought to lease the Six Aircraft from the financier. However, the Group was informed that the financier's preference was to transact through the Group to sublease the Six Aircraft to Jet Asia, as we would be the major customer of the Six Aircraft.

Therefore, the current structure was adopted such that the financier would lease the Six Aircraft to Sky Reach, which would in turn sublease the Six Aircraft to Jet Asia and Jet Asia would provide non-exclusive chartered jet services to our VIP gaming patrons.



The benefit of this arrangement to the Group is that we can ensure adequate chartered jets services for our VIP gaming patrons without having to directly operate the Six Aircraft for which we have no licence and expertise, nor commit additional resources to enter into a non-core business.

The rental for the Six Aircraft which Jet Asia will pay to Sky Reach under the Aircraft Leases would be equivalent to the rental which Sky Reach will pay to the financier in respect of the Six Aircraft. Such rental was agreed at after arms-length negotiation with the financier and represents normal markets rates. Sky Reach is not expected to make a profit or loss under the leasing arrangements.

SJM will pay chartered service fees to Jet Asia. In return, Jet Asia will provide priority service and volume discounts to SJM in respect of the chartered jet services requested. (The provision of the chartered jet services by Jet Asia to SJM will constitute a connected party transaction and be included in the transportation services provided by members of the STDM Group under the Products and Services Master Agreement.)

*Term.* It is the intention of the parties that each of the Aircraft Leases has an initial term of 10 years. The term may be extended by mutual consent of the parties on such terms as may be agreed between them. The term of each of the Aircraft Leases exceeds three years. It is normal business practice for finance leases to have terms of similar or longer durations.



## CONNECTED TRANSACTIONS

Based on the above reasons, our Directors including the independent non-executive Directors and our Sponsor are of the opinion that a term exceeding three years is required for each of the Aircraft Leases and confirm that it is normal business practice for aircraft leases of this type to be of such minimum duration.

*Rent.* Pursuant to the Aircraft Leases, the aggregate annual amount payable by Jet Asia for the leasing of the Six Aircraft shall be approximately HK\$48.5 million (subject to prevailing interest rates).

*Historical figures.* During the Track Record Period, there was no consideration paid by Jet Asia because the Aircraft Leases commenced after December 2007.

*Annual caps.* Our Directors estimate that the aggregate rental payable by Jet Asia under the Aircraft Leases for the year ending 31 December 2008 will be approximately HK\$38.0 million on the basis that all Six Aircraft have been leased. The proposed annual cap is determined by reference to the contractual terms of the Aircraft Leases and subject to prevailing interest rates.

### WAIVER APPLICATION

With respect to Rule 14A.35(2) of the Listing Rules, the maximum aggregate annual value (cap) (if any) for each category of non-exempt continuing connected transactions under the section headed “Non-Exempt Continuing Connected Transactions” above must not exceed the applicable limit set out below:

	Year ending 31 December		
	2008	2009	2010
	HK\$	HK\$	HK\$
	(in millions)		
<b>Continuing Connected Transactions with the STDM Group</b>			
<b>Expenditures incurred</b>			
(1) Products and Services Master Agreement			
(i) hotel accommodation . . . . .	110	25	25
(ii) hotel management and operation . . . . .	150	38	-
(iii) entertainment and staff messing . . . . .	95	75	85
(iv) dredging services . . . . .	98	114	134
(v) transportation . . . . .	612	693	758
(vi) promotional and advertising services . . . . .	26	29	35
(vii) maintenance services . . . . .	81	89	98
(2) Premises Leasing Master Agreement . . . . .	150	205	206
(3) Chips Agreement	917	917	917
(4) Purchase Option Agreements	4,655	4,655	—
<b>Income generated</b>			
(5) Aircraft Sublease Agreements	38	—	—

The transactions categorised as (1) to (5) above will constitute non-exempt continuing connected transactions under the Listing Rules once the Shares are listed on the Stock Exchange. Pursuant to the Listing Rules, these non-exempt continuing connected transactions categorised as (1)(v), (3), (4) and (5) would normally require full reporting, announcement and independent shareholders’ prior approval requirements. The transactions categorised as (1)(i), (1)(ii), (1)(iii), (1)(iv), (1)(vi), (1)(vii) and (2) above will also constitute non-exempt continuing connected

transactions subject to the announcement and reporting requirements of the Listing Rules. Our Directors, including our independent non-executive Directors, consider that disclosure and approval of these transactions in full compliance with the Listing Rules would be impracticable and, in particular, would add unnecessary administrative costs to us. In addition, our Directors, including our independent non-executive Directors, believe that it is in our interests to continue with these transactions after the listing of our Shares on the Stock Exchange and that such transactions are conducted on normal commercial terms, in our ordinary and usual course of business and are fair and reasonable and in the interests of our Shareholders as a whole and that the annual limits for the non-exempt continuing connected transactions are fair and reasonable.

We have applied to the Stock Exchange for waivers in accordance with Rule 14A.42(3) of the Listing Rules and the Stock Exchange has granted waivers in relation to the non-exempt continuing connected transactions categorised as (1)(v), (3)(i), (3)(iii), (4), (5) and (6) above from the announcement and independent shareholders' approval requirements of the Listing Rules pursuant to Rules 14A.47 and 14A.48 of the Listing Rules.

We have applied to the Stock Exchange for waivers in accordance with Rule 14A.42(3) of the Listing Rules and the Stock Exchange has granted waivers in relation to the non-exempt continuing connected transactions categorised as (1)(i), (1)(ii), (1)(iii), (1)(iv), (1)(vi), (1)(vii), (2) and (3)(ii) above from the announcement requirement of the Listing Rules pursuant to Rule 14A.47 of the Listing Rules. Pursuant to Rule 14A.34 of the Listing Rules, these transactions are exempt from the independent shareholders' approval requirement of the Listing Rules.

In applying for the waivers, we have agreed that we will comply with the requirements specified under Chapter 14A of the Listing Rules, including Listing Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40 and 14A.45. Our Board will also state in our annual report whether our auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules.

Our Directors, including our independent non-executive Directors, consider that the maximum aggregate annual value of all the non-continuing connected transactions have been entered into and will be carried out in the ordinary and usual course of business, will be conducted on normal commercial terms and are fair and reasonable so far as our Shareholders as a whole are concerned.

#### ***Confirmation from the Directors and the Sponsor***

Each of our Directors (including independent non-executive Directors) is of the view that the non-exempt continuing connected transactions mentioned above are entered into in the ordinary and usual course of our business upon normal commercial terms, and that the terms of such non-exempt continuing connected transactions and the annual caps set out above are fair and reasonable and in the interest of the Shareholders as a whole.

The Sponsor has reviewed relevant documentation, information and historical data provided by us, and has participated in due diligence and discussions among our advisors and us in relation to the connected transactions described above. Based on the foregoing, the Sponsor is of the view that (i) the non-exempt continuing connected transactions set out above for which waivers are sought have been entered into in the ordinary and usual course of our business, on normal commercial terms and are fair and reasonable and in the interest of the Shareholders as a whole; and (ii) the proposed annual caps for these non-exempt continuing connected transactions referred to above are fair and reasonable.

**DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY AND SJM**

*Directors*

**Executive Directors**

**Dr. Ho Hung Sun, Stanley**, aged 86, is the Chairman and an executive Director of the Company and has been the Managing Director of SJM since 2001. 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 SHB and the Chairman of the board of directors of the Macau Horse Racing Company. Dr. Ho is also the Group Executive Chairman of the Hong Kong Main Board listed Shun Tak Holdings and the Chairman of the board of directors of the Euronext Lisbon listed Estoril Sol, SGPS, S.A. Dr. Ho was the Chairman of the Hong Kong Main Board listed Melco from 1987 to March 2006, the Chairman of Value Convergence Holdings (formerly known as iAsia Technology Limited, which was listed on the Main Board of the Stock Exchange in April 2001) from 2000 to April 2008 and the Chairman of the Philippine Stock Exchange listed Fairmont Holdings, Inc. (now Suntrust Home Developers Inc.) from 1999 to 2005. Dr. Ho is also a director of the following principal subsidiaries of the Group: Efort Limited, Grand Lisboa - Hotel Administration, Grand Lisboa - Property Investment, Nam Van Lake View, SJM - F&B, SJM - Investment, SJM Retail Services Private Limited and Sociedade de Desenvolvimento Unido de Macau.

Dr. Ho is a Standing Committee member of the 11<sup>th</sup> National Committee of the Chinese People's Political Consultative Conference. Dr. Ho has been the President of The Real Estate Developers Association of Hong Kong since 1984. 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 MSAR Preparatory Committee and the MSAR Basic Law Drafting Committee. He was also a member of the Consultative Committee for the Basic Law of the HKSAR.

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 HKSAR 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 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 the Hong Kong Main Board listed Shun Tak Holdings, 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 the Chairman of the board of directors of MACAUPORT - Sociedade de Administração de Portos, S.A. Dr. So was a non-executive director of the Hong Kong Main Board listed Emperor Entertainment Group Limited from 2001 to 2005. Dr. So 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 - F&B, SJM Employment, SJM - Investment, SJM Retail Services Private Limited, Sociedade de Desenvolvimento Unido de Macau and Time Frontier Limited, and he is a director of Zhen Hwa Harbour Construction Company Limited, an associate of the Company and Chong Fung, a jointly-controlled entity of the Company. Dr. So is also a director of SHB. Dr. So is a member of the 11<sup>th</sup> Chinese People's Political Consultative Conference ("CPPCC"), consultant to the CPPCC of Beijing on Hong Kong, Macau and Taiwan affairs, Honorary Consul of the Republic of Portugal in the HKSAR, as well as a member of the Economic Development Council and the Cultural Consultative Council of the Macau Government. Dr. So is the President of Clube Militar de Macau and a committee member of the 8<sup>th</sup> China Federation of Literary and Art Circles. Dr. So serves as 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 56, 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 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 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, and Time Frontier Limited, and he is a director of Chong Fung, a jointly-controlled entity of the Company. Mr. Ng is also a director of Macau Canidrome, a manager of Macau SLOT, and a director of Wing Hing Lottery. Mr. Ng is a member of the Shanghai Committee of the Chinese People's Political Consultative Conference 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 66, is an executive Director of the Company and has been a director of SJM since 2001. As the Company Secretary of SJM since 2003, he is responsible for overseeing the company secretarial and legal affairs of SJM. Mr. Rui Cunha 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. 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.

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 47, is an executive Director of the Company and a director of STDM and SJM. 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. She has been a director of Po Leung Kuk since 2005.

Ms. Leong was convicted of two offences in March 2003 under the then prevailing Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) that, having to her knowledge, acquired on 7 August 1998 (the “relevant time”) through Maxwick Investment Limited, a company at whose general meetings she was entitled at the relevant time to exercise one-third or more of the voting power, a deemed interest arising from a share charge over 140,711,000 shares in favour of Maxwick Investment Limited comprised in the relevant share capital of Fairyoung Holdings Limited (now Dynamic Global Holdings Limited); as Fairyoung Holdings Limited (now Dynamic Global Holdings Limited) is a publicly listed company on the Stock Exchange, the knowledge of acquisition of this deemed interest required Ms. Leong to make disclosure in writing to Fairyoung Holdings Limited and the Stock Exchange respectively, which she, in reliance on wrong legal advice from a reputable law firm, inadvertently failed to perform within the proper period. As a result, Ms. Leong was fined an aggregate sum of HK\$13,918.50 (inclusive of investigation fee paid to the SFC) under both offences, and for which she was subsequently fully indemnified by the reputable law firm involved.

**Mr. Shum Hong Kuen, David**, aged 53, is an executive Director of the Company and is a director of SJM and Sociedade de Turismo e Desenvolvimento Insular S.A.R.L. He is also an executive director and a member of the Executive Committee of the Board of Directors of the Hong Kong Main Board listed Shun Tak Holdings. He is also a director of a number of subsidiaries of the Shun Tak Group. He 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 82, 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. He is also a registered representative of Many Town Company Limited as a corporate director of STDM. 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 the Hong Kong Main Board listed New World Development Company Limited and the Hong Kong Main Board listed Melbourne Enterprises Limited. He is also the non-executive Chairman of the Hong Kong Main Board listed Lifestyle International Holdings Limited and the Chairman of Chow Tai Fook Enterprises Limited. Dato' Dr. Cheng is also an independent non-executive director of the Hong Kong Main Board listed Hang Seng Bank Limited, which is a member of the Hong Kong and Shanghai Banking Corporation Group, and is a non-executive director of the Hong Kong Main Board listed Shun Tak Holdings.

Dato' Dr. Cheng is a Vice-Patron of The Community Chest of Hong Kong and a Vice-President of The Real Estate Developers Association of Hong Kong. Dato' Dr. Cheng is also a member of the International Business Leaders Advisory Council for the mayors of Beijing, Wuhan and Foshan. Dato' Dr. Cheng is an honorary citizen of various cities in China such as Guangzhou, Shunde, Foshan, Nanjing, Wuhan and Beijing. Dato' Dr. Cheng was a member of the Consultative Committee for the Basic Law of the HKSAR, a member of the Preparatory Committee of the HKSAR and a member of the Selection Committee for the first government of Hong Kong. Dato' Dr. Cheng received honorary LL.D, DBA and DSSc degrees from various universities in Hong Kong, Macau, China and Canada. 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.

#### **Independent non-executive Directors**

**Mr. Chau Tak Hay**, aged 65, is an independent non-executive Director of the Company. 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 HKSAR government in 2002.

**Mr. Lan Hong Tsung, David**, aged 68, is an independent non-executive Director of the Company. 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 as manager of Prosperity Real Estate Investment Trust which is Hong Kong Main Board listed. In 2000, Mr. Lan was awarded the Gold Bauhinia Star by the HKSAR Government for his 39 year-long civil service when he retired as the Secretary for Home Affairs. During his three years as the Secretary for Home Affairs, Mr. Lan gained wide and extensive exposure to various forms of gambling activities in Hong Kong as he was responsible for formulating, updating and monitoring the implementation of the gambling policy in Hong Kong. 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, is an independent non-executive Director of the Company. He also currently holds the position of an independent non-executive director of the following companies / investment trusts listed on the Main Board of the Stock Exchange:

Titan Petrochemicals Group Limited

NWS Holdings Limited

Midas International Holdings Limited

Paliburg Holdings Limited

Lifestyle International Holdings Limited

Chuang's Consortium International Limited

Chuang's China Investments Limited

See Corporation Limited

ITC Corporation Limited

Country Garden Holdings Company Limited

MTR Corporation Limited

Hsin Chong Construction Group Ltd.

Hop Hing Group Holdings Limited

Regal Portfolio Management Limited, the Manager of Regal Real Estate Investment Trust

Eagle Asset Management (CP) Limited, the Manager of Champion 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 and Hop Hing Holdings Limited from January 2007 to April 2008. He was also a member of the Managing Board of Kowloon-Canton Railway Corporation from February 2004 to December 2007. He 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.

**Mr. Tse Hau Yin**, aged 60, is an independent non-executive Director of the Company. 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 to 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.

*Senior Management of the Company*

**Mr. Robert Earle McBain**, aged 58, is the Chief Financial Officer of the Company, responsible for overseeing the financial performance of the Company. Mr. McBain has over 25 years of experience in investment and commercial banking in Macau, Hong Kong, Tokyo and New York. Prior to joining SJM in 2006 he served as the Group General Manager of SHB in Macau since 2005. Previously, he was the Group Managing Director of a joint-venture merchant banking firm in Hong Kong and worked as the Chief Financial Officer for an infrastructure development company in Singapore. Mr. McBain is Vice Chairman of the American Chamber of Commerce in Macau, a member of the Professional Advisory Board of the Asian Institute of International Financial Law of the University of Hong Kong, Treasurer and a director of Hong Kong-America Center, Ltd., Honorary Treasurer and a member of the Executive Committee of St. James Settlement in Hong Kong, a member of the Global Association of Risk Professionals, and was named “Asian Banker of the Year” in 1991 by *Asian Finance* magazine. He is also a member of the Supervisory Board of the Millennium Institute of Education, Limited in Macau and an Honorary Professor at Macau Millennium College. Mr. McBain holds a Bachelor of Arts degree from Princeton University in Princeton, New Jersey, and a Master of Business Administration degree from Columbia University Graduate School of Business in New York.

*Senior Management of SJM*

**Mr. Ho Alan Reginald John**, aged 61, has been a member of the senior management of SJM since 2002 and is responsible for overseeing purchasing, renovation and maintenance. Mr. Ho has served as an executive director of the New Yaohan Department Store in Macau and the Managing Director of Sociedade de Turismo e Desenvolvimento Insular S.A.R.L. since 1998; as a director of Servair Macau since 1997; as the President of Eastopen, Inc./Hotel Whitcomb in San Francisco, California since 1995; and as the General Manager of the Shipping Department at STDM as well as the General Manager of the Macau-Hong Kong Ferry Terminal since 1991. Mr. Ho holds a Bachelor of Arts degree from Amherst College in Massachusetts, U.S.A., a Master of Business Administration degree from the Harvard Graduate School of Business Administration in Boston, Massachusetts, and a Juris Doctor degree from Harvard Law School in Cambridge, Massachusetts. Mr. Ho practised law from 1989 to 1991 with Latham & Watkins, LLP in Los Angeles, California.

**Mr. Laam Wah Ying, Eddie**, aged 66, has been a member of the senior management of SJM since 2002 and has over 41 years of experience in the casino business. Mr. Laam joined STDM in 1966 and has since been involved in casino management. Mr. Laam is the President of the Macau Goldsmith’s Guild, the President of the Macau Olympic Committee, the President of the Cycling Association of Macau, China, and a member of the Macau Sports Council.

**Mr. Francis Patrick McFadden**, aged 51, is the President of Joint Ventures and Business Developments of SJM. Mr. McFadden joined SJM in 2006 and is responsible for the development of SJM’s new business, including the Grand Lisboa, the new opportunities in the Lisboa District, the Inner Harbour District, the Outer Harbour District, Ponte 16 and Cotai. Mr. McFadden has over 20 years of experience in international gaming, having managed listed public companies as well as gaming operations in such diverse countries and regions as Macau, Canada, Australia, South Africa, Palestine, Egypt, the Czech Republic, Romania, Hungary, Denmark, Venezuela, the United Kingdom and India. Mr. McFadden began his career in the gaming industry as a business development manager for Ladbrokes, and then moved to PriceWaterhouseCoopers, where he served as the head of corporate



gaming in Europe and the Managing Director of the European Union Office. Prior to coming to Macau, he was the Chief Operating Officer at Casinos Austria International Holdings. From 2004 to 2006, Mr. McFadden was the Chief Operating Officer for Venetian Macau, a competitor of SJM.

**Mr. Ho Siu Hang David**, aged 54, is the Chief Information Officer of SJM since November 2007 and is responsible for leading a competent IT team to serve the business needs of SJM. Mr. Ho has extensive expertise and experience in technological products and information technology services business. Prior to joining SJM, Mr. Ho served as the Chief Operating Officer of CPCNet, a wholly owned subsidiary of CITIC Pacific in Hong Kong, overseeing its regional business in serving the data networking needs of international carriers and multi-national corporations. Between 1997 to 2004, Mr. Ho operated his own services company providing multi-discipline marketing and consultancy services in China to clients ranging from telecom carriers to equipment and service system vendors from all over the world. Mr. Ho also served Hong Kong Telecom Communications Limited for 16 years since 1981. In 1995, Mr. Ho served as the Director of Corporate Planning and Development for the Yellow Pages joint venture with Bell Canada. Mr. Ho is a Chartered full member of the Institution of Engineering and Technology and a corporate member of the Hong Kong Institution of Engineers. Mr. Ho holds a Bachelor degree in Electrical and Electronic Engineering from the University of Ottawa and a Master of Engineering degree from McMaster University in Canada.

**Mr. Kok Vai Kei**, aged 56, has been the Senior Administrative Manager of SJM for casino operations since 2005 and has over 38 years of experience in the casino business. He is responsible for supervising the operation of SJM's Self-Promoted Casinos other than the Grand Lisboa, Gaming Promoters marketing and Third Party-Promoted Casinos. Mr. Kok joined STDM in 1970. Between 1978 and 2002, Mr. Kok held positions in casino operations at STDM as pit boss, shift boss, floor manager and senior floor manager, and at the Philippine Casino Operators Corporation as operations manager. Mr. Kok holds Bachelor of Science and Master of Business Administration degrees from Asia International Open University (Macau).

**Mr. Kong Kuai Sang**, aged 49, has been the Administrative Manager for Compliance of SJM since 2002. Mr. Kong joined STDM in 1985 and from 1985 to 2002 served in various positions in casino administration and regulatory affairs in Macau. In 2005, Mr. Kong was appointed as the AML Compliance Officer of SJM.

**Mr. Ung Chi Fong**, aged 56, has been the Senior Administrative Manager of Slot and Surveillance Department of SJM since 2002. He is responsible for overseeing surveillance functions at SJM and slot machine operations outside the Grand Lisboa and for staff training programs. Mr. Ung joined STDM in 1970 and has over 38 years of experience in the casino business. Before being promoted to his present position, Mr. Ung served as the Assistant Manager at Manila Bay Casino in 1976, and was responsible for human resources and casino operations department of STDM from 1977 to 2002. Mr. Ung holds a Master of Business Administration degree from the University of East Asia (now the University of Macau).

**Professor Koo Leung Chee**, aged 60, has been the Administrative Manager of the Performance Improvement Department of SJM on a full-time basis since 2003, responsible for staff training programmes and performance analysis. Prof. Koo is also the Assistant Director of the Macau Gaming Research Association, a professor of the Macau Millennium College, a visiting professor at the Asia International Open University (Macau) and the Macau University of Science and Technology, a senior visiting scholar at Beijing Normal University, and the Honorary President of the Hong Kong

Quality Management Association. These positions have been served on a part-time basis in the evenings and during the weekends. Prof. Koo holds Master of Business Administration and PhD degrees from The University of Hong Kong.

**Mr. Lo Chor Sing**, aged 54, is the Manager of the Human Resources Department of SJM. Mr. Lo joined SJM in 2002 and is responsible for managing the administrative support for recruitment, training and manpower allocation. Mr. Lo is also responsible for managing the procurement of employees' contracts and employees' benefit and welfare packages. Mr. Lo holds a Bachelor of Arts degree from The University of Hong Kong, and a Master of Business Administration degree from the University of East Asia (now the University of Macau). Mr. Lo is a member of the Employees' Relations Consultative Committee of SJM.

**Mr. Sin Wing Fong**, aged 43, is the Senior Marketing Manager of SJM. Mr. Sin joined SJM in 2004 and is responsible for formulating marketing strategies and implementing marketing, media, promotional and customer services plans. He has over 17 years of experience in marketing and sales management having served as product manager, marketing and sales manager, and marketing and sales director for multinational companies operating in Hong Kong and China. Mr. Sin holds a Bachelor degree in Business Administration with majors in marketing and international business from The University of Hong Kong, and a Master of Business Administration degree from The University of London, in the United Kingdom. Mr. Sin has been awarded the National Marketing Manager Qualification Certificate by the Marketing Professional Committee of the China Business Manager Association.

**Mr. John Frederick Catt**, aged 57, is the Vice President of Public Relations of Grand Lisboa at SJM, responsible for devising and implementing public relations and communications strategies to promote Grand Lisboa. Prior to joining SJM in 2006, Mr. Catt was Executive Director of Communications for Venetian Macau, a competitor of SJM. Throughout his career, Mr. Catt has specialised in reputation management and enhancement for companies and industries with specific issues. Mr. Catt has more than 30 years of experience in directing external affairs and public relations and has overseen communications strategies in a range of global corporations including General Electric, Philips Electronics and ICI. In addition, he was a member of the management team that established EVC International, the Anglo-Italian joint venture between ICI of the United Kingdom and Enichem, the Italian state-owned chemical company. When EVC International was listed on the Amsterdam Stock Exchange, he managed the world-wide communications activities including financial road shows, analysts' briefings, media relations and internal communications.

**Mr. Timothy Christie Gilbert**, aged 44, is the Vice President of Table Games of Grand Lisboa at SJM. Mr. Gilbert is responsible for table games development, including floor designs, policies and procedures, liaison with government gaming regulatory bodies, team building, management development and strategies, budget control and marketplace analysis. Prior to joining SJM in 2006, Mr. Gilbert has been Administration Manager at Sands Casino Macau and from 1995 to 2005 was employed by Casino Austria in various positions including Director of Table Gaming. During his extensive career in gaming over the past 20 years, he has worked in several countries including Canada, Denmark, Czech Republic and Romania.

**Mr. Lindsay James Stewart**, aged 52, is the Vice President of Electronic Gaming of Grand Lisboa at SJM. Mr. Stewart is responsible for overseeing the operation of slot machines and other electronic games at the Grand Lisboa as well as the implementation of the Electronic Gaming

Industry's "Best Practices" at the Grand Lisboa and other new projects. Mr. Stewart joined SJM in 2007 after working at Venetian Macau, a competitor of SJM, where he led the pre-opening slots team for the design and building of the Sands Casino Macau's slot machine operation. Mr. Stewart came to Macau following a six-month assignment in Moscow, where he redesigned the slot machine operation of Udarnik Casino. Prior to working in Russia, Mr. Stewart spent 17 years at the Burswood Resort and Casino in Western Australia including serving in the electronic gaming management from 1994 to 2003.

#### **QUALIFIED ACCOUNTANT AND COMPANY SECRETARY**

**Mr. Mok Wing Kai, Henry**, aged 47, is the Qualified Accountant and Company Secretary of the Company which he joined in 2006. He is also a member of senior management of the Company pursuant to Rule 3.24 of the Listing Rules. Mr. Mok has over 20 years of experience in accounting, finance and management, including working as a financial controller for a Hong Kong-listed company. Mr. Mok is a fellow member of the HKICPA, a fellow of the Chartered Association of Certified Accountants in the United Kingdom, and an associate of the Institute of Chartered Accountants in England and Wales. Mr. Mok is also an associate of the Hong Kong Institute of Company Secretaries and an associate of the Institute of Chartered Secretaries and Administrators in the United Kingdom. In addition, Mr. Mok is a member of the Macau Society of Certified Practising Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Directors. Mr. Mok holds a Certificate in Laws issued by the Open University of Hong Kong, a Master of Science degree in Manufacturing System Engineering from the University of Warwick and a Master of Business Administration degree jointly awarded by the University of Wales (Bangor) and the University of Manchester.

#### **AUDIT COMMITTEE**

The Company has established an audit committee in compliance with Chapter 3 of and Appendix 14 to the Listing Rules. The audit committee has three members, namely Mr. Shek Lai Him, Abraham, Mr. Chau Tak Hay and Mr. Tse Hau Yin. All of the committee members are our independent non-executive Directors. The chairman of the audit committee is Mr. Tse Hau Yin. The primary functions of the audit committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditors and provide advice and comments to our Directors.

#### **REMUNERATION COMMITTEE**

The Company has established a remuneration committee in compliance with Appendix 14 to the Listing Rules. The remuneration committee consists of five members, namely Dr. So Shu Fai, Mr. Lan Hong Tsung, David, Mr. Shek Lai Him, Abraham, Mr. Tse Hau Yin, and Ms. Leong On Kei, Angela. Three of the committee members are our independent non-executive Directors. The chairman of the remuneration committee is Dr. So Shu Fai. The primary functions of the remuneration committee are to make recommendations on the Company's policy and structure of all remuneration of Directors and senior management, determine the specific remuneration packages of our executive Directors and senior management, and make recommendations on the remuneration of our non-executive Directors.

#### **NOMINATION COMMITTEE**

The Company has established a nomination committee in compliance with Appendix 14 to the Listing Rules. The nomination committee consists of seven members, namely Dr. So Shu Fai, Mr. Lan Hong Tsung, David, Mr. Shek Lai Him, Abraham, Mr. Tse Hau Yin, Mr. Chau Tak Hay, Ms. Leong On Kei, Angela, and Mr. Shum Hong Kuen, David. Four of the committee members are our

independent non-executive Directors. The chairman of the nomination committee is Dr. So Shu Fai. The primary functions of the nomination committee are to review the structure, size and composition of the Board and to make recommendations on appointment or re-appointment of Directors.

### **COMPLIANCE ADVISOR**

Pursuant to the Listing Rules, the Company has appointed OSK Asia Capital Limited as our compliance advisor to assist and advise us in connection with the Listing Rules and applicable laws, rules, codes and guidelines. The appointment as compliance advisor will commence on the date of the proposed Listing, and terminate on the date on which we comply with Rule 13.46 of the Listing Rules with respect to our financial results for the financial year ending 31 December 2009.

### **DIRECTOR'S COMPENSATION**

Our Directors receive compensation from the Group in the form of salaries, housing allowances, other allowances and benefits in kind, including our contribution to the pension plans for our Directors. The level of compensation is commensurate with their individual qualification, experience and contribution to the Group, making reference to any recommendation provided by the remuneration committee from time to time.

The aggregate amount of compensation (including fees, salaries, housing allowances, other allowances and benefits in kind) paid to our Directors by the Group during each of the fiscal years 2005, 2006 and 2007 was approximately a negative of HK\$74.4 million, HK\$39.0 million and HK\$39.0 million, respectively. The negative balance for the fiscal year 2005 was due to the write back of waived emoluments of HK\$112.9 million in that year, details of which are set out below offset by a provision of directors' fees of HK\$37.4 million.

The aggregate amount of contributions to pension plans for our Directors was nil for each of the fiscal years 2005, 2006 and 2007.

No bonuses were paid or payable to our Directors by the Group for each of fiscal years 2005, 2006 and 2007.

Certain Directors waived emoluments of HK\$112.9 million during the fiscal year of 2005 as dividends were paid and/or declared by SJM to its shareholders, who are also Directors, during the year ending 31 December 2004. No Directors waived any emoluments during the fiscal years 2006 and 2007.

Save as disclosed, no other emoluments have been paid or are payable, in respect of the fiscal years 2005, 2006 and 2007 to our Directors.

The five highest paid individuals were four executive Directors and one member of the senior management of the Company in each of 2005, 2006 and 2007, whose compensation has been included in the aggregate compensation of the Directors above. Excluding the compensation of these Directors, the aggregate amount of fees, salaries, housing allowances, and contributions to retirement benefits plan, bonuses paid or receivable, amounts paid or receivable as an inducement to join or upon joining of our Company, compensation paid or receivable for the loss of any office in connection with the management of the affairs of any member of our Company, and other allowances and benefits in cash or in kind paid by our Company to the five highest paid individuals of our Company during the fiscal years 2005, 2006 and 2007 was approximately a negative of HK\$69.2 million, HK\$40.4 million and HK\$44.4 million, respectively.

Under the compensation arrangements currently in force, we estimate that the aggregate remuneration (including benefits in kind) of our Directors payable for the year ending 31 December 2008 will be approximately HK\$39.8 million.

#### **RETIREMENT SCHEME**

We participate in defined contribution retirement plans for our employees who enter into employment contracts with us. We are required to contribute a portion of our employees' total wages to our Company's pension plan. Our contributions for the years 2005, 2006 and 2007 were approximately HK\$33.5 million, HK\$19.3 million and HK\$49.9 million, respectively. In addition, employees who are eligible for participating in the pension plan currently pay a percentage of their individual salaries as contribution to the pension scheme. Upon retirement, the employees are entitled to a pension payment from the scheme.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following Shareholders (other than Directors) will, immediately following completion of the Global Offering and the Capitalisation Issue, without taking into account the Shares that may be issued pursuant to the exercise of the Over-Allotment Option, be Substantial Shareholders under the Listing Rules:

Name	Number of Shares directly or indirectly held after Global Offering	Approximate percentage of Shareholding in the Company after Global Offering
STDM <sup>(1)</sup> .....	3,049,987,500	61%
STDM - Investments <sup>(1)</sup> .....	3,049,987,500	61%

(1) STDM directly holds a 99.99% interest in STDM - Investments. The remaining 0.01% interest is held by Dr. Ho.

Save as disclosed above, the Directors are not aware of any person not being a Director who will, immediately following the completion of the Global Offering, be directly or indirectly interested in 10% or more of our issued share capital carrying the right to vote in all circumstances at general meetings of the Company.

## SHARE CAPITAL

The authorised and issued share capital of the Company is as follows:

	<b>Authorised share capital</b>
	<b>(HK\$)</b>
<b>Number of Shares comprised in the authorised share capital:</b>	
15,000,000,000 Shares .....	15,000,000,000

Assuming the Over-Allotment Option is not exercised, the share capital of the Company immediately following the Global Offering will be as follows:

	<b>Issued share capital</b>
	<b>(HK\$)</b>
<b>Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering</b>	
270,000,000 in issue at the date of this Prospectus .....	270,000,000
3,480,000,000 Shares to be issued pursuant to the Capitalisation Issue .....	3,480,000,000
1,250,000,000 Shares to be issued in the Global Offering .....	1,250,000,000
<b>Total</b> .....	<b>5,000,000,000</b>

### *Assumptions*

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Global Offering and the Capitalisation Issue are made.

### *Ranking*

The Offer Shares, including the Shares issuable pursuant to the Over-Allotment Option, will rank pari passu in all respects with all other Shares in issue as mentioned in this Prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this Prospectus.

### FUTURE PLANS AND PROSPECTS

We intend to achieve sustainable growth for our business and to maximise the return on our Shareholders' investment. Our strategy to accomplish this plan includes the following four main components:

- We seek to grow SJM's business through the development of strategically located gaming clusters in Macau to target different segments of the gaming market.
- We seek to improve our operating margins through cost reduction initiatives and improvement of efficiency.
- SJM will continue to actively manage its portfolio by expanding and upgrading its existing casinos in line with our development strategy to improve their overall yield.
- We seek to better leverage our financial structure and maintain an attractive return to Shareholders by adopting a prudent level of debt financing and an appropriate dividend policy.

We have developed specific plans for achieving these strategies. For further details, see the section headed "Business — Our Business Strategies" in this Prospectus.

### USE OF PROCEEDS

We estimate that our net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, will be approximately HK\$3,992.4 million (US\$511.9 million) (assuming an Offer Price of HK\$3.58 per Share, being the mid-point of our offer price range of HK\$3.08 to HK\$4.08 per Share, and that the Over-Allotment Option is not exercised). If the Over-Allotment Option is exercised in full, our net proceeds calculated on the same assumption will increase to approximately HK\$4,640.2 million (US\$594.9 million). The Company currently plans to use the net proceeds from the Global Offering as follows:

- Approximately HK\$1,300.0 million of the net proceeds will be used to partly finance SJM's acquisition of interests in the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A. For further details in respect of these acquisitions, see "Relationship with our Controlling Shareholders —Purchase Option Agreements between STDM and SJM";
- Approximately HK\$2,293.2 million of the net proceeds will be used for part of SJM's project funding, including for the Grand Lisboa, Ponte 16, Oceanus, The Pearl and L'Hermitage. For further details in respect of the expected investments and time for development and completion of these projects, see "Financial Information — Historical and Planned Capital Expenditures"; and
- The balance of approximately HK\$399.2 million (or 10%) of the net proceeds will be used for general corporate purposes.

Pending the use of the net proceeds of the Global Offering for the purposes described above, we intend to place the net proceeds, to the extent permitted by relevant laws and regulations, in short-term deposits with authorised financial institutions and/or licensed banks in Hong Kong and in Macau.



## FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is set at the lowest end of the price range (HK\$3.08 per Share) and the Over-Allotment Option is not exercised at all, the net proceeds will be approximately HK\$3,388.4 million. As a result of the reduced amount raised, only approximately HK\$1,749.5 million will be used for future project funding purposes and approximately HK\$338.8 million for general corporate purposes. The application of the net proceeds to finance SJM's acquisitions remains unchanged as above.

If the Offer Price is set at the highest end of the price range (HK\$4.08 per Share) and the Over-Allotment Option is not exercised at all, the net proceeds will be approximately HK\$4,596.5 million. In the event that the Offer Price is set at the highest end of the price range, the additional net proceeds will be used for future project funding purposes. The amount used for general corporate purposes will not exceed 10% of the total net proceeds.

In the event that the Over-Allotment Option is exercised in full, and assuming an Offer Price of HK\$3.08 per Share, being the lowest end of the price range, the additional net proceeds in excess of the net proceeds with an Offer Price at the lowest end of the price range (HK\$3.08 per Share), and no exercise of the Over-Allotment Option will be approximately HK\$557.3 million. If the Offer Price is set at the highest end of the price range and with the full exercise of the Over-Allotment Option, the additional net proceeds in excess of the net proceeds with an Offer Price at the highest end of the price range (HK\$4.08 per Share) and no exercise of the Over-Allotment Option will be approximately HK\$738.2 million. Such additional net proceeds will be used for future project funding purposes.

## **HONG KONG UNDERWRITERS**

### ***Lead Manager***

Deutsche Bank AG, Hong Kong Branch

### ***Co-Managers***

**(In alphabetical order)**

China Everbright Securities (HK) Limited  
First Shanghai Securities Limited  
Taifook Securities Company Limited

## **UNDERWRITING ARRANGEMENTS AND EXPENSES**

### ***Hong Kong Public Offering***

#### **Hong Kong Underwriting Agreement**

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Public Offering Shares for subscription by the public in Hong Kong and by Eligible Employees under the Employee Preferential Offer on and subject to the terms and conditions of this Prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-Allotment Option) and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Public Offering Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional.

#### **Grounds for termination**

The obligations of Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Public Offering Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) subject to the relevant provisions in the Hong Kong Underwriting Agreement, any of the representations, warranties and undertakings given by the Company in the Hong Kong Underwriting Agreement are untrue, inaccurate or misleading or there has been a material breach by the Company of any of the provisions of the Hong Kong Underwriting Agreement; or
- (b) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this Prospectus and not having been disclosed in this Prospectus, constitute a material omission; or

## UNDERWRITING

- (c) any statement contained in this Prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect; or
- (d) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:
  - (i) any change or development, or any event or series of events likely to result in any change or development, in local, national or international financial, political, economic, legal, military, industrial, fiscal, regulatory, currency exchange or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system in Macau, Hong Kong, the U.S. or the United Kingdom or any other jurisdiction considered by the Global Coordinator to be relevant; or
  - (ii) any new law or change in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Macau, Hong Kong or the PRC (insofar as it relates to restricting travel) ; or
  - (iii) any event of force majeure affecting Macau, the PRC, Hong Kong, the U. S. or the United Kingdom including, without limiting the generality thereof, any act of God, war, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is declared or has been declared) or other state of emergency or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of infectious disease, calamity, crisis, strike or lock-out (whether or not covered by insurance); or
  - (iv) a suspension or material limitation in trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market or the London Stock Exchange or a material disruption in commercial banking or securities settlement or clearing services in the U.S., the United Kingdom, Hong Kong or Macau, or a general moratorium on commercial banking activities in Hong Kong, Macau, New York or London declared by the relevant authorities, due to exceptional financial circumstances or otherwise; or
  - (v) a change or development involving a prospective change in taxation (including, without limitation, any transfer taxes, duties or withholding taxes) or exchange control (or the implementation of any exchange control) or currency exchange rates or foreign investment regulations in Macau, Hong Kong or the BVI; or
  - (vi) any change or prospective change in the business, prospects or the financial or trading position or results of operations of our Group; or
  - (vii) any material development in existing litigations, any material litigation or claim being threatened or instigated against, or having, or may have, an effect on, any member of the Group;

which, in the sole opinion of the Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (a) is or will be, or is likely to be, materially adverse to the general affairs, management, business, financial, trading or other condition or prospects of the Group or to any present or prospective shareholder of the Company in its capacity as such; or

## UNDERWRITING

- (b) has or will have or is likely to have a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or subscribed for or the distribution of the Offer Shares or dealings in the Shares in the secondary market; or
- (c) makes it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the International Offering or the delivery of the Offer Shares on the terms and in the manner contemplated in the offer documents, including this Prospectus, the Application Forms, the preliminary offering circular and the final offering circular,

then the Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) may in its sole and absolute discretion (and, in the case of the development, occurrence or happening of any event, matter or circumstance referred to in paragraph (d) above, after consultation with the Company where practicable), and upon giving notice in writing to the Company on or prior to 8:00 a.m. on the Listing Date (with a copy of such notice to the other Hong Kong Underwriters), terminate the Hong Kong Underwriting Agreement with immediate effect.

### *Undertakings*

#### **By the Company**

The Company has, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Global Coordinator, the Sponsor and the Hong Kong Underwriters, that except pursuant to the Global Offering (including pursuant to the exercise of the Over-Allotment Option), and save as pursuant to any share option scheme that may be adopted by the Company, it will not without the prior written consent of the Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (a) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending six months after the Listing Date (the “First Six-Month Period”):
  - (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly assign, conditionally or unconditionally, or repurchase, any of the share capital or other securities of the Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive any such capital or securities or any interest therein); or
  - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
  - (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
  - (iv) agree or contract to, or publicly disclose that the Company will or may enter into, any transaction described in (i), (ii) or (iii) above,

whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of such Shares and/or such other securities, in cash or otherwise;

- (b) during the six-month period immediately following the First Six-Month Period (the “Second Six-Month Period”), enter into any of the transactions in paragraphs (a)(i) or (ii) above or agree or contract to, or publicly announce an intention to enter into any such

transaction without taking all reasonable steps to ensure that such act and transaction will not create a disorderly or false market for the Shares in breach of any relevant laws or regulations, any other shares or other securities of the Company; and

- (c) for the purposes of the Company's undertaking mentioned above, if (1) during the last 17 days of the Second Six-Month Period, (A) the Company releases earnings results or (B) material news or a material event relating to the Company occurs, or (2) prior to the expiration of the Second Six-Month Period, the Company announces that it will release earnings results during the 16-day period following the last day of the Second Six-Month Period, then in each case the Second Six-Month Period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of material news or a material event relating to the Company, as the case may be, unless the Global Coordinator waives, in writing, such extension.

**By the Controlling Shareholders**

Each Controlling Shareholder has further undertaken to each of the Global Coordinator, the Sponsor and the Hong Kong Underwriters that, save pursuant to any stock lending arrangements agreed between Dr. Ho and the Global Coordinator in connection with the Global Offering, without the prior written consent of the Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (i) during the First Six-Month Period, it will not:
- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or
  - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
  - (c) enter into any transaction with the same economic effect as any transaction described in (i)(a) or (b) above; or
  - (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) (a) or (b) or (c) above,

whether any such transaction described in (i) (a) or (b) or (c) above is to be settled by delivery of such capital or securities, in cash or otherwise; and

- (ii) during the Second Six-Month Period, it will not enter into any of the foregoing transactions in paragraphs (i)(a), (b) or (c) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal, it will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of the Company;
- (iii) until the expiry of the Second Six-Month Period, in the event that it enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company; and

- (iv) if (1) during the last 17 days of the Second Six-Month Period, (A) the Company releases earnings results or (B) material news or a material event relating to the Company occurs, or (2) prior to the expiration of the Second Six-Month Period, the Company announces that it will release earnings results during the 16-day period following the last day of the Second Six-Month Period, then in each case the Second Six-Month Period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of material news or a material event relating to the Company, as the case may be, unless the Global Coordinator waives, in writing, such extension.

Each of STDM and STDM – Investments has further undertaken to each of the Global Coordinator, the Sponsor and the Hong Kong Underwriters that, if at any time from the date of this prospectus up to and including the date which is 12 months from the Listing Date, it shall:

- (a) when it pledges or charges any securities or interests in the securities of the Company legally or beneficially owned by it, immediately inform the Company and the Global Coordinator in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when it receives any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be disposed of, immediately inform the Company and the Global Coordinator in writing of such indications.

#### **By the Non-controlling Shareholders**

Each of Dr. So Shu Fai, Mr. Ng Chi Sing, Mr. Rui José da Cunha, Ms. Leong On Kei, Angela and United Glory (the “Non-controlling Shareholders”) has undertaken to each of the Global Coordinator, the Sponsor and the Hong Kong Underwriters that, without the prior written consent of the Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (i) during the First Six-Month Period, it will not:
  - (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or
  - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
  - (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
  - (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above,

whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of such capital or securities, in cash or otherwise; and

- (ii) for the purpose of the non-controlling Shareholders' undertaking mentioned above, if (1) during the last 17 days of the First Six-Month Period, (A) the Company releases earnings results or (B) material news or a material event relating to the Company occurs, or (2) prior to the expiration of the First Six-Month Period, the Company announces that it will release earnings results during the 16-day period following the last day of the First Six-Month Period, then in each case the First Six-Month Period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of material news or a material event relating to the Company, as the case may be, unless the Global Coordinator waives, in writing, such extension.

***Further undertakings to the Stock Exchange pursuant to the Listing Rules***

**By the Company**

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

**By the Controlling Shareholders**

Pursuant to Rule 10.07(1), each Controlling Shareholder has undertaken to the Stock Exchange that, except pursuant to the Stock Borrowing Agreement, where applicable, he or it shall not and shall procure that the relevant registered holder(s) of the Share(s) will not:

- (i) in the period commencing on the date by reference to which disclosure of his or its shareholding in the Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares or securities of our Company in respect of which he or it is shown by this prospectus to be the beneficial owner; and
- (ii) in the period of six months commencing on the date on which the period referred to in paragraph (i) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances he or it would cease to be our controlling shareholder (as defined in the Listing Rules).

Each Controlling Shareholder has also undertaken to the Stock Exchange that, within the period commencing on the date by reference to which disclosure of his or its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he or it will:

- (i) when he or it pledges or charges any Shares or other securities of our Company beneficially owned by him or it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or other securities so pledged or charged and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible; and

- (ii) when he or it receives any indications, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or securities will be disposed of, immediately inform us of any such indications and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

### ***Underwriting Commission***

The Hong Kong Underwriters will receive an aggregate underwriting commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Public Offering Shares, out of which they will pay any sub-underwriting commission. For unsubscribed Hong Kong Public Offering Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Global Coordinator and the relevant International Underwriters (but not the Hong Kong Underwriters).

### ***Hong Kong Underwriters' Interest in our Company***

None of the Hong Kong Underwriters has any shareholding interests in the Group or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

Save as disclosed above, none of the Sponsor and the Hong Kong Underwriters is legally or beneficially interested in any Shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members nor any interest in the Global Offering.

### ***International Offering***

#### **International Underwriting Agreement**

In connection with the International Offering, we plan to enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally to underwrite the International Offering Shares being offered pursuant to the International Offering.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-Allotment Option, exercisable by the Global Coordinator on behalf of the International Underwriters from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 187,500,000 additional Shares representing aggregate not more than 15% of the maximum number of Offer Shares initially offered under the Global Offering. These additional Shares will be issued at the Offer Price and will be solely for the purpose of covering over-allocations, if any, in the International Offering.

### ***Total Expenses***

Assuming the Over-Allotment Option is not exercised at all and based on an Offer Price of HK\$3.58 per Share, being the mid-point of our offer price range of HK\$3.08 to HK\$4.08 per Share, the aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$482.6 million, are payable by the Company.