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If you have sold or transferred all your shares in Galaxy Entertainment Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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GALAXY ENTERTAINMENT GROUP LIMITED

銀河娛樂集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 27)

MAJOR TRANSACTION

ACQUISITION OF LAND IN COTAI, MACAU

29 September 2009

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DEFINITIONS

In this circular unless the context requires otherwise the following terms have the meanings set opposite them:

“Board”	the Board of Directors of the Company;
“Company”	Galaxy Entertainment Group Limited, a company incorporated with limited liability in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange;
“Concession Contract”	the contract between the Grantor, the Grantee and GCSA (which is made a party to undertake obligations as stipulated in the Macau gaming concession it holds) for the grant of the Property to the Grantee, which will be concluded upon the same being published in the Official Gazette of Macau;
“Directors”	the directors of the Company;
“Dr. Lui”	Dr. Lui Che Woo, the Chairman and an executive Director of the Company;
“GCSA”	Galaxy Casino, S.A., a company incorporated in Macau and a subsidiary of the Company in which the Company is interested in 90% of its voting shares carrying 100% of its economic interest, which holds a Macau gaming concession and is authorized to carry out casino games of chance in Macau;
“Grantee”	New Galaxy Entertainment Company Limited, a company incorporated in Macau and a subsidiary of the Company in which the Company is interested in 100% of its economic interest;
“Grantor”	the Government of Macau;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China;
“Latest Practicable Date”	25 September 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Land Grant”	the grant of the Property to the Grantee by the Grantor pursuant to the Concession Contract;

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau”	the Macau Special Administrative Region of The People's Republic of China;
“MOP”	Macau Patacas, the lawful currency of Macau;
“Premium”	MOP2,924,020,005 (equivalent to approximately HK\$2,838,854,374);
“Property”	a piece of land located at Estrada da Baía de Nossa Senhora da Esperança and Avenida Marginal Flor de Lótus — Reclaimed Area between Taipa and Coloane in Cotai, Macau, which is the subject of the Land Grant;
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong);
“Shareholders”	holders of Shares of the Company;
“Shares”	shares of HK\$0.10 each in the capital of the Company; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

Sums denominated in MOP have been translated into HK\$ for the purpose of this circular at the rate of HK\$1 = MOP1.03.



GALAXY ENTERTAINMENT GROUP LIMITED

銀河娛樂集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 27)

Executive Directors:

Dr. Lui Che Woo, *GBS, MBE, JP, LLD, DSSc, DBA (Chairman)*
Mr. Francis Lui Yiu Tung *(Deputy Chairman)*
Mr. Joseph Chee Ying Keung
Ms. Paddy Tang Lui Wai Yu, *JP*

Non-Executive Directors:

Mr. Anthony Thomas Christopher Carter
Dr. Martin Clarke
Mr. Guido Paolo Gamucci

Independent Non-Executive Directors:

Mr. James Ross Ancell
Dr. William Yip Shue Lam, *LLD*
Dr. Patrick Wong Lung Tak, *JP*

Registered Office:

Room 1606,
16th Floor,
Hutchison House,
10 Harcourt Road,
Central,
Hong Kong

29 September 2009

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
ACQUISITION OF LAND IN COTAI, MACAU**

1. INTRODUCTION

It was stated in the Company's announcement dated 10 September 2009 that to enable GCSA to fulfill its commitments and obligations under the Macau gaming concession to, among other things, build and develop resort-hotel-casino facilities in Macau, the Macau Government has issued to the Grantee (a subsidiary of the Company in which the Company is interested in 100% of the economic interest) and GCSA the final draft Concession Contract in respect of the Property, being a piece of land located at Estrada da Baía de Nossa Senhora da Esperança and Avenida Marginal Flor de Lótus — Reclaimed Area between Taipa and Coloane in Cotai, Macau with a site area of approximately 440,248 square metres, which can be developed into hotel, hotel-apartment, gaming, entertainment, leisure and other related facilities with a total buildable

LETTER FROM THE BOARD

gross floor area of 1,703,714 square metres and landscaping area of 292,985 square metres, subject to, among other things, the payment of the Premium of MOP2,924,020,005 (equivalent to approximately HK\$2,838,854,374) and on 10 September 2009, the Grantee accepted the terms of the final draft Concession Contract which will, upon the same being published in the Official Gazette of Macau, confer the leasehold title of the Property upon the Grantee. On the same day, the Grantee paid the initial instalment of the Premium in the sum of MOP1,161,000,000 (equivalent to approximately HK\$1,127,184,466).

This circular contains further details of the Land Grant as required under the Listing Rules.

2. PRINCIPAL TERMS OF THE LAND GRANT

Grantee: New Galaxy Entertainment Company Limited, a company incorporated in Macau and a wholly-owned subsidiary of GCSA, which in turn is a subsidiary of the Company in which the Company is interested in 90% of its voting shares carrying 100% of its economic interest

Grantor: the Macau Government, which is an independent third party not connected with the Company, any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules to the best of the Directors' knowledge, information and belief having made all reasonable enquiries

Property:

The Property is a piece of land located at Estrada da Baía de Nossa Senhora da Esperança and Avenida Marginal Flor de Lótus — Reclaimed Area between Taipa and Coloane in Cotai, Macau.

The Property has a site area of approximately 440,248 square metres, which can be developed into hotel, hotel-apartment, gaming, entertainment, leisure and other related facilities with a total buildable gross floor area of 1,703,714 square metres and landscaping area of 292,985 square metres. The Property is the site on which the Group is building an integrated mega resort development in Cotai. Pursuant to the terms of the Concession Contract, the development on the Property shall be completed within eight years from the date on which the Concession Contract is published in the Official Gazette of Macau, which is expected to be in or around October 2009.

The Property was valued as raw land at MOP3,090,000,000 (equivalent to approximately HK\$3,000,000,000) as at 31 August 2009 by Vigers Appraisal and Consulting Limited, an independent valuer, the valuation report of which is set out in Appendix III to this circular.

The Property has a lease term of 25 years commencing from the date on which the Concession Contract is published in the Official Gazette of Macau, which is renewable pursuant to applicable laws in Macau.

LETTER FROM THE BOARD

The Land Grant will confer a leasehold title of the Property onto the Grantee which will be final upon compliance with the conditions contained in the Concession Contract which include the payment in full of the Premium, according to the payment schedule as set out below.

Premium and Payment Schedule:

The Premium is MOP2,924,020,005 (equivalent to approximately HK\$2,838,854,374) and the payment schedule is as follows:

- (i) it is deemed that an amount of MOP97,258,700 (equivalent to approximately HK\$94,425,922) has been paid by the Grantee, which is equivalent to the expenses borne by the Grantee (representing the reclamation expenses paid by the Grantee and off-set by the expenses for the building of certain infrastructure and foundation facilities by the Grantor);
- (ii) an initial instalment of MOP1,161,000,000 (equivalent to approximately HK\$1,127,184,466) has been paid by the Grantee upon the acceptance of the conditions of the Concession Contract set out in the draft to be accepted by the Chief Executive of Macau; and
- (iii) the balance of MOP1,665,761,305 (equivalent to approximately HK\$1,617,243,985), plus interest at an interest rate of 5% per annum, shall be payable by the Grantee in eight equal half-yearly installments of MOP232,319,308 (equivalent to approximately HK\$225,552,726) each, the first of which shall be paid within six months from the date on which the Concession Contract is published in the Official Gazette of Macau.

The Premium was arrived at in accordance with the provisions of Administrative Regulation No.16/2004 as varied by Despach of the Chief Executive No.267/2007 of the laws of Macau.

The Group intends to finance the Premium from internal resources.

The Land Grant will result in an amount of approximately HK\$2,838,854,374 (which is equal to the Premium) booked as leasehold land in the Group's consolidated total assets. The cash and bank balances have been reduced by HK\$1,127,184,466 (which represented the initial instalment of MOP1,161,000,000 paid on 10 September 2009). As the Group intends to finance the Premium from internal resources, the balance of the Premium together with the interest payable of approximately HK\$1,804,421,808 will be recorded as deferred purchase price and will increase the Group's consolidated total liabilities by the same amount.

As the Group is building its resort development on the Property and the Property also provides a future landbank to the Group, hence no rental income will be generated from the Property. It is expected that the transaction will not have any direct material impact on the

LETTER FROM THE BOARD

earnings of the Group. We would, however, wish to draw your attention to the long term benefit of the transaction as explained under paragraph 4 (Reasons for and benefits of the Land Grant) below.

3. INFORMATION ON THE COMPANY

The Group's principal business is the development and operation of casino and gaming and gaming related facilities and related leisure and entertainment facilities in Macau. It also has businesses in the manufacture, sale and distribution of construction materials and quarrying in Hong Kong, Macau and mainland China.

4. REASONS FOR AND BENEFITS OF THE LAND GRANT

The Land Grant represents an important milestone for the Group as part of its long term development strategy. The Property is strategically located in the centre of Cotai, Macau and is the site on which the Group is building an integrated mega resort development, including two hotel towers, gaming and gaming related facilities and related leisure and entertainment facilities. Apart from the existing resort development being built, the Property also provides a landbank for the development of further phases. This ensures that the Group has the flexibility and sufficient capacity to align its future development with the prevailing local market conditions as well as the global economic environment. The Group is committed to continue its investment in Macau, meeting future demand and supporting the Macau community.

5. LISTING RULES IMPLICATION

As an applicable percentage ratio (as defined under the Listing Rules) in respect of the Property is more than 25% but less than 100%, the Land Grant constitutes a major transaction of the Company and is subject to the notification, publication and shareholders' approval requirements under Chapter 14 of the Listing Rules. So far as the Company is aware having made all reasonable enquiries, no Shareholder is required to abstain from voting on the Land Grant. Pursuant to Rule 14.44 of the Listing Rules, Dr. Lui holding 10,097,632 Shares, together with companies held by him (Super Focus Company Limited holding 106,716,107 Shares, Mark Liaison Limited holding 9,660,855 Shares, Premium Capital Profits Limited holding 13,308,179 Shares, Best Chance Investments Ltd. holding 80,387,837 Shares and Favor Right Investments Limited holding 22,500,000 Shares), City Lion Profits Corp. (a company held by a discretionary family trust set up by Dr. Lui holding 1,313,887,206 Shares), Mr. Lui Yiu Tung Francis (Dr. Lui's son holding 1,448,896 Shares), Recurrent Profits Limited (a company wholly owned by Mr. Lui Yiu Tung Francis holding 114,504,039 Shares), Ms. Lui Wai Yu Paddy (Dr. Lui's daughter holding 5,539,722 Shares), Netfinity Assets Corporation (a company wholly owned by Mr. Lui Yiu Nam Lawrence, Dr. Lui's son and holding 161,066,521 Shares) and Sutimar Enterprises Limited (a wholly owned subsidiary of K. Wah International Holdings Limited, a company listed on the Stock Exchange and held as to approximately 57% by Dr. Lui as at 10 September 2009 and holding 162,484,047 Shares), being a closely allied group of Shareholders holding approximately 50.8% of the total issued share capital of the Company have given written consent to the Land Grant in lieu of a Shareholders' meeting being convened to approve the Land Grant.

LETTER FROM THE BOARD

6. GENERAL

The Directors consider that the terms of the Land Grant are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Your attention is drawn to the other information set out in this circular and the appendices to it.

Yours faithfully

For and on behalf of the Board of
GALAXY ENTERTAINMENT GROUP LIMITED

Dr. Lui Che Woo

Chairman

1. FINANCIAL SUMMARY

Set out below is a summary of the audited financial information of the Group for the three years ended 31 December 2008.

Consolidated Profit and Loss Statement

Year Ended 31 December

	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	10,496,657	13,035,439	4,669,495
Cost of sales	<u>(9,447,353)</u>	<u>(11,383,472)</u>	<u>(4,255,222)</u>
Gross profit	1,049,304	1,651,967	414,273
Other income	279,643	415,732	262,325
Impairment of gaming licence	(12,330,305)	—	—
Administrative expenses	(1,073,619)	(928,304)	(683,422)
Other operating expenses	<u>(1,114,522)</u>	<u>(1,058,113)</u>	<u>(1,025,623)</u>
Operating (loss)/profit	(13,189,499)	81,282	(1,032,447)
Finance income/(costs), net	79,290	(557,395)	(522,226)
Share of profits less losses of			
Jointly controlled entities	51,885	52	29,623
Associated companies	<u>—</u>	<u>—</u>	<u>(612)</u>
Loss before taxation	(13,058,324)	(476,061)	(1,525,662)
Taxation credit/(charge)	<u>1,503,093</u>	<u>(26,172)</u>	<u>(5,848)</u>
Loss for the year	<u><u>(11,555,231)</u></u>	<u><u>(502,233)</u></u>	<u><u>(1,531,510)</u></u>
Attributable to:			
Shareholders	(11,390,368)	(466,200)	(1,531,546)
Minority interests	<u>(164,863)</u>	<u>(36,033)</u>	<u>36</u>
	<u><u>(11,555,231)</u></u>	<u><u>(502,233)</u></u>	<u><u>(1,531,510)</u></u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share			
Basic	(289.3)	(13.8)	(46.5)
Diluted	<u><u>(289.3)</u></u>	<u><u>(13.8)</u></u>	<u><u>(46.5)</u></u>

Consolidated Balance Sheet*As at 31 December*

	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	6,480,783	4,731,187	3,882,504
Investment properties	64,500	62,500	62,500
Leasehold land and land use rights	1,540,529	1,580,777	1,621,917
Intangible assets	1,488,039	14,520,665	15,520,486
Jointly controlled entities	832,629	506,193	386,520
Associated company	730	730	730
Derivative financial instruments	1,522	1,155	47,072
Other non-current assets	<u>290,211</u>	<u>599,602</u>	<u>904,625</u>
	<u>10,698,943</u>	<u>22,002,809</u>	<u>22,426,354</u>
Current assets			
Inventories	94,022	90,449	94,522
Debtors and prepayments	1,607,505	1,039,336	689,085
Amounts due from jointly controlled entities	191,621	339,168	174,053
Taxation recoverable	1,999	1,299	2,546
Other investments	15,574	57,768	39,241
Cash and bank balances	<u>6,042,300</u>	<u>8,230,362</u>	<u>5,783,197</u>
	<u>7,953,021</u>	<u>9,758,382</u>	<u>6,782,644</u>
Total assets	<u><u>18,651,964</u></u>	<u><u>31,761,191</u></u>	<u><u>29,208,998</u></u>
EQUITY			
Share capital	393,817	393,564	329,612
Reserves	<u>6,617,467</u>	<u>18,013,088</u>	<u>13,303,187</u>
Shareholders' funds	7,011,284	18,406,652	13,632,799
Minority interests	<u>262,616</u>	<u>531,791</u>	<u>490,700</u>
Total equity	<u><u>7,273,900</u></u>	<u><u>18,938,443</u></u>	<u><u>14,123,499</u></u>

	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	6,275,958	6,010,571	8,439,965
Deferred taxation liabilities	267,224	1,781,500	1,778,588
Derivative financial instruments	17,805	477,531	573,109
Provisions	<u>115,553</u>	<u>135,622</u>	<u>120,151</u>
	<u>6,676,540</u>	<u>8,405,224</u>	<u>10,911,813</u>
Current liabilities			
Creditors and accruals	3,979,776	3,901,630	3,633,551
Provision for claims from contractors	274,757	—	—
Amount due to a jointly controlled entity	348	2,177	294
Borrowings	435,903	495,247	532,888
Taxation payable	<u>10,740</u>	<u>18,470</u>	<u>6,953</u>
	<u>4,701,524</u>	<u>4,417,524</u>	<u>4,173,686</u>
Total liabilities	<u>11,378,064</u>	<u>12,822,748</u>	<u>15,085,499</u>
Total equity and liabilities	<u>18,651,964</u>	<u>31,761,191</u>	<u>29,208,998</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

The following is a reproduction of the text of the audited consolidated financial statements of the Group together with the accompanying notes contained in the annual report of the Company for the year ended 31 December 2008.

Consolidated Profit and Loss Statement

For the year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
Revenue	7	10,496,657	13,035,439
Cost of sales	8a	<u>(9,447,353)</u>	<u>(11,383,472)</u>
Gross profit		1,049,304	1,651,967
Other income	8b	279,643	415,732
Impairment of gaming licence	18	(12,330,305)	—
Administrative expenses		(1,073,619)	(928,304)
Other operating expenses		<u>(1,114,522)</u>	<u>(1,058,113)</u>
Operating (loss)/profit	8c	(13,189,499)	81,282
Finance income/(costs), net	10	79,290	(557,395)
Share of profits less losses of jointly controlled entities		<u>51,885</u>	<u>52</u>
Loss before taxation		(13,058,324)	(476,061)
Taxation credit/(charge)	11	<u>1,503,093</u>	<u>(26,172)</u>
Loss for the year		<u><u>(11,555,231)</u></u>	<u><u>(502,233)</u></u>
Attributable to:			
Shareholders	31	(11,390,368)	(466,200)
Minority interests		<u>(164,863)</u>	<u>(36,033)</u>
		<u><u>(11,555,231)</u></u>	<u><u>(502,233)</u></u>
		HK cents	HK cents
Loss per share	13		
Basic		(289.3)	(13.8)
Diluted		<u><u>(289.3)</u></u>	<u><u>(13.8)</u></u>

Consolidated Balance Sheet*As at 31 December 2008*

		2008	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	15	6,480,783	4,731,187
Investment properties	16	64,500	62,500
Leasehold land and land use rights	17	1,540,529	1,580,777
Intangible assets	18	1,488,039	14,520,665
Jointly controlled entities	20	832,629	506,193
Associated company	21	730	730
Derivative financial instruments	22	1,522	1,155
Other non-current assets	23	<u>290,211</u>	<u>599,602</u>
		<u>10,698,943</u>	<u>22,002,809</u>
Current assets			
Inventories	24	94,022	90,449
Debtors and prepayments	25	1,607,505	1,039,336
Amounts due from jointly controlled entities	26	191,621	339,168
Taxation recoverable		1,999	1,299
Other investments	27	15,574	57,768
Cash and bank balances	28	<u>6,042,300</u>	<u>8,230,362</u>
		<u>7,953,021</u>	<u>9,758,382</u>
Total assets		<u>18,651,964</u>	<u>31,761,191</u>
EQUITY			
Share capital	29	393,817	393,564
Reserves	31	<u>6,617,467</u>	<u>18,013,088</u>
Shareholders' funds		7,011,284	18,406,652
Minority interests		<u>262,616</u>	<u>531,791</u>
Total equity		<u>7,273,900</u>	<u>18,938,443</u>

		2008	2007
	Notes	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	32	6,275,958	6,010,571
Deferred taxation liabilities	33	267,224	1,781,500
Derivative financial instruments	22	17,805	477,531
Provisions	34	<u>115,553</u>	<u>135,622</u>
		<u>6,676,540</u>	<u>8,405,224</u>
Current liabilities			
Creditors and accruals	35	3,979,776	3,901,630
Provision for claims from contractors	5j	274,757	—
Amount due to a jointly controlled entity	26	348	2,177
Borrowings	32	435,903	495,247
Taxation payable		<u>10,740</u>	<u>18,470</u>
		<u>4,701,524</u>	<u>4,417,524</u>
Total liabilities		<u>11,378,064</u>	<u>12,822,748</u>
Total equity and liabilities		<u><u>18,651,964</u></u>	<u><u>31,761,191</u></u>

Company Balance Sheet*As at 31 December 2008*

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Subsidiaries	19	<u>8,550,455</u>	<u>15,212,438</u>
Current assets			
Debtors and prepayments	25	651	21,378
Taxation recoverable		339	339
Cash and bank balances	28	<u>726,059</u>	<u>4,548,722</u>
		<u>727,049</u>	<u>4,570,439</u>
Total assets		<u><u>9,277,504</u></u>	<u><u>19,782,877</u></u>
EQUITY			
Share capital	29	393,817	393,564
Reserves	31	<u>7,062,150</u>	<u>17,172,132</u>
Shareholders' funds		<u>7,455,967</u>	<u>17,565,696</u>
LIABILITIES			
Non-current liabilities			
Borrowings	32	1,433,585	1,320,525
Derivative financial instruments	22	<u>6,820</u>	<u>468,858</u>
		<u>1,440,405</u>	<u>1,789,383</u>
Current liabilities			
Creditors and accruals	35	6,132	30,198
Borrowings	32	<u>375,000</u>	<u>397,600</u>
		<u>381,132</u>	<u>427,798</u>
Total liabilities		<u><u>1,821,537</u></u>	<u><u>2,217,181</u></u>
Total equity and liabilities		<u><u>9,277,504</u></u>	<u><u>19,782,877</u></u>

Consolidated Cash Flow Statement*For the year ended 31 December 2008*

	Notes	2008 HK\$'000	2007 HK\$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	36(a)	(440,083)	1,267,776
Hong Kong profits tax paid		(9,560)	(4,017)
Mainland China income tax and Macau complementary tax paid		(8,815)	(6,477)
Interest paid		(461,981)	(646,454)
Income from cashflow hedges		<u>23,747</u>	<u>27,298</u>
Net cash (used in)/from operating activities		<u>(896,692)</u>	<u>638,126</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,526,219)	(1,303,467)
Purchase of leasehold land and land use rights		—	(104)
Purchase of intangible assets		(12,633)	(4,268)
Proceeds from sale of property, plant and equipment		7,667	18,022
Proceeds from disposal of a subsidiary		—	49,217
Proceeds from partial disposal of jointly controlled entities		44,113	102,257
Step up acquisition of additional interest in a subsidiary	37(a)	(11,080)	—
Acquisition of subsidiaries, net of cash acquired	37(b)(c)	(9,613)	—
Investments in jointly controlled entities and an associated company		(184,679)	(110,686)
Decrease/(increase) in amounts due from jointly controlled entities and an associated company		20,742	(157,423)
Deferred expenditure		(432)	(13,232)
Decrease in deferred receivable		1,785	2,730
Decrease in finance lease receivable		56,796	38,419
Decrease in non-current investments		725	7,212
Proceeds from disposal of listed investments		—	49,902
Proceeds from disposal of non-current investments		8,273	5,509
Interest received		166,263	205,357
(Increase)/decrease in restricted bank deposits		(2,890)	209,153
Dividends received from jointly controlled entities		10,905	21,504
Dividends received from unlisted and listed investments		<u>13,038</u>	<u>17,018</u>
Net cash used in investing activities		<u>(1,417,239)</u>	<u>(862,880)</u>

	2008 HK\$'000	2007 HK\$'000
Cash flows from financing activities		
Issue of new shares	670	3,948,508
New bank loans	636,561	135,063
Repayment of bank loans	(533,357)	(240,460)
Repayment of fixed rate notes	—	(1,187,939)
Capital element of finance lease payments	(3,990)	(3,282)
Contribution from minority interests	25,703	13,584
Dividends paid to minority interests	(1,724)	(4,582)
	<u>123,863</u>	<u>2,660,892</u>
Net cash from financing activities		
	<u>123,863</u>	<u>2,660,892</u>
Net (decrease)/increase in cash and bank balances	(2,190,068)	2,436,138
Cash and bank balances at beginning of year	8,230,362	5,783,197
Changes in exchange rates	<u>2,006</u>	<u>11,027</u>
	<u>6,042,300</u>	<u>8,230,362</u>
Cash and bank balances at end of year		
	<u>6,042,300</u>	<u>8,230,362</u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2008*

	Share capital HK\$'000	Reserves HK\$'000	Shareholders' funds HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2007	329,612	13,303,187	13,632,799	490,700	14,123,499
Change in fair value of non-current investments	—	(14,938)	(14,938)	1,817	(13,121)
Exchange differences	—	47,995	47,995	8,562	56,557
Change of fair value of cash flow hedges	—	(61,802)	(61,802)	(316)	(62,118)
Net (loss)/income recognised directly in equity	—	(28,745)	(28,745)	10,063	(18,682)
Loss for the year	—	(466,200)	(466,200)	(36,033)	(502,233)
Total recognised loss for the year	—	(494,945)	(494,945)	(25,970)	(520,915)
Injection of minority interests	—	—	—	71,643	71,643
Issue of new shares	63,019	5,167,851	5,230,870	—	5,230,870
Issue of shares upon exercise of share options	933	36,995	37,928	—	37,928
Dividend paid to minority interests	—	—	—	(4,582)	(4,582)
At 31 December 2007	393,564	18,013,088	18,406,652	531,791	18,938,443
Change in fair value of non-current investments	—	(88,384)	(88,384)	(363)	(88,747)
Disposal of non-current investments	—	(3,363)	(3,363)	—	(3,363)
Exchange differences	—	42,429	42,429	7,343	49,772
Change of fair value of cash flow hedges	—	12,013	12,013	259	12,272
Net (loss)/income recognised directly in equity	—	(37,305)	(37,305)	7,239	(30,066)
Loss for the year	—	(11,390,368)	(11,390,368)	(164,863)	(11,555,231)
Total recognised loss for the year	—	(11,427,673)	(11,427,673)	(157,624)	(11,585,297)
Injection of minority interests	—	—	—	33,253	33,253
Acquisition of minority interests	—	—	—	(143,080)	(143,080)
Issue of shares upon exercise of share options	253	417	670	—	670
Fair value of share options	—	31,635	31,635	—	31,635
Dividend paid to minority interests	—	—	—	(1,724)	(1,724)
	253	32,052	32,305	(111,551)	(79,246)
At 31 December 2008	393,817	6,617,467	7,011,284	262,616	7,273,900

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Galaxy Entertainment Group Limited (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. The address of its registered office and principal place of business is Room 1606, 16th Floor, Hutchison House, 10 Harcourt 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 24 April 2009.

2. BASIS OF PREPARATION

The Group meets its day to day working capital requirements and capital commitments mainly through revenue from its operations, cash at banks as well as credit facilities from banks. The tougher visa restrictions on Mainland China visitors to Macau and the global financial turmoil in late 2008 have brought adverse impact on the macro economic environment. The current economic conditions create uncertainties particularly over the number of tourists visiting Macau, and hence, the number of players in the Group’s gaming and entertainment properties. In addition, competition in the Macau gaming market has continued to intensify.

The Group has prepared the projected cash flows for the period up to 30 April 2010. Key assumptions of the cash flow projections include expected revenues generated from the gaming and entertainment and construction materials operations to be at a similar level of 2008, HK\$1.9 billion further capital expenditure (note 38) and HK\$1.3 billion for repayment of borrowings, of which HK\$0.9 billion has been used to early repay some of guaranteed notes and convertible notes (note 43(a) and (c)). If there were unexpected adverse changes in general economic conditions which results in a decrease in the projected revenue, the Group has a number of alternative plans to mitigate the negative impact on cash inflow, including rescheduling the development program of the Galaxy Macau resort at Cotai. The Group will enhance the cash inflow from operations by implementing additional cost control measures and bringing in players from other Asian countries. The Group has continued discussions with banks to explore opportunities to expand its credit facilities thereby strengthening its financial resources.

Actual net gaming wins of StarWorld Casino for the first quarter of 2009 is approximately HK\$1.9 billion, increased by approximately 10% as compared with that of the first quarter of 2008. The cash at banks at 31 March 2009 was approximately HK\$5 billion, after early repayment of guaranteed notes of approximately HK\$1.3 billion principal amount in January 2009 (note 43(a)). The Group considers its liquidity and financial position as a whole is healthy and has a reasonable expectation that the Group has adequate resources 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 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 investment properties, non-current investments, financial assets and financial liabilities (including derivative financial instruments), which are carried at fair values.

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 judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5 below.

(a) The adoption of new/revised HKFRS

In 2008, the Group adopted the following new interpretations of HKFRS issued by the HKICPA which are effective for the accounting periods beginning on or after 1 January 2008 and relevant to its operations.

HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 13	Customer loyalty programmes

The Group has assessed the impact of the adoption of these new interpretations and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies and presentation of the financial statements.

(b) Standards, amendments and interpretations to existing standards which are not yet effective

The following new standard, interpretations and amendments to existing standards, which have been published and are relevant to the Group's operations and consolidated financial statements, are mandatory for the accounting periods beginning on or after 1 January 2009 or later periods but which the Group has not early adopted:

Effective from 1 January 2009

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 (Amendment) and HKAS 1 (Amendment)	Financial instruments: Presentation of financial statements — Puttable financial instruments and obligations arising on liquidation
HKAS 39 (Amendment)	Financial instruments: Recognition and measurement — Eligible hedged item
HKFRS 2 (Amendment)	Share-based Payment
HKFRS 8	Operating Segments

Effective from 1 July 2009

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners
HK(IFRIC)-Int 18	Transfers of Assets from Customers

Improvements to HKFRS published in October 2008 effective for accounting periods beginning on or after 1 January 2009.

HKAS 1 (Amendment)	Presentation of financial statements
HKAS 16 (Amendment)	Property, plant and equipment
HKAS 19 (Amendment)	Employee benefits
HKAS 23 (Amendment)	Borrowing costs
HKAS 28 (Amendment)	Investments in associates
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKAS 31 (Amendment)	Interests in Joint Venture
HKAS 36 (Amendment)	Impairment of asset
HKAS 38 (Amendment)	Intangible assets
HKAS 39 (Amendment)	Financial instruments: Recognition and measurement
HKAS 40 (Amendment)	Investment property

The Group has already commenced an assessment of the impact of the above standards, interpretations and amendments but is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the consolidated financial statements will be resulted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal 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.

3.1 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 jointly controlled entities and associated companies attributable to the Group.

Results attributable to subsidiaries, jointly controlled entities and associated companies acquired or disposed of during the year are included in the consolidated profit and loss statement from the date of acquisition or to the date of disposal as applicable.

The profit or loss on disposal of subsidiaries, jointly controlled entities 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.

3.2 Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a direct or indirect shareholding of more than one half of the voting power. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the identifiable net assets acquired by the Group is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss statement.

Inter-company transactions, balances and unrealised gains 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 carried at cost together with advances by the Company which are neither planned nor likely to be settled in the foreseeable future, less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

3.3 Minority interests

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals of equity interests to minority interests result in gains and losses for the Group that are recorded in the profit and loss statement. Purchases of equity interests from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary being acquired.

3.4 Jointly controlled entities and jointly controlled operations

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the venturer undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity.

The share of post-acquisition profits or losses of jointly controlled entities attributable to the Group is recognised in the profit and loss statement, and the share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the share of losses of the Group in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

In the balance sheet of the Company, investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividend income.

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

Interests in unincorporated jointly controlled operations are accounted for using the proportionate consolidation method under which the share of individual assets and liabilities, income and expenses and cash flows of jointly controlled operations is included in the relevant components of the consolidated financial statements.

3.5 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 is exercised in its management, generally accompanying a shareholding of between 20% to 50% of the voting rights.

Investments in associated companies are accounted for under the equity method of accounting and are initially recognised at cost. The investments in associated companies of the Group include goodwill, net of any accumulated impairment loss, identified on acquisition.

The share of post-acquisition profits or losses of associated companies attributable to the Group is recognised in the profit and loss statement, and the share of post-acquisition movements in reserves is recognised in reserves. 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.

3.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets of the acquired subsidiary, jointly controlled entity and associated company attributable to the Group at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of jointly controlled entities and associated companies is included in investments in jointly controlled entities and associated companies. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

If the cost of acquisition is less than the fair value of the net assets acquired or the carrying amount of the proportion of the minority interests acquired, the difference is recognised directly in the profit and loss statement.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

3.7 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 assets. 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 asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss 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 in 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:

Leasehold improvement	Over the remaining period of the lease
Buildings	50 years
Plant and machinery	4 to 20 years
Gaming equipment	3 to 5 years
Other assets	2 to 10 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 profit and loss statement.

3.8 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises freehold land, land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out annually by external valuers. Changes in fair values are recognised in the profit and loss statement.

Subsequent expenditure is charged to the carrying amount of the asset only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as properties under development and carried at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as revaluation of property, plant and equipment. However, if the fair value gives rise to a reversal of the previous impairment loss, this write-back is recognised in the profit and loss statement.

3.9 Gaming licence

Gaming licence is carried at cost less accumulated amortization and impairment losses. It has a finite useful life and is amortised over its estimated useful life of 17 years on a straight-line basis.

3.10 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 developing or maintaining computer software programmes are recognised as an expense as incurred.

3.11 Impairment of investments in subsidiaries, associated companies and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and tested annually for impairment. Assets 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.

3.12 Deferred expenditure

Quarry site development represents costs of constructing infrastructure at the quarry site to facilitate excavation. Overburden removal costs are incurred to bring the quarry site into a condition ready for excavation. Quarry site improvements represent estimated costs for environmental restoration and any changes in the estimates are adjusted in the carrying value of the quarry site improvements. These costs are amortised over the estimated useful lives of the quarries and sites concerned using the straight-line method.

Pre-operating costs are expensed as they are incurred.

3.13 Financial assets

The Group classifies its financial assets in the categories of financial assets at fair value through profit or loss (including other investments), loans and receivable, and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the investments were acquired and re-evaluates this designation at every balance sheet date.

(a) *Financial assets at fair value through profit or loss (including other investments)*

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets carried at fair value through profit or loss are initially recognised at fair value and subsequently carried at fair value. Transaction costs are expensed in the profit and loss statement.

(b) *Loans and receivable*

Loans and receivable are non-derivative financial assets with fixed or determinable payment terms that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivable are carried at amortised cost using the effective interest method.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in the balance sheet under non-current investments unless management intends to dispose of the investment within twelve months of the balance sheet date. Available-for-sale financial assets are initially recognised at fair value plus transaction cost and subsequently carried at fair value.

Regular way purchases and sales of investments are recognised on trade-date, which is the date on which the Group commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Realised and unrealised gains and losses arising from changes in fair value of the financial assets at fair value through profit or loss are included in the profit and loss statement. Unrealised gains and losses arising from changes in fair value non-monetary available-for-sale investments are recognised in equity. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments are included in the profit and loss statement as gains or losses from investments.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, refined to reflect the specific circumstances of the issuer.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale investments, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator in determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss statement is removed from equity and recognised in the profit and loss statement. Impairment losses recognised in the profit and loss statement on available-for-sale investments are not reversed through the profit and loss statement.

3.14 Derivative financial instruments

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 hedge 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.

For fair value hedge, where the instruments are designated to hedge fair value of recognised assets or liabilities, changes in the fair value of these derivatives and the changes in the fair value of the hedged assets or liabilities attributable to the hedged risk are recognised in the profit and loss statement as finance costs. When the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which effective interest method is used is amortised to profit or loss over the period to maturity.

For cash flow hedge, where instruments are designated to hedge against the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss statement within finance costs. Amounts accumulated in equity are recycled in the profit and loss statement in the financial period when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss statement.

3.15 Debtors and prepayments

Debtors and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of debtors is reduced through the use of an allowance account and the amount of the provision is recognised in the profit and loss 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 profit and loss statement against other operating expenses.

3.16 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.

3.17 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, deposits with banks and financial institutions repayable within three months from the date of placement less bank overdrafts.

3.18 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.

3.19 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 profit and loss 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.

3.20 Convertible notes

(a) *Convertible notes with equity component*

Convertible notes that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible notes is determined using a market interest rate for an equivalent non-convertible note. The remainder of the proceeds is allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity. The equity component is recognised in equity, net of any tax effects.

When the note is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the note is redeemed, the relevant equity component is transferred to retained profit.

(b) *Convertible notes without equity component*

All other convertible notes which do not exhibit the characteristics mentioned in (a) above are accounted for as hybrid instruments consisting of an embedded derivative and a host debt contract.

At initial recognition, the embedded derivative of the convertible notes is accounted for as derivative financial instruments and is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as a liability under the contract. Transaction costs that relate to the issue of the convertible notes are allocated to the liability under the contract.

The derivative component is subsequently carried at fair value and changes in fair value are recognised in the profit and loss statement. The liability under the contract is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

When the note is converted, the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the note is redeemed, any difference between the redemption amount and the carrying amounts of both components is recognised in the profit and loss statement.

3.21 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 profit and loss statement over the lease periods. 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.

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 profit and loss 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 profit and loss 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.

3.22 Creditors and accruals

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

3.23 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.

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.

3.24 Current and deferred taxation

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, jointly controlled entities 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.

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 tax 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 tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax 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 is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except 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.

3.25 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.

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*

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 voting period with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

3.26 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. All other borrowing costs are charged to the profit and loss statement in the financial period in which they are incurred.

3.27 Revenue recognition

Revenue comprises the fair value of the consideration for the sale of goods and services provided in the ordinary course of the activities of the Group. Revenue is shown, net of value-added tax, returns, rebates and discounts, allowance for credit and other revenue reducing factors.

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.

(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

Sales of construction materials are recognised when the goods are delivered and legal title is transferred to customers.

(d) Rental income

Rental income, 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.

3.28 Foreign currencies

Transactions 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. 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 profit and loss statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets held at fair value through profit or loss is reported as part of the fair value gain or loss. Translation difference on non-monetary available-for-sale investments is included in equity.

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 profit and loss statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the profit and loss statement as part of the gain or loss on sale.

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.

3.29 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.30 Dividend distribution

Dividend distribution to the shareholders of the Company is recognised as a liability in the consolidated financial statements in the financial period in which the dividend payable becomes legal and constructive obligations of the Company.

4. 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, 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 these risks by using derivative financial instruments to hedge these 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.

Due to a number of factors affecting a slowdown in global economies and contracting credit markets, the Group is exposed to higher credit risk in respect of its receivables from customers of the construction material business and gaming counterparties and bank deposits with financial institutions; higher interest rate risks in respect of its floating rate borrowings; higher counterparty risk in respect of its service providers and gaming counterparties; and liquidity risk in respect of obligations to financial liabilities and commitments for development projects.

4.1 Financial risk factors

(a) *Market risk*

(i) *Foreign exchange risk*

The Group operates in Hong Kong, Macau and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Macau Patacas. 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 the Group.

Foreign currency exposures are covered by forward contracts and cross-currency interest rate swap contracts whenever appropriate.

As at 31 December 2008, the Group had entered into cross-currency interest rate swap contracts, which were designated as cash flow hedges and fair value hedges to hedge the foreign currency risk on the Guaranteed Notes (see note 32(a)).

(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 other investments (see note 27) or non-current investments (see note 23(a)). 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 against performance of similar listed entities, based on the information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the Group. As at 31 December 2008, the Group was exposed to this risk through the conversion rights attached to the Convertible Notes issued by the Company as disclosed in note 32(b).

The following table shows the approximate effect on the Group's loss after tax if the Company's own share price (for the conversion option of certain convertible notes) were 5% (2007: 5%) higher or lower with all other variables held constant.

	2008 HK\$'000	2007 HK\$'000
If the market price of the Company's own share price were 5% (2007: 5%) higher with all other variables held constant		
Loss after tax for the year increased by	853	43,000
If the market price of the Company's own share price were 5% (2007: 5%) lower with all other variables held constant		
Loss after tax for the year decreased by	<u>1,240</u>	<u>41,000</u>

(iii) *Interest rate risk*

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

As the Group has no significant interest bearing assets, other than deposits and cash at banks, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rate risk of the Group 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 2008, if interest rates on borrowings at that date had been 0.5% higher or lower with all other variables held constant, loss after tax for the year would have been HK\$3,562,000 (2007: HK\$3,056,000) higher or lower, mainly as a result of higher or lower interest expense on floating rate borrowings.

At 31 December 2008, if interest rates on deposits and cash at banks at that date had been 0.5% higher or lower with all other variables held constant, loss after tax for the year would have been HK\$26,000,000 (2007: HK\$37,234,000) lower or higher.

(b) Credit risk

Credit risk arises from derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions, and the gaming counterparties and premium players of gaming. Cash and bank balances are deposited in banks and financial institutions with sound credit ratings to mitigate the risk.

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. The top five debtors of the Group contribute to approximately 39% (2007: 19%) of the total trade, advances to gaming counterparties and other receivables. 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 allowance for doubtful receivables by reviewing the collectability of each balance based upon the age of the balance, the customer's financial condition, collection history and any other known information. Details of debtors are disclosed in note 25.

The maximum exposure at 31 December 2008 to financial assets represents 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.

The Group also maintains a conservative level of liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business.

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

Group

	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 2008					
Bank loans	434,539	262,660	7,656	12,990	717,845
Guaranteed notes	409,743	2,347,293	3,248,303	—	6,005,339
Convertible notes	—	—	1,860,048	—	1,860,048
Other borrowings	4,389	—	—	—	4,389
Derivative financial instruments	—	10,985	6,820	—	17,805
Creditors and accruals	<u>3,625,318</u>	<u>292,460</u>	<u>61,955</u>	<u>43</u>	<u>3,979,776</u>
At 31 December 2007					
Bank loans	589,828	3,267	9,157	16,477	618,729
Guaranteed notes	461,248	461,248	5,680,423	—	6,602,919
Convertible notes	—	—	1,403,142	—	1,403,142
Other borrowings	3,990	4,389	—	—	8,379
Derivative financial instruments	—	60	477,471	—	477,531
Creditors and accruals	<u>3,523,414</u>	<u>62,921</u>	<u>1,889</u>	<u>313,406</u>	<u>3,901,630</u>

Company

	Within one year HK\$'000	Between one to two years HK\$'000	Between two to five years HK\$'000	Total HK\$'000
At 31 December 2008				
Bank loans	375,955	—	—	375,955
Convertible notes	—	—	1,860,048	1,860,048
Derivative financial instruments	—	—	6,820	6,820
Creditors and accruals	<u>6,132</u>	<u>—</u>	<u>—</u>	<u>6,132</u>
At 31 December 2007				
Bank loans	397,891	—	—	397,891
Convertible notes	—	—	1,403,142	1,403,142
Derivative financial instruments	—	—	468,858	468,858
Creditors and accruals	<u>30,198</u>	<u>—</u>	<u>—</u>	<u>30,198</u>

The table below analyses the Group's cross-currency swap contracts which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within one year HK\$'000	Between one to two years HK\$'000	Between two to five years HK\$'000	Total HK\$'000
At 31 December 2008				
Cross-currency swap contracts				
Outflow	(3,112,858)	(2,079,517)	—	(5,192,375)
Inflow	<u>3,122,313</u>	<u>2,079,427</u>	<u>—</u>	<u>5,201,740</u>
At 31 December 2007				
Cross-currency swap contracts				
Outflow	(427,888)	(3,144,888)	(2,111,548)	(5,684,324)
Inflow	<u>461,248</u>	<u>3,191,248</u>	<u>2,141,661</u>	<u>5,794,157</u>

4.2 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 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.

The gearing ratios at 31 December 2008 and 2007 were as follows.

	2008 HK\$'000	2007 HK\$'000
Total borrowings (note 32)	(6,711,861)	(6,505,818)
Less: cash and bank balances (note 28)	<u>6,042,300</u>	<u>8,230,362</u>
Net (debt)/cash	<u>(669,561)</u>	<u>1,724,544</u>
Total assets less cash and bank balances	<u>12,609,664</u>	<u>23,530,829</u>
Gearing ratio	<u>5%</u>	<u>N/A</u>

4.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

In assessing the fair value of non-trading securities, other financial assets and embedded financial liabilities, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year (including debtors, cash and bank balances, creditors and current borrowings) are assumed to approximate their fair values.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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) Impairment of non-financial assets other than goodwill

When there is indication for impairment, the Group tests whether the assets within a cash generating unit has suffered any impairment. The recoverable amount has been determined based on the higher of fair value less cost to sell and value-in-use. The methodologies are based upon estimates of future results, assumptions as to income and expenses of the business, future economic conditions on growth rates and estimation of the future returns.

An impairment charge of HK\$12.3 billion arose in the gaming and entertainment division cash generating unit during 2008, resulting in the carrying amount of the gaming licence being written down to its recoverable amount. If the annual growth rate for each of all the coming years used in the fair value calculation had been 1% lower or higher than management's estimates at 31 December 2008, the impairment of gaming licence would have increased or decreased by approximately HK\$500 million, details of which are disclosed in note 18. If the discount rate is increased or decreased by 1%, the impairment of gaming licence would have increased or decreased by approximately HK\$600 million.

(b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3.6. The recoverable amounts of cash generating units in the construction materials division have been determined based on value-in-use calculations. These calculations require the use of estimates, details of which are disclosed in note 18.

(c) Useful lives of property, plant and equipment

The management determines the estimated useful lives and residual values for its 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.

(d) Impairment of available-for-sale financial assets

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement 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. The Group determines whether an investment is impaired by evaluating the duration and extent to which the fair value of an investment is less than its cost.

(e) Fair value of derivative financial instruments

The fair value of derivative financial instruments is with reference to the valuation performed by an independent valuer by reference to the Binomial model. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date.

(f) Provisions

The Group carries out environmental restoration for its quarry sites. Management estimates the related provision for future environmental restoration based on an estimate of future expenditure for the restoration. These provisions require the use of different assumptions, such as discount rates for the discounting of non-current provision due to time value of money, the timing and extents of cash outflows.

(g) 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 at the date of granting the options.

(h) Taxation

The Group is subject to taxation in Hong Kong, Macau and Mainland China. Significant judgement 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.

(i) Provision for bad and doubtful debts

The policy of provision for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the

past collection history of each counterparty. The amount of provision made as at 31 December 2008 was HK\$97,716,000 (2007: HK\$54,400,000). If the financial conditions of counterparty of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(j) Provision for claims from contractors

In view of the revised development schedule resulting from management's decision to move the staged opening of the Galaxy Macau resort at Cotai beyond 2009, the Group has estimated the provision for claims from contractors based on the latest information available, and in the absence of such, the best estimates derived from reasonable assumptions, experience and judgement and with reference to the estimates prepared by an independent surveyor. The total claims received amount to approximately HK\$500 million and the final outcome of the amount of claims to be settled will always depend on commercial negotiations, taking account of business goodwill, long-term partnering relationships, cash flow considerations, economic climates, etc. If the final settlement percentage is differed by 10% from the estimate, the loss for the year would increase or decrease by approximately HK\$50 million.

6. SEGMENT INFORMATION

In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments.

Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land and land use rights, intangible assets, other non-current assets, inventories, debtors and prepayments, and mainly exclude investments, derivative financial instruments, taxation recoverable and cash and bank balances. Segment liabilities comprise mainly creditors, accruals and provisions and mainly exclude tax liabilities and borrowings. There are no sales or trading transaction between the business segments.

(a) Business segments

	Gaming and entertainment	Construction materials	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2008				
Revenue	<u>8,893,583</u>	<u>1,603,074</u>	<u>—</u>	<u>10,496,657</u>
Operating (loss)/profit (<i>note</i>)	(13,247,646)	86,813	(28,666)	(13,189,499)
Finance income, net				79,290
Share of profits less losses of jointly controlled entities	1,192	50,693	—	<u>51,885</u>
Loss before taxation				(13,058,324)
Taxation credit				<u>1,503,093</u>
Loss for the year				<u>(11,555,231)</u>
Capital expenditure	(2,083,837)	(30,148)	(2,579)	(2,116,564)
Depreciation	(290,073)	(58,774)	(3,570)	(352,417)
Amortisation	(749,008)	(42,526)	—	(791,534)
Impairment of gaming licence	(12,330,305)	—	—	(12,330,305)
Impairment of non-current investments	(23,010)	—	(982)	(23,992)
Impairment of trade and other debtors	<u>(37,000)</u>	<u>(6,032)</u>	<u>—</u>	<u>(43,032)</u>

Note: Results of the gaming and entertainment division include pre-opening expenses of HK\$59,636,000 incurred for the Galaxy Macau resort.

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Unallocated HK\$'000	Total HK\$'000
Year ended 31 December 2007				
Revenue	<u>11,481,227</u>	<u>1,554,212</u>	<u>—</u>	<u>13,035,439</u>
Operating (loss)/profit (<i>note</i>)	(203,059)	74,898	209,443	81,282
Finance costs, net				(557,395)
Share of profits less losses of jointly controlled entities	174	(122)	—	<u>52</u>
Loss before taxation				(476,061)
Taxation charge				<u>(26,172)</u>
Loss for the year				<u>(502,233)</u>
Capital expenditure	(1,233,343)	(32,413)	(4,184)	(1,269,940)
Depreciation	(248,491)	(77,331)	(2,458)	(328,280)
Amortisation	(1,038,612)	(45,731)	—	(1,084,343)
Impairment of non-current investments	—	—	(4,569)	(4,569)
Impairment of property, plant and equipment	—	(27,457)	—	(27,457)
Impairment of trade debtors	<u>—</u>	<u>(3,016)</u>	<u>—</u>	<u>(3,016)</u>

Note: Results of the gaming and entertainment division included pre-opening expenses of HK\$22,199,000 incurred for the Galaxy Macau resort.

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Unallocated HK\$'000	Total HK\$'000
As at 31 December 2008				
Segment assets	10,012,016	1,655,971	6,150,618	17,818,605
Jointly controlled entities	4,070	828,559	—	832,629
Associated company	—	730	—	<u>730</u>
Total assets				<u>18,651,964</u>
Segment liabilities	<u>3,707,576</u>	<u>552,335</u>	<u>7,118,153</u>	<u>11,378,064</u>
As at 31 December 2007				
Segment assets	20,593,125	1,855,623	8,805,520	31,254,268
Jointly controlled entities	(2,595)	508,788	—	506,193
Associated company	—	730	—	<u>730</u>
Total assets				<u>31,761,191</u>
Segment liabilities	<u>3,153,545</u>	<u>586,592</u>	<u>9,082,611</u>	<u>12,822,748</u>

(b) Geographical segments

	For the year ended 31 December		As at 31 December
	Revenue HK\$'000	Capital expenditure HK\$'000	Total assets HK\$'000
2008			
Macau	9,086,965	2,084,447	15,293,612
Hong Kong	742,103	21,293	1,683,538
Mainland China	667,589	10,824	1,674,814
	<u>10,496,657</u>	<u>2,116,564</u>	<u>18,651,964</u>
2007			
Macau	11,756,085	1,238,195	24,698,271
Hong Kong	686,311	9,592	5,694,789
Mainland China	593,043	22,153	1,368,131
	<u>13,035,439</u>	<u>1,269,940</u>	<u>31,761,191</u>

7. REVENUE

Revenue comprises turnover from sales of construction materials, gaming operations and hotel operations.

	2008 HK\$'000	2007 HK\$'000
Sales of construction materials	1,603,074	1,554,212
Gaming operations		
Net gaming wins	8,431,001	11,135,284
Contributions (note)	116,828	78,966
Tips received	16,808	33,276
Hotel operations		
Room rental	153,576	139,519
Food and beverages	88,072	37,835
Others	87,298	56,347
	<u>10,496,657</u>	<u>13,035,439</u>

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

Under the Agreements, certain service providers (the "Service Providers") undertake for the provision of a steady flow of customers to the Certain 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 special gaming tax and other related taxes to the Macau Government. The remaining net gaming wins and revenue from gaming operations less all the relevant operating and administrative expenses belong to the Service Providers.

After analysing the risks and rewards attributable to the Group, and the Service Providers under the Agreements, revenue from the Certain City Club Casinos is recognised based on the established rates for the net gaming wins, after deduction of special gaming taxes and other related taxes to the Macau Government, 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 Certain City Club Casinos are not recognised as expenses of the Group in the consolidated financial statements.

The revenue and expenses related to the gaming operations of the Certain City Club Casinos are summarised as follows:

	2008 HK\$'000	2007 HK\$'000
Net gaming wins	1,856,395	1,730,121
Other income	9,861	11,242
Interest income	5,707	9,527
	<u>1,871,963</u>	<u>1,750,890</u>
Operating expenses		
Special gaming tax and other related taxes to the Macau Government	(744,390)	(698,314)
Commission and allowances to gaming counterparties	(700,723)	(615,260)
Employee benefit expenses	(241,756)	(292,793)
Other operating expenses	(168,033)	(84,770)
	<u>(1,854,902)</u>	<u>(1,691,137)</u>
Contributions from gaming operations	17,061	59,753
Contributions from the Service Providers	99,767	19,213
	<u>116,828</u>	<u>78,966</u>

8. COST OF SALES, OTHER INCOME AND OPERATING (LOSS)/PROFIT

	2008 HK\$'000	2007 HK\$'000
(a) Cost of sales		
Special gaming tax and other related taxes to the Macau Government	3,382,448	4,439,215
Commission and allowances to gaming counterparties	3,248,754	4,207,442
Cost of inventories sold	1,358,540	1,306,974
Other direct costs	1,457,611	1,429,841
	<u>9,447,353</u>	<u>11,383,472</u>
(b) Other income		
Rental income	4,843	3,792
Interest income		
Bank deposits	132,893	219,281
Loan to jointly controlled entities (note 26a)	11,776	5,409
Deferred receivable (note 23c)	499	719
Administrative fees from gaming operations	23,463	30,089
Dividend income from unlisted investments	11,227	11,973
Dividend income from listed investments	1,811	1,223
Realised gain on unlisted investments	4,500	—
Realised and unrealised gain on listed investments	—	68,429
Gain on partial disposal of jointly controlled entities	—	28,863
Gain on deemed disposal of jointly controlled entities	15,697	—
Gain on disposal of non-current investments	—	1,736
Gain on disposal of a subsidiary	8,255	—
Excess of fair value over consideration upon step up acquisition in a subsidiary (note 37a)	22,000	—
Gross earnings on finance lease	12,054	14,514
Foreign exchange gain	—	1,146
Change in fair value of investment properties	2,000	—
Others	28,625	28,558
	<u>279,643</u>	<u>415,732</u>

	2008 HK\$'000	2007 HK\$'000
(c) Operating (loss)/profit is arrived at after charging		
Depreciation	352,417	328,280
Amortisation		
Gaming licence	706,987	998,360
Computer software	7,494	5,728
Overburden removal costs	20,599	15,057
Quarry site improvements	15,057	20,609
Quarry site development	917	3,105
Leasehold land and land use rights	40,480	41,484
Operating lease rental		
Land and buildings	68,099	81,169
Plant and machinery	444	1,738
Royalty	2,067	4,790
Unrealised loss on listed investments	42,194	—
Loss on disposal of property, plant and equipment	8,267	1,229
Loss on disposal of a subsidiary	—	2,337
Staff costs, including Directors' remuneration (<i>note</i>)	1,418,312	1,406,263
Impairment of gaming licence	12,330,305	—
Impairment of non-current investments	23,992	4,569
Impairment of property, plant and equipment	—	27,457
Impairment of trade and other debtors	43,032	3,016
Provision for claims from contractors	274,757	—
Outgoing in respect of investment properties	463	518
Foreign exchange loss	4,926	—
Auditor's remuneration		
Audit services		
Provision for the year	6,739	7,525
(Over)/under-provision in prior year	(722)	54
Non-audit services		
Provision for the year	711	2,501
Under-provision in prior year	9	77

Note: Staff costs are stated after amount capitalised in assets under construction in the aggregate of HK\$105,882,000 (2007: HK\$92,210,000), and include share option expenses of HK\$31,635,000 (2007: nil).

9. MANAGEMENT REMUNERATION

(a) Directors' remuneration

	Fees HK\$'000	Salary, allowance and benefit in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Share options (note d) HK\$'000	2008 Total HK\$'000	2007 Total HK\$'000
Executive Directors							
Dr. Lui Che Woo	120	3,308	3,000	166	2,150	8,744	6,408
Mr. Francis Lui Yiu Tung	150	12,127	5,000	606	3,117	21,000	15,254
Mr. Chan Kai Nang	100	1,047	—	34	—	1,181	2,767
Mr. Joseph Chee Ying Keung	100	2,793	636	247	142	3,918	3,183
Ms. Paddy Tang Lui Wai Yu	100	—	—	—	1,247	1,347	80
Mr. William Lo Chi Chung	—	—	—	—	—	—	1,079
	<u>570</u>	<u>19,275</u>	<u>8,636</u>	<u>1,053</u>	<u>6,656</u>	<u>36,190</u>	<u>28,771</u>
Non-executive Directors							
Dr. Charles Cheung Wai Bun	240	—	—	—	—	240	217
Dr. Moses Cheng Mo Chi	180	—	—	—	—	180	160
Mr. James Ross Ancell	180	—	—	—	—	180	160
Dr. William Yip Shue Lam	140	—	—	—	—	140	117
Mr. Anthony Thomas Christopher Carter	70	—	—	—	—	70	98
Dr. Martin Clarke	—	—	—	—	—	—	—
Mr. Guido Paolo Gamucci	—	—	—	—	—	—	—
Dr. Patrick Wong Lung Tak	—	—	—	—	—	—	—
	<u>810</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>810</u>	<u>752</u>
Total 2008	<u>1,380</u>	<u>19,275</u>	<u>8,636</u>	<u>1,053</u>	<u>6,656</u>	<u>37,000</u>	
Total 2007	<u>1,201</u>	<u>20,462</u>	<u>6,782</u>	<u>1,078</u>	<u>—</u>		<u>29,523</u>

The discretionary bonuses paid in 2008 were in relation to performance for 2007.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2007: two) Directors whose emoluments are reflected in note (a) above. The emoluments of the remaining three individuals (2007: three) are as follows:

	2008 HK\$'000	2007 HK\$'000
Salaries and other emoluments	13,822	12,915
Discretionary bonuses	4,634	2,188
Retirement benefits	547	476
Share options (<i>note d</i>)	4,239	—
	<u>23,242</u>	<u>15,579</u>

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	2008	2007
HK\$4,500,001 – HK\$5,000,000	—	2
HK\$5,500,001 – HK\$6,000,000	1	1
HK\$6,000,001 – HK\$6,500,000	1	—
HK\$11,000,001 – HK\$11,500,000	1	—
	<u>3</u>	<u>3</u>

(c) 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 unitized scheme, for eligible employees in Macau. The Galaxy Staff 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 10% to 22%, 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 profit and loss statement during the year comprise contributions to the schemes of HK\$40,398,000 (2007: HK\$43,298,000), after deducting forfeitures of HK\$12,103,000 (2007: HK\$27,571,000), leaving HK\$5,516,000 (2007: HK\$1,389,000) available to reduce future contributions.

(d) Share options

The value of the share options granted to the Directors and employees under the share option scheme of the Company represents the fair value of these options charged to the profit and loss statement for the year according to their vesting periods.

10. FINANCE (INCOME)/COSTS, NET

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Interest expenses		
Guaranteed fixed rate notes and floating rate notes wholly repayable within five years	466,815	493,842
Amount capitalised in assets under construction	<u>(194,180)</u>	<u>(104,120)</u>
	272,635	389,722
Interest expenses		
Fixed rate notes wholly repayable within five years	—	123,141
Convertible notes wholly repayable within five years	122,272	111,630
Bank loans and overdrafts	10,036	35,792
Obligations under finance leases wholly payable within five years	838	1,227
Change in fair value of derivative under the convertible notes	(461,994)	(105,924)
Net gain from cross-currency swap contracts for hedging	(38,216)	(14,174)
Other borrowing costs	<u>15,139</u>	<u>15,981</u>
Finance (income)/costs, net	<u><u>(79,290)</u></u>	<u><u>557,395</u></u>

11. TAXATION (CREDIT)/CHARGE

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	8,786	7,660
Mainland China income tax	2,021	11,965
Macau complementary tax	376	3,635
Deferred taxation (<i>note 33</i>)	<u>(1,514,276)</u>	<u>2,912</u>
Taxation (credit)/charge	<u><u>(1,503,093)</u></u>	<u><u>26,172</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) 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 countries in which those profits arose, these rates range from 12% to 25% (2007: 12% to 33%).

The taxation on the loss 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:

	2008 HK\$'000	2007 HK\$'000
Loss before taxation	(13,058,324)	(476,061)
Share of profits less losses of jointly controlled entities	<u>(51,885)</u>	<u>(52)</u>
	<u>(13,110,209)</u>	<u>(476,113)</u>
Tax calculated at applicable tax rate	1,563,882	73,925
Income under tax relief	556	527
Income not subject to tax	95,686	20,607
Profit exempted from Macau Complementary Tax (<i>Note</i>)	59,992	97,881
Expenses not deductible for tax purpose	(165,804)	(163,216)
Utilisation of previously unrecognised tax losses	5,070	1,257
Tax losses not recognised	(53,373)	(56,653)
Over/(under) provision of tax	667	(500)
Change of tax rate in Hong Kong	1,204	—
Mainland China withholding tax	<u>(4,787)</u>	<u>—</u>
Taxation credit/(charge)	<u>1,503,093</u>	<u>(26,172)</u>

Note: Pursuant to the Despatch No. 249/2004 issued by the Chief Executive of the Macau Government on 30 September 2004, the Company is exempt from Macau Complementary Tax on its gaming activities for five years effective from the 2004 year of assessment till year 2008. Pursuant to the Despatch No. 326/2008 issued by the Chief Executive of the Macau Government on 20 November 2008, the Company is exempt from Macau Complementary Tax on its gaming activities for the five years effective from the 2009 year of assessment till year 2013.

12. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$10,142,034,000 (2007: loss of HK\$25,886,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$11,390,368,000 (2007: HK\$466,200,000) and the weighted average of 3,937,281,082 shares (2007: 3,373,065,022 shares) in issue during the year.

The diluted loss per share for 2008 and 2007 equals to the basic loss per share since the exercise of the outstanding share options or conversion of convertible notes would not have a dilutive effect on the loss per share.

14. DIVIDENDS

The Board of Directors has resolved not to declare any dividend for the year ended 31 December 2008 (2007: nil).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold	Plant and	Gaming	Assets under	Total
	<i>HK\$'000</i>	<i>improvements</i>	<i>machinery</i>	<i>equipment</i>	<i>construction</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>and other</i>		
				<i>assets</i>		
				<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost						
At 31 December 2007	1,863,868	54,559	1,149,085	960,091	1,790,481	5,818,084
Exchange differences	2,541	180	12,774	10,675	—	26,170
Acquisition of a subsidiary	—	7,596	—	9,731	—	17,327
Additions	2,718	23,980	87,517	94,774	1,894,943	2,103,932
Transfer	(262,322)	—	262,461	(139)	—	—
Disposal of a subsidiary	(18,457)	—	(32,639)	(1,117)	—	(52,213)
Disposals	(5,646)	(5,506)	(84,857)	(34,765)	—	(130,774)
At 31 December 2008	<u>1,582,702</u>	<u>80,809</u>	<u>1,394,341</u>	<u>1,039,250</u>	<u>3,685,424</u>	<u>7,782,526</u>
Accumulated depreciation and impairment						
At 31 December 2007	89,717	43,322	583,673	370,185	—	1,086,897
Exchange differences	1,467	179	6,765	8,074	—	16,485
Charge for the year	36,437	12,437	147,223	156,320	—	352,417
Transfer	(26,602)	—	26,602	—	—	—
Disposal of a subsidiary	(18,457)	—	(19,642)	(1,117)	—	(39,216)
Disposals	(741)	(5,372)	(81,750)	(26,977)	—	(114,840)
At 31 December 2008	<u>81,821</u>	<u>50,566</u>	<u>662,871</u>	<u>506,485</u>	<u>—</u>	<u>1,301,743</u>
Net book value						
At 31 December 2008	<u>1,500,881</u>	<u>30,243</u>	<u>731,470</u>	<u>532,765</u>	<u>3,685,424</u>	<u>6,480,783</u>

	Buildings	Leasehold	Plant and	Gaming	Assets under	Total
	<i>HK\$'000</i>	<i>improvements</i>	<i>machinery</i>	<i>equipment</i>	<i>construction</i>	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>and other</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>assets</i>		
				<i>HK\$'000</i>		
Cost						
At 31 December 2006	1,694,939	53,251	1,246,604	866,015	798,305	4,659,114
Exchange differences	2,933	6	19,608	12,788	—	35,335
Additions	173,268	4,989	38,964	42,939	992,176	1,252,336
Transfer	376	(1,434)	(60,395)	61,453	—	—
Disposal of a subsidiary	(5,294)	—	(51,719)	(1,341)	—	(58,354)
Disposals	(2,354)	(2,253)	(43,977)	(21,763)	—	(70,347)
At 31 December 2007	<u>1,863,868</u>	<u>54,559</u>	<u>1,149,085</u>	<u>960,091</u>	<u>1,790,481</u>	<u>5,818,084</u>
Accumulated depreciation and impairment						
At 31 December 2006	21,652	35,368	511,403	208,187	—	776,610
Exchange differences	488	100	8,872	8,823	—	18,283
Charge for the year	57,280	6,697	99,430	164,873	—	328,280
Disposal of a subsidiary	(2,498)	—	(9,156)	(983)	—	(12,637)
Disposals	(986)	(706)	(38,461)	(10,943)	—	(51,096)
Impairment	13,781	1,863	11,585	228	—	27,457
At 31 December 2007	<u>89,717</u>	<u>43,322</u>	<u>583,673</u>	<u>370,185</u>	<u>—</u>	<u>1,086,897</u>
Net book value						
At 31 December 2007	<u>1,774,151</u>	<u>11,237</u>	<u>565,412</u>	<u>589,906</u>	<u>1,790,481</u>	<u>4,731,187</u>

- (a) Other assets comprise barges, furniture and equipment, operating equipment and motor vehicles.
- (b) The net book amount of other equipment held under finance leases amounts to HK\$3,851,000 (2007: HK\$7,702,000).
- (c) During the year, borrowing costs of HK\$194,180,000 (2007: HK\$104,120,000) arising on financing specifically entered into for the construction of a building, have been capitalised and included in assets under construction. A capitalisation rate of 5.16% (2007: 3.84%) was used, representing the effective finance costs of the loans used to finance the assets under construction.
- (d) Building with net book values of HK\$17,084,000 (2007: HK\$19,109,000) has been pledged as securities for the bank borrowings (note 32).

16. INVESTMENT PROPERTIES

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
At valuation		
Beginning of the year	62,500	62,500
Change in fair value	<u>2,000</u>	<u>—</u>
End of the year	<u><u>64,500</u></u>	<u><u>62,500</u></u>

Investment properties are held under leases of 10 to 50 years in Hong Kong and were valued on an open market value basis by Vigers Appraisal & Consulting Limited, independent professional valuers.

17. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book value at beginning of the year	1,580,777	1,621,917
Exchange differences	232	240
Additions	—	104
Amortisation	<u>(40,480)</u>	<u>(41,484)</u>
Net book value at end of the year	<u><u>1,540,529</u></u>	<u><u>1,580,777</u></u>
Cost	1,766,509	1,766,277
Accumulated amortisation	<u>(225,980)</u>	<u>(185,500)</u>
Net book value	<u><u>1,540,529</u></u>	<u><u>1,580,777</u></u>
Leases of between 10 to 50 years		
Macau	1,309,564	1,344,091
Hong Kong	227,571	233,503
Mainland China	<u>3,394</u>	<u>3,183</u>
	<u><u>1,540,529</u></u>	<u><u>1,580,777</u></u>

Leasehold land with net book values of HK\$215,610,000 (2007: HK\$222,173,000) has been pledged as securities for the bank borrowings (note 32).

18. INTANGIBLE ASSETS

Group

	Goodwill (note a) HK\$'000	Gaming licence (note b) HK\$'000	Computer software HK\$'000	Total HK\$'000
Cost				
At 31 December 2006	33,014	16,887,329	18,201	16,938,544
Additions	—	—	4,268	4,268
Disposals	—	—	(2)	(2)
At 31 December 2007	33,014	16,887,329	22,467	16,942,810
Additions	—	—	12,633	12,633
Disposals	—	—	(456)	(456)
At 31 December 2008	<u>33,014</u>	<u>16,887,329</u>	<u>34,644</u>	<u>16,954,987</u>
Accumulated amortisation and impairment				
At 31 December 2006	—	1,416,851	1,207	1,418,058
Charge for the year	—	998,360	5,728	1,004,088
Disposals	—	—	(1)	(1)
At 31 December 2007	—	2,415,211	6,934	2,422,145
Charge for the year	—	706,987	7,494	714,481
Disposals	—	—	17	17
Impairment charge	—	12,330,305	—	12,330,305
At 31 December 2008	<u>—</u>	<u>15,452,503</u>	<u>14,445</u>	<u>15,466,948</u>
Net book value				
At 31 December 2008	<u>33,014</u>	<u>1,434,826</u>	<u>20,199</u>	<u>1,488,039</u>
At 31 December 2007	<u>33,014</u>	<u>14,472,118</u>	<u>15,533</u>	<u>14,520,665</u>

(a) Goodwill is allocated to the Group's cash-generating units identified according to country of operation and business segment. Goodwill with carrying amount of HK\$28,524,000 (2007: HK\$28,524,000) and HK\$4,490,000 (2007: HK\$4,490,000) is allocated to the construction materials segment in Macau and Hong Kong respectively. The recoverable amount of the business unit is determined based on value-in-use calculations. The key assumptions used in the value-in-use calculations are based on the best estimates of growth rates and discount rates of the respective segments.

(b) 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.

In the face of a weakening global economy and the tightening of Mainland China's policy on visa issuance to the PRC nationals to visit Macau, visitor growth in Macau has slowed down which also adversely affected the Macau gaming market. Keen competition from the other five concession/sub-concession holders together with the rising labour and operating costs in Macau has exerted pressure on the Group's gaming operation net margin. Taking into account the presently available indicators, the Group performed an impairment assessment on the net assets of the gaming business which is regarded as a cash-generating unit. This assessment indicated an impairment on the gaming licence as at 31 December 2008.

With reference to a valuation carried out by an independent professional valuer, American Appraisal China Limited, the carrying value of the gaming licence is written down by approximately HK\$12.3 billion to the recoverable amount of HK\$1.4 billion at 31 December 2008. The recoverable amount of the gaming licence has been determined based on its fair value less cost to sell which the Group considers to be higher than the value-in-use. It is calculated using the cash flow projections derived from the financial forecasts for the remaining concession tenure in respect of a normal market participant.

Key assumptions adopted in the valuation are as follows:

Market growth rate in 2009, 2010, 2011 and 2012	–9%, 9%, 18%, –1%
Market share	16.67%
Customer mix (VIP : Mass)	
2009	64% : 36%
2010	62% : 38%
2011	66% : 34%
2012	65% : 35%
Discount rate	16%

The market growth rate projections beyond four years are extrapolated at a rate of 3% per annum. Other key assumptions for the fair value calculation relating to the estimated cash flows include gross margin which is estimated based on the gaming division's past performance, management's expectations for the market development, and industry information. The average growth rates used are consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the gaming and entertainment segments.

Taking into account the corresponding release of approximately HK\$1.3 billion in deferred taxation liability, the net amount of write-down is approximately HK\$11.0 billion.

19. SUBSIDIARIES

	Company	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	1	1
Loans receivable from subsidiaries	3,921,679	381,208
Amounts due from subsidiaries	15,140,848	14,831,229
Provision	(10,512,073)	—
Amounts due from subsidiaries, less provision	4,628,775	14,831,229
	<u>8,550,455</u>	<u>15,212,438</u>

The loans receivable are unsecured, interest free and have no fixed terms of repayment, except for a loan of HK\$3.83 billion (2007: nil) which is repayable at the subsidiary's discretion after the repayment of the Guaranteed Notes (Note 32(a)).

The amounts receivable are unsecured, interest free and have no fixed term of repayment.

Details of the subsidiaries which, in the opinion of the Directors, materially affect the results and/or net assets of the Group are given in note 45(a).

20. JOINTLY CONTROLLED ENTITIES

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>832,629</u>	<u>506,193</u>

- (a) The share of assets, liabilities and results of the jointly controlled entities attributable to the Group is summarised below:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	835,630	814,795
Current assets	378,784	443,256
Current liabilities	(327,258)	(540,202)
Non-current liabilities	<u>(54,527)</u>	<u>(211,656)</u>
	<u>832,629</u>	<u>506,193</u>
Income	630,969	469,028
Expenses	<u>(579,084)</u>	<u>(468,976)</u>
	<u>51,885</u>	<u>52</u>

- (b) Details of the jointly controlled entities which, in the opinion of the Directors, materially affect the results and/or net assets of the Group are given in note 45(b).

21. ASSOCIATED COMPANY

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>730</u>	<u>730</u>

- (a) The share of assets, liabilities and results of the associated company attributable to the Group is summarised as follows:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	9,847	7,211
Current assets	13,963	12,385
Current liabilities	(5,702)	(4,700)
Non-current liabilities	<u>(17,378)</u>	<u>(14,166)</u>
	<u>730</u>	<u>730</u>
Income	24,164	5,929
Expenses	<u>(24,164)</u>	<u>(5,929)</u>
Share of results for the year	<u>—</u>	<u>—</u>

- (b) Details of the associated company are given in note 45(c).

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2008	2007
	HK\$'000	HK\$'000
Cross-currency swaps for cash flow hedges (<i>note a</i>)	1,522	1,155
Cross-currency swaps for cash flow and fair value hedges (<i>note a</i>)	(10,985)	(8,673)
Derivative component of the Convertible Notes (<i>note 32b</i>)	(6,820)	(468,858)
	<u>(17,805)</u>	<u>(477,531)</u>

- (a) In August 2006, the Group entered into fixed and floating rate cross-currency swaps to hedge the underlying interest and foreign currency risk on the Guaranteed Notes (*note 32*). Under the fixed rate swap agreements, the Group pays Hong Kong dollar borrowings at fixed interest rate in exchange for receipts in United States dollar at a fixed interest rate. Under the floating rate swap agreements, the Group pays Hong Kong dollar borrowings at floating rates based on HIBOR in exchange for receipts in United States dollar at a floating interest rate based on LIBOR.

The notional principal amounts of the fixed and floating cross-currency swaps are US\$350 million and US\$250 million, respectively (2007: US\$350 million and US\$250 million). The terms of the fixed and floating rate swaps are from August 2006 to December 2009 and December 2010, respectively.

At 31 December 2008, the fixed interest rates vary from 9.47% to 9.495% (2007: 9.47% to 9.495%). Gains and losses recognised in the hedging reserve in equity (*note 31*) on cross-currency swaps as of 31 December 2008 will be continuously released to the profit and loss statement until the repayment of the Guaranteed Notes (*note 32*).

23. OTHER NON-CURRENT ASSETS

	Group	
	2008	2007
	HK\$'000	HK\$'000
Non-current investments (<i>note a</i>)	38,626	256,257
Finance lease receivable (<i>note b</i>)	80,049	137,438
Deferred expenditure		
Overburden removal costs	36,609	51,538
Quarry site development	15,518	15,867
Quarry site improvements	63,034	83,675
Deferred receivable (<i>note c</i>)	3,485	4,827
Restricted bank deposits (<i>note d</i>)	52,890	50,000
	<u>290,211</u>	<u>599,602</u>

(a) Non-current investments

	Group	
	2008	2007
	HK\$'000	HK\$'000
Unlisted investments, at fair value	38,626	123,256
Advances to investee companies	23,010	133,001
Less: Provision for impairment	(23,010)	—
	<u>38,626</u>	<u>256,257</u>

Advances to investee companies are unsecured, interest free and have no fixed terms of repayment. They are considered equity in nature.

(b) Finance lease receivable

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross receivable	135,272	204,435
Unearned finance income	<u>(18,236)</u>	<u>(30,603)</u>
	117,036	173,832
Current portion included in current assets	<u>(36,987)</u>	<u>(36,394)</u>
	<u><u>80,049</u></u>	<u><u>137,438</u></u>

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:

	Present value		Minimum receipts	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	36,987	36,394	46,497	50,709
Between one to five years	80,049	121,685	88,775	137,550
Over five years	<u>—</u>	<u>15,753</u>	<u>—</u>	<u>16,176</u>
	<u><u>117,036</u></u>	<u><u>173,832</u></u>	<u><u>135,272</u></u>	<u><u>204,435</u></u>

- (c)** Deferred receivable represents advances to various contractors. The advances are secured by assets provided by the contractors, carry interest at prevailing market rate and are repayable by monthly instalments up to 2012. The current portion of the receivable is included under other debtors.
- (d)** At 31 December 2008, restricted bank deposits of HK\$53 million (2007: HK\$50 million) are pledged to secure banking facilities extended to the Company and the Group which comprise a guarantee amounting to HK\$291 million for the period from 1 April 2007 to the earlier of 90 days after the expiry of the Concession Agreement or 31 March 2022 which is in favour of the Macau Government against the legal and contractual liabilities of the Group and the Company under the Concession Agreement.

24. INVENTORIES

	Group	
	2008	2007
	HK\$'000	HK\$'000
Construction materials		
Aggregates and sand	33,476	33,019
Concrete products	8,480	8,485
Cement	8,459	7,118
Spare parts	17,117	14,767
Consumables	13,041	14,770
	<u>80,573</u>	<u>78,159</u>
Gaming and entertainment		
Playing cards	5,104	6,462
Food and beverages	3,021	2,052
Consumables	5,324	3,776
	<u>13,449</u>	<u>12,290</u>
	<u>94,022</u>	<u>90,449</u>

25. DEBTORS AND PREPAYMENTS

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors, net of provision (note a)	581,092	616,574	—	—
Advances to gaming counterparties (note b)	705,000	205,000	—	—
Other debtors, net of provision (note c)	238,608	143,254	52	21,138
Prepayments	41,099	32,948	599	240
Amount due from an associated company (note d)	4,719	5,166	—	—
Current portion of finance lease receivable (note 23(b))	36,987	36,394	—	—
	<u>1,607,505</u>	<u>1,039,336</u>	<u>651</u>	<u>21,378</u>

- (a) Trade debtors mainly arise from the sales of construction materials. 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 for customers in Hong Kong and Macau and 120 to 180 days for customers in Mainland China. These are subject to periodic reviews by management.

The aging analysis of trade debtors of the Group based on the invoice dates and net of provision for bad and doubtful debts is as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Within one month	157,768	160,066
Two to three months	180,289	178,714
Four to six months	117,859	118,994
Over six months	<u>125,176</u>	<u>158,800</u>
	<u>581,092</u>	<u>616,574</u>

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Renminbi	383,502	398,942
Hong Kong dollar	161,700	161,365
Macau Patacas	<u>35,890</u>	<u>56,267</u>
	<u>581,092</u>	<u>616,574</u>

Included in the Group's trade debtors were debtors with a carrying amount of HK\$349,634,000 (2007: HK\$354,343,000) which were not yet due. Debtors with a carrying amount of HK\$231,458,000 (2007: HK\$262,231,000) which were past due over their credit terms for which the Group has not provided for impairment loss. The ageing analysis of these trade debtors based on due dates is as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Overdue:		
Within one month	66,050	66,566
Two to three months	74,239	73,867
Four to six months	44,990	63,051
Over six months	<u>46,179</u>	<u>58,747</u>
	<u>231,458</u>	<u>262,231</u>

Trade debtors that were overdue but not provided for impairment loss relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment provision is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

As at 31 December 2008, trade debtors of the Group amounting to HK\$60,716,000 (2007: HK\$54,400,000) were impaired and fully provided for.

Movements in the provision for impairment of trade debtors are as follows:

	2008 HK\$'000	2007 HK\$'000
Balance at 1 January	54,400	50,288
Additional provision	6,032	3,016
Receivables written off during the year as uncollectible	(3,386)	(3,133)
Exchange differences	3,670	4,229
	<u>60,716</u>	<u>54,400</u>
Balance at 31 December	<u>60,716</u>	<u>54,400</u>

- (b) The Group provides advances denominated in Hong Kong dollar to gaming counterparties which are repayable on demand. These advances are granted with reference to their credit history and business volumes. Such advances are interest free and secured, 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 entities.
- (c) Other debtors of HK\$238,608,000 (2007: HK\$143,254,000) are mainly denominated in Hong Kong dollars which are not yet due. As at 31 December 2008, other debtors of the Group amounting to HK\$37,000,000 (2007: nil) were impaired and fully provided for.
- (d) Amount receivable is unsecured, interest free and repayable in accordance with agreed term. The amount is denominated in Hong Kong dollar.

26. AMOUNTS DUE FROM/(DUE TO) JOINTLY CONTROLLED ENTITIES

	Group 2008 HK\$'000	2007 HK\$'000
Amounts due from jointly controlled entities (<i>note a</i>)	<u>191,621</u>	<u>339,168</u>
Amount due to a jointly controlled entity (<i>note b</i>)	<u>(348)</u>	<u>(2,177)</u>

- (a) Amounts receivable of HK\$178,083,000 (2007: HK\$187,226,000), of which HK\$5,648,000 (2007: HK\$5,648,000) are secured, carry interest at prevailing market rate and are repayable within one year. The remaining amounts receivable of HK\$13,538,000 are unsecured, interest free and have no fixed terms of repayment. As at 31 December 2008, the amounts receivable are mainly denominated in US dollar.
- (b) The amount payable is unsecured, interest free and has no fixed terms of repayment. The amount payable is denominated in Macau Patacas.

27. OTHER INVESTMENTS

	Group 2008 HK\$'000	2007 HK\$'000
Equity securities listed in Hong Kong, at market value	<u>15,574</u>	<u>57,768</u>

28. CASH AND BANK BALANCES

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and on hand (<i>note a</i>)	1,142,293	1,339,154	636	438
Short-term bank deposits (<i>note a</i>)	4,231,005	6,891,208	725,423	4,548,284
Cash at a registered clearing agency (<i>note b</i>)	<u>669,002</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>6,042,300</u>	<u>8,230,362</u>	<u>726,059</u>	<u>4,548,722</u>

(a) As at 31 December 2007, cash and bank balances of the Group of HK\$1,934 million and of the Company of HK\$1,577 million were restricted to specified uses in accordance with the note offering agreements as set out in note 32 (a) and (b). There was no such amount as at 31 December 2008.

(b) As at 31 December 2008, cash at a registered clearing agency was designated to be used for the purchase of outstanding notes payable (Note 32a).

The carrying amounts of cash and bank balances are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollar	3,132,630	5,587,741	723,753	2,647,691
US dollar	2,648,829	2,264,440	2	1,901,031
Macau Patacas	188,110	306,976	—	—
Renminbi	70,427	71,205	—	—
UK pound	<u>2,304</u>	<u>—</u>	<u>2,304</u>	<u>—</u>
	<u>6,042,300</u>	<u>8,230,362</u>	<u>726,059</u>	<u>4,548,722</u>

The credit quality of cash and bank balances of the Group can be assessed by reference to external credit ratings (if available) as follows:

	2008	2007
	HK\$'000	HK\$'000
Counterparties with external credit rating (Standard & Poor's or Moody's)		
AAA	669,002	—
AA– to AA+	1,131,712	4,566,105
A– to A+	852,584	661,319
BBB+	2,640,075	1,493,263
BBB	256,780	838,853
Unrated and cash on hand	<u>492,147</u>	<u>670,822</u>
	<u>6,042,300</u>	<u>8,230,362</u>

29. SHARE CAPITAL

	Ordinary shares of HK\$0.10 each	HK\$'000
Authorised:		
At 31 December 2007 and at 31 December 2008	<u>9,000,000,000</u>	<u>900,000</u>
Issued and fully paid:		
At 31 December 2006	3,296,117,361	329,612
Issue of new shares	630,188,000	63,019
Issue of shares upon exercise of share options	<u>9,334,000</u>	<u>933</u>
At 31 December 2007	3,935,639,361	393,564
Issue of shares upon exercise of share options	<u>2,530,000</u>	<u>253</u>
At 31 December 2008	<u>3,938,169,361</u>	<u>393,817</u>

30. 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 scheme was adopted on 30 May 2002 and the options granted under the previous schemes remain effective. Under the scheme, share options may be granted to, amongst others, Directors, senior executives or employees of the Company or its affiliates. Consideration to be paid by the grantee on acceptance of each grant of option is HK\$1.00. The period within which the shares may be taken up under an option is determined by the Board at the time of grant, except that such period shall not expire later than ten years from the date of grant of the option.

Movements in the number of share options outstanding and their related weighted average exercise prices during the year are as follows:

	2008		2007	
	Average exercise price HK\$	Number of share options	Average exercise price HK\$	Number of share options
At beginning of year	3.54	38,218,000	3.64	47,552,000
Granted	6.03	69,840,000	—	—
Exercised	0.58	(2,530,000)	4.06	(9,334,000)
Lapsed	<u>6.40</u>	<u>(8,244,000)</u>	<u>—</u>	<u>—</u>
At end of year	<u>5.16</u>	<u>97,284,000</u>	<u>3.54</u>	<u>38,218,000</u>
Vested at end of year	<u>3.74</u>	<u>35,244,000</u>	<u>3.54</u>	<u>38,218,000</u>

The weighted average share price at the date of exercise for share options exercised during the year was HK\$5.69 (2007: HK\$7.94).

The options outstanding at 31 December 2008 have exercise prices ranging from HK\$0.5140 to HK\$6.9720 (2007: HK\$0.5140 to HK\$4.5900) with weighted average remaining contractual life of 4.30 years (2007: 3.54 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	
		2008	2007
Directors			
20 May 1999 to 19 May 2008	0.5333	—	2,500,000
30 December 2000 to 29 December 2009	0.5216	3,400,000	3,400,000
1 March 2004 to 28 February 2013	0.5140	3,870,000	3,980,000
22 October 2005 to 21 October 2011	4.5900	14,200,000	14,200,000
22 October 2006 to 21 October 2011	4.5900	2,340,000	2,860,000
17 January 2010 to 16 January 2014	6.9720	2,612,500	—
17 January 2011 to 16 January 2014	6.9720	2,612,500	—
17 January 2012 to 16 January 2014	6.9720	5,225,000	—
18 August 2009 to 17 August 2014	3.3200	383,000	—
Employees and others			
1 March 2004 to 28 February 2013	0.5140	110,000	—
22 October 2005 to 21 October 2011	4.5900	9,400,000	9,400,000
22 October 2006 to 21 October 2011	4.5900	1,924,000	1,878,000
17 January 2010 to 16 January 2014	6.9720	8,552,000	—
17 January 2011 to 16 January 2014	6.9720	8,552,000	—
17 January 2012 to 16 January 2014	6.9720	17,104,000	—
11 July 2010 to 10 July 2014	3.8420	750,000	—
11 July 2011 to 10 July 2014	3.8420	750,000	—
11 July 2012 to 10 July 2014	3.8420	1,500,000	—
18 August 2009 to 17 August 2014	3.3200	4,911,000	—
18 August 2010 to 17 August 2014	3.3200	2,272,000	—
18 August 2011 to 17 August 2014	3.3200	2,272,000	—
18 August 2012 to 17 August 2014	3.3200	4,544,000	—
		97,284,000	38,218,000

The fair values of the options granted during the year on 17 January 2008, 11 July 2008, 18 August 2008 and 18 August 2008 are estimated at HK\$1.87, HK\$1.12, HK\$1.01 and HK\$0.89 per option respectively based on the Black-Scholes valuation model. The significant inputs into the model were share prices of HK\$6.60, HK\$3.70, HK\$3.22 and HK\$3.22 at the respective dates of grant, respective exercise prices of HK\$6.972, HK\$3.842, HK\$3.32 and HK\$3.32, standard deviation of expected share price returns of 39%, 39%, 41% and 41%, expected life of options of 3 to 6 years, expected dividend paid out rate of 2% and annual risk-free interest rate of 2.2% to 3.3%. 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 past two years prior to the dates of grant. Changes in the subjective input assumptions could materially affect the fair value estimate.

31. RESERVES

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Hedging reserve HK\$'000	Legal reserve (note a) HK\$'000	Investment reserve HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
At 1 January 2008	16,669,970	4,395	70	(14,730)	—	103,195	28,762	100,397	1,121,029	18,013,088
Exchange differences	—	—	—	—	—	—	—	42,429	—	42,429
Change in fair value of cash flow hedges	—	—	—	12,013	—	—	—	—	—	12,013
Issue of shares upon exercise of share options	445	—	—	—	—	—	(28)	—	—	417
Fair value of share options	—	—	—	—	—	—	31,635	—	—	31,635
Share options lapsed	—	—	—	—	—	—	(417)	—	417	—
Change in fair value of non- current investments	—	—	—	—	—	(88,384)	—	—	—	(88,384)
Disposal of non-current investments	—	—	—	—	—	(3,363)	—	—	—	(3,363)
Transfer to legal reserve	—	—	—	—	45,631	—	—	—	(45,631)	—
Loss for the year	—	—	—	—	—	—	—	—	(11,390,368)	(11,390,368)
At 31 December 2008	<u>16,670,415</u>	<u>4,395</u>	<u>70</u>	<u>(2,717)</u>	<u>45,631</u>	<u>11,448</u>	<u>59,952</u>	<u>142,826</u>	<u>(10,314,553)</u>	<u>6,617,467</u>
At 1 January 2007	11,456,959	4,395	70	47,072	—	118,133	36,927	52,402	1,587,229	13,303,187
Exchange differences	—	—	—	—	—	—	—	47,995	—	47,995
Change in fair value of cash flow hedges	—	—	—	(61,802)	—	—	—	—	—	(61,802)
Issue of new shares	5,167,851	—	—	—	—	—	—	—	—	5,167,851
Issue of shares upon exercise of share options	45,160	—	—	—	—	—	(8,165)	—	—	36,995
Change in fair value of non- current investments	—	—	—	—	—	(14,938)	—	—	—	(14,938)
Loss for the year	—	—	—	—	—	—	—	—	(466,200)	(466,200)
At 31 December 2007	<u>16,669,970</u>	<u>4,395</u>	<u>70</u>	<u>(14,730)</u>	<u>—</u>	<u>103,195</u>	<u>28,762</u>	<u>100,397</u>	<u>1,121,029</u>	<u>18,013,088</u>

Note:

- (a) 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. Legal reserve is not distributable.

Company

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
At 1 January 2008	16,669,970	235,239	70	28,762	238,091	17,172,132
Issue of shares upon exercise of share options	445	—	—	(28)	—	417
Fair value of share options	—	—	—	31,635	—	31,635
Share options lapsed	—	—	—	(417)	417	—
Loss for the year	—	—	—	—	(10,142,034)	(10,142,034)
At 31 December 2008	<u>16,670,415</u>	<u>235,239</u>	<u>70</u>	<u>59,952</u>	<u>(9,903,526)</u>	<u>7,062,150</u>
At 1 January 2007	11,456,959	235,239	70	36,927	263,977	11,993,172
Issue of new shares	5,167,851	—	—	—	—	5,167,851
Issue of shares upon exercise of share options	45,160	—	—	(8,165)	—	36,995
Loss for the year	—	—	—	—	(25,886)	(25,886)
At 31 December 2007	<u>16,669,970</u>	<u>235,239</u>	<u>70</u>	<u>28,762</u>	<u>238,091</u>	<u>17,172,132</u>

As at 31 December 2008, no reserves of the Company were available for distribution to shareholders (2007: HK\$238,091,000).

32. BORROWINGS

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Bank loans				
Secured	98,140	178,700	75,000	153,400
Unsecured	<u>614,354</u>	<u>432,597</u>	<u>300,000</u>	<u>244,200</u>
	712,494	611,297	375,000	397,600
Other borrowings				
Guaranteed notes (note a)	4,561,393	4,565,617	—	—
Convertible notes (note b)	<u>1,433,585</u>	<u>1,320,525</u>	<u>1,433,585</u>	<u>1,320,525</u>
Bank loans and other borrowings	6,707,472	6,497,439	1,808,585	1,718,125
Obligations under finance leases (note c)	<u>4,389</u>	<u>8,379</u>	<u>—</u>	<u>—</u>
Total borrowings	<u>6,711,861</u>	<u>6,505,818</u>	<u>1,808,585</u>	<u>1,718,125</u>
Current portion included in current liabilities	(26,549)	(6,150)	—	—
Short term loan	<u>(409,354)</u>	<u>(489,097)</u>	<u>(375,000)</u>	<u>(397,600)</u>
	<u>(435,903)</u>	<u>(495,247)</u>	<u>(375,000)</u>	<u>(397,600)</u>
	<u>6,275,958</u>	<u>6,010,571</u>	<u>1,433,585</u>	<u>1,320,525</u>

- (a) On 14 December 2005, the Group, through its subsidiary, Galaxy Entertainment Finance Company Limited, issued guaranteed senior fixed rate and floating rate notes with aggregate principal amount of US\$600 million (the "Guaranteed Notes"). The fixed rate guaranteed senior notes with nominal value of US\$350,000,000 carry fixed interest at 9.875% per annum and will be fully repayable on 15 December 2012. The floating rate guaranteed senior notes with nominal value of US\$250,000,000 carry interest at six-month US Dollar London Inter-Bank Offering Rate plus 5% and are fully repayable on 15 December 2010. The Guaranteed Notes are listed on the Singapore Exchange Securities Trading Limited.

The proceeds from the notes are restricted to be used for the repayment of a specific bank loan, interest payments of the Guaranteed Notes, financing the construction and development of assets under construction, and for general corporate purpose (note 28).

- (b) On 14 December 2006, the Company issued zero coupon convertible notes (the "Convertible Notes") with an aggregate principal amount of US\$240 million (approximately HK\$1,872 million). The Convertible Notes are unsecured, do not carry any interest and have a maturity date of 14 December 2011. Subject to the terms of the Convertible Notes, the holders have the option to convert the Convertible Notes into ordinary shares of the Company at any time on or after 14 June 2007 up to the maturity date at the initial conversion price of HK\$9.36 per share, subject to adjustment. The conversion price is subject to a reset mechanism pursuant to the terms of the Convertible Notes. Unless previously redeemed and cancelled, or converted, the Convertible Notes will be redeemed at 100% of their principal amount on the maturity date. The Group may, at its option at any time after 14 December 2007 and prior to the maturity date, redeem the Convertible Notes in whole or in part, at 100% of their principal amount subject to the terms of the Convertible Notes.

The proceeds from the Convertible Notes are restricted to be used for financing the construction and development of assets under construction, and for general corporate purpose (note 28).

The fair value of the derivative under the Convertible Notes was estimated at the issue date by reference to the Binomial model. The excess of net proceeds over the fair value of the derivative component is recognised as a liability.

The liability under the Convertible Notes and the derivative component recognised in the balance sheet are analysed as follows:

	2008 HK\$'000	2007 HK\$'000
Liability under the Convertible Notes		
At beginning of the year	1,320,525	1,205,377
Exchange difference	(9,212)	3,518
Interest expense	<u>122,272</u>	<u>111,630</u>
At end of the year	<u><u>1,433,585</u></u>	<u><u>1,320,525</u></u>

Interest expense on the Convertible Notes is calculated using the effective interest method by applying the effective interest rate of 9.23% (2007: 9.23%).

	2008 HK\$'000	2007 HK\$'000
Derivative component		
At beginning of the year	468,858	573,109
Change in fair value	(461,994)	(105,924)
Exchange difference	<u>(44)</u>	<u>1,673</u>
At end of the year (note 22)	<u><u>6,820</u></u>	<u><u>468,858</u></u>

The fair value of the derivative component is determined by reference to the Binomial model. The significant assumptions used in the calculation of the fair values are as follows:

- (i) The valuation is based on the assumption that the Convertible Notes will continue without default, delay in payments and no earlier redemption.
 - (ii) The expected volatility of 62% (2007: 45%) of the share price of the Company is based on the share price movements for the last three years.
 - (iii) The risk free rate is based on the yield of Exchange Fund Notes as at the respective dates, with maturity in accordance with the life of the Convertible Notes.
 - (iv) The expected dividend paid out rate is 0.1% (2007: 0.1%) during the life of the Convertible Notes.
- (c) Obligations under finance leases

The finance lease obligations are payable in the following years:

	Minimum payments		Present value	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	4,828	4,828	4,389	3,990
In the second year	—	4,828	—	4,389
	<u>4,828</u>	<u>9,656</u>	<u>4,389</u>	<u>8,379</u>

- (d) The borrowings are repayable as follows:

	Group					
	Bank loans		Guaranteed notes		Convertible notes	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	431,514	491,257	—	—	—	—
Between one to two years	262,160	99,060	1,900,580	—	—	—
Between two to five years	6,480	6,480	2,660,813	4,565,617	1,433,585	1,320,525
Over five years	<u>12,340</u>	<u>14,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>712,494</u>	<u>611,297</u>	<u>4,561,393</u>	<u>4,565,617</u>	<u>1,433,585</u>	<u>1,320,525</u>

	Company			
	Bank loans		Convertible notes	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	375,000	397,600	—	—
Between two to five years	<u>—</u>	<u>—</u>	<u>1,433,585</u>	<u>1,320,525</u>
	<u>375,000</u>	<u>397,600</u>	<u>1,433,585</u>	<u>1,320,525</u>

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(e) Effective interest rates:

	2008			2007		
	<i>HK\$</i>	<i>RMB</i>	<i>US\$</i>	<i>HK\$</i>	<i>RMB</i>	<i>US\$</i>
Bank loans	1.8%	5.5%	—	3.8%	5.8%	—
Fixed rate notes	—	—	—	5.7%	—	—
Guaranteed Notes	—	—	9.9%	—	—	10.9%
Convertible Notes	—	—	9.23%	—	—	9.23%

(f) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity (whichever is earlier) are as follows:

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
6 months or less	2,617,463	2,513,637	375,000	397,600
1 to 5 years	<u>4,094,398</u>	<u>3,992,181</u>	<u>1,433,585</u>	<u>1,320,525</u>
	<u><u>6,711,861</u></u>	<u><u>6,505,818</u></u>	<u><u>1,808,585</u></u>	<u><u>1,718,125</u></u>

(g) The carrying amounts and fair value of the borrowings are as follows:

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	712,494	611,297	712,494	611,297	375,000	397,600	375,000	397,600
Guaranteed notes	4,561,393	4,565,617	2,126,461	4,661,763	—	—	—	—
Convertible notes	1,433,585	1,320,525	1,191,654	1,183,827	1,433,585	1,320,525	1,191,654	1,183,827
Other borrowings	<u>4,389</u>	<u>8,379</u>	<u>4,162</u>	<u>8,425</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>6,711,861</u></u>	<u><u>6,505,818</u></u>	<u><u>4,034,771</u></u>	<u><u>6,465,312</u></u>	<u><u>1,808,585</u></u>	<u><u>1,718,125</u></u>	<u><u>1,566,654</u></u>	<u><u>1,581,427</u></u>

The fair value of the borrowings is calculated using cash flows discounted at prevailing borrowing rates. The carrying amounts of floating rate and other current borrowings approximate their fair value.

(h) The carrying amounts of bank loans and other borrowings are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollar	679,701	539,800	375,000	397,600
US dollar	5,994,979	5,886,142	1,433,585	1,320,525
Renminbi	32,792	71,497	—	—
Macau Patacas	<u>4,389</u>	<u>8,379</u>	<u>—</u>	<u>—</u>
	<u><u>6,711,861</u></u>	<u><u>6,505,818</u></u>	<u><u>1,808,585</u></u>	<u><u>1,718,125</u></u>

33. DEFERRED TAXATION LIABILITIES

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	1,781,500	1,778,588
Effect of changes in tax rate	(901)	—
(Released)/charged to profit and loss statement	<u>(1,513,375)</u>	<u>2,912</u>
At end of the year	<u>267,224</u>	<u>1,781,500</u>

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. 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/(assets) are as follows:

	Depreciation allowance	Tax losses	Fair value adjustments	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2006	39,125	(24,367)	1,763,830	1,778,588
(Released)/charged to profit and loss statement	<u>(6,317)</u>	<u>12,611</u>	<u>(3,382)</u>	<u>2,912</u>
At 31 December 2007	32,808	(11,756)	1,760,448	1,781,500
Effect of changes in tax rate	(1,403)	502	—	(901)
(Released)/charged to profit and loss statement	<u>(4,956)</u>	<u>2,973</u>	<u>(1,511,392)</u>	<u>(1,513,375)</u>
At 31 December 2008	<u>26,449</u>	<u>(8,281)</u>	<u>249,056</u>	<u>267,224</u>

Deferred taxation assets of HK\$49,710,000 (2007: HK\$63,862,000) arising from unused tax losses and other temporary differences totalling of HK\$713,141,000 (2007: HK\$460,394,000) have not been recognised in the consolidated financial statements. Unused tax losses of HK\$77,426,000 (2007: HK\$138,352,000) have no expiry date and the remaining balance will expire at various dates up to and including 2014.

Pursuant to the Despatch No. 326/2008 issued by the Chief Executive of the Macau Government on 20 November 2008, the Company is exempt from Macau Complementary Tax on its gaming activities for five years effective from the 2009 year of assessment till year 2013.

34. PROVISIONS

	Environment restoration HK\$'000	Group Quarrying right HK\$'000	Total HK\$'000
At 31 December 2006	119,870	67,200	187,070
Reversal of provision	(1,597)	—	(1,597)
Charged to the profit and loss statement	1,438	17,740	19,178
Applied during the year	<u>(16,807)</u>	<u>(15,258)</u>	<u>(32,065)</u>
At 31 December 2007	102,904	69,682	172,586
Reversal of provision	(42)	—	(42)
Charged to the profit and loss statement	1,236	17,738	18,974
Applied during the year	<u>(14,114)</u>	<u>(21,800)</u>	<u>(35,914)</u>
At 31 December 2008	<u>89,984</u>	<u>65,620</u>	<u>155,604</u>

The current portion of the provisions amounting to HK\$40,051,000 (2007: HK\$36,964,000) is included under other creditors.

35. CREDITORS AND ACCRUALS

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors (note a)	961,502	1,038,002	—	—
Other creditors	605,457	678,030	—	—
Chips issued	1,299,099	1,322,394	—	—
Loans from minority interests (note b)	91,177	89,672	—	—
Accrued operating expenses	1,013,697	765,649	6,132	30,198
Deposits received	<u>8,844</u>	<u>7,883</u>	<u>—</u>	<u>—</u>
	<u>3,979,776</u>	<u>3,901,630</u>	<u>6,132</u>	<u>30,198</u>

(a) The aging analysis of trade creditors of the Group based on the invoice dates is as follows:

	2008	2007
	HK\$'000	HK\$'000
Within one month	559,557	608,429
Two to three months	104,163	86,894
Four to six months	40,989	43,952
Over six months	<u>256,793</u>	<u>298,727</u>
	<u>961,502</u>	<u>1,038,002</u>

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

	2008 HK\$'000	2007 HK\$'000
Macau Patacas	197,215	206,157
Renminbi	214,276	204,646
Hong Kong dollar	545,196	617,369
Other	4,815	9,830
	<u>961,502</u>	<u>1,038,002</u>

- (b) The loans payable of HK\$32,844,000 (2007: 32,281,000) are unsecured, carrying 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.

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating (loss)/profit to cash generated from operations

	2008 HK\$'000	2007 HK\$'000
Operating (loss)/profit	(13,189,499)	81,282
Depreciation	352,417	328,280
Change in fair value of investment properties	(2,000)	—
Loss on disposal of property, plant and equipment	8,267	1,229
Loss on disposal of intangible assets	473	—
Realised and unrealised loss/(gain) on listed and unlisted investments	37,694	(68,429)
Excess of fair value over consideration upon step up acquisition in a subsidiary	(22,000)	—
(Gain)/loss on disposal of a subsidiary	(8,255)	2,337
Gain on partial disposal of jointly controlled entities	—	(28,863)
Gain on deemed disposal of jointly controlled entities	(15,697)	—
Gain on disposal of non-current investments	—	(1,736)
Excess of consideration over fair value on acquisition of subsidiaries	9,344	—
Impairment of intangible assets	12,330,305	—
Impairment of non-current investments	23,992	4,569
Impairment of property, plant and equipment	—	27,457
Interest income	(145,168)	(225,409)
Gross earnings on finance lease	(12,054)	(14,514)
Dividend income from listed and unlisted investments	(13,038)	(13,196)
Amortisation of deferred expenditure	36,573	38,771
Amortisation of intangible assets	714,481	1,004,088
Amortisation of leasehold land and land use rights	40,480	41,484
Fair value of share options granted	31,635	—
Operating profit before working capital changes	177,950	1,177,350
(Increase)/decrease in inventories	(3,168)	227
Increase in debtors and prepayments	(583,397)	(329,928)
(Decrease)/increase in creditors and accruals	(30,086)	423,411
Decrease in amount due to a jointly controlled entity	(1,382)	(3,284)
Cash (use in)/generated from operations	<u>(440,083)</u>	<u>1,267,776</u>

(b) Analysis of net cash inflow in respect of disposal of a subsidiary

	2008 HK\$'000	2007 HK\$'000
Consideration settled in cash	—	49,217
Net cash inflow on disposal	—	49,217

37. BUSINESS COMBINATIONS

- (a) The Group held 88.11% equity interest of Galaxy Casino, S.A. ("GCSA"). The principal activities of GCSA and its subsidiaries are operation in casino games of chance or games of other forms and related activities, provision of hospitality, entertainment and related services. On 29 September 2008, the Group acquired 1.89% equity interest in GCSA.

	HK\$'000
Cash consideration	10,164
Direct costs relating to the acquisition	916
Cash outflow on acquisition	11,080
Assignment of consideration from sales of non-current investments	110,000
Total acquisition cost	121,080
Interest previously held by minority interest	143,080
Excess of fair value of net assets acquired over consideration	(22,000)

- (b) The Group held 40% equity interest in Friendship Catering Management Co Ltd ("Friendship"), a company engaged in catering service at StarWorld Hotel. On 20 February 2008, the Group acquired the remaining 60% equity interest in Friendship. Upon completion of the transaction, Friendship became a wholly owned subsidiary of the Group.

	HK\$'000
Cash consideration	10,000
Assignment of loan from the other shareholder	(7,185)
Total acquisition cost	2,815

The assets and liabilities as at the date of acquisition are as follows:

	Carrying amounts <i>HK\$'000</i>	Fair values <i>HK\$'000</i>
Property, plant and equipment	5,189	5,189
Trade and other receivables	3,099	3,099
Inventories	135	135
Cash and bank balances	815	815
Trade and other payables	<u>(14,140)</u>	<u>(14,140)</u>
Net liabilities acquired	<u>(4,902)</u>	(4,902)
Interest previously held by the Group as investment in a jointly controlled entity		1,961
Excess of consideration over fair value of net assets acquired		<u>5,756</u>
Total acquisition cost		<u>2,815</u>
Cash consideration		10,000
Cash and bank balances acquired		<u>(815)</u>
Net cash outflow on acquisition		<u>9,185</u>

The acquired business contributed revenue of HK\$18,718,000 and net loss of HK\$5,667,000 to the Group for the period since acquisition. If the acquisition had occurred on 1 January 2008, revenue and loss for the year of the Group would have been increased by HK\$1,801,000 and HK\$1,178,000 respectively.

- (c) The Group held 50% equity interest in Prosperity Catering Management Co Ltd ("Prosperity"), a company engaged in catering service at StarWorld Hotel. On 28 February 2008, the Group acquired the remaining 50% equity interest in Prosperity. Upon completion of the transaction, Prosperity became a wholly owned subsidiary of the Group.

	<i>HK\$'000</i>
Cash consideration	1,146
Assignment of loan from the other shareholder	<u>(1,069)</u>
Total acquisition cost	<u>77</u>

The assets and liabilities as at the date of acquisition are as follows:

	Carrying amounts <i>HK\$'000</i>	Fair values <i>HK\$'000</i>
Property, plant and equipment	12,137	12,137
Trade and other receivables	1,184	1,184
Inventories	270	270
Cash and bank balances	718	718
Trade and other payables	<u>(21,331)</u>	<u>(21,331)</u>
Net liabilities acquired	<u>(7,022)</u>	(7,022)
Interest previously held by the Group as investment in a jointly controlled entity		3,511
Excess of consideration over fair value of net assets acquired		<u>3,588</u>
Total acquisition cost		<u>77</u>
Cash consideration		1,146
Cash and bank balances acquired		<u>(718)</u>
Net cash outflow on acquisition		<u>428</u>

The acquired business contributed revenue of HK\$9,714,000 and net loss of HK\$5,974,000 to the Group for the period since acquisition. If the acquisition had occurred on 1 January 2008, revenue and loss for the year of the Group would have been increased by HK\$3,665,000 and HK\$628,000 respectively.

38. CAPITAL COMMITMENTS

	Group 2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Contracted but not provided for	1,867,222	2,519,750
Authorised but not contracted for	<u>5,842,168</u>	<u>3,866,781</u>

39. OPERATING LEASE COMMITMENTS

The future aggregate minimum lease rental expense in respect of land and buildings and equipments under non-cancellable operating leases is payable in the following periods:

	Group 2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
First year	48,453	29,245
Second to fifth years inclusive	76,423	43,518
After the fifth year	<u>105,082</u>	<u>108,742</u>
	<u>229,958</u>	<u>181,505</u>

40. OPERATING LEASE RENTAL RECEIVABLE

The future aggregate minimum lease rental income in respect of land and buildings under non-cancellable operating leases is receivable in the following periods:

	Group	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
First year	15,530	15,752
Second to fifth years inclusive	52,796	54,670
After the fifth year	<u>15,400</u>	<u>35,098</u>
	<u><u>83,726</u></u>	<u><u>105,520</u></u>

41. RELATED PARTY TRANSACTIONS

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 jointly controlled entities amounted to HK\$11,776,000 (2007: HK\$5,409,000) based on terms agreed among the parties and no interest income was received from a subsidiary of K. Wah International Holdings Limited ("KWIH"), a substantial shareholder of the Company (2007: nil).
- (b) Management fee received from jointly controlled entities amounted to HK\$3,047,000 (2007: HK\$3,286,000).
- (c) Rental expenses of HK\$2,008,000 (2007: HK\$2,015,000) were paid to a subsidiary of KWIH based on the terms of the rental agreement between the parties.
- (d) There is no sales of property, plant and equipment to an associated company (2007: HK\$3,122,000).
- (e) The balances with jointly controlled entities and an associated company are disclosed in note 26 and 25(c).
- (f) Key management personnel comprise the Chairman, Deputy Chairman, Managing Director, Deputy Managing Director and other Executive Directors. The total remuneration of the key management is shown below:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	570	547
Salaries and other allowances	19,275	20,364
Discretionary bonuses	8,636	6,782
Retirement benefits	1,053	1,078
Share options	<u>6,656</u>	<u>—</u>
	<u><u>36,190</u></u>	<u><u>28,771</u></u>

42. GUARANTEES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$638,800,000 (2007: HK\$627,109,000), of which HK\$479,425,000 (2007: HK\$307,087,000) have been utilised.

The Group has executed guarantees in favour of a bank in respect of facilities granted to an associated company amounting to HK\$9,125,000 (2007: HK\$9,125,000). At 31 December 2008, facilities utilised amounted to HK\$9,125,000 (2007: HK\$9,125,000).

43. POST BALANCE SHEET EVENTS

- (a) On 31 December 2008, US\$113,890,000 principal amount of the Floating Rate Notes and US\$56,337,000 principal amount of the Fixed Rate Notes were purchased by the Group, through its subsidiary, Galaxy Entertainment Finance Company Limited, for cash at an aggregate amount of approximately US\$86,350,000 (including accrued interest up to the settlement date of 2 January 2009). The purchases were completed with payment made on 2 January 2009 and the estimated gain of approximately HK\$650 million will be recognised in the 2009 financial statements.
- (b) On 18 February 2009, the Group entered into a sale and purchase agreement with a third party (the "Buyer") for the sale of 50% of the issued share capital of Boom Victory Investments Limited ("Boom Victory"), a wholly owned indirect subsidiary of the Group, and a related shareholder's loan to Pioneer for a total consideration of HK\$47,084,895 ("SPA"). Boom Victory is the sole shareholder of K. Wah Materials and Development (Huidong) Company Limited, which in turn, is one of the two shareholders of 惠東嘉華材料有限公司 (K. Wah Materials (Huidong) Limited), being a sino-foreign co-operative joint venture licensed to quarry mine and extract rock at a quarry located in Huidong, Guangdong Province, mainland China. On the same date, the Group and the Buyer entered into a shareholders' agreement to govern the terms of the joint venture in Boom Victory, under which, among other things, the Buyer is required to pay to the Group a total sum of HK\$110,000,000 in seven annual instalments. The SPA was completed and the total consideration of HK\$47,084,895 was received on 18 February 2009.
- (c) On 13 March 2009, the Company purchased US\$50 million principal amount of its Convertible Notes. The aggregate amount to be paid by the Company will be approximately US\$22.5 million, and the estimated gain is approximately HK\$125 million. Payment was made on 1 April 2009.

44. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 24 April 2009.

45. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANY**(a) Subsidiaries**

Name of company	Principal place of operation	Issued share capital			Percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Number of non-voting deferred shares	Par value per share HK\$		
Incorporated in Hong Kong						
Barichon Limited	Hong Kong	3,000,000	—	1	99.93	Sale and distribution of concrete pipes
Chelsfield Limited	Hong Kong	2,111,192	—	10	100	Investment holding
Construction Materials Limited	Hong Kong	30,000	—	10	100	Sale of aggregates
Doran (Hong Kong) Limited	Hong Kong	1,000	—	10	100	Sale and distribution of concrete pipes
Earnmark Limited	Hong Kong	1	—	1	100	Investment holding
Galaxy Entertainment Management Services Limited	Hong Kong	1	—	1	100	Provision of management services

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Name of company	Principal place of operation	Issued share capital			Percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Number of non-voting deferred shares	Par value per share HK\$		
K. Wah Asphalt Limited	Hong Kong	1,100,000	—	10	100	Manufacture, sale and distribution and laying of asphalt
K. Wah Concrete Company Limited	Hong Kong	2	1,000	100	100	Manufacture, sale and distribution of ready-mixed concrete
K. Wah Construction Materials (Hong Kong) Limited	Hong Kong	2	2	10	100	Provision of management services
K. Wah Construction Products Limited	Hong Kong	2	1,000	100	100	Manufacture, sale and distribution of concrete products
K. Wah Materials Limited	Hong Kong	28,080,002	—	1	100	Trading
K. Wah Quarry Company Limited	Hong Kong	200,002	100,000	100	100	Sale of aggregates
K. Wah Stones (Zhu Hai) Company Limited	Zhuhai	2	1,000	10	100	Quarrying
KWP Quarry Co. Limited	Hong Kong	9,000,000	—	1	63.5	Quarrying
Lightway Limited	Hong Kong	2	2	1	100	Property investment
Master Target Limited	Hong Kong	2	—	1	100	Investment holding
Quanturn Limited	Hong Kong	2	—	1	100	Equipment leasing
Rainbow Country Limited	Hong Kong	2	—	1	100	Investment holding
Starflow Enterprises Limited	Hong Kong	1	—	1	100	Investment holding

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
K. Wah Consultancy (Shanghai) Co., Ltd.	Shanghai	US\$350,000	100	Provision of management services
Shanghai Jia Shen Concrete Co., Ltd.	Shanghai	RMB20,000,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shanghai K.Wah Qingsong Concrete Co., Ltd.	Shanghai	US\$2,420,000	100	Manufacture, sale and distribution of ready-mixed concrete
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
Cooperative joint venture				
Beijing K.Wah GaoQiang Concrete Co., Ltd.	Beijing	US\$2,450,000	100	Manufacture, sale and distribution of ready-mixed concrete
K. Wah Materials (Huidong) Ltd.	Huidong	US\$2,800,000	100	Quarrying
Nanjing K. Wah Concrete Co., Ltd.	Nanjing	US\$1,330,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Beicai Concrete Co., Ltd.	Shanghai	RMB31,500,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jiajian Concrete Co., Ltd.	Shanghai	RMB17,400,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shanghai K. Wah Concrete Co., Ltd.	Shanghai	RMB10,000,000	100	Manufacture, sale and distribution of ready-mixed concrete and provision of quality assurance service
Equity joint venture				
Shanghai Ganghui Concrete Co., Ltd.	Shanghai	US\$4,000,000	60	Manufacture, sale and distribution of ready-mixed concrete

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

Name of company	Principal place of operation	Number of ordinary shares	Par value per share	Percentage of equity held by the Group	Principal activities
Incorporated in the British Virgin Islands					
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 Finance Company Limited	Macau	10	US\$1	90	Financing
K. Wah Construction Materials Limited	Hong Kong	10	US\$1	100*	Investment holding
High Regard Investments Limited	Hong Kong	20	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
Taksin Profits Limited	Hong Kong	17	US\$1	100	Investment holding
Right Grand Investments Limited	Hong Kong	100	US\$1	80	Investment holding
Incorporated in Macau					
Galaxy Casino, S.A.	Macau	951,900	MOP1,000	Equity: 90 Profit sharing: 100	Casino games of chance

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

Name of company	Principal place of operation	Number of quota	Registered share capital	Percentage of equity held by the Group	Principal activities
Incorporated in Macau					
StarWorld Hotel Company Limited	Macau	2	MOP100,000	100	Property holding and hospitality
Friendship Catering Management Company Limited	Macau	2	MOP25,000	100	Catering
Prosperity Catering Management Limited	Macau	2	MOP25,000	100	Catering
K. Wah (Macao Commercial Offshore) Company Limited	Macau	1	MOP100,000	100	Trading
Wise Concrete Limited	Macau	2	MOP25,000	75	Trading

* Wholly owned and directly held by the Company

(b) Jointly controlled entities

Name of company	Principal place of operation	Number of ordinary shares	Par value per share HK\$	Percentage of equity held by the Group	Principal activities
Incorporated in Hong Kong					
AHK Concrete Ltd.	Hong Kong	1,000,000	1	50	Manufacture, sale and distribution of ready-mixed concrete

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

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\$4,290,000	30	Manufacture, sale and distribution of slag
Baoshan Kungang & K. Wah Cement Construction Materials Co., Ltd.	Baoshan	RMB253,000,000	25.6	Manufacture, sale and distribution of cement
Beijing Shougang K. Wah Construction Materials Co., Ltd.	Beijing	RMB50,000,000	40	Manufacture, sale and distribution of slag
Guangdong Shaogang Jia Yang New Materials Co., Ltd.	Shaoguan	US\$6,000,000	35	Manufacture, sale and distribution of slag
Maanshan Masteel K. Wah Concrete Co., Ltd.	Maanshan	US\$2,450,000	30	Manufacture, sale and distribution of ready-mixed concrete
Qinhuangdao Shouqin K. Wah Construction Materials Company Limited	Qinhuangdao	RMB60,000,000	50	Manufacture, sale and distribution of slag
Qujing Kungang & K. Wah Cement Construction Materials Co. Ltd.	Qujing	RMB374,520,000	32	Manufacture, sale and distribution of cement
Shanghai Bao Jia Concrete Co., Ltd.	Shanghai	US\$4,000,000	50	Manufacture, sale and distribution of ready-mixed concrete
Shaoguan City New Shaogang Jia Yang New Materials Co., Ltd.	Shaoguan	US\$5,000,000	35	Manufacture, sale and distribution of slag
Yunnan Kungang & K. Wah Cement Construction Materials Co., Ltd.	Kunming	RMB660,000,000	25.6	Manufacture, sale and distribution of cement

(c) Associated Company

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share HK\$	Percentage of equity held by the Group	Principal activities
Incorporated in Hong Kong					
AHK Aggregates Limited	Hong Kong	2,000,000	1	36.5	Quarrying

1. WORKING CAPITAL STATEMENT

In the absence of unforeseen circumstances and taking into account the Land Grant and the financial resources available to the Group, including internally generated funds and the available banking facilities, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for the next 12 months from the date of this circular.

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 August 2009, being the latest practicable date for ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$4,468,179,000, comprising bank loans of approximately HK\$224,513,000 (in which secured bank loans are of approximately HK\$21,700,000 and unsecured bank loans are of approximately HK\$202,813,000, respectively), guaranteed notes of approximately HK\$3,144,158,000, unsecured convertible notes of approximately HK\$1,046,274,000, finance lease obligations of approximately HK\$1,463,000 and unsecured loans from minority shareholders of subsidiaries of approximately HK\$51,771,000. The aggregate amount repayable at 31 August 2009 is as follows:

	<i>HK\$'000</i>
Bank loans repayable	
Within one year	169,973
Between one and two years	37,160
Between two and five years	6,480
Over five years	<u>10,900</u>
	<u>224,513</u>
Guaranteed notes repayable	
Between one and two years	916,992
Between two and five years	<u>2,227,166</u>
	<u>3,144,158</u>
Convertible notes repayable	
Between two and five years	1,046,274
Finance lease obligations payable	
Within one year	1,463
Loans from minority shareholders of subsidiaries	
Repayable on demand	39,555
Within one year	<u>12,216</u>
	<u>51,771</u>
	<u><u>4,468,179</u></u>

Building with net book values of approximately HK\$15,740,000, leasehold land with net book values of approximately HK\$210,793,000 and bank deposits of approximately HK\$53,545,000 have been pledged to secure the Group's banking facilities.

The Group has executed guarantees in favour of banks in respect of facilities granted to an associated company amounting to HK\$9,125,000. These facilities have been fully utilised as at 31 August 2009.

As at 31 August 2009, save as disclosed in this circular and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding, or authorised/ otherwise created but un-issued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured/unsecured, guaranteed or not), any mortgages and charges, any contingent liabilities or guarantees.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 August 2009.

3. NO MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, save for the Land Grant as disclosed in the Letter from the Board in this circular, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008 (being the date to which the latest published audited financial statements of the Group were made up).

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Throughout the six-month period ended 30 June 2009, the management team of the Company has been focused on continuing to deliver improving financial returns for Shareholders, through both growing business volumes in a profitable manner and also implementing a cost efficiency program.

For the six months ended 30 June 2009, the Group recorded revenue and net profit attributable to shareholders of HK\$5,335 million and HK\$1,059 million respectively, as compared to revenue of HK\$5,405 million and a loss of HK\$7,432 million for the corresponding period in 2008. The reporting of a profit is particularly significant as it confirms that the Company has achieved an important milestone in moving from a company that was building a major business to one that is now delivering substantial profits. The Group's adjusted earnings before interest, taxation, depreciation and amortisation (EBITDA) was HK\$507 million, compared to HK\$265 million for the corresponding period in 2008. The earnings per Share for the six months ended 30 June 2009 was 26.9 HK cents, as compared to a loss per Share of 188.8 HK cents for the corresponding period in 2008.

Here is a brief segmental analysis of the Group's operating results for the six months ended 30 June 2009. The gaming and entertainment division contributed HK\$451 million to the Group's EBITDA (HK\$224 million for the corresponding period in 2008). The flagship property, StarWorld Hotel & Casino continued to drive exceptionally strong EBITDA with four consecutive quarters of EBITDA growth. Following the restructure of management agreements in 2008 and adjusting the business model and scale of the operations, the performance of the City Clubs has been substantially improved. The construction materials division contributed HK\$108 million to the Group's EBITDA, which was a modest 1% decline when compared to the corresponding period in 2008. Corporate costs reduced the Group's EBITDA by HK\$52 million (HK\$67 million for the corresponding period in 2008). The savings in corporate costs were a result of the implementation of an operational efficiency program.

The Group's balance sheet is very liquid with cash on hand of HK\$5.4 billion at 30 June 2009. During the six months ended 30 June 2009, the Group further strengthened its already strong balance sheet with a debt buyback program retiring a total of HK\$1,941 million (US\$250 million) of debts at an approximate 50% discount. The Group has generated interest savings of HK\$429 million (US\$55 million) over the life of the debts.

In 2009, we have seen evidence of a slowly recovering world economy and in particular an improving gaming and entertainment environment in Macau. Whilst it may be too early to state categorically that the recent challenging economic experience is over, the Group is cautiously optimistic on the outlook for Macau. Both the Central Government and the Macau Government are actively progressing with major infrastructure initiatives that will support the long term sustainable growth of the Macau economy. StarWorld is poised for further growth having successfully relaunched the mass gaming floor after completion of renovation and facilities upgrade, and with the addition of more VIP gaming tables. The construction of Cotai development project continues and is on schedule to have the external building works completed by the end of this year. The Group is well positioned for future growth and management will continue exercise tight cost control to ensure continuing profitability for the rest of 2009.

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from Vigers Appraisal and Consulting Limited, an independent professional valuer, in connection with the valuation of the property as at 31st August 2009 to be acquired by the Group.

Vigers Appraisal and Consulting Limited

International Property Consultants

10/F, The Grande Building

398 Kwun Tong Road, Kowloon, Hong Kong

Tel: (852) 2810 1100 Fax: (852) 3101 9041

www.Vigers.com



29th September 2009

The Board of Directors
Galaxy Entertainment Group Limited
Room 1606, 16th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

Dear Sirs,

RE: LOTS I, II, III AND IV SITUATED AT NASCENTE DA AVENIDA MARGINAL FLOR DE LOTUS E A SUL DA ESTRADA DA BAIA DE NOSSA SENHORA DA ESPERANCA, COTAI, MACAO SPECIAL ADMINISTRATIVE REGION

In accordance with your instruction for us to value the captioned property to be acquired by “New Galaxy Entertainment Company Limited” which is a subsidiary of “Galaxy Entertainment Group Limited” (referred to as “the Company”) (hereinafter together referred to as “the Group”), we confirm that we have inspected the property, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing our opinion of value of the property as at 31st August 2009 (the “Valuation Date”).

BASIS OF VALUATION

Our valuation is our opinion of market value of the property which is defined as intended to mean “*the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller on an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*”. Our valuation has been prepared in accordance with “The HKIS Valuation Standards on Properties (First Edition 2005)” published by The Hong Kong Institute of Surveyors, the relevant provisions in the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board).

PROPERTY CATEGORISATION

The property being valued is to be acquired by the Group for future development in Macao Special Administrative Region (“Macao”). In the course of our valuation, we have valued the property by adopting direct comparison method of valuation on the assumption that the property can be sold with the benefit of vacant possession as raw land. Comparisons based on prices realized on actual sales of comparable properties have been made. Comparable properties with similar character, location and so on are analyzed and carefully weighed against all respective advantages and disadvantages of the property in order to arrive at a fair comparison of value.

TITLE INVESTIGATION

The property is located in Macao but the property is yet to be registered at “Conservatoria do Registo Predial” (“Property Registration Bureau”), and hence “Informacao Por Escrito do Registo Predial” (“Property Registration Information”) for the property is not yet available as at the Valuation Date. However, we have been provided with a copy of draft land lease of the property to be entered into between the Government of Macao and the Group. All documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property set out in this report. In addition, we have not searched the original documents to ascertain ownership nor to verify any lease amendments which may not appear on the copies handed to us.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the property can be sold in the prevailing market as raw land without the effect of any deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which may serve to affect the value of the property. In addition, no account has been taken into of any option or right of pre-emption concerning or affecting the sale of the property.

In our valuation, we have assumed that the owner of the property has free and uninterrupted rights to use and assign the property during the whole of the term to be granted subject to the payment of usual Government Rent.

No soil investigation has been carried out to determine the suitability of the ground conditions or the services for any property development(s) to be erected on the property. Our valuation has been carried out on the assumption that these aspects are satisfactory. We have also assumed that all necessary consents, approvals and licences from relevant government authorities have been or will be granted without onerous conditions or delay.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property is free from any encumbrances, restrictions and outgoings of an onerous nature which may serve to affect the value thereof.

We have not carried out on-site measurement to verify the correctness of the site and floor areas in respect of the property in concern but we have assumed that the site and floor areas shown on the documents handed to us are correct.

Other special assumption(s) for the property has/have been stated in the footnote(s) of the valuation certificate, if any.

VALUATION CONSIDERATION

We have inspected the property. However, no structural survey nor test on any of the services has been made and we are therefore unable to report as to whether the property is free from rot, infestation or other structural or non-structural defect.

Having examined all relevant documents, we have relied to a considerable extent on the information given by the Group, particularly in respect of planning approvals or statutory notices, easements, tenure, site areas, floor areas, occupancy status and in the identification of the property.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on the information contained in the documents provided by the Group and are therefore approximations. We have had no reason to doubt the truth and accuracy of the information made available to us and we have been advised by the Group that no material facts have been omitted from the information so given.

REMARKS

We declare hereby that we are independent to the Group and we are not interested directly or indirectly in any shares in any member of the Group. We do not have any right or option whether legally enforceable or not to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

Unless otherwise stated, all monetary amounts stated herein are in the currency of Macao Pacata ("MOP"), the lawful currency of Macao.

We enclose herewith our Valuation Certificate.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL AND CONSULTING LIMITED
David W. I. Cheung
MRICS MHKIS RPS(GP) CREA MCIArb
Executive Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 25 years' valuation experience on properties in various regions including Hong Kong, Macao and the PRC, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises.

VALUATION CERTIFICATE

Property to be Acquired by the Group for Future Development Purpose

Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st August 2009												
Lots I, II, III and IV situated at Nascente da Avenida Marginal Flor de Lotus e a Sul da Estrada da Baia de Nossa Senhora da Esperanca, Cotai, Macao	<p>The property comprises four parcels of contiguous land in irregular shape having a total site area of approximately 440,248 square metres with breakdown tabulated as follows:</p> <table><tr><th>Lot</th><th>Site Area</th></tr><tr><td>Lot I</td><td>223,560 square metres</td></tr><tr><td>Lot II</td><td>61,049 square metres</td></tr><tr><td>Lot III</td><td>48,000 square metres</td></tr><tr><td>Lot IV</td><td><u>107,639 square metres</u></td></tr><tr><td>Total</td><td><u><u>440,248 square metres</u></u></td></tr></table> <p>The land-use of the property is comprehensive development with inclusion of casino, hotels, hotel-apartments as well as convention and exhibition centre having a total planned buildable gross floor area of approximately 1,703,714 square metres, and landscaping area of approximately 292,985 square metres.</p> <p>The property is to be held under “Concessao Por Arrendamento” for a lease term of 25 years commencing on the date of Gazette regarding the approval of the aforesaid “Concessao Por Arrendamento” renewable continuously in accordance with the prevailing applicable laws in Macao with aggregate Government Rent of MOP13,207,440.00 per annum during the construction period and aggregate Government Rent of MOP27,317,130.00 per annum upon completion of construction works.</p>	Lot	Site Area	Lot I	223,560 square metres	Lot II	61,049 square metres	Lot III	48,000 square metres	Lot IV	<u>107,639 square metres</u>	Total	<u><u>440,248 square metres</u></u>	<p>The property was vacant.</p>	<p>MOP3,090,000,000</p> <p>(Please also refer to Note 2. below for further details.)</p>
Lot	Site Area														
Lot I	223,560 square metres														
Lot II	61,049 square metres														
Lot III	48,000 square metres														
Lot IV	<u>107,639 square metres</u>														
Total	<u><u>440,248 square metres</u></u>														

Notes:

1. Pursuant to the contract to be entered into between Macao Government, New Galaxy Entertainment Company Limited and Galaxy Casino, S.A., Macao Government intends to grant to New Galaxy Entertainment Company Limited a parcel of land situated at Nascente da Avenida Marginal Flor de Lotus e a Sul da Estrada da Baia de Nossa Senhora da Esperanca with total site area of approximately 440,248 square metres for a term of 25 years with salient terms and conditions extracted as follows:

Gross Floor Area	:	Lot I	
		5-star Hotel	636,038 square metres
		4-star Hotel-apartment	38,260 square metres
		5-star Hotel Carpark	92,280 square metres
		4-star Hotel-apartment Carpark	8,996 square metres
		5-star Hotel Outdoor Area	166,381 square metres
		4-star Hotel-apartment Outdoor Area	1,937 square metres
		Lot II	
		5-star Hotel	125,340 square metres
		4-star Hotel-apartment	65,460 square metres
		5-star Hotel Carpark	19,349 square metres
		4-star Hotel-apartment Carpark	9,728 square metres
		5-star Hotel Outdoor Area	22,450 square metres
		4-star Hotel-apartment Outdoor Area	18,096 square metres
		Lot III	
		Casino	2,500 square metres
		5-star Hotel	95,400 square metres
		Convention and Exhibition Centre	53,000 square metres
		5-star Hotel Carpark	31,636 square metres
		5-star Hotel Outdoor Area	16,719 square metres
		Lot IV	
		5-star Hotel	116,743 square metres
		4-star Hotel	206,357 square metres
		4-star Hotel-apartment	130,930 square metres
		5-star Hotel Carpark	17,102 square metres
		4-star Hotel Carpark	35,201 square metres
		4-star Hotel-apartment Carpark	19,394 square metres
		5-star Hotel Outdoor Area	21,991 square metres
		4-star Hotel Outdoor Area	27,869 square metres
		4-star Hotel-apartment Outdoor Area	17,542 square metres
Transfer of Casino	:	Upon completion of registration for multiple ownership, the casino to be constructed in Lot III of the property shall be transferred by New Galaxy Entertainment Company Limited to Galaxy Casino, S.A..	
Building Covenant	:	8 years from the date of Gazette regarding the approval of "Concessao Por Arrendamento" of the property	
Land Premium	:	Lot I	
		MOP1,353,931,809.00 (of which MOP49,388,424.00 has been settled as of the Valuation Date, MOP650,000,000.00 is payable upon acceptance of the contract; and the residual MOP654,543,385.00 plus interests of 5% per annum is payable in eight half-year instalments with the first instalment due in six calendar months from the date of Gazette regarding the approval of "Concessao Por Arrendamento" of the property)	

Lot II

MOP421,489,698.00 (of which MOP13,486,822.00 has been settled as of the Valuation Date, MOP137,000,000.00 is payable upon acceptance of the contract; and the residual MOP271,002,876.00 plus interests of 5% per annum is payable in eight half-year instalments with the first instalment due in six calendar months from the date of Gazette regarding the approval of "Concessao Por Arrendamento" of the property)

Lot III

MOP211,187,315.00 (of which MOP10,604,063.00 has been settled as of the Valuation Date, MOP68,000,000.00 is payable upon acceptance of the contract; and the residual MOP132,583,252.00 plus interests of 5% per annum is payable in eight half-year instalments with the first instalment due in six calendar months from the date of Gazette regarding the approval of "Concessao Por Arrendamento" of the property)

Lot IV

MOP937,411,183.00 (of which MOP23,779,391.00 has been settled as of the Valuation Date, MOP306,000,000.00 is payable upon acceptance of the contract; and the residual MOP607,631,792.00 plus interests of 5% per annum is payable in eight half-year instalments with the first instalment due in six calendar months from the date of Gazette regarding the approval of "Concessao Por Arrendamento" of the property)

2. Our valuation is made on the basis that the property is remained as vacant raw land as at the Valuation Date, and we have not made any allowance for the land premium payable nor interest payment for stage payment of land premium as at the Valuation Date.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular relating to the Group and confirm, having made all reasonable enquiries that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

A. Directors' Interests

As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:

(i) 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	24,087,632	2,181,518	395,362,426 ⁽¹⁾	2,554,267,923 ⁽²⁾	2,975,899,499	75.57
Francis Lui Yiu Tung	21,498,896	—	407,558,099 ⁽³⁾	2,546,842,504 ⁽²⁾	2,975,899,499	75.57
Joseph Chee Ying Keung	3,103,000	—	—	—	3,103,000	0.08
Paddy Tang Lui Wai Yu	12,939,722	—	—	2,962,959,777 ⁽²⁾	2,975,899,499	75.57
James Ross Ancell	250,000	—	—	—	250,000	0.01
William Yip Shue Lam	250,000	—	—	—	250,000	0.01
Anthony Thomas	—	—	—	—	—	—
Christopher Carter	2,800,000	—	—	—	2,800,000	0.07
Martin Clarke	—	—	—	—	—	—
Guido Paolo Gamucci	—	—	—	—	—	—
Patrick Wong Lung Tak	—	—	—	—	—	—

Notes:

(1) 80,387,837 Shares, 305,401 Shares, 106,716,107 Shares, 162,484,047 Shares, 13,308,179 Shares, 9,660,855 Shares and 22,500,000 Shares were respectively held by Best Chance Investments Ltd., Po Kay Securities & Shares Company Limited, Super Focus Company Limited, Sutimar Enterprises Limited, Premium Capital Profits Limited, Mark Liaison Limited and Favor Right Investments Limited, all controlled by Dr. Lui Che Woo.

(2) A discretionary family trust established by Dr. Lui Che Woo as founder was interested in 1,313,887,206 Shares. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the discretionary family trust, are deemed to have an interest in those Shares in which the trust has an interest.

Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu are, among others, parties to certain arrangements to which Section 317 of the SFO applies and each of them is deemed, for the purpose of the disclosure requirements in Part XV of the SFO, to be interested

in any Shares held by the other parties to such arrangements for so long as such arrangements are in place. The deemed interests pursuant to these arrangements of Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu were 1,240,380,717 Shares, 1,232,955,298 Shares and 1,649,072,571 Shares respectively.

- (3) 114,504,039 Shares were held by Recurrent Profits Limited which is controlled by Mr. Francis Lui Yiu Tung. Top Notch Opportunities Limited ("Top Notch") was interested in 171,916,021 underlying Shares. Kentlake International Investments Limited ("Kentlake") was interested in 60,000,000 Shares and 61,138,039 underlying Shares. Both Kentlake and Top Notch are controlled by Mr. Francis Lui Yiu Tung. The aforesaid underlying Shares had not been delivered to Top Notch and Kentlake and are still counted towards the public float.

(ii) *Share Options*

The particulars of the options held by each of the Directors as at the Latest Practicable Date were as follows:

Name	Date of grant	Number of Options held	Exercise price (HK\$)	Exercise period
Lui Che Woo	30 Dec 1999	1,800,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	2,000,000	0.5140	1 Mar 2004 – 28 Feb 2013
	21 Oct 2005	2,700,000	4.5900	22 Oct 2005 – 21 Oct 2011
	21 Oct 2005	590,000	4.5900	22 Oct 2006 – 21 Oct 2011
	17 Jan 2008	862,500	6.9720	17 Jan 2010 – 16 Jan 2014
	17 Jan 2008	862,500	6.9720	17 Jan 2011 – 16 Jan 2014
	17 Jan 2008	1,725,000	6.9720	17 Jan 2012 – 16 Jan 2014
	8 May 2009	1,150,000	2.1600	8 May 2010 – 7 May 2015
	8 May 2009	1,150,000	2.1600	8 May 2011 – 7 May 2015
	8 May 2009	1,150,000	2.1600	8 May 2012 – 7 May 2015
Francis Lui Yiu Tung	30 Dec 1999	1,600,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,870,000	0.5140	1 Mar 2004 – 28 Feb 2013
	21 Oct 2005	6,000,000	4.5900	22 Oct 2005 – 21 Oct 2011
	21 Oct 2005	580,000	4.5900	22 Oct 2006 – 21 Oct 2011
	17 Jan 2008	1,250,000	6.9720	17 Jan 2010 – 16 Jan 2014
	17 Jan 2008	1,250,000	6.9720	17 Jan 2011 – 16 Jan 2014
	17 Jan 2008	2,500,000	6.9720	17 Jan 2012 – 16 Jan 2014
	8 May 2009	1,666,666	2.1600	8 May 2010 – 7 May 2015
	8 May 2009	1,666,666	2.1600	8 May 2011 – 7 May 2015
	8 May 2009	1,666,668	2.1600	8 May 2012 – 7 May 2015
Joseph Chee Ying Keung	21 Oct 2005	270,000	4.5900	22 Oct 2006 – 21 Oct 2011
	18 Aug 2008	383,000	3.3200	18 Aug 2009 – 17 Aug 2014
Paddy Tang Lui Wai Yu	21 Oct 2005	3,000,000	4.5900	22 Oct 2005 – 21 Oct 2011
	21 Oct 2005	400,000	4.5900	22 Oct 2006 – 21 Oct 2011
	17 Jan 2008	500,000	6.9720	17 Jan 2010 – 16 Jan 2014
	17 Jan 2008	500,000	6.9720	17 Jan 2011 – 16 Jan 2014
	17 Jan 2008	1,000,000	6.9720	17 Jan 2012 – 16 Jan 2014
	8 May 2009	666,666	2.1600	8 May 2010 – 7 May 2015
	8 May 2009	666,666	2.1600	8 May 2011 – 7 May 2015
	8 May 2009	666,668	2.1600	8 May 2012 – 7 May 2015

Name	Date of grant	Number of Options held	Exercise price (HK\$)	Exercise period
James Ross Ancell	21 Oct 2005	250,000	4.5900	22 Oct 2006 – 21 Oct 2011
William Yip Shue Lam	21 Oct 2005	250,000	4.5900	22 Oct 2006 – 21 Oct 2011
Anthony Thomas Christopher Carter	21 Oct 2005	2,500,000	4.5900	22 Oct 2005 – 21 Oct 2011
Martin Clarke	—	—	—	—
Guido Paolo Gamucci	—	—	—	—
Patrick Wong Lung Tak	—	—	—	—

The consideration paid by each of the grantees on each acceptance of the options was HK\$1.00.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules and which were required to be entered into the register required to be kept under section 352 of the SFO.

B. Substantial Shareholders' Interests

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

(i) Interests in the Company

Name	Number of Shares (Long Position)	Percentage of Issued Share Capital
City Lion Profits Corp.	2,975,899,499 ⁽¹⁾	75.57
ENB Topco 2 S.à.r.l	2,975,899,499 ⁽¹⁾⁽³⁾	75.57
Galaxy Entertainment Group Limited	2,975,899,499 ⁽¹⁾	75.57
HSBC International Trustee Limited	1,313,887,206 ⁽²⁾	33.36
Mark Liaison Limited	2,975,899,499 ⁽¹⁾	75.57
Permira Holdings Limited	2,975,899,499 ⁽¹⁾⁽⁴⁾	75.57
Premium Capital Profits Limited	2,975,899,499 ⁽¹⁾	75.57
Recurrent Profits Limited	2,975,899,499 ⁽¹⁾	75.57
Super Focus Company Limited	2,975,899,499 ⁽¹⁾	75.57

Notes:

- (1) City Lion Profits Corp., ENB Topco 2 S.à.r.l, Galaxy Entertainment Group Limited, Mark Liaison Limited, Permira Holdings Limited, Premium Capital Profits Limited, Recurrent Profits Limited and Super Focus Company Limited are, among others, parties having interests in certain arrangements to which Section 317 of the SFO applies and each of them is deemed, for the purpose of the disclosure requirements in Part XV of the SFO, to be interested in any Shares held by the other parties to such arrangements for so long as such arrangements are in place. Their deemed interests pursuant to these arrangements were 1,662,012,293 Shares, 2,333,180,916 Shares, 2,975,899,499 Shares, 2,966,238,644 Shares, 2,177,515,499 Shares, 2,962,591,320 Shares, 2,861,395,460 Shares and 2,706,699,345 Shares respectively.
- (2) HSBC International Trustee Limited is the trustee of a discretionary family trust established by Dr. Lui Che Woo as founder, which was interested in 1,313,887,206 Shares.
- (3) ENB Topco 2 S.à.r.l is deemed to have an interest in the Shares as a result of the direct holding of the Shares by ENB Lux 2 S.à.r.l, its wholly-owned subsidiary.
- (4) Permira Holdings Limited is deemed to have an interest in the Shares in its capacity as the holding company of the general partner and manager of the funds which control the companies holding the Shares.

There was duplication of interests of:

- (i) 1,313,887,206 Shares between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, City Lion Profits Corp. and HSBC International Trustee Limited;
- (ii) 9,660,855 Shares between Dr. Lui Che Woo and Mark Liaison Limited;
- (iii) 13,308,179 Shares between Dr. Lui Che Woo and Premium Capital Profits Limited;
- (iv) 269,200,154 Shares between Dr. Lui Che Woo and Super Focus Company Limited;
- (v) 114,504,039 Shares between Mr. Francis Lui Yiu Tung and Recurrent Profits Limited;
- (vi) 642,718,583 Shares between Permira Holdings Limited and ENB Topco 2 S.à.r.l.; and
- (vii) apart from the above, duplication of interests also existed among Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, City Lion Profits Corp., ENB Topco 2 S.à.r.l., Galaxy Entertainment Group Limited, Mark Liaison Limited, Permira Holdings Limited, Premium Capital Profits Limited, Recurrent Profits Limited and Super Focus Company Limited, which are parties having interests in certain arrangements to which Section 317 of the SFO applies. As a result, each of them is deemed, for the purpose of the disclosure requirements in Part XV of the SFO, to be interested in any Shares held by the other parties to such arrangements for so long as such arrangements are in place. Their interests were duplicated to the extent disclosed in the relevant notes above.

(ii) *Interests in other members of the Group*

Name of subsidiary	Name of direct or indirect owner of shares or equity interest (as the case may be)	Effective % of equity interest held
Archiever Capital Limited	Pedro Ho On Chun	10%
Brilliant Field Investments Limited	Pedro Ho On Chun	10%
Charm Rich International Limited	Pedro Ho On Chun	10%

Name of subsidiary	Name of direct or indirect owner of shares or equity interest (as the case may be)	Effective % of equity interest held
Clear Rise Enterprises Limited	Pedro Ho On Chun	10%
E-cost Enterprises Limited	Ke Guo Bin	22.22%
Fast Concrete Limited	Joint Link Development Limited	25%
Firmever Limited	Joint Link Development Limited	25%
Forcecharm (Hong Kong) Enterprises Limited	Sumitomo Osaka Cement Co., Ltd.	20%
Forcecharm Investments Limited	Sumitomo Osaka Cement Co., Ltd.	20%
Galaxy A Hotel Macau Limited	Pedro Ho On Chun	10%
Galaxy B.T. Resort Limited	Pedro Ho On Chun	10%
Galaxy B1 Hotel Limited	Pedro Ho On Chun	10%
Galaxy Casino, S.A.	Pedro Ho On Chun	10%
Galaxy Entertainment Finance Company Limited	Pedro Ho On Chun	10%
Galaxy Hotel Management Company Limited	Pedro Ho On Chun	10%
Galaxy Professional Services Limited	Pedro Ho On Chun	10%
Galaxy Project Management Company Limited	Pedro Ho On Chun	10%

Name of subsidiary	Name of direct or indirect owner of shares or equity interest (as the case may be)	Effective % of equity interest held
Galaxy Tour & Travel Company Limited	Pedro Ho On Chun	10%
Glory Rise Investments Limited	Pedro Ho On Chun	10%
Green Palace Investments Limited	Pedro Ho On Chun	10%
Guangzhou Jiafang Concrete Co., Ltd.	廣州宏圖實業公司 (Guangzhou Hongtu Enterprise Company)	20%
	廣州市土地開發綜合服務公司 (Guangzhou Land Development Integrated Services Company)	10%
	廣州市房地產實業總公司 (Guangzhou Real Estate Enterprise Company)	10%
惠州大亞灣嘉華混凝土有限公司 (K. Wah Concrete (Huizhou Daya Bay) Limited)	Dayabay Hong Kong Limited	20%
K. Wah Concrete Technology Consultancy Limited	Dayabay Hong Kong Limited	20%
KWP Quarry Co. Limited	Pioneer Quarries (Hong Kong) Limited	36.5%
Majestic Orient Limited	Pedro Ho On Chun	10%
New Galaxy Entertainment Company Limited	Pedro Ho On Chun	10%
Ocean Right Investments Limited	Pedro Ho On Chun	10%

Name of subsidiary	Name of direct or indirect owner of shares or equity interest (as the case may be)	Effective % of equity interest held
Oi Ling Ding (Zhuhai) Precast Concrete Products Limited	珠海市東區恒升建材有限公司 (Zhuhai Eastern District Hengsheng Construction Materials Company Limited)	25%
Perfect Smart International Limited	Pedro Ho On Chun	10%
遷安首嘉建材有限公司 (Qianan Shougang K. Wah Construction Materials Company Limited)	首鋼總公司 (Shougang Corporation) 河北省首鋼遷安鋼鐵有限責任公司 (Hebei Shougang Qian'An Iron & Steel Co., Ltd.)	30% 15%
Right Grand Investments Limited	Sumitomo Osaka Cement Co., Ltd.	20%
Shanghai Ganghui Concrete Co., Ltd.	上海徐房建築實業公司 (Shanghai Xufang Construction Enterprise Company)	40%
Shanghai Jiajian Concrete Co., Ltd.	上海市第一市政工程有限公司 (Shanghai Diyishizheng Construction Materials Company Limited)	39%
Sky Majestic Enterprises Limited	Pedro Ho On Chun	10%
StarWorld Hotel Company Limited	Pedro Ho On Chun	10%
Success Management Services Company Limited	Pedro Ho On Chun	10%
Success Tower Properties Limited	Pedro Ho On Chun	10%
Top Hit Technology Limited	Hong Kong-Dal Limited Digital Ventures Limited	20% 10%

Name of subsidiary	Name of direct or indirect owner of shares or equity interest (as the case may be)	Effective % of equity interest held
Top Line Road Safety Engineering Co. Limited	Hui Tak Chin Wan Wing Shun	22% 10%
Wealth Ahead Investments Limited	Pedro Ho On Chun	10%
Wise Concrete Limited (incorporated in the British Virgin Islands)	Joint Link Development Limited	25%
Wise Concrete Limited (incorporated in Macau)	Joint Link Development Limited	25%
Year Forward Limited	Pedro Ho On Chun	10%

Save as disclosed above, the Directors are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

C. Competing Interests of Directors and Associates

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business (other than as an independent non-executive director) which competes or is likely to compete, either directly or indirectly, with the business of the Group.

D. Directors' Service Contracts

As at the Latest Practicable Date, none of the Directors has entered into any service contracts with any members of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

E. Litigation

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

F. Interests in Assets of the Group

As at the Latest Practicable Date, none of the Directors or Vigers Appraisal and Consulting Limited had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2008 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

G. Interests in Contracts

As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangements entered into by any member of the Group and subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

H. Qualifications of Expert and Consent

- (i) The following are the qualifications of the expert which has given an opinion or advice contained in this circular.

Name	Qualifications
Vigers Appraisal and Consulting Limited ("Vigers")	Property valuer

- (ii) Vigers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of references to its name and its letter in the form and context in which it appears.
- (iii) As at the Latest Practicable Date, Vigers did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

I. Material Contracts

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular and are or may be material:

- (1) a subscription agreement dated 8 October 2007 between the Company, ENB LUX 1 S.à.r.l, ENB LUX 2 S.à.r.l., and Permira IV L.P.1 for the subscription by ENB LUX 1 S.à.r.l and ENB LUX 2 S.à.r.l. of 323,384,000 new Shares in aggregate;
- (2) an investors' rights agreement dated 8 October 2007 between the Company, ENB LUX 1 S.à.r.l, Permira IV L.P.1, City Lion Profits Corp., Super Focus Company Limited, Mark Liaison Limited, Premium Capital Profits Limited, Dr. Lui, Recurrent Profits Limited, Francis Lui Yiu Tung and Paddy Tang Lui Wai Yu concerning ENB LUX 1 S.à.r.l's right to appoint directors to the Board, amongst other things;
- (3) a conversion and repayment agreement dated 8 October 2007 between the Company, City Lion Profits Corp. and Recurrent Profits Limited in relation to the conversion and repayment of certain variable rate unsecured loan notes issued by the Company;
- (4) a placing agreement dated 11 October 2007 between the Company and Merrill Lynch Fast East Limited relating to 150,000,000 Shares;
- (5) an agreement for sale and purchase of shares in Boom Victory Investments Limited dated 18 February 2009 between Spring High Limited, Pioneer Quarries (Hong Kong) Limited, K. Wah Construction Materials (Hong Kong) Limited and Alliance Construction Materials Limited, under which, inter alia, Spring High Limited has agreed to sell shares and a related shareholder's loan to Pioneer Quarries (Hong Kong) Limited for a consideration of HK\$47,084,895;
- (6) a shareholders' agreement dated 18 February 2009 between Spring High Limited, Pioneer Quarries (Hong Kong) Limited, K. Wah Construction Materials (Hong Kong) Limited, Alliance Construction Materials Limited and Boom Victory Investments Limited setting out the terms of the joint venture in Boom Victory Investments Limited; and
- (7) the draft Concession Contract.

J. Documents Available for Inspection

Copies of the following documents are available for inspection at the office of Richards Butler in association with Reed Smith LLP at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 13 October 2009:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for the three financial years ended 31 December 2006, 31 December 2007 and 31 December 2008;
- (iii) the valuation report from Vigers Appraisal and Consulting Limited on the Property, the text of which is set out in Appendix III of this circular;
- (iv) the written consent referred to in the paragraph headed “Qualifications of Expert and Consent” in this appendix;
- (v) all material contracts referred to in the paragraph headed “Material Contracts” in this appendix; and
- (vi) the circular of the Company dated 10 March 2009 on connected transactions - Formation of a Strategic Joint Venture for Quarrying Business in Huidong, Mainland China.

K. General Information

- (i) The company secretary of the Company is Miss Kitty Chan Lai Kit, B.A., an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.
- (ii) The share registrar of the Company is Computershare Hong Kong Investor Services Limited, Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (iii) The English version of this circular shall prevail over the Chinese text.