



銀娛GEG

銀河娛樂集團有限公司
Galaxy Entertainment Group Limited

Stock Code: 27

2018

ANNUAL REPORT



OUR VISION

**Galaxy's vision is to be:
Globally recognized as Asia's leading gaming and
entertainment corporation. This vision will be achieved
through adhering to our proven business philosophy.**

GALAXY'S BUSINESS PHILOSOPHY

LOCAL MARKET INSIGHTS

Leveraging Chinese heritage and deep understanding of Asian and Chinese customer preferences

PROVEN EXPERTISE

Focus on ROI (return on investment) with prudent CAPEX (capital expenditure) plan, proven construction and hotel expertise, and controlled development

WELL POSITIONED

Position Galaxy as a leading operator of integrated gaming, leisure and entertainment facilities

DEMAND DRIVEN STRATEGY

Monitor the market's developments and expand prudently in a timely manner



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CORPORATE INFORMATION

CHAIRMAN

Dr. Lui Che Woo, *GBM, MBE, JP, LLD, DSSc, DBA*

DEPUTY CHAIRMAN

Mr. Francis Lui Yiu Tung

EXECUTIVE DIRECTORS

Mr. Joseph Chee Ying Keung

Ms. Paddy Tang Lui Wai Yu, *BBS, JP*

NON-EXECUTIVE DIRECTORS

Dr. Charles Cheung Wai Bun, *JP*

Mr. Michael Victor Mecca

INDEPENDENT

NON-EXECUTIVE DIRECTORS

Mr. James Ross Ansell

Dr. William Yip Shue Lam, *LLD*

Professor Patrick Wong Lung Tak, *BBS, JP*

EXECUTIVE BOARD

Dr. Lui Che Woo, *GBM, MBE, JP, LLD, DSSc, DBA*

Mr. Francis Lui Yiu Tung

Mr. Joseph Chee Ying Keung

Ms. Paddy Tang Lui Wai Yu, *BBS, JP*

AUDIT COMMITTEE

Mr. James Ross Ansell (*Chairman*)

Dr. William Yip Shue Lam, *LLD*

Professor Patrick Wong Lung Tak, *BBS, JP*

Dr. Charles Cheung Wai Bun, *JP*

REMUNERATION COMMITTEE

Dr. William Yip Shue Lam, *LLD (Chairman)*

Mr. Francis Lui Yiu Tung

Professor Patrick Wong Lung Tak, *BBS, JP*

NOMINATION COMMITTEE

Dr. William Yip Shue Lam, *LLD (Chairman)*

Mr. Francis Lui Yiu Tung

Professor Patrick Wong Lung Tak, *BBS, JP*

CORPORATE GOVERNANCE COMMITTEE

Mr. Francis Lui Yiu Tung (*Chairman*)

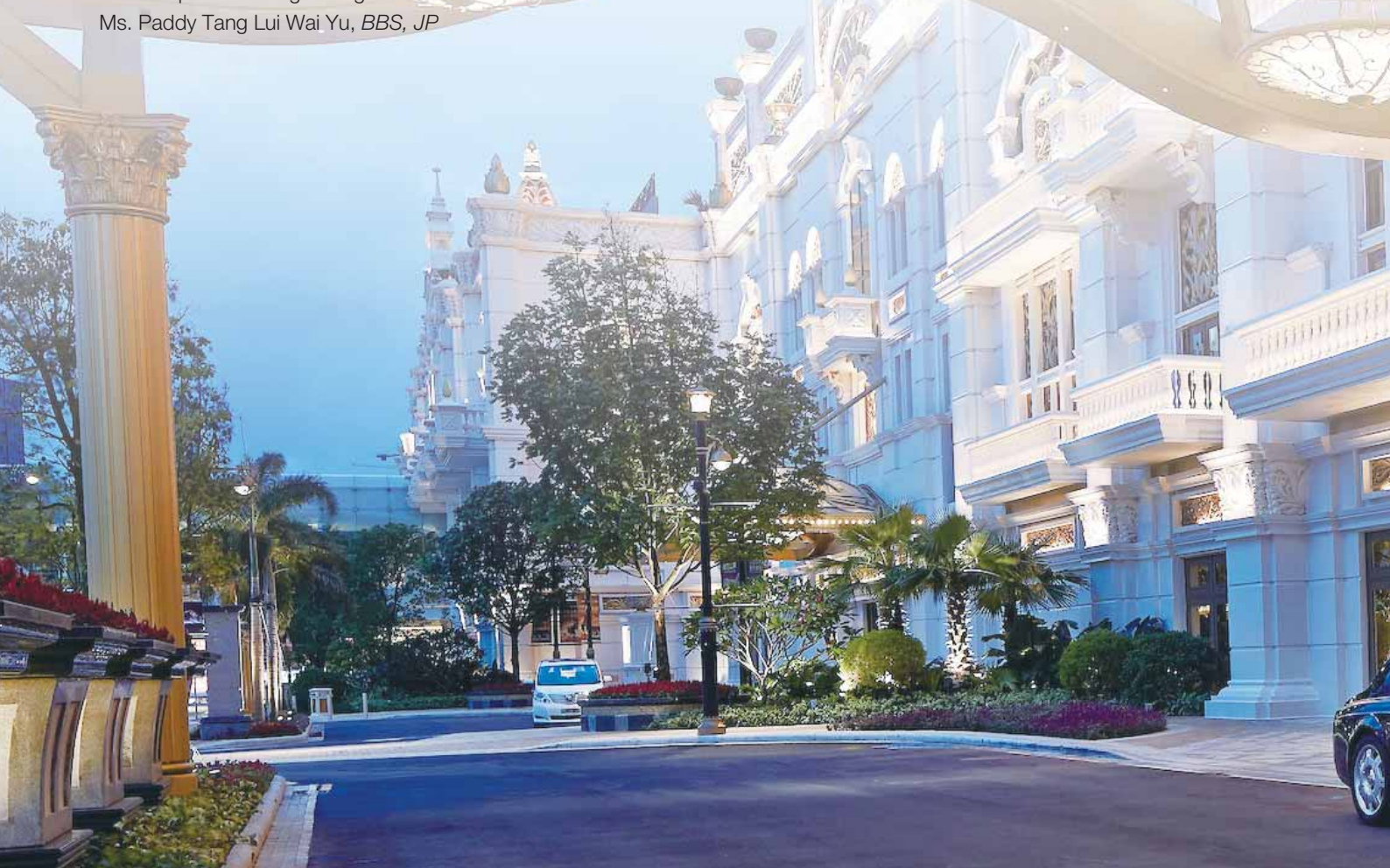
Mr. James Ross Ansell

Professor Patrick Wong Lung Tak, *BBS, JP*

Dr. Charles Cheung Wai Bun, *JP*

COMPANY SECRETARY

Mrs. Jenifer Sin Li Mei Wah



CORPORATE INFORMATION

INDEPENDENT AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

22nd Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

SHARE REGISTRAR

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

PRINCIPAL BANKERS#

Banco Nacional Ultramarino, S.A.
Bank of China Limited, Macau Branch
DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Macau) Limited
The Hongkong and Shanghai Banking Corporation Limited

listed in alphabetical order

SOLICITORS*

Jorge Neto Valente, Escritório de Advogados e Notários
Linklaters

* listed in alphabetical order

SHARE LISTING

The Stock Exchange of Hong Kong Limited ("SEHK")

STOCK CODE

SEHK : 27
Bloomberg : 27 HK
Reuters : 0027.HK

INVESTOR RELATIONS CONTACT

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CORPORATE PROFILE

Galaxy Entertainment Group (“GEG”, “the Company” or “the Group”) is one of the world’s leading resorts, hospitality and gaming companies. The Group primarily develops and operates a large portfolio of integrated resort, retail, dining, hotel and gaming facilities in Macau. The Group is listed on the Hong Kong Stock Exchange and is a constituent stock of the Hang Seng Index.

GEG is one of the three original concessionaires in Macau with a successful track record of delivering innovative, spectacular and award-winning properties, products and services, underpinned by a “World Class, Asian Heart” service philosophy, that has enabled it to consistently outperform and lead the market in Macau.

GEG operates three flagship destinations in Macau: on Cotai, Galaxy Macau™, one of the world’s largest integrated destination resorts, and the adjoining Broadway Macau™, a unique landmark entertainment and food street destination; and on the Peninsula, StarWorld Macau, an award-winning premium property.

GALAXY MACAU™

- Opened in May 2011; significantly expanded in May 2015 with the opening of Phase 2
- Footprint of one million square meters
- Comprises five world-class hotels with approximately 3,600 rooms, suites and villas, including:
 - The Ritz-Carlton, Macau
 - Banyan Tree Macau
 - JW Marriott Hotel Macau
 - Hotel Okura Macau
 - Galaxy Hotel™
- Features an unprecedented range of retail, food & beverage, entertainment and leisure options, including:
 - Over 100,000 square meters of retail space with approximately 200 luxury and lifestyle retail brands
 - From award-winning restaurants, authentic Chinese and international favorites, to the best selection of outlets from all around Asia, Galaxy Macau™ features approximately 120 dining options for the widest range of pan-Asian and international cuisines under one roof
 - The Grand Resort Deck of over 75,000 square meters with the world’s longest skytop river ride “Skytop Adventure Rapids” at 575 meters and the world’s largest “Skytop Wave Pool”, plus additional leisure amenities and Asian themed tropical gardens
 - Macau’s most luxurious 10-screen 3D Cineplex – UA Galaxy Cinemas



CORPORATE PROFILE

STARWORLD MACAU

- Opened in 2006 as the Group's first 5-star hotel
- Located in the heart of the Macau Peninsula
- Multi award-winning premium property
- Offers over 500 guestrooms and suites
- Offers sophisticated Chinese and international cuisines



BROADWAY MACAU™

- Opened in May 2015; Broadway Macau™ represents a new concept in Macau, providing visitors with a vibrant food street and entertainment district showcasing the best of Macanese and Asian culture
- Broadway Hotel with approximately 320 rooms and suites, well priced and complementing the luxury properties at Galaxy Macau™
- Approximately 3,000 seat Broadway Theatre featuring the best in up-close-and-personal entertainment
- Over 30 popular dining options including authentic local dishes and Asian favorites served in restaurants and roadside hawker stalls

The Group has the largest development pipeline of any casino operators in Macau. It plans to expand its Cotai footprint by a further one million square meters in the coming years with the addition of Cotai Phases 3 & 4.

GEG continues to advance its conceptual plans to develop a world class destination resort on a 2.7 square kilometer land parcel on Hengqin. The low rise, low density resort will complement the Group's high energy properties in Macau.

In July 2015, GEG made a strategic investment in Société Anonyme des Bains de Mer et du Cercle des Étrangers à Monaco ("Monte-Carlo SBM"), a world renowned owner and operator of iconic luxury hotels and resorts in the Principality of Monaco. GEG continues to explore a range of international development opportunities including in Japan.

GEG is committed to building a sustainable future for Macau and contributing to the local community. In July 2014, it launched the HK\$1.3 billion Galaxy Entertainment Group Foundation, which will focus on educating and empowering the young people of Macau and Mainland China.



FINANCIAL & OPERATIONAL HIGHLIGHTS

Group

- Net Revenue* of HK\$55.2 billion, increased 14% year-on-year
- Adjusted EBITDA of HK\$16.9 billion, increased 19% year-on-year
- Net profit attributable to shareholders ("NPAS") of HK\$13.5 billion, increased 29% year-on-year
- Adjusted NPAS of HK\$14.1 billion, increased 28% year-on-year after adjusting for non-recurring charges
- Played unlucky in gaming operations which decreased Adjusted EBITDA by approximately HK\$484 million in 2018. Normalized Adjusted EBITDA grew 22% year-on-year to HK\$17.3 billion
- As of 31 December 2018, balance sheet remains healthy with cash and liquid investments of HK\$45.8 billion and net cash of HK\$37.0 billion
- Paid two special dividends of HK\$0.41 and HK\$0.50 per share on 27 April 2018 and 26 October 2018 respectively. Subsequently announced another special dividend of HK\$0.45 per share payable on or about 26 April 2019



Galaxy Macau™

- Net Revenue* of HK\$39.5 billion, increased 14% year-on-year
- Adjusted EBITDA of HK\$12.9 billion, increased 16% year-on-year
- Played unlucky in gaming operations which decreased Adjusted EBITDA by approximately HK\$434 million in 2018. Normalized Adjusted EBITDA grew 19% year-on-year to HK\$13.3 billion
- Hotel occupancy for 2018 across the five hotels was virtually 100%
- Non-gaming revenue of HK\$4.5 billion, increased 8% year-on-year



StarWorld Macau

- Net Revenue* of HK\$12.2 billion, increased 18% year-on-year
- Adjusted EBITDA of HK\$3.8 billion, increased 28% year-on-year
- Played unlucky in gaming operations which decreased Adjusted EBITDA by approximately HK\$48 million in 2018. Normalized Adjusted EBITDA grew 30% year-on-year to HK\$3.9 billion
- Hotel occupancy for 2018 was virtually 100%
- Non-gaming revenue of HK\$500 million, decreased 2% year-on-year



Broadway Macau™

- Net Revenue* of HK\$562 million, increased 9% year-on-year
- Adjusted EBITDA of HK\$32 million (FY2017: HK\$10 million)
- Played unlucky in gaming operations which decreased Adjusted EBITDA by approximately HK\$2 million in 2018. Normalized Adjusted EBITDA was HK\$34 million (FY2017: HK\$12 million)
- Hotel occupancy for 2018 was 97%
- Non-gaming revenue of HK\$290 million, increased 13% year-on-year



* Net Revenue is calculated in accordance with the new accounting standard and net revenue in 2017 is restated for comparison.

FINANCIAL & OPERATIONAL HIGHLIGHTS

Development Update

- Cotai Phases 3 & 4 – Continue to move forward with Phases 3 & 4, with a strong focus on non-gaming, primarily targeting Meetings Incentives Conference and Events (MICE), entertainment, family facilities and also including gaming
- Hengqin – Plans moving forward to develop a low-density integrated resort to complement our high-energy entertainment resorts in Macau
- International – Continuously exploring opportunities in overseas markets, including Japan



FINANCIAL & OPERATIONAL HIGHLIGHTS

GROUP

Key Financial Data

(HK\$'m)	2017 (restated)	2018
Revenues:		
Net Gaming	40,624	47,025
Non-gaming	4,949	5,298
Construction Materials	3,067	2,888
Total Net Revenue ¹	48,640	55,211
Adjusted EBITDA	14,147	16,857



Key Financial Metrics

	2017	2018
Net Profit Attributable To Shareholders (HK\$'m)	10,504	13,507
Earnings Per Share (HK cents)	245.1	312.8
Total Assets (HK\$'m)	83,815	87,384
Cash and Liquid Investments (HK\$'m)	41,393	45,837
Debt (HK\$'m)	9,944	9,055
Share Price on 31 December (HK\$)	62.7	49.8
Market Capitalization (HK\$'m)	270,120	215,385

¹ Total net revenue is reported under the new accounting standard and the corresponding figures for past periods are restated.

FINANCIAL & OPERATIONAL HIGHLIGHTS

GALAXY MACAU™

Key Financial Data

(HK\$'m)	FY2017 (restated)	FY2018
Revenues:		
Net Gaming	30,500	34,983
Hotel/F&B/Others	3,279	3,385
Mall	906	1,123
Total Net Revenue ²	34,685	39,491
Adjusted EBITDA	11,130	12,871

Gaming Statistics³

(HK\$'m)	FY2017	FY2018
Rolling Chip Volume	621,525	775,429
Win Rate %	3.7%	3.5%
Win	23,060	27,423
Mass Table Drop ⁴	59,041	70,286
Win Rate %	28.2%	26.7%
Win	16,664	18,746
Electronic Gaming Volume	46,062	52,778
Win Rate %	4.0%	3.9%
Win	1,842	2,082
Total GGR Win	41,566	48,251

² Total net revenue is reported under the new accounting standard and the corresponding figures for past periods are restated.

³ Gaming statistics are presented before deducting commission and incentives.

⁴ Mass table drop includes the amount of table drop plus cash chips purchased at the cage.

FINANCIAL & OPERATIONAL HIGHLIGHTS

STARWORLD MACAU

Key Financial Data

(HK\$'m)	FY2017 (restated)	FY2018
Revenues:		
Net Gaming	9,758	11,659
Hotel/F&B/Others	461	449
Mall	48	51
Total Net Revenue ⁵	10,267	12,159
Adjusted EBITDA	2,966	3,810

Gaming Statistics⁶

(HK\$'m)	FY2017	FY2018
Rolling Chip Volume	278,575	323,063
Win Rate %	2.9%	3.0%
Win	8,213	9,654
Mass Table Drop ⁷	29,509	36,375
Win Rate %	19.0%	18.5%
Win	5,609	6,723
Electronic Gaming Volume	6,472	7,585
Win Rate %	2.3%	2.3%
Win	146	172
Total GGR Win	13,968	16,549

⁵ Total net revenue is reported under the new accounting standard and the corresponding figures for past periods are restated.

⁶ Gaming statistics are presented before deducting commission and incentives.

⁷ Mass table drop includes the amount of table drop plus cash chips purchased at the cage.

FINANCIAL & OPERATIONAL HIGHLIGHTS

BROADWAY MACAU™

Key Financial Data

(HK\$'m)	FY2017 (restated)	FY2018
Revenues:		
Net Gaming	258	272
Hotel/F&B/Others	216	246
Mall	40	44
Total Net Revenue ⁸	514	562
Adjusted EBITDA	10	32

Gaming Statistics⁹

(HK\$'m)	FY2017	FY2018
Mass Table Drop ¹⁰	1,456	1,404
Win Rate %	18.0%	18.4%
Win	262	259
Electronic Gaming Volume	1,019	2,008
Win Rate %	3.0%	2.3%
Win	31	46
Total GGR Win	293	305

⁸ Total net revenue is reported under the new accounting standard and the corresponding figures for past periods are restated.

⁹ Gaming statistics are presented before deducting commission and incentives.

¹⁰ Mass table drop includes the amount of table drop plus cash chips purchased at the cage.

FINANCIAL CALENDAR FOR SPECIAL DIVIDEND AND 2019 AGM

Book close dates for Special Dividend	:	27 March 2019 (Wednesday) to 29 March 2019 (Friday) (both days inclusive)
Record date for Special Dividend	:	29 March 2019 (Friday)
Ex-dividend date	:	25 March 2019 (Monday)
Expected payment date	:	26 April 2019 (Friday)
Latest time to lodge transfer documents with the Company's share registrar to entitle Special Dividend	:	4:30 p.m. on 26 March 2019 (Tuesday)
Book close dates for 2019 AGM	:	10 May 2019 (Friday) to 16 May 2019 (Thursday) (both days inclusive)
Record date for 2019 AGM	:	16 May 2019 (Thursday)
Date and time of 2019 AGM	:	3:00 p.m. on 16 May 2019 (Thursday)
Latest time to lodge transfer documents with the Company's share registrar to attend and vote at 2019 AGM	:	4:30 p.m. on 9 May 2019 (Thursday)
Latest time to lodge proxy forms with the Company's registered office at 22nd Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong	:	3:00 p.m. on 14 May 2019 (Tuesday)
Name and address of the Company's share registrar	:	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong



CHAIRMAN'S STATEMENT



Chairman

Dr. Lui Che Woo

GBM, MBE, JP, LLD, DSSc, DBA

DEAR SHAREHOLDERS,

It is with pleasure that I write to update you on the performance of our Company in 2018.

Despite continuing competitive openings in both Macau and regionally, as well as a number of geo-political and economic issues that affected consumer sentiment, GEG continued to deliver solid financial results in 2018. These solid results were due to our efforts in driving every segment of the business with a particular focus on the mass business and continuing to allocate resources to their most efficient use.

The Group maintained a healthy balance sheet. Our cash flows from operations combined with our balance sheet allowed us to pay two special dividends of HK\$0.41 and HK\$0.50 per share in 2018 and we announced another special dividend of \$0.45 per share payable on or about 26 April 2019. The Group will continue to focus on its growth development pipeline and international expansion ambitions. Additionally, we purchased a minority equity stake of approximately 4.9% of Wynn Resorts in 2018.

CHAIRMAN'S STATEMENT

During 2018, Macau experienced another strong typhoon in September which resulted for the first time in the closure of casinos for a modest period of time. Due to the careful planning by the Macau government, damage to Macau and properties was minimal and there were only minor personal injuries but more importantly there were no fatalities.

Overall, Macau experienced another solid year. During the year, Macau's total gross gaming revenue grew 14% year-on-year to HK\$294.0 billion. Total visitations were 35.8 million, up 10% year-on-year. More importantly, the number of overnight visitors has been trending upwards, with an increased average length of stay to 2.2 days year-on-year.

With the largest contiguous land bank in Cotai, GEG is uniquely positioned for the medium and long-term growth in tourism and leisure throughout Asia in general and China specifically. Cotai Phases 3 & 4 will provide GEG with the opportunity to expand its non-gaming footprint even further. Meanwhile, we are seeking business opportunities overseas, such as in Japan.

We remain confident in the longer-term outlook for Macau in general and for GEG in particular. We believe that the Greater Bay Area integration plan will further facilitate the flow of people, logistics and capital within Macau, Hong Kong and the nine cities of southern Guangdong. We will continue to support and leverage on the Greater Bay Area integration plan by enhancing the competitiveness of our resort portfolio.

Nevertheless, in the shorter term, we are cautious due to a range of geo-political and economic challenges which may impact consumer confidence in 2019. Additionally the introduction of smoking restrictions in January may have an impact on consumer habits.

GEG is committed to investing in Macau's economic diversification and supports the Macau Government's initiative in transforming the city into a World Centre of Tourism and Leisure. We look forward to celebrating the 20th anniversary of Macau's handover to China and continue to support the Central Government's Greater Bay Area Initiative.

Last but not least, I would like to extend my sincere appreciation to our committed team members for their professionalism and dedication in maintaining GEG's attractiveness that has helped achieve these solid financial results. We will continue to provide our renowned "World Class, Asian Heart" service to our customers.

Dr. Lui Che Woo

GBM, MBE, JP, LLD, DSSc, DBA

Chairman

Hong Kong, 28 February 2019

SELECTED MAJOR AWARDS

CORPORATE AND PROPERTIES:

Award	Presenter
GEG	
Asiamoney Asia's Outstanding Companies Poll – Most Outstanding Company in Hong Kong – Consumer Discretionary Sector	Asiamoney
Most Honored Company	Institutional Investor Magazine
Best Investor Relations Program (Overall) – First Place	– 2018 All-Asia Executive Team Survey
Best Corporate Governance (Overall) – First Place	
Best ESG SRI Metrics (Overall) – First Place	
Best Analyst Day (Overall) – First Place	
Sina 2018 Golden Lion Awards – Best Listed Companies	Sina
Best IR Company (Large Cap)	Hong Kong Investor Relations Association
Top 100 Hong Kong Listed Companies Award – Comprehensive Strength	QQ.com x Finet
Outstanding Corporate Social Responsibility Award	Mirror Post
GALAXY MACAU™	
Integrated Resort of the Year	11th International Gaming Awards
World's Leading Casino Resort 2018	The 25th World Travel Awards
Asia's Leading Casino Resort 2018	
Best Hospitality & Gaming Company 2018	APAC Hong Kong Business Awards 2018
Best Integrated Resort Award	G2E Asia Awards
Best Gaming Floor Award	
My Favorite Hotel and Resort	U Magazine Travel Awards 2018
The Supreme Award for Asia's Most Popular Resort for Family Trip	The 18th Golden Horse Awards of China Hotel
2018 Robb Report Best of the Best Awards "The Best Shopping Experience" – The Promenade Shops	Robb Report China
Best of the Best Macau Shopping Mall Star Performer 2018	Hurun Report
Five Star Hotel	2018 Forbes Travel Guide
– The Ritz-Carlton, Macau	
– Banyan Tree Macau	
Five Star Spa	
– Banyan Tree Spa Macau	
– ESPA at The Ritz-Carlton, Macau	
Hotel Merit Awards – Galaxy Hotel™	Travelling Scope – The 1st Stars Awards
Top Class Comfort Hotel – Galaxy Hotel™	The Michelin Guide Hong Kong Macau 2019

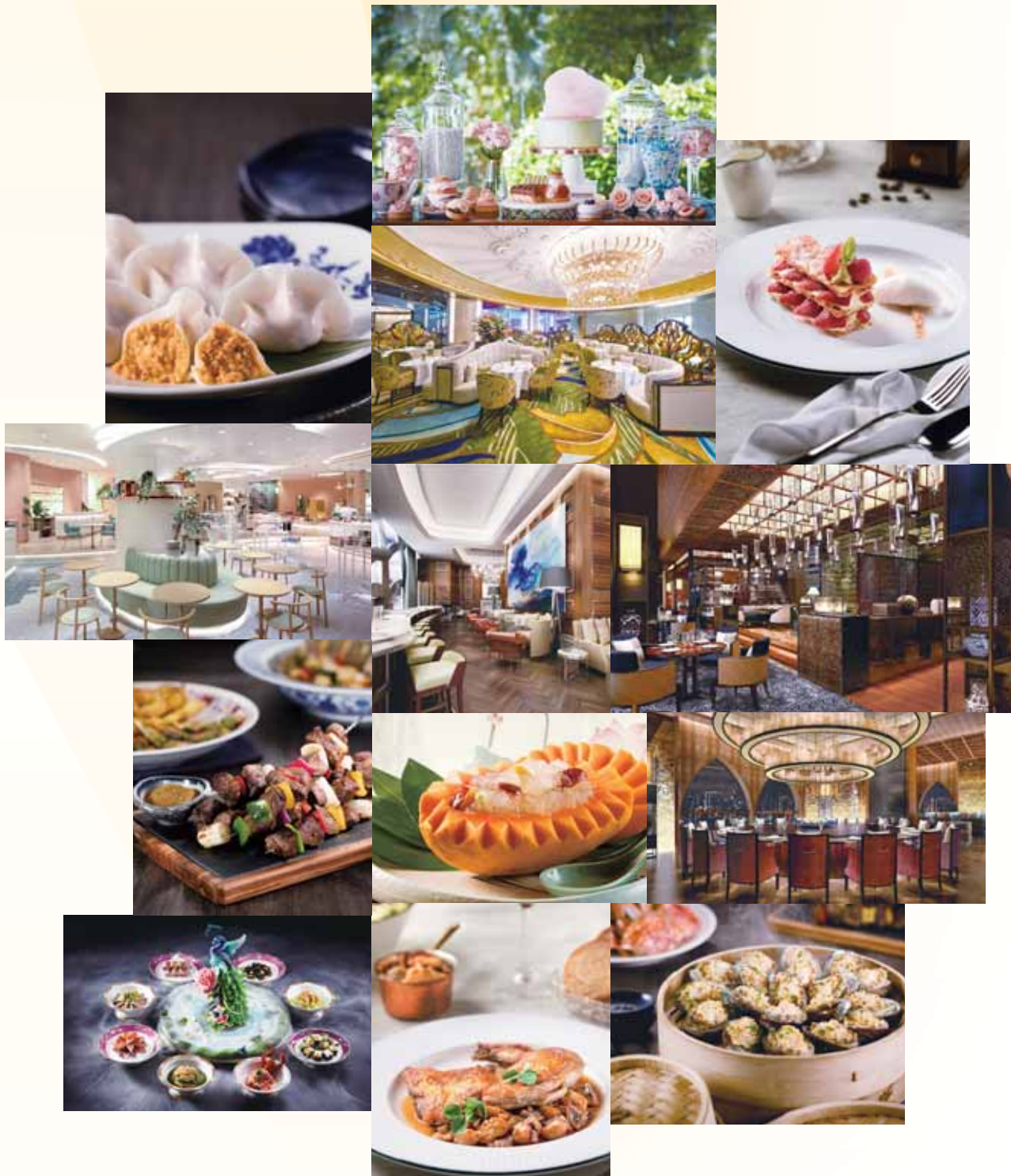
SELECTED MAJOR AWARDS

Award	Presenter
STARWORLD MACAU	
The Supreme Award for Asia's Best Hotel for Catering Services	The 18th Golden Horse Awards of China Hotel
Top Ten Charm City Hotels	The 13th International Hotel Platinum Award
Top Class Comfort Hotel	The Michelin Guide Hong Kong Macau 2019
BROADWAY MACAU™	
Business Awards of Macau 2018 – Excellence Award for Environmental Performance	Macau Business Magazine
CONSTRUCTION MATERIALS DIVISION	
Caring Company Scheme – 15 Years Plus Caring Company Logo	The Hong Kong Council of Social Service
Grand Award – Excellence in Environmental Disclosure	Hong Kong ESG Reporting Awards
Grand Award – Excellence in Sustainability Report for Non-listed Company	
Grand Award – Innovative Frontrunner Award	
Hong Kong Green Organization Certification – Wastewi\$e Certificate – Excellence Level	Environmental Campaign Committee
17th Hong Kong OSH Award – Safety Performance Award – Other Industries – Safety Management System Award – Other Industries	Occupational Safety and Health Council
Sustainable Consumption Award Scheme – Certificate of Excellence – Sustainable Consumption Enterprise Award	Business Environment Council
Green Office Award Labelling Scheme – Certificate of Recognition Green Office and Eco-Healthy Workplace Awards Labelling Scheme	World Green Organization
Social Capital Builder Logo Award	Labour and Welfare Bureau – Community Investment and Inclusion Fund
2017/18 Airport Safety Recognition Scheme – Corporate Safety Performance Award	Airport Authority Hong Kong
BOCHK Corporate Environmental Leadership Awards 2017 – EcoPartner	Federation of Hong Kong Industries/ Bank of China (Hong Kong)
Charter on External Lighting – Platinum Award	Environment Bureau

SELECTED MAJOR AWARDS

A FOOD LOVERS PARADISE

Across GEG's portfolio of resorts, we offer the largest selection of pan-Asian and international food in Macau, with an excess of 120 food and beverage outlets.



SELECTED MAJOR AWARDS

Below is a selection of food accolades that were awarded in 2018:

F&B Outlet	Award and Presenter
GALAXY MACAU™	
8½ Otto e Mezzo BOMBANA	Michelin One-Star Restaurant and Michelin Restaurants with Interesting Wine Lists – The Michelin Guide Hong Kong Macau 2019 Macau's Best Restaurants (Italian) – Hong Kong Tatler T. Dining Awards 2019 100 Top Tables 2018 – South China Morning Post Ctrip Gourmet List 2018 Two-star Restaurant 2018 Editor Recommended Restaurant – iFood 2018 My Favorite Restaurant 2018 Best of Award of Excellence – Wine Spectator's Restaurant Awards 3 Glasses – Excellent – China's Wine List of the Year Awards 2018 Three Star Wine List – The World of Fine Wine – World's Best Wine List Awards 2018
A One Spicy & Sour Noodles	Ctrip Gourmet List 2018 Flavored Restaurant
Belon	Ctrip Gourmet List 2018 Selected Restaurant
Butao Ramen	Ctrip Gourmet List 2018 Flavored Restaurant
CHA BEI	Macau's Best Restaurants (International) – Hong Kong Tatler T. Dining Awards 2019 Ctrip Gourmet List 2018 Selected Restaurant
Chilli 'N' Spice	Ctrip Gourmet List 2018 Selected Restaurant
China Rouge	Macau's Best Bar – Hong Kong Tatler T. Dining Awards 2018
Da Ge Cantonese BBQ	Ctrip Gourmet List 2018 Flavored Restaurant
DEAN & DELUCA Café	Ctrip Gourmet List 2018 Flavored Restaurant Macau's Best Restaurants (International) – Hong Kong Tatler T. Dining Awards 2019
Festiva	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme Ctrip Gourmet List 2018 Selected Restaurant
Fook Lam Moon	Michelin Plate and Michelin Restaurants with Interesting Wine Lists – The Michelin Guide Hong Kong Macau 2019 Macau's Best Restaurants (Cantonese) – Hong Kong Tatler T. Dining Awards 2019 My Favorite Hotel Restaurant in Macau – U Favorite Food Awards 2018 Recommended Restaurant – China's Wine List of the Year Awards 2018 2018 Award of Excellence – Wine Spectator's Restaurant Awards

SELECTED MAJOR AWARDS

F&B Outlet	Award and Presenter
Gosto	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
	Ctrip Gourmet List 2018 Selected Restaurant
	3 Glasses – Excellent – China’s Wine List of the Year Awards 2018
Hok Kee Congee & Noodles	Ctrip Gourmet List 2018 Flavored Restaurant
JW Marriott Hotel Macau – The Lounge	2 Glasses – Outstanding – China’s Wine List of the Year Awards 2018
Lai Heen	Michelin One-Star Restaurant – The Michelin Guide Hong Kong Macau 2019
	2018 Forbes Travel Guide Four-star Restaurant – Forbes Travel Guide
	Macau’s Best Restaurants (Cantonese) – Hong Kong Tatler T. Dining Awards 2019
	100 Top Tables 2018 – South China Morning Post
	Service Star Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
	Ctrip Gourmet List 2018 One Star Restaurant
	2 Glasses – Outstanding – China’s Wine List of the Year Awards 2018
2018 Editor Recommended Restaurant – iFood 2018 My Favourite Restaurant	
Lugang Cafe	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
Man Ho Chinese Restaurant	Macau’s Best Restaurants (Cantonese) – Hong Kong Tatler T. Dining Awards 2018
	Ctrip Gourmet List 2018 Selected Restaurant
	2 Glasses – Outstanding – China’s Wine List of the Year Awards 2018
Myung Ga	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
	Ctrip Gourmet List 2018 Selected Restaurant
Pak Loh Chiu Chow Restaurant	Macau’s Best Restaurants (Cantonese) – Hong Kong Tatler T. Dining Awards 2018
	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
	Ctrip Gourmet List 2018 Selected Restaurant
	3 Glasses – Excellent – China’s Wine List of the Year Awards 2018

SELECTED MAJOR AWARDS

F&B Outlet	Award and Presenter
Passion by Gérard Dubois	Ctrip Gourmet List 2018 Flavored Restaurant
Prima Taste Express	Ctrip Gourmet List 2018 Flavored Restaurant
Saffron	Macau's Best Restaurants (South East Asian) – Hong Kong Tatler T. Dining Awards 2018
	Ctrip Gourmet List 2018 Selected Restaurant
Terrazza Italian Restaurant	Michelin Plate and Michelin Restaurants with Interesting Wine Lists – The Michelin Guide Hong Kong Macau 2019
	2018 Forbes Travel Guide Four-Star Restaurant – Forbes Travel Guide
	Macau's Best Restaurants (Italian) – Hong Kong Tatler T. Dining Awards 2019
	Star Merchant Award and Service Star Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
	2018 Best of Award of Excellence – Wine Spectator's Restaurant Awards
	Ctrip Gourmet List 2018 Selected Restaurant
	3 Glasses – Excellent and Best Wine List Macau SAR – China's Wine List of the Year Awards 2018
	Two Star Wine List – The World of Fine Wine – World's Best Wine List Awards 2018
The Apron Oyster Bar & Grill	Macau's Best Restaurants (Steakhouse) – Hong Kong Tatler T. Dining Awards 2018
	Ctrip Gourmet List 2018 Selected Restaurant
	2 Glasses – Outstanding – China's Wine List of the Year Awards 2018
	Best Steakhouse Wine List by Customers Choice Award – China's Wine List of the Year Awards 2018
The Macallan Whisky Bar & Lounge	Macau's Best Bar – Hong Kong Tatler T. Dining Awards 2018
	Best Whisky Bar – Gold – Restaurant & Bar Hong Kong Best Spirits Awards 2018
	Ctrip Gourmet List 2018 Selected Restaurant
The Noodle Kitchen	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
	Ctrip Gourmet List 2018 Selected Restaurant

SELECTED MAJOR AWARDS

F&B Outlet	Award and Presenter
The Ritz-Carlton Bar & Lounge	Ctrip Gourmet List 2018 Selected Restaurant Asia's 50 Best Bars 2018 – Asia's 50 Best Bars Academy
The Ritz-Carlton Café	Michelin Plate – The Michelin Guide Hong Kong Macau 2019 Service Star Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme Macau's Best Restaurants (French) – Hong Kong Tatler T. Dining Awards 2018 Ctrip Gourmet List 2018 Selected Restaurant 2018 The Most Popular Buffet – iFood 2018 My Favourite Restaurant
The Spaghetti House	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
Urban Kitchen	Macau's Best Restaurants (International) – Hong Kong Tatler T. Dining Awards 2018 Ctrip Gourmet List 2018 Selected Restaurant 2 Glasses – Outstanding – China's Wine List of the Year Awards 2018 2018 The Most Popular Buffet – iFood 2018 My Favourite Restaurant
Wing's Chicken	Ctrip Gourmet List 2018 Flavored Restaurant
Yamazato	Michelin Plate – The Michelin Guide Hong Kong Macau 2019 2018 Forbes Travel Guide Recommended Restaurant – Forbes Travel Guide Macau's Best Restaurants (Japanese) – Hong Kong Tatler T. Dining Awards 2018 100 Top Tables 2018 – South China Morning Post Ctrip Gourmet List 2018 Selected Restaurant

SELECTED MAJOR AWARDS

F&B Outlet	Award and Presenter
STARWORLD MACAU	
Feng Wei Ju	Michelin Two-Star Restaurant – The Michelin Guide Hong Kong Macau 2019
	Macau's Best Restaurants (Regional Chinese) – Hong Kong Tatler T. Dining Awards 2018
	100 Top Tables 2018 – South China Morning Post
	My Favourite Hotel Restaurant in Macau – U Favourite Food Awards 2018
	Ctrip Gourmet List 2018 Selected Restaurant
Jade de Jardin	Ctrip Gourmet List 2018 Selected Restaurant
Laurel	Ctrip Gourmet List 2018 Selected Restaurant
Temptations	Ctrip Gourmet List 2018 Selected Restaurant
BROADWAY MACAU™	
Broadway Kitchen	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
Du Hsiao Yueh	Ctrip Gourmet List 2018 Favored Restaurant
Fong Seng Lai Kei Restaurant	Ctrip Gourmet List 2018 Selected Restaurant
Hang Heong Un	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
Huo Gong Dian	Star Merchant Award – First Class Restaurant – MGTO 2018 Quality Tourism Services Accreditation Scheme
Katong Corner	Ctrip Gourmet List 2018 Selected Restaurant
Lei Ka Choi	Ctrip Gourmet List 2018 Favored Restaurant
Nan Xiang Steamed Bun Restaurant	Ctrip Gourmet List 2018 Favored Restaurant
Tsui Wah Restaurant	Ctrip Gourmet List 2018 Selected Restaurant
Wa Sang Hong	Ctrip Gourmet List 2018 Favored Restaurant
Wong Kun Sio Kung	Michelin Plate – The Michelin Guide Hong Kong Macau 2019
Xin Dau Ji	Ctrip Gourmet List 2018 Selected Restaurant

MANAGEMENT DISCUSSION AND ANALYSIS

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

OVERVIEW OF MACAU GAMING MARKET

Investor sentiment throughout 2018 experienced periods of volatility. This was a result of a number of geo-political and economic issues such as global trade tensions, the slowing Chinese economy, rising interest rates, currency fluctuations and also the planned introduction of smoking restrictions, to name a few. Despite the above, gross gaming revenue (“GGR”) for full year 2018 was \$294.0 billion, up 14% year-on-year. Quarterly GGR in Q4 2018 was \$76.5 billion, up 9% year-on-year and up 7% quarter-on-quarter.

In 2018, visitor arrivals to Macau were 35.8 million, up 10% year-on-year, in which visitors from Mainland China grew at a faster rate of 14% year-on-year. Overnight visitors accounted for 52% of total visitation. The average length of stay for overnight visitors increased 0.1 day year-on-year to 2.2 days. The visitation growth in 2018 was also assisted by improvements in infrastructure, including the opening of the Hong Kong-Shenzhen-Guangzhou high speed train, the Hong Kong-Zhuhai-Macau Bridge and further relaxation of visas for Mainland Chinese to enter Macau.



MANAGEMENT DISCUSSION AND ANALYSIS

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

REVIEW OF OPERATIONS

Summary of Accounting Changes During 2018

In accordance with the Hong Kong Institute of Certified Public Accountants (HKICPA), GEG adopted a new accounting standard in reporting revenue from gaming operation beginning from 1 January 2018. GEG's first mandatory full year reporting period is the twelve months period ended 31 December 2018. The main changes due to this reporting standard are that commission and incentives are to be deducted from the net wins from gaming operation to arrive at the net gaming revenue. In addition, GEG now also reports all complimentary provided to gaming customers at market rate. The comparative figures of revenue in 2017 have been restated to conform with the current period's presentation.

In summary the impact of these accounting changes will be lower reported gaming revenue, an increased Adjusted EBITDA margin, and an increase in non-gaming revenue such as hotels and F&B. There will be no change in the Adjusted EBITDA or NPAS.

Group Financial Results

The Group posted net revenue of \$55.2 billion, up 14% year-on-year, and generating Adjusted EBITDA of \$16.9 billion, up 19% year-on-year in 2018. NPAS was \$13.5 billion, up 29% year-on-year. Galaxy Macau™'s Adjusted EBITDA was \$12.9 billion, up 16% year-on-year. StarWorld Macau's Adjusted EBITDA was \$3.8 billion, up 28% year-on-year. Broadway Macau™'s Adjusted EBITDA was \$32 million versus \$10 million in 2017.

GEG experienced bad luck in its gaming operation during 2018, which decreased its Adjusted EBITDA by approximately \$484 million. Normalized 2018 Adjusted EBITDA grew 22% year-on-year to \$17.3 billion.

The Group's total GGR on a management basis¹ in 2018 was \$67.2 billion, up 16% year-on-year. Total mass table GGR was \$27.5 billion, up 14% year-on-year. Total VIP GGR was \$37.3 billion, up 18% year-on-year. Total electronic GGR was \$2.5 billion, up 15% year-on-year.

One of GEG's business philosophies is to continuously search for products and offerings that will enhance our resorts and increase the appeal to customers. With this in mind, during 2018, we completed a number of enhancements to the main gaming floor, completed construction of new smoking lounges, and introduced some new F&B and retail concepts. We believe this approach keeps the property fresh and appealing, particularly to our repeat customers.



¹ The primary difference between statutory gross revenue and management basis gross revenue is the treatment of City Clubs revenue where fee income is reported on a statutory basis and gross gaming revenue is reported on a management basis. At the group level the gaming statistics include Company owned resorts plus City Clubs.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Balance Sheet and Special Dividends

As of 31 December 2018, cash and liquid investments were \$45.8 billion (2017: \$41.4 billion) and net cash was \$37.0 billion (2017: \$31.7 billion). Total debt was \$8.8 billion as at 31 December 2018 (2017: \$9.7 billion), this was due solely to an ongoing treasury management exercise where interest income on cash holdings exceeds corresponding borrowing costs. Our balance sheet combined with cash flow from operations allows us to return capital to shareholders via dividends and to fund both our Macau development pipeline and international expansion ambitions. Additionally, the Group purchased a minority equity stake of approximately 4.9% of Wynn Resorts, Limited during the year.

During 2018, GEG returned capital to shareholders by paying two special dividends of \$0.41 per share and \$0.50 per share on 27 April 2018 and 26 October 2018, respectively. GEG announced another special dividend of \$0.45 per share to be paid on or about 26 April 2019.

Set out below is the segmental analysis of the Group's operating results for 2018:

(HK\$'m)	2017 (Restated)	2018
Revenues:		
Net Gaming	40,624	47,025
Non-gaming	4,949	5,298
Construction Materials	3,067	2,888
Total Net Revenue ²	48,640	55,211
Adjusted EBITDA	14,147	16,857

Gaming Statistics³

(HK\$'m)	2017	2018
Rolling Chip Volume	912,147	1,103,107
Win Rate %	3.5%	3.4%
Win	31,600	37,250
Mass Table Drop ⁴	100,252	119,657
Win Rate %	24.1%	23.0%
Win	24,208	27,487
Electronic Gaming Volume	61,847	72,461
Win Rate %	3.5%	3.4%
Win	2,161	2,476
Total GGR Win ⁵	57,969	67,213

² Total net revenue is reported under the new accounting standard and the corresponding figures for past periods are restated.

³ Gaming statistics are presented before deducting commission and incentives.

⁴ Mass table drop includes the amount of table drop plus cash chips purchased at the cage.

⁵ Total GGR win includes gaming win from City Clubs.

MANAGEMENT DISCUSSION AND ANALYSIS

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

GAMING AND ENTERTAINMENT DIVISION

Galaxy Macau™**Financial and Operational Performance**

Galaxy Macau™ is the primary contributor to the Group revenue and earnings. Net Revenue for 2018 was \$39.5 billion, up 14% year-on-year. Adjusted EBITDA was \$12.9 billion, up 16% year-on-year. Adjusted EBITDA margin for 2018 calculated under HKFRS was 33% (2017: 32%).

Galaxy Macau™ experienced bad luck in its gaming operations which decreased its Adjusted EBITDA by approximately \$434 million in 2018. Normalized 2018 Adjusted EBITDA was \$13.3 billion, up 19% year-on-year.

The combined five hotels registered strong occupancy and was virtually 100% for 2018.

Galaxy Macau™ Key Financial Data

(HK\$m)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY2017 (restated)	FY2018
Revenues:						
Net Gaming	8,732	8,869	8,181	9,201	30,500	34,983
Hotel/F&B/Others	819	820	888	858	3,279	3,385
Mall	293	260	268	302	906	1,123
Total Net Revenue ⁶	9,844	9,949	9,337	10,361	34,685	39,491
Adjusted EBITDA	3,262	3,219	2,957	3,433	11,130	12,871
Adjusted EBITDA Margin	33%	32%	32%	33%	32%	33%
Gaming Statistics⁷						
(HK\$m)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY2017	FY2018
Rolling Chip Volume	204,938	208,506	189,607	172,378	621,525	775,429
Win Rate %	3.5%	3.5%	3.4%	3.8%	3.7%	3.5%
Win	7,153	7,304	6,354	6,612	23,060	27,423
Mass Table Drop ⁸	16,754	17,289	17,650	18,593	59,041	70,286
Win Rate %	27.0%	26.7%	25.1%	27.8%	28.2%	26.7%
Win	4,524	4,610	4,434	5,178	16,664	18,746
Electronic Gaming Volume	13,590	13,311	13,026	12,851	46,062	52,778
Win Rate %	3.7%	3.6%	4.0%	4.5%	4.0%	3.9%
Win	509	473	527	573	1,842	2,082
Total GGR Win	12,186	12,387	11,315	12,363	41,566	48,251

⁶ Total net revenue is reported under the new accounting standard and the corresponding figures for past periods are restated.

⁷ Gaming statistics are presented before deducting commission and incentives.

⁸ Mass table drop includes the amount of table drop plus cash chips purchased at the cage.

MANAGEMENT DISCUSSION AND ANALYSIS

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

StarWorld Macau**Financial and Operational Performance**

StarWorld Macau's Net Revenue for 2018 was \$12.2 billion, up 18% year-on-year. Adjusted EBITDA was \$3.8 billion, up 28% year-on-year. Adjusted EBITDA margin for 2018 calculated under HKFRS was 31% (2017: 29%).

StarWorld Macau experienced bad luck in its gaming operations which decreased its Adjusted EBITDA by approximately \$48 million in 2018. Normalized 2018 Adjusted EBITDA was \$3.9 billion, up 30% year-on-year.

Hotel occupancy was virtually 100% for 2018.

StarWorld Macau Key Financial Data

(HK\$'m)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY2017 (restated)	FY2018
Revenues:						
Net Gaming	3,088	2,938	2,794	2,839	9,758	11,659
Hotel/F&B/Others	109	109	110	121	461	449
Mall	13	13	12	13	48	51
Total Net Revenue ⁹	3,210	3,060	2,916	2,973	10,267	12,159
Adjusted EBITDA	1,003	987	927	893	2,966	3,810
Adjusted EBITDA Margin	31%	32%	32%	30%	29%	31%

Gaming Statistics¹⁰

(HK\$'m)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY2017	FY2018
Rolling Chip Volume	82,293	79,703	73,750	87,317	278,575	323,063
Win Rate %	3.2%	3.0%	3.0%	2.7%	2.9%	3.0%
Win	2,670	2,407	2,191	2,386	8,213	9,654
Mass Table Drop ¹¹	8,547	9,146	9,062	9,620	29,509	36,375
Win Rate %	20.0%	18.6%	18.5%	16.9%	19.0%	18.5%
Win	1,709	1,704	1,680	1,630	5,609	6,723
Electronic Gaming Volume	1,710	1,920	1,945	2,010	6,472	7,585
Win Rate %	2.5%	2.4%	2.1%	2.1%	2.3%	2.3%
Win	43	46	41	42	146	172
Total GGR Win	4,422	4,157	3,912	4,058	13,968	16,549

⁹ Total net revenue is reported under the new accounting standard and the corresponding figures for past periods are restated.

¹⁰ Gaming statistics are presented before deducting commission and incentives.

¹¹ Mass table drop includes the amount of table drop plus cash chips purchased at the cage.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Broadway Macau™**Financial and Operational Performance**

Broadway Macau™ is a unique family friendly, street entertainment and food resort supported by Macau SMEs, it does not have a VIP gaming component. Broadway Macau™'s Net Revenue in 2018 was \$562 million, up 9% year-on-year. Adjusted EBITDA was \$32 million for 2018 (2017: \$10 million). Adjusted EBITDA margin for 2018 calculated under HKFRS was 6% (2017: 2%).

Broadway Macau™ experienced bad luck in its gaming operations which decreased its Adjusted EBITDA by approximately \$2 million in 2018. Normalized 2018 Adjusted EBITDA was \$34 million (2017: \$12 million).

Hotel occupancy was 97% for 2018.

Broadway Macau™ Key Financial Data

(HK\$m)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY2017 (restated)	FY2018
Revenues:						
Net Gaming	75	63	65	69	258	272
Hotel/F&B/Others	56	58	69	63	216	246
Mall	11	10	11	12	40	44
Total Net Revenue ¹²	142	131	145	144	514	562
Adjusted EBITDA	13	2	9	8	10	32
Adjusted EBITDA Margin	9%	2%	6%	6%	2%	6%
Gaming Statistics¹³						
(HK\$m)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY2017	FY2018
Mass Table Drop ¹⁴	368	322	368	346	1,456	1,404
Win Rate %	19.7%	18.1%	16.9%	18.9%	18.0%	18.4%
Win	73	59	62	65	262	259
Electronic Gaming Volume	409	516	509	574	1,019	2,008
Win Rate %	2.4%	2.4%	2.1%	2.3%	3.0%	2.3%
Win	10	12	11	13	31	46
Total GGR Win	83	71	73	78	293	305

¹² Total net revenue is reported under the new accounting standard and the corresponding figures for past periods are restated.

¹³ Gaming statistics are presented before deducting commission and incentives.

¹⁴ Mass table drop includes the amount of table drop plus cash chips purchased at the cage.

MANAGEMENT DISCUSSION AND ANALYSIS

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

City Clubs

City Clubs contributed \$111 million of Adjusted EBITDA to the Group's earnings for 2018, up 4% year-on-year.

City Clubs Key Financial Data

(HK\$'m)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY2017	FY2018
Adjusted EBITDA	26	28	28	29	107	111

Gaming Statistics¹⁵						
(HK\$'m)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY2017	FY2018
Rolling Chip Volume	1,562	1,109	1,134	810	12,047	4,615
Win Rate %	2.9%	3.0%	5.2%	4.4%	2.7%	3.7%
Win	45	33	59	36	327	173
Mass Table Drop ¹⁶	2,841	2,896	2,843	3,012	10,246	11,592
Win Rate %	14.4%	16.0%	15.2%	15.1%	16.3%	15.2%
Win	409	463	432	455	1,673	1,759
Electronic Gaming Volume	2,119	2,493	2,722	2,756	8,294	10,090
Win Rate %	1.9%	1.7%	1.6%	1.9%	1.7%	1.7%
Win	40	41	42	53	142	176
Total GGR Win	494	537	533	544	2,142	2,108

CONSTRUCTION MATERIALS DIVISION

Construction Materials Division ("CMD") once again delivered a solid set of results. We are pleased to report CMD's revenue and Adjusted EBITDA were \$2.9 billion and \$940 million, respectively, for the year. These results were driven by strong demand for construction materials across Mainland China and a stable market in Hong Kong and Macau.

Hong Kong and Macau

Despite competitive market condition, CMD continued to deliver a satisfactory result. The Asphalt and Ready Mixed Concrete business generated good profit contribution from major construction projects such as the Hong Kong-Zhuhai-Macau Bridge. Looking forward, as major projects complete, the price for construction products will gradually weaken. CMD continues to look for demand opportunities in the Greater Bay Area and has successfully secured a license to install a ready mixed concrete site-plant for the Hong Kong International Airport's three-runway system project.

In Macau, demand for ready mixed concrete from projects driven by expansion in the entertainment, infrastructure and property sectors, will grow in the medium term.

¹⁵ Gaming statistics are presented before deducting commission and incentives.

¹⁶ Mass table drop includes the amount of table drop plus cash chips purchased at the cage.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Mainland China

In Yunnan, all CMD's cement operation benefited from increased infrastructure expenditure which stimulated demand and increased cement price.

The general increase in cement price across the Mainland also stimulated demand for Ground Granulated Blast-furnace Slag ("GGBS"). Most of CMD's GGBS operations across the Mainland achieved better than expected results. However, the GGBS market in Northern China is still challenging, due to the government driven supply-side reforms and the Three-Year Action Plan to reduce emissions which curtailed capacity.

CMD continues to actively pursue opportunities arising from the Belt & Road initiative and the Greater Bay Area integration with ecologically friendly and value-added construction material solutions.



Concrete production plant at Tai Po



Cement production plant in Puer of Yunnan Province

DEVELOPMENT UPDATE

Galaxy Macau™ and StarWorld Macau

To maintain our attractiveness, we are proceeding on a \$1.5 billion property enhancement program for Galaxy Macau™ and StarWorld Macau. This program not only enhances our attractiveness, but also includes preparation work for the effective future integration and connectivity of Phases 3 & 4.

Cotai – The Next Chapter

GEG is uniquely positioned for long term growth. We continue to move forward with Phases 3 & 4, which will include approximately 4,500 hotel rooms, including family and premium high end rooms, 400,000 square feet of MICE space, a 500,000 square feet 16,000-seat multi-purpose arena, F&B, retail and casinos, among others. We look forward to formally announcing our development plans in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Hengqin

We continue to make progress with our concept plan for our Hengqin project. Hengqin will allow GEG to develop a leisure destination resort that will complement our high energy resorts in Macau.

International

On 20 July 2018 the Japanese Diet passed the Integrated Resort (“IR”) Bill. We are very pleased with the recent passing of the IR Bill in Japan. We view Japan as a great long term growth opportunity that will complement our Macau operations and our other international expansion ambitions. GEG, together with Société Anonyme des Bains de Mer et du Cercle des Étrangers à Monaco (“Monte-Carlo SBM”) from the Principality of Monaco and our Japanese partners, look forward to bringing our brand of World Class IRs to Japan.

SUBSEQUENT EVENT

GEG announced a special dividend of \$0.45 per share payable on or about 26 April 2019.

GROUP OUTLOOK

In 2019, we will continue to focus on driving every segment of our business with a particular focus on the mass segment and we will continue to allocate resources to their highest and best use.

Our healthy balance sheet combined with our strong cash flow allows us to return capital to shareholders through special dividends and fund both our Macau development pipeline and international expansion opportunities. These include Cotai Phases 3 & 4, Hengqin and Japan.

Mainland China has significant demand for leisure, tourism and travel. GEG is uniquely positioned to capitalize on future growth potential having the largest development pipeline in Macau with Phases 3 & 4.

In addition, we believe the Greater Bay Area integration plan will further facilitate the flow of people, logistics and capital within Macau, Hong Kong and the nine cities of southern Guangdong. GEG will continue to support and leverage on the plan by enhancing the competitiveness of our resort portfolio, including our development plans on Hengqin.

We also look forward to the continued improvements in infrastructure. The opening of the Hong Kong-Shenzhen-Guangzhou high speed train and the Hong Kong-Zhuhai-Macau Bridge in 2018 will further enhance the appeal and accessibility to Macau for both Chinese and international visitors. In addition, the expected opening of the Light Rail Transport (LRT) in Taipa in the second half of 2019 will also help to enhance the ease of travel within Macau.

Nevertheless, in the shorter term, we are cautious due to a range of geo-political and economic challenges which may impact consumer confidence in 2019. Additionally the introduction of smoking restrictions in January may have an impact on consumer habits.

We remain confident in the longer term outlook for Macau in general, and GEG specifically. We look forward to celebrating the 20th anniversary of Macau’s handover to China and continue to support the Central Government’s Greater Bay Area Initiative. GEG is committed to invest in Macau’s economic diversification and support the Macau Government’s vision of becoming a World Centre of Tourism and Leisure.

MANAGEMENT DISCUSSION AND ANALYSIS

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

LIQUIDITY AND FINANCIAL RESOURCES

The equity attributable to owners of the Company as at 31 December 2018 increased to \$62,280 million, an increase of approximately 12% over that as at 31 December 2017 of \$55,482 million while the Group's total assets employed increased to \$87,384 million as at 31 December 2018 as compared to \$83,815 million as at 31 December 2017.

The Group continues to maintain a strong financial position. We continue to invest surplus cash in low risk short term fixed deposits as well as high quality debt securities issued by large financial institutions and corporations with weighted average tenor of approximately 4 years to generate low risk interest income for the Group. As at 31 December 2018, the Group invested \$27,323 million (\$23,828 million as at 31 December 2017) in debt securities and other marketable securities of \$4,028 million as of 31 December 2018 (nil as at 31 December 2017); while cash and bank balances were \$14,486 million as compared to \$17,565 million as at 31 December 2017.

The Group's total borrowings were \$9,055 million as at 31 December 2018 as compared to \$9,944 million as at 31 December 2017. The Group was in a net cash position as at 31 December 2018 and 31 December 2017.

The total borrowings of the Group mainly comprised bank loans and other obligations which were largely denominated in Hong Kong dollar, Renminbi and Euro. The Group's borrowings are closely monitored to ensure a smooth repayment schedule to maturity.

The Group's liquidity position remains strong and the Group is confident that sufficient resources could be secured to meet its commitments and working capital requirements. The Company has no gearing ratio.

TREASURY POLICY

The Group continues to adopt a conservative treasury policy in liquidity and financial management. Surplus cash is generally placed in short-term deposits and high-quality debt securities mostly denominated in Hong Kong dollar, U.S. dollar, Renminbi or in the local currencies of the operating subsidiaries. Forward foreign exchange contracts are utilized and borrowings in foreign currencies are arranged when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure, which are considered necessary for the Group's treasury management activities.

The Group's borrowings were largely denominated in Hong Kong dollar, Renminbi and Euro. Euro bank loan was utilized to fund and hedge the foreign exchange risk on the Euro-denominated Société Anonyme des Bains de Mer et du Cercle des Étrangers à Monaco investment in August 2015.

CHARGES ON GROUP ASSETS

No property, plant and equipment, leasehold land and land use rights was pledged to secure banking facilities (2017: net book value of \$1,053 million). Bank deposits of \$727 million (2017: \$628 million) have been pledged to secure banking facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

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

GUARANTEES

GEG has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to \$4,790 million (2017: \$790 million). At 31 December 2018, facilities utilized by the subsidiaries amounted to \$300 million (2017: \$300 million).

The Group has executed guarantees in favour of banks in respect of facilities granted to joint ventures and an associated company amounting to \$148 million (2017: \$163 million). At 31 December 2018, facilities utilized amounted to \$39 million (2017: \$84 million).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group, excluding associated companies and joint ventures, employed approximately 21,000 employees in Hong Kong, Macau and Mainland China. Employee costs, excluding Directors' emoluments, amounted to \$7,629 million.

Remuneration Policy

The objective of the Group's remuneration policy is to attract, motivate and retain talented employees to achieve the Group's long-term corporate goals and objectives. To this end, the Group is committed to remunerating its employees in a manner that is market competitive, consistent with good industry practices as well as meeting the interests of shareholders.

The Group's remuneration structure for its employees comprises fixed compensation, performance-based variable incentive and long-term incentives. The overall remuneration arrangements are fair and justified, prudent and subject to regular review.

Share Option and Share Award Schemes

The Group operates a share option scheme and a share award scheme for its employees. It serves to attract, motivate and retain employees to work for the Group long term and to better align the interests of the employees with the shareholders' interests. The number of share options/shares granted to the eligible employees is determined with reference to the value of share options/shares, market positioning, job seniority and the individual contribution to the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

As one of the market leaders in the gaming and entertainment industry, GEG is committed to the development and growth of the community in which it operates. GEG supports the social programs and initiatives of the Macau Special Administrative Region (“SAR”) Government and goes beyond promoting community welfare by investing heavily on Corporate Social Responsibility (“CSR”) and developing a robust and sustainable business strategy for the long-term success of Macau. Holding true to GEG’s Mission to provide exceptional experiences to its guests, instil pride in its employees, and delight its stakeholders, GEG acts with deep personal respect for every resident, visitor, customer, employee and stakeholder that connects with GEG.

This report is prepared in full accordance with the Environmental, Social and Governance (“ESG”) Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by The Stock Exchange of Hong Kong Limited. The report has complied with the “comply or explain” provisions as set out in the ESG Reporting Guide for the year ended 31 December 2018. It provides an annual update on the sustainability performance of GEG’s gaming and entertainment segment, namely Galaxy Macau™, Broadway Macau™, and StarWorld Macau. This report also includes a brief overview of K. Wah Construction Materials Limited which is the Group’s construction materials segment. Additionally, in this report, there is a wider disclosure of social information to reflect the Group’s sustainability performance, thereby increasing the overall transparency and accountability of the Group’s actions.

STAKEHOLDER ENGAGEMENT

Upholding its “World-Class, Asian Heart” philosophy, GEG engages a full range of internal and external stakeholders, including team members, industry association, non-governmental organization, charitable organization, supplier and business partner. In addition to the use of online surveys, the Group for example, arranges focus groups regularly with team members to discuss and obtain feedback. Through these initiatives, GEG takes advantage of the feedback provided by stakeholders to highlight concerns and make alignment with the Group’s holistic business approach.

GEG’s materiality assessment shows that its stakeholders regard anti-corruption and internal controls on money laundering, customer privacy and customer health and safety as the most significant ESG aspects of its business. GEG pursues to address these material aspects in the sections of the report below, detailing its performance against the sustainability targets and initiatives to ensure and demonstrate the adoption of a robust and well-defined sustainability framework.

SOCIAL RESPONSIBILITY

GEG is committed to sharing its successes with the community by delivering support to the Macau SAR Government on Responsible Gaming promotion, youth and talent nurturing, sports and cultural development, environmental protection, national education as well as supporting Macau in its initiatives to become a “World Center of Tourism and Leisure”.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Responsible Gaming

GEG aims to provide a fun and entertaining environment for all customers who visit our properties. To this end, GEG helps individuals make the appropriate gambling decisions based on their current and future life expectations by implementing the following:

- Placing designated signs at casino entries to avoid underage patrons from entering into casino gaming floors;
- Placing pamphlets about Responsible Gaming message and gaming rules throughout casino gaming floors, including messages on ATM machines on gaming floors; and
- Installing Responsible Gambling Information Station and Kiosks at Galaxy Macau™ Casino, StarWorld Casino, Rio Casino and Waldo Casino in order to provide comprehensive information and support.

To uphold GEG's long-standing commitment to develop and implement Responsible Gaming, GEG works closely with various associations, gaming regulators, industry organizations, research and academic institutes in developing a wide range of initiatives to enhance Macau's Responsible Gaming culture to team members and patrons. In addition, GEG also collaborates with Sheng Kung Hui Macau Social Services Coordination Office to provide face-to-face, hotline, on-site and online counseling for team members.

Since the Responsible Gaming Promotion first launched in 2013, GEG has organized various activities including trainings, workshops, roadshows, visits and other promotional activities, and nearly 47,000 team members participated. In 2018, over 6,000 team members took part in various types of activities, and GEG is the first gaming operator to visit the new service center of Macau Youth Volunteers Association located at Seac Pai Van.

Activities held in 2018 include:
Responsible Gaming Promotion

- "Gambling is not Business, Stay in Control" Roadshows
- "How to Get Along with Gamblers" Roadshows
- "Game Fun with Responsible Gaming" Roadshows
- The 6th GEG Responsible Gaming Awareness Week
- Responsible Gaming Knowledge Quiz


Responsible Gaming Visit

- Macau Youth Volunteers Association
- Hong Kong Tung Wah Group of Hospitals


Responsible Gaming Training

- Responsible Gaming Committee Training 2018

Community Contribution

Upholding its philosophy of "what is taken from the community is to be used for the good of the community," GEG launched the GEG Volunteer Team in year 2011. With members coming from different departments across GEG, members are empowered to make a difference in the community. To date, the GEG Volunteer Team has organized close to 200 volunteering activities, reached out to over 120 different charity groups/associations and have contributed more than 10,000 hours in community services. In addition to team members' time, GEG also contributes talent, skills and property resources to support those in need and make Macau a better place.

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Before and after Super Typhoon Mangkhut, GEG kept in close contact with Macau's social service providers and offered assistance. Due to the typhoon's damage to the General Union of Neighbourhood Association of Macau ("UGAMM")'s kitchen, UGAMM could not prepare meals for some Peng On Tung Tele-Assistance Services users, singleton elderly and residents in low-lying areas. Extending its helping hand, GEG's F&B Departments prepared healthy meal boxes for distribution to those in need. Led by GEG executives and staff members of Peng On Tung Services, GEG Volunteers delivered meal boxes to those households. In addition, GEG Volunteers also distributed daily necessities and 500 Red Cross Family Kits donated by Galaxy Entertainment Group Foundation to residents in São Lourenço and Patane.

Charitable Activities

One of GEG's major goals is to achieve community involvement by offering support to the communities in which it operates. GEG is dedicated to giving back to the community by offering support to Hong Kong and Macau's different charity groups. Key beneficiaries include (in alphabetical order):

- ANIMA
- Association of Parents of the People with Intellectual Disabilities of Macau
- Association of Rehabilitation of Drug Abusers of Macao
- Care Action Macao
- Caritas Macau
- Charity Fund from the Readers of Macao Daily News
- Fuhong Society of Macau
- General Union of Neighbourhood Associations of Macau
- International Ladies Club of Macau
- Macao Federation of Trade Unions



In support of UGAMM's new Peng On Tung Outdoor-Assistance Service, GEG committed to sponsoring 300 users for the next three years to promote social inclusion and the development of an age-friendly Macau.

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- Macao Populace Mental Health Promotion Association
- Macau Association for the Hearing Impaired
- Macau Association for the Mentally Handicapped
- Macau Holy House of Mercy
- Macau Special Olympics
- Macau Tung Sin Tong Charitable Society
- Orbis Macau
- Rotary Club of Macau
- Soi Ian Charity Association
- World Vision of Macau Association
- World Wide Fund for Nature Hong Kong



GEG has been supporting ANIMA's animal welfare work since 2012. Learning of ANIMA's financial challenges, GEG donated MOP400,000 to support their ongoing animal rescue work.

Galaxy Entertainment Group Foundation

Through its Corporate Social Responsibilities initiatives, GEG believes in tackling emerging social issues in helping our next generation to build a brighter future. In April 2015, GEG established the Galaxy Entertainment Group Foundation (the "Foundation") to give back to Macau and the Greater China Region. The Foundation focuses on philanthropic activities which nurture young people, enabling them to become responsible citizens in their communities.

The "GEG Chinese Literacy Development Pilot Scheme" was initiated in 2016 with the objective of supporting children, parents and schools in the area of Chinese language development, in particular targeting children at risk of encountering literacy difficulties. The Scheme is currently in its third year; as had been in the past two years, both of the Scheme's two seed schools had carried out intervention groups for K3 children identified as requiring additional assistance through one-on-one assessments. Results from further assessments conducted on the intervention groups showed that they made significant progress in literacy, performing at a comparable level to their classmates and were able to transfer skills from the small group classes to their normal classes. The encouraging results from the assessments has led to both seed schools revamping their theme-based kindergarten curriculum to include more literacy-focused teaching. A Parent Seminars Series comprising three age-appropriate sessions for each of the kindergarten grades was also conducted at the two seed schools as part of the Scheme. The seminars focused on helping parents better appreciate the importance of language development at these young ages, and how they can play a part outside of the classroom.

The "GEG Community Nursing Scheme", initiated in 2016, has to-date awarded 10 scholarships, with five students having graduated in June 2018 and are now pursuing their careers as community nurses as part of their scholarship requirements. The Scholarship Scheme also provided scholarship students the opportunity to go on a study trip to Australia, and further developmental trips to Hong Kong were arranged by the Foundation to learn more about community nursing in different settings, such as to a dementia care centre, a hospice, and special school for severely intellectually disabled children. Separately, the second tranche of the GEG Community Nursing Continuing Education Course on public health topics has begun for in-service community nurses in Macau. This training course was well-received, and attracted the enrolment of over 100 nurses from different sectors of the community nursing profession. The Scheme also funds a research component, on two broad topics: Mental Health Literacy and Health Needs Assessment in the Macau Community, and a technical conference announcing the preliminary research results and to seek feedback from the community was held in August 2018.

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The “GEG Sign Bilingualism Co-enrollment Pilot Scheme” was launched in January 2018, at one crèche and one kindergarten in Macau. The three-year Scheme began in 2018 and has enrolled ten hearing-impaired children, five each in the inclusive kindergarten classroom and in a baby crèche, with a teacher and a deaf teaching assistant co-teaching, enabling deaf and hearing children to learn together with both spoken and sign languages. The Scheme expects to help build a solid language foundation for the deaf students through the simultaneous use of sign and spoken languages, which in turn will enhance their overall literacy and language abilities. Children with normal hearing in the class are also expected to benefit from the practice as their early language development which will be enhanced through exposure to sign language, while developing increased empathy for the less fortunate.

In August 2018, four students from Toyo University, Japan, visited Macau for four weeks to participate in a GEG Japan-Macau Mentorship Pilot Scheme on Integrated Resort Management. The students were provided with exposure and first-hand experience of Integrated Resort Management at Galaxy Macau™. Select topics in Integrated Resort Management were shared with the students during the programme, which included job shadowing supplemented by relevant lectures from academic staff from the International Integrated Resort Management Programme of the Faculty of Business Administration at the University of Macau. This Scheme has allowed GEG, and the city of Macau, to showcase its successes by sharing its expertise and experience with Japan, enabling their students majoring in tourism to aspire to become Integrated Resorts professionals as Japan continues to develop this emerging industry.



Teachers at a training workshop on sign language under the GEG Sign Bilingualism Co-enrollment Pilot Scheme.



One-on-one assessments being conducted at a seed school of the GEG Chinese Literacy Development Pilot Scheme.

Education and Culture

Supporting the Macau SAR Government’s programs and policies on youth and talent development, GEG works with different educational, arts and cultural associations and institutes on helping young people build a strong educational foundation for their chosen future careers.

GEG took part in the following key initiatives in the areas of Education and Culture which include:

- Organized a “Local Culture & Food Festival” at Broadway Food Street to highlight Macau’s distinctive East-meets-West gastronomic culture. The festival provided an environment for local small and medium-sized enterprises (“SMEs”) to explore and expand their business opportunities. Award-winning chefs were invited to conduct cooking workshops with students from the Institute for Tourism Studies and members of Fuhong Society of Macau;
- Title sponsored the 10th “GEG Macau Cup – Youth National Education Competition” to cultivate young peoples’ awareness and understanding of the history, arts & culture, socioeconomic development of China, as well as their national identity;

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- Organized a visit to the People's Liberation Army ("PLA") Macau Garrison. Led by Mr. Francis Lui, Deputy Chairman of GEG, the visit deepened team members' understanding of the national defence force;
- Organized a seminar on the "Construction of Greater Bay Area and Macau's Roles and Opportunities" to highlight Macau's strategic role as "One Centre, One Platform" in the Greater Bay Area and explore the emerging opportunities and challenges faced by the city;
- Organized several "The Hong Kong-Zhuhai-Macau Bridge" documentary screenings at UA Galaxy Cinema for team members, local university students, members of the Scout Association of Macau, and students and parents of Pui Ching Middle School Macau to better understand the challenges and achievements embodied by the ambitious nine-year project of building the world's longest sea-crossing passage;
- Received the Greater Bay Area Media Delegation for 30 Chinese media organization representative and journalists from 6 different countries and regions, and visited the Macau SAR Chief Executive; and
- Co-organized a training program with the Association of Parents of the People with Intellectual Disabilities of Macau to enhance team members' knowledge on serving customers with intellectual disabilities.



The "Parade for Celebration of Chinese New Year" hosted by the Macao Government Tourism Office is one of the Macau's signature festive celebrations. Apart from fabulous parade float and splendid fireworks display, there was also magnificent parade which was joined by over 1,000 performers from various countries and regions. For the 6th consecutive year, GEG is proud to be one of the event sponsors with parade float and entertainment performances for showing support to the Macau SAR Government's positioning as the "World Centre of Tourism and Leisure".

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To celebrate Macau's designation as a UNESCO Creative City of Gastronomy, GEG organized a "Local Culture & Food Festival" at the Broadway Food Street at Broadway Macau™. A variety of traditional specialties were offered to highlight Macau's distinctive East-meets-West gastronomic culture. Applying the "Large-Businesses-Leading-Small-Businesses" cooperation model, the Festival provided local SMEs with an environment to expand potential business opportunities. In addition, GEG also arranged two community outreach initiatives – a cooking workshop by award-winning chefs for members of the Fuhong Society of Macau, and a sign language outreach where members of the Macau Deaf Association were invited to interact with guests at Broadway Food Street during the Festival. The goal of these programs is to build closer ties with the community while promoting Macau's unique gastronomic culture.

Sports Development

GEG works hand-in-hand with the Macau SAR Government to support Macau's sports development, hosting major international sports and cultural events. In 2018, GEG took part in several of Macau's sports and community events, such as:

- Title sponsored the "Macau Galaxy Entertainment International Marathon" for the 15th consecutive year with close to 1,000 GEG team members taking part;
- Title sponsored the "FIVB Women's Volleyball Nations League" (formerly known as the "FIVB Volleyball World Grand Prix™") for the 13th year;
- Title sponsored and volunteered in the 8th "Galaxy Entertainment Special Olympics Table Tennis Competition" to enable intellectually handicapped persons to strengthen their physical fitness, skills and friendships through sports;

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- Sponsored Teledifusão de Macau (“TDM”)’s broadcast for the “2018 FIFA World Cup Russia” in Macau between 14 June and 15 July, allowing local residents to view all 64 matches via TDM Sports, HD, online TV and App channels;
- Sponsored the 3rd “Wushu Masters Challenge” to promote traditional Chinese culture and martial arts; and
- Sponsored the Chinese Olympic Gold Medalists’ annual visit to Macau since 2012. To promote the international Olympic spirit and give young people the opportunity to meet the athletes and gain perspectives in sports, this year, GEG invited three renowned Olympic athletes – gymnast Li Shanshan, table tennis player Xu Xin and badminton player Wang Xin – to share their experience of the Olympic Games with 200 students of the University of Macau’s Lui Che Woo College. The athletes talked about their experience as Olympic athletes and encouraged the students to manage stress by enjoying process rather than focusing solely on results.



For 13 years, GEG has been sponsoring the “FIVB Women’s Volleyball Nations League” (formerly known as the “FIVB Volleyball World Grand Prix™”). To promote the sport of volleyball and encourage community involvement, GEG Volunteers invited the China Women’s National Volleyball Team to participate in a volleyball clinic, interacting with junior players from Macau and students from Escola Caritas de Macau. The professional athletes played a mixed friendly match with the Macau junior players and encouraged local youngsters to participate in sporting events.



The “Macau Galaxy Entertainment International Marathon”, title sponsored by GEG for the 15th consecutive year, attracted 12,000 runners from all over the globe. GEG brought home its 14th Group Trophy for the Marathon.

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COMPLIANCE WITH LAWS AND REGULATIONS

GEG complies with the rules and regulations of the Macau SAR Government and the Hong Kong SAR Government in its business operations. Through its own Code of Business Conduct, amongst other internal documents, GEG embodies its values, philosophies and procedures to ensure that it operates an ethical and compliant business. There were no court proceedings relating to corrupt practices, money laundering, infringement of intellectual property nor breach of personal privacy brought against GEG or any of its team members during the year.

Anti-Money Laundering and Corruption

GEG's Anti-Money Laundering ("AML") and Combating Finance of Terrorism ("CFT") Policies are designed to maintain a high degree of ethical standards. Anti-corruption and anti-money laundering standards are strictly implemented and followed by all GEG team members and all independent third parties who perform work on the Group's behalf. GEG prohibits all team members from offering or accepting any kind of bribes, facilitating payments and kickbacks. The Group carries out due diligence reviews on business partners before engagement and continually monitors bribery and corruption activities to ensure zero tolerance across the entire Group and its stakeholders.

To maintain team members' and Gaming Promoters' awareness of regulatory requirements, GEG has updated its AML and CFT policies to govern all transactions undertaken by the Group. The Group's commitment in this regard is carefully communicated to all GEG team members through internal channels, and is referred to in the Team Member Handbook. GEG provides information on the relevant financial controls and specifies key measures that aim to address AML and CFT concerns.

GEG requires all team members to undergo periodic training to learn the implications upon breach of the AML and CFT policies and laws. In addition, the Group's standard operating procedures also obligates team members to report any breach of such policies, any suspicions of fraud or other irregularities, non-compliance with anti-corruption and anti-money laundering obligations, and/or standards to the Human Resources & Administration Department or other relevant Department. Meanwhile, the Group also includes topics such as Know Your Customer, Due Diligence, Transaction Reporting, Suspicious Transaction Reporting, Junket Risk Assessment and National Risk Assessment as part of its AML and CFT training courses.

Poster campaigns are regularly organized by GEG at different properties' back-of-houses to emphasize the responsibility of team members to be observant of suspicious transactions and to encourage them to contact the established AML/CFT communication hotline should they have any queries or concerns.

TEAM MEMBERS ENGAGEMENT

Diversity

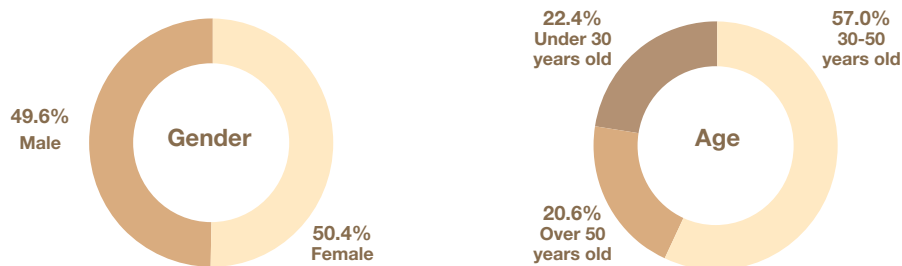
Having a diverse workforce with a wide range of ethnicity, backgrounds, perspectives and experiences is a vital part of GEG's values and seen as the key to harnessing creativity, innovation and outstanding service delivery. GEG's diversity strategy takes great care in ensuring that diversity in gender, age, qualifications and experiences are met during the recruitment process. Having cultivated a culture of diversity that is embedded across all levels, GEG maintains an almost equal distribution of female and male workers, among other categories.

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GEG prohibits any form of discrimination and harassment among employees. This is observed in initiatives such as diversity trainings for all team members.

The total workforce is approximately 21,000 across all operations globally. The figure of total workforce used in the calculations of charts and diagrams in the report only accounts for employees hired in Hong Kong and Macau.

Total Workforce by Gender and Age Group



Working Environment

GEG believes that fostering a culture of well-being for GEG's team members helps drive success in the business. GEG has been consistent in showing strong commitment in helping team members attain work-life balance and in providing a comfortable work place. With the goal of fostering teamwork and companionship, GEG's Staff Social Club and Employee Relations teams organized a variety of social events and networking activities such as the "GEG Interdepartmental Bowling Challenge", "GEG Interdepartmental Badminton Competition", "GEG Soccer Carnival", and festive games corner for team member and their friends and family members' enjoyment.



GEG organized the "Galaxy Macau™ Family Tour 2018" with the theme of "Welcome to Heart of House – Your Second Home". The activity was well-received, attracting team members from nearly 20 different departments together with their families for a total of more than 200 participants. The groups visited the Floral Shop, Wardrobe Department, team member canteens, team member clinic and Team Member Services Center. By introducing Galaxy Macau™ back-of-house areas to team members' families, GEG hoped to promote family harmony and deepen families' understanding of team members' work environment.

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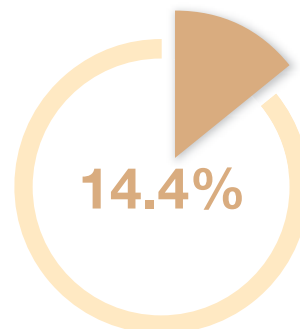
GEG is committed to promoting a healthy work-life balance for team members through a diverse range of activities. GEG hosted a series of well-received relaxation activities – “Let’s Exercise!”, “A Journey of Aroma and Relaxation”, and “Zentangle” classes – to raise team members’ consciousness of their physical and mental well-being.

To create an engaging and inclusive working environment, the following initiatives were implemented:

- Communication:** GEG developed an internal mobile App, “GEG Buzz” for the sharing of briefings, departmental meetings, posters and notices in dual language in Chinese and English. Team Member Service Counters, facilitated by Human Resources, cater to team members for enquiries, medical expense claims, pension fund processing and complaints or suggestions.
- Compensation and Benefits:** The Group’s compensation schemes, subjected to routine reviews, are aimed to attract and retain talented team members. The Group offers competitive salary packages across Group members, dependent on job level. Competitive benefits such as provident fund, medical benefits, maternity and paternity leave, bereavement leave and early leave options are also provided.
- Work Convenience and Wellness:** GEG ensures that operational facilities are provided. These include 24-hour availability of hot staff meals and snacks, break rooms, onsite parking, shuttle buses to and from work, onsite medical clinic, breastfeeding rooms, showers and lockers. Discounts on F&B consumption as well as hotel accommodation are provided for eligible team members. An Employee Assistance Program provides support and counselling for team members for work or personal problems.
- Flexible Work Plan:** GEG has promoted different types of employment categories offered to suit the employee and business needs. The plan grants a fair work-life balance for the employees and caters to their family needs.
- Staff Recognition:** GEG recognizes exceptional performance by arranging “Star of the Month” and “Star of the Quarter” at Galaxy Macau™, Broadway Macau™, StarWorld Macau and GEG’s Corporate Office.



**EMPLOYEE
TURNOVER RATE**



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Labour Standards

GEG ensures compliance with the guidelines of the Labour Affairs Bureau of the Macau SAR Government (“DSAL”) and the rules and regulations of the Labour Department of the Hong Kong SAR Government. GEG exerts all efforts to go beyond meeting the minimum requirements to provide a protective working environment. That said, GEG holds regular meetings and collaborates with DSAL to ensure good communication. The Group strictly prohibits the use of child and forced labour and continues to maintain mechanisms for monitoring, preventing and reporting such practices. Copies of GEG’s Team Member Handbook and the Group’s policies are kept on site and specialist Human Resources professionals are located in each property/office to assist managers and team members.

GEG regularly obtains feedback through different channels, including internal focus groups, grievance system, external meetings and media coverage. The Group has in place by way of policies, guidelines and procedures the following:

- Code of Business Conduct
- Handling Complaints and Grievances
- Sexual Harassment
- Team Member Handbook
- Discipline Procedures

Team Member Health and Safety

To be compliant with applicable health and safety legal requirements, GEG ensures that best practices of health and safety management standards are implemented. Seeking to build an accident-free workplace, GEG established an Environmental, Health & Safety Committee to monitor the control and improvement measures as well as to review all workplace accidents. This Committee, together with the senior management from each department applies a systematic framework for identifying and reviewing the safety responsibilities and performance of each property.

GEG collaborates with DSAL to maintain a harmonious working environment. To ensure that team members are well informed of company policies, all team members are provided with a Team Member Handbook that contains company rules and regulations. In addition to providing team members with adequate personal protective equipment required for their job, GEG continuously ensures that health and safety initiatives and requirements are met. In 2018, GEG:

- Organized “A Workplace Health & Safety Week” in conjunction with DSAL and the “Health & Safety Week Learned Society”;
- Rolled out the DSAL “Hotel/Food & Beverage Safety Card” in-house training;
- Increased Hazard and Near-missed Reporting QR check points to encourage team member reporting;
- Included targeted safety messages in our new team member communication App, GEG Buzz; and
- Improved stakeholder service of our onsite Team Member Clinics by increasing the operating hours, providing work injury case management to ensure speed recovery and appropriate care, and extending the services provided to include Traditional Chinese Medicine and Physiotherapy.

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GEG proactively supports the Macau SAR Government’s occupational safety and health outreach. GEG’s flagship property StarWorld Macau signed the Occupational Safety and Health Charter, demonstrating its commitment to creating a safer and healthier working environment for all team members. Galaxy Macau™ signed the same Charter in 2015.



Proactively working to build a strong culture of occupational safety and promote environmental conservation at its properties, GEG hosted the first “Environmental, Health & Safety Education & Awareness Week” to enhance team members’ knowledge and awareness of occupational safety and environmental conservation while increasing their interest in related areas. The event included a host of activities, including the EHS Quiz Competition and various sharing sessions. GEG’s efforts in fostering a culture of occupational safety have been recognized and supported by DSAL, which has stated that GEG’s promotional efforts and effective occupational safety policies are beneficial for GEG’s sustainable development and set a good example for the industry.

During the year, no legal non-compliance records or work-related fatalities were noted. Over the years, GEG developed safety procedures and control measures with reference to an operation risk scheme with a comprehensive risk register system that is regularly reviewed. As a result, GEG have successfully passed the certification audit of Integrated Management System including OHSAS 18001:2007.

Safety Indicators



*Lost days rate was calculated as total number of lost days/total days worked

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Talent Management

GEG supports its workforce through structured training and development programs to help team members achieve both vertical and lateral career paths. GEG has long since introduced a talent development strategy that trains team members to be versatile to support GEG's diversified business and Macau's expansive community.

The Group's Mission, Vision and core Values remain the main driver of GEG's organization development and training initiatives. GEG believes that if full support is provided to team members, their full potential could be realized, allowing them to deliver exceptional services to customers. This differentiating factor provides the very foundation of GEG's achievements. During the year, all of GEG's staff has received the relevant training according to their job duty.

Total Training Indicators

1,102,541
Total Training Hours



53
Average Training Hours
Per Employee

The Organization Development and Training has designed a robust training curriculum delivered through a range of learning methodologies. The initiatives are as follows:

- **Core Foundation Programs** intend to anchor on GEG's Mission, Vision, Values, and service culture to equip team members with required skills to perform the role.
- **Supervisory, Manager & Leadership Programs** include GEG Management Skills Program and Leaders Programs with the aim of helping team members progress in their careers as future Supervisors, Managers and Leaders and develop GEG core leadership competencies.
- **Guest Service Programs** are centered on providing excellent customer experiences and customer experience management practices, underpinned by our "World Class, Asian Heart" service philosophy.
- **Governance Programs** including Compliance Programs are compulsory for all targeted team members and include Responsible Gaming Program, Anti-Money Laundering, Combating the Finance of Terrorism, Information Management Awareness Program, Payment Card Data Security and Health & Safety.
- **Gaming & Hospitality Operations and Job Skills Programs** are organized through internal and external training events such as the "GEG-Macao Polytechnic Institute Gaming Position Certification" and the "Macao Occupational Skills Recognition System ("MORS") Gold Pin Competition" to enable team members to obtain the necessary skills and competencies.
- **Sales & Business Development Programs** provide a backbone on the development of the sales teams in Gaming, Hospitality & Leisure through enabling retention and acquisition of customers and target markets. Internal sales are targeted by the programs through upselling and cross selling across a variety of departments.
- **Business Processes** support the running of the corporate and operations departments and ensures a consistent approach to business execution and related activities.

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- **Talent Management Programs** focus on the management and development of GEG talent including personal development plans, goal setting, coaching and mentoring. They are aimed to underpin the vertical and horizontal progression of local team members involved in the development of upward movement and skill diversification of the local population.
- **Potential Hazard & Near-miss Reporting Programme** is launched to enhance team members safety alertness and reduce any hazardous environment before accident happenings.



GEG and the Macao Polytechnic Institute ("MPI") launched the "GEG-MPI Gaming Professional Development and Position Certification", which provides theoretical and practical training for approximately 7,000 GEG team members. At the "GEG-MPI Gaming Professional Development Recognition Ceremony and Position Certification Launch Ceremony", nearly 20 GEG team members who have completed the certificate program were presented the Gaming Management Diploma, jointly issued by GEG and MPI.



GEG rolled out the "GEG Work Improvement Program", an innovative initiative based on internationally known corporate management theory and GEG's own Work Improvement Model. With a view to collectively pursuing higher operational efficiency and better customer service, the program was designed to hone the management and problem-solving skills of GEG team members through a series of workshops, meetings and training sessions conducted by professional coaches and consultants. At the completion of the first stage of the program, 50 team members presented their projects to a group of GEG's senior executives.

GUEST ENGAGEMENT

GEG is committed to delivering exceptional experiences for its customers. Whilst complying with internal policies and all rules and regulations to protect customers, the Group proactively seeks to improve the way it does business by providing a variety of platforms where customers could provide feedback. These standards are enforced by its team members and all independent third parties who work on the Group's behalf.

To support its mission to provide exceptional experiences to its guests, GEG applies the following initiatives:

- Mystery shopping to assess service quality and measure customer satisfaction while evaluating adherence with laws and procedures as well as overall consumer experience to all GEG properties;
- Customer feedback and rating through comment cards, e-mails and various social media platforms; and
- Setting up of hotlines and appointing quality assurance managers to monitor and resolve possible guest complaints in a timely manner.

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Customer Health and Safety

GEG implements policies to protect the health and safety of its customers and the quality of its products and services. These standards are enforced by team members and independent third parties who work on the Group's behalf.

In January 2018, a new version of the smoking law, Regime of Tobacco Prevention and Control (Regime de prevenção e controlo do tabagismo), was published. GEG understands the significant impact it can have on the Group as an issuer, and to comply with the relevant laws and regulations, the following measures are put in place to support the wellness of the guests of GEG:

- Installation of new smoking rooms and ventilation systems in all gaming halls with real-time monitoring system that keeps track of systems' functionality;
- Designated indoor smoking rooms in all gaming halls to restrict smoking areas for customers; and
- Enhanced Indoor Air Quality Program launched to ensure effectiveness of ventilation systems.

On 23 January 2018, GEG collaborated with the Macau SAR Government in conducting Macau's first large-scale contingency drill at Galaxy Macau™. The exercise was planned as part of the effort to prepare for unexpected incidents such as gunman attacks or terrorist attacks.

Customer Privacy and Intellectual Property

GEG properly protects intellectual property rights and personal data. The Group operates in compliance with the relevant Intellectual Property Laws, Personal Data (Privacy) Ordinance of the Hong Kong SAR and the Personal Data Protection Act of Macau SAR. GEG takes advantage of confidentiality agreements and non-disclosure agreements to safeguard the intellectual property rights and secure confidential information from being leaked or diluted.

SUPPLIER MANAGEMENT

GEG Procurement continually aims to deliver "Best in Class" procurement service to the Group. It operates with integrity, provides innovative and efficient high-value service to its internal customers, and quality products and services for the guests. GEG Procurement consistently adheres to internal policies associated with processing transactions and conducting engagements with suppliers for the procurement of goods and services. To create business opportunities for local SMEs, the department provides Vendor Information Kits to help external vendor partners understand more about GEG's Procurement procedures and policies, and offers team members with business guidelines on the handling of Small and Medium, and Local Enterprises.

GEG assesses its suppliers through conducting annual supplier performance appraisals derived from business units, procurement evaluations and system data, whereby all input are consolidated and calculated into numerical ratings to result in a scorecard. In addition, GEG Procurement is committed to comply with all requirements and applicable laws on the prevention of bribery and will report all corruption offences to the Commission Against Corruption of Macao, as well as declare any conflicts of interests with any suppliers of GEG.

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At the onset of every engagement, GEG clearly communicates with its suppliers on its expectations on social and environmental issues. GEG follows its own Green Procurement Statement and works with its suppliers to select products and services that:

- Control and minimize adverse environmental impact;
- Prevent pollution, reduce waste and improve use efficiency of resources; and
- Meet all relevant legal obligations and codes of practice.

As the first gaming operator to introduce the “Large-Businesses-Leading-Small-Businesses” business model, GEG attaches great importance to the development of local enterprises and SMEs. The Group’s Procurement continuously strive to maintain and grow GEG’s business relationship with local enterprises and SMEs by conducting periodic reviews and extending support services to assist their business development with GEG where appropriate. Since local enterprises and SMEs are an important driving force for stimulating Macau’s economy, GEG Procurement ensures suppliers from Macau are provided opportunities for bid participation where appropriate. Currently, local enterprises and SMEs account for the majority of GEG’s suppliers.

PROTECTING THE ENVIRONMENT

GEG is committed to achieving well-regarded environmental performance across all its operations. The Group seeks to be compliant with existing environmental laws and put policies in place to effectively reduce greenhouse gas emissions. The Group efficiently utilizes resources such as energy and water. Some of GEG’s initiatives in strengthening environmental performance include:

- Pursued the implementation of Environmental Policy and the Environmental Protection and Energy Conservation Policy;
- Established a Corporate Procurement Policy that streamlines criteria and specifications, assist both suppliers and internal stakeholders in selecting products and services that do not have adverse impact on the environment;
- Established an “Environmental Committee” & “Energy Management Committee” at Galaxy Macau™ to govern the system policy and guidelines and to drive system implementation; and
- Developed an Environmental Protection Statement at StarWorld Macau to ensure environmental sustainability will be part of its business strategy and that the business is conducted in an environmentally responsible manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



The GEG Volunteer Team participated in the “37th Green Week – Trees Protection” activity organized by Municipal Affairs Bureau of the Macau SAR Government. Participants learned how to care for plants and repair damaged trees to promote the notion of caring for nature.



In support of the Macau SAR Government’s environmental outreach and the global effort to protect the environment, GEG became the first gaming operator to introduce electric passenger buses into its shuttle bus fleet. GEG plans to increase the number of electric buses in the future to contribute its part in improving roadside air quality, answer the call of the Macau SAR Government to convert to clean-energy buses and support Macau’s development into a world-class capital of green tourism city.



GEG has held its annual “Energy and Environmental Conservation Week” (“EEC Week”) at Galaxy Macau™ since 2016. This year’s EEC Week was comprised of a series of activities over five days: the Sustainable Food Day; the Recycling Day; the Love Earth – Green Fashion Design Competition; the From Leftovers to Jams, From Food Waste to DIY Cleaner Workshop; and the Green Fun Day. Over 7,500 team members participated.



Green Procurement

Upholding appropriate and ethical business conduct, GEG ensures to strictly comply with all laws and regulations associated with processing transactions and conducting engagements with suppliers for the procurement of goods and services. GEG carefully selects suppliers with mutual values. At the onset of every engagement, GEG clears out communication lines when it comes to its expectations on social and environmental issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GEG takes importance in the environmental performance of its vendors. Vendor selection goes through a process based on the following set of criteria:

- Consistency in upholding environmental values;
- Certification and Awards on environmental measures;
- Performance of vendor's environmental management system or quality management system;
- Compliance with applicable environmental regulations and legislation;
- Dedication in improving the specification of environmental benefits; and
- Commitment to meeting GEG's environmental specifications.

As part of the selection, GEG recommends that vendors comply with the following requirements:

- Application of Environmental Management System ("EMS") such as ISO:14001 or any equivalent system to establish their own EMS;
- Commitment to vendor's principles in selecting green products and services with minimum to zero environmental impacts;
- Adoption of the environmental purchase specifications as recommended by the Environmental Protection Bureau of the Macau SAR Government where applicable;
- Adherence to GEG Corporate Procurement's Green Procurement Statement; and
- Compliance with all applicable environmental laws and regulations related to GEG's business activities as well as requirements set out by the Group.

Emissions and Energy

To improve the overall customer experience in the casino, GEG has established more facilities such as new smoking rooms and ventilation systems that increased GEG's energy consumption. However, the Group has implemented various initiatives across different properties in an attempt to compensate the increment and improve energy conservation. In addition to its ongoing replacement of fluorescent lamps with high efficient LED lights and implementation of chiller plant monitoring devices, StarWorld Macau also installed a Solar Power System for its rooftop lighting and enhanced annual energy savings. Furthermore, GEG also adopted other energy reduction commitments in 2018, including:

- Renewed the Pearl Membership to WWF-Hong Kong's "2018/19 Corporate Membership Program" and took part in WWF's "Earth Hour" event for the 10th consecutive year;
- Participated in the monthly "Lights Out" Activity on the first Tuesday of every month; and
- Organized a "Certified Energy Manager ("CEM") Training" for the Facilities Management Team of Galaxy Macau™; more than 20 team members achieved the CEM title certified by Association of Energy Engineers ("AEE") in USA.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water and Waste

GEG has developed various business operations improvements in our properties to promote a more sustainable use of water. In 2018, GEG incorporated improvements in hotel guest rooms such as water fixture replacements, enhancement works for domestic hot water system and monitoring extension for the water management. The water fixture replacement for the hotel guest rooms have added in the water restrictor that instantly reduced the water flow rate, minimizing water consumption from hotel operations ultimately.

On top of efficient utilization of natural resources, GEG ensured that strict hazardous and non-hazardous waste collection and recycling guidelines are in place across all our properties in Hong Kong and Macau. For example, Galaxy Macau™ strictly adheres to the “4R Waste Management Committee,” chaired by Senior Management to give directions to reduction initiatives on the key waste issues like food, waste, gaming cards and cooking oil. The committee’s primary goal is to initiate green practices from top management level while ensuring environmental policy and objectives are compatible with Company’s strategic direction.

Following the committee’s direction, the waste productions of the properties are reviewed regularly and the relevant initiatives would be developed. To reduce the volume and weight of food waste transported to landfill, StarWorld Macau decomposes the food waste as fish feed and the food waste processor cultivates the EM-effective micro-organisms for proper deodorization and decomposition. Particles are then sized evenly by the processor to assist in reducing the transportation and procession costs.

Environmental performance data for GEG for the year ended 31 December 2018:

Environmental KPIs	Unit	2017	2018
NO _x emissions	tonne	0.377	0.533
SO _x emissions	tonne	0.002	0.008
Particulate matter emissions	tonne	N/A	0.012
Total greenhouse gas emissions	tonne CO ₂ e	320,919	301,446
Greenhouse gas emissions (Scope 1)	tonne CO ₂ e	16,253	18,827
Greenhouse gas emissions (Scope 2)	tonne CO ₂ e	304,666	282,619
Total hazardous waste produced	tonne	5.68	10.25
Total non-hazardous waste produced	tonne	24,295	24,284
Total energy consumption	GJ	1,436,890	1,455,818
Total energy consumption intensity	GJ/m ²	1.15	1.17
Total direct energy consumption	GJ	224,959	241,703
Liquefied Petroleum Gas (LPG)	GJ	93,839	93,045
Diesel	GJ	131,120	135,483
Unleaded Petrol	GJ	N/A	13,175
Total indirect energy consumption	GJ	1,211,931	1,214,115
Purchased electricity	GJ	1,211,931	1,214,115
Water consumption	m ³	3,921,084	4,079,589
Water consumption intensity	m ³ /m ²	3.15	3.27

* Includes GEG gaming and entertainment segment, namely Galaxy Macau™, Broadway Macau™ and StarWorld Macau.

* In accounting for emissions and energy consumption, the scope for this reporting year includes the usage of limousines.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SELECTED MAJOR CSR AWARDS OF GEG GROUP

Awardee	Award	Event	Organizer
GEG	Best ESG SRI Metrics	2018 All-Asia Executive Team Survey	Institutional Investor Magazine
GEG	Motivation Award for Organizations	2018 Blood Donor Award Ceremony	Macao Health Bureau
GEG	Outstanding Corporate Social Responsibility Award	7th Cross-Strait-Four-Region Outstanding Corporate Social Responsibility Award	Mirror Post
GEG	Excellent Corporate Volunteer Team in Macau	2018 International Volunteer Day and Outstanding Volunteer Award Ceremony	Association of Volunteers Social Service Macao
GEG	Caring Program Award	Caring Business Award 2017-2018	The Youth Committee of Macau Chamber of Commerce and The Chinese Youth Federation of Industry and Commerce of Macao
Broadway Macau™	Excellence Award for Environmental Performance	Business Awards of Macau 2018	Project Asia Corporation & Charity Association of Macau Business Readers

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CONSTRUCTION MATERIAL DIVISION

Sustainability Strategy

As GEG's construction materials division and a main contributor to GEG's sustainability journey, K. Wah Construction Materials Limited ("KWCM") adopts a sustainability strategy that aligns with GEG's vision for corporate social responsibility. KWCM ingrains corporate sustainability in its day-to-day business operations to create long-term value for its stakeholders. KWCM aims beyond compliance by incorporating economic, environmental and social considerations in business decision making and strives to meet and exceed the expectations of stakeholders. In addition, the sustainability management and performance is being shared with stakeholders in its third-party verified Global Reporting Initiative ("GRI") Sustainability Report since 2013.

KWCM's corporate social responsibility efforts are built upon a value creation model, which is underpinned by four core sustainability drivers, namely safety and environment, business economics, our people and CSR. The sustainability approach is reinforced through KWCM's close interaction and ongoing engagement with key stakeholders. KWCM utilizes the feedback received to improve its performance and to preserve high standards of sustainability.

During the reporting period, KWCM drives momentum in strengthening its CSR awareness and culture, making progress in each core area of sustainability. It strives to improve efficiency along its value chain while delivering effective and innovative solutions with greater considerations on sustainability.

Since January 2018, Mainland Government has been enforcing a new national environmental regulation – "Environmental Tax" in which tax will be imposed based on the amount of air pollutant emission and a tax incentive scheme is introduced to encourage the reduction of air pollutant. KWCM endeavors to continually reduce air pollutant emissions from its production lines in order to demonstrate environmental commitment as well as echo the newly enacted environmental tax policy.

KWCM extends the support to community programs in various areas that it operates in. The regional teams engaged with local educational institutions more frequently. For instance, Northern Regional office completed an exchange visit with scholarship presentation at Luipanshi School in Guizhou.

In order to promote social capital in Hong Kong region, the CSR Committee and Social Club promote a caring culture. New initiatives were added in signature programs, for instance workplace massage sessions were arranged at the head office and business units in the Work-life Balance Week. Nearly 200 staff enjoyed a relaxing 15-min break during working hours.

With the support of the Evangelical Lutheran Church of Hong Kong ("ELCHK"), KWCM held its first charity walk on 11 November 2018. More than 250 stakeholders, including staff and their family members, had a meaningful morning with a 5.8 km walk from K. Wah Concrete Customer Service Center to a school of ELCHK. Around HK\$250,000 was raised for a 2-year community program for supporting low income families in Tai Po area from 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental performance data for KWCM for the year ended 31 December 2018:

Environmental KPIs	Unit	2017	2018
NO _x emissions	tonne	2,804	2,881
SO _x emissions	tonne	123	120
Total greenhouse gas emissions	tonne CO ₂ e	515,291	411,587
Greenhouse gas emissions (Scope 1)	tonne CO ₂ e	253,658	192,092
Greenhouse gas emissions (Scope 2)	tonne CO ₂ e	261,634	219,495
Total hazardous waste produced	tonne	25	20
Total non-hazardous waste produced	tonne	28,740	20,449
Total energy consumption	GJ	4,476,166	3,608,723
Total direct energy consumption	GJ	3,430,931	2,704,488
Coal	GJ	2,272,423	1,550,343
Blast furnace gas	GJ	977,853	953,665
Liquefied Petroleum Gas (LPG)	GJ	159	265
Natural gas	GJ	173	89
Diesel	GJ	175,891	196,203
Petrol	GJ	4,433	3,923
Total indirect energy consumption	GJ	1,045,235	904,236
Purchased electricity	GJ	1,045,235	904,236
Water consumption (Head office)	m ³	214	220
Water consumption intensity (Head office)	m ³ /m ²	0.002	0.002

- * Air emission (NO_x and SO_x) data cover the actual performance data of all operations under KWCM direct management control.
- * Waste data covered the actual performance data of KWCM Head Office, all regional offices and all operations under KWCM direct management control. Hazardous waste included chemical waste collected by licensed chemical waste collector for disposal in accordance with statutory procedures.
- * Energy and greenhouse gas emission (GHG) verified data covered the actual performance data of KWCM Head Office and all operations under KWCM direct management control, excluding Yunnan Region. In KWCM, data from cement operations in Yunnan Region are also monitored given their significant contribution to GHG emissions and in accordance with statutory procedures in China.
- * The performance has been primarily influenced by national and regional environmental policies and measures. For instance, the industrial production control with respect to air pollution management stated in China's 2018-2020 Three-year Action Plan for Winning the Blue Sky War.
- * For more information on KWCM's environmental and other ESG performances, please contact through sustainability@kwcm.com.



KWCM employees had fun with the volunteers of ELCHK in a meaningful Sunday and working together to raise fund for a community program at Tai Po area.



KWCM senior management receiving three Grand Awards in a ESG reporting award program, proving its outstanding achievements in managing and communicating "sustainability (ESG)", "environmental performance" and "innovation" with stakeholders for continual improvement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SELECTED MAJOR CSR AWARDS OF KWCM

Awardee	Award	Event	Organizer
K. Wah Construction Materials (Hong Kong) Limited	15 Years Plus Caring Company Logo	Caring Company Scheme	The Hong Kong Council of Social Service
K. Wah Construction Materials (Hong Kong) Limited	Wastewi\$e Certificate - Excellence Level	Hong Kong Green Organisation Certification	Environmental Campaign Committee
K. Wah Construction Materials Limited	Grand Award-Excellence in Sustainability Report for Non-listed Company Grand Award-Excellence in Environmental Disclosure Grand Award-Innovative Frontrunner	Hong Kong ESG Reporting Awards	Alaya Consulting
K. Wah Construction Materials (Hong Kong) Limited	Certificate of Excellence – Sustainable Consumption Enterprise Award	Sustainable Consumption Award Scheme	Business Environment Council
K. Wah Construction Materials (Hong Kong) Limited	Certificate of Recognition	Green Office Award Labelling Scheme (GOALS)	World Green Organisation
K. Wah Construction Materials (Hong Kong) Limited	Safety Performance Award - Other Industries Safety Management System Award - Other Industries	17th Hong Kong OSH Award	Occupational Safety and Health Council
K. Wah Construction Materials (Hong Kong) Limited	Social Capital Builder Logo Award	Social Capital Builder Awards	Labour and Welfare Bureau – Community Investment and Inclusion Fund
K. Wah Construction Materials Limited	Green Office and Eco-Healthy Workplace	Green Office and Eco-Healthy Workplace Awards Labelling Scheme	World Green Organisation
K. Wah Asphalt Limited	Corporate Safety Performance Award	2017/18 Airport Safety Recognition Scheme	Airport Authority Hong Kong
K. Wah Materials Limited	EcoPartner	BOCHK Corporate Environmental Leadership Awards 2017	Federation of Hong Kong Industries/ Bank of China (Hong Kong)
KWP Quarry Co. Limited	Platinum Award	Charter on External Lighting	Environment Bureau

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

General Disclosures and KPIs	Description	Reference and Remarks
A. ENVIRONMENTAL		
ASPECT A1: EMISSIONS		
<i>General disclosure</i>		<i>Protecting the Environment</i>
KPI A1.1	The types of emissions and respective emissions data	Environmental Performance Table
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity	Environmental Performance Table
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity	Environmental Performance Table
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity	Environmental Performance Table
KPI A1.5	Description of measures to mitigate emissions and results achieved	Emissions and Energy
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Water and Waste
ASPECT A2: USE OF RESOURCES		
<i>General disclosure</i>		<i>Protecting the Environment</i>
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity	Environmental Performance Table
KPI A2.2	Water consumption in total and intensity	Environmental Performance Table
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Emissions and Energy
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Water and Waste
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Not applicable to GEG as a service-based business

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General Disclosures and KPIs	Description	Reference and Remarks
ASPECT A3: THE ENVIRONMENT AND NATURAL RESOURCES		
<i>General disclosure</i>		<i>Protecting the Environment</i>
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Protecting the Environment
B. SOCIAL		
EMPLOYMENT AND LABOUR PRACTICES		
ASPECT B1: EMPLOYMENT		
<i>General disclosure</i>		<i>Team Members Engagement</i>
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Diversity – Total workforce by gender and age group are presented by percentage
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Working Environment – Total employee turnover rate is presented
ASPECT B2: HEALTH AND SAFETY		
<i>General disclosure</i>		<i>Team Members Engagement</i>
KPI B2.1	Number and rate of work-related fatalities	Team Member Health and Safety
KPI B2.2	Lost days due to work injury	Team Member Health and Safety – Lost days rate due to work injury is presented
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Team Member Health and Safety
ASPECT B3: DEVELOPMENT AND TRAINING		
<i>General disclosure</i>		<i>Team Members Engagement</i>
KPI B3.1	The percentage of employees trained by gender and employee category	Talent Management
KPI B3.2	The average training hours completed per employee by gender and employee category	Talent Management – Total and average training hours are presented

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General Disclosures and KPIs	Description	Reference and Remarks
ASPECT B4: LABOUR STANDARDS		
<i>General disclosure</i>		<i>Team Members Engagement</i>
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Labour Standards
OPERATING PRACTICES		
ASPECT B5: SUPPLY CHAIN MANAGEMENT		
<i>General disclosure</i>		<i>Supplier Management</i>
KPI B5.1	Number of suppliers by geographical region	Supplier Management – Local enterprises and SMEs account for the majority of GEG's suppliers
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supplier Management
ASPECT B6: PRODUCT RESPONSIBILITY		
<i>General disclosure</i>		<i>Guest Engagement</i>
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable to GEG as a service-based business
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Guest Engagement – During the reporting year, GEG is not aware of any significant complaints related to services or of any issues related to material non-compliance with relevant standards, rules and regulations.
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Customer Privacy and Intellectual Property
KPI B6.4	Description of quality assurance process and recall procedures	Guest Engagement
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Customer Privacy and Intellectual Property

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General Disclosures and KPIs	Description	Reference and Remarks
ASPECT B7: ANTI-CORRUPTION		
<i>General disclosure</i>		<i>Compliance with Laws and Regulations</i>
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Anti-Money Laundering and Corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Compliance with Laws and Regulations
COMMUNITY		
ASPECT B8: COMMUNITY INVESTMENT		
<i>General disclosure</i>		<i>Social Responsibility</i>
KPI B8.1	Focus areas of contribution	Social Responsibility
KPI B8.2	Resources contributed to the focus area	Social Responsibility

BIOGRAPHICAL INFORMATION OF DIRECTORS

EXECUTIVE DIRECTORS

Dr. Lui Che Woo, *GBM, MBE, JP, LLD, DSSc, DBA*, aged 89, the founder of the Group, has been a Director of the Company since August 1991 and is the Chairman and a member of the Executive Board of the Company. Dr. Lui is also the Chairman and the Managing Director of K. Wah International Holdings Limited. He has over 50 years' experience in quarrying, construction materials and property development. He was the Founding Chairman of the Institute of Quarrying in the UK (Hong Kong Branch) and the Chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the Founding Chairman of The Federation of Hong Kong Hotel Owners, the President of Tsim Sha Tsui East Property Developers Association, the Founding President of Hong Kong – Guangdong Economic Development Association and an Honorary President of Hong Kong – Shanghai Economic Development Association. Dr. Lui has been appointed as a Member of Steering Committee on MICE (Meetings, Incentives, Conventions and Exhibitions) since 2007. Further, Dr. Lui was a Member of the 9th National Committee of the Chinese People's Political Consultative Conference, a member of the Selection Committee for the First Government of the HKSAR and a member of the Election Committee of the HKSAR. Dr. Lui has been again elected as a member of the Election Committee of the HKSAR in December 2006. In 1995, an asteroid discovered by the Purple Mountain Observatory in Nanjing was named "Lui Che Woo Star". Dr. Lui was presented the Outstanding Contribution Award in Guangzhou in 1996. Dr. Lui was awarded the Gold Bauhinia Star by the Government of the HKSAR in July 2005. Dr. Lui was also awarded the Grand Bauhinia Medal by the Government of the HKSAR in 2012. Dr. Lui was awarded Business Person of the Year 2007 by DHL/SCMP Hong Kong Business Awards and the Lifetime Achievement Award by American Academy of Hospitality Sciences of 2007 respectively. Dr. Lui was presented the Diamond Award by Macau Tatler and the Lifetime Achievement Award by All Leaders Publication Group Limited, both in 2011. Dr. Lui was awarded Asia Pacific Entrepreneurship Awards 2012 – Lifetime Achievement Award by Enterprise Asia in 2012 and Lifetime Achievement Award by Golden Horse Award of China Hotel in 2013. Dr. Lui was presented the Outstanding Contribution Award at the International Gaming Awards, as well as Entrepreneur of the Year at the Asian Awards in 2014. Dr. Lui was awarded the Lifetime Achievement Award and the Outstanding Leadership in Social Responsibility Award by the World Travel Awards in 2015 and 2018 respectively. Dr. Lui is the founder of the Lui Che Woo Prize – Prize for World Civilisation established in Hong Kong in 2015 for sustainable development of the world, welfare of mankind and promotion of positive life attitude. Furthermore, Dr. Lui is Honorary Trustee of Peking University, Founding Honorary Patron of The University of Hong Kong Foundation for Educational Development and Research, Member of the Board of Trustees of United College of the Chinese University of Hong Kong, Honorary Member of the Court of Hong Kong University of Science and Technology, Honorary Life Chairman of the Hong Kong Polytechnic University Foundation and Member of the Court of the Hong Kong Polytechnic University, Member of the Board of Directors of Fudan University and Life Honorary Chairman of Wuyi University Board of Trustees. Dr. Lui is the father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

Mr. Francis Lui Yiu Tung, aged 63, joined the Group in 1979. He has been an executive Director of the Company since June 1987 and is the Deputy Chairman and a member of each of the Executive Board, Nomination Committee and Remuneration Committee as well as the Chairman of Corporate Governance Committee of the Company. Mr. Lui is also an executive director of K. Wah International Holdings Limited. He holds a bachelor of science degree in civil engineering and a master of science degree in structural engineering from the University of California at Berkeley, USA. Mr. Lui is a member of the 13th National Committee of the Chinese People's Political Consultative Conference, a member of the Election Committee of the HKSAR and a member of the Chief Executive Election Committee of Macau SAR, Tourism Development Committee and Cultural Consultative Committee of Macau SAR. He is also a director of the 70th Term of Macao Chamber of Commerce, an Honorary Chairman of the 20th Term of Kiang Wu Hospital Charitable Association, a member of the 10th Standing Committee of the All-China Federation of Returned Overseas Chinese, an executive director of the Chamber of Tourism of the All-China Federation of Industry and Commerce, a Forever Honorary Chairman of the Association of Macau Travel Industry Professionals and Counsellor of Our Hong Kong Foundation. Mr. Lui was awarded the Medal of Merit – Tourism by Macau SAR in 2012 and Asia Pacific Entrepreneurship Awards 2014 – Entrepreneur of the Year by Enterprise Asia in 2014. Furthermore, Mr. Lui is the Honorary Citizen of each of Guangzhou Municipal, Shenzhen Municipal and Jiangmen Municipal. Mr. Lui is a son of Dr. Lui Che Woo and a younger brother of Ms. Paddy Tang Lui Wai Yu.

BIOGRAPHICAL INFORMATION OF DIRECTORS

Mr. Joseph Chee Ying Keung, aged 61, joined the Group in 1982. He has been an executive Director of the Company since April 2004 and is the Managing Director of the Construction Materials Division as well as a member of the Executive Board of the Company. Mr. Chee holds a Master degree in Business Administration from the University of South Australia and a Bachelor degree in Mechanical Engineering from the University of Western Ontario in Canada. He is a fellow member of The Institute of Quarrying in the UK and has over 30 years of broad experience in the construction materials industry including operations and management, technical and quality assurance, environmental protection, commercial and strategic planning. Mr. Chee was the member of the 11th Yunnan Provincial Committee of the Chinese People's Political Consultative Conference. He was elected as a member of the Standing Committee of the 12th Yunnan Provincial Committee of the Chinese People's Political Consultative Conference in January 2018. In April 2018 he was appointed as the Council Member of Hong Kong CPPCC (Provincial) Members Association. In August 2018 he was elected as Executive Vice Chairman of Association of Hong Kong and Macau Members of CPPCC in Yunnan Province. He is currently an advisor of the board and served as a board member (from 2010 to 2017) of Pneumoconiosis Compensation Fund Board. He is the Chairman of Hong Kong Construction Materials Association and Vice President of Macau Ready-Mix Concrete Commerce Association. In addition, he is the Honorary President of Hong Kong (Asia) Youth Association and Yunnan Provincial Federation of Industry and Commerce of Macau. Mr. Chee has been the Chairman of Hong Kong Contract Quarry Association since 2011 where he also served as the Chairman from 2002 to 2008. He served as a member of the Working Group on Construction Waste of the Provisional Construction Industry Co-ordination Board from 2004 to 2006. He was also the Chairman of The Institute of Quarrying in the UK (Hong Kong Branch) from 1998 to 2000.

Ms. Paddy Tang Lui Wai Yu, *BBS, JP*, aged 64, joined the Group in 1980 and has been an executive Director of the Company since August 1991 as well as a member of the Executive Board of the Company. She is also an executive director of K. Wah International Holdings Limited. She holds a bachelor of commerce degree from McGill University, Canada and is a member of The Institute of Chartered Accountants in England and Wales. Ms. Lui has been elected as a member of the Shanghai Committee of the Chinese People's Political Consultative Conference in December 2012. She was appointed as a member of board of trustees of Shanghai Jiao Tong University on 30 October 2014. Ms. Lui was formerly a member of the Standing Committee on Company Law Reform, the Tourism Strategy Group, the Statistic Advisory Board, the Hong Kong Arts Development Council and the Board of Ocean Park Corporation and a non-executive director of the Mandatory Provident Fund Schemes Authority. Ms. Lui has been elected as a member of the Election Committee of the HKSAR since 1998. Ms. Lui is a daughter of Dr. Lui Che Woo and the elder sister of Mr. Francis Lui Yiu Tung.

NON-EXECUTIVE DIRECTORS

Dr. Charles Cheung Wai Bun, *JP*, aged 82, has been a non-executive Director of the Company since October 2015 and become a member of each of the Audit Committee and Corporate Governance Committee of the Company with effect from 14 June 2018. Dr. Cheung holds an honorary doctor's degree from John Dewey University, U.S.A., a master degree in business administration and a bachelor of science degree in accounts and finance from New York University, U.S.A.. He was awarded the Directors of the Year Awards 2002 of Listed Company Non-Executive Director by The Hong Kong Institute of Directors. In December 2010, Dr. Cheung received three awards, namely (1) Outstanding Management Award of The Chartered Management Association; (2) Outstanding Director Award of The Chartered Association of Directors; and (3) Outstanding CEO Award of The Asia Pacific CEO Association. Dr. Cheung is a council member of The Hong Kong Institute of Directors. He is also a member of the Hospital Governing Committee of Kowloon Hospital and Hong Kong Eye Hospital, and a member of the Kowloon Regional Advisory Committee of the Hospital Authority in Hong Kong. Dr. Cheung was formerly a visiting professor of the School of Business of Nanjing University, PRC. He was formerly the group chief executive and executive deputy chairman of Mission Hills Group, Hong Kong, and a former director and advisor of the Tung Wah Group of Hospitals. He has held senior management positions in various companies of different industries and possessed extensive banking, financial and commercial experiences. Dr. Cheung is an independent non-executive director of Fullsun International Holdings Group Co., Limited (formerly known as U-RIGHT International Holdings Limited), Jiayuan International Group

BIOGRAPHICAL INFORMATION OF DIRECTORS

Limited, Modern Dental Group Limited, Pioneer Global Group Limited and Universal Technologies Holdings Limited, all are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). He is an independent non-executive director of Yin He Holdings Limited (formerly known as Zebra Strategic Holdings Limited), a company listed on the growth enterprise market of the Stock Exchange. Dr. Cheung is also a director and the vice chairman of executive committee of the Metropolitan Bank (China) Ltd.. He was formerly an independent non-executive director of China Taifeng Beddings Holdings Limited from April 2017 to July 2018 and China Financial International Investments Limited from March 2001 to September 2018, both of which are listed on the main board of the Stock Exchange. He was also formerly an independent non-executive director of Grand T G Gold Holdings Limited from July 2009 to March 2016 and an executive director of Roma Group Limited from June 2017 to December 2017, both of which are listed on the growth enterprise market of the Stock Exchange.

Mr. Michael Victor Mecca, aged 70, joined the Group in 2009 as President and Chief Operating Officer and was the President of the Company since September 2015. After serving nine years’ tenure, he retired on 16 April 2018. He has been appointed as a non-executive Director of the Company since 4 May 2018. Mr. Mecca holds a Bachelor degree in Foreign Affairs from the University of Oklahoma in the USA. As well as the Company, he has held senior executive roles with a number of globally-recognized gaming and hospitality brands in Las Vegas and Melbourne. Mr. Mecca is a member of the board of directors of Société Anonyme des Bains de Mer et du Cercle des Étrangers à Monaco (“SBM”), a company whose shares are publicly traded on Euronext Paris and in which the Company holds an indirect interest of approximately 5%. Mr. Mecca has been licensed by the Gaming Commissions in both Nevada and Michigan in the United States, Victoria in Australia and Macau. Mr. Mecca is also Honorary President of The Macau Gaming Management Association (“MGMA”), Advisory Board Member of Macau University Institute for the Study of Commercial Gaming (“ISCG”), Member of G2E Asia Executive Non-Gaming Advisory Board, Honorary Advisor of International Film Festival & Awards Macao (“IFFAM”) and Honorary President of Macau Responsible Gaming Association.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. James Ross Ancell, aged 65, has been an independent non-executive Director of the Company since April 2004. Mr. Ancell is the Chairman of the Audit Committee and a member of the Corporate Governance Committee of the Company. He holds a Bachelor’s degree in Management Studies from University of Waikato in New Zealand. He is a Fellow of Chartered Accountants Australia and New Zealand and has over 35 years of broad experience in building materials and construction sectors, waste management and recycling business gained from multinational corporations. He is currently the Chairman of Churngold Construction Holdings Limited in the UK, a leading specialist groundworks subcontractor carrying out groundworks and road surfacing, with a separate remediation business, cleaning up sites contaminated by previous industrial activity. He is a non-executive director of MJ Gleeson PLC, a housebuilder and regeneration company listed on the London Stock Exchange.

Dr. William Yip Shue Lam, LLD, aged 81, has been an independent non-executive Director of the Company since December 2004. Dr. Yip is a member of the Audit Committee as well as the Chairman of the Nomination Committee and the Remuneration Committee of the Company. Dr. Yip holds a Bachelor of Arts degree and an honorary Doctor of Laws degree from the Concordia University, Canada. He is the founder and the Chairman of Canada Land Limited (“Canada Land”) since 1972. Canada Land engaged in real estate development and tourist attraction business, listed in 1994 on the Australian Stock Exchange and was privatized in May 2013. Dr. Yip remains as the Chairman of the company. Dr. Yip is also an independent non-executive director of K. Wah International Holdings Limited. Dr. Yip was also the chairman of Cantravel Limited, Guangzhou since 1996 and became a director in October 2013. Dr. Yip has been active in public services and has been appointed as an Honorary Standing Committee Member of The Chinese General Chamber of Commerce (November 2012 – October 2022) and the President of Concordia University Hong Kong Foundation Limited and Chairman of Board of Governors, Canadian University Association in Hong Kong. He had been the President (1998–2000) and currently the member of the Board of Governors of The Canadian Chamber of Commerce in Hong Kong, and the Fellow Member of The Hong Kong Institute of Directors. In addition, Dr. Yip has been elected a Guangzhou Municipal Honorable Citizen.

BIOGRAPHICAL INFORMATION OF DIRECTORS

Professor Patrick Wong Lung Tak, *BBS, JP*, aged 70, has been an independent non-executive Director of the Company since August 2008. Professor Wong is a member of each of the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of the Company. He is a Certified Public Accountant (Practising) in Hong Kong and the Managing Practising Director of Patrick Wong CPA Limited. He has over 40 years experience in the accountancy profession. Professor Wong holds a Doctor of Philosophy in Business degree, was awarded a Badge of Honour by the Queen of England in 1993 and was appointed a Justice of the Peace in 1998. He was also awarded a Bronze Bauhinia Star by the Government of the HKSAR in 2010. Professor Wong is an independent non-executive director of BAIC Motor Corporation Limited, C C Land Holdings Limited, Li Bao Ge Group Limited, Sino Oil and Gas Holdings Limited, Water Oasis Group Limited and Winox Holdings Limited, all are listed on the Hong Kong Stock Exchange. Professor Wong was formerly an independent non-executive director of Munsun Capital Group Limited (formerly known as China Precious Metal Resources Holdings Co., Ltd.) from June 2004 to October 2016, Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited from June 2010 to June 2017, Real Nutraceutical Group Limited from March 2008 to October 2017 and National Arts Entertainment and Culture Group Limited from February 2010 to December 2018, all are listed on the Hong Kong Stock Exchange.

GAMING AND HOSPITALITY EXPERTISE

GEG is committed to recruiting and retaining the very best management and employees and will continue to strengthen our gaming and hospitality executive team as we move forward and continue to build GEG to be a leading Asian gaming and entertainment company.

An indicative profile of the depth of our executive talent in our gaming and hospitality team is detailed below:

Robert Drake, Group Chief Financial Officer. He has extensive experience in corporate finance, investment banking activities such as mergers and acquisitions, financial management, as well as domestic and international business development activities within the gaming industry. Previously, he held senior executive positions in Finance with gaming companies in Las Vegas.

Kevin Kelley, Chief Operating Officer, Macau. He has extensive experience in gaming, hospitality and entertainment through his career spanning over the USA and Macau. Previously, he held senior executive positions at various well-known casinos and hotels in the USA and Macau.

Raymond Yap, Senior Director – International Premium & Mass Market Development. He has more than 32 years of experience in hotel operations, resort planning, theme park and plaza development, corporate planning and business development. Previously, he held various senior executive positions with a gaming company in Malaysia.

Edmond Ting, Director – Project Development. He has over 35 years of project management experience in property development and architectural consultancy firms developing large-scale commercial, luxury hotels, residential and service apartment projects. Previously, he held a senior executive position with a property development firm in Hong Kong.

Richard Longhurst, Director – Operations, Galaxy Macau™ and Director – Gaming Development and Optimization Services. He has over 29 years of extensive leadership experience at senior levels gained from the gaming industry. Previously, he held senior executive position with a gaming company in Australia.

Scott Kreeger, Director – Operations Development, New Resort. He has over 27 years of experience in gaming. Previously, he held senior executive positions with a number of resort and gaming companies in the USA.

Roger Lienhard, Executive Vice President – Hospitality, Galaxy Macau™. He has over 34 years of operations management and project development experience gained from the hospitality industry. Previously, he held senior management positions with a number of prestigious hotels and resorts in Macau, Singapore, Australia, Japan, India and Indonesia.

GAMING AND HOSPITALITY EXPERTISE

James Koratzopoulos, Executive Vice President – Hospitality, New Resort. He has over 27 years of experience in hotel operations and food and beverage services. Previously, he held senior management positions with a number of international hotel companies in Australia, Mainland China and the Middle East.

Elmen Lee, Senior Vice President – Business Development. He has over 26 years of experience in international marketing, casino marketing and hotel operations management gained from the gaming and hospitality industries. Previously, he held senior management position with a gaming and entertainment company in Australia prior to rejoining us.

Jason Barry, Senior Vice President – Table Games, Galaxy Macau™. He has over 27 years of experience in table games. Previously, he held a senior management position with a gaming company in Australia.

Andy Lee, Senior Vice President, Casino Customer Services and Supports. He has over 22 years of experience in mass marketing, mass and premium gaming hosting and hospitality operations. Previously, he held a senior management position with a resort and gaming company in Singapore.

This list is by no means exhaustive. With the continued development of our management competence resulting in highly efficient casino and entertainment operations, we believe that it will drive the growth and success of GEG for the years to come.

CORPORATE GOVERNANCE REPORT

The Company is committed to high standards of corporate governance. We have a well-balanced corporate governance system which sets out the framework for the Board of Directors (“Board”) to manage the Company efficiently, emphasizing on effective risk management and internal control to safeguard the interests of shareholders, to enhance shareholders’ value and to care for the community as a good corporate citizen, with a high level of transparency and accountability to shareholders. The Board has applied the code provisions in the Corporate Governance Code (“Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) except the deviation is disclosed and explained in this report.

THE BOARD

The Company’s vision is to be “Globally recognized as Asia’s leading gaming and entertainment corporation”. This vision will be achieved through the business philosophy stated in the inside front cover of this annual report.

The Company is headed by the Board, which is responsible to lead and control the Company and its subsidiaries (“Group”) and promote the success of the Group by directing and supervising the Group’s affairs in an effective manner. The Board which is accountable to the shareholders, sets strategies and priorities for the Company, approves annual budgets and performance targets, determines the appropriate management structure, and monitors the performance of the management.

The names and biographical details of the Directors and their relationships are set out on pages 63 to 66 as well as the Company’s website at www.galaxyentertainment.com. The list of Directors and their roles and function is also disclosed in the websites of the Company and The Hong Kong Exchanges and Clearing Limited (“HKEX”).

Chairman, Deputy Chairman and Managing Director of Business Division

The roles of the Chairman of the Board, the Deputy Chairman of the Board and the Managing Director of the Construction Materials Division are separately played by Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Mr. Joseph Chee Ying Keung respectively.

The Chairman provides leadership for the Board and ensures that the Board works effectively in discharging its responsibilities, all key issues are discussed and addressed to in a timely manner and information is provided timely, adequately and accurately. The Deputy Chairman supports and assists the Chairman in performing the above tasks and, together with the Managing Director of the Construction Materials Division, to develop strategic operational plans to implement the Company’s strategies and priorities. The Deputy Chairman leads and oversees the day-to-day management of the Group’s gaming and hospitality related business, while the Managing Director of the Construction Materials Division leads and oversees the day-to-day management of the business of the Construction Materials Division.

Board Composition

The Board has a balanced composition of executive and non-executive Directors (currently include four executive, two non-executive and three independent non-executive Directors). During the year, Mr. Michael Victor Mecca, who joined the Group since 2009 and has a long distinguished career in leadership roles with a number of globally recognized gaming and hospitality brands, was appointed as a non-executive Director. The skill-sets of the Board are determined and regularly reviewed on the basis that members of the Board as a whole possess all-rounded business and professional skills essential to manage a successful sizeable enterprise and to support continuous growth. Added to our executive Directors’ substantial experience in the Company’s business, our Directors have brought in a mix of experience and qualifications in corporate management and strategic planning, investment, finance, treasury management, and corporate governance practices. In fulfilling their roles and duties, our Directors provide balanced and independent views to the Board, exercise independent judgment and play a check and balance role on the Board’s decisions, particularly on matters that may involve conflict of interest. The Company believes that the current Board composition is well-balanced and of a diverse mix appropriate for the business of the Company.

CORPORATE GOVERNANCE REPORT

Appointment and Re-election of Directors

The responsibility in nominating new Directors to the Board, reviewing the size, structure and composition of the Board and proposing re-election of retiring Directors is delegated to the Nomination Committee.

Non-executive Directors are appointed for a specific term. Mr. James Ross Ancell, Dr. William Yip Shue Lam, Professor Patrick Wong Lung Tak, Dr. Charles Cheung Wai Bun and Mr. Michael Victor Mecca were appointed for a fixed term of three years pursuant to their service contracts. All Directors except the Chairman are subject to re-election by shareholders at the annual general meetings and at least once every three years according to the Articles of Association of the Company.

Mr. Michael Victor Mecca was appointed by the Board on 4 May 2018. Pursuant to the Company's Articles of Association and Code A.4.2 of Appendix 14 of the Listing Rules, his appointment is subject to re-election by shareholders at the forthcoming annual general meeting.

Pursuant to the Code A.4.3 of Appendix 14 of the Listing Rules, any re-appointment of independent non-executive director who served more than 9 years shall be subject to a separate resolution to be approved by shareholders. During the year, Mr. James Ross Ancell, an independent non-executive Director, has served the Board for more than 9 years and is due to retire at the annual general meeting to be held on 16 May 2019. During his tenure of service, Mr. Ancell has demonstrated his ability to provide independent views to the Company's matters. Mr. Ancell had made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied that Mr. Ancell remains independent, and there is no evidence that his tenure has had an impact on his independence. Separate resolution will be proposed for his re-election at the forthcoming annual general meeting.

At the forthcoming annual general meeting to be held on 16 May 2019, Mr. Joseph Chee Ying Keung, Mr. James Ross Ancell, Dr. Charles Cheung Wai Bun and Mr. Michael Victor Mecca will retire and are eligible for re-election. All of them have offered themselves for re-election.

Confirmation of Independence

All independent non-executive Directors have met all of the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. Having considered that (i) the Company has received from each of them an annual written confirmation of his independence; (ii) they were not involved in the daily management of the business; and (iii) there is no indication of relationship or circumstances that will impact their independent judgment, the Board considers each of independent non-executive Directors to be independent.

Responsibilities of Directors

Each Director has a duty to act in good faith in the interests of the Company. The Company believes that it is essential to keep our Directors updated on their duties and responsibilities as well as the conduct, business activities and development of the Group to enable them to provide their maximum contributions. All Directors have access to the management and Company Secretary for any information relevant to the Group they require in discharging their duties. Reports on the Company's performance, annual budget and comparison with budget together with the necessary commentary and explanation on any deviation from budget are provided to our Directors at regular Board meetings. The independent non-executive Directors had visited the Company's properties in Macau in 2018 to keep them abreast of the Group's recent development and operations. In addition, monthly updates on the market trend and information on the Company's development, finance and operations were provided to Directors as soon as practicable.

The Company has in place directors' and officers' liabilities insurance cover to indemnify our Directors against claims and liabilities arising out of the Group's business and activities.

CORPORATE GOVERNANCE REPORT

Time and Directorship Commitments of Directors

All Directors are expected to ensure that sufficient time and attention is allocated to the Company to discharge their responsibilities effectively and, where possible, attend all Board/committee meetings and annual general meetings, and that other commitments do not affect the effectiveness of their contribution or the time available to the Company. The major commitments of non-executive Directors are detailed in their biographies.

All Directors are required to disclose to the Company at the time of his/her appointment, and in a timely manner for any change, the number, identity and nature of offices held in Hong Kong and overseas listed public companies or organizations and other significant commitments. Such changes will be updated in their biographies and disclosed in the annual and interim reports as appropriate. An indication of the time involved by the Directors on their directorships and other commitments will also be disclosed on an annual basis.

The independent non-executive Directors have made disclosures about the time spent on the affairs of the Company and also confirm that they are able to give sufficient time and attention to the affairs of the Company. All of them have attended the Board/committee meetings and annual general meeting held by the Company during the year.

The Nomination Committee regularly reviews the time commitments required from a Director to perform his/her responsibilities to ensure that the Board's effectiveness is not compromised. The Board believes, in principle, that Directors' external commitments will benefit the Company by providing them with a diversity of skills, experience, knowledge and perspectives and are relevant to their role in the Company.

Directors' Induction and Continuous Professional Development

All Directors have participated in continuous professional development ("CPD") including seminars provided by the Company and/or external qualified professionals on corporate governance, updates on laws, rules, regulations and management to further strengthen their knowledge and skills on the roles, functions and duties as a director. Timely updates on legislative and regulatory changes and corporate governance development relevant to the Group and relevant information on the Group's business and activities are provided to our Directors on a regular basis. Each newly appointed Director will receive a comprehensive induction package covering the statutory and regulatory obligations of directors, policies, procedures and codes of the Company applicable to the Directors. The Company keeps a record of training provided by each Director, summarized as follows:

Directors	Corporate Governance/Updates on Laws, Rules & Regulations	Accounting/Financial/ Management/ Other Professional Skills
Executive Directors		
Dr. Lui Che Woo	✓	✓
Mr. Francis Lui Yiu Tung	✓	✓
Mr. Joseph Chee Ying Keung	✓	✓
Ms. Paddy Tang Lui Wai Yu	✓	✓
Non-executive Directors		
Dr. Charles Cheung Wai Bun	✓	✓
Mr. Michael Victor Mecca	✓	✓
Independent Non-executive Directors		
Mr. James Ross Ancell	✓	✓
Dr. William Yip Shue Lam	✓	✓
Professor Patrick Wong Lung Tak	✓	✓

CORPORATE GOVERNANCE REPORT

Code of Conduct for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by Directors. The Company, having made specific enquiry of all Directors, confirms that our Directors have complied with the required standard set out in the Model Code.

The Board has also established written guidelines on no less exacting terms than the Model Code to be observed by relevant employees of the Group who, because of their offices or employments, are likely to possess inside information in relation to the Group or the securities of the Company in respect of their dealings in the securities of the Company. The list and policies will be subject to review by the Company as and when it thinks appropriate.

DELEGATION BY THE BOARD AND BOARD COMMITTEES

The Board has proper delegation of its powers and has established appropriate Board Committees, with specific written terms of reference which deal clearly with their authority and duties, to oversee particular aspects of the Group’s affairs. Sufficient resources, including the advice of the external Auditor and independent professional advisers, are provided to the Board Committees to enable them to discharge their duties.

Executive Board

The Board has delegated the power, authorities and discretions for the management of the Group’s operations and activities to a formally established Executive Board comprising all executive Directors of the Company. The Executive Board reports to the Board and circulates its resolutions and minutes of the Board or committees or general meetings to all Directors on a quarterly basis. Certain matters including annual budgets and financial statements, dividends and distribution to shareholders, increase of share capital and allotment of new shares except pursuant to exercise of share options and grant of share awards, derivative tradings, connected transactions which are subject to disclosure and/or shareholders approval requirements, and acquisitions, disposals, investments, financing and charging of assets above certain predetermined thresholds are specifically reserved for approval by the Board.

In respect of the decision making process, management, pursuant to the levels of authority formally approved by the Executive Board, submits written proposals with detailed analysis (on financial and commercial aspects) and recommendations to the Executive Board for consideration and approval. Where the subject matter exceeds the authority of the Executive Board or relates to any matters specifically reserved to the Board as aforesaid, it would be submitted to the Board for approval.

The Executive Board sub-delegates the day-to-day management, administration and operations functions to the executives/committees of the gaming and entertainment division and the construction materials division and where appropriate, special task forces with specified duties to oversee particular business activities or corporate transactions.

Audit Committee

The Audit Committee of the Company has been in place since 1999. It comprises four members with a majority of independent non-executive Directors. Mr. James Ross Ancell is the Chairman of the Audit Committee and Dr. William Yip Shue Lam, Professor Patrick Wong Lung Tak and Dr. Charles Cheung Wai Bun (appointed on 14 June 2018) are members.

The Audit Committee is accountable to the Board and assists the Board to oversee the Company’s financial reporting process and internal control and risk management systems and to review the Group’s interim and annual consolidated financial statements. The Audit Committee has access to and maintains an independent communication with the external Auditor and management. The role and function of the Audit Committee are set out in its revised written terms of reference which are posted on the websites of the Company and HKEX.

CORPORATE GOVERNANCE REPORT

The Audit Committee held three meetings in 2018 with all the members present, with the attendance of the Group Chief Financial Officer, finance executives of the respective business divisions, the Company Secretary, the Internal Auditor and the external Auditor as invited by the members of the Audit Committee. The Audit Committee submitted its written report to the Board drawing the Board's attention to important issues that the Board should be aware of, identifying any matters which it considered action or improvement was needed and making appropriate recommendations. In addition, written resolutions were circulated to the members for approval as and when needed.

The principal work performed by the Audit Committee during the year included a review of interim and annual consolidated financial statements including the accounting policies and practices adopted by the Company, key audit matters to be disclosed in the Independent Auditor's Report, review of audit engagement letter, audit fee, audit strategy, significant accounting matters, internal audit annual plan with its resource allocation and requirements, compliance with rules and laws, reports from Internal Auditor on effectiveness of internal control systems and risk management and adequacy of resources, independence of external Auditor, other financial and internal control matters and recommendation of the re-appointment of the Company's auditor.

Remuneration Committee

The Remuneration Committee of the Company has been in place since early 2006. It comprises three members with a majority of independent non-executive Directors. Dr. William Yip Shue Lam is the Chairman of the Remuneration Committee and Mr. Francis Lui Yiu Tung and Professor Patrick Wong Lung Tak are the members.

The Remuneration Committee is accountable to the Board and with delegated responsibility, regularly reviews, formulates and determines fair and competitive remuneration packages in order to attract, retain and motivate Directors with the quality required to run the Company successfully. The role and function of the Remuneration Committee are set out in its revised written terms of reference which are posted on the websites of the Company and HKEX.

The Remuneration Committee met once in 2018 with all its members present and with the attendance of representative from the human resources department and the Company Secretary. The Remuneration Committee submitted its written report and/or recommendation to the Board after the Remuneration Committee meeting. In addition, written resolutions were circulated to the members for approval during the year.

The principal work performed by the Remuneration Committee during the year included recommendation of Directors' fees by reference to the market data and participation in Board committees, subject to approval of shareholders at the annual general meeting; review and approval of remuneration policy, structure, packages (including discretionary bonus) to executive Directors based on market data, and by reference to the Director's duties and responsibilities with the Company, the Company's performance and profitability; and grant of share options and share awards to executive Directors. No Director or any of his associates was involved in deciding his own remuneration at the Remuneration Committee meeting.

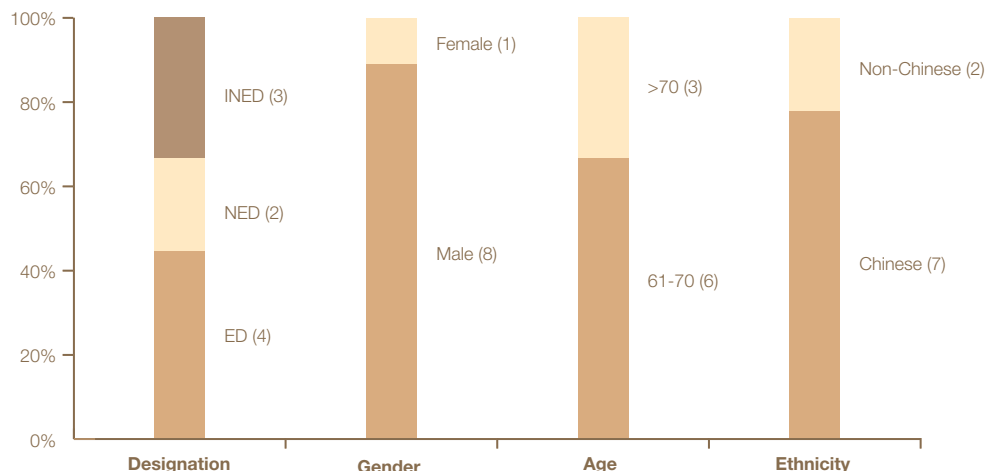
Nomination Committee

The Nomination Committee of the Company was set up in 2012. It comprises three members of which a majority is independent non-executive Directors. Dr. William Yip Shue Lam is the Chairman of the Nomination Committee and Mr. Francis Lui Yiu Tung and Professor Patrick Wong Lung Tak are the members. Its major responsibilities are to formulate and implement the policy for nominating candidates for election to the Board, assess the independence of independent non-executive Directors and propose re-election of retiring Directors.

The Company has adopted a formal and considered nomination policy in March 2012. Recognizing the benefits of having a Board that has a balance of skills, experiences and diversity of perspectives, the nomination policy was revised in March 2013 and December 2018 to take into consideration of Board diversity from a number of aspects, including but not limited to gender, age, ethnicity, reputation for integrity, cultural and educational background, professional experience and qualifications, industry and business-related experience, skills, knowledge, length of service and other qualities relevant to the duties of Directors that the Nomination Committee may consider relevant and applicable from time to time towards achieving a diversified Board.

CORPORATE GOVERNANCE REPORT

The following chart shows the diversity profile of the Board as at 31 December 2018:



A formal, considered and transparent procedure is in place for the appointment of new Directors to the Board. Candidates to be recommended and selected are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence to a standard required of for the role of a director of listed companies. In addition, the abilities to provide balanced and independent views, exercise independent judgment and devote sufficient time and attention to the Company's affairs are also criteria for selecting non-executive Directors.

Any Director (after consultation with the Chairman of the Board) may nominate a suitably qualified candidate to serve as a Director of the Company for consideration of the Nomination Committee. The Nomination Committee shall review the candidate profile and then submit a recommendation to the Board for consideration after taking into account all the requirements set out above and all other applicable factors relevant to the Company. The Board then considers the recommendation and forms its opinion as to whether the proposed candidate shall be appointed as a Director. The terms of reference of the Nomination Committee are posted on the websites of the Company and HKEX.

The Nomination Committee met once in 2018 with all the members present. The Nomination Committee submitted its written report and/or recommendations to the Board after the Nomination Committee meeting. In addition, written resolutions were circulated to the members for approval during the year.

The principal work performed by the Nomination Committee included amending and reviewing the nomination policy to further elaborate diversity from a number of perspectives, taking into account the recent amendments to the Code relating to appointment of independent non-executive Directors in order to ensure its effectiveness and application, reviewing structure, size and composition of the Board to ensure a balanced composition, skills and experience appropriate for the requirements of the businesses of the Company, assessing the independence of independent non-executive Directors according to the relevant rules and requirements under the Listing Rules, recommending the re-appointment of retiring Directors, considering the nomination of Mr. Michael Victor Mecca as a non-executive Director and Dr. Charles Cheung Wai Bun as a member of each of the Audit Committee and Corporate Governance Committee. No Director will vote in respect of recommending his own re-appointment as Director.

CORPORATE GOVERNANCE REPORT

Corporate Governance Committee

The Corporate Governance Committee of the Company was set up in 2012. It comprises four members of which half of them are independent non-executive Directors. Mr. Francis Lui Yiu Tung is the Chairman of the Corporate Governance Committee and Mr. James Ross Ancell, Professor Patrick Wong Lung Tak and Dr. Charles Cheung Wai Bun (appointed on 14 June 2018) are the members. Its main responsibilities are to review the Company's policies and practices on corporate governance, training and CPD of Directors and senior management, and compliance with the Code and disclosure in the Corporate Governance Report. A policy on corporate governance was adopted with the aim to enhance shareholders' value and to achieve high level of transparency, integrity and accountability.

The Corporate Governance Committee met once in 2018 with all its members present. The Corporate Governance Committee submitted its written report and/or recommendation to the Board after the Corporate Governance Committee meeting.

The principal work performed by the Corporate Governance Committee included review of the Company's policies and practices on corporate governance, shareholders communication policy, compliance with the Companies Ordinance (Chapter 622) ("Companies Ordinance") and Listing Rules requirements, code of conduct on securities transactions by Directors and employees, training and CPD of Directors and senior management, compliance with the Code, Corporate Governance Report and Environmental, Social and Governance Report.

BOARD, BOARD COMMITTEES AND GENERAL MEETINGS

The Board schedules regular Board meetings in advance to give Directors the opportunity to participate actively. Directors are consulted for matters to be included in the agenda for regular Board meetings. Directors receive written notice of the meeting generally about a month in advance and an agenda with supporting Board papers no less than three days prior to the meeting. Throughout the year, Directors also participated in the consideration and approval of any matter requiring the attention of the Board by way of circulation of written resolutions. Supporting written materials were provided in the circulation and verbal briefings were given by the management or the Company Secretary when required. Special Board meetings are convened as and when needed. Except for those circumstances permitted by the Articles of Association of the Company and the Listing Rules, a Director who has material interest in any contract, transaction, arrangement or any other kind of proposal put forward to the Board for consideration abstains from voting on the relevant resolution and such Director is not counted in the quorum.

In addition to Board meetings, the Chairman also has regular gatherings with other Directors, occasionally with independent non-executive Directors and without the presence of other Directors, to consider issues in an informal setting. The independent non-executive Directors freely provide their independent views to the Board.

CORPORATE GOVERNANCE REPORT

All Directors have attended the Board, Board Committees and General Meetings held in the year under review, their attendance are set out in the following table:

Number of Meetings	Board (4)	Audit Committee (3)	Remuneration Committee (1)	Nomination Committee (1)	Corporate Governance Committee (1)	Annual General Meeting (1)
Executive Directors						
Dr. Lui Che Woo	4/4	-	-	-	-	1/1
Mr. Francis Lui Yiu Tung	4/4	-	1/1	1/1	1/1	1/1
Mr. Joseph Chee Ying Keung	4/4	-	-	-	-	1/1
Ms. Paddy Tang Lui Wai Yu	4/4	-	-	-	-	1/1
Non-executive Directors						
Dr. Charles Cheung Wai Bun ⁽¹⁾	4/4	1/1	-	-	0/0	1/1
Mr. Michael Victor Mecca ⁽²⁾	2/2	-	-	-	-	0/0
Independent Non-executive Directors						
Mr. James Ross Ancell	4/4	3/3	-	-	1/1	1/1
Dr. William Yip Shue Lam	4/4	3/3	1/1	1/1	-	1/1
Professor Patrick Wong Lung Tak	4/4	3/3	1/1	1/1	1/1	1/1

Notes:

(1) Appointed as a member of each of the Audit Committee and Corporate Governance Committee on 14 June 2018.

(2) Appointed on 4 May 2018.

COMPANY SECRETARY

The Company Secretary of the Company is responsible for facilitating the Board processes, ensuring the Board procedures are followed and Board activities are efficiently and effectively conducted, as well as ensuring good information flow among Board members with management and shareholders. All Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations are followed.

All draft and final minutes of Board meetings and Board Committees meetings with records in sufficient details the matters considered and decisions made, are sent to Directors and Board Committees members for comments and approval. Minutes of the Board, Board Committees and General Meetings are kept by the Company Secretary and are made available and circulated to all Directors periodically.

The Company Secretary sends updates on legislative, regulatory and corporate governance developments relevant to the Group on regular basis and arranges in-house seminars for the Directors.

The Company Secretary had complied with Rule 3.29 of the Listing Rules during the year under review.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

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

Directors' Responsibility

The Directors acknowledge their responsibilities for preparing the financial statements of the Company are to give a true and fair view and comply with all applicable regulatory requirements and accounting standards. In preparing the consolidated financial statements for the year ended 31 December 2018, the Directors have selected appropriate accounting policies and applied them consistently, and made judgments and estimates that are prudent and reasonable. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as at 31 December 2018. Accordingly, the Directors have prepared the consolidated financial statements for the year ended 31 December 2018 on a going concern basis.

Throughout the year, the Company has devoted sufficient resources and maintained adequate qualified and experienced staff responsible for the accounting and financial reporting function.

Independent Auditor's Responsibility

The external Auditor of the Company is PricewaterhouseCoopers, Certified Public Accountants. A statement by the Independent Auditor about their reporting responsibilities is included in the Independent Auditor's Report on the Company's financial statements on pages 97 to 101.

In arriving at their opinion, the external Auditor conducts full scope audit without any restrictions and has access to individual Directors (including Audit Committee members) and management of the Company.

Independent Auditor's Remuneration

Fees for auditing services and non-auditing services provided by the external Auditor for the year ended 31 December 2018 are included in note 9 to the consolidated financial statements.

Fees for non-auditing services include HK\$2,771,000 for the services provided in respect of taxation and advisory services.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining a sound and effective risk management and internal control systems, and for reviewing their design, operational adequacy and effectiveness on a going basis. The systems, aiming at managing rather eliminating the risk of failure to achieve business objectives and providing reasonable assurance of no material misstatement or loss, are designed to:

- Facilitate their effective and efficient operation by allowing it to respond appropriately to significant business, operational, financial, compliance and other risks with a view of achieving business objectives;
- Help ensure maintenance of proper accounting records for the provision of reliable financial information of internal for external reporting, and;
- Help ensure compliance with relevant legislation and regulations, and also with internal policies with respect to the conduct of business.

CORPORATE GOVERNANCE REPORT

The key procedures that the Group established to provide effective risk management and internal controls include a well-defined management structure with limits of authority, clear and written policies, standard operation procedures, risk control self-assessment conducted and a good reporting system for all major operating units of the Group.

Department heads are responsible for daily operations and manage the day-to-day operational and business risks. The Group's Internal Audit Department provides independent assurance to the Board and executive management as to the adequacy and effectiveness of risk management and internal control systems for the Group on an on-going basis through the monitoring of the Group's internal Governance, evaluating the quality of the risk management and internal control systems.

Risk assessment exercise is performed annually through questionnaires and interview with senior executives and function heads to identify and evaluate significant risks of the Group. Appropriate risk mitigation actions are being taken to manage and control individual risks. Using a risk based methodology audit approach and with the result of the risk assessments, Internal Audit prepares the annual internal audit plan that is approved by Audit Committee before execution. During the year, Internal Audit performed reviews with objectives to ensure that all material controls, including financial, operational and compliance controls are in place and functioning effectively. Significant risk management and internal control weaknesses are brought to the attention of senior management who takes immediate actions for rectification of deficiencies. Internal Audit reports to the Audit Committee on a semi-annual basis whether the risk management and sound internal control systems are maintained and operated by management in compliance with policies and procedures of the Group and the requirements that are laid down by external regulators.

Policies and procedures including pre-clearance on dealing the Company's securities by notification of regular blackout period and securities dealing restrictions to Directors and relevant employers, and handling and dissemination of inside information have been implemented by the Group to guide against possible mishandling of inside information within the Group.

For the financial year ended 31 December 2018, Internal Audit Department was not aware of any significant internal control issues that would have been an adverse impact on the financial position or operations of the Group. The Board, through the review of the Audit Committee, considers that (i) the risk management and internal control systems of the Group are effective and adequate and the Group had complied with the provisions on risk management and internal control as set forth in the Code; and that (ii) the resources, qualifications, experience, training programs, budget of the accounting & financial reporting and the internal audit functions of the Group are adequate.

COMMUNICATION WITH SHAREHOLDERS AND INVESTMENT COMMUNITY

The Company places a great deal of emphasis on timely, accurate and transparent communication with shareholders and the investment community. The Board has adopted a shareholders communication policy which provides a framework to maintain direct, open and timely communication with shareholders. The Company ensures effective and timely dissemination of relevant information at all times.

In addition to publishing interim and annual results in accordance with the Listing Rules requirements, the Company voluntarily releases unaudited key financial information on a quarterly basis to enable stakeholders to better assess the performance of the Group.

An Investor Relations Team has been designated to maintain purposeful dialogue and ongoing relationships with investors, analysts and media. Quality information are provided to shareholders and the investment community.

CORPORATE GOVERNANCE REPORT

The Company establishes different communication channels with shareholders and investors. Shareholders are given the option of electing to receive corporate communication (including but not limited to annual reports, interim reports, notices of meetings, circulars and proxy forms) by electronic means. The Company's website www.galaxyentertainment.com is also a valuable platform for investors and contains a dedicated investor relations section offering timely and direct access to our financial reports, corporate announcements, press releases and other business information.

SHAREHOLDERS' RIGHTS

Shareholders are encouraged to attend all general meetings of the Company.

Convening General Meetings

Pursuant to Article 67 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene a general meeting, and general meetings shall also be convened on requisition, as provided by the Companies Ordinance, or, in default, may be convened by the requisitionists.

In accordance with Section 566 of the Companies Ordinance, shareholders of the Company representing at least 5% of the total voting rights of all shareholders of the Company having a right to vote at general meetings may request the directors of the Company to call a general meeting. The request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request must be signed and sent to the registered office of the Company at 22nd Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for the attention of the Company Secretary in hard copy form, and be authenticated by the person or persons making it (including the way of signing by such person(s)).

Putting Forward Proposals at General Meetings

Pursuant to Section 580 of the Companies Ordinance, shareholders of the Company representing at least 2.5% of the total voting rights of all shareholders of the Company who have a relevant right to vote, or at least 50 shareholders who have a relevant right to vote, may request the Company to circulate, to shareholders of the Company entitled to receive notice of a general meeting, a statement of not more than 1000 words with respect to (a) a matter mentioned in a proposed resolution to be dealt with at that meeting, or (b) other business to be dealt with at that meeting. The request must be sent to the Company in hard copy form, identify the statement to be circulated, be authenticated by the person or persons making it (including by way of signing by such person(s)) and be received by the Company at the registered office stated above at least 7 days before the meeting to which it relates.

Pursuant to Section 615 of the Companies Ordinance, shareholders of the Company representing at least 2.5% of the total voting rights of all shareholders of the Company or at least 50 shareholders, who have a right to vote on the resolution at the annual general meeting to which the requests relate, may request the Company to give, to shareholders of the Company entitled to receive notice of the annual general meeting, notice of a resolution that may properly be moved and is intended to be moved at that meeting. The request must be sent to the Company in hard copy form, identify the resolution of which notice is to be given, be authenticated by the person or persons making it (including by way of signing by such persons(s)), and be received by the Company at the registered office stated above not later than 6 weeks before the annual general meeting to which the requests relate or if later, the time at which notice is given of that meeting.

If a shareholder intends to propose a person other than a retiring Director of the Company for election as a Director, the procedures have been set out in the Company's website.

CORPORATE GOVERNANCE REPORT

Enquiries to the Board

The Company values comments and suggestions from shareholders. Shareholders may send their enquiries and concerns to the Board to the registered office address or by email for the attention of the Company Secretary.

CONSTITUTIONAL DOCUMENTS

The Company's Articles of Association has been published on the websites of the Company and HKEX. There have been no changes during the year ended 31 December 2018.

COMPLIANCE WITH THE CODE

Throughout the year under review, the Company has complied with the code provisions in the Code, except code provision A.4.2.

A.4.2 – Given that the other Directors do retire by rotation in accordance with the Articles of Association of the Company, the Board considers that the Group is best served by not requiring the Chairman to retire by rotation as his continuity in office is of considerable benefit to and his leadership, vision and profound knowledge in the widespread geographical business of the Group is an asset of the Company.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to the shareholders the annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal subsidiaries, joint ventures and associated companies of the Company are primarily engaged in operation in casino games of chance or games of other forms, provision of hospitality and related services in Macau, and the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China, and their principal activities and other particulars are set out in note 44 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement on page 102 of this annual report.

DIVIDEND POLICY

The Company will evaluate its distribution policy and distributions made in any particular year in light of its financial position, the prevailing economic climate and expectations about the future macroeconomic environment and business performance. The determination to make distributions will be made at the sole discretion of the Board of Directors after consideration of the Company's operations and earnings, development pipeline, cash flow, financial position, capital and other reserve requirements and surplus and any other conditions or factors which the Board of Directors deems relevant.

DIVIDENDS

Special dividends of HK\$0.41 and HK\$0.50 per share for the year ended 31 December 2018 were paid to the shareholders of the Company on 27 April 2018 and 26 October 2018 respectively.

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

Total dividends paid to shareholders of the Company for the year ended 31 December 2018 were HK\$0.91 per share (2017: HK\$0.59 per share).

On 28 February 2019, the Board of Directors has resolved to declare special dividend of HK\$0.45 per share totaling approximately HK\$1,960 million, payable to shareholders whose names appear on the register of members of the Company on 29 March 2019. This special dividend is expected to be paid on or about 26 April 2019.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2018, calculated under Part 6 of the Hong Kong Companies Ordinance (Cap. 622), amounted to HK\$2,738,912,000 (2017: HK\$3,843,347,000).

BUSINESS REVIEW

A review of the businesses of the Group during the year, a discussion on the Group's future business developments and principal risks and uncertainties that the Group may be facing is provided in the Chairman's Statement on pages 14 and 15 and Management Discussion and Analysis on pages 24 to 34 of this annual report.

The financial risk management objectives and policies of the Group can be found in note 5 to the consolidated financial statements. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2018 are provided in note 41 to the consolidated financial statements.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial & Operational Highlights on pages 6 to 11 of this annual report.

In addition, discussions on the Group's environmental policies and performance, compliance with relevant laws and regulations which have a significant impact on the Group and an account of the Group's key relationships with its employees, customers and suppliers and others which have a significant impact on the Group are contained in the section headed "Environmental, Social and Governance Report" on pages 35 to 62 of this annual report.

SHARES ISSUED

Details of the shares issued by the Company during the year are set out in note 28 to the consolidated financial statements.

During the year, 14,356,907 new ordinary shares were issued pursuant to the share option scheme of the Company as a result of the exercise of share options by option holders, and 2,499,599 new ordinary shares were allotted for the purpose of satisfying the share awards granted under the share award scheme as mentioned in the section headed "Share Award Scheme" below.

DEALINGS IN LISTED SECURITIES

During the year 2018, the trustee of the Share Award Scheme, pursuant to the terms of the Trust Deed, purchased on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") a total of 508,460 shares of the Company for a total consideration of approximately HK\$23.12 million for satisfying the share awards granted to the connected persons (as defined under the Rules Governing the Listing of Securities on the Stock Exchange), who are also employees of the Group. All 508,460 shares were subsequently transferred to those connected persons on the respective vesting dates of the share awards.

Save as disclosed, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2018.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company who served during the year and up to date of this report are:

Dr. Lui Che Woo, *Chairman*
 Mr. Francis Lui Yiu Tung, *Deputy Chairman*
 Mr. Joseph Chee Ying Keung, *executive Director*
 Ms. Paddy Tang Lui Wai Yu, *executive Director*
 Dr. Charles Cheung Wai Bun, *non-executive Director*
 Mr. Michael Victor Mecca, *non-executive Director* (appointed on 4 May 2018)
 Mr. James Ross Ancell, *independent non-executive Director*
 Dr. William Yip Shue Lam, *independent non-executive Director*
 Professor Patrick Wong Lung Tak, *independent non-executive Director*

The biographical details of the Directors are set out on pages 63 to 66 of this annual report.

In accordance with Article 106(A) of the Articles of Association of the Company, Mr. Joseph Chee Ying Keung, Dr. Charles Cheung Wai Bun and Mr. James Ross Ancell will retire from office by rotation, being eligible, and have offered themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 97 of the Articles of Association of the Company, Mr. Michael Victor Mecca will retire from office, being eligible, and has offered himself for re-election at the forthcoming annual general meeting.

None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Subject to the approval of shareholders at the forthcoming annual general meeting, the following directors' fees in respect of the year ended 31 December 2018 will be payable to the Directors:

	Chairman (HK\$)	Member (HK\$)
The Board	350,000	310,000
Audit Committee	210,000	170,000
Corporate Governance Committee	110,000	85,000
Nomination Committee	110,000	85,000
Remuneration Committee	110,000	85,000

A list of directors who have served on the boards of the subsidiaries of the Company included in the annual consolidated financial statements for the financial year ended 31 December 2018 during the year and up to the date of this report is kept at the Company's registered office and made available for inspection by the shareholders of the Company free of charge during business hours.

REPORT OF THE DIRECTORS

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed, no transactions, arrangements and contracts of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a Director or his or her connected entity has or had a material beneficial interest, whether directly or indirectly, subsisted at 31 December 2018 or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES AND UNDERLYING SHARES

As at 31 December 2018, the interests or short positions of each Director in the shares, underlying shares and debentures of the Company, and the details of any right to subscribe for shares of the Company and of the exercise of such rights, as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

(a) Shares (including underlying shares)

Name	Number of shares (including underlying shares)				Total	Percentage of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	36,643,844	2,181,518	363,726,401 ⁽¹⁾	1,362,225,231 ⁽²⁾	1,764,776,994	40.80
Francis Lui Yiu Tung	48,853,979	–	396,150,099 ⁽³⁾	1,362,225,231 ⁽²⁾	1,807,229,309	41.79
Joseph Chee Ying Keung	1,932,321	–	–	–	1,932,321	0.04
Paddy Tang Lui Wai Yu	14,011,207	–	–	1,362,225,231 ⁽²⁾	1,376,236,438	31.82
James Ross Ancell	250,000	–	–	50,000 ⁽⁴⁾	300,000	0.01
William Yip Shue Lam	250,000	–	–	–	250,000	0.01
Patrick Wong Lung Tak	–	–	–	–	–	–
Charles Cheung Wai Bun	–	–	–	–	–	–
Michael Victor Mecca	1,460,946	–	–	–	1,460,946	0.03

Notes:

- (1) 305,401 shares, 295,421,000 shares and 68,000,000 shares of the Company were held by Po Kay Securities & Shares Company Limited, Lui Che Woo Foundation Limited ("Lui Che Woo Foundation") and LUI Che Woo Prize Limited ("LUI Che Woo Prize") respectively, all of which are controlled by Dr. Lui Che Woo. Lui Che Woo Foundation and LUI Che Woo Prize are charitable organizations.
- (2) A discretionary family trust established by Dr. Lui Che Woo as settlor was interested in 1,362,225,231 shares of the Company. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as discretionary beneficiaries of the discretionary family trust, are deemed to have an interest in those shares in which the trust has an interest.
- (3) 103,096,039 shares of the Company were held by Recurrent Profits Limited ("Recurrent Profits"). Top Notch Opportunities Limited ("Top Notch") was indirectly interested in 171,916,021 shares of the Company. Kentlake International Investments Limited ("Kentlake") was directly and indirectly interested in 121,138,039 shares of the Company. Recurrent Profits, Top Notch and Kentlake are companies controlled by Mr. Francis Lui Yiu Tung.
- (4) Mr. James Ross Ancell was interested in 50,000 shares of the Company as being one of the trustees and a major beneficiary of a pension scheme.

REPORT OF THE DIRECTORS

(b) Underlying shares – Share Options and Share Awards

Details are set out in the sections headed “Share Option Scheme” and “Share Award Scheme” below.

All the interests stated above represent long positions.

Save as disclosed above, as at 31 December 2018, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its specified undertakings or its other associated corporations (within the meaning of Part XV of the SFO and the Hong Kong Companies Ordinance (Cap. 622)).

SUBSTANTIAL SHAREHOLDERS’ AND OTHER SHAREHOLDERS’ INTERESTS

As at 31 December 2018, the interests or short positions of every person (not being a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of shares (Long Position)	Percentage of Issued Share Capital
City Lion Profits Corp.	973,282,206	22.50
CWL Assets (PTC) Limited	1,362,225,231	31.50
HSBC International Trustee Limited	1,363,000,491 ⁽¹⁾	31.51
Super Focus Company Limited	274,494,154	6.35
Lui Che Woo Foundation Limited	295,421,000	6.83
The Capital Group Companies, Inc.	390,691,000	9.03

Note:

- (1) HSBC International Trustee Limited, the trustee of the trust established by Dr. Lui Che Woo as settlor, was interested in 1,362,225,231 shares of the Company.

There was duplication of interests of:

- (i) 1,362,225,231 shares of the Company between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, CWL Assets (PTC) Limited and HSBC International Trustee Limited;
- (ii) 973,282,206 shares of the Company between City Lion Profits Corp. and CWL Assets (PTC) Limited;
- (iii) 274,494,154 shares of the Company between CWL Assets (PTC) Limited and Super Focus Company Limited; and
- (iv) 295,421,000 shares of the Company between Lui Che Woo Foundation and Dr. Lui Che Woo.

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any person who had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of the SFO.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The existing share option scheme was adopted on 22 June 2011 (“Share Option Scheme”). A summary of the Share Option Scheme is set out below:

(1) Purpose

To attract and retain the best quality personnel for the development of the Company’s businesses; to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of option holders to shareholders.

(2) Participants

- (i) any employee of the Company or any affiliate and any senior executive or director of the Company or any affiliate; or
- (ii) any consultant, agent, representative or adviser of the Company or any affiliate; or
- (iii) any person who provides goods or services to the Company or any affiliate; or
- (iv) any customer or contractor of the Company or any affiliate; or
- (v) any business ally or joint venture partner of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

“Affiliate” means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

(3) Total number of shares available for issue

Mandate Limit – Subject to the paragraph below, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 413,678,806 shares, being 10% of the shares in issue as at 22 June 2011, the date of passing of an ordinary resolution of the shareholders adopting the scheme.

Overriding Limit – The Company may by ordinary resolution of the shareholders refresh the Mandate Limit as referred to in the above paragraph provided that the Company shall issue a circular to its shareholders before such approval is sought. The overriding limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

REPORT OF THE DIRECTORS

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme, is 289,996,772 shares, representing approximately 6.70% of the issued share capital of the Company on that date, and is further reduced by the number of share awards granted pursuant to the Share Award Scheme mentioned below.

(4) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the shares in issue.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his close associates (as defined in the Listing Rules) or his associates if the participant is a connected person (as defined in the Listing Rules) abstaining from voting and provided the Company shall issue a circular to shareholders before such approval is sought, the Company may grant options to a participant which would exceed this limit.

(5) Option period

The period within which the shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for which an option must be held before it can vest

The minimum period, if any, for which an option must be held before it can vest shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

(7) Payment on acceptance of the option

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of grant (or such longer period as the Board may specify in writing).

(8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

- (i) the closing price of the shares on the date of grant;
- (ii) the average closing prices of the shares for the five business days immediately preceding the date of grant;
and
- (iii) the nominal value of a share (not applicable as the share has no nominal value).

REPORT OF THE DIRECTORS

(9) The remaining life of the Share Option Scheme

The life of the Share Option Scheme is 10 years commencing on its adoption date, being 22 June 2011 and will expire on 21 June 2021.

The particulars of the movements in the options held by each of the Directors of the Company and their associate, the employees of the Group in aggregate and other participants granted under the Share Option Scheme during the year ended 31 December 2018 were as follows:

Name	Date of grant	Number of Options					Held at 31 December 2018	Exercise price (HK\$)	Exercise period
		Held at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year ^(a)			
Lui Che Woo	16 Mar 2012	2,700,000	-	2,700,000 ^(b)	-	-	-	20.10	16 Mar 2013 – 15 Mar 2018
	17 Jan 2013	1,150,000	-	-	-	-	1,150,000	32.50	17 Jan 2014 – 16 Jan 2019
	24 Dec 2015	2,601,000	-	-	-	-	2,601,000	24.80	24 Dec 2016 – 23 Dec 2021
	12 Sep 2016	1,021,312	-	-	-	-	1,021,312	28.35	12 Mar 2018 – 11 Sep 2022
	28 Dec 2016	1,002,000	-	-	-	-	1,002,000	33.49	28 Dec 2017 – 27 Dec 2022
	27 Dec 2017	616,000	-	-	-	-	616,000	62.36	27 Dec 2018 – 26 Dec 2023
	28 Dec 2018	-	2,651,000	-	-	-	2,651,000	48.65	28 Dec 2019 – 27 Dec 2024
Francis Lui Yiu Tung	17 Jan 2013	1,650,000	-	-	-	-	1,650,000	32.50	17 Jan 2014 – 16 Jan 2019
	24 Dec 2015	1,912,000	-	-	-	-	1,912,000	24.80	24 Dec 2016 – 23 Dec 2021
	12 Sep 2016	1,445,483	-	-	-	-	1,445,483	28.35	12 Mar 2018 – 11 Sep 2022
	28 Dec 2016	1,417,000	-	-	-	-	1,417,000	33.49	28 Dec 2017 – 27 Dec 2022
	27 Dec 2017	871,000	-	-	-	-	871,000	62.36	27 Dec 2018 – 26 Dec 2023
	28 Dec 2018	-	3,749,000	-	-	-	3,749,000	48.65	28 Dec 2019 – 27 Dec 2024
Joseph Chee Ying Keung	17 Jan 2013	180,000	-	180,000 ^(c)	-	-	-	32.50	17 Jan 2014 – 16 Jan 2019
	24 Dec 2015	120,000	-	-	-	-	120,000	24.80	24 Dec 2016 – 23 Dec 2021
	12 Sep 2016	24,321	-	-	-	-	24,321	28.35	12 Mar 2018 – 11 Sep 2022
	26 Jul 2017	130,000	-	-	-	-	130,000	46.95	26 Jul 2018 – 25 Jul 2023
	28 Dec 2018	-	140,000	-	-	-	140,000	48.65	28 Dec 2019 – 27 Dec 2024
Paddy Tang Lui Wai Yu	17 Jan 2013	400,000	-	400,000 ^(d)	-	-	-	32.50	17 Jan 2014 – 16 Jan 2019
	24 Dec 2015	229,000	-	-	-	-	229,000	24.80	24 Dec 2016 – 23 Dec 2021
	12 Sep 2016	111,285	-	-	-	-	111,285	28.35	12 Mar 2018 – 11 Sep 2022
	28 Dec 2016	79,000	-	-	-	-	79,000	33.49	28 Dec 2017 – 27 Dec 2022
	27 Dec 2017	49,000	-	-	-	-	49,000	62.36	27 Dec 2018 – 26 Dec 2023
	28 Dec 2018	-	116,000	-	-	-	116,000	48.65	28 Dec 2019 – 27 Dec 2024
James Ross Ancell	-	-	-	-	-	-	-	-	-
William Yip Shue Lam	-	-	-	-	-	-	-	-	-
Patrick Wong Lung Tak	-	-	-	-	-	-	-	-	-
Charles Cheung Wai Bun	-	-	-	-	-	-	-	-	-
Michael Victor Mecca ^(e)	24 Dec 2015	-	-	200,000 ^(f)	-	723,334	523,334	24.80	24 Dec 2016 – 23 Dec 2021
	12 Sep 2016	-	-	-	-	481,278	481,278	28.35	12 Mar 2018 – 11 Sep 2022
	28 Dec 2016	-	-	-	-	371,000	371,000	33.49	28 Dec 2017 – 27 Dec 2022

REPORT OF THE DIRECTORS

Name	Date of grant	Number of Options					Held at 31 December 2018	Exercise price (HK\$)	Exercise period
		Held at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year ^(a)			
Employees ^(d) (in aggregate)	9 Jan 2012	163,333	-	163,333 ^(h)	-	-	-	14.22	9 Jan 2013 - 8 Jan 2018
	16 Mar 2012	1,300,000	-	1,300,000 ^(h)	-	-	-	20.10	16 Mar 2013 - 15 Mar 2018
	17 Jan 2013	3,799,580	-	3,035,863 ^{(g)(h)}	-	-	763,717	32.50	17 Jan 2014 - 16 Jan 2019
	15 Jan 2014	69,000	-	-	-	-	69,000	77.75	15 Jan 2015 - 14 Jan 2020
	16 Jul 2014	66,000	-	-	-	-	66,000	62.75	16 Jul 2015 - 15 Jul 2020
	16 Jan 2015	175,668	-	67,000 ^(h)	-	-	108,668	39.86	16 Jan 2016 - 15 Jan 2021
	24 Dec 2015	13,859,040	-	3,006,380 ^(h)	276,244	722,000	9,854,416	24.80	24 Dec 2016 - 23 Dec 2021
	12 Sep 2016	4,671,878	-	1,786,247 ^(h)	21,367	488,391	2,375,873	28.35	12 Mar 2018 - 11 Sep 2022
	28 Dec 2016	6,384,335	-	982,365 ^(h)	328,408	376,000	4,697,562	33.49	28 Dec 2017 - 27 Dec 2022
	26 Jul 2017	1,282,000	-	39,027 ^(h)	60,971	-	1,182,002	46.95	26 Jul 2018 - 25 Jul 2023
	27 Dec 2017	4,698,000	-	-	579,000	3,000	4,116,000	62.36	27 Dec 2018 - 26 Dec 2023
	21 Nov 2018	-	7,975,000	-	-	-	7,975,000	46.75	21 Nov 2019 - 20 Nov 2024
	28 Dec 2018	-	2,162,000	-	-	-	2,162,000	48.65	28 Dec 2019 - 27 Dec 2024
Others (in aggregate)	17 Jan 2013	18,666	-	18,666 ⁽ⁱ⁾	-	-	-	32.50	17 Jan 2014 - 16 Jan 2019
	5 Jul 2013	80,000	-	-	-	-	80,000	37.45	5 Jul 2014 - 4 Jul 2019
	24 Dec 2015	546,114	-	134,000 ⁽ⁱ⁾	326,780	1,334	84,000	24.80	24 Dec 2016 - 23 Dec 2021
	12 Sep 2016	385,323	-	330,360 ⁽ⁱ⁾	14,060	7,113	48,016	28.35	12 Mar 2018 - 11 Sep 2022
	28 Dec 2016	36,000	-	13,666 ⁽ⁱ⁾	-	5,000	27,334	33.49	28 Dec 2017 - 27 Dec 2022
27 Dec 2017	23,000	-	-	-	3,000	26,000	62.36	27 Dec 2018 - 26 Dec 2023	
Total		55,266,338	16,793,000	14,356,907	1,606,830	-	56,095,601		

Notes:

- Options were re-classified during the year from "Employees" to "Directors" or "Others" and from "Others" to "Employees".
- The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$62.90.
- The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$49.50.
- The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$47.58.
- Mr. Michael Victor Mecca was appointed as a non-executive Director of the Company on 4 May 2018 and his options were re-classified from "Employees" to "Directors".
- The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$61.60.

REPORT OF THE DIRECTORS

- g. Employees include associates of Directors and the movements in the options held by each of the associates of Directors during the year with exercise price and period shown above were as follows:

Name	Date of grant	Number of Options			
		Held at 1 January 2018	Granted during the year	Exercised during the year	Held at 31 December 2018
Eileen Lui Wai Ling	17 Jan 2013	400,000	–	400,000	–
	24 Dec 2015	594,000	–	–	594,000
	12 Sep 2016	224,540	–	–	224,540
	28 Dec 2016	204,000	–	–	204,000
	27 Dec 2017	130,000	–	–	130,000
	28 Dec 2018	–	426,000	–	426,000
Joanna Claudia Lui	27 Dec 2017	3,000	–	–	3,000
	28 Dec 2018	–	6,000	–	6,000

The weighted average closing price of the shares immediately before the date on which 400,000 options were exercised by Ms. Eileen Lui Wai Ling during the year was HK\$64.35.

- h. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year (excluding associates of directors) was HK\$63.22.
- i. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year was HK\$69.33.

The vesting period for all options is 1/3 vesting on each of the first, second and third anniversary of the date of grant except the options granted on 12 September 2016 is 100% vesting on 18 months after the date of grant.

Vesting period may accelerate if triggered by certain events stated in the Share Option Scheme.

The consideration paid by each grantee for each grant of options was HK\$1.00.

Details of the options granted, exercised or lapsed during the year are set out above. No options were cancelled during the year.

REPORT OF THE DIRECTORS

The fair values of the options granted during the year are estimated based on the Black-Scholes valuation model, and such fair values and significant inputs into the model are as follows:

	Fair value per option (HK\$)	Share price at date of grant (HK\$)	Exercise price (HK\$)	Standard deviation of expected share price return	Expected life of options	Expected dividend paid out rate	Annual risk-free interest rate
Granted on 21 November 2018							
– 7,975,000 options outstanding				39.6% to	3.5 to		2.027% to
as at 31 December 2018	13.37	46.75	46.75	40.1%	4.5 years	2%	2.086%
Granted on 28 December 2018							
– 8,818,000 options outstanding				39.8% to	3.5 to		1.840% to
as at 31 December 2018	13.79	48.55	48.65	40.3%	4.5 years	2%	1.880%

The volatility measured at the standard deviation of expected share price return is based on the historical share price movement of the Company in the relevant periods matching expected time to exercise prior to the date of grant. Changes in the subjective input assumptions could materially affect the fair value estimate.

The closing prices of the Company's shares immediately before the date on which the share options were granted on 21 November 2018 and 28 December 2018 were HK\$45.05 and HK\$47.85 respectively.

SHARE AWARD SCHEME

The share award scheme was adopted by the Board of Directors on 4 August 2014 ("Share Award Scheme"). Details of the Share Award Scheme have been announced in the Company's announcement dated 4 August 2014.

(1) Purpose and Participants

The purpose of the Share Award Scheme is to attract and retain the best quality personnel for the development of the Company's businesses, to provide incentives to (i) any employee or any eligible employee, any senior executive or director of the Company or any affiliate or any consultant, agent, representative or adviser of the Company or any affiliate; or (ii) any person who provides goods or services to the Company or any affiliate; or (iii) any customer or contractor of the Company or any affiliate; or (iv) any business ally or joint venture partner of the Company or any affiliate; or (v) any trustee of any trust established for the benefit of employees, and to promote the long term financial success of the Company by aligning the interests of award holders to shareholders.

(2) Duration

Subject to early termination by the Board, the Share Award Scheme will be valid and effective from 4 August 2014 until 21 June 2021.

REPORT OF THE DIRECTORS

(3) Maximum Limit

The aggregate of (a) the total number of awarded shares underlying the awards which have been granted but yet to be vested under the Share Award Scheme; and (b) the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under any share option scheme(s) of the Company (including the Share Option Scheme) must not exceed 30% of the shares in issue from time to time.

The aggregate of (a) the total number of awarded shares underlying the awards to be granted under the Share Award Scheme; and (b) the total number of shares which may be issued upon exercise of all options granted and to be granted under any share option scheme(s) of the Company (including the Share Option Scheme) after the adoption of the Share Option Scheme must not in aggregate exceed the mandate limit under the Share Option Scheme, being 413,678,806 shares or must not exceed the limit as refreshed under the Share Option Scheme.

The aggregate of the maximum number of awarded shares underlying all awards (whether the awards are vested or not) and the total number of shares issued and to be issued upon exercise of options under the Share Option Scheme (whether exercised or outstanding) in any 12-month period granted to each award holder must not exceed 1% of the shares in issue.

The Board may, from time to time, at their absolute discretion select any qualifying grantee for participation in the Share Award Scheme and determine the terms and conditions of the awards and the number of shares to be awarded. HK\$1.00 is payable by the grantee to the Company on acceptance of the offer. The Board may (i) pay to the trustee the purchase price and related purchase expenses from the Company's resources in respect of the awarded shares to be purchased on the market, and/or (ii) allot and issue shares to the trustee to be held by the trustee for the relevant award holders until the awards are vested in accordance with the rules of Share Award Scheme.

When an award holder has satisfied all vesting criteria and conditions specified by the Board and become entitled to the awarded shares, the Board will inform the relevant award holder of the vesting of the awarded shares and the means of effecting the vesting which shall be determined by the Board at its sole discretion.

No award holder shall enjoy any of the right of a shareholder unless and until such awarded shares are actually transferred to the award holder by the trustee after the vesting of the award granted. Unless otherwise specified by the Board in the share award agreement, the award holders do not have any right to the income derived from the awarded shares underlying the award. The trustee shall not exercise the voting rights in respect of any shares held for the Share Award Scheme (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip shares).

During the year, 634,300, 50,900 and 2,102,400 share awards were granted to the Directors of the Company and their associates and the employees of the Group respectively.

2,499,599 shares of the Company were allotted to the trustee of the Share Award Scheme at a price of HK\$0.01 each and 508,460 shares were purchased by the trustee on the Stock Exchange for a total consideration of approximately HK\$23.12 million. During the year, 1,595,044 shares of the Company vested under the Share Award Scheme. As at 31 December 2018, the trustee held 2,113,810 shares for the Share Award Scheme.

REPORT OF THE DIRECTORS

The particulars of the movements in the share awards held by the Directors of the Company and their associates, and the employees of the Group in aggregate and other participants granted under the Share Award Scheme during the year ended 31 December 2018 were as follows:

Name	Date of grant	Number of Awards					Held at 31 December 2018	Vesting Date	Closing price at date of grant (HK\$)
		Held at 1 January 2018	Granted during the year	Vested during the year	Lapsed during the year	Re-classified during the year ^(a)			
Lui Che Woo	28 Dec 2016	115,166	-	115,166	-	-	-	28 Dec 2018	33.25
	28 Dec 2016	115,168	-	-	-	-	115,168	28 Dec 2019	33.25
	27 Dec 2017	70,766	-	70,766	-	-	-	27 Dec 2018	61.65
	27 Dec 2017	70,766	-	-	-	-	70,766	27 Dec 2019	61.65
	27 Dec 2017	70,768	-	-	-	-	70,768	27 Dec 2020	61.65
	28 Dec 2018	-	85,700	-	-	-	85,700	28 Dec 2019	48.55
	28 Dec 2018	-	85,700	-	-	-	85,700	28 Dec 2020	48.55
	28 Dec 2018	-	85,700	-	-	-	85,700	28 Dec 2021	48.55
Francis Lui Yiu Tung	28 Dec 2016	162,933	-	162,933	-	-	-	28 Dec 2018	33.25
	28 Dec 2016	162,934	-	-	-	-	162,934	28 Dec 2019	33.25
	27 Dec 2017	50,066	-	50,066	-	-	-	27 Dec 2018	61.65
	27 Dec 2017	50,066	-	-	-	-	50,066	27 Dec 2019	61.65
	27 Dec 2017	50,068	-	-	-	-	50,068	27 Dec 2020	61.65
	28 Dec 2018	-	121,200	-	-	-	121,200	28 Dec 2019	48.55
	28 Dec 2018	-	121,200	-	-	-	121,200	28 Dec 2020	48.55
	28 Dec 2018	-	121,200	-	-	-	121,200	28 Dec 2021	48.55
Paddy Tang Lui Wai Yu	28 Dec 2016	9,000	-	9,000	-	-	-	28 Dec 2018	33.25
	28 Dec 2016	9,000	-	-	-	-	9,000	28 Dec 2019	33.25
	27 Dec 2017	5,533	-	5,533	-	-	-	27 Dec 2018	61.65
	27 Dec 2017	5,533	-	-	-	-	5,533	27 Dec 2019	61.65
	27 Dec 2017	5,534	-	-	-	-	5,534	27 Dec 2020	61.65
	28 Dec 2018	-	4,533	-	-	-	4,533	28 Dec 2019	48.55
	28 Dec 2018	-	4,533	-	-	-	4,533	28 Dec 2020	48.55
	28 Dec 2018	-	4,534	-	-	-	4,534	28 Dec 2021	48.55
Michael Victor Mecca ^(a)	28 Dec 2016	-	-	42,666	-	42,666	-	28 Dec 2018	33.25
	28 Dec 2016	-	-	-	-	42,668	42,668	28 Dec 2019	33.25
Employees ^(a) (in aggregate)	24 Dec 2015	101,790	-	101,790	-	-	-	30 Jun 2018	24.80
	28 Dec 2016	663,695	-	584,807	31,589	47,299	-	28 Dec 2018	33.25
	28 Dec 2016	663,910	-	2,900	34,210	47,302	579,498	28 Dec 2019	33.25
	26 Jul 2017	6,432	-	6,432	-	-	-	26 Jul 2018	46.95
	26 Jul 2017	6,432	-	-	-	-	6,432	26 Jul 2019	46.95
	26 Jul 2017	6,436	-	-	-	-	6,436	26 Jul 2020	46.95
	27 Dec 2017	483,913	-	431,752	49,228	2,933	-	27 Dec 2018	61.65
	27 Dec 2017	483,913	-	1,833	50,892	2,933	428,255	27 Dec 2019	61.65
	27 Dec 2017	634,774	-	1,834	50,916	2,934	579,090	27 Dec 2020	61.65
	21 Nov 2018	-	667,879	-	-	-	667,879	21 Nov 2019	46.75
	21 Nov 2018	-	667,879	-	-	-	667,879	21 Nov 2020	46.75
	21 Nov 2018	-	668,142	-	-	-	668,142	21 Nov 2021	46.75
	28 Dec 2018	-	49,792	-	-	-	49,792	28 Dec 2019	48.55
	28 Dec 2018	-	49,792	-	-	-	49,792	28 Dec 2020	48.55
	28 Dec 2018	-	49,816	-	-	-	49,816	28 Dec 2021	48.55
	Others	28 Dec 2016	-	-	4,633	-	4,633	-	28 Dec 2018
28 Dec 2016		-	-	-	-	4,634	4,634	28 Dec 2019	33.25
27 Dec 2017		-	-	2,933	-	2,933	-	27 Dec 2018	61.65
27 Dec 2017		-	-	-	-	2,933	2,933	27 Dec 2019	61.65
27 Dec 2017		-	-	-	-	2,934	2,934	27 Dec 2020	61.65
Total		4,004,596	2,787,600	1,595,044	216,835	-	4,980,317		

REPORT OF THE DIRECTORS

Notes:

- a. Share awards were re-classified during the year from “Employees” to “Directors” and “Others”.
- b. Mr. Michael Victor Mecca was appointed as a non-executive Director of the Company on 4 May 2018 and his share awards were re-classified from “Employees” to “Directors”.
- c. Employees include associates of Directors and the movements in the share awards held by each of the associates of Directors during the year with closing price at date of grant shown above were as follows:

Name	Date of grant	Number of Awards				Vesting Date
		Held at 1 January 2018	Granted during the year	Vested during the year	Held at 31 December 2018	
Eileen Lui Wai Ling	28 Dec 2016	23,366	–	23,366	–	28 Dec 2018
	28 Dec 2016	23,368	–	–	23,368	28 Dec 2019
	27 Dec 2017	14,866	–	14,866	–	27 Dec 2018
	27 Dec 2017	14,866	–	–	14,866	27 Dec 2019
	27 Dec 2017	14,868	–	–	14,868	27 Dec 2020
	28 Dec 2018	–	16,733	–	16,733	28 Dec 2019
	28 Dec 2018	–	16,733	–	16,733	28 Dec 2020
	28 Dec 2018	–	16,734	–	16,734	28 Dec 2021
Joanna Claudia Lui	27 Dec 2017	266	–	266	–	27 Dec 2018
	27 Dec 2017	266	–	–	266	27 Dec 2019
	27 Dec 2017	268	–	–	268	27 Dec 2020
	28 Dec 2018	–	233	–	233	28 Dec 2019
	28 Dec 2018	–	233	–	233	28 Dec 2020
	28 Dec 2018	–	234	–	234	28 Dec 2021

Details of the share awards granted, vested or lapsed during the year are set out above. No share awards were cancelled during the year.

Save as disclosed, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the financial year.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme and Share Award Scheme as disclosed above, no equity-linked agreement that will or may result in the Company issuing shares or no agreement that requires the Company to enter into an agreement that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2018 or subsisted at the end of the financial year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and adjusted as appropriate, is shown on page 96 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$7,278,000 (2017: HK\$6,342,000).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company at the date of this annual report, there was a sufficient public float of the Company as required under the Listing Rules.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Dr. Lui Che Woo

Chairman

Hong Kong, 28 February 2019

FIVE-YEAR SUMMARY

	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2017 HK\$'000	Year ended 31 December 2018 HK\$'000
CONSOLIDATED INCOME STATEMENT					
Revenue*	49,538,424	38,450,411	41,553,441	48,639,742	55,210,901
Profit attributable to equity holders of the Company	10,339,810	4,161,050	6,283,397	10,504,361	13,507,389
Dividends	4,878,981	1,787,611	1,408,298	2,525,589	3,929,932
Earnings per share (cents)	243.9	97.8	147.3	245.1	312.8
Dividend per share (cents)	115.0	42.0	33.0	59.0	91.0
CONSOLIDATED BALANCE SHEET					
Property, plant and equipment, investment properties and leasehold land and land use rights	35,661,629	40,854,372	38,599,717	36,815,154	36,280,381
Intangible assets	1,516,326	1,341,213	1,138,488	921,019	722,371
Joint ventures and associated companies	1,451,471	1,322,153	1,255,767	1,520,584	1,633,211
Other non-current assets	382,481	637,388	3,235,300	24,456,514	30,434,832
Net current assets/(liabilities)	1,243,598	(1,045,599)	3,710,385	(6,934,042)	(5,425,495)
Employment of capital	40,255,505	43,109,527	47,939,657	56,779,229	63,645,300
Represented by:					
Share capital and shares held for share award scheme	19,774,917	19,952,107	20,106,376	21,468,693	22,016,854
Reserves	18,594,220	21,149,332	26,238,974	34,013,004	40,263,405
Equity attributable to owners of the Company	38,369,137	41,101,439	46,345,350	55,481,697	62,280,259
Non-controlling interests	619,945	611,898	517,663	533,896	550,941
Long term borrowings	576,430	671,461	525,978	259,392	251,392
Other non-current liabilities	689,993	724,729	550,666	504,244	562,708
Capital employed	40,255,505	43,109,527	47,939,657	56,779,229	63,645,300
Net assets per share (dollars)	9.04	9.65	10.85	12.88	14.40

* Revenue is reported under the new accounting standard and the corresponding figures for past periods are restated.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Members of Galaxy Entertainment Group Limited

(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of Galaxy Entertainment Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 102 to 184, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

A key audit matter identified in our audit is summarised as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Assessment of recoverable amounts of hotel properties, gaming licence and reacquired right</p> <p>Refer to notes 4.8, 6(a), 15, 17 and 18 to the consolidated financial statements.</p> <p>The Group's revenue inflow is highly dependent on its gaming operations which are complemented by its hotel and entertainment operations. The gaming operations are operated under the gaming licence, together with the reacquired right, which will be subject to renewal in June 2022. Beginning on 27 June 2017, the Macao Government may redeem the gaming licence by providing the Group at least one year's prior notice. Any renewal and early redemption of the licence is subject to Macao Government's decision.</p> <p>As at 31 December 2018, the aggregate carrying amounts of all hotel properties together with the gaming licence, the reacquired right and other net working capital relating to the gaming and hotel operations was HK\$53.3 billion.</p> <p>As regards assets and intangible assets with definite useful lives, the Group is required to review for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, and at least annually, review whether there is any change in their expected useful lives.</p> <p>The Group performs an assessment of the recoverable amounts for all hotel properties together with the gaming licence, the reacquired right and other net working capital. For the purpose of performing the recoverability assessment, management identifies the gaming and entertainment division as a single Cash Generating Unit ("CGU"). The recoverable amount of the underlying CGU is determined based on the higher of the fair value less cost of disposal or the value in use. Management concluded that the assets and intangible assets were not impaired as at 31 December 2018.</p>	<p>We obtained the valuation model (fair value model under the income approach) used by management to determine the recoverable amounts of the relevant assets.</p> <p>We tested the mathematical accuracy of the underlying calculations in the valuation model and agreed them to the approved one-year financial budget and future forecasts. We compared historical actual results to those budgeted to assess the quality of management's forecast.</p> <p>We also assessed the key quantitative and qualitative assumptions made by management in the valuation model. Quantitative factors comprised forecasted revenue and operating costs, future business growth rates, VIP to mass gaming ratio and discount rate used. When assessing these key assumptions, we discussed with management to understand and evaluate their basis for selecting the assumptions, and compared them to various sources including independent research reports, future economic growth forecasts and historical data for both the Group and industry performance. We assessed the reasonableness of the discount rate used by checking it to the discount rates of comparable companies within the same industry.</p> <p>We obtained and tested management's sensitivity analysis around the quantitative key assumptions, to ascertain that the selected adverse changes to the key assumptions, both individually and in aggregate, would not cause the carrying amount of the CGU to exceed the recoverable amount.</p> <p>Qualitative factors comprised ongoing compliance with legal requirements, timely completion of development projects and retention of the gaming licence between 2019 and 2022 and subsequent renewal in 2022. We discussed with management to understand their assessment on each of the qualitative factors and corroborated management's explanation to the underlying documentation, rules and regulations and market information.</p>

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

The assessment contains a number of significant assumptions, both quantitative and qualitative, including revenue growth rate, cost structure, VIP to Mass gaming ratio, discount rate, timely completion of development projects and retention of the gaming licence between 2019 and 2022 and subsequent renewal in 2022. Changes in these assumptions may lead to potential impairment charges on the carrying value of the hotel properties, gaming licence and the reacquired right. The use of assumptions in the assessment also requires estimates and judgments which may be affected by unexpected future market, economic or political conditions.

We focused on this area as these assets are significant to the Group's operations and the assessment performed by management involved significant estimates and judgments.

How our audit addressed the Key Audit Matter

For the timely completion of development projects, we discussed with management to understand the time management in complying the land development deadlines with the current project status. We also understood and evaluated the procedures performed by management to identify any instances of noncompliance with the rules and regulations of the Gaming Inspection and Coordination Bureau of Macau SAR which may have an adverse impact on the Group's operations.

We further evaluated management's assessment on the expected useful lives of relevant assets which concluded that they remained appropriate as of the balance sheet date by referencing with the Group's historical experience of using those assets and our understanding in the industry.

Based on the audit procedures performed, we found the Group's estimates and judgments used in the recoverability assessment and review of useful lives of the assets to be supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Ho Chi Keung.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 February 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000 (Restated*)
Revenue (Note)	7	55,210,901	48,639,742
Other income/gains, net	9(a)	1,146,210	597,646
Special gaming tax and other related taxes to the Macau Government		(25,619,522)	(21,999,205)
Raw materials and consumables used		(1,199,209)	(1,261,578)
Amortisation and depreciation		(3,315,913)	(3,348,665)
Employee benefit expenses		(7,784,742)	(7,368,542)
Other operating expenses		(5,072,801)	(4,811,282)
Finance costs	11	(138,775)	(63,914)
Share of profits less losses of:			
Joint ventures	19(a)	387,585	244,275
Associated companies	20(a)	35	(100)
Profit before taxation	9(b)	13,613,769	10,628,377
Taxation charge	12	(43,485)	(112,775)
Profit for the year		13,570,284	10,515,602
Attributable to:			
Equity holders of the Company	30	13,507,389	10,504,361
Non-controlling interests		62,895	11,241
		13,570,284	10,515,602
Earnings per share	13	HK cents	HK cents
Basic		312.8	245.1
Diluted		311.3	243.7
		HK\$'000	HK\$'000
Note: Analysis of revenue			
Gross revenue from gaming operations		65,230,209	55,946,870
Commission and incentives		(18,205,467)	(15,323,345)
Net revenue from gaming operations		47,024,742	40,623,525
Revenue from hotel and mall operations		5,297,977	4,948,839
Sales of construction materials		2,888,182	3,067,378
		55,210,901	48,639,742

* See note 3 for details regarding the restatements as a result of changes in accounting policies.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000 (Restated*)
Profit for the year	13,570,284	10,515,602
Other comprehensive (loss)/income		
Items that will not be subsequently reclassified to profit or loss		
Change in fair value of financial assets at fair value through other comprehensive income	(3,215,569)	276,092
Items that may be subsequently reclassified to profit or loss		
Translation differences of subsidiaries	(77,848)	79,399
Share of translation differences of joint ventures	(72,590)	91,912
Other comprehensive (loss)/income for the year, net of tax	(3,366,007)	447,403
Total comprehensive income for the year	10,204,277	10,963,005
Total comprehensive income attributable to:		
Equity holders of the Company	10,160,807	10,924,023
Non-controlling interests	43,470	38,982
	10,204,277	10,963,005

* See note 3 for details regarding the restatements as a result of changes in accounting policies.

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000 (Restated*)
ASSETS			
Non-current assets			
Property, plant and equipment	15	31,359,096	31,801,690
Leasehold land and land use rights	17	4,921,285	5,013,464
Intangible assets	18	722,371	921,019
Joint ventures	19	1,630,959	1,518,367
Associated companies	20	2,252	2,217
Financial assets at amortised cost	21	25,778,612	23,688,142
Financial assets at fair value through other comprehensive income	22	4,530,411	643,189
Other non-current assets	23	125,809	125,183
		69,070,795	63,713,271
Current assets			
Inventories	24	189,799	171,443
Debtors and prepayments	25	1,860,409	1,961,509
Amounts due from joint ventures	26	178,727	204,642
Taxation recoverable		35,373	23,456
Current portion of financial assets at amortised cost	21	1,543,905	140,012
Other cash equivalents	27	18,571	35,324
Cash and bank balances	27	14,486,252	17,565,025
		18,313,036	20,101,411
Total assets		87,383,831	83,814,682

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000 (Restated*)
EQUITY			
Share capital and shares held for share award scheme	28	22,016,854	21,468,693
Reserves	30	40,263,405	34,013,004
Equity attributable to owners of the Company		62,280,259	55,481,697
Non-controlling interests		550,941	533,896
Total equity		62,831,200	56,015,593
LIABILITIES			
Non-current liabilities			
Borrowings	31	251,392	259,392
Deferred taxation liabilities	32	194,695	268,120
Retention payable		55,160	14,816
Non-current deposits	35	312,853	221,308
		814,100	763,636
Current liabilities			
Creditors and accruals	33	14,827,617	17,237,224
Amounts due to joint ventures	26	59,463	66,092
Current portion of borrowings and short-term bank loans	31	8,803,558	9,684,884
Provision for tax		47,893	47,253
		23,738,531	27,035,453
Total liabilities		24,552,631	27,799,089
Total equity and liabilities		87,383,831	83,814,682
Net current liabilities		(5,425,495)	(6,934,042)
Total assets less current liabilities		63,645,300	56,779,229

Francis Lui Yiu Tung
Director

Joseph Chee Ying Keung
Director

* See note 3 for details regarding the restatements as a result of changes in accounting policies.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
Cash flows from operating activities			
Cash generated from operations	34(a)	14,051,765	18,737,538
Hong Kong profits tax paid		(55,565)	(35,121)
Mainland China tax and Macau complementary tax paid		(72,575)	(59,259)
Interest paid		(139,910)	(123,438)
Net cash from operating activities		13,783,715	18,519,720
Cash flows from investing activities			
Purchase of property, plant and equipment	34(b)	(3,008,737)	(2,008,270)
Addition to leasehold land		–	(221)
Purchase of intangible assets		(24,309)	(13,506)
Proceeds from disposal of property, plant and equipment		50,902	9,668
Decrease in advances to joint ventures		15,848	40,662
(Increase)/decrease in deferred receivable		(4,400)	18,675
(Increase)/decrease in finance lease receivable		(4,081)	7,888
Purchase of financial assets		(11,001,458)	(23,481,720)
Proceeds from redemption/disposal of financial assets		362,030	2,409,078
Interest received		964,551	532,610
Decrease in short-term pledged deposits and short-term bank deposits with maturity over three months		1,155,709	11,276,573
Dividends received from joint ventures		186,438	89,392
Dividends received from listed and unlisted investments		69,130	2,650
Net cash used in investing activities		(11,238,377)	(11,116,521)
Cash flows from financing activities			
Issue of new shares		381,552	348,459
Shares repurchased by the trustee		(23,118)	(18,408)
New bank loans	34(c)	7,764,377	8,327,254
Repayment of bank loans	34(c)	(8,628,123)	(4,612,571)
Capital element of finance lease payments	34(c)	–	(16,002)
Dividends paid to non-controlling interests		(26,425)	(22,749)
Dividends paid to shareholders	14	(3,929,932)	(2,525,589)
Net cash (used in)/from financing activities		(4,461,669)	1,480,394
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		15,702,430	6,803,466
Translation differences		(7,997)	15,371
Cash and cash equivalents at end of year	27	13,778,102	15,702,430

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK\$'000	Shares held for share award scheme HK\$'000	Reserves HK\$'000	Equity attributable to owners of the Company HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2017	20,106,376	–	26,238,974	46,345,350	517,663	46,863,013
Comprehensive income						
Profit for the year	–	–	10,504,361	10,504,361	11,241	10,515,602
Other comprehensive income						
Change in fair value of financial assets at fair value through other comprehensive income	–	–	276,092	276,092	–	276,092
Translation differences of subsidiaries	–	–	63,942	63,942	15,457	79,399
Share of translation differences of joint ventures	–	–	79,628	79,628	12,284	91,912
Total other comprehensive income, net of tax	–	–	419,662	419,662	27,741	447,403
Total comprehensive income for the year	–	–	10,924,023	10,924,023	38,982	10,963,005
Transactions with equity holders						
Dividends paid to non-controlling interests	–	–	–	–	(22,749)	(22,749)
Share award scheme – shares issued to the trustee	214	(214)	–	–	–	–
Share award scheme – shares repurchased by the trustee	–	(18,408)	–	(18,408)	–	(18,408)
Issue of shares pursuant to share award scheme	876,940	18,615	(895,555)	–	–	–
Issue of shares upon exercise of share options	485,170	–	(136,711)	348,459	–	348,459
Fair value of share award granted	–	–	284,085	284,085	–	284,085
Fair value of share options granted	–	–	123,777	123,777	–	123,777
Special dividends (note 14)	–	–	(2,525,589)	(2,525,589)	–	(2,525,589)
At 31 December 2017	21,468,700	(7)	34,013,004	55,481,697	533,896	56,015,593
Comprehensive income						
Profit for the year	–	–	13,507,389	13,507,389	62,895	13,570,284
Other comprehensive loss						
Change in fair value of financial assets at fair value through other comprehensive income	–	–	(3,215,569)	(3,215,569)	–	(3,215,569)
Translation differences of subsidiaries	–	–	(67,952)	(67,952)	(9,896)	(77,848)
Share of translation differences of joint ventures	–	–	(63,061)	(63,061)	(9,529)	(72,590)
Total other comprehensive loss, net of tax	–	–	(3,346,582)	(3,346,582)	(19,425)	(3,366,007)
Total comprehensive income for the year	–	–	10,160,807	10,160,807	43,470	10,204,277
Transactions with equity holders						
Dividends paid to non-controlling interests	–	–	–	–	(26,425)	(26,425)
Share award scheme – shares issued to the trustee	25	(25)	–	–	–	–
Share award scheme – shares repurchased by the trustee	–	(23,118)	–	(23,118)	–	(23,118)
Issue of shares pursuant to share award scheme	43,934	23,129	(67,063)	–	–	–
Issue of shares upon exercise of share options	504,216	–	(122,664)	381,552	–	381,552
Fair value of share awards granted	–	–	94,796	94,796	–	94,796
Fair value of share options granted	–	–	114,457	114,457	–	114,457
Special dividends (note 14)	–	–	(3,929,932)	(3,929,932)	–	(3,929,932)
At 31 December 2018	22,016,875	(21)	40,263,405	62,280,259	550,941	62,831,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Galaxy Entertainment Group Limited (“GEG” or the “Company”) is a limited liability company incorporated in Hong Kong and has its listing on the Main Board of The Stock Exchange of Hong Kong Limited (“SEHK”). The address of its registered office and principal place of business is 22nd Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

The principal activities of the Company and its subsidiaries (together the “Group”) are operation in casino games of chance or games of other forms, provision of hospitality and related services in Macau, and the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China.

These consolidated financial statements have been approved for issue by the Board of Directors on 28 February, 2019.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) under the historical cost convention as modified by the revaluation of certain financial assets and financial liabilities, which are carried at fair values.

At 31 December 2018, the Group’s current liabilities exceeded its current assets by HK\$5,425 million. Taking into account the cash flows from operations and unutilised banking facilities, the Group has a reasonable expectation that it has adequate resources to meet its liabilities and commitments (principally relating to the development of Galaxy Macau™ resort at Cotai) as and when they fall due and to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the consolidated financial statements.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 6 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

(a) The adoption of new and amended standards and interpretation

In 2018, the Group adopted the following new and amended standards and interpretation which are relevant to its operations.

HKAS 40 (Amendment)	Transfer of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15 and HKFRS 15 (Amendment)	Revenue from Contracts with Customers
Annual Improvements to HKFRSs 2014–2016 Cycle	
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HKFRS 1 (Amendment)	First Time Adoption of Hong Kong Financial Reporting Standards

The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in note 3 below. The other amended standards and interpretation did not have significant impact on the Group's accounting policies and did not require retrospective adjustments.

(b) New standards, interpretation and amendments to existing standards that are not yet effective

New standards, interpretation and amendments		Effective for accounting periods beginning on or after
HKAS 1 and HKAS 8 (Amendment)	Definition of Material	1 January 2020
HKAS 19 (Amendment)	Employee Benefits	1 January 2019
HKAS 28 (Amendment)	Long-term Interests in an Associate or Joint Venture	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatment	1 January 2019
HKFRS 3 (Amendment)	Definition of a Business	1 January 2020
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined
Annual Improvements to HKFRSs 2015–2017 Cycle		1 January 2019
HKAS 12 (Amendment)	Income Taxes	
HKAS 23 (Amendment)	Borrowing Costs	
HKFRS 3 (Amendment)	Business Combinations	
HKFRS 11 (Amendment)	Joint Arrangements	

Further information about those new standards, interpretation and amendments that are not yet effective but are expected to be applicable to the Group is set out below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

(b) New standards, interpretation and amendments to existing standards that are not yet effective (Continued)**HKFRS 16 'Leases'**

HKFRS 16 will result in majority of the leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group had operating lease commitments of HK\$172 million (note 37). Upon adoption of HKFRS 16 on 1 January 2019, approximately HK\$135 million operating lease commitments will be recognised in the consolidated balance sheet as right-of-use assets and lease liabilities. The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The lease liabilities will be subsequently be measured at amortised cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

The Group has not early adopted the above new standards, interpretation and amendments on the Group's accounting policies and financial statements.

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 'Financial Instruments' and HKFRS 15 'Revenue from Contracts with Customers' (the "New Standards") on the Group's financial statements and accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods. The Group has adopted the New Standards retrospectively and has restated comparatives for the 2017 financial year.

Revenue recognition

In prior reporting periods, revenue from gaming operations was recognised when the relevant services had been rendered and was measured at the entitlement of economic inflows of the Group from the business. Under the New Standards, revenue from gaming operations is reported after deduction of commission and incentives, including the allocation of revenue from gaming operations to revenue from hotel operations for services provided on a complimentary basis. In accordance with the transitional provisions in the New Standards, comparative figures have been restated as follows:

	Twelve months ended 31 December 2017		
	As previously stated HK\$'000	Effect of the New Standards HK\$'000	As restated HK\$'000
Net revenue from gaming operations	55,946,870	(15,323,345)	40,623,525
Revenue from hotel and mall operations	3,436,205	1,512,634	4,948,839
Commission and allowances to gaming counterparties	(13,810,711)	13,810,711	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. CHANGES IN ACCOUNTING POLICIES (Continued)**Classification and measurement of financial instruments on adoption of HKFRS 9**

The Group's management has assessed which business models apply to the financial assets held by the Group and the cash flow characteristics of the financial assets. Accordingly, the Group has classified its financial instruments into the appropriate categories. Equity investments amounted to approximately HK\$325 million and HK\$643 million as at 1 January 2017 and 31 December 2017 respectively, which were previously classified as available-for-sale are now classified as financial assets at fair value through other comprehensive income, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. Listed debt securities amounted to approximately HK\$401 million as at 1 January 2017 were previously classified as available-for-sale would be classified as financial assets at fair value through other comprehensive income. Listed and unlisted debt securities amounted to approximately HK\$2,351 million and HK\$23,828 million as at 1 January 2017 and 31 December 2017 respectively, have previously been classified as held-to-maturity are now classified as financial assets at amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There is no material impact to the Group's financial performance due to the change of classification and measurement of financial assets.

Impairment of financial assets

The Group is required to revise its impairment methodology for each of these classes of assets except for equity investments classified as financial assets at fair value through other comprehensive income. The Group has assessed on a forward looking basis for the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment provision is determined based on the 12-month expected credit losses which is not material to the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December and the share of post acquisition results and reserves of its joint ventures and associated companies attributable to the Group.

Results attributable to subsidiaries, joint ventures and associated companies acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or to the date of disposal as applicable.

The profit or loss on disposal of subsidiaries, joint ventures or associated companies is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill not yet written off.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.2 Subsidiaries**

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the aggregate of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and income and expenses on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, investments in subsidiaries are accounted for at cost less impairment losses. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.3 Non-controlling interests*****Change in ownership interests in subsidiaries without change of control***

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

4.4 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

4.5 Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence but no control is exercised in its management, generally accompanying a shareholding of between 20% to 50% of the voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.5 Associated companies (Continued)**

Investments in associated companies are accounted for under the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investments in associated companies of the Group include goodwill, net of any accumulated impairment loss, identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

The share of post-acquisition profits or losses of associated companies attributable to the Group is recognised in the consolidated income statement, and the share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the share of losses of the Group in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the interest in the associated companies held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies of the Group.

4.6 Goodwill

Goodwill arises on the acquisition of subsidiaries, and represents the excess of the consideration transferred over the Group's interest in fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of joint ventures and associated companies is included in investments in joint ventures and associated companies.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.7 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

No depreciation is provided on assets under construction until it is completed and is ready for use. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	20 to 50 years
Leasehold improvements	2 to 20 years
Plant and machinery	3 to 20 years
Gaming equipment	3 to 10 years
Other assets	2 to 20 years

The residual values and useful lives of the assets are reviewed and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its recoverable amount, it is written down immediately to its estimated recoverable amount.

Gains and losses on disposal is determined as the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

4.8 Gaming licence and reacquired right

Gaming licence and reacquired right are carried at cost less accumulated amortisation and impairment losses. They have finite useful lives and are amortised on a straight-line basis over the remaining term of the licence which will expire in June 2022. Beginning on 27 June 2017, the Macao Government may redeem the gaming licence by providing the Group at least one year's prior notice. The renewal and early redemption depends on Macao Government's decision.

4.9 Computer software

Costs incurred to acquire and bring to use the specific computer software licences are capitalised and are amortised over their estimated useful lives of three years on a straight line basis. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Impairment of investments in subsidiaries, associated companies, joint ventures and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The Group assesses at the end of reporting period whether there is any indication that an impairment loss recognised in prior periods for a non-financial asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of that asset. A reversal of an impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase. The increased carrying amount attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation).

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

4.11 Financial assets**(i) Classification**

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Financial assets (Continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.11 Financial assets (Continued)****(iii) Measurement (Continued)***Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

4.12 Derivative financial instruments and hedging activities

Derivative financial instruments, including put option of shares and embedded derivative liability of convertible notes, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of hedging derivative is classified as a non-current asset or liability where the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability, where the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.12 Derivative financial instruments and hedging activities (Continued)**

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

4.13 Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less expected credit loss. The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade debtors and contract assets. To measure the expected credit losses, trade debtors and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the debtors for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade debtors are a reasonable approximation of the loss rates for the contract assets. The carrying amount of debtors is reduced through the use of an allowance account and the amount of the loss allowance is recognised in the consolidated income statement within other operating expenses. When a debtor is uncollectible, it is written off against the allowance account for debtors. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement against other operating expenses.

4.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of construction materials is calculated on the weighted average basis, comprising materials, direct labour and an appropriate proportion of production overhead expenditure. Cost of playing cards is determined using the first-in, first-out method and food and beverages using the weighted average method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.15 Cash and cash equivalents**

Cash and cash equivalents comprise cash and bank balances, deposits with banks, financial institutions repayable within three months from the date of placement and cash chips of other casinos less bank overdrafts. Cash chips of other casinos include those that form part of the Group's overall cash management and are readily convertible to known amount of cash and subject to an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

4.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When the Company re-purchases its equity share capital, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the equity holders and the shares are cancelled.

4.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

4.18 Leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the remaining lease liability. The corresponding lease obligations, net of finance charges, are included under current and non-current liabilities. The finance charges are charged to the consolidated income statement over the lease periods. Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

Assets leased to third parties under agreements that transfer substantially all the risk and rewards incident to ownership of the relevant assets to the lessees are classified as investments in finance leases. The present value of the lease payments is recognised as a receivable in the balance sheet. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Gross earnings under finance leases are recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return on the net investment in the leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.18 Leases (Continued)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases, net of any incentives received from the lessors, are charged to the consolidated income statement on a straight line basis over the period of the leases. The up-front prepayments made for leasehold land and land use rights are amortised on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated income statement. The amortisation of the leasehold land and land use rights is capitalised under the relevant assets when the property on the leasehold land is under construction.

4.19 Creditors and accruals

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

4.20 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, before any tax effects, that reflect current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

4.21 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company, its subsidiaries, joint ventures and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.21 Current and deferred taxation (Continued)**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred taxation asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation liabilities are provided on temporary differences arising on investments in subsidiaries, joint ventures and associated companies, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

4.22 Special gaming tax and other related taxes to the Macau Government

According to the gaming concession granted by the Macau government and the relevant legislation, the Group is required to pay 35% gaming tax and 4% public development and social related contributions on the net gaming wins from gaming operations. In addition, the Group is also required to make certain variable and fixed payments to the Macau Government based on the number of tables and slot machines in its possession. These expenses are reported as “special gaming tax and other related taxes to the Macau Government” in the consolidated income statement and are charged to the consolidated income statement as incurred.

4.23 Commission and incentives

Commission and incentives is calculated based on certain percentages of net gaming wins or rolling amount and is recognised when the relevant services have been rendered.

4.24 Contributions from the operations of the City Club Casinos

Contributions from the operations of the City Club Casinos are recognised based on the established rates for the net gaming wins which reflect the gross inflow of economic benefits to the Group. In addition, all relevant operating and administrative expenses relating to the operations of the City Club Casinos are not recognised as expenses of the Group in the financial statements.

4.25 Employee benefits**(a) Employees entitlement, benefits and bonus**

Contributions to publicly or privately administered defined contribution retirement or pension plans on a mandatory, contractual or voluntary basis are recognised as employee benefit expense in the financial period when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.25 Employee benefits (Continued)

(a) Employees entitlement, benefits and bonus (Continued)

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(b) Share-based compensation*(i) Share options*

The fair value of the employee services received in exchange for the grant of the options under the equity-settled, share-based compensation plan is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, estimates of the number of options that are expected to become exercisable are revised. The impact of the revision of original estimates, if any, is recognised in the profit and loss statement over the remaining vesting period with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiary in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value of the share options, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(ii) Share awards

The Group also grants shares of the Company to employees under its share award scheme, under which the awarded shares are either newly issued or are purchased from the open market. The cost of share purchased from the open market is recognised in equity as treasury stock. The fair value of the employee services received in exchange for the grant of shares under the scheme is recognised as staff costs in the income statement with a corresponding increase in a share award reserve under equity. The fair value of the awarded shares is measured by the quoted market price of the shares at grant date and is charged to the income statement over the respective vesting period. During the vesting period, the number of awarded shares that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of awarded shares that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded shares recognised in equity as treasury stock is transferred to the employee share-based compensation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.26 Borrowing costs

Interest and related costs on borrowings directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to complete and prepare the assets for its intended use or sale are capitalised as part of the cost of that asset until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the profit and loss statement in the financial period in which they are incurred.

4.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, net of value-added tax, returns, rebates and discounts and allowance for credit.

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities have been met. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) Gaming operations

Revenue from gaming operations, representing the net gaming wins, is recognised when the relevant services have been rendered and is measured at the entitlement of economic inflows of the Group from the business after deduction of commission and incentives, including the allocation of revenue from gaming operations to revenue from hotel operations for services provided on a complimentary basis. Contributions from the operations of the City Club Casinos are recognised in the consolidated income statement as set out in note 4.24 above.

(b) Hotel operations

Revenue from hotel room rental and food and beverages sales is recognised when the relevant services have been rendered.

(c) Construction materials

Revenue from sales of construction materials is recognised when or as the control of the goods are transferred to the customer. The timing of revenue recognition for sale of certain construction materials is recognised at a point in time when the underlying construction materials is legally or physically transferred to the customer.

(d) Rental income

Rental income from mall operations, net of any incentives given to the lessee, is recognised over the periods of the respective leases on a straight-line basis.

(e) Administrative fee

Administrative fee is recognised when the services have been rendered.

(f) Interest income

Interest income is recognised on a time proportion basis using the effective interest method, taking into account the principal amounts outstanding and the interest rates applicable.

(g) Dividend income

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.28 Foreign currency translation**

Items included in the consolidated financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the Group operates (the “functional currency”). The consolidated financial statements are presented in Hong Kong dollar, which is the functional and presentation currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates ruling at the balance sheet date are recognised in the consolidated income statement.

Translation differences on non-monetary financial assets held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets held at fair value through other comprehensive income are included in other comprehensive income.

The results and financial position of all the entities in the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the exchange rate ruling at the date of that balance sheet;
- (ii) income and expenses for each consolidated income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the Group’s entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group’s ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rates ruling at the balance sheet date. Exchange differences arising are recognised in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.29 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

4.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

4.31 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

4.32 Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries, associates, joint ventures and related companies to secure loans, overdrafts and other banking facilities.

The Group regards its financial guarantees provided to its subsidiaries, joint ventures and associated companies as insurance contracts. The Group assesses at each balance sheet date the liabilities under its insurance contracts using current estimates of future cash flows. Changes in carrying amount of these insurance liabilities are recognised in the consolidated income statement.

5. FINANCIAL RISK MANAGEMENT

The major financial instruments of the Group include trade and other receivables, amounts due from related parties, cash and bank balances, restricted bank deposits, cash chips of other casinos, non-current and other investments, trade and other creditors, amounts due to related parties and borrowings. Details of these financial instruments are disclosed in respective notes. The activities of the Group expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and other price risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group seeks to minimise the effects of certain risks by using derivative financial instruments to manage the risk exposures. It does not enter into or trade derivative financial instruments for speculative purpose. The management of the Group identifies, evaluates and manages significant financial risks in the individual operating units of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors

(a) Market risk*(i) Foreign exchange risk*

The Group operates principally in Hong Kong, Macau and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar, Renminbi, Macau Patacas and other non-Hong Kong dollar currencies. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of different group companies.

Foreign currency exposures are covered by forward foreign exchange contracts and arrangement of foreign currency borrowings whenever considered appropriate.

The foreign exchange risk mainly arises on the debt securities denominated in United States dollar and cash and bank balances denominated in United States dollar and Renminbi. As at 31 December 2018, if United States dollar weakened/strengthened against Hong Kong dollar by 0.5%, profit after tax for the year would have been HK\$137,831,000 (2017: HK\$119,257,000) lower/higher as a result of foreign exchange loss/gain on translation of that balance. As at 31 December 2018, if Renminbi weakened/strengthened against Hong Kong dollar by 2%, profit after tax for the year would have been HK\$11,897,000 (2017: HK\$16,475,000) lower/higher as a result of foreign exchange loss/gain on translation of that balance. As at 31 December 2018, the majority of Renminbi cash and bank balances are held by group companies operating in Mainland China with Renminbi as their functional currency.

The Group is not exposed to material foreign exchange risk in respect of Hong Kong dollar against Macau Patacas as long as these currencies are pegged.

The foreign exchange risk arisen from assets denominated in other foreign currencies are not significant.

(ii) Price risk

The Group is exposed to equity price changes arising from equity investments held by the Group classified on the consolidated balance sheet either as financial asset at amortised cost (note 21) or financial asset at fair value through other comprehensive income (see note 22). Other than unquoted securities held for strategic purposes, all of these investments are listed. The Group is not exposed to commodity price risk.

All of the Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually, based on the information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

At 31 December 2018, if the market values of the Group's financial asset at fair value through other comprehensive income at that date had been 10% higher or lower with all other variables held constant, total comprehensive income for the year would have been HK\$453,041,000 (2017: HK\$64,319,000) higher or lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(a) Market risk (Continued)*(iii) Interest rate risk*

The Group is exposed to interest rate risk through the impact of changes in the rates on interest bearing assets and liabilities. The Group follows a policy of developing banking facilities as considered appropriate to match its investments in Hong Kong, Macau, Mainland China and other countries. The policy also involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favourable pricing opportunities arise.

Interest rate exposures are covered by interest rate swap contracts whenever appropriate.

As the Group has no significant interest bearing assets, other than bank deposits, debt securities and loan receivables, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rate risk of the Group mainly arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

At 31 December 2018, if interest rates on borrowings at variable rates at that date had been 0.5% higher or lower with all other variables held constant, profit after tax for the year would have been HK\$44,155,000 (2017: HK\$48,655,000) lower or higher, mainly as a result of higher or lower interest expense on floating rate borrowings.

At 31 December 2018, if interest rates on bank deposits and debt securities which bear interest at floating rate at that date had been 0.5% higher or lower with all other variables held constant, profit after tax for the year would have been HK\$69,168,000 (2017: HK\$100,110,000) higher or lower.

(b) Credit risk

Credit risk arises from contractual cash flow of debt instruments carried at amortised cost, FVOCI, deposits with banks and financial institutions, debt securities, cash chips of other casinos and loan receivables, as well as credit exposures to customers, including outstanding receivables and committed transactions, and the gaming counterparties. For bank deposits, only banks and financial institutions with sound credit ratings are selected to mitigate the risk. Investment in debt securities are limited to financial institutions and corporations with high quality, and are regularly monitored. The issuance and redemption of cash chips are heavily regulated by the rules and regulation of the Macau Government. Cash chips of other casinos can be redeemed for cash at casinos with sound credit quality to mitigate the risk. Management assesses the credit quality of the casinos taking into account their financial position, past experience and other factors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The Group has policies and guidelines in place to assess the credit worthiness of customers and gaming counterparties to ensure that credits are made to parties with an appropriate credit history and a good history of performance records. As at 31 December 2018, approximately 47% (2017: 43%) of the other debtors and deposits paid, net of provision (note 25(b)) represent advances to customers and gaming counterparties. Due to the credit driven nature of the VIP business in the gaming industry accompanied by the recent trend of market consolidation in overall Macao VIP gaming market, the Group is exposed to heightened risk in respect of concentration risk arising from the reducing numbers of VIP gaming operators. The Group monitors the issuance of credit on an ongoing basis to minimise the exposure to credit risk. The activities of individual credit account are monitored regularly for management to decide if the credit facility should be continued, changed or cancelled. Management regularly evaluates the expected credit losses, trade debtors and contract assets have been grouped based on shared credit risk characteristics and the days past due. See note 25 for details of debtors and further disclosure on credit risks.

The maximum exposure to credit risk at 31 December 2018 is the unimpaired carrying amounts of respective financial assets.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due. The Group measures and monitors its liquidity through the maintenance of prudent ratios regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Group.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group Treasury. Group Treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements (for example, currency restrictions).

Group Treasury invests surplus cash in interest bearing bank deposits and high quality debt securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

The contractual maturity of the Group for its financial liabilities, drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay and include both interest and principal, is set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	Within one year HK\$'000	Between one to two years HK\$'000	Between two to five years HK\$'000	Over five years HK\$'000	Total HK\$'000
At 31 December 2018					
Bank loans	8,822,263	19,148	9,225	-	8,850,636
Obligations under finance leases	-	-	-	591,661	591,661
Creditors and accruals (including non-current retention payable and non-current deposits received)	14,830,811	149,133	218,880	-	15,198,824
Amounts due to joint ventures	60,319	-	-	-	60,319
At 31 December 2017					
Bank loans	9,718,734	19,064	29,653	-	9,767,451
Obligations under finance leases	-	-	-	591,661	591,661
Creditors and accruals (including non-current retention payable and non-current deposits received)	17,237,224	63,501	172,623	-	17,473,348
Amounts due to joint ventures	66,092	-	-	-	66,092

5.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group will consider the macro economic conditions, prevailing borrowing rate in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank borrowings as necessary. The Group may also adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total assets less cash and bank balances. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and bank balances. The Group intends to make use of excess funds to improve its capital structure through early repayment of borrowings to achieve finance cost saving in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Capital risk management (Continued)

The gearing ratios at 31 December 2018 and 2017 were as follows.

	2018	2017
	HK\$'000	HK\$'000
Total borrowings (note 31)	(9,054,950)	(9,944,276)
Less: cash and bank balances (note 27)	14,486,252	17,565,025
Net cash	5,431,302	7,620,749
Total assets less cash and bank balances	72,897,579	66,249,657
Gearing ratio (note)	n/a	n/a

Note: The Group was in a net cash position as at 31 December 2018 and 2017.

5.3 Fair value estimation

The table below analyses financial instruments that are measured in the balance sheet at fair value, by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018 and 2017.

At 31 December 2018	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through other comprehensive income				
– Equity securities	4,511,356	–	19,055	4,530,411
Total	4,511,356	–	19,055	4,530,411

At 31 December 2017, restated*

Assets				
Financial assets at fair value through other comprehensive income				
– Equity securities	621,111	–	22,078	643,189
Total	621,111	–	22,078	643,189

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current price within the bid-ask spread which is the most representative of the fair value in the given circumstances. These instruments are included in level 1. Instruments included in level 1 comprise primarily financial assets at fair value through other comprehensive income.

* See note 3 for details regarding the restatements as a result of changes in accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value estimation (Continued)

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swap is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The following table presents the changes in level 3 instruments (note 22) for the year ended 31 December 2018 and 2017.

	Financial assets at fair value through other comprehensive income	
	2018 HK\$'000	2017 HK\$'000
At beginning of the year	22,078	24,412
Loss recognised in other comprehensive income	(3,023)	(2,334)
At end of the year	19,055	22,078
Total gains for the year included in profit or loss for assets held at the end of the year	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the consolidated financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) Carrying amount of non-financial assets other than goodwill

The Group tests for possible impairment or reversal of impairment for non-financial assets other than goodwill. The Group performs an assessment of the recoverable amounts of all hotel properties together with the gaming licence, the reacquired right and other net working capital with a total carrying amount of HK\$53.3 billion as included in notes 15, 17 and 18 to the financial statements, respectively. The Group considers these assets are grouped together as one cash-generating unit as it is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount has been determined based on the higher of fair value less cost of disposal and value-in-use. The methodologies are based upon number of significant assumptions, both quantitative and qualitative, including revenue growth, cost structure, VIP to Mass gaming ratio, discount rate, timely completion of development projects and retention of the gaming licence between 2019 and 2022 and subsequent renewal in 2022. Changes in these estimates could have a significant impact on the recoverable amount of the assets and could result in impairment charge or reversal of impairment in future periods. In addition, a reversal of an impairment loss is only recognised where there is an increase in the estimated service potential of an asset since the date when an entity last recognised an impairment loss for that asset. The determination of whether there is an increase/decrease in services potential of an asset requires significant judgment.

Under the land concession for Galaxy Macau™ Phase 3 and Phase 4, the Group is required to complete the relevant development of Phase 3 and Phase 4 by required deadlines. The Group has continuously communicated with the Macao Government and will apply for extension when deemed necessary. If the Group is unable to meet the required deadlines and the deadlines for either development are not extended, the Group could lose its land concessions for Galaxy Macau™ Phase 3 or Phase 4, which would prohibit the Group from operating those facilities developed under the respective land concessions.

(b) Useful lives of leasehold land, property, plant and equipment

The management determines the estimated useful lives and residual values for its leasehold land, property, plant and equipment. Management will revise the depreciation charge where useful lives are different from previous estimates, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

(c) Fair value of financial assets at fair value through other comprehensive income

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The fair value also reflects the discounted cash flows that could be expected from the ultimate sale after deducting the estimated expenses directly associated with the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(d) Share-based payments

The fair value of option granted is estimated by independent professional valuers based on the various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the share options or share awards at the date of granting.

(e) Taxation

The Group is subject to taxation in Hong Kong, Macau and Mainland China. Significant judgment is required in determining the provision for taxation for each entity in the Group. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred taxation provisions in the financial period in which such determination is made.

(f) Loss allowance for debtors

The policy of loss allowance of the Group is based on the evaluation of collectability and ageing analysis of trade and other debtors and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the risk of default and expected loss rates. The amount of loss allowance made as at 31 December 2018 was HK\$1,073,510,000 (2017: HK\$1,114,192,000). If the financial conditions of counterparties were to deteriorate, resulting in an impairment of their ability to make payments, additional loss allowance might be required.

(g) Other cash equivalents

The policy of including cash chips of other casinos as cash equivalent was based on management's judgment to consider these cash chips form part of the Group's overall cash management, are highly liquid investments that are readily convertible to cash, and are not subject to significant risk of change in value. Management's consideration includes its assessment and understanding of the rules and regulations governing the issuance and redemption of cash chips by the Macau Government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. REVENUE

Revenue recognised during the year are as follows:

	2018 HK\$'000	2017 HK\$'000 (Restated*)
Gaming operations		
Net gaming wins	65,104,572	55,826,912
Contributions from City Club Casinos (note i)	100,849	97,435
Tips received and administrative fees	24,788	22,523
Gross revenue from gaming operations	65,230,209	55,946,870
Less: Commission and incentives	(18,205,467)	(15,323,345)
Net revenue from gaming operations	47,024,742	40,623,525
Revenue from hotel and mall operations (note ii)	5,297,977	4,948,839
Sales of construction materials	2,888,182	3,067,378
	55,210,901	48,639,742

Note i: In respect of the operations of City Club Casinos (the "City Club Casinos"), the Group entered into agreements (the "Agreements") with third parties for a term equal to the life of the concession agreement with the Government of the Macau Special Administrative Region (the "Macau Government") up to June 2022.

Under the Agreements, the service providers (the "Service Providers") undertake for the provision of a steady flow of customers to the City Club Casinos and for procuring and/or introducing customers to these casinos. The Service Providers also agree to indemnify the Group against substantially all risks arising under the leases of the premises used by these casinos; and to guarantee payments to the Group of certain operating and administrative expenses. Revenue attributable to the Group is determined by reference to various rates on the net gaming wins.

After analysing the risks and rewards attributable to the Group, and the Service Providers under the Agreements, revenue from the City Club Casinos is recognised based on the established rates for the net gaming wins which reflect the gross inflow of economic benefits to the Group. In addition, all relevant operating and administrative expenses relating to the operations of the City Club Casinos are not recognised as expenses of the Group in the consolidated financial statements.

During the year ended 31 December 2018, the Group is entitled to HK\$100,849,000 (2017: HK\$97,435,000), which is calculated by reference to various rates on the net gaming wins. Special gaming tax and other related taxes to the Macau Government, and all relevant operating and administrative expenses relating to the operations of the City Club Casinos are not recognised as expenses of the Group in the consolidated financial statements.

Note ii: Revenue from hotel and mall operations includes rental income amounted to approximately HK\$1,218 million (2017: HK\$994 million).

* See note 3 for details regarding the restatements as a result of changes in accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SEGMENT INFORMATION

The Board of Directors is responsible for allocating resources, assessing performance of the operating segment and making strategic decisions, based on a measurement of adjusted earnings before interest, tax, depreciation, amortisation and certain items (the “Adjusted EBITDA”). This measurement basis of Adjusted EBITDA excludes the effects of non-recurring income and expenditure from the operating segments, such as pre-opening expenses, donation and sponsorship, gain/loss on disposal and loss on write-off of certain property, plant and equipment, and impairment charge when the impairment is the result of an isolated, non-recurring event. The Adjusted EBITDA also excludes taxation of joint ventures and associated companies, the effects of share option expenses and share award expenses.

In accordance with the internal financial reporting and operating activities of the Group, the reportable segments are the gaming and entertainment segment and the construction materials segment. Corporate and treasury management represents corporate level activities including central treasury management and administrative function.

The reportable segments derive their revenue from the operation in casino games of chance or games of other forms, provision of hospitality and related services in Macau, and the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China.

There are no sales or trading transaction between the operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SEGMENT INFORMATION (Continued)

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Corporate and treasury management HK\$'000	Total HK\$'000
Year ended 31 December 2018				
Reportable segment revenue	54,238,964	2,888,182	-	57,127,146
Adjusted for:				
City Club Casinos arrangement set out in note 7				
Revenue not recognised	(2,027,294)	-	-	(2,027,294)
Contributions	100,849	-	-	100,849
Others	10,200	-	-	10,200
Revenue recognised under HKFRS	52,322,719	2,888,182	-	55,210,901
Adjusted EBITDA including share of results of joint ventures and associated companies	16,110,608	939,697	(193,080)	16,857,225
Interest income, dividend income from listed investments and gross earnings on finance lease				1,061,690
Amortisation and depreciation				(3,315,913)
Finance costs				(138,775)
Taxation charge				(43,485)
Adjusted items:				
Taxation of joint ventures and associated companies				(117,928)
Pre-opening expenses				(168,591)
Gain on disposal and loss on write-off of certain property, plant and equipment				5,857
Share option expenses				(114,457)
Share award expenses				(94,796)
Donation and sponsorship				(7,278)
Non-recurring employee benefit expenses				(343,265)
Others				(10,000)
Profit for the year				13,570,284
Share of results of joint ventures and associated companies	56,481	331,139	-	387,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SEGMENT INFORMATION (Continued)

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Corporate and treasury management HK\$'000	Total HK\$'000
Year ended 31 December 2017, restated*				
Reportable segment revenue	47,449,440	3,067,378	–	50,516,818
Adjusted for:				
City Club Casinos arrangement set out in note 7				
Revenue not recognised	(1,985,336)	–	–	(1,985,336)
Contributions	97,435	–	–	97,435
Others	10,825	–	–	10,825
Revenue recognised under HKFRS, restated*	45,572,364	3,067,378	–	48,639,742
Adjusted EBITDA including share of results of joint ventures and associated companies	13,554,409	744,494	(151,494)	14,147,409
Interest income and gross earnings on finance lease				627,017
Amortisation and depreciation				(3,348,665)
Finance costs				(63,914)
Taxation charge				(112,775)
Adjusted items:				
Taxation of joint ventures and associated companies				(75,494)
Pre-opening expenses				(51,469)
Loss on disposal and write-off of certain property, plant and equipment				(122,630)
Share option expenses				(123,777)
Share award expenses				(257,272)
Donation and sponsorship				(6,342)
Others				(96,486)
Profit for the year				10,515,602
Share of results of joint ventures and associated companies	46,330	197,845	–	244,175

* See note 3 for details regarding the restatements as a result of changes in accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SEGMENT INFORMATION (Continued)

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Corporate and treasury management HK\$'000	Total HK\$'000
As at 31 December 2018				
Total assets	82,214,960	5,097,793	71,078	87,383,831
Total assets include:				
Joint ventures	82,614	1,548,345	-	1,630,959
Associated companies	-	2,252	-	2,252
Total liabilities	14,514,834	1,863,483	8,174,314	24,552,631
As at 31 December 2017				
Total assets	77,768,177	5,972,591	73,914	83,814,682
Total assets include:				
Joint ventures	94,066	1,424,301	-	1,518,367
Associated companies	-	2,217	-	2,217
Total liabilities	16,662,555	2,330,355	8,806,179	27,799,089
Year ended 31 December 2018				
Additions to non-current assets	2,660,080	44,914	48	2,705,042
Year ended 31 December 2017				
Additions to non-current assets	1,304,144	82,369	349	1,386,862

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SEGMENT INFORMATION (Continued)

Geographical analysis

	2018	2017
Year ended 31 December	HK\$'000	HK\$'000 (Restated*)
Revenue		
Macau	52,737,338	45,883,416
Hong Kong	832,116	1,857,173
Mainland China	1,641,447	899,153
	55,210,901	48,639,742
	As at	As at
Non-current assets	31 December	31 December
	2018	2017
	HK\$'000	HK\$'000
Macau	65,716,471	60,289,982
Hong Kong	536,306	535,271
Mainland China	2,818,018	2,888,018
	69,070,795	63,713,271

* See note 3 for details regarding the restatements as a result of changes in accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. OTHER INCOME/GAINS, NET AND PROFIT BEFORE TAXATION

	2018 HK\$'000	2017 HK\$'000
(a) Other income/gains, net		
Interest income		
Bank deposits	146,126	281,188
Financial assets at amortised cost (note 21)	846,656	342,287
Loans to joint ventures (note 26(a))	546	695
Deferred receivables (note 23(b))	1,173	1,453
Dividend income from unlisted investments	4,100	2,650
Dividend income from listed investments	65,030	–
Gross earnings on finance lease	2,159	1,394
Gain/(loss) on disposal and loss on write-off of property, plant and equipment	3,562	(121,652)
Loss on/write-off of intangible assets	–	(111)
Fair value change/realised loss on financial derivative instruments	–	(1,605)
Foreign exchange gain	37,270	65,195
Others	39,588	26,152
	1,146,210	597,646
(b) Profit before taxation is stated after charging		
Depreciation	3,002,816	3,028,726
Amortisation		
Gaming licence	106,337	106,337
Computer software	28,679	36,602
Leasehold land and land use rights	90,156	89,075
Reacquired right	87,925	87,925
Operating lease rental		
Land and buildings	59,792	27,430
Staff costs, including Directors' remuneration (note i)	7,784,742	7,368,542
Auditor's remuneration		
Audit services		
Provision for the year	12,376	11,957
Over-provision in prior years	(1,384)	(1,074)
Non-audit services		
Provision for the year	2,771	1,707
Under/(over)-provision in prior year	30	(69)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. OTHER INCOME/GAINS, NET AND PROFIT BEFORE TAXATION (Continued)

(i) Staff costs, including Directors' remuneration

Staff costs is stated after amount capitalised in assets under construction in the aggregate of HK\$257,365,000 (2017: HK\$170,427,000), and include share option expenses and share award expenses of HK\$114,457,000 (2017: HK\$123,777,000) and HK\$94,796,000 (2017: HK\$257,272,000) respectively.

(ii) Retirement benefit schemes

In Hong Kong, the Group makes monthly contributions to the Mandatory Provident Fund (MPF) Scheme equal to 5% of the relevant income of the employees in compliance with the legislative requirement. In addition, the Group also makes defined top-up contributions to the same scheme or the Occupational Retirement Scheme Ordinance (ORSO) Scheme for employees depending on circumstance. For the top-up schemes, the Group's contributions to the schemes may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the Schemes are held separately from those of the Group in independently administered funds.

The Group also operates a defined contribution scheme which is a unitised scheme, for eligible employees in Macau. This Pension Fund Scheme is established and managed by an independent management company appointed by the Group. Both the Group and the employees make equal share of monthly contributions to the scheme.

Employees in Mainland China participate in various pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 13% to 20%, dependent upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

The costs of the retirement benefit schemes charged to the consolidated income statement during the year comprise contributions to the schemes of HK\$231,880,000 (2017: HK\$222,866,000), after deducting forfeitures of HK\$39,469,000 (2017: HK\$34,272,000), leaving HK\$307,000 (2017: HK\$1,762,000) available to reduce future contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. BENEFITS AND INTERESTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

	(note iii)					2018 Total HK\$'000
	Directors' fees (note i) HK\$'000	Salary, allowance and benefit in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Estimated money value of other benefits (note ii) HK\$'000	
Executive Directors						
Dr. Lui Che Woo	280	11,649	24,168	583	22,863	59,543
Mr. Francis Lui Yiu Tung	480	16,481	38,992	824	25,111	81,888
Mr. Joseph Chee Ying Keung	240	4,338	2,046	398	1,026	8,048
Ms. Paddy Tang Lui Wai Yu	240	2,468	-	123	1,822	4,653
	1,240	34,936	65,206	1,928	50,822	154,132
Non-executive Directors						
Mr. James Ross Ancell	510	-	-	-	-	510
Dr. William Yip Shue Lam	590	-	-	-	-	590
Professor Patrick Wong Lung Tak	620	-	-	-	-	620
Dr. Charles Cheung Wai Bun	240	-	-	-	-	240
Mr. Michael Victor Mecca	-	-	-	-	-	-
	1,960	-	-	-	-	1,960
Total 2018	3,200	34,936	65,206	1,928	50,822	156,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. BENEFITS AND INTERESTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS
(Continued)

(a) Directors' emoluments (Continued)

	(note iii)					2017 Total HK\$'000
	Directors' fees HK\$'000	Salary, allowance and benefit in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Estimated money value of other benefits (note ii) HK\$'000	
Executive Directors						
Dr. Lui Che Woo	250	10,785	18,149	540	22,144	51,868
Mr. Francis Lui Yiu Tung	430	15,260	30,477	763	27,176	74,106
Mr. Joseph Chee Ying Keung	220	4,204	1,982	384	980	7,770
Ms. Paddy Tang Lui Wai Yu	220	2,328	–	116	1,797	4,461
	1,120	32,577	50,608	1,803	52,097	138,205
Non-executive Directors						
Mr. James Ross Ancell	450	–	–	–	–	450
Dr. William Yip Shue Lam	530	–	–	–	–	530
Professor Patrick Wong Lung Tak	550	–	–	–	–	550
Dr. Charles Cheung Wai Bun	220	–	–	–	–	220
	1,750	–	–	–	–	1,750
Total 2017	2,870	32,577	50,608	1,803	52,097	139,955

- (i) The amounts represented emoluments paid or receivable in respect of a person's services as a director of the Company undertaking for 2017.
- (ii) Other benefits represent share options and share awards. The value of the share options and share awards granted to the Directors under the share option scheme and share award scheme of the Company represents the fair value of these options and awards charged to the consolidated income statement for the year according to their vesting periods.
- (iii) The amounts represented emoluments paid or payable in respect of a person's other services in connection with the management of the affairs of the Company or its subsidiary undertakings.

The discretionary bonuses paid in 2018 were in relation to performance and services for 2017.

There was no arrangement under which a Director waived or agreed to waive any emoluments during the current and prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. BENEFITS AND INTERESTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS
(Continued)**(b) Directors material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2017: two) Directors whose emoluments are reflected in note (a) above. The emoluments of the remaining three individuals (2017: three) are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other emoluments	25,964	27,584
Discretionary bonuses	15,163	16,007
Retirement benefits	740	373
Share options and share awards (note 29)	22,888	23,473
	64,755	67,437

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	2018	2017
HK\$18,500,001 – HK\$19,000,000	1	–
HK\$19,000,001 – HK\$19,500,000	–	1
HK\$20,500,001 – HK\$21,000,000	1	–
HK\$22,500,001 – HK\$23,000,000	–	1
HK\$24,500,001 – HK\$25,000,000	1	–
HK\$25,000,001 – HK\$25,500,000	–	1
	3	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest expenses		
Bank loans and overdrafts	137,105	123,213
Obligations under finance leases	12,827	12,696
Other borrowing costs	2,805	223
	152,737	136,132
Amount capitalised in assets under construction	(13,962)	(72,218)
	138,775	63,914

12. TAXATION CHARGE

	2018 HK\$'000	2017 HK\$'000
Current taxation		
Hong Kong profits tax	28,719	37,810
Mainland China income tax and withholding tax	39,858	24,973
Macau complementary tax	7,623	3,756
Net under/(over) provision in prior years	5,176	(635)
Lump sum in lieu of Macau complementary tax on dividend	35,534	35,534
Deferred taxation (note 32)	(73,425)	11,337
Taxation charge	43,485	112,775

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year after setting off available taxation losses brought forward. Taxation assessable on profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the areas in which those profits arose, these rates range from 12% to 25% (2017: 12% to 25%). The weighted average applicable tax rate was 12% (2017: 12%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. TAXATION CHARGE (Continued)

The taxation on the profit before taxation of the Group differs from the theoretical amount that would arise using the applicable taxation rate being the weighted average of rates prevailing in the countries in which the Group operates, is as follows:

	2018 HK\$'000	2017 HK\$'000
Profit before taxation	13,613,769	10,628,377
Share of profits less losses of		
Joint ventures	(387,585)	(244,275)
Associated companies	(35)	100
	13,226,149	10,384,202
Tax calculated at applicable tax rate	1,580,234	1,246,524
Income not subject to tax	(21,521)	(17,776)
Profit exempted from Macau Complementary Tax (note a)	(1,843,375)	(1,572,377)
Expenses not deductible for tax purpose	78,898	96,345
Reversal of previously recognised deferred tax liabilities	(81,204)	–
Utilisation of previously unrecognised tax losses	(5,878)	(3,945)
Tax losses not recognised	273,496	309,017
Net under/(over) provision in prior years	5,176	(635)
Mainland China withholding tax	22,125	20,088
Lump sum in lieu of Macau complementary tax on dividend (note b)	35,534	35,534
Taxation charge	43,485	112,775

- (a) Pursuant to the Despatch No. 420/2013 issued by the Chief Executive of the Macau Government on 30 December 2013, the Group is exempted from Macau Complementary Tax on its gaming activities for five years effective from the 2014 year of assessment till year 2018. Further pursuant to the Despatch No. 193/2018 issued by the Chief Executive of the Macau Government on 20 August 2018, the Group is exempted from Macau Complementary Tax on its gaming activities effective from the 2019 year of assessment till June 2022.
- (b) During the year ended 31 December 2015, Galaxy Casino, S.A. ("GCSA"), the Company's principal subsidiary, entered into a Shareholder Dividend Tax Agreement with the Macau Government. The agreement provided for an annual payment in lieu of Macau Complementary Tax otherwise due by the GCSA's shareholders on dividend distributions to them from gaming profits, effective through the end of 2018 to correspond to the Macau Complementary Tax exemption on its gaming activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two (2017: two) categories of dilutive potential ordinary shares: share options and share awards. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued from the share options and the share awards, the dilutive effect of the share award scheme is assumed if the award shares are issued by new shares, which is yet to be determined.

The calculation of basic and diluted earnings per share for the year is based on the following:

	2018	2017
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	13,507,389	10,504,361

	Number of shares	
	2018	2017
Weighted average number of shares for calculating basic earnings per share	4,318,166,938	4,285,220,145
Effect of dilutive potential ordinary shares		
Share options	19,803,705	23,880,906
Share awards	601,906	2,039,150
Weighted average number of shares for calculating diluted earnings per share	4,338,572,549	4,311,140,201

14. DIVIDENDS

	2018	2017
	HK\$'000	HK\$'000
First special dividend paid of HK\$0.41 (2017: HK\$0.26) per ordinary share	1,769,884	1,111,839
Second special dividend paid of HK\$0.50 (2017: HK\$0.33) per ordinary share	2,160,048	1,413,750
	3,929,932	2,525,589

The Board of Directors does not declare any final dividend for the year ended 31 December 2018 (2017: nil).

Details of the special dividend declared subsequent to the year-end are given in note 41.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Gaming equipment and other assets (note (a)) HK\$'000	Assets under construction HK\$'000	Total HK\$'000
Cost						
At 31 December 2017	23,197,178	645,647	9,437,261	11,553,377	2,745,321	47,578,784
Exchange differences	(18,377)	(82)	(60,663)	(813)	(776)	(80,711)
Additions	16,885	7,171	151,579	245,768	2,248,744	2,670,147
Transfer/reclassification	(263,604)	80,210	315,189	20,851	(152,646)	–
Disposals/write-off	(523)	(16,846)	(200,976)	(155,908)	–	(374,253)
At 31 December 2018	22,931,559	716,100	9,642,390	11,663,275	4,840,643	49,793,967
Accumulated depreciation and impairment						
At 31 December 2017	3,682,206	469,306	4,195,573	7,430,009	–	15,777,094
Exchange differences	(2,536)	(69)	(14,914)	(607)	–	(18,126)
Charge for the year	721,790	76,369	837,770	1,366,887	–	3,002,816
Disposals/write-off	(147)	(16,637)	(194,165)	(115,964)	–	(326,913)
At 31 December 2018	4,401,313	528,969	4,824,264	8,680,325	–	18,434,871
Net book value						
At 31 December 2018	18,530,246	187,131	4,818,126	2,982,950	4,840,643	31,359,096
Cost						
At 31 December 2016	23,246,214	625,077	9,316,373	11,537,179	1,667,934	46,392,777
Exchange differences	26,181	118	85,433	1,144	154	113,030
Additions	1,410	14,651	74,294	142,868	1,129,558	1,362,781
Transfer/reclassification	–	8,937	44,461	(1,073)	(52,325)	–
Disposals/write-off	(76,627)	(3,136)	(83,300)	(126,741)	–	(289,804)
At 31 December 2017	23,197,178	645,647	9,437,261	11,553,377	2,745,321	47,578,784
Accumulated depreciation and impairment						
At 31 December 2016	2,963,288	397,662	3,442,010	6,087,666	–	12,890,626
Exchange differences	2,738	51	12,575	862	–	16,226
Charge for the year	731,908	74,650	811,921	1,410,247	–	3,028,726
Disposals/write-off	(15,728)	(3,057)	(70,933)	(68,766)	–	(158,484)
At 31 December 2017	3,682,206	469,306	4,195,573	7,430,009	–	15,777,094
Net book value						
At 31 December 2017	19,514,972	176,341	5,241,688	4,123,368	2,745,321	31,801,690

- (a) Other assets comprise barges, furniture and equipment, operating equipment, vessel, aircrafts, and motor vehicles.
- (b) During the year, borrowing costs of HK\$13,962,000 (2017: HK\$72,218,000) were capitalised and included in assets under construction. A capitalisation rate of 1.70% (2017: 1.36%) was used, representing the effective finance costs of the loans used to finance the assets under construction.
- (c) During the year, staff costs of HK\$257,365,000 (2017: HK\$170,427,000) were capitalised and included in assets under construction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INVESTMENT PROPERTIES

	HK\$'000
Fair value	
At 1 January 2017	42,000
Transfer to leasehold land and land use rights (note 17)	(42,000)
At 31 December 2017 and 2018	–

During 2017, there was a transfer of an investment property to leasehold land and land use rights (note 17) at HK\$42,000,000.

17. LEASEHOLD LAND AND LAND USE RIGHTS

	2018 HK\$'000	2017 HK\$'000
Net book value at beginning of the year	5,013,464	5,055,566
Exchange differences	(2,023)	2,973
Additions	–	2,000
Transfer from investment properties (note 16)	–	42,000
Amortisation	(90,156)	(89,075)
Net book value at end of the year	4,921,285	5,013,464
Cost	5,831,958	5,834,256
Accumulated amortisation	(910,673)	(820,792)
Net book value	4,921,285	5,013,464

The Group received land concessions from Macau Government which have initial terms of 25 years and are renewable at the Group's option, in accordance with Macau law, grants the Group exclusive use of the land. Leasehold land held under finance lease in Macau included a piece of land in Cotai, Macau amounting to HK\$2,947 million (2017: HK\$2,984 million), for which net book value of HK\$1,343 million (2017: HK\$1,380 million) is developed, HK\$1,604 million (2017: HK\$1,604 million) is under development and no land is held for development for specific uses (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. INTANGIBLE ASSETS

	Gaming licence (note a) HK\$'000	Reacquired right (note b) HK\$'000	Computer software HK\$'000	Total HK\$'000
Cost				
At 31 December 2016	16,887,329	786,700	346,523	18,020,552
Additions	–	–	13,506	13,506
Write-off	–	–	(237)	(237)
At 31 December 2017	16,887,329	786,700	359,792	18,033,821
Exchange differences	–	–	(20)	(20)
Additions	–	–	24,309	24,309
Write-off	–	–	(645)	(645)
At 31 December 2018	16,887,329	786,700	383,436	18,057,465
Accumulated amortisation and impairment				
At 31 December 2016	16,303,783	303,111	275,170	16,882,064
Charge for the year	106,337	87,925	36,602	230,864
Write-off	–	–	(126)	(126)
At 31 December 2017	16,410,120	391,036	311,646	17,112,802
Exchange differences	–	–	(4)	(4)
Charge for the year	106,337	87,925	28,679	222,941
Write-off	–	–	(645)	(645)
At 31 December 2018	16,516,457	478,961	339,676	17,335,094
Net book value				
At 31 December 2018	370,872	307,739	43,760	722,371
At 31 December 2017	477,209	395,664	48,146	921,019

(a) Gaming licence represents the fair value of licence acquired on the acquisition of Galaxy Casino, S.A. in 2005 and has been amortised on a straight line basis over the remaining term of the gaming licence which will expire in June 2022. Accumulated amortisation and impairment included an impairment charge made in 2008 amounted to HK\$12,330,305,000.

(b) Reacquired right represents the right and obligations in regard to the provision of service in the casino at Grand Waldo Hotel pursuant to certain agreements for a term equal to the life of the gaming licence and has been amortised on a straight line basis over the remaining term of the gaming licence which will expire in June 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. JOINT VENTURES

	2018 HK\$'000	2017 HK\$'000
Share of net assets	1,630,959	1,518,367

- (a) The share of assets, liabilities and results of the joint ventures, which are individually immaterial, attributable to the Group using the equity method is summarised below:

	2018 HK\$'000	2017 HK\$'000
Non-current assets	1,556,222	1,609,550
Current assets	1,014,947	906,666
Current liabilities	(719,212)	(775,045)
Non-current liabilities	(220,998)	(222,804)
	1,630,959	1,518,367
Income	2,584,297	2,109,420
Expenses	(2,196,712)	(1,865,145)
Share of results for the year	387,585	244,275

- (b) Details of the joint ventures are given in note 44(b).

20. ASSOCIATED COMPANIES

	2018 HK\$'000	2017 HK\$'000
Share of net assets	2,252	2,217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. ASSOCIATED COMPANIES (Continued)

- (a) The share of assets, liabilities and results of the associated companies, which are individually immaterial, attributable to the Group using the equity method is summarised as follows:

	2018 HK\$'000	2017 HK\$'000
Current assets	2,327	2,217
Current liabilities	(75)	–
	2,252	2,217
Income	35	–
Expenses	–	(100)
Share of results for the year	35	(100)

- (b) Details of the associated companies are given in note 44(c).

21. FINANCIAL ASSETS AT AMORTISED COST

	2018 HK\$'000	2017 HK\$'000 (Restated*)
Listed debt securities in Hong Kong, at amortised cost (note a)	15,424,286	13,827,059
Listed debt securities in overseas, at amortised cost (note a)	11,796,471	9,288,390
Unlisted debt securities, at amortised cost (note a)	101,760	712,705
	27,322,517	23,828,154
Less: current portion of financial assets at amortised cost		
– listed debt securities in Hong Kong, at amortised cost (note a)	(1,543,905)	(140,012)
	25,778,612	23,688,142

- (a) The listed/unlisted debt securities are denominated in US dollar.
- (b) As at 31 December 2018, the carrying amounts of these listed/unlisted debt securities approximated their fair values.

* See note 3 for details regarding the restatements as a result of changes in accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 HK\$'000	2017 HK\$'000 (Restated*)
Unlisted investments in overseas, at fair value (note i)	19,055	22,078
Listed investments in overseas, at fair value (note ii)	4,510,841	620,420
Listed investments in Hong Kong, at fair value	515	691
	4,530,411	643,189

Note:

- (i) Unlisted investments are mainly denominated in Macau Patacas and US dollar.
- (ii) During 2018, the Group has acquired shares which represent approximately 4.9% of the issued share capital of Wynn Resorts, Limited.

23. OTHER NON-CURRENT ASSETS

	2018 HK\$'000	2017 HK\$'000 (Restated*)
Finance lease receivable (note a)	44,093	46,334
Deferred receivable (note b)	14,202	10,304
Deposits paid for property, plant and equipment	53,241	53,453
Advances to investee companies (note c)	23,010	23,010
Less: Provision for impairment	(23,010)	(23,010)
Others	14,273	15,092
	125,809	125,183

* See note 3 for details regarding the restatements as a result of changes in accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. OTHER NON-CURRENT ASSETS (Continued)

(a) Finance lease receivable

	2018 HK\$'000	2017 HK\$'000
Gross receivable	80,882	75,825
Unearned finance income	(2,901)	(1,925)
	77,981	73,900
Current portion included in current assets (note 25)	(33,888)	(27,566)
	44,093	46,334

Finance lease receivable represents reimbursement of gaming equipment from the Service Providers. There are no unguaranteed residual values accrued to the Group and no contingent income was recognised during the year.

The finance lease is receivable in the following years:

	Minimum receipts		Present value	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Within one year	35,624	28,643	33,888	27,566
Between two to five years	45,258	47,182	44,093	46,334
	80,882	75,825	77,981	73,900

- (b) Deferred receivable represented consideration receivable in respect of advances to various contractors amounting to HK\$14,202,000 (2017: HK\$10,304,000).

The advances to various contractors are secured by assets provided by the contractors, carry interest at prevailing market rate and are repayable by monthly instalments up to 2024 (2017: up to 2023). The current portion of the receivable is included under other debtors.

- (c) Advances to investee companies are denominated in Hong Kong dollar, unsecured, interest free and have no fixed terms of repayment. They are considered equity in nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. INVENTORIES

	2018	2017
	HK\$'000	HK\$'000
Gaming and entertainment		
Playing cards	3,093	3,514
Food and beverages	50,621	49,479
Consumables	17,813	20,010
	71,527	73,003
Construction materials		
Aggregates and sand	9,397	4,959
Concrete pipes and piles	6,671	6,416
Slag	7,003	6,855
Cement	37,641	25,288
Spare parts	19,004	14,521
Consumables	38,556	40,401
	118,272	98,440
	189,799	171,443

25. DEBTORS AND PREPAYMENTS

	2018	2017
	HK\$'000	HK\$'000
Trade debtors, net of loss allowance (note a)	374,331	627,360
Other debtors and deposit paid, net of loss allowance (note b)	1,167,127	1,062,193
Contract assets (note c)	127,654	104,795
Prepayments	157,409	139,595
Current portion of finance lease receivable (note 23(a))	33,888	27,566
	1,860,409	1,961,509

- (a) Trade debtors mainly arise from the sales of construction materials and mall operations. The Group has established credit policies which follow local industry standards. The Group normally allows an approved credit period ranging from 30 to 60 days (2017: 30 to 60 days) for customers in Hong Kong and Macau and 60 to 180 days (2017: 60 to 180 days) for customers in Mainland China. These are subject to periodic reviews by management. There is no concentration of credit risk with respect to trade debtors as the Group has a large number of customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. DEBTORS AND PREPAYMENTS (Continued)

(a) (Continued)

The ageing analysis of trade debtors of the Group based on the invoice dates and net of loss allowance is as follows:

	2018 HK\$'000	2017 HK\$'000
Within one month	223,669	363,959
Two to three months	133,952	234,065
Four to six months	8,887	16,877
Over six months	7,823	12,459
	374,331	627,360

The carrying amounts of trade debtors of the Group are denominated in the following currencies:

	2018 HK\$'000	2017 HK\$'000
Hong Kong dollar	258,553	428,111
Macau Patacas	114,896	183,235
Renminbi	882	16,014
	374,331	627,360

Included in the Group's trade debtors were debtors with a carrying amount of HK\$319,291,000 (2017: HK\$530,078,000) which were not yet due. Debtors with a carrying amount of HK\$55,040,000 (2017: HK\$97,282,000) were past due over their credit terms for which the Group has not provided for loss allowance. The ageing analysis of these trade debtors based on due dates are as follows:

	2018 HK\$'000	2017 HK\$'000
Overdue:		
Within one month	35,811	67,596
Two to three months	9,019	13,902
Four to six months	4,198	7,064
Over six months	6,012	8,720
	55,040	97,282

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. DEBTORS AND PREPAYMENTS (Continued)

(a) (Continued)

As at 31 December 2018, trade debtors of the Group amounting to HK\$24,889,000 (2017: HK\$26,009,000) were impaired and fully recognised as loss allowance. The factors the Group considered in determining whether the trade debtors were impaired are disclosed in note 4.13.

Movements in the loss allowance of trade debtors are as follows:

	2018	2017
	HK\$'000	HK\$'000
Balance at 1 January	26,009	35,845
Reversal of loss allowance	(758)	(10,139)
Receivables written off during the year as uncollectible	-	(264)
Exchange differences	(362)	567
Balance at 31 December	24,889	26,009

- (b) Other debtors and deposit paid, net of loss allowance include advances to customers and gaming counterparties, which are denominated in Hong Kong dollar, and repayable on demand. These advances are granted with reference to their credit history and business volumes. Such advances are interest free and the Group has the right, pursuant to the relevant credit agreements, to set off the overdue advances with payables due from the Group to these counterparties.

As of 31 December 2018, other debtors of the Group amounting to HK\$1,048,621,000 (2017: HK\$1,088,183,000) were impaired and fully recognised as loss allowance.

- (c) Contract assets primarily relate to the Group's rights to consideration for work completed but not billed. Contract assets are transferred to receivables when the rights become unconditional which usually occurs when the customers are billed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. AMOUNTS DUE FROM/(TO) JOINT VENTURES

	2018 HK\$'000	2017 HK\$'000
Amounts due from joint ventures (note a)	178,727	204,642
Amounts due to joint ventures (note b)	(59,463)	(66,092)

- (a) The amounts receivable of HK\$171,709,000 (2017: HK\$161,564,000) are unsecured, interest free and have no fixed terms of repayment. The remaining amounts receivable carry interest at prevailing market rate and are repayable within one year, all of which are unsecured. The amounts receivable are mainly denominated in Hong Kong dollar, Renminbi and Macau Patacas.

With respect to credit risk arising on amounts due from joint ventures, management regularly assess credit risk for these amounts and reviewing financial information of the joint ventures on a regular basis to minimise credit risk. In addition, the Group monitors the exposure to credit risk in respect of the financial assistance provided to joint ventures through exercising joint control over the relevant activities and reviewing their financial positions on regular basis. The Group exposure to credit risk arising from default of the counterparty is limited as the counterparty has good history of repayment and the Group does not expect to incur a significant loss for uncollected advances to these parties.

- (b) Amounts payable of HK\$13,811,000 (2017: HK\$66,092,000) are unsecured, interest free and have no fixed terms of repayment. The remaining amounts payable carry interest at prevailing market rate and are repayable within one year, all of which are unsecured. The amounts payable are mainly denominated in Renminbi and Macau Patacas.

27. CASH AND CASH EQUIVALENTS AND OTHER BANK DEPOSITS

	2018 HK\$'000	2017 HK\$'000
Cash and bank balances	14,486,252	17,565,025
Less: short-term bank deposits	(726,721)	(1,897,919)
Other cash equivalents – cash chips of other casinos	18,571	35,324
Cash and cash equivalents	13,778,102	15,702,430
Short-term pledged bank deposits	726,721	711,822
Short-term bank deposits with maturity over three months	–	1,186,097
Cash and cash equivalents and other bank deposits	14,504,823	17,600,349

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. CASH AND CASH EQUIVALENTS AND OTHER BANK DEPOSITS (Continued)

The carrying amounts of cash and cash equivalents and other bank deposits are denominated in the following currencies:

	2018 HK\$'000	2017 HK\$'000
Hong Kong dollar	13,541,009	16,658,869
Macau Patacas	122,305	89,133
Renminbi	594,864	823,759
US dollars	243,645	23,279
Others	3,000	5,309
	14,504,823	17,600,349

Cash and short-term deposits of HK\$589 million (2017: HK\$619 million) are held in China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on expatriating capital from the country, other than through normal dividends.

The credit quality of cash and cash equivalents and other bank deposits of the Group can be assessed by reference to external credit ratings (if available) as follows:

	2018 HK\$'000	2017 HK\$'000
Counterparties with external credit rating (Standard & Poor's or Moody's)		
AA – to AA+	674,146	107,473
A – to A+	13,083,678	10,922,054
BBB	47,867	5,380,674
Unrated and cash on hand	680,561	1,154,824
Other cash equivalents – cash chips of other casinos (note)	18,571	35,324
	14,504,823	17,600,349

Note: Represented cash chips of other casinos listed on either the SEHK or New York Stock Exchange, with no defaults in the past.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. SHARE CAPITAL AND SHARES HELD FOR SHARE AWARD SCHEME

	Number of ordinary shares	Ordinary shares capital HK\$'000	Shares held for share award scheme HK\$'000	Total HK\$'000
Ordinary shares, issued and fully paid:				
At 31 December 2016 and 1 January 2017	4,271,673,502	20,106,376	–	20,106,376
Share award scheme – shares issued to the trustee	21,420,047	214	(214)	–
Share award scheme – shares repurchased by the trustee	–	–	(18,408)	(18,408)
Issue of shares pursuant to share award scheme	–	876,940	18,615	895,555
Issue of shares upon exercise of share options	15,048,046	485,170	–	485,170
At 31 December 2017 and 1 January 2018	4,308,141,595	21,468,700	(7)	21,468,693
Share award scheme – shares issued to the trustee (note a)	2,499,599	25	(25)	–
Share award scheme – shares repurchased by the trustee (note b)	–	–	(23,118)	(23,118)
Issue of shares pursuant to share award scheme	–	43,934	23,129	67,063
Issue of shares upon exercise of share options	14,356,907	504,216	–	504,216
At 31 December 2018	4,324,998,101	22,016,875	(21)	22,016,854

- (a) During the year ended 31 December 2018, 2,499,599 shares of the Company were allotted to the trustee of the share award scheme of HK\$25,000.
- (b) During the year ended 31 December 2018, the trustee purchased on SEHK a total of 508,460 shares of the Company for a total consideration of HK\$23.12 million.
- (c) As at 31 December 2018, the total number of issued shares included 2,113,810 shares held under the share award scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. EMPLOYEE SHARE-BASED ARRANGEMENTS

(a) Share option scheme

The Company operates a share option scheme under which options to subscribe for ordinary shares in the Company are granted to selected qualifying grantees.

The existing share option scheme was adopted on 22 June 2011. Movements in the number of share options outstanding and their related weighted average exercise price during the year are as follows:

	2018		2017	
	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$	Number of share options
At beginning of year	32.32	55,266,338	26.88	65,175,398
Granted	47.75	16,793,000	59.47	7,701,000
Exercised	26.58	(14,356,907)	23.16	(15,048,046)
Lapsed	41.03	(1,606,830)	29.32	(2,562,014)
At end of year	38.16	56,095,601	32.32	55,266,338
Vested at end of year	30.39	31,812,701	27.42	26,279,794

The weighted average share price at the date of exercise for share options exercised during the year was HK\$62.51 (2017: HK\$47.12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. EMPLOYEE SHARE-BASED ARRANGEMENTS (Continued)

(a) Share option scheme (Continued)

The options outstanding at 31 December 2018 have exercise prices ranging from HK\$24.80 to HK\$77.75 (2017: HK\$14.22 to HK\$77.75) with weighted average remaining contractual life of 4.12 years (2017: 3.83 years). Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Exercise period	Exercise price per share HK\$	Number of share options	
		2018	2017
Directors			
16 March 2013 to 15 March 2018	20.10	–	2,700,000
17 January 2014 to 16 January 2019	32.50	2,800,000	3,380,000
24 December 2016 to 23 December 2021	24.80	5,385,334	4,862,000
28 December 2017 to 27 December 2022	33.49	2,869,000	2,498,000
12 March 2018 to 11 September 2022	28.35	3,083,679	2,602,401
26 July 2018 to 25 July 2023	46.95	130,000	130,000
27 December 2018 to 26 December 2023	62.36	1,536,000	1,536,000
28 December 2019 to 27 December 2024	48.65	6,656,000	–
Employees and others			
9 January 2013 to 8 January 2018	14.22	–	163,333
16 March 2013 to 15 March 2018	20.10	–	1,300,000
17 January 2014 to 16 January 2019	32.50	763,717	3,818,246
5 July 2014 to 4 July 2019	37.45	80,000	80,000
15 January 2015 to 14 January 2020	77.75	69,000	69,000
16 July 2015 to 15 July 2020	62.75	66,000	66,000
16 January 2016 to 15 January 2021	39.86	108,668	175,668
24 December 2016 to 23 December 2021	24.80	9,938,416	14,405,154
28 December 2017 to 27 December 2022	33.49	4,724,896	6,420,335
12 March 2018 to 11 September 2022	28.35	2,423,889	5,057,201
26 July 2018 to 25 July 2023	46.95	1,182,002	1,282,000
27 December 2018 to 26 December 2023	62.36	4,142,000	4,721,000
21 November 2019 to 20 November 2024	46.75	7,975,000	–
28 December 2019 to 27 December 2024	48.65	2,162,000	–
		56,095,601	55,266,338

The fair values of the options granted on 21 November 2018 and 28 December 2018 are estimated at HK\$13.37 and HK\$13.79 per option respectively based on the Black-Scholes valuation model. The significant inputs into the model were share prices of HK\$46.75 and HK\$48.55 at the respective dates of grant, respective exercise prices of HK\$46.75 and HK\$48.65, standard deviation of expected share price returns of 39.6% to 40.3%, expected life of options of 3.5 to 4.5 years, expected dividend paid out rate of 2% and annual risk-free interest rate of 1.840% to 2.086%. The volatility measured at the standard deviation of expected share price returns is based on the historical share price movement of the Company in the relevant periods matching expected time to exercise prior to the dates of grant. Changes in the subjective input assumptions could materially affect the fair value estimate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. EMPLOYEE SHARE-BASED ARRANGEMENTS (Continued)

(b) Share award scheme

On 4 August 2014, the Group has adopted a share award scheme as part of a long term incentive arrangement to attract and retain the best quality personnel for the benefits of the Group and its subsidiaries. The Group may, from time to time, at their absolute discretion select any quality personnel for participation in the share award scheme and determine the terms and conditions of the awards and the number of shares to be awarded.

The share award scheme will be valid and effective for a period commencing from the adoption of the share award scheme until the expiry of the share option scheme, being 21 June 2021.

Pursuant to the share award scheme, existing shares may be acquired by an independent trustee (the "Trustee") at the cost of the Company and/or new shares may be allotted and issued to the Trustee under general mandates granted by the shareholders. Such shares will be held in trust for the award holders until the vesting criteria and conditions have been satisfied. As of 31 December 2018, 2,113,810 shares were held by the Trustee for the share award scheme.

The aggregate of the maximum number of awarded shares underlying all awards (whether the awards are vested or not) and the total number of shares issued and to be issued upon exercise of options under the share option scheme (whether exercised or outstanding) in any 12-month period granted to each qualifying grantee must not exceed 1% of the shares in issue.

Movements in the number of shares held for the share award scheme and awarded shares for the year are as follows:

	2018		2017	
	Weighted average fair value per share HK\$	Number of share awards	Weighted average fair value per share HK\$	Number of share awards
At beginning of year	46.30	4,004,596	41.48	24,718,110
Granted (note)	46.44	2,787,600	60.46	2,001,000
Vested	41.79	(1,595,044)	42.56	(21,040,096)
Lapsed	51.46	(216,835)	39.02	(1,674,418)
At end of year	46.95	4,980,317	46.30	4,004,596

Note:

During the year ended 31 December 2018, 634,300 awarded shares were granted to directors of the Company.

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have taken into account when assessing the fair value of these awarded shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. RESERVES

	Legal reserve (note) HK\$'000	Investment reserve HK\$'000	Share option reserve HK\$'000	Share award reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2018	231,117	239,317	696,632	28,015	70,523	32,747,400	34,013,004
Profit for the year	-	-	-	-	-	13,507,389	13,507,389
Other comprehensive income							
Change in fair value of financial assets at fair value through other comprehensive income	-	(3,215,569)	-	-	-	-	(3,215,569)
Translation differences of subsidiaries	-	-	-	-	(67,952)	-	(67,952)
Share of translation differences of joint ventures	-	-	-	-	(63,061)	-	(63,061)
Total other comprehensive income, net of tax	-	(3,215,569)	-	-	(131,013)	-	(3,346,582)
Total comprehensive income for the year	-	(3,215,569)	-	-	(131,013)	13,507,389	10,160,807
Transactions with equity holders							
Issue of shares pursuant to share award scheme	-	-	-	(67,063)	-	-	(67,063)
Issue of shares upon exercise of share options	-	-	(122,664)	-	-	-	(122,664)
Fair value of share awards granted	-	-	-	94,796	-	-	94,796
Fair value of share options granted	-	-	114,457	-	-	-	114,457
Share options lapsed	-	-	(13,392)	-	-	13,392	-
Transfer of reserve to retained earnings	(62)	-	-	-	-	62	-
Special dividends (note 14)	-	-	-	-	-	(3,929,932)	(3,929,932)
At 31 December 2018	231,055	(2,976,252)	675,033	55,748	(60,490)	42,338,311	40,263,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. RESERVES (Continued)

	Legal reserve (note) HK\$'000	Investment reserve HK\$'000	Share option reserve HK\$'000	Share award reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2017	231,056	(36,775)	714,013	639,485	(73,047)	24,764,242	26,238,974
Profit for the year	-	-	-	-	-	10,504,361	10,504,361
Other comprehensive income							
Change in fair value of financial assets at fair value through other comprehensive income	-	276,092	-	-	-	-	276,092
Translation differences of subsidiaries	-	-	-	-	63,942	-	63,942
Share of translation differences of joint ventures	-	-	-	-	79,628	-	79,628
Total other comprehensive income, net of tax	-	276,092	-	-	143,570	-	419,662
Total comprehensive income for the year	-	276,092	-	-	143,570	10,504,361	10,924,023
Transactions with equity holders							
Issue of shares pursuant to share award scheme	-	-	-	(895,555)	-	-	(895,555)
Issue of shares upon exercise of share options	-	-	(136,711)	-	-	-	(136,711)
Fair value of share award granted	-	-	-	284,085	-	-	284,085
Fair value of share options granted	-	-	123,777	-	-	-	123,777
Share options lapsed	-	-	(4,447)	-	-	4,447	-
Transfer of reserve from retained earnings	61	-	-	-	-	(61)	-
Special dividends (note 14)	-	-	-	-	-	(2,525,589)	(2,525,589)
At 31 December 2017	231,117	239,317	696,632	28,015	70,523	32,747,400	34,013,004

Note:

A subsidiary of the Group, incorporated in Macau and limited by shares, is required under the Macau Commercial Code No. 432 to set aside a minimum of 10% of this subsidiary's profit after taxation to the legal reserve until the balance of the reserve reaches a level equivalent to 25% of the subsidiary's capital. At 31 December 2018 and 2017, the legal reserve reached 25% of the subsidiary's share capital. Legal reserve is not distributable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. BORROWINGS

	2018 HK\$'000	2017 HK\$'000
Secured (note a)	453,719	702,886
Unsecured	8,377,230	9,028,056
	8,830,949	9,730,942
Obligations under finance leases (note b)	224,001	213,334
Total borrowings	9,054,950	9,944,276
Current portion included in current liabilities	(16,548)	(348,123)
Short-term bank loans	(8,787,010)	(9,336,761)
Non-current portion of borrowings	251,392	259,392

(a) The bank loans of HK\$454 million (2017: HK\$703 million) are secured by:

- (i) Bank deposits of HK\$435 million (2017: HK\$337 million) (note 27).
- (ii) In 2018, no property, plant and equipment, leasehold land and land use rights was secured (2017: property, plant and equipment, leasehold land and land use rights with net book value HK\$1,053 million was secured).

(b) Obligations under finance leases

The finance lease obligations are payable in the following years:

	Minimum payments		Present value	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Over five years	591,661	591,661	224,001	213,334

The future finance charges on finance lease liabilities amounted to HK\$368 million (2017: HK\$378 million).

(c) The bank loans are repayable as follows:

	2018 HK\$'000	2017 HK\$'000
Within one year	8,803,558	9,684,884
Between one to two years	18,261	17,347
Between two to five years	9,130	28,711
	8,830,949	9,730,942

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. BORROWINGS (Continued)

(d) Effective interest rates at balance sheet date are as follows:

	2018					2017				
	HK\$	EUR	RMB	US\$	MOP	HK\$	EUR	RMB	US\$	MOP
Bank loans	2.9%	0.6%	4.5%	3.7%	-	1.7%	0.6%	4.7%	2.8%	-
Obligations under finance leases	-	-	-	-	5.0%	-	-	-	-	5.0%

(e) The exposure of the Group's bank loans to interest rate changes and the contractual repricing dates or maturity (whichever is earlier) are as follows:

	2018 HK\$'000	2017 HK\$'000
Six months or less	8,373,635	9,371,636

(f) The carrying amounts and fair value of the borrowings are as follows:

	Carrying amount		Fair value	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Bank loans	8,830,949	9,730,942	8,830,949	9,730,942
Obligations under finance leases	224,001	213,334	335,776	404,977
	9,054,950	9,944,276	9,166,725	10,135,919

The fair value of the borrowings is calculated using cash flows discounted at prevailing borrowing rates or based on quoted market price. The carrying amounts of other current borrowings approximate their fair value. All borrowings are within level 2 of the fair value hierarchy.

(g) The carrying amounts of borrowings are denominated in the following currencies:

	2018 HK\$'000	2017 HK\$'000
Hong Kong dollar	7,950,000	8,580,000
Macau Patacas	224,001	213,334
Renminbi	497,660	750,140
Euro	379,694	397,455
US dollar	3,595	3,347
	9,054,950	9,944,276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. DEFERRED TAXATION LIABILITIES

	2018 HK\$'000	2017 HK\$'000
At beginning of the year	268,120	256,783
(Credited)/charged to income statement	(73,425)	11,337
At end of the year	194,695	268,120

Current taxation assets and liabilities, deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation assets with current taxation liabilities and when the deferred taxation relates to the same authority, respectively. The above liabilities shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts.

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the Group operates. Movements on the deferred taxation liabilities are as follows:

	Depreciation allowance HK\$'000	Withholding tax on undistributed profit and others HK\$'000	Fair value adjustments (note) HK\$'000	Total HK\$'000
At 31 December 2016	40,644	22,030	194,109	256,783
(Credited)/charged to income statement	(2,838)	17,651	(3,476)	11,337
At 31 December 2017	37,806	39,681	190,633	268,120
(Credited)/charged to income statement	(4,518)	15,774	(84,681)	(73,425)
At 31 December 2018	33,288	55,455	105,952	194,695

Note: Fair value adjustments of HK\$84,681,000 (2017: HK\$3,476,000) mainly represented the reversal of previously recognised deferred tax liabilities (note 12).

Deferred taxation assets of HK\$929,159,000 (2017: HK\$1,243,926,000) arising from unused tax losses and other temporary differences totalling of HK\$7,420,853,000 (2017: HK\$10,002,381,000) have not been recognised in the consolidated financial statements. Unused tax losses of HK\$102,556,000 (2017: HK\$90,862,000) have no expiry date and the remaining balance will expire at various dates up to and including 2023 (2017: 2022). The majority of unused tax losses arise from hotel operations which are regarded as a supporting function of the Group's gaming activities. These tax losses can be carried forward for 3 years before expiry. No significant taxable profit is expected to be generated from the hotel operations within this period, hence no deferred taxation asset is recognised in the consolidated financial statements. Majority of deferred income tax liabilities are to be recovered after twelve months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. CREDITORS AND ACCRUALS

	2018 HK\$'000	2017 HK\$'000
Trade creditors (note a)	4,433,403	4,330,338
Other creditors (note b)	4,116,913	4,373,944
Chips issued	3,770,448	6,245,684
Loans from non-controlling interests (note c)	93,399	26,509
Accruals and provision	2,369,381	2,223,640
Deposits received	44,073	37,109
	14,827,617	17,237,224

(a) The ageing analysis of trade creditors of the Group based on the invoice dates is as follows:

	2018 HK\$'000	2017 HK\$'000
Within one month	4,022,831	3,865,907
Two to three months	69,868	137,366
Four to six months	136,522	133,962
Over six months	204,182	193,103
	4,433,403	4,330,338

The carrying amounts of trade creditors of the Group are denominated in the following currencies:

	2018 HK\$'000	2017 HK\$'000
Hong Kong dollar	3,668,351	3,583,523
Macau Patacas	451,074	396,931
Renminbi	292,274	335,904
Other	21,704	13,980
	4,433,403	4,330,338

(b) Other creditors mainly represented gaming tax payable to the Macau Government and construction payable to contractors.

(c) The loans payable of HK\$72,166,000 (2017: HK\$5,742,000) are unsecured, bear interest at prevailing market rate and have no fixed terms of repayment. The remaining are unsecured, interest free and have no fixed terms of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash generated from operations

	2018 HK\$'000	2017 HK\$'000
Profit before taxation	13,613,769	10,628,377
Finance costs	138,775	63,914
Share of profits less losses of joint ventures and associated companies	(387,620)	(244,175)
Depreciation and amortisation	3,315,913	3,348,665
(Gain)/loss on disposal and loss on write-off of property, plant and equipment	(3,562)	121,652
Loss on write-off of intangible assets	-	111
Interest income	(994,501)	(625,623)
Gross earnings on finance lease	(2,159)	(1,394)
Dividend income from unlisted investments	(4,100)	(2,650)
Dividend income from listed investments	(65,030)	-
Fair value change on financial derivative instruments	-	1,605
Fair value of share options granted	114,457	123,777
Fair value of share awards granted	94,796	257,272
Operating profit before working capital changes	15,820,738	13,671,531
Increase in inventories	(18,356)	(9,807)
Decrease/(increase) in debtors and prepayments	162,033	(325,885)
(Decrease)/increase in creditors and accruals	(1,918,282)	5,305,941
Decrease in amounts due to joint ventures	(2,226)	(417)
Decrease in amounts due from joint ventures	7,858	96,175
Cash generated from operations	14,051,765	18,737,538

(b) Purchase of property, plant and equipment

In the consolidated cash flow statement, purchase of property, plant and equipment comprise additions of the year and settlement of related payables in prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) The reconciliation of liabilities arising from financing activities is as follows:

	Borrowings (Current) HK\$'000	Borrowings (Non-Current) HK\$'000	Total HK\$'000
As of 31 December 2016	5,608,695	525,978	6,134,673
Cash flows			
– new bank loans	8,281,196	46,058	8,327,254
– repayment of bank loans	(4,612,571)	–	(4,612,571)
– capital element of finance lease payments	(16,002)	–	(16,002)
Non-cash changes			
– translation differences	75,915	23,705	99,620
– finance costs	724	10,578	11,302
– reclassification	346,927	(346,927)	–
As of 31 December 2017	9,684,884	259,392	9,944,276
Cash flows			
– new bank loans	7,764,377	–	7,764,377
– repayment of bank loans	(8,628,123)	–	(8,628,123)
Non-cash changes			
– translation differences	(34,129)	(2,118)	(36,247)
– finance costs	–	10,667	10,667
– reclassification	16,549	(16,549)	–
As of 31 December 2018	8,803,558	251,392	9,054,950

35. NON-CURRENT DEPOSITS

	2018 HK\$'000	2017 HK\$'000
Non-current deposits received	312,853	221,308

Non-current deposits received mainly represent deposits from tenants with remaining contract terms of over one year.

36. CAPITAL COMMITMENTS

	2018 HK\$'000	2017 HK\$'000
Contracted but not provided for – Property, plant and equipment	5,361,882	3,592,661

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. OPERATING LEASE COMMITMENTS

The future aggregate minimum lease rental expense in respect of land and buildings and equipment under non-cancellable operating leases is payable in the following periods:

	2018 HK\$'000	2017 HK\$'000
First year	66,505	62,397
Second to fifth years inclusive	61,845	48,490
After the fifth year	44,018	48,719
	172,368	159,606

38. OPERATING LEASE RENTAL RECEIVABLES

The future aggregate minimum lease rental income in respect of land and buildings and equipment under non-cancellable operating leases is receivable in the following periods:

	2018 HK\$'000	2017 HK\$'000
First year	977,992	714,130
Second to fifth years inclusive	1,187,438	1,421,753
After the fifth year	42,057	59,407
	2,207,487	2,195,290

39. RELATED PARTY TRANSACTIONS

In addition to the transactions or balances disclosed elsewhere in the financial statements, the significant related party transactions carried out in the normal course of the Group's business activities during the year are as follows:

- (a) Interest income from joint ventures amounting to HK\$546,000 (2017: HK\$695,000) are charged at prevailing market rate (note 26(a)).
- (b) Management fee received from joint ventures amounted to HK\$9,337,000 (2017: HK\$7,585,000) are charged at terms agreed among the parties.
- (c) Rental expenses of HK\$1,424,000 (2017: HK\$1,411,000) were paid to a subsidiary of K. Wah International Holdings Limited, a shareholder of the Company, based on the terms of the rental agreement between the parties. This is a continuing connected transaction which is fully exempted from reporting and disclosure requirements under rule 14A.76(1) of the Rules Governing the Listing of Securities on SEHK.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. RELATED PARTY TRANSACTIONS (Continued)

- (d) Purchases from joint ventures and non-controlling interests amounted to HK\$163,843,000 (2017: HK\$96,341,000) at terms agreed among the parties.
- (e) The balances with joint ventures are disclosed in note 26.
- (f) Interest expenses to joint ventures and non-controlling interests amounted to HK\$2,805,000 (2017: Nil) at terms agreed among the parties (note 26 (b)).
- (g) Key management personnel comprise the Chairman, Deputy Chairman and other Executive Directors. Key management compensation amounted to HK\$154,132,000 for the year ended 31 December 2018 (2017: HK\$138,205,000).

40. GUARANTEES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$4,790 million (2017: HK\$790 million). At 31 December 2018, facilities of HK\$300 million had been utilised by the subsidiaries (2017: HK\$300 million).

A subsidiary of the Group has executed guarantees in favour of banks in respect of facilities granted to joint ventures and an associated company amounting to HK\$148 million (2017: HK\$163 million). At 31 December 2018, facilities utilised amounted to HK\$39 million (2017: HK\$84 million).

The banking facilities extended to a subsidiary of the Group represent a guarantee amounting to HK\$291 million for the period from 1 April 2007 until 180 days after (i) 26 June 2022 or (ii) the expiry of the Concession Agreement following an extraordinary extension thereof is granted by the Macau Government, pursuant to article 13, paragraph 3 of Law 16/2001, whichever the later, which is in favour of the Macau Government against the legal and contractual liabilities of the subsidiary of the Group under the Concession Agreement.

41. POST BALANCE SHEET EVENT

On 28 February 2019, the Board of Directors declared a special dividend of HK\$0.45 per share, payable to shareholders of the Company whose names appear on the register of members of the Company on 29 March 2019. The total amount of the special dividend to be distributed is estimated to be approximately HK\$1,960 million and will be paid on or about 26 April 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	2018 HK\$'000	2017 HK\$'000
Assets		
Non-current assets		
Subsidiaries	1	3,830,001
Amounts due from subsidiaries	25,797,658	22,849,790
	25,797,659	26,679,791
Current assets		
Debtors and prepayments	9,953	115
Amount due from a subsidiary	–	8,280,000
Cash and bank balances	7,985,318	27,137
	7,995,271	8,307,252
Total assets	33,792,930	34,987,043
Equity		
Share capital and shares held for share award scheme	22,016,854	21,468,693
Reserves (note a)	3,704,932	4,803,233
Equity attributable to owners of the Company	25,721,786	26,271,926
Liabilities		
Current liabilities		
Creditors and accruals	41,449	37,662
Short-term bank loan	8,029,695	8,677,455
	8,071,144	8,715,117
Total liabilities	8,071,144	8,715,117
Total equity and liabilities	33,792,930	34,987,043

Francis Lui Yiu Tung
Director

Joseph Chee Ying Keung
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(a) Reserve movement of the Company

	Capital reserve HK\$'000	Share option reserve HK\$'000	Share award reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2018	235,239	696,632	28,015	3,843,347	4,803,233
Profit for the year	-	-	-	2,812,105	2,812,105
Transactions with equity holders					
Issue of shares pursuant to share award scheme	-	-	(67,063)	-	(67,063)
Issue of shares upon exercise of share options	-	(122,664)	-	-	(122,664)
Fair value of share award granted	-	-	94,796	-	94,796
Fair value of share options granted	-	114,457	-	-	114,457
Share options lapsed	-	(13,392)	-	13,392	-
Special dividends (note 14)	-	-	-	(3,929,932)	(3,929,932)
At 31 December 2018	235,239	675,033	55,748	2,738,912	3,704,932
At 1 January 2017	235,239	714,013	639,485	2,404,570	3,993,307
Profit for the year	-	-	-	3,959,919	3,959,919
Transactions with equity holders					
Issue of shares pursuant to share award scheme	-	-	(895,555)	-	(895,555)
Issue of shares upon exercise of share options	-	(136,711)	-	-	(136,711)
Fair value of share awards granted	-	-	284,085	-	284,085
Fair value of share options granted	-	123,777	-	-	123,777
Share options lapsed	-	(4,447)	-	4,447	-
Special dividends (note 14)	-	-	-	(2,525,589)	(2,525,589)
At 31 December 2017	235,239	696,632	28,015	3,843,347	4,803,233

As at 31 December 2018, reserves of the Company of HK\$2,738,912,000 were available for distribution to shareholders (2017: HK\$3,843,347,000).

43. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 28 February 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

(a) Subsidiaries

Name of company	Principal place of operation	Issued share capital		Percentage of equity held by the Group	Principal activities
		Number of issued ordinary shares	Number of non-voting deferred shares		
Incorporated in Hong Kong					
Bright Advice Limited	Hong Kong	10,000	–	100	Investment holding
Delight Man Limited	Hong Kong	10,000	–	100	Investment holding
Doran (Hong Kong) Limited	Hong Kong	1,000	–	100	Sale and distribution of concrete pipes
Earnmark Limited	Hong Kong	1	–	100	Investment holding
Extent Sun Limited	Hong Kong	10,000	–	100	Investment holding
Fast Vision Limited	Hong Kong	1	–	100	Provision of management services and investment holding
Forcecharm (Hong Kong) Enterprises Limited	Hong Kong	10,000	–	80	Provision of management services and investment holding
Forcecharm (Yunnan) Enterprises Limited	Hong Kong	10,000	–	80	Investment holding
Galaxy Entertainment Management Services Limited	Hong Kong	1	–	100	Provision of management services
Galaxy Entertainment Management Services (International) Limited	Hong Kong	1	–	100	Provision of management services
K. Wah Asphalt Limited	Hong Kong	1,100,000	–	100	Manufacture, sale, distribution and laying of asphalt
K. Wah Concrete Company Limited	Hong Kong	10,002	1,000	100	Manufacture, sale and distribution of ready-mixed concrete
K. Wah Construction Materials (Changzhou) Limited	Hong Kong	10,000	–	100	Provision of management services and investment holding
K. Wah Construction Materials (Hong Kong) Limited	Hong Kong	102	2	100	Provision of management services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Issued share capital		Percentage of equity held by the Group	Principal activities
		Number of issued ordinary shares	Number of non-voting deferred shares		
Incorporated in Hong Kong					
K. Wah Construction Materials (Hong Kong Region) Limited	Hong Kong	1	–	100	Provision of management services and investment holding
K. Wah Construction Materials (Shaoguan) Investment Company Limited	Hong Kong	2	–	100	Trading of construction materials products, provision of management services and investment holding
K. Wah Construction Products Limited	Hong Kong	10,002	1,000	100	Manufacture, sale and distribution of concrete products
K. Wah Materials Limited	Hong Kong	28,080,002	–	100	Trading
K. Wah Quarry Company Limited	Hong Kong	400,002	100,000	100	Sale of aggregates
K. Wah Trading and Development Limited	Hong Kong	102	2	100	Investment holding
KH Concrete Limited	Hong Kong	10,000	–	60	Manufacture, sale and distribution of ready-mixed concrete
KWP Quarry Co. Limited	Hong Kong	9,000,000	–	63.5	Quarrying
Lightway Limited	Hong Kong	102	2	100	Property investment
Million Cloud Limited	Hong Kong	10,000	–	100	Provision of management services and investment holding
Profit Link Asia Group Limited	Hong Kong	2	–	100	Investment holding
Quantum Limited	Hong Kong	2	–	100	Equipment leasing
Starflow Enterprises Limited	Hong Kong	1	–	100	Provision of management services and investment holding
Supreme World Investments Limited	Hong Kong	1	–	100	Provision of management services and investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
Wholly owned foreign enterprise				
Doran Construction Products (Shenzhen) Co., Ltd.	Shenzhen	HK\$10,000,000	100	Manufacture, sale and distribution of concrete pipes
K. Wah Consultancy (Guangzhou) Co., Ltd.	Guangzhou	HK\$1,560,000	100	Provision of management services
嘉華諮詢(上海)有限公司 (K. Wah Consultancy (Shanghai) Co., Ltd.)	Shanghai	US\$350,000	100	Provision of management services
深圳嘉華混凝土管樁有限公司	Shenzhen	US\$2,100,000	100	Manufacture, sale and distribution of concrete piles
京港嘉華諮詢(北京)有限公司 (Jing Gang K. Wah Consultancy (Beijing) Co., Limited)	Beijing	HK\$1,500,000	100	Provision of management services
雲南嘉華亮訊諮詢有限公司	Anning	RMB2,000,000	100	Provision of management services
Shanghai K. Wah Concrete Co., Ltd.	Shanghai	RMB10,000,000	100	Provision of quality assurance service
珠海橫琴銀娛體育度假發展有限公司 (Zhuhai Hengqin GEG Sports Resort Development Company Limited)	Zhuhai	RMB12,000,000	100	Investment holding
Equity Joint Venture				
六盤水首嘉博宏建材有限公司 (Liupanshui Shougang K. Wah Bohong Construction Materials Company Limited)	Liupanshui	RMB22,600,000	27.5 [^]	Manufacture, sale and distribution of slag
Puer Kungang & K. Wah Cement Construction Materials Co., Ltd.	Puer	RMB383,400,000	48 [^]	Manufacture, sale and distribution of cement
遷安首嘉建材有限公司 (Qianan Shougang K. Wah Construction Materials Company Limited)	Qianan	RMB152,442,500	55	Manufacture, sale and distribution of slag
三河首嘉建材有限公司 (Sanhe Shougang K. Wah Construction Materials Company Limited)	Sanhe	RMB92,190,000	41.25 [^]	Manufacture, sale and distribution of slag

[^] The Group can exercise control over companies' relevant activities through its representation of the board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share	Percentage of equity held by the Group	Principal activities
Incorporated in the Bermuda					
Galaxy Entertainment Aviation CL2012 Limited	Macau	1	US\$1	100	Aircraft holding
Incorporated in the Cayman Islands					
Chelford Limited	Macau	1	US\$1	100	Vessel holding
Incorporated in the British Virgin Islands					
Blossom Fountain Limited	Hong Kong	1	US\$1	100	Investment holding
Canton Treasure Group Ltd.	Macau	10	US\$1	100*	Investment holding
Cheer Profit International Limited	Macau	10	US\$1	100	Property investment
Eternal Profits International Limited	Hong Kong	10	US\$1	100	Property investment
Forcecharm Investments Limited	Hong Kong	10	US\$1	80	Investment holding
Galaxy Entertainment Aviation CL2010 Limited	Macau	10	US\$1	Equity: 90 Profit sharing:100	Aircraft operation
GEG Investment Holdings (Monaco) Limited	Hong Kong	1	US\$1	100	Investment holding
High Regard Investments Limited	Hong Kong	20	US\$1	100	Investment holding
K. Wah Construction Materials Limited	Hong Kong	10	US\$1	100*	Investment holding
Profit Access Investments Limited	Hong Kong	10	US\$1	100	Investment holding
Prosperous Fields Limited	Hong Kong	10	US\$1	100	Investment holding
Right Grand Investments Limited	Hong Kong	100	US\$1	80	Investment holding
Taksin Profits Limited	Hong Kong	17	US\$1	100	Investment holding
Wilfred International Limited	Hong Kong	10	US\$1	100	Investment holding
Incorporated in Macau					
Galaxy Casino, S.A.	Macau	951,900	MOP1,000	Equity: 90 Profit sharing:100	Casino games of chance

* Wholly owned and directly held by the Company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Number of quota	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Macau					
Fast Concrete Limited	Macau	3	MOP200,000	75	Manufacture, sale and distribution of ready-mixed concrete
Galaxy Cotai Project Management Limited	Macau	2	MOP25,000	Equity: 90 Profit sharing: 100	Provision of project management services
GC Security Services Limited	Macau	2	MOP1,000,000	Equity: 90 Profit sharing: 100	Provision of security services
K. Wah Construction Materials (Macau) Limited	Macau	3	MOP30,000	100	Trading
K. Wah (Macao Commercial Offshore) Company Limited	Macau	1	MOP100,000	100	Trading
Macau Hengqin Sports and Resort Development Limited	Macau	2	MOP25,000	100	Investment holding
New Galaxy Entertainment Company Limited	Macau	2	MOP1,000,000	Equity: 90 Profit sharing: 100	Property holding and hospitality
Perfect Assets Real Estate Limited	Macau	2	MOP25,000	Equity: 90 Profit sharing: 100	Property holding and hospitality
Perfect Contract Management Services Limited	Macau	2	MOP25,000	100	Investment holding
San Fok Va (International) Import & Export Company Limited	Macau	2	MOP50,000	75	Import and export trading, transportation of construction materials
StarWorld Hotel Company Limited	Macau	2	MOP100,000	Equity: 90 Profit sharing: 100	Property holding and hospitality
Name of company	Principal place of operation	Number of common shares	Par value per share	Percentage of equity held by the Group	Principal activities
Incorporated in Japan					
Galaxy Entertainment Japan K.K.	Japan	5,000	YEN10,000	100	Investment holding
Incorporated in the Philippines					
Boracay Philippines Resort and Leisure Corporation	Philippines	532,216,291	PESO1	100	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES (Continued)

(b) Joint ventures

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share	Percentage of equity held by the Group	Principal activities
Incorporated in the British Virgin Islands					
K. Wah Materials and Development (Huidong) Company Limited	Hong Kong	10	US\$1	50	Sale of aggregates and investment holding

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
Anhui Masteel K. Wah New Building Materials Co., Ltd.	Maanshan	US\$19,574,333	30	Manufacture, sale and distribution of slag
Baoshan Kungang & K. Wah Cement Construction Materials Co., Ltd.	Baoshan	RMB412,580,000	25.6	Manufacture, sale and distribution of cement
廣東韶鋼嘉羊新型材料有限公司 (Guangdong Shaogang Jia Yang New Materials Co., Ltd.)	Shaoguan	US\$14,349,200	28.97	Manufacture, sale and distribution of slag
湖北鄂鋼嘉華新型建材有限公司 (Hubei Egang K. Wah New Materials Company Limited)	Hubei	RMB48,000,000	49	Manufacture, sale and distribution of slag
K. Wah Materials (Huidong) Limited	Huidong	US\$14,500,000	50	Quarrying
Maanshan Masteel K. Wah Concrete Co., Ltd.	Maanshan	US\$2,450,000	30	Manufacture, sale and distribution of ready-mixed concrete
Nanjing Nangang K. Wah High Tech Materials Co., Ltd.	Nanjing	RMB176,000,000	50	Manufacture, sale and distribution of slag
Qinhuangdao Shouqin K. Wah Construction Materials Co., Ltd.	Qinhuangdao	RMB60,000,000	50	Manufacture, sale and distribution of slag
Qujin Kungang & K. Wah Cement Construction Materials Co., Ltd.	Qujin	RMB374,520,000	32	Manufacture, sale and distribution of cement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES (Continued)

(b) Joint ventures (Continued)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
惠東協孚港口綜合開發有限公司 (Huidong Server Port Integrated Development Company Limited)	Huidong	RMB8,620,000	30	Property holding
雲南昆鋼嘉華水泥建材有限公司 (Yunnan Kungang & K. Wah Cement Construction Materials Co., Ltd.)	Kunming	RMB825,000,000	25.6	Manufacture, sale and distribution of cement
昭通昆鋼嘉華水泥建材有限公司 (Zhaotong Kungang & K. Wah Cement Construction Materials Co., Ltd.)	Zhaotong	RMB250,000,000	32	Manufacture, sale and distribution of cement

(c) Associated Company

Name of company	Principal place of operation	Number of issued ordinary shares	Percentage of equity held by the Group	Principal activities
Incorporated in Hong Kong				
AHK Aggregates Limited	Hong Kong	2,000,000	36.5	Quarrying



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