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

Stock Code: 27

Annual Report 2007

Mystical Oasis

Galaxy mega resort

Live the Thrill

CONTENTS

CORPORATE INFORMATION

CHAIRMAN

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

DEPUTY CHAIRMAN

Mr. Francis Lui Yiu Tung

EXECUTIVE DIRECTORS

Mr. Chan Kai Nang
Mr. Joseph Chee Ying Keung
Ms. Paddy Tang Lui Wai Yu, *JP*

NON-EXECUTIVE DIRECTORS

Dr. Charles Cheung Wai Bun, *JP**
Dr. Moses Cheng Mo Chi, *GBS, OBE, JP*
Mr. James Ross Ancell*
Dr. William Yip Shue Lam, *LLD**
Mr. Anthony Thomas Christopher Carter
Dr. Martin Clarke
Mr. Guido Paolo Gamucci

* *Independent Non-executive Directors*

AUDIT COMMITTEE

Dr. Charles Cheung Wai Bun, *JP*
Dr. Moses Cheng Mo Chi, *GBS, OBE, JP*
Mr. James Ross Ancell

REMUNERATION COMMITTEE

Mr. Francis Lui Yiu Tung
Dr. Charles Cheung Wai Bun, *JP*
Dr. William Yip Shue Lam, *LLD*

COMPANY SECRETARY

Ms. Kitty Chan Lai Kit

QUALIFIED ACCOUNTANT

Ms. Betty Chiu So Wan

AUDITOR

PricewaterhouseCoopers

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

STOCK CODE

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

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CHAIRMAN'S STATEMENT

Chairman

Dr. Lui Che Woo

GBS, MBE, JP, LLD, DSSc, DBA

Business Person of the Year 2007

– DHL/SCMP Hong Kong Business Awards

Lifetime Achievement Award

– by American Academy of Hospitality Sciences in 2007

Dear Shareholders,

In 2007, Galaxy Entertainment Group Limited ("Galaxy" or the "Group") continued to deliver strong results. The Gaming and Entertainment Division has further strengthened Galaxy's position in the Macau market and laid a solid foundation for the business going forward. The Construction Materials Division has achieved significant improvements, both in terms of growth and profitability, under challenging market conditions, especially in mainland China.

For the year ended 31st December 2007, revenue from Galaxy's Gaming and Entertainment Division was HK$11,481 million, representing a 239% growth from the previous year.

NOTEWORTHY ACCOMPLISHMENTS

The partnership with international private equity firm, Permira Funds, has strengthened the competitiveness of Galaxy.

In October 2007, we concluded the negotiation for Permira Funds to become a 20% shareholder of the Group. The transaction, which was completed in November, is a vote of confidence from a leading member of the international investment community to Galaxy in recognition of its prospects, business philosophy and strategy, and capable management team. Galaxy is also very pleased to form strategic partnership with this expert in the global gaming sector and consumer market expert. Riding on their expertise and network of premium international brands, the Group is confident of injecting innovative concepts into Galaxy mega resort, which will in turn significantly enhance Galaxy's overall competitiveness. The equity injection from the transaction has substantially strengthened the capital base and greatly enhanced the financing capability and flexibility of the Group.

The outstanding product quality and standard of service at StarWorld Hotel has not gone unnoticed. In November 2007, StarWorld was honored with the 5-star Diamond Award from the American Academy of Hospitality Sciences – renowned for awarding excellence in the global travel and luxury services sector. StarWorld achieved this award in its first full year of operation and is the only hotel to qualify for this award in Macau. In January 2008, StarWorld Hotel also achieved the "High-Flyer Award" by the renowned Hong Kong Business Magazine. In March 2008, StarWorld was further honored with the award of "The TOP 10 City-Nova Hotels of China".

THE REMARKABLE EXPANSION OF THE MACAU MARKET

Tourism in Macau continues to enjoy strong growth in 2007 with the number of visitors increased by 23% to 27 million. The majority of the visitors come from Mainland China (55%) and about 30% from Hong Kong. The gaming sector experienced an even more remarkable expansion with gross gaming revenue increased by 46% to MOP83.8 billion. Macau overtook Las Vegas in gaming revenue in 2007 and is today the biggest gaming center in the world.

Galaxy is well positioned in this fast growing market with our flagship — StarWorld Hotel and Casino in the Peninsula gaming hub and the Galaxy mega resort being developed in the Cotai entertainment hub. The Group is the only operator presently that will have a flagship property in both key locations. The Group is confident that Galaxy mega resort, when opened, will considerably enhance its revenue generating capability and competitiveness, setting it apart from its industry peers in the competitive market. Furthermore, the Group's flexibility to continue to roll out new offerings is ensured by the land bank in Cotai.

GALAXY MEGA RESORT — MYSTICAL OASIS

With its finger on the pulse of the market, the Group has planned carefully the positioning and long term development direction of Galaxy mega resort, aiming to make it the most competitive service and entertainment facility. As always, the Group leverages on the management team's in-depth understanding of the Asian and Chinese culture in developing Galaxy mega resort; and takes full advantages of our project team's local knowledge and experience in construction management. Our management is conscientious of the principle of developing world-class quality products as well as the importance of delivering satisfactory return on investment.

In view of the strong surge of the Macau gaming market in 2007, the gaming capacity in Galaxy mega resort, especially for the VIP business, has been scaled-up to accommodate the expanded demand.

The Galaxy mega resort is presently scheduled to open in mid 2009. The mega resort themed a Mystical Oasis will be a fully integrated complex of entertainment, leisure and gaming facilities with enchanting charisma promising magical adventures to its guests.

The Group is pleased to conclude negotiations and partner with an up-market Japanese hotel group Okura Hotels and Resorts. Galaxy and Okura share a lot of common ideology, including a high expectation for Asian-standard service quality and hospitality. Okura will manage one of the three hotels in Galaxy mega resort which will comprise the initial anchor cluster for the whole 15 million square feet development in Cotai.

THE HUMAN FACTOR

In 2007, the openings of new casinos in the market continued to put pressure on staff recruitment and training. The Group has established our own Centre of Excellence for Casino Training. The facility has been a success in producing an adequate number of well trained gaming staff of world-class standard for Galaxy's casinos and contributing to the quality service standard.

Galaxy is very pleased to have Mr. Robert Drake, who has extensive finance and advisory experience in the gaming industry, joining us as the Group Chief Financial Officer. Mr. Drake worked previously with Harrah's Entertainment in Las Vegas where he most recently served as Vice President, Finance for the Western Division which includes their extensive Nevada operations.

The Group recruited throughout the year many experienced and high calibre gaming veterans as well as professionals in other important corporate functions such as project development, information systems and technology, legal, and strategic marketing to broaden and strengthen the existing management team.

CORPORATE GOVERNANCE

Management fully appreciates the high standard of corporate governance and transparency expected from a world-class company. The Group conscientiously reviews its internal control and compliance standards to ensure the appropriate best practices are adopted.

The Group welcomed the appointment of Dr. Martin Clarke and Mr. Guido Paolo Gamucci as non-executive Directors of the Company in November 2007 and believes that their appointment will bring substantial management expertise and business experience to support the growth of business and the realization of our established vision to be a world-class company and a leading Asian-based gaming and entertainment group.

I would also like to pay tribute to our retiring Directors. Mr. Chan Kai Nang will retire as executive Director and the Managing Director of the Construction Materials Division on 1st May 2008. Dr. Charles Cheung Wai Bun will retire as independent non-executive Director and will not seek for re-election at our Annual General Meeting on 19th June 2008. On behalf of the Board, I extend my sincere appreciation to both of them for their continuous efforts and contributions to the Group. I also congratulate Mr. Joseph Chee Ying Keung on his appointment as the Managing Director of the Construction Materials Division with effect from 1st May 2008.

CLOSING REMARKS

2007 has been a fruitful year for the Group, we have received recognitions for our accomplishments, collected valuable experience with another year of operation, especially from our own flagship property – StarWorld, and competed successfully with the other concession holders. To face the intense competition and challenge in 2008 and perform, the Group must build on its accomplishments – maintaining its momentum in the VIP sector and making further in-roads into the mass market. Our focus in 2008 is to make StarWorld an even more effective and efficient revenue driver for the Group until Galaxy mega resort comes into operation. While the importance of the City Club casinos has been taken over by StarWorld, they are still delivering valuable market share and contributing to the overall profitability of the Group.

In closing, I would like to take this opportunity to extend my heartfelt appreciation to my fellow Directors and dedicated staff for their tireless efforts to achieve the mission for Galaxy to become the leading Asian-based gaming, leisure and entertainment group. I look forward to working with them to build on the success we achieved in 2007 and work diligently and proactively in face of the increasingly competitive market environment and accomplish even greater success for the Group in 2008 and beyond.

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

Hong Kong, 18th April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

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

REVIEW OF OPERATIONS

Year 2007 was a productive year for Galaxy Entertainment Group as we delivered a solid financial performance and continued to successfully execute our corporate strategy of becoming a leading player in Macau, the world's largest gaming market. StarWorld Hotel & Casino led the Gaming and Entertainment Division where it reported healthy financial results for its first full year of operation. The development of the Galaxy mega resort, the key driver of the next phase of the Group's growth strategy, has advanced substantially. City Club casinos continued to generate a profitable stream of revenue for the Division in an increasingly more competitive market. Finally, the solid results of the Construction Materials Division helped to propel the Group to new heights.

Permira Funds — Our New Strategic Shareholder

In November 2007, Permira Funds, one of the world's leading private equity groups, invested US$840 million in exchange for a 20% ownership stake in the Group. We are especially proud of this strategic relationship which reaffirms our belief in the vision for the Group. Our relationship with Permira not only significantly improves our capital position but will enhance our competitiveness by leveraging Permira's proven expertise in the global consumer and gaming sectors.

Group Financial Results

Revenue and profit attributable to shareholders for the year ended 31st December 2007 was $13,035 million and a loss of $466 million respectively, as compared to revenue of $4,669 million and a loss of $1,532 million for the year ended 31st December 2006. The Group's revenue was significantly higher than that of last year reflecting the significant expansion in the Gaming and Entertainment operations, with the opening of 4 more casinos in Macau during the year of 2006, including the Group's flagship, StarWorld.

The Group's revenue for the first half of 2007 was $6,332 million and for the second half was $6,703 million, up 6%. StarWorld's revenue for the first half was $3,639 million, and for the second half was $4,372 million, up 20%.

For the year ended 31st December 2007, the Group's earnings before interest expense, tax, depreciation and amortisation (EBITDA) was $1,461 million, up from $437 million for the previous year, an increase of 234%.

This strong result in 2007 reflects the continued solid performance of all operating divisions and in particular strong revenue gains and improved efficiencies from StarWorld over the year.

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

The Group's accounting loss for the year was reported after:

- Non-cash depreciation and amortisation charges of $1,413 million, including the $998 million amortisation of the intangible asset arising from the acquisition of the Macau operation in 2005.
- $557 million in finance charges.
- Non-recurring items of $39 million which mainly include the realised and unrealised gains on investments, impairment losses of assets, gain on partial disposal of jointly controlled entities and pre-opening expenses related to the construction of the Galaxy mega resort, including staff costs, training, launch, marketing and branding expenses.

Set out below is the segmental analysis of the Group's operating result for the year ended 31st December 2007.

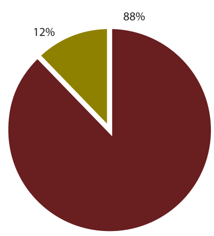
EBITDA (EXCLUDING NON-RECURRING ITEMS AND AFTER INTEREST INCOME ALLOCATION)

	Gaming and Entertainment HK$'M	**Construction Materials** HK$'M	**Corporate** HK$'M	**2007 HK$'M**	2006 HK$'M
Revenue	11,481	1,554	—	**13,035**	4,669
Operating (loss)/profit	(203)	75	209	**81**	(1,032)
Share of profits of jointly controlled entities	—	6	—	**6**	31
Depreciation and amortisation	1,287	123	3	**1,413**	1,190
Non-recurring items	22	7	(68)	**(39)**	248
EBITDA (excluding non-recurring items)	1,106	211	144	**1,461**	437
Interest income allocation	117	8	(125)	**—**	—
EBITDA (excluding non-recurring items and after interest income allocation)	1,223	219	19	**1,461**	437

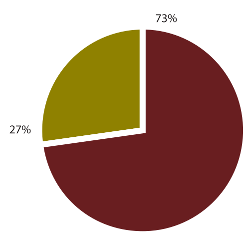
TURNOVER BY DIVISION

	2007 HK$'000	2006 HK$'000
Gaming and entertainment	**11,481,227**	3,388,767
Construction materials	**1,554,212**	1,280,728
	13,035,439	4,669,495

2007

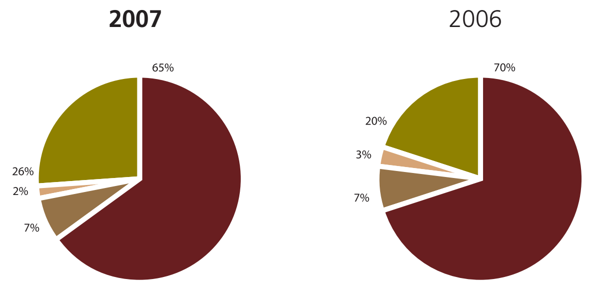


2006



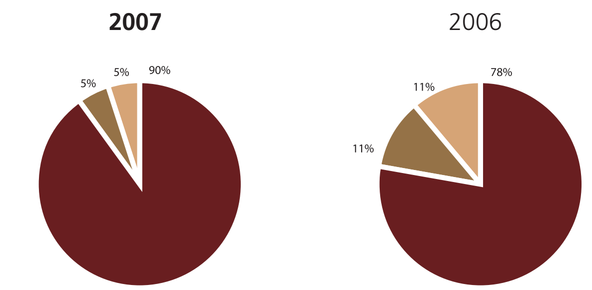
EMPLOYMENT OF TOTAL ASSETS

	2007 HK$'000	2006 HK$'000
Gaming and entertainment	**20,590,530**	20,400,561
Construction materials	**2,365,141**	2,172,168
Corporate office	**575,158**	853,072
Cash and bank balances	**8,230,362**	5,783,197
	31,761,191	29,208,998



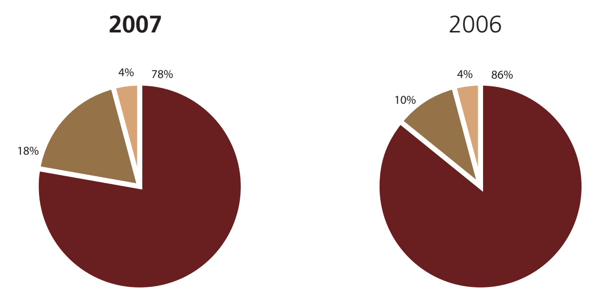
TURNOVER BY GEOGRAPHICAL SPREAD

	2007 HK$'000	2006 HK$'000
Macau	**11,756,085**	3,620,336
Hong Kong	**686,311**	516,380
Mainland	**593,043**	532,779
	13,035,439	4,669,495



TOTAL ASSETS BY GEOGRAPHICAL SPREAD

	2007 HK$'000	2006 HK$'000
Macau	**24,698,271**	25,077,008
Hong Kong	**5,694,789**	2,860,182
Mainland	**1,368,131**	1,271,808
	31,761,191	29,208,998



GAMING AND ENTERTAINMENT DIVISION

Overview

Macau gaming market continued to grow at an astounding 47% from $55 billion to $81 billion in 2007 which surpassed Las Vegas to emerge as the largest gaming market in the world. Every segment of the gaming market grew last year including the VIP market with 52%, mass market with 33% and slot machines with 75% for the year.

Galaxy's casinos generated net gaming revenues of $14.7 billion for the year (of which $11.5 billion is recognised in the statutory accounts due to the differing agreements with the City Club casinos' service providers).

StarWorld

2007 was the first full year of operations at StarWorld. During the year, a number of enhancement and additions were made to the property. These included: increasing the number of mass tables on the popular Level One gaming floor by 40% from 85 tables to 122 tables, adding 5 additional exclusive VIP gaming rooms, taking the total number of VIP tables from 32 in January to 69 at year end, increasing the number of slot machines on offer from 335 to 502, opening of the very popular high limit premium play Jinmen Room where we have achieved net win per table per day 100% above the net wins on the mass gaming floors, and the launch of StarWorld Ballroom and banquet areas on level 8.

Competition has intensified throughout 2007 and in particular in the second half of 2007 which experienced the opening of a number of new casinos and the capacity expansion of a number of existing casinos. In 2007, the total number of gaming tables increased by 58% from 2,762 to 4,375 and the number of slot machines increased by 103% from 6,546 to 13,267 machines.

In spite of this significant increased competition, StarWorld continued to produce a 36% return on investment for the shareholders. For the year ended 31st December 2007, StarWorld generated total revenues of $8,011 million and earned an EBITDA of $1,115 million, with an EBITDA margin of 14%.

Gaming results for StarWorld's three distinct gaming segments were as follows:

- VIP gaming revenue for the year was $6,027 million. VIP turnover was $203.4 billion with a win percentage of 3.0%, which was over the expected range of 2.7% to 2.9%. Win per table per day continues to grow and for the fourth quarter averaged $329,000 with a win rate of 3.3%.

- Mass table games revenue for the year was $1,543 million. Table games drop was $9.9 billion with a win percentage of 15.6%. StarWorld's mass gaming revenues increased during the fourth quarter which together with improving operational efficiencies and a hold percentage of 15% resulted in significant improvement in the contribution from StarWorld's mass gaming operations. Win per table per day continues to improve and averaged over $33,000 for the fourth quarter of 2007.

- Slot machine revenue for the year was $190 million. The slot machine win per unit per day for the fourth quarter averaged over $1,000 with an average number of 476 slot machines and this result was achieved after the number of slot machines was increased by 8% from 464 to 502 machines during the quarter.

- Tips revenue for the year was $17 million.

VIP gaming accounted for 77.7% of total gaming revenues for the year, with mass (excluding Jinmen) contributing 16.5%, Jinmen 3.4% and slots 2.4%. By the fourth quarter this segmentation was as follows, VIP 81.0%, mass (excluding Jinmen) 11.8%, Jinmen 4.9% and slots 2.3%.

StarWorld's non-gaming revenues for the year were $234 million. The revenue for the first half of the year was $96 million and this increased to $138 million in the second half of the year.

Official Macau Government statistics indicate that the level of occupancy for 5 star hotels in Macau was 70.2% in January 2007, increasing to 82.2% by December. While the market's average occupancy rate for the year was 75.3%, StarWorld achieved a significantly higher than market occupancy rate of 83.4% for the full year.

The Ballroom was opened on 29 November 2007 and its first event was StarWorld's inaugural anniversary. Since then, numerous events have been held in the facility throughout December. We expect this venue to provide a significant increase in our banquet revenue in 2008 and will also be utilized as a venue for player events as part of our ongoing player acquisition, retention and loyalty program.

Galaxy Mega Resort

Mystical Oasis

Galaxy mega resort will offer a truly unique and different product to the rapidly growing Macau market. The theme of Galaxy mega resort is a Mystical Oasis; it truly will be a paradise oasis of running water and lush tropical trees. On the roof of the casino will be one of the world's largest lagoon wave pools measuring 300 feet by 350 feet with two foot beach waves.

The golden external glass curtain walls will radiant wealth and when combined with lush oasis of water and trees will be an irresistible attraction to all visitors of Macau.

The casino portion of the resort will be one of the largest casinos in the world and the sheer scale of the casino will certainly leave a lasting impression on all visitors. A number of unique features is being incorporated into the casino podium including a brilliant laser light citadel and a fire and water extravaganza.

We believe that Galaxy mega resort truly will be a Mystical Oasis.

Okura Hotel partnership

We are delighted to confirm that the world famous Japanese hotel group, Okura Hotels has entered into an agreement to manage a 400 room hotel within the second hotel tower. Okura Hotels are the number one rated hotels in both Japan and Korea and interestingly in 2007, visitor arrivals to Macau from Japan and Korea grew 36% and 39%, respectively.

We expect to be in a position to announce an additional hotel partner in the very near future.

Development Update

In response to the robust growth of the Macau gaming market, Galaxy mega resort is reconfigured and expanded to have an additional hotel tower and a bigger gaming podium to meet the market demand. The construction of Galaxy mega resort is proceeding along its critical construction path. We wish to reinforce that Area I of Galaxy mega resort is approximately a 5 million square feet development, making this entertainment complex one of the largest developments in all of Macau.

The first hotel tower has been topped out. The gold glass curtain wall is presently being fitted and it is already 60% complete, the fitting out of the 1,500 hotel rooms and suites will commence in July 2008.

The massive Casino podium superstructure has practically completed and the fitting out of the Casino interior will commence in July 2008.

The second tower, which will house two hotels, commenced construction in January 2008 and we are currently adding a floor to the superstructure every 6 days. We expect to top out the superstructure in November 2008. The fitting of the glass curtain wall will commence in August 2008 and to speed the construction process, we will simultaneously fit the glass curtain wall on the lower levels of the tower as we are adding superstructure levels to the top of the tower. Following rapidly behind the glass curtain wall, we will be fitting the services which commence in September 2008.

We will open Hotel Tower One and the Casino in mid 2009 and the second Hotel Tower is scheduled to open late 2009.

Project Funding

Galaxy is in a very comfortable position in regard to the funding of the Galaxy mega resort. The construction, fit out and land costs of Area I of the project, are estimated at approximately $10 billion. Up to the end of 2007, we have already invested approximately $2 billion with an additional $8 billion still to spend. With the cash holdings in the bank as at 31st December 2007 of approximately $8.3 billion and expected cash to be generated from operation, the construction of Galaxy mega resort is fully funded.

Galaxy Cotai Land

Our Cotai Land Bank continues to represent a critical component of our long term development strategy. A recent land sale transaction confirms the fact that Galaxy has a very valuable asset on hand which is not yet recorded on the balance sheet. In January 2008, one million square feet of Gross Floor Area on Cotai at a price of $1,667 per square foot was sold in the market. In regard to Galaxy, approximately 5,000,000 square feet out of a total Gross Floor Area of 15,200,000 square feet is presently under construction, leaving 10,200,000 square feet as a land bank.

Galaxy's City Club Casinos

Galaxy's City Club casinos have continued to perform well in an increasingly competitive environment. City Club casinos' focus is predominately on the VIP gaming market and has proven to be the correct strategic decision.

City Club casinos' gaming revenues for the year ended 31st December 2007 were $7.0 billion (of which $3.5 billion is recognised in Galaxy's statutory accounts due to the differing agreements with the City Club casinos' service providers). In spite of keen competition from new properties, the City Club casinos captured 9% of the Macau gaming market for the year, with strong VIP gaming revenues and innovative mass gaming products. City Club casinos' EBITDA for the year was $175 million.

The City Club casinos operate 260 gaming tables and 510 slot machines. We believe that whilst StarWorld is our main profit driver, the City Club casinos will continue to provide a valuable complimentary service to selected VIP clientele.

USGAAP Comparisons

In comparing our Gaming and Entertainment Division's results to those of US corporations whose results are prepared under generally accepted accounting principles in the United States ("USGAAP"), it should be noted that gross gaming revenues, presented under USGAAP, are reduced by commissions and discounts paid to players, to arrive at net gaming revenues. An adjusted EBITDA margin would then be calculated based on these reduced net gaming revenues, resulting in a significantly higher EBITDA margin than that calculated under Hong Kong accounting standards. Galaxy complies with Hong Kong accounting standards. If calculated under USGAAP, StarWorld's 2007 EBITDA margin would be approximately 23%, as compared to Hong Kong GAAP which would give an EBITDA margin calculation of 14%.

Corporate Costs

During the year, the Group incurred net corporate costs of $214 million, offset by $165 million of interest income, reducing EBITDA by $49 million.

Total interest expense for the year was $557 million of which $112 million was non-cash imputed interest expense on the US$240 million convertible notes issued in December 2006.

CONSTRUCTION MATERIALS DIVISION

2007 was a year of considerable success, with the Group's construction materials business again delivering a strong performance. Sales and profit exceeded last year, the division's revenues were $1,554 million and it contributed $219 million to the Group's EBITDA. Once again, the benefit of management's continuing use of its centralised offshore procurement platform to achieve diverse, stable and cost-effective supply of construction materials, together with the strategic investments in the past few years, resulted in higher profit.

The economic backdrop to the year was on balance reasonable, although as always it varied somewhat by region and markets. The benefits of the balanced spread of operations across geographic regions and construction sectors were again demonstrated in these results.

Hong Kong and Macau

In the past year, the demand for construction materials in Hong Kong has gradually improved as more construction works were released to the market. In particular the ready mixed concrete operation in Hong Kong achieved higher sales volume and delivered improved profit contribution for the year. The recent policy address by the Chief Executive indicated that the government will implement some sizeable infrastructural projects such as Shatin to Central Link, new Government Head quarters and the East Kowloon development, over the next few years. In addition the Central Government has now approved the construction of the Hong Kong, Macau, Zhuhai bridge which we understand will on completion, be the longest bridge in the world, linking among Hong Kong, Macau and Mainland China. These infrastructure projects will significantly stimulate the construction materials market; the division is strategically well positioned to capitalise on the increasing market demand and further consolidate its position as a leading supplier of quality construction materials.

The long-term rehabilitation contracts with the Hong Kong SAR Government at Anderson Road Quarry and Lam Tei Quarry continue to provide the division with secured supplies of aggregates in strategically beneficially locations. Completing the integration of the acquired Tarmac asphalt, surfacing, and road marking business during the year, together with continued focus on developing new products, particularly recycled materials, ensures that the division is now a fully integrated construction materials supplier offering our customers a good range of material products and services unrivaled in Hong Kong.

In Macau, the demand for construction materials remains strong and we have further improved our production efficiency and capacity to cope with the increasing market demand. The operation continued to provide good profit contribution to the division during the year.

Mainland

The trading environment posed particular challenges, not least of which was the continuing austerity measures imposed by Central Government to cool the overheated economy in most of the larger cities, which have reduced the level of construction activities in those markets. Competition in the market also intensified which combined with increases in raw material costs applied downward pressure on operating margins. Nevertheless, the division has continued to make progress by an unrelenting focus on cost saving programs and improving operating efficiency, enabling the division to enhance its market competitiveness.

Our joint ventures with leading steel producers for the manufacture and sale of granulated blast-furnace slag (GGBFS) in the Mainland continue to generate good profit contribution for the Group. Further expansion in GGBFS production facilities is in progress and setting up of new joint ventures is being considered to further strengthen and consolidate the Group's position as a leading slag producer in the Mainland.

In respect of the division's cement joint ventures in Yunnan Province, the investments are progressing as planned, with the plant in Baoshan commencing commercial production in January 2008. A third cement plant in Shizong, Qujing, commenced construction during the year and is expected to commence commercial operation in the second half of 2008. Together the combined production facilities in Anning, Baoshan and Shizong will have an installed cement production capacity of five million tonnes per year. With further investments under consideration in other cities, these developments in total underline the division's commitment to become one of the leading cement producers in the growing regional market, and will contribute greatly to the future progress and profitability of the division.

GROUP OUTLOOK FOR 2008

We are highly confident that the Group is well positioned to execute its long term strategy of providing a high quality gaming and resort experience for our valued customers while delivering strong returns to our shareholders. 2007 was a successful year for the Group. We believe that the Macau market will continue to evolve at a rapid pace in 2008 as the market absorbs the impact of recent and future new properties and competition intensifies across all business segments including areas such as VIP gaming. We are prepared to address these challenges and look forward to another rewarding year in 2008 in our core operations as well as developing the Galaxy mega resort.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group has remained strong during the year. The shareholders' funds as at 31st December 2007 was $18,407 million, an increase of approximately 35% over that as at 31st December 2006 of $13,633 million while the Group's total assets employed increased to $31,761 million as compared to $29,209 million as at 31st December 2006.

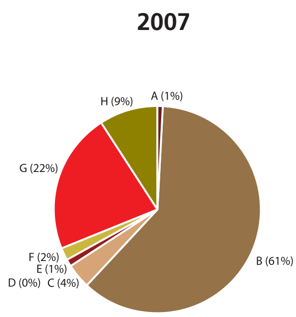
The Group continues to maintain a strong cash position. As at 31st December 2007, total cash and bank balances were $8,230 million as compared to $5,783 million as at 31st December 2006. The Group's total indebtedness was $6,506 million as at 31st December 2007 as compared to $8,973 million as at 31st December 2006. The Group was in net cash as at end of year 2007, as compared to a gearing ratio of 14% as at 31st December 2006.

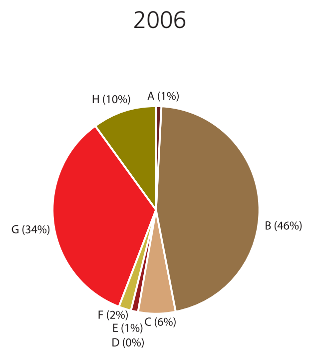
The total indebtedness of the Group mainly comprises bank loans, guaranteed notes, convertible notes and other obligations which are largely denominated in Hong Kong Dollar and United States Dollar. The Group's borrowings are closely monitored to ensure a smooth repayment schedule to maturity.

The Group's liquidity position remains strong and the Group is confident that sufficient resources could be secured to meet its commitments, working capital requirements and future assets acquisitions.

SOURCES OF FUNDING

		2007	2006
		HK$'000	HK$'000
A	Share capital	**393,564**	329,612
B	Capital reserve	**16,674,435**	11,461,424
C	Revenue reserve	**1,121,029**	1,587,229
D	Share option reserve	**28,762**	36,927
E	Other reserves	**188,862**	217,607
F	Minority interests	**531,791**	490,700
G	Non-current borrowings	**6,010,571**	8,439,965
H	Other non-current liabilities	**2,394,653**	2,471,848
		27,343,667	25,035,312





TREASURY POLICY

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollar, United States Dollar or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks. All of the Group's borrowings are in either Hong Kong Dollar, United States Dollar or Renminbi. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure. The Group has engaged in the use of cross currency swaps to reduce the Group's exposure in foreign currency fluctuations, which are considered necessary for the Group's treasury management activities.

CHARGES ON GROUP ASSETS

Leasehold land with net book values of $222 million (2006: $217 million) and bank deposits of $50 million (2006: $259 million) have been pledged to secure banking facilities.

GUARANTEES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to $627 million (2006: $210 million), of which $307 million (2006: $175 million) have been utilised.

The Group has executed guarantees in favour of a bank in respect of facilities granted to an associated company amounting to $9 million (2006: $9 million). At 31st December 2007, facilities utilised amounted to $9 million (2006: $9 million).

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2007, the Group, excluding associated companies and jointly controlled entities, employed around 8,400 employees in Hong Kong, Macau and Mainland China. Employee costs, excluding Directors' emoluments, amounted to $1,377 million.

REMUNERATON POLICY

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

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

SHARE OPTION SCHEME

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

TRAINING AND DEVELOPMENT

The Group sees the staff as the most valuable asset, as none of our achievements would have been possible without the talents and contributions of each individual employee. We are committed to the development and growth of all employees and consider training and development a life-long process. We offer ongoing personal and professional development opportunities to employees beginning with our new hire orientation program and continuing with the delivery of training programs designed to assist our employees in achieving competency and professionalism in their jobs, and to fortify a continuous learning and improvement corporate culture.

Our training and development programs focus on the key elements that are critical to long term success of the Group:

1. **Internal Capacity Building** – creating a corporate-wide training and development team capable to deliver core training programs. In addition, our existing training facilities for gaming staff will be renovated to establish a Centre of Excellence for the Group.

2. **Corporate Culture: Vision, Mission and Values** – development, communication and integration of a Corporate Vision, Mission and Values.

3. **Program Development and Customization** – four primary areas of focus:

   A. **Core Programs** with a focus on our orientation program, development of a Galaxy service excellence program, identification and prioritization of training on key competencies that drive employee performance.

   B. **Leadership Development** with a focus on the delivery of a foundational supervisory/management skills program, development of a three phase internship, fellowship, management trainee program and creation of leadership development initiatives customized to meet the personal and professional learning needs of both individuals and small groups.

   C. **Organizational Effectiveness** with a focus on the creation of a succession management program, set up of a common framework for standard operating procedures and design of a quality assurance program to measure and drive continuous improvement of our guest service initiatives.

   D. **Cotai Pre-opening Plan** with a focus on the development of core curriculum units for pre-employment training, coordination of the on-boarding process for new hires with on-the-job training requirements and ensure performance outcomes are achieved during pre-opening.

Our training and development programs establish direction for the Group with respect to investment in and utilisation of our human resource capital. A key driver behind this new approach is the competitive environment within Macau and our need not only to train and develop our people but also to retain them for the continuous growth and long-term success of the Group.

The Company is committed to high standards of corporate governance. There is in place a well-balanced corporate governance system which sets the framework for the Board of Directors of the Company ("Board") to manage the Company efficiently and to attain the established corporate objectives of providing shareholders with the best return on their investment and of caring for the community as a good corporate citizen, with a high level of transparency and accountability to shareholders. The Board has applied the principles in the Code on Corporate Governance Practices ("Code") set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Board

The Company is headed by the Board, which is responsible to lead and control the Company and its subsidiaries ("Group") and direct and supervise the Group's affairs. The Board sets strategies for the Company and monitors the performance of the management. The names and biographical details of the Directors (by category) and their relationships are set out in the Corporate Information on page 2 and Further Corporate Information on pages 31 to 33.

Chairman, Deputy Chairman and Managing Director

The roles of the Chairman of the Board, the Deputy Chairman of the Board and the Managing Director (Construction Materials Division) are segregated and are not exercised by the same individual.

The Chairman provides leadership for the Board and manages the Board ensuring that it works effectively and discharges its responsibilities, and that all key issues are discussed and addressed to in a timely manner. The Deputy Chairman supports and assists the Chairman in performing the above works and, together with the Managing Director (Construction Materials Division), lead and oversee the day-to-day management of the Group's business, and implement the Company's set strategies.

Board Composition

The Board has a balanced composition of five executive and seven non-executive Directors (including three independent non-executive Directors). The skill-sets of the Board are determined and regularly reviewed on the basis that members of the Board as a whole possess all-rounded business and professional skills essential to manage a successful sizeable enterprise and to support continuous growth. In addition to our executive Directors' substantial experience in the Company's business, our Directors have a mix of corporate management and strategic planning, investment, finance, legal and corporate governance experience and qualifications. In fulfilling their roles and duties, our Directors provide balanced and independent views to the Board, exercise independent judgement and play check and balance roles on the Board's decisions, particularly on matters that may involve conflict of interest.

Apart from the relationships among Directors disclosed in the Directors' biographical details, Dr. Moses Cheng Mo Chi is the senior partner of P.C. Woo & Co., a Hong Kong firm of solicitors, which provides legal services on normal commercial terms to certain companies controlled by the Chairman.

Appointment and Re-election of Directors

There is a formal, considered and transparent procedure for the appointment of new Directors to the Board. Candidates to be selected and recommended are those who are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence to a standard required of for listed companies' directors. The ability to provide balanced and independent views and exercise independent judgement and to devote sufficient time and attention to the Company's affairs is an additional criterion for selecting non-executive directors.

During the year, Mr. Anthony Thomas Christopher Carter was appointed by the Board and Dr. Martin Clarke and Mr. Guido Paolo Gamucci were appointed by shareholders in general meeting as additional non-executive Directors of the Company. In the appointment process, proposals for the appointment of new Directors together with detailed information on their educational and professional qualifications and the relevant working experience was submitted to the Board and the shareholders respectively for decision. Changes in the Board members during the year are set out in the Report of the Directors on page 35.

Non-executive Directors

All independent non-executive Directors of the Company have met all of the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received from each of them an annual written confirmation of his independence and considers each of them to be independent. The Company has complied with Rules 3.10(1) and (2) of the Listing Rules relating to appointment of at least three independent non-executive Directors and an independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise.

Non-executive Directors are appointed for a specific term. Dr. Charles Cheung Wai Bun and Dr. Moses Cheng Mo Chi were appointed subject to retirement by rotation and re-election pursuant to the Company's Articles of Association. Mr. James Ross Ancell, Dr. William Yip Shue Lam and Mr. Anthony Thomas Christopher Carter were appointed for a fixed term of three years pursuant to their service contracts, which may be extended by another three-year term. Dr. Martin Clarke and Mr. Guido Paolo Gamucci were nominated by a private equity fund known as Permira IV (beneficially a substantial shareholder of the Company) pursuant to an Investors' Rights Agreement dated 8th October 2007 entered into between the Company and, among others, a company wholly owned by Permira IV, details of which were included in the circular of the Company dated 5th November 2007, and are subject to retirement by rotation and re-election pursuant to the Company's Articles of Association.

Responsibilities of Directors

The Company believes that to enable our Directors to provide their maximum contributions, it is essential to keep them updated on their duties and responsibilities as well as the conduct, business activities and development of the Group. To this end, the Company has a set of comprehensive induction materials for new Directors and has from time to time organised corporate seminars and arranged for site visits to certain important operations of the Group for Directors. Timely updates on changes in laws and compliance issues relevant to the Group and appropriate information the Group's business and activities are provided to our Directors. All Directors have access to the management and Company Secretary for any information relevant to the Group they require in discharging their duties. Reports on the Company's performance and comparison with budget together with the necessary commentary and explanation on any deviation from budget are provided to our Directors at regular Board Meetings held at approximately quarterly intervals.

Code of Conduct for Securities Transactions

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

The Board has also established written guidelines on no less exacting terms than the Model Code to be observed by relevant employees of the Group who, because of their offices or employments, are likely to be in possession of unpublished price sensitive information in relation to the Group or the securities of the Company in respect of their dealings in the securities of the Company.

Delegation by the Board – Board Committees

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

Executive Board

The Board has delegated the power, authorities and discretions for the management of the Group's operations and activities to a formally established Executive Board constituted by all executive Directors of the Company. The Executive Board reports to the Board and causes its resolutions circulated to the Board on a quarterly basis. Certain matters are specifically reserved for approval by the Board, including annual budgets and accounts, dividends and distribution to shareholders, increase of share capital and allotment of new shares, derivative tradings, connected transactions subject to disclosure and/or shareholders approval requirements, and acquisitions, disposals, investments, financing and charging of assets above predetermined thresholds.

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

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

Audit Committee

The Audit Committee of the Company has been in place since 1999. It comprises two independent non-executive Directors, Dr. Charles Cheung Wai Bun as the Chairman and Mr. James Ross Ancell, and a non-executive Director, Dr. Moses Cheng Mo Chi.

The Audit Committee is accountable to the Board and its primary role is to assist the Board to monitor the Company's financial reporting process, to consider the nature and scope of audit reviews, to ensure that effective internal control and risk management systems are in place and to review the Group's interim and annual financial statements. The Audit Committee has access to and maintains an independent communication with the external Auditor and the management to ensure effective information exchange on all relevant financial and accounting matters. The written terms of reference of the Audit Committee conform to the code provision requirements of the Code.

The Audit Committee meets at least twice a year, with the attendance of the Group Chief Financial Officer, Financial Controller and Qualified Accountant, the Company Secretary and the external Auditor. The Audit Committee submits its written report to the Board after each Audit Committee Meeting, drawing the Board's attention to important issues that the Board should be aware of, identifying any matters in respect of which it considers that action or improvement is needed and making appropriate recommendations.

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

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

(ii) Review of new and/or revised accounting standards and practices applicable to the Group and their impacts to the Group;

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

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

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

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

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

Remuneration Committee

The Remuneration Committee of the Company has been in place since early 2006. It comprises three members, Mr. Francis Lui Yiu Tung as the Chairman and two independent non-executive Directors, Dr. Charles Cheung Wai Bun and Dr. William Yip Shue Lam.

The Remuneration Committee is accountable to the Board and its primary role is to conduct annual review of the policy and structure for all remuneration of Directors and senior management and to make recommendations to the Board on such policy and structure and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee also has the delegated responsibility to determine the remuneration packages of all executive Directors and senior management proposed by the human resources management and make recommendations to the Board of the remuneration of non-executive Directors. The Remuneration Committee assists the Board to regularly review and formulate fair and competitive remuneration packages which attract, retain and motivate Directors and senior management of the quality required to run the Company successfully. The written terms of reference of the Remuneration Committee conform to the code provision requirements of the Code.

The Remuneration Committee meets at least once a year, with the attendance of representatives from the human resources department and the Company Secretary. The Remuneration Committee submits its written report to the Board after each Remuneration Committee Meeting, making recommendations of the Director's fees (including Audit Committee and Remuneration Committee members' fees) and other remuneration related matters.

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

(i) Review of the remuneration policy and structure for the Directors of the Company;

(ii) Made recommendations to the Board on proposed Directors' fees (including Audit Committee and Remuneration Committee members' fees) after taking into account the Directors' fees for previous years, the Company's performance and level of activities, and other listed companies' payments, which were endorsed by the Board and would be submitted to shareholders for approval at the annual general meeting;

(iii) Approved the specific remuneration packages of all executive Directors after taking into account the remuneration policy and structure, the market benchmark, the contribution of and work performed by relevant Directors and their increasing job responsibilities; and

(iv) Approved the performance-based year-end discretionary bonus paid to the executive Directors of the Company in line with the Company's remuneration policy and market benchmark.

The Directors' remuneration for the year ended 31st December 2007 is set out in note 9 to the financial statements.

Board and Board Committee Meetings

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

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

Number of Meetings	Board Meetings (4)	Audit Committee Meetings (2)	Remuneration Committee Meeting (1)
EXECUTIVE DIRECTORS			
Dr. Lui Che Woo	4/4	–	–
Mr. Francis Lui Yiu Tung	4/4	–	1/1
Mr. Chan Kai Nang	4/4	–	–
Mr. Joseph Chee Ying Keung	4/4	–	–
Ms. Paddy Tang Lui Wai Yu	4/4	–	–
NON-EXECUTIVE DIRECTORS			
Dr. Moses Cheng Mo Chi	4/4	2/2	–
Mr. Anthony Thomas Christopher Carter	3/3	–	–
Dr. Martin Clarke	–	–	–
Mr. Guido Paolo Gamucci	–	–	–
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Dr. Charles Cheung Wai Bun	4/4	2/2	1/1
Mr. James Ross Ancell	4/4	2/2	–
Dr. William Yip Shue Lam	4/4	–	1/1

It is remarkable to note that we had a 100% attendance at our Board and Board Committee meetings for the year 2007.

Financial Reporting

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

Directors' Responsibility

The Directors acknowledge their responsibilities for preparing the financial statements of the Company, which give a true and fair view and comply with all applicable regulatory requirements and accounting standards. In preparing the financial statements for the year ended 31st December 2007, the Directors have selected appropriate accounting policies and applied them consistently, and made judgements and estimates that are prudent and reasonable. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as at 31st December 2007. Accordingly, the Directors have prepared the financial statements on a going concern basis.

The Board has appointed a Qualified Accountant pursuant to Rule 3.24 of the Listing Rules with the designated responsibility to oversee the financial reporting procedures and internal controls and compliance with the requirements under the Listing Rules with regard to financial reporting and other accounting-related issues.

Auditor's Responsibility

The external Auditor of the Company is PricewaterhouseCoopers, Certified Public Accountants. A statement by the Auditor about their reporting responsibilities is included in the Report of Independent Auditor on the Company's financial statements on page 47.

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

The external Auditor is available at the annual general meeting of the Company to answer questions which shareholders may have.

Auditor's Remuneration

Fees for auditing services and non-auditing services provided by the external Auditor for the year ended 31st December 2007 are included in note 8 to the financial statements.

Fees for non-auditing services include HK$2,578,000 for the services provided in respect of taxation and internal control consultancy services.

Internal Controls

The Board recognises the importance of a sound internal control system for the Group and commits to continuous assessment and management of any risk that may adversely affect the Group in achieving its business objectives. To help successfully achieve the business objectives, the Board employs a well-structured management team with functional heads who are delegated with authorities to oversee daily operations of all major operating entities of the Group. Regular review on the management structure is carried out to swiftly adapt the structure to the ever changing market conditions.

The Board also endeavors to increase awareness of risk management across the Group's business operations. A sound internal control system has been put into place in which policies and procedures have been formulated to help identify and manage risk in a systematic approach. Under the sound internal control system, unauthorized use or disposition of assets is effectively prevented, proper maintenance of accounting records and provision of reliable financial information are ascertained, and strict compliance with relevant statutory rules and regulations is warranted.

The internal audit function provides independent assurance to the Board and executive management as to the adequacy and effectiveness of internal controls for the Group on an on-going basis. The Internal Audit adopts a risk and control based audit methodology in designing the audit plan that is reviewed and approved by the Audit Committee. It is important to recognize that an internal control system aims to manage rather than eliminate risks; and to provide reasonable but not absolute assurance.

During the year ended 31st December 2007, Internal Audit has performed a review on the effectiveness of the internal control system of the Group's businesses in respect to business processes, practices and procedures, which cover all material controls, including financial, operational and compliance controls and risk management functions. Internal Audit was not aware of any significant defect/weakness on the internal control system that would have an adverse impact on the financial position or operations of the Group. Audit report has been submitted to the Audit Committee half-yearly with findings and recommendations on improvements. The Audit Committee is satisfied with the internal audit works performed.

Looking forward, the Group aims to cultivate an environment where controls are managed in systematic and structured manners through:

- the process to review and update corporate policies;
- Enhancement of management reporting system;
- Improvement of communication of policies and procedures through a range of tools; and
- More guidance/ training to operational management on skills of risk assessment, development of mitigation measures, etc.

Communication with Shareholders and Investment Community

The Company recognizes the importance of maintaining an on-going and timely communication with shareholders and the investment community to enable them to form their own judgement and to provide constructive feedback.

During the year, the Company announced selected unaudited key performance indicators of the Group for the first five-month period and the third quarter period, in addition to its annual and interim results, to enable the shareholders, investors and the public to better appraise the position and business performance of the Group. The Company holds press conferences, analysts briefings and investor meetings/calls after the announcement of its financial results and the key performance indicators. The Company also organised site visits for analysts to the flagship properties of the Group in order for them to have an in depth understanding of our products. Management of the Company (including certain executive Directors) participated in roadshows organised by international leading investment banks to meet institutional investors and analysts on a regularly basis. Throughout the year, numerous investor meetings were held in Hong Kong, Macau, London, New York, Boston, San Francisco, Los Angeles and Singapore. The Company's website www.galaxyentertainment.com contains an investor relations section which offers timely access to our press releases and other business information. Our Directors are available at the Company's annual and extraordinary general meetings to answer questions and provide information which shareholders may enquire.

The Company has complied with the requirements of the Listing Rules and the Articles of Association in respect of voting by poll and related matters.

Compliance with the Code

Throughout the year under review, the Company has complied with the code provisions in the Code, except code provision A.4.2. The Board considers that the spirit of code provision A.4.2 has been upheld, given that the other Directors do retire by rotation in accordance with the Articles of Association of the Company and the Group is best served by not requiring the Chairman and the Managing Director to retire by rotation as their continuity in office is of considerable benefit to and their leadership, vision and profound knowledge in the widespread geographical business of the Group is an asset of the Company.

GAMING AND HOSPITALITY EXPERTISE

Galaxy is committed to recruiting and retaining the very best management and staff and will continue to strengthen our gaming and hospitality executive team as we move forward and continue to build Galaxy into one of the world's leading internationally acclaimed gaming and entertainment companies.

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

David Craig Philip Banks, Group Chief Operating Officer. He was the former Chief Executive Officer of Casinos for Tabcorp Ltd. in Australia responsible for Star City Casino in Sydney, Jupiters Casino in Gold Coast Queensland, Treasury Casino Brisbane, and Townsville Casino in Queensland. As the former Chief Operating Officer & Chief Executive Officer of Star City Ltd., former President and Director of The Australian Casino Association, David has 10 years senior executive experience in the casino industry.

Robert Charles Drake, Group Chief Financial Officer. He was the former Vice President, Finance for the Western Division of Harrah's Entertainment Inc., Las Vegas, primarily responsible for the financial reporting of 13 properties in Nevada including Caesars Palace, Paris and Flamingo in Las Vegas. He holds a Master Degree of Business Administration and a Bachelor of Science Degree in Economics. He has extensive experience in corporate finance, investment banking activities such as mergers & acquisitions, financial management as well as domestic & international business development activities within the gaming industry.

Heinz Roelz, Director, Hotels & Hospitality. He was formerly Executive Vice President, Stanford Hotels International and graduated from hotel management schools in Germany and in the USA with more than 44 years experience in hotel development and operations in Germany, Switzerland, Indonesia, mainland China, Bermuda, the USA and Hong Kong.

Baschar Hraki, Director, Project Development. He was the former Executive Vice President, Macao Studio City in charge of a mega project development in Macau. He is a qualified architect with extensive international experience in design, and construction management of large and complex projects including hotels, resorts, theme parks, entertainment centres, residential developments, shopping centers and sports stadiums in Asia, Europe, Middle East and U.S.A.

Ciaran Pearse Carruthers, Chief Operating Officer, StarWorld Hotel & Casino. He has 21 years experience in the gaming and resort industry in various countries including, the UK, the US Commonwealth of the Northern Marianas Islands, the Philippines and Singapore. He has specialized in the Asia Pacific gaming industry for the past 16 years, consulting to various Casino Groups such as: Crown, Tabcorp and Pagcor and he has been with Galaxy since late 2002 and was previously Senior Vice President – City Clubs.

Kwa Yew Seng, Chief Financial Officer of Galaxy Casino, S.A. He holds a Master of Business Administration Degree and a Bachelor Degree in Economics. Mr. Kwa is also a member of the Institute of Chartered Accounts in Australia and a Fellow of the Australian Institute of Company Directors. He has over 30 years experience in the field of Financial and Accounting, 20 of which were in the casino industry, in particular at Burswood Casino, Western Australia.

David Robert Lily, Chief Financial Officer, Cotai. He holds a Bachelor Degree of Commerce and is a member of New Zealand Society of Accountants and a Fellow of Australian Society of Certified Practicing Accountant. He has over 30 years experience in the field of Finance and Accounting, 6 of which were in the casino industry, in particular at SKYCITY Entertainment Group Limited in New Zealand.

Albert Emile Davia, Vice President, International Premium Market Development, Corporate Marketing and Vice President of City Clubs. He has 23 years experience in the gaming and resort industry in various countries including, Singapore, Indonesia, Thailand, Australia, Malaysia and Macau. He has specialized in the VIP gaming industry for the past 16 years, dealing with VIP players from the Asian region, the Casinos in which he has run VIP operations include: SKYCITY, Adelaide and Crown Casino, Melbourne.

Michael Roy Caban, Vice President, Casino Operations, Cotai. He has more than 35 years experience in the gaming industry and was the former General Manager, Gaming for the SKYCITY in New Zealand and Australia. He has also worked in the following casinos: Crown Casino, Melbourne, Burswood Casino, Western Australia, casinos of Federal Hotels Limited in Darwin and Hobart, casino of Holiday Inns, Botswana Africa, Sheraton Breakwater Casino Hotel, Queensland and Playboy Casino, London.

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

CORPORATE SOCIAL RESPONSIBILITY

As a socially-responsible corporation, the Group is committed to acting as a good corporate citizen in caring for and serving the communities in which it operates. We fulfill our corporate social responsibilities through active participation in social voluntary services and community activities as well as sponsorships and donations.

In Hong Kong

The Group, in addition to playing an active role to support Hong Kong's continuous economic growth, it remains committed to its goals of community involvement.

It is always of our belief that corporate social responsibility (CSR) unites us to build strong team spirit and create vital links with the community. We constantly encourage our employees to participate in CSR activities which enable them to learn from challenging experience and gain fresh perspectives to enhance their skills through working with a wide range of people.

Since 2006, the Construction Materials Division established a "CSR Service Committee" to take a proactive stance pledging to continuously serving the society. During the year, the Division had successfully set up an employee volunteer team that devoted over 3,500 volunteer working hours to a company-organized community project which last for a term of 6 months — "Mentoring the Way to the Future" providing mentoring service to selected group in need (single family children aged between 8 and 12), with not only money donation, but more importantly, our people.

Throughout the year, we have organized and participated in a series of CSR activities and the highlights are:

- "KWCM Blood Donation Day" jointly organized by Hong Kong Red Cross
- "Uncle Long Leg Mail Box" organized by Evangelical Lutheran Church of Hong Kong (ELCHK)
- "Mentoring the Way to the Future" jointly organized with ELCHK
- "Challenging 12 Hours" organized by Sowers Action

Our commitment to the society has been well recognized and we are pleased to receive the award of "Caring Company Logo" presented by the "Hong Kong Council of Social Service" for the 6th consecutive year.

In Macau

Ever since the commencement of Macau operations, our Gaming and Entertainment Division has continued to practise good corporate citizenship through active participation in community activities. During year 2007, we participated in:

Sports

We sponsored major sports events organized by Macau SAR Government in support of the SAR Government's tourism policy to promote a model of diversified tourism.

- Sponsorship of the Thai Boxing Charity Contest via donation of MOP100,000 to Tung Sin Tong
- Title sponsor of "Macau Galaxy Entertainment Stankovic Continental Cup 2007"
- Title sponsor of "Macau Galaxy Entertainment 2007 FIVB World Grand Prix"
- Title sponsor of "2007 Macau Galaxy Entertainment Sino-Australian Basketball Challenge"
- Title sponsor of "2007 Macau Galaxy Entertainment International Marathon, Half Marathon and Mini Marathon"

Culture & Development of Tourism

We actively participated in tourism related trade shows and forums in support of the SAR Government's initiative to promote Macau's position as an international destination of culture and entertainment.

- Sponsored "The First Macau International Exchange Meeting on Giant Panda Culture" and "Hong Kong, Macau, Taiwan Giant Panda Summit Forum"
- Sponsored the Shanghai delegation of promoting tourism & sports cooperation between Shanghai and Macau (滬港文化旅遊體育交流合作), 28–30 August in Hong Kong and 31 August–1 September in Macau

Gaming

To support The Institute for the Study of Commercial Gaming (ISCG) at the University of Macau which provides advisory service to government policy makers on issues relating to gaming regulations and helps gaming operators to solve practical problems arising directly from gaming operation. ISCG intends to support the development of high quality gaming research focusing on Macau and Asia and to provide appropriate gaming management programs to fulfill the greater demand for gaming staff in the near future.

Donation/Participation in charity events

We believe that social commitment involves not merely charitable contributions to our community, but also through participation in the community welfare activities. Apart from donation to Macao Daily News Readers' Fund, we also encourage our staff to participate in the charitable activities including the "Walk For a Million" organized by Macao Daily News Readers' Fund.

- Donation to St. Lucia Centre of Caritas & went there for a visit
- Donation to Tung Sin Tong (by sponsoring Thai Boxing Charity Contest)
- Donation to Red Cross Macau to support the relief operations on Mainland China caused by natural disasters.
- Donation to Tung Sin Tong and Macao Daily News Readers' Fund
- Walk for a Million in Dec

Scholarship

Scholarship titled under "Galaxy Entertainment Group" was granted to students nominated by the following tertiary academic institute based on the academic excellence.

- Macao Polytechnic Institute

FIVE-YEAR SUMMARY

	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
CONSOLIDATED PROFIT AND LOSS STATEMENT					
Revenue	1,130,894	1,299,143	1,291,927	4,669,495	**13,035,439**
Profit/(loss) attributable to shareholders	40,205	55,886	2,395,269	(1,531,546)	**(466,200)**
Dividends	25,168	25,805	—	—	**—**
Earnings/(loss) per share (cents)	3.2	4.4	110.7	(46.5)	**(13.8)**
Dividend per share (cents)	2.0	2.0	—	—	**—**
CONSOLIDATED BALANCE SHEET					
Property, plant and equipment, investment properties and leasehold land and land use rights	802,153	787,028	2,889,283	5,566,921	**6,374,464**
Intangible assets	—	—	16,493,230	15,520,486	**14,520,665**
Jointly controlled entities and associated companies	253,547	266,893	300,778	387,250	**506,923**
Other non-current assets	240,727	408,883	595,120	951,697	**600,757**
Net current assets	481,179	507,958	1,712,199	2,608,958	**5,340,858**
Employment of capital	1,777,606	1,970,762	21,990,610	25,035,312	**27,343,667**
Represented by:					
Share capital	125,893	129,648	329,058	329,612	**393,564**
Reserves	1,288,370	1,295,616	14,603,396	13,303,187	**18,013,088**
Shareholders' funds	1,414,263	1,425,264	14,932,454	13,632,799	**18,406,652**
Minority interests	147,891	39,025	491,910	490,700	**531,791**
Non-current borrowings	200,800	311,580	4,643,355	8,439,965	**6,010,571**
Other non-current liabilities	14,652	14,020	1,778,531	2,351,697	**2,259,031**
Provisions	—	180,873	144,360	120,151	**135,622**
Capital employed	1,777,606	1,970,762	21,990,610	25,035,312	**27,343,667**
Net assets per share (dollars)	1.12	1.10	4.54	4.14	**4.68**

The summary of 2003 has not been restated following the adoption of the new and revised Hong Kong Financial Reporting Standards in 2005.

Biographical information of directors

Executive Directors

Dr. Lui Che Woo, *GBS, MBE, JP, LLD, DSSc, DBA*, aged 78, the founder of the Group, has been a director of the Company since August 1991 and is the Chairman of the Company. Dr. Lui is also an executive director and the Chairman of K. Wah International Holdings Limited. He has over 50 years' experience in quarrying, construction materials and property development. He was the Founding Chairman of the Institute of Quarrying in the UK (Hong Kong Branch) and Chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the Founding Chairman of The Federation of Hong Kong Hotel Owners, the President of Tsim Sha Tsui East Property Developers Association, the Founding President of Hong Kong — Guangdong Economic Development Association and an Honorary President of Hong Kong — Shanghai Economic Development Association. Further, Dr. Lui was a Committee Member of the 9th Chinese People's Political Consultative Conference, a member of the Selection Committee for the First Government of the HKSAR and a member of the Election Committee of the HKSAR. Dr. Lui was awarded the Gold Bauhinia Star of the Government of the HKSAR in July 2005. Dr. Lui has been again elected as a member of the Election Committee of the HKSAR in December 2006. Dr. Lui was honoured as the Business Person of the Year in DHL/SCMP Hong Kong Business Awards 2007 and the Lifetime Achievement Award by American Academy of Hospitality Sciences of 2007 respectively. Dr. Lui is the father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

Mr. Francis Lui Yiu Tung, aged 52, joined the Group in 1979. He has been an executive director of the Company since June 1987 and is the Deputy Chairman of the Company. Mr. Lui is also an executive director of K. Wah International Holdings Limited. He holds a bachelor of science degree in civil engineering and a master of science degree in structural engineering from the University of California at Berkeley, USA. He is a Committee Member of the 11th Chinese People's Political Consultative Conference. Mr. Lui is a son of Dr. Lui Che Woo and a younger brother of Ms. Paddy Tang Lui Wai Yu.

Mr. Chan Kai Nang, aged 62, joined the Group in 2002. He has been an executive director of the Company since January 2003 and is the Managing Director of the Construction Materials Division of the Company. He is an associate member of The Chartered Institute of Management Accountants in the UK and a fellow member of The Chartered Association of Certified Accountants in the UK and The Hong Kong Institute of Certified Public Accountants. Mr. Chan has been a top level executive with substantial experience in major multinational and local corporations. He had been the regional controller and senior executive of these corporations for many years.

Mr. Joseph Chee Ying Keung, aged 50, joined the Group in 1982. He has been an executive director of the Company since April 2004 and is the Deputy Managing Director of the Construction Materials Division of the Company. Mr. Chee holds an International Master degree in Business Administration from the University of South Australia and a Bachelor degree in Mechanical Engineering from the University of Western Ontario in Canada. He is a fellow member of The Institute of Quarrying in the UK and has over 26 years of broad experience in the construction materials industry including operations and management, technical and quality assurance, environmental protection, commercial and strategic planning. He is currently the Chairman of Hong Kong Contract Quarry Association and the member of Standing Committee on Concrete Technology organized by Civil Engineering and Development Department, HKSAR. He was a member of the Working Group on Construction Waste of the Provisional Construction Industry Co-ordination Board from 2004 to 2006. He was also the Chairman of The Institute of Quarrying in the UK (Hong Kong Branch) from 1998 to 2000.

Ms. Paddy Tang Lui Wai Yu, *JP*, aged 54, joined the Group in 1980 and has been an executive director of the Company since August 1991. She is also an executive director of K. Wah International Holdings Limited. She holds a bachelor of commerce degree from the McGill University, Canada and is a member of The Institute of Chartered Accountants in England and Wales. Ms. Tang was a member of the Election Committee of the HKSAR. She is also a member of various public and social service organizations, including the Board of Ocean Park Corporation, the Hong Kong Arts Development Council, the Statistic Advisory Board and the Standing Committee on Company Law Reform. Ms. Tang has been again elected as a member of the Hotel Sub-sector of Election Committee for the Third Term Chief Executive of the HKSAR in December 2006. Ms. Tang is the daughter of Dr. Lui Che Woo and the elder sister of Mr. Francis Lui Yiu Tung.

Non-executive Directors

Dr. Charles Cheung Wai Bun, *JP*, aged 71, joined the Group in 1986. He was appointed an executive director of the Company in June 1987 and became an independent non-executive director since 1995. Dr. Cheung holds an honorary doctor's degree, a master's degree in business administration and a bachelor of science degree. He has over 30 years of experience at senior management level of companies in various industries including over 22 years of experience in banking. He is the Chairman of Joy Harvest International Limited, Hong Kong. He is also an independent non-executive director and chairman of the audit committee of K. Wah International Holdings Limited, Shanghai Electric Group Company Limited, Pioneer Global Group Limited and Prime Investments Holdings Limited, which are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. Dr. Cheung is also the Senior Advisor of the Metropolitan Bank & Trust Company, Philippines. He was a former director and adviser of the Tung Wah Group of Hospitals and is a Vice Chairman of Guangdong Province Golf Association. He was awarded the Directors of the Year Awards 2002 of Listed Company Non-Executive Director. He is also a Council Member of The Hong Kong Institute of Directors.

Dr. Moses Cheng Mo Chi, *GBS, OBE, JP*, aged 58, has been a non-executive director of the Company since August 1996. Dr. Cheng is the senior partner of P.C. Woo & Co., a Hong Kong firm of solicitors, and is the Founder Chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng is a non-official member of the Commission on Strategic Development. He had served as a member of the Legislative Council of Hong Kong.

Mr. James Ross Ancell, aged 54, has been an independent non-executive director of the Company since April 2004. He holds a Bachelor's degree in Management Studies from University of Waikato in New Zealand. He is a member of the Institute of Chartered Accountants of New Zealand and has over 30 years of broad experience in building materials and construction sectors, waste management and recycling business gained from multinational corporations. He is currently the Chairman of Churngold Construction Holdings Limited in the UK, a leading specialist groundworks subcontractor carrying out groundworks and road surfacing, with a separate remediation business, cleaning up sites contaminated by previous industrial activity. He is also a non-executive director of MJ Gleeson Group PLC, a housebuilder and regeneration company listed on the London Stock Exchange.

Dr. William Yip Shue Lam, *LLD*, aged 70, has been an independent non-executive director of the Company since December 2004. Dr. Yip holds a Bachelor of Arts degree and an honorary Doctor of Laws degree from the Concordia University, Canada. He is the founder and the Chairman of Canada Land Limited, a company listed on the Australian Stock Exchange and engaged in real estate development and tourist attraction business. He is also the Chairman of Cantravel Limited, Guangzhou. Dr. Yip has been active in public services and is presently a Standing Committee Member of The Chinese General Chamber of Commerce and the President of Concordia Hong Kong Foundation Limited. He also serves on the Board of Governors of The Canadian Chamber of Commerce in Hong Kong. In addition, Dr. Yip has been elected a Guangzhou Municipal Honorable Citizen.

Mr. Anthony Thomas Christopher Carter, aged 62, joined the Group in 2003 and has been a non-executive director of the Company since April 2007. Mr. Carter holds a L.L.B. (Hons) from the University of Leeds in England. He is a solicitor in the United Kingdom, Hong Kong and Australia and a Notary Public in Hong Kong. He has extensive experience in strategic planning and business management as well as in corporate finance and development. Prior to his retirement from the Company in March 2007, he was the Chief Executive Officer of Galaxy Casino, S.A.

Dr. Martin Clarke, aged 52, has been a non-executive director of the Company since 27th November 2007. He became a Partner at Permira (substantial shareholder of the Company) in 2004. He is a member of Permira's Executive Committee and Head of the Consumer Sector. He has worked on a number of transactions including Gala Coral Group, New Look, Principal Hayley Group, Telepizza and Galaxy Entertainment. Dr. Clarke has over 25 years of experience of private equity. Prior to joining, he was one of the founder directors of PPM Capital, the private equity arm of Prudential plc. and was involved in over 20 deals with a particular emphasis on the consumer space. His early career was spent at CIN Industrial Investments, the precursor of Cinven. He holds an MA and PhD in History from Cambridge University, England.

Mr. Guido Paolo Gamucci, aged 55, has been a non-executive director of the Company since 27th November 2007. He is Chairman of Permira's Asia Pacific operations, having previously managed its Milan office. He is a Partner in Permira which is a substantial shareholder of the Company. He has worked on numerous transactions including DinoSol Supermercados, EEMS, Ferretti Group and Seat PG. Prior to joining Permira in 1997, he spent six years with UBS Capital in Italy as Founding Partner and Managing Director. Previously Mr. Gamucci worked at Citicorp in Italy, as Deputy Head of Investment Banking and Country Treasurer for Italy. He has a degree in Mechanical Engineering from the University of Rome, Italy, and an MBA from INSEAD, France.

Senior management

The businesses of the Group are under the direct responsibilities of the executive directors of the Company who are regarded as senior management of the Group.

The Directors have pleasure in presenting to the shareholders their annual report together with the audited financial statements of the Company for the year ended 31st December 2007.

Principal activities

The principal activity of the Company is investment holding. The principal subsidiaries, jointly controlled entities and associated companies of the Company are primarily engaged in gaming and entertainment in Macau and the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China, and their principal activities and other particulars are set out in note 44 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31st December 2007 are set out in the consolidated profit and loss statement on page 49 of this annual report.

No interim dividend (2006: nil) was paid during the year. The Directors have resolved not to recommend any final dividend for the year ended 31st December 2007 (2006: nil).

Share capital

Details of the movements in the share capital of the Company during the year are set out in note 29 to the financial statements.

On 21st November 2007, the authorised share capital of the Company was increased from HK$688,800,000 to HK$900,000,000 divided into 9,000,000,000 shares of HK$0.10 each ("Shares") by the creation of an additional 2,112,000,000 Shares, which new Shares rank pari passu in all respects with the then existing Shares in the capital of the Company.

On 25th October 2007, 150,000,000 new Shares were issued at a price of HK$8.58 each for cash to independent third parties pursuant to a placing arrangement as fully described in the announcement of the Company dated 12th October 2007.

On 27th November 2007, 323,384,000 new Shares were issued for cash to a private equity fund known as Permira IV and 156,804,000 new Shares were issued to holders of fixed rate notes on conversion of such notes, all at a price of HK$8.42 each. Further details of such issue of Shares were included in the announcement of the Company dated 11th October 2007.

During the year, 400,000 new Shares, 228,000 new Shares, 580,000 new Shares and 8,126,000 new Shares were issued at the prices of HK$0.5333, HK$0.5216, HK$0.514 and HK$4.59 each respectively pursuant to share option schemes of the Company as a result of the exercise of share options by option holders.

Debt securities

During the year, the fixed rate notes in the aggregate principal amount of HK$2,371,805,067 issued by the Company were fully repaid, details of which are set out in note 32 to the financial statements.

Details of the guaranteed senior fixed rate and floating rate notes in the aggregate principal amount of US$600,000,000 issued by Galaxy Entertainment Finance Company Limited, a subsidiary of the Company, which are listed on the Singapore Stock Exchange, are set out in note 32 to the financial statements.

Details of the zero coupon convertible notes due 2011 in the aggregate principal amount of US$240,000,000 are set out in note 32 to the financial statements.

Dealings in listed securities

The Company has not redeemed any of its Shares or listed debt securities during the year ended 31st December 2007. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's Shares or listed debt securities during the year.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in note 31 to the financial statements.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

Directors

The Directors of the Company who served during the year were Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. Joseph Chee Ying Keung, Mr. William Lo Chi Chung (who resigned on 1st May 2007), Ms. Paddy Tang Lui Wai Yu, Dr. Charles Cheung Wai Bun, Dr. Moses Cheng Mo Chi, Mr. James Ross Ancell, Dr. William Yip Shue Lam, Mr. Anthony Thomas Christopher Carter (who was appointed on 18th April 2007), and Dr. Martin Clarke and Mr. Guido Paolo Gamucci (both of whom were appointed on 27th November 2007). Mr. Chan Kai Nang will retire as a Director with effect from 1st May 2008. The biographical details of the existing Directors are set out on pages 31 to 33 of this annual report.

In accordance with Article 106(A), Ms. Paddy Tang Lui Wai Yu, Dr. Charles Cheung Wai Bun and Dr. William Yip Shue Lam shall retire from office by rotation at the forthcoming annual general meeting. Both of Ms. Paddy Tang Lui Wai Yu and Dr. William Yip Shue Lam, being eligible, offer themselves for re-election. Dr. Charles Cheung Wai Bun has elected that he will not seek for re-election and will retire from office at the forthcoming annual general meeting.

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

Subject to the approval of shareholders at the forthcoming annual general meeting, the following directors' fees in respect of the year ended 31st December 2007 will be payable to the Directors:

	Chairman (HK$)	**Member** (HK$)
The Board	120,000	100,000
Audit Committee	100,000	80,000
Remuneration Committee	50,000	40,000

Directors' interests in contracts

Save as disclosed in this Report of the Directors, no contracts of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a Director has or had a material beneficial interest, whether directly or indirectly, subsisted on 31st December 2007 or at any time during the year.

Directors' interests in securities and share options

At 31st December 2007, the interests of each Director in the Shares, underlying shares and debentures of the Company, and the details of any right to subscribe for Shares and of the exercise of such rights, as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Shares (including underlying shares)

	Number of Shares (including underlying shares)					
Name	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Percentage of Issued Share Capital
Lui Che Woo	17,187,632	2,181,518	387,773,426(1)	2,563,612,485(2)	2,970,755,061	75.48
Francis Lui Yiu Tung	24,781,896	—	440,119,661(3)	2,505,853,504(2)	2,970,755,061	75.48
Chan Kai Nang	380,000	—	—	—	380,000	0.01
Joseph Chee Ying Keung	2,720,000	—	—	—	2,720,000	0.07
Paddy Tang Lui Wai Yu	8,939,722	—	—	2,961,815,339(2)	2,970,755,061	75.48
Charles Cheung Wai Bun	252,533	—	—	—	252,533	0.01
Moses Cheng Mo Chi	500,000	—	—	—	500,000	0.01
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	—	—	—	—	—	—

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 14,911,000 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 Liaision 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 1,249,725,279 Shares, 1,191,966,298 Shares and 1,647,928,133 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 231,615,731 underlying shares of the Company. Kentlake International Investments Limited ("Kentlake") was interested in 60,000,000 Shares and 33,999,891 underlying shares of the Company. Both Kentlake and Top Notch are controlled by Mr. Francis Lui Yiu Tung.

(b) Share Options

Details are set out in the SHARE OPTION SCHEME section below.

All the interests stated above represent long positions.

Save as disclosed above, as at 31st December 2007, none of the Directors of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Substantial shareholders' interests

At 31st December 2007, the interests or short positions of every person (not being a Director or chief executive of the Company) in the Shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of Shares (Long Position)	Percentage of Issued Share Capital	Number of Shares (Short Position)	Percentage of Issued Share Capital
Brightwealth Investments Limited	265,615,622	6.75	265,615,622	6.75
City Lion Profits Corp.	2,970,755,061(1)	75.48	—	—
Davos Investment Holdings Private Limited	265,615,622	6.75	265,615,622	6.75
ENB Topco 2 S.àr.l	2,955,752,061(1),(3)	75.10	—	—
Galaxy Entertainment Group Limited	2,970,755,061(1)	75.48	—	—
Guoco Group Limited	265,615,622	6.75	265,615,622	6.75
Guoline Capital Assets Limited	265,615,622	6.75	265,615,622	6.75
Guoline Overseas Limited	265,615,622	6.75	265,615,622	6.75
HL Holdings Sdn Bhd	265,615,622	6.75	265,615,622	6.75
Hong Leong Company (Malaysia) Berhad	265,615,622	6.75	265,615,622	6.75
Hong Leong Investment Holdings Pte. Ltd.	265,615,622	6.75	265,615,622	6.75
HSBC International Trustee Limited	1,313,887,206(2)	33.38	—	—
Kwek Holdings Pte Ltd	265,615,622	6.75	265,615,622	6.75
Kwek Leng Kee	265,615,622	6.75	265,615,622	6.75
Mark Liaison Limited	2,970,755,061(1)	75.48	—	—
Permira Holdings Limited	2,955,752,061(1),(4)	75.10	—	—
Premium Capital Profits Limited	2,970,755,061(1)	75.48	—	—
Recurrent Profits Limited	2,970,755,061(1)	75.48	—	—
Quek Leng Chan	265,615,622	6.75	265,615,622	6.75
Super Focus Company Limited	2,970,755,061(1)	75.48	—	—
Top Notch Opportunities Limited	231,615,731	5.89	—	—

Notes:

(1) City Lion Profits Corp., ENB Topco 2 S.àr.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 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. Their deemed interests pursuant to these arrangements were 1,656,867,855 Shares, 2,331,146,527 Shares, 2,970,755,061 Shares, 2,961,094,206 Shares, 2,179,868,061 Shares, 2,957,446,882 Shares, 2,856,251,022 Shares and 2,701,554,907 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.àr.l is deemed to have an interest in the Shares as a result of the direct holding of Shares by ENB Lux 2 S.àr.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) 231,615,731 underlying shares of the Company between Mr. Francis Lui Yiu Tung and Top Notch Opportunities Limited;

(vii) 265,615,622 Shares (both long and short positions) between Brightwealth Investments Limited, Davos Investment Holdings Private Limited, Guoco Group Limited, Guoline Capital Assets Limited, Guoline Overseas Limited, HL Holdings Sdn Bhd, Hong Leong Company (Malaysia) Berhad, Hong Leong Investment Holdings Pte. Ltd., Kwek Holdings Pte Ltd, Mr. Kwek Leng Kee and Mr. Quek Leng Chan;

(viii) 624,605,534 Shares between Permira Holdings Limited and ENB Topco 2 S.àr.l.; and

(ix) 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.àr.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 to 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 as disclosed in the relevant notes above.

Save as disclosed above, as at 31st December 2007, the Company had not been notified by any persons who had interests or short positions in the Shares or underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of the SFO.

Share option scheme

The share option scheme of the Company (the "Share Option Scheme") was adopted on 30th May 2002. A summary of the Share Option Scheme is set out below:

(1) Purpose

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

(2) Participants

(i) any employee of the Company or any affiliate and any senior executive or director of the Company or any affiliate; or

(ii) any consultant, agent, representative or adviser of the Company or any affiliate; or

(iii) any person who provides goods or services to the Company or any affiliate; or

(iv) any customer or contractor of the Company or any affiliate; or

(v) any business ally or joint venture partner of the Company or any affiliate; or

(vi) any trustee of any trust established for the benefit of employees; or

(vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

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

(3) Total number of Shares available for issue

Mandate Limit — Subject to the paragraph below, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 329,464,936 Shares, being 10% of the Shares in issue as at 29th June 2006, the date of passing of an ordinary resolution of the shareholders for refreshment of the Mandate Limit.

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

As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme was 279,006,936 Shares, which represented approximately 7.09% of the issued share capital of the Company on that date.

(4) Maximum entitlement of each participant

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

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

(5) Option period

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

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

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

(7) Payment on acceptance of the option

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

(8) Basis of determining the subscription price

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

(i) the closing price of the Shares on the date of grant;

(ii) the average closing prices of the Shares for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

(9) The remaining life of the Share Option Scheme

The life of the Share Option Scheme is 10 years commencing on its adoption date, being 30th May 2002 and will expire on 29th May 2012.

The particulars of the movements in the options held by each of the Directors of the Company, the employees of the Company in aggregate and other participants granted under the Share Option Scheme or under any other share option schemes of the Company during the year ended 31st December 2007 were as follows:

		Number of Options				
Name	Date of grant	Held at 1st January 2007	Exercised during the year	Held at 31st December 2007	Exercise price (HK$)	Exercise period
Lui Che Woo	20th May 1998	1,500,000	—	1,500,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,800,000	—	1,800,000	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	2,000,000	—	2,000,000	0.5140	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	2,700,000	—	2,700,000	4.5900	22nd Oct 2005 – 21st Oct 2011
	21st Oct 2005	590,000	—	590,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Francis Lui Yiu Tung	20th May 1998	1,000,000	—	1,000,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,600,000	—	1,600,000	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	1,870,000	—	1,870,000	0.5140	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	6,000,000	—	6,000,000	4.5900	22nd Oct 2005 – 21st Oct 2011
	21st Oct 2005	580,000	—	580,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Chan Kai Nang	28th Feb 2003	110,000	—	110,000	0.5140	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	270,000	—	270,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Joseph Chee Ying Keung	21st Oct 2005	270,000	—	270,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Paddy Tang Lui Wai Yu	21st Oct 2005	3,000,000	—	3,000,000	4.5900	22nd Oct 2005 – 21st Oct 2011
	21st Oct 2005	400,000	—	400,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Charles Cheung Wai Bun	21st Oct 2005	250,000	—	250,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Moses Cheng Mo Chi	28th Feb 2003	300,000	300,000[(a)]	—	0.5140	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	200,000	200,000[(a)]	—	4.5900	22nd Oct 2006 – 21st Oct 2011

Name	Date of grant	Number of Options: Held at 1st January 2007	Exercised during the year	Held at 31st December 2007	Exercise price (HK$)	Exercise period
James Ross Ancell	21st Oct 2005	250,000	—	250,000	4.5900	22nd Oct 2006 – 21st Oct 2011
William Yip Shue Lam	21st Oct 2005	250,000	—	250,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Anthony Thomas Christopher Carter	21st Oct 2005	*2,500,000	—	2,500,000	4.5900	22nd Oct 2005 – 21st Oct 2011
Martin Clarke	—	—	—	—	—	—
Guido Paolo Gamucci	—	—	—	—	—	—
Employees (in aggregate)	20th May 1998	400,000	400,000(b)	—	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	228,000	228,000(c)	—	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	280,000	280,000(d)	—	0.5140	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	#10,250,000	4,350,000(e)	5,900,000	4.5900	22nd Oct 2005 – 21st Oct 2011
	21st Oct 2005	3,724,000	1,846,000(f)	1,878,000	4.5900	22nd Oct 2006 – 21st Oct 2011
Others	21st Oct 2005	@5,000,000	1,500,000(g)	3,500,000	4.5900	22nd Oct 2005 – 21st Oct 2011
	21st Oct 2005	@230,000	230,000(h)	—	4.5900	22nd Oct 2006 – 21st Oct 2011

* representing share options held by Mr. Anthony Thomas Christopher Carter on his appointment date as a director of the Company on 18th April 2007

\# on reclassification of a total number of 2,500,000 share options held by Mr. Anthony Thomas Christopher Carter under "Employees" to "Directors"

@ on reclassification of a total number of 1,730,000 share options held by an ex-director under "Directors" to "Others" following his resignation as a director of the Company during the year

Notes:

a. The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK$7.11.

b. The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK$7.36.

c. The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK$7.50.

d. The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK$7.52.

e. The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK$7.47.

f. The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK$7.69.

g. The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK$7.48.

h. The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK$7.92.

Except for the options granted on 21st October 2005 exercisable within the period from 22nd October 2005 to 21st October 2011 at an exercise price of HK$4.59 per Share, all options referred to above are subject to a one-year vesting period.

No options were granted or cancelled during the year.

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

Except for the Share Option Scheme, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

Connected transaction

On 8th October 2007, a FRN Conversion and Repayment Agreement was entered into between the Company and City Lion Profits Corp. and Recurrent Profits Limited (both of which are connected persons of the Company by virtue of their relationship with Dr. Lui Che Woo and Mr. Francis Lui Yiu Tung respectively) pursuant to which, among other things, the fixed rate notes in the aggregate principal amount and accrued interest of HK$2,371,805,067 issued by the Company were fully repaid by conversion of HK$1,320,289,680 of the principal amount into 156,804,000 new Shares at a price of HK$8.42 each and the balance by cash repayment. Such agreement was approved by independent shareholders at the extraordinary general meeting of the Company held on 21st November 2007 and completed on 27th November 2007. Further details of the agreement were included in the announcement of the Company dated 11th October 2007.

Continuing connected transactions

1. The Company's indirect subsidiaries continued to lease from Jia Hui Da Real Estate Development Co., Ltd. Shanghai (上海嘉匯達房地產開發經營有限公司), an indirect non-wholly owned subsidiary of K. Wah International Holdings Limited ("KWIH"), the office units 1802-1804 of Shanghai K. Wah Centre, No. 1010, Huaihai Zhong Road, Xuhui District, Shanghai, the PRC pursuant to the Tenancy Agreements (collectively the "Tenancy Agreements") entered into on 2nd June 2005 for a 3-year term from 1st June 2005 to 31st May 2008, details of which were included in the joint announcement dated 23rd August 2005 issued by the Company and KWIH. These continuing connected transactions were carried out during the year within the annual cap for 2007.

   Each of the independent non-executive directors of the Company has reviewed the transactions under the Tenancy Agreements and confirms that the transactions have been entered into:

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

   (2) on normal commercial terms; and

   (3) in accordance with the Tenancy Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

   The auditor of the Company, PricewaterhouseCoopers, has confirmed to the Board of Directors of the Company that:

   (1) the transactions have received the approval of the Company's Board of Directors;

   (2) the transactions have been entered into in accordance with the Tenancy Agreements governing the transactions; and

   (3) the aggregate annual rental under the Tenancy Agreements amounted to HK$2,015,020 for the year ended 31st December 2007 and is the same of the corresponding annual cap.

2. The guaranteed unsecured revolving loan facility in the maximum amount of HK$330 million granted by a wholly owned subsidiary of the Company, namely Brighten Lion Limited to Great Place Developments Limited, a wholly owned subsidiary of KWIH, pursuant to a loan agreement entered into on 22nd July 2002 expired on the final maturity date of 12th September 2007. No amount was outstanding under such facility at any time during the year.

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and adjusted as appropriate, is shown on page 30 of this annual report.

Major customers and suppliers

For the year ended 31st December 2007, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the five largest customers or suppliers (not including of a capital nature).

Management contracts

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

Donations

Charitable and other donations made by the Group during the year amounted to HK$10,668,000 (2006: HK$13,349,000).

Sufficiency of public float

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

Auditor

The financial statements of the Company for the year ended 31st December 2007 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Dr. Lui Che Woo
Chairman

Hong Kong, 18th April 2008

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the Shareholders of Galaxy Entertainment Group Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Galaxy Entertainment Group Limited (the "Company") set out on pages 49 to 124, which comprise the consolidated and company balance sheets as at 31st December 2007, and the consolidated profit and loss statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the financial statements

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

Responsibility of the auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18th April 2008

CONSOLIDATED PROFIT AND LOSS STATEMENT

For the year ended 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	7	**13,035,439**	4,669,495
Cost of sales	8	**(11,383,472)**	(4,255,222)
Gross profit		**1,651,967**	414,273
Other income	8	**415,732**	262,325
Administrative expenses		**(928,304)**	(683,422)
Other operating expenses		**(1,058,113)**	(1,025,623)
Operating profit/(loss)	8	**81,282**	(1,032,447)
Finance costs	10	**(557,395)**	(522,226)
Share of profits less losses of			
Jointly controlled entities		**52**	29,623
Associated companies		**—**	(612)
Loss before taxation		**(476,061)**	(1,525,662)
Taxation	11	**(26,172)**	(5,848)
Loss for the year		**(502,233)**	(1,531,510)
Attributable to:			
Shareholders	31	**(466,200)**	(1,531,546)
Minority interests		**(36,033)**	36
		(502,233)	(1,531,510)
		HK cents	HK cents
Loss per share	13		
Basic		**(13.8)**	(46.5)
Diluted		**(13.8)**	(46.5)

CONSOLIDATED BALANCE SHEET

As at 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**4,731,187**	3,882,504
Investment properties	16	**62,500**	62,500
Leasehold land and land use rights	17	**1,580,777**	1,621,917
Intangible assets	18	**14,520,665**	15,520,486
Jointly controlled entities	20	**506,193**	386,520
Associated companies	21	**730**	730
Derivative financial instruments	22	**1,155**	47,072
Other non-current assets	23	**599,602**	904,625
		22,002,809	22,426,354
Current assets			
Inventories	24	**90,449**	94,522
Debtors and prepayments	25	**1,039,336**	689,085
Amounts due from jointly controlled entities	26	**339,168**	174,053
Taxation recoverable		**1,299**	2,546
Other investments	27	**57,768**	39,241
Cash and bank balances	28	**8,230,362**	5,783,197
		9,758,382	6,782,644
Total assets		**31,761,191**	29,208,998

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Share capital	29	**393,564**	329,612
Reserves	31	**18,013,088**	13,303,187
Shareholders' funds		**18,406,652**	13,632,799
Minority interests		**531,791**	490,700
Total equity		**18,938,443**	14,123,499
LIABILITIES			
Non-current liabilities			
Borrowings	32	**6,010,571**	8,439,965
Deferred taxation liabilities	33	**1,781,500**	1,778,588
Derivative financial instruments	22	**477,531**	573,109
Provisions	34	**135,622**	120,151
		8,405,224	10,911,813
Current liabilities			
Creditors and accruals	35	**3,901,630**	3,633,551
Amount due to a jointly controlled entity	26	**2,177**	294
Current portion of borrowings	32	**495,247**	532,888
Taxation payable		**18,470**	6,953
		4,417,524	4,173,686
Total liabilities		**12,822,748**	15,085,499
Total equity and liabilities		**31,761,191**	29,208,998

Francis Lui Yiu Tung
Director

Chan Kai Nang
Director

COMPANY BALANCE SHEET

As at 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Subsidiaries	19	**1**	1
Current assets			
Amounts due from subsidiaries	19	**14,831,229**	14,973,752
Loans receivable from subsidiaries	19	**381,208**	544,508
Debtors and prepayments	25	**21,378**	1,813
Taxation recoverable		**339**	339
Cash and bank balances	28	**4,548,722**	1,853,249
		19,782,876	17,373,661
Total assets		**19,782,877**	17,373,662
EQUITY			
Share capital	29	**393,564**	329,612
Reserves	31	**17,172,132**	11,993,172
Shareholders' funds		**17,565,696**	12,322,784
LIABILITIES			
Non-current liabilities			
Borrowings	32	**1,320,525**	3,882,559
Derivative financial instruments	32(c)	**468,858**	573,109
		1,789,383	4,455,668
Current liabilities			
Amounts due to subsidiaries	19	**—**	172,955
Creditors and accruals	35	**30,198**	16,555
Current portion of borrowings	32	**397,600**	405,700
		427,798	595,210
Total liabilities		**2,217,181**	5,050,878
Total equity and liabilities		**19,782,877**	17,373,662

Francis Lui Yiu Tung
Director

Chan Kai Nang
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash generated from operations	36(a)	**1,271,060**	2,232,518
Hong Kong profits tax paid		**(4,017)**	(2,897)
Mainland China income tax and Macau complementary tax paid		**(6,477)**	(275)
Interest paid		**(646,454)**	(529,100)
Net cash from operating activities		**614,112**	1,700,246
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,303,467)**	(2,727,143)
Purchase of leasehold land and land use rights		**(104)**	(22,463)
Purchase of intangible assets		**(4,268)**	(17,767)
Proceeds from sale of property, plant and equipment		**18,022**	5,575
Proceeds from disposal of a subsidiary	36(b)	**49,217**	—
Proceeds from partial disposal of jointly controlled entities		**102,257**	—
Acquisition of subsidiaries, net of cash acquired		**—**	(23,508)
Acquisition of additional interest in a subsidiary		**—**	(6,327)
Investments in jointly controlled entities and an associated company		**(110,686)**	(64,610)
(Increase)/decrease in amounts due from jointly controlled entities and associated companies		**(157,423)**	16,030
Decrease in amount due to a jointly controlled entity		**(3,284)**	(14,103)
Deferred expenditure		**(13,232)**	(977)
Decrease/(increase) in deferred receivable		**2,730**	(4,047)
Decrease/(increase) in finance lease receivable		**38,419**	(174,270)
Decrease/(increase) in non-current investments		**7,212**	(81,682)
Proceeds from disposal of listed investments		**49,902**	33,730
Proceeds from disposal of non-current investments		**5,509**	—
Interest received		**205,357**	161,734
Net gain from cross-currency swaps for hedging		**27,298**	11,626
Decrease in restricted bank deposits		**209,153**	—
Dividends received from jointly controlled entities		**21,504**	6,565
Dividends received from unlisted and listed investments		**17,018**	9,578
Net cash used in investing activities		**(838,866)**	(2,892,059)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2007

	2007 HK$'000	2006 HK$'000
Cash flows from financing activities		
Issue of new shares	**3,948,508**	18,626
New bank loans	**135,063**	287,420
Repayment of bank loans	**(240,460)**	(50,540)
Issue of convertible notes	**—**	1,872,000
Issue cost of convertible notes	**—**	(25,787)
Repayment of fixed rate notes	**(1,187,939)**	(172,435)
Capital element of finance lease payments	**(3,282)**	(200)
Contribution/(repayment of loans) from minority interests	**13,584**	(18,200)
Dividends paid to minority interests	**(4,582)**	(2,911)
Net cash from financing activities	**2,660,892**	1,907,973
Net increase in cash and bank balances	**2,436,138**	716,160
Cash and bank balances at beginning of year	**5,783,197**	5,068,214
Changes in exchange rates	**11,027**	(1,177)
Cash and bank balances at end of year	**8,230,362**	5,783,197

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2007

	Share capital HK$'000	Reserves HK$'000	Shareholders' funds HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January 2006	329,058	14,603,396	14,932,454	491,910	15,424,364
Change in fair value of non-current investments	—	122,004	122,004	—	122,004
Exchange differences	—	40,528	40,528	801	41,329
Change of fair value of cash flow hedges	—	47,072	47,072	—	47,072
Net income recognised directly in equity	—	209,604	209,604	801	210,405
Acquisition of subsidiaries	—	—	—	2,926	2,926
Acquisition of additional interest in a subsidiary	—	—	—	(2,062)	(2,062)
Issue of shares upon exercise of share options	554	18,072	18,626	—	18,626
Fair value of share options	—	3,661	3,661	—	3,661
Dividend paid to minority interests	—	—	—	(2,911)	(2,911)
Loss for the year	—	(1,531,546)	(1,531,546)	36	(1,531,510)
	554	(1,509,813)	(1,509,259)	(2,011)	(1,511,270)
At 31st December 2006	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)
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)
Loss for the year	—	(466,200)	(466,200)	(36,033)	(502,233)
	63,952	4,738,646	4,802,598	31,028	4,833,626
At 31st December 2007	**393,564**	**18,013,088**	**18,406,652**	**531,791**	**18,938,443**

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.

2. Basis of Preparation

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 2007, the Group adopted the following new standard, amendment and interpretations of HKFRS issued by the HKICPA which are effective for the accounting periods beginning on or after 1st January 2007 and relevant to its operations.

HKAS 1 Amendment	Presentation of financial statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The Group has assessed the impact of the adoption of these new standard, amendment and 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, whereas the adoption of HKAS 1 Amendment and HKFRS 7 introduces new disclosures relating to financial instruments and capital management. There is no impact on the classification and valuation of the Group's financial instruments.

2. Basis of Preparation (Continued)

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

The following new standard, interpretation and amendments to existing standards, which have been published and are relevant to the Group's operations and consolidated financial statements, which are mandatory for the accounting periods beginning on or after 1st January 2008 or later periods but which the Group has not early adopted:

Effective from 1st January 2008	
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
Effective from 1st January 2009	
HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 2 Amendment	Share-based Payment Vesting Conditions and Cancellations
HKFRS 8	Operating Segments
Effective from 1st July 2009	
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combination

The Group has already commenced an assessment of the impact of the above standards and interpretation 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 31st 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. Summary of Significant Accounting Policies (Continued)

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 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. Summary of Significant Accounting Policies (Continued)

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.

3. Summary of Significant Accounting Policies (Continued)

3.5 Associated companies (Continued)

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.

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

3. Summary of Significant Accounting Policies (Continued)

3.7 Property, plant and equipment (Continued)

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 amortisation. 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. Summary of Significant Accounting Policies (Continued)

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.

3. Summary of Significant Accounting Policies (Continued)

3.13 Financial assets (Continued)

(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.

3. Summary of Significant Accounting Policies (Continued)

3.14 Derivative financial instruments (Continued)

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. Summary of Significant Accounting Policies (Continued)

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.

3. Summary of Significant Accounting Policies (Continued)

3.20 Convertible notes (Continued)

(a) Convertible notes with equity component (Continued)

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.

3. Summary of Significant Accounting Policies (Continued)

3.21 Leases (Continued)

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.

3. Summary of Significant Accounting Policies (Continued)

3.24 Current and deferred taxation (Continued)

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred 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. Summary of Significant Accounting Policies (Continued)

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. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the activities have been resolved. 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. Summary of Significant Accounting Policies (Continued)

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. Summary of Significant Accounting Policies (Continued)

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.

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, the Renminbi 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 31st December 2007, 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(b)).

At 31st December 2007, if Hong Kong dollar had weakened or strengthened by 0.1% against the United States dollar with all other variables held constant, loss after tax for the year would have been HK$473,000 (2006: HK$1,548,000) higher or lower, mainly as a result of foreign exchange gains/losses arising on translation of US dollar-denominated bank balances and debtors, borrowings and fair value change in derivative financial instruments.

4. Financial Risk Management (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(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 31st December 2007, 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(c).

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 bonds) were 5% (2006: 5%) higher or lower with all other variables held constant.

	2007 HK$'000	2006 HK$'000
If the market price of the Company's own share price were 5% (2006: 5%) higher with all other variables held constant		
Loss after tax for the year increased by	**43,000**	42,000
If the market price of the Company's own share price were 5% (2006: 5%) lower with all other variables held constant		
Loss after tax for the year decreased by	**41,000**	42,200

4. Financial Risk Management (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Interest rate risk

The Group is exposed to interest rate risk through the impact of changes in the rates on interest bearing 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 31st December 2007, 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$3,056,000 (2006: HK$3,566,000) higher or lower, mainly as a result of higher or lower interest expense on floating rate borrowings.

At 31st December 2007, 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$37,234,000 (2006: HK$24,347,000) lower or higher.

(b) Credit risk

Credit risk arises from cash, 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 VIP club promoters. Cash and bank balances are deposited in banks with sound credit ratings to mitigate the risk arising from banks. The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. The Group also has policies in place to assess the credit worthiness of customers to ensure that sales of construction materials are made to customers with an appropriate credit history. Besides, management of the Group monitors its credit risk on an ongoing basis by reviewing the debtors' aging to minimise its exposure to credit risk.

The Group currently provides credit to the VIP club promoters and players of gaming. The provision of credit in gaming is governed by the group credit policy and procedures for gaming operation. Credit checks of the applicants are performed before the approval of credit applications and credit limits are granted based on the performance record of the applicants and the financial strength of the applicants and the guarantors. Management of the Group performs regular review of the credit profile to minimise the credit risk.

4. Financial Risk Management (Continued)

4.1 Financial risk factors (Continued)

(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. In addition, standby facilities are established to provide contingency liquidity support.

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 31st 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	**3,523,414**	**62,921**	**1,889**	**313,406**	**3,901,630**
At 31st December 2006					
Bank loans	689,955	3,440	9,628	19,561	722,584
Fixed rate notes	—	2,778,985	—	—	2,778,985
Guaranteed notes	471,402	471,402	3,155,931	2,990,858	7,089,593
Convertible notes	—	—	1,293,443	—	1,293,443
Other borrowings	108	—	—	—	108
Derivative financial instruments	—	—	573,109	—	573,109
Creditors and accruals	3,243,325	5,777	1,848	382,601	3,633,551

4. Financial Risk Management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Company

	Within one year HK$'000	Between one to two years HK$'000	Between two to five years HK$'000	Total HK$'000
At 31st 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	**30,198**	**—**	**—**	**30,198**
At 31st December 2006				
Bank loans	561,369	—	—	561,369
Fixed rate notes	—	2,778,985	—	2,778,985
Convertible notes	—	—	1,293,443	1,293,443
Derivative financial instruments	—	—	573,109	573,109
Creditors and accruals	16,555	—	—	16,555
Amounts due to subsidiaries	172,955	—	—	172,955

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 31st December 2007				
Cross-currency swap contracts				
Outflow	**(427,888)**	**(3,144,888)**	**(2,111,548)**	**(5,684,324)**
Inflow	**461,248**	**3,191,248**	**2,141,661**	**5,794,157**
At 31st December 2006				
Cross-currency swap contracts				
Outflow	(434,031)	(434,031)	(5,268,721)	(6,136,783)
Inflow	470,126	470,126	5,337,828	6,278,080

4. Financial Risk Management (Continued)

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 adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total assets less cash and bank balances. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and bank balances.

The gearing ratios at 31st December 2007 and 2006 were as follows:

	2007 HK$'000	2006 HK$'000
Total borrowings (note 32)	**(6,505,818)**	(8,972,853)
Less: cash and bank balances (note 28)	**8,230,362**	5,783,197
Net cash/(debt)	**1,724,544**	(3,189,656)
Total assets less cash and bank balances	**23,530,829**	23,425,801
Gearing ratio	**N/A**	14%

The improvement in the gearing ratio during 2007 resulted primarily from the full repayment of the fixed rate notes and the issuance of new ordinary shares during the year as disclosed in note 29(b) below.

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 gaming licence

Gaming licence represents the fair value of licence acquired on the acquisition of Galaxy and is amortised on a straight line basis over its estimated useful life, which is the remaining licence period. When there is indication for impairment, the Group tests whether the licence has suffered any impairment based on value-in-use calculations. 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.

(b) 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 previously estimates, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

5. Critical Accounting Estimates and Judgements (Continued)

(g) 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 transaction 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.

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 HK$'000	Construction materials HK$'000	Unallocated HK$'000	Total HK$'000
Year ended 31st December 2007				
Revenue	11,481,227	1,554,212	—	13,035,439
Operating (loss)/profit (note)	(203,059)	74,898	209,443	81,282
Finance costs				(557,395)
Share of profits less losses of Jointly controlled entities	174	(122)	—	52
Loss before taxation				(476,061)
Taxation				(26,172)
Loss for the year				(502,233)
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	—	(3,016)	—	(3,016)

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

6. Segment Information (Continued)

(a) Business segments (Continued)

	Gaming and entertainment HK$'000	Construction materials HK$'000	Unallocated HK$'000	Total HK$'000
Year ended 31st December 2006				
Revenue	3,388,767	1,280,728	—	4,669,495
Operating (loss)/profit (note)	(1,187,893)	52,512	102,934	(1,032,447)
Finance costs				(522,226)
Share of profits less losses of				
Jointly controlled entities	(2,803)	32,426	—	29,623
Associated companies	—	(612)	—	(612)
Loss before taxation				(1,525,662)
Taxation				(5,848)
Loss for the year				(1,531,510)
Capital expenditure	(2,773,738)	(69,533)	(5,459)	(2,848,730)
Depreciation	(60,570)	(82,729)	(1,194)	(144,493)
Amortisation	(1,007,187)	(38,459)	—	(1,045,646)
Impairment of non-current investments	—	—	(4,237)	(4,237)
Impairment of property, plant and equipment	—	(784)	—	(784)

Note: Results of the gaming and entertainment division included pre-opening expenses of HK$267,868,000 incurred for the City Club Casinos and the StarWorld Casino and Hotel.

6. Segment Information (Continued)

(a) Business segments (Continued)

	Gaming and entertainment HK$'000	Construction materials HK$'000	Unallocated HK$'000	Total HK$'000
As at 31st 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 companies	**—**	**730**	**—**	**730**
Total assets				**31,761,191**
Segment liabilities	**3,153,545**	**586,592**	**9,082,611**	**12,822,748**
As at 31st December 2006				
Segment assets	20,403,330	1,782,149	6,636,269	28,821,748
Jointly controlled entities	(2,769)	389,289	—	386,520
Associated companies	—	730	—	730
Total assets				29,208,998
Segment liabilities	2,907,093	539,522	11,638,884	15,085,499

(b) Geographical segments

	Revenue HK$'000	Capital expenditure HK$'000	Total assets HK$'000
Year ended 31st December 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**
	13,035,439	**1,269,940**	**31,761,191**
Year ended 31st December 2006			
Macau	3,620,336	2,796,186	25,077,008
Hong Kong	516,380	30,515	2,860,182
Mainland China	532,779	22,029	1,271,808
	4,669,495	2,848,730	29,208,998

7. Revenue

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

	2007 HK$'000	2006 HK$'000
Sales of construction materials	**1,554,212**	1,280,728
Gaming operations		
Net gaming wins	**11,135,284**	3,186,893
Contributions (note)	**78,966**	167,057
Tips received	**33,276**	19,692
Hotel operations		
Room rental	**139,519**	10,739
Food and beverages	**37,835**	3,924
Others	**56,347**	462
	13,035,439	4,669,495

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 funds 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 funds 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.

7. Revenue (Continued)

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

	2007 HK$'000	2006 HK$'000
Net gaming wins	**1,730,121**	2,732,614
Tips received and other income	**11,242**	22,820
Interest income	**9,527**	18,085
	1,750,890	2,773,519
Operating expenses		
Special gaming tax and funds to the Macau Government	**(698,314)**	(1,101,141)
Commission and allowances to promoters	**(615,260)**	(1,042,232)
Employee benefit expenses	**(292,793)**	(328,559)
Other operating expenses	**(84,770)**	(73,065)
	(1,691,137)	(2,544,997)
Contributions from gaming operations	**59,753**	228,522
Contributions from/(net entitlements of) the Service Providers	**19,213**	(61,465)
Contributions attributable to the Group	**78,966**	167,057

8. Cost of Sales, Other Income and Operating Profit/(Loss)

		2007 HK$'000	2006 HK$'000
(a)	Cost of sales		
	Special gaming tax and funds to the Macau Government	**4,439,215**	1,289,236
	Commission and allowances to promoters	**4,207,442**	1,240,210
	Cost of inventories sold	**1,306,974**	1,106,659
	Other direct costs	**1,429,841**	619,117
		11,383,472	4,255,222
(b)	Other income		
	Rental income	**3,792**	9,286
	Interest income		
	Bank deposits	**219,281**	156,578
	Loan to jointly controlled entities (note 26a)	**5,409**	2,073
	Loan to a related company	**—**	3,371
	Deferred receivable (note 23c)	**719**	797
	Administrative fees from gaming operations	**30,089**	16,864
	Dividend income from unlisted investments	**11,973**	9,229
	Dividend income from listed investments	**1,223**	349
	Realised and unrealised gain on listed investments	**68,429**	3,883
	Gain on partial disposal of jointly controlled entities	**28,863**	—
	Gain on disposal of non-current investments	**1,736**	—
	Gross earnings on finance lease	**14,514**	11,441
	Foreign exchange gain	**1,146**	9,417
	Others	**28,558**	39,037
		415,732	262,325

8. Cost of Sales, Other Income and Operating Profit/(Loss) (Continued)

	2007 HK$'000	2006 HK$'000
(c) Operating profit/(loss) is arrived at after charging		
Depreciation	**328,280**	144,493
Amortisation		
Gaming licence	**998,360**	998,089
Computer software	**5,728**	1,135
Overburden removal costs	**15,057**	16,475
Quarry site improvements	**20,609**	15,050
Quarry site development	**3,105**	1,959
Leasehold land and land use rights (note i)	**41,484**	12,938
Operating lease rental		
Land and buildings	**81,169**	49,166
Plant and machinery	**1,738**	3,900
Royalty	**4,790**	5,916
Loss on disposal of property, plant and equipment	**1,229**	119
Loss on disposal of a subsidiary (note 37)	**2,337**	—
Staff costs, including Directors' remuneration (note ii)	**1,406,263**	947,069
Impairment of non-current investments	**4,569**	4,237
Impairment of property, plant and equipment	**27,457**	784
Impairment of trade debtors	**3,016**	—
Change in fair value of investment properties	**—**	500
Outgoing in respect of investment properties	**518**	660
Auditor's remuneration		
Audit services		
Provision for the year	**7,525**	7,643
Under-provision in prior year	**54**	1,375
Non-audit services		
Provision for the year	**2,501**	476
Under-provision in prior year	**77**	78

(i) There is no capitalisation of amortisation of leasehold land and land use rights in assets under construction in 2007 (2006: HK$26,349,000).

(ii) Staff costs do not include share option expenses in 2007 (2006: HK$3,661,000). The amount is stated after amount capitalised in assets under construction and fixed assets in the aggregate of HK$92,210,000 (2006: HK$48,559,000).

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$'000	2007 Total HK$'000	2006 Total HK$'000
Executive Directors							
Dr. Lui Che Woo	100	3,150	3,000	158	—	**6,408**	3,527
Mr. Francis Lui Yiu Tung	127	11,550	3,000	577	—	**15,254**	12,067
Mr. Chan Kai Nang	80	2,587	—	100	—	**2,767**	2,692
Mr. Joseph Chee Ying Keung	80	2,288	610	205	—	**3,183**	2,712
Mr. William Lo Chi Chung	80	789	172	38	—	**1,079**	1,061
Ms. Paddy Tang Lui Wai Yu	80	—	—	—	—	**80**	268
	547	20,364	6,782	1,078	—	**28,771**	22,327
Non-executive Directors							
Dr. Charles Cheung Wai Bun	217	—	—	—	—	**217**	298
Mr. Moses Cheng Mo Chi	160	—	—	—	—	**160**	254
Mr. James Ross Ancell	160	—	—	—	—	**160**	278
Dr. William Yip Shue Lam	117	—	—	—	—	**117**	198
Mr. Anthony Thomas Christopher Carter	—	98	—	—	—	**98**	—
Dr. Martin Clarke	—	—	—	—	—	**—**	—
Mr. Guido Paolo Gamucci	—	—	—	—	—	**—**	—
	654	98	—	—	—	**752**	1,028
Total 2007	**1,201**	**20,462**	**6,782**	**1,078**	**—**	**29,523**	
Total 2006	1,080	19,406	304	1,017	1,548		23,355

The discretionary bonuses paid in 2007 were in relation to performance for 2006.

9. Management Remuneration (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: one) Directors whose emoluments are reflected in note (a) above. The emoluments of the remaining three individuals (2006: four) are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other emoluments	**12,915**	21,380
Discretionary bonuses	**2,188**	3,194
Retirement benefits	**476**	675
	15,579	25,249

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	2007	2006
HK$4,000,001 – HK$4,500,000	**—**	2
HK$4,500,001 – HK$5,000,000	**2**	—
HK$5,500,001 – HK$6,000,000	**1**	—
HK$6,000,001 – HK$6,500,000	**—**	1
HK$10,500,001 – HK$11,000,000	**—**	1
	3	4

(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.

9. Management Remuneration (Continued)

(c) Retirement benefit schemes (Continued)

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$43,298,000 (2006: HK$29,356,000), after deducting forfeitures of HK$27,571,000 (2006: HK$1,119,000), leaving HK$1,389,000 (2006: HK$292,000) 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 Costs

	2007 HK$'000	2006 HK$'000
Interest expenses		
Guaranteed fixed rate notes not wholly repayable within five years	**—**	276,340
Guaranteed fixed rate notes and floating rate notes wholly repayable within five years	**493,842**	206,393
Fixed rate notes wholly repayable within five years	**123,141**	140,781
Convertible notes wholly repayable within five years	**111,630**	5,464
Bank loans and overdrafts	**35,792**	31,795
Obligations under finance leases wholly payable within five years	**1,227**	56
Change in fair value of derivative under the convertible notes	**(105,924)**	(67,818)
Net gain from cross-currency swap contracts for hedging	**(14,174)**	(11,626)
Other borrowing costs	**15,981**	12,901
	661,515	594,286
Amount capitalised in assets under construction	**(104,120)**	(72,060)
	557,395	522,226

11. Taxation

	2007 HK$'000	2006 HK$'000
Current taxation		
Hong Kong profits tax	**7,660**	708
Mainland China income tax	**11,965**	1,932
Macau complementary tax	**3,635**	4,029
Deferred taxation	**2,912**	(821)
	26,172	5,848

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

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:

	2007 HK$'000	2006 HK$'000
Loss before taxation	**(476,061)**	(1,525,662)
Share of profits less losses of		
Jointly controlled entities	**(52)**	(29,623)
Associated companies	**—**	612
	(476,113)	(1,554,673)
Tax calculated at applicable tax rate	**73,925**	198,149
Income under tax relief	**527**	1,769
Income not subject to tax	**20,607**	7,638
Profit/(loss) exempted from taxation	**97,881**	(33,654)
Expenses not deductible for tax purpose	**(163,216)**	(145,778)
Utilisation of previously unrecognised tax losses	**1,257**	6,866
Tax losses not recognised	**(56,653)**	(40,556)
Under provision of tax	**(500)**	(282)
Taxation charge	**(26,172)**	(5,848)

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$25,886,000 (2006: HK$68,975,000).

13. Loss Per Share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK$466,200,000 (2006: HK$1,531,546,000) and the weighted average of 3,373,065,022 shares (2006: 3,293,135,440 shares) in issue during the year.

The diluted loss per share for 2007 and 2006 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 31st December 2007 (2006: nil).

15. Property, Plant and Equipment

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Gaming equipment and other assets HK$'000	Assets under construction HK$'000	Total HK$'000
Cost						
At 31st 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 31st December 2007	1,863,868	54,559	1,149,085	960,091	1,790,481	5,818,084
Accumulated depreciation and impairment						
At 31st 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 31st December 2007	89,717	43,322	583,673	370,185	—	1,086,897
Net book value						
At 31st December 2007	**1,774,151**	**11,237**	**565,412**	**589,906**	**1,790,481**	**4,731,187**
Cost						
At 31st December 2005	41,773	34,778	726,144	274,274	752,306	1,829,275
Exchange differences	1,751	81	11,609	7,575	—	21,016
Acquisition of subsidiaries	—	—	6,922	1,398	—	8,320
Additions	23,644	9,051	55,473	595,139	2,142,245	2,825,552
Transfer	1,628,168	9,638	458,440	—	(2,096,246)	—
Disposals	(397)	(297)	(11,984)	(12,371)	—	(25,049)
At 31st December 2006	1,694,939	53,251	1,246,604	866,015	798,305	4,659,114
Accumulated depreciation and impairment						
At 31st December 2005	7,736	26,102	455,177	152,597	—	641,612
Exchange differences	253	36	4,693	4,094	—	9,076
Charge for the year	13,722	9,276	59,707	61,788	—	144,493
Disposals	(59)	(46)	(8,958)	(10,292)	—	(19,355)
Impairment	—	—	784	—	—	784
At 31st December 2006	21,652	35,368	511,403	208,187	—	776,610
Net book value						
At 31st December 2006	1,673,287	17,883	735,201	657,828	798,305	3,882,504

(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$7,702,000 (2006: HK$127,000).

(c) During the year, borrowing costs of HK$104,120,000 (2006: HK$72,060,000) arising on financing specifically entered into for the construction of a building, as well as amortisation of prepayments of lease premium of nil (2006: HK$26,349,000), have been capitalised and included in assets under construction. A capitalisation rate of 3.84% (2006: 5.96%) was used, representing the effective borrowing cost of the loan used to finance the project.

16. Investment Properties

	Group 2007 HK$'000	Group 2006 HK$'000
At valuation		
Beginning of the year	**62,500**	63,000
Change in fair value	**—**	(500)
End of the year	**62,500**	62,500

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 2007 HK$'000	Group 2006 HK$'000
Net book value at beginning of the year	**1,621,917**	1,638,620
Exchange differences	**240**	121
Additions	**104**	22,463
Amortisation	**(41,484)**	(39,287)
Net book value at end of the year	**1,580,777**	1,621,917
Cost	**1,766,277**	1,765,933
Accumulated amortisation	**(185,500)**	(144,016)
Net book value	**1,580,777**	1,621,917
Leases of between 10 to 50 years		
Macau	**1,344,091**	1,378,510
Hong Kong	**233,503**	240,462
Mainland China	**3,183**	2,945
	1,580,777	1,621,917

Leasehold land in Hong Kong with net book values of HK$222,173,000 (2006: HK$216,978,000) has been pledged as securities for the bank borrowings (note 32).

18. Intangible Assets

Group

	Goodwill HK$'000	Gaming licence HK$'000	Computer software HK$'000	Total HK$'000
Cost				
At 31st December 2006	33,014	16,887,329	18,201	16,938,544
Additions	—	—	4,268	4,268
Disposals	—	—	(2)	(2)
At 31st December 2007	33,014	16,887,329	22,467	16,942,810
Accumulated amortisation				
At 31st 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 31st December 2007	—	2,415,211	6,934	2,422,145
Net book value				
At 31st December 2007	**33,014**	**14,472,118**	**15,533**	**14,520,665**
At 31st December 2006	33,014	15,470,478	16,994	15,520,486

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 (2006: HK$28,524,000) and HK$4,490,000 (2006: 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.

19. Subsidiaries

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**14,831,229**	14,973,752
Loans receivable from subsidiaries	**381,208**	544,508
Amounts due to subsidiaries	**—**	(172,955)

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

The loans receivable are unsecured, carry interest at prevailing market interest rate and have no fixed terms 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 44(a).

20. Jointly Controlled Entities

	Group 2007 HK$'000	Group 2006 HK$'000
Beginning of the year	**386,520**	279,432
New investments	**110,984**	63,880
Share of results		
Profit before taxation	**6,162**	31,974
Taxation	**(6,110)**	(2,351)
Dividends	**(21,504)**	(6,565)
Share of exchange reserve	**30,141**	20,150
End of the year	**506,193**	386,520

20. Jointly Controlled Entities (Continued)

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

	2007 HK$'000	2006 HK$'000
Non-current assets	**814,795**	441,948
Current assets	**443,256**	380,915
Current liabilities	**(238,249)**	(159,690)
Non-current liabilities	**(513,609)**	(276,653)
	506,193	386,520
Income	**469,028**	462,691
Expenses	**(462,866)**	(430,717)
Profit before taxation	**6,162**	31,974

(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 44(b).

21. Associated Companies

	Group	
	2007 HK$'000	2006 HK$'000
Beginning of the year	**730**	21,346
New investments	**—**	730
Share of results		
Loss before taxation	**—**	(612)
Transfer to subsidiary	**—**	(20,734)
End of the year	**730**	730

21. Associated Companies (Continued)

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

	2007 HK$'000	2006 HK$'000
Non-current assets	**7,211**	—
Current assets	**12,385**	730
Current liabilities	**(4,700)**	—
Non-current liabilities	**(14,166)**	—
	730	730
Income	**5,929**	—
Expenses	**(5,929)**	—
Profit before taxation	**—**	—

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

22. Derivative Financial Instruments

	Group	
	2007 HK$'000	2006 HK$'000
Cross-currency swaps for cash flow hedges	**1,155**	47,072
Cross-currency swaps for cash flow and fair value hedges	**(8,673)**	—
Derivative component of the Convertible Notes (note 32c)	**(468,858)**	(573,109)
	(477,531)	(573,109)

The notional principal amounts of the cross-currency swaps are US$600 million (2006: US$600 million).

At 31st December 2007, the fixed interest rates vary from 9.47% to 9.495% (2006: 9.47% to 9.495%). The main floating rates are HIBOR and LIBOR. Gains and losses recognised in the hedging reserve in equity (note 31) on cross-currency swaps as of 31st December 2007 will be continuously released to the profit and loss statement until the repayment of the borrowings (note 32).

23. Other Non-current Assets

	Group	
	2007 HK$'000	2006 HK$'000
Non-current investments (note a)	**256,257**	284,932
Finance lease receivable (note b)	**137,438**	168,552
Deferred expenditure		
Overburden removal costs	**51,538**	68,574
Quarry site development	**15,867**	10,930
Quarry site improvements	**83,675**	105,880
Deferred receivable (note c)	**4,827**	6,604
Restricted bank deposits (note d)	**50,000**	259,153
	599,602	904,625

(a) Non-current investments

	Group	
	2007 HK$'000	2006 HK$'000
Unlisted investments, at fair value	**123,256**	151,931
Advances to investee companies	**133,001**	133,001
	256,257	284,932

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

23. Other Non-current Assets (Continued)

(b) Finance lease receivable

	Group	
	2007 HK$'000	2006 HK$'000
Gross receivable	**204,435**	250,860
Unearned finance income	**(30,603)**	(38,609)
	173,832	212,251
Current portion included in current assets	**(36,394)**	(43,699)
	137,438	168,552

The finance lease is receivable in the following years:

	Present value		Minimum receipts	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Within one year	**36,394**	43,699	**50,709**	57,844
Between one to five years	**121,685**	166,245	**137,550**	190,592
Over five years	**15,753**	2,307	**16,176**	2,424
	173,832	212,251	**204,435**	250,860

(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 31st December 2007, restricted bank deposits of 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 1st April 2007 to the earlier of 90 days after the expiry of the Concession Agreement or 31st March 2022 which is in favour of the Macao Government against the legal and contractual liabilities of the Group and the Company under the Concession Agreement.

At 31st December 2006, restricted bank deposits of HK$259 million were pledged to secure banking facilities extended to the Company and the Group which comprised a guarantee amounting to HK$485 million for the period up to 31st March 2007 in favour of the Macau Government against the legal and contractual liabilities of the Group and the Company under the Concession Agreement. They were also pledged for two revolving term loans amounting to HK$75 million.

The effective interest rate on restricted bank deposits was 4.37% (2006: 3.86%) and these deposits have an average maturity of 25 days (2006: 32 days).

24. Inventories

	Group	
	2007 HK$'000	2006 HK$'000
Construction materials		
Aggregates and sand	**33,019**	31,720
Concrete pipes and blocks	**8,485**	13,527
Cement	**7,118**	6,599
Spare parts	**14,767**	24,116
Consumables	**14,770**	6,766
	78,159	82,728
Gaming and entertainment		
Playing cards	**6,462**	8,769
Food and beverages	**2,052**	1,521
Consumables	**3,776**	1,504
	12,290	11,794
	90,449	94,522

25. Debtors and Prepayments

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Trade debtors, net of provision (note a)	**616,574**	504,390	**—**	—
Other debtors (note b)	**348,254**	68,193	**21,138**	1,245
Amount due from an associated company (note c)	**5,166**	183	**—**	—
Prepayments	**32,948**	72,620	**240**	568
Current portion of finance lease receivable	**36,394**	43,699	**—**	—
	1,039,336	689,085	**21,378**	1,813

25. Debtors and Prepayments (Continued)

(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:

	2007 HK$'000	2006 HK$'000
Within one month	**160,066**	136,508
Two to three months	**178,714**	148,612
Four to six months	**118,994**	97,840
Over six months	**158,800**	121,430
	616,574	504,390

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

	2007 HK$'000	2006 HK$'000
Renminbi	**398,942**	329,594
Hong Kong dollar	**161,365**	129,724
Macau Patacas	**56,267**	45,072
	616,574	504,390

25. Debtors and Prepayments (Continued)

(a) (Continued)

Included in the Group's trade debtors were debtors with a carrying amount of HK$354,343,000 (2006: HK$302,826,000) which were not yet due. Debtors with a carrying amount of HK$262,231,000 (2006: HK$201,564,000) 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:

	2007 HK$'000	2006 HK$'000
Overdue:		
Within one month	66,566	47,161
Two to three months	73,867	50,621
Four to six months	63,051	44,656
Over six months	58,747	59,126
	262,231	201,564

As of 31st December 2007, trade debtors of the Group amounting to HK$54,400,000 (2006: HK$50,288,000) were impaired and fully provided for. The factors the Group considered in determining whether the trade debtors were impaired are disclosed in note 3.15.

Movement in the provision for impairment of trade debtors

	2007 HK$'000	2006 HK$'000
Balance at 1 January	50,288	52,832
Acquisition of subsidiaries	—	100
Provision for impairment of receivables	3,016	—
Receivables written off during the year as uncollectible	(3,133)	(46)
Unused amounts reversed	—	(2,643)
Exchange differences	4,229	45
Balance at 31 December	54,400	50,288

(b) Other debtors of HK$348,254,000 (2006: HK$68,193,000) are mainly denominated in Hong Kong dollars which are not yet due.

(c) Amount receivable is unsecured, interest free and repayable in accordance with agreed term.

26. Amounts Due From/(Due To) Jointly Controlled Entities

	Group	
	2007 **HK$'000**	2006 HK$'000
Amounts due from jointly controlled entities (note a)	**339,168**	174,053
Amount due to a jointly controlled entity (note b)	**(2,177)**	(294)

(a) Amounts receivable of HK$187,226,000 (2006: HK$34,483,000), of which HK$5,648,000 (2006: HK$5,648,000) are secured, carry interest at prevailing market rate and are repayable in accordance with agreed terms of repayment. The remaining amounts receivable are unsecured, interest free and repayable in accordance with agreed terms. The amounts receivable are denominated in Renminbi.

(b) The amount payable is unsecured, interest free and has no fixed terms of repayment.

27. Other Investments

	Group	
	2007 **HK$'000**	2006 HK$'000
Equity securities listed in Hong Kong, at market value	**57,768**	29,636
Derivative financial instruments, options on listed equity securities	**—**	9,605
	57,768	39,241

28. Cash and Bank Balances

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Cash at bank and on hand	1,339,154	1,625,187	438	—
Short-term bank deposits	6,891,208	4,158,010	4,548,284	1,853,249
	8,230,362	5,783,197	4,548,722	1,853,249

Cash and bank balances of the Group of HK$1,934 million (2006: HK$3,325 million) and of the Company of HK$1,577 million (2006: HK$1,577 million) are restricted to specified uses in accordance with the note offering agreements as set out in note 32 (b) and (c).

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

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Hong Kong dollar	5,587,741	2,302,649	2,647,691	—
US dollar	2,264,440	3,337,891	1,901,031	1,853,249
Macau Patacas	306,976	73,385	—	—
Renminbi	71,205	69,272	—	—
	8,230,362	5,783,197	4,548,722	1,853,249

The effective interest rate on cash and bank balances was 4.1% (2006: 4.7%) and the average maturity was 36 days (2006: 24 days).

29. Share Capital

	Ordinary shares of HK$0.10 each	HK$'000
Authorised:		
At 31st December 2006	6,888,000,000	688,800
Addition (note a)	2,112,000,000	211,200
At 31st December 2007	**9,000,000,000**	**900,000**
Issued and fully paid:		
At 31st December 2005	3,290,579,361	329,058
Issue of shares upon exercise of share options	5,538,000	554
At 31st December 2006	3,296,117,361	329,612
Issue of new shares (note b)	630,188,000	63,019
Issue of shares upon exercise of share options	9,334,000	933
At 31st December 2007	**3,935,639,361**	**393,564**

(a) On 21st November 2007, the authorised share capital of the Company was increased from HK$688,800,000 to HK$900,000,000, divided into 9,000,000,000 shares of HK$0.10 each, by the creation of an additional 2,112,000,000 new shares of HK$0.10 each, which rank pari passu in all respects with the then existing shares in the capital of the Company.

(b) On 25th October 2007, the Company issued 150,000,000 new shares of HK$0.10 each at the issue price of HK$8.58 per share for cash, totalling HK$1,287 million, to independent third parties. Net proceeds from the issue of shares were intended to be used to fund gaming related business, facility development, acquisition opportunities, and general working capital purposes.

On 27th November 2007, the Company issued 323,384,000 new shares of HK$0.10 each at the issue price of HK$8.42 per share for cash, totalling HK$2,723 million, to a private equity fund known as Permira IV. On the same date, the Company has converted approximately 50% of the principal amount of the fixed rate notes and accrued interest, being HK$1,320 million into 156,804,000 new shares of the Company of HK$0.10 each at the issue price of HK$8.42 per share. Net proceeds from the issue of shares were intended to be used to fund gaming related business, facility development, acquisition opportunities, general working capital, and the repayment of approximately 50% of the fixed rate notes in the amount of HK$1,320 million.

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 30th 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 during the year are as follows:

	2007	2006
At beginning of year	**47,552,000**	53,908,000
Exercised (note a)	**(9,334,000)**	(5,538,000)
Lapsed (note b)	**—**	(818,000)
At end of year (note c)	**38,218,000**	47,552,000

30. Share Option Scheme (Continued)

(a) Options exercised

Exercise period	Exercise price HK$	Number of shares issued
January 2007	4.5900	840,000
January 2007	0.5333	270,000
January 2007	0.5216	228,000
January 2007	0.5140	242,000
February 2007	4.5900	834,000
March 2007	4.5900	110,000
April 2007	4.5900	104,000
May 2007	4.5900	2,992,000
June 2007	4.5900	554,000
July 2007	4.5900	28,000
August 2007	4.5900	257,000
August 2007	0.5140	38,000
September 2007	4.5900	618,000
October 2007	4.5900	138,000
November 2007	4.5900	915,000
December 2007	4.5900	736,000
December 2007	0.5333	130,000
December 2007	0.5140	300,000
		9,334,000

(b) Options lapsed

Exercise period	Exercise price HK$	Number of share options **2007**	 2006
22nd October 2005 to 21st October 2011	4.5900	—	400,000
22nd October 2006 to 21st October 2011	4.5900	—	418,000
		—	818,000

30. Share Option Scheme (Continued)

(c) Outstanding options

Exercise period	Exercise price HK$	Number of share options 2007	2006
Directors			
20th May 1999 to 19th May 2008	0.5333	**2,500,000**	2,500,000
30th December 2000 to 29th December 2009	0.5216	**3,400,000**	3,400,000
1st March 2004 to 28th February 2013	0.5140	**3,980,000**	4,280,000
22nd October 2005 to 21st October 2011	4.5900	**14,200,000**	13,200,000
22nd October 2006 to 21st October 2011	4.5900	**2,860,000**	3,290,000
Employees and others			
20th May 1999 to 19th May 2008	0.5333	—	400,000
30th December 2000 to 29th December 2009	0.5216	—	228,000
1st March 2004 to 28th February 2013	0.5140	—	280,000
22nd October 2005 to 21st October 2011	4.5900	**9,400,000**	16,250,000
22nd October 2006 to 21st October 2011	4.5900	**1,878,000**	3,724,000
		38,218,000	47,552,000

31. Reserves

Group

	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Hedging reserve HK$'000	Investment reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Revenue reserve (note a) HK$'000	Total HK$'000
At 1st 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 (note b)	**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 31st December 2007	**16,669,970**	**4,395**	**70**	**(14,730)**	**103,195**	**28,762**	**100,397**	**1,121,029**	**18,013,088**
At 1st January 2006	11,435,004	4,395	70	—	(3,871)	37,561	11,874	3,118,363	14,603,396
Exchange differences	—	—	—	—	—	—	40,528	—	40,528
Change in fair value of cash flow hedges	—	—	—	47,072	—	—	—	—	47,072
Issue of shares upon exercise of share options	21,955	—	—	—	—	(3,883)	—	—	18,072
Fair value of share options	—	—	—	—	—	3,661	—	—	3,661
Share options lapsed	—	—	—	—	—	(412)	—	412	—
Change in fair value of non-current investments	—	—	—	—	122,004	—	—	—	122,004
Loss for the year	—	—	—	—	—	—	—	(1,531,546)	(1,531,546)
At 31st December 2006	11,456,959	4,395	70	47,072	118,133	36,927	52,402	1,587,229	13,303,187

(a) A 88.1% owned 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. The amount of HK$45,549,000 (2006: nil) will be treated as a distribution of reserve upon approval by the shareholders of this subsidiary at the annual general meeting and is not distributable to shareholders of the subsidiary.

(b) Share premium for issuance of shares during 2007 includes share issuance costs of HK$99 million.

31. Reserves (Continued)

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 1st 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 31st December 2007	**16,669,970**	**235,239**	**70**	**28,762**	**238,091**	**17,172,132**
At 1st January 2006	11,435,004	235,239	70	35,561	332,540	12,038,414
Issue of shares upon exercise of share options	21,955	—	—	(3,883)	—	18,072
Fair value of share options	—	—	—	5,661	—	5,661
Share options lapsed	—	—	—	(412)	412	—
Loss for the year	—	—	—	—	(68,975)	(68,975)
At 31st December 2006	11,456,959	235,239	70	36,927	263,977	11,993,172

Reserves of the Company available for distribution to shareholders amount to HK$238,091,000 (2006: HK$263,977,000).

32. Borrowings

	Group		Company	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
Bank loans				
Secured	**178,700**	259,860	**153,400**	157,400
Unsecured	**432,597**	453,420	**244,200**	403,500
	611,297	713,280	**397,600**	560,900
Other borrowings				
Fixed rate notes (note a)	**—**	2,521,982	**—**	2,521,982
Guaranteed notes (note b)	**4,565,617**	4,532,106	**—**	—
Convertible notes (note c)	**1,320,525**	1,205,377	**1,320,525**	1,205,377
Bank loans and other borrowings	**6,497,439**	8,972,745	**1,718,125**	4,288,259
Obligations under finance leases (note d)	**8,379**	108	**—**	—
Total borrowings	**6,505,818**	8,972,853	**1,718,125**	4,288,259
Current portion included in current liabilities	**(495,247)**	(532,888)	**(397,600)**	(405,700)
	6,010,571	8,439,965	**1,320,525**	3,882,559

(a) On 22nd July 2005, the Company issued HK$2,544,240,000 fixed rate notes, which would mature on 21st August 2006, with variable rates as part of consideration for the acquisition of Galaxy Casino S.A.. On 14th January 2006, holders for HK$2,371,805,000 of the fixed rate notes agreed to amend the terms to extend the maturity date of their notes from 21st August 2006 to 30th September 2008 and change the interest rate to a fixed rate of 6% per annum. On 22nd May 2006, the remaining HK$172,435,000 of the fixed rate notes, plus accrued interest of HK$3,401,000, were fully paid by the Group.

On 8th October 2007, the Company and the holders for HK$2,371,805,000 of the fixed rate notes entered into an agreement under which the Company agreed to convert approximately 50% of the principal amount of the fixed rate notes and accrued interest, being HK$1,320,289,680, into 156,804,000 new shares of the Company of HK$0.10 each at the issue price of HK$8.42 per share; and to redeem the balance of the principal in cash. On 27th November 2007, the conversion of the fixed rate notes was completed and all the remaining fixed rate notes have been fully paid by the Group.

32. Borrowings (Continued)

(b) On 14th 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 15th 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 15th 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).

(c) On 14th 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 14th 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 14th 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 14th 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:

	2007 HK$'000	2006 HK$'000
Liability under the Convertible Notes		
At beginning of the year/at the issue date	1,205,377	1,203,415
Exchange difference	3,518	(3,502)
Interest expense	111,630	5,464
At end of the year	1,320,525	1,205,377

32. Borrowings (Continued)

Interest expense on the Convertible Notes is calculated using the effective interest method by applying the effective interest rate of 9.23% (2006: 9.23%).

	2007 HK$'000	2006 HK$'000
Derivative component		
At beginning of the year/at the issue date	573,109	642,798
Change in fair value	(105,924)	(67,818)
Exchange difference	1,673	(1,871)
At end of the year (note 22)	468,858	573,109

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 were 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 45% (2006: 50%) 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% (2006: 0.1%) during the life of the Convertible Notes.

(d) Obligations under finance leases

The finance lease obligations are payable in the following years:

	Minimum payments		Present value	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Within one year	4,828	135	3,990	108
In the second year	4,828	—	4,389	—
	9,656	135	8,379	108

32. Borrowings (Continued)

(e) The borrowings are repayable as follows:

	Group							
	Bank loans		Fixed rate notes		Guaranteed notes		Convertible notes	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Within one year	**491,257**	532,780	**—**	—	**—**	—	**—**	—
Between one to two years	**99,060**	157,360	**—**	2,521,982	**—**	—	**—**	—
Between two to five years	**6,480**	6,480	**—**	—	**4,565,617**	1,889,973	**1,320,525**	1,205,377
Over five years	**14,500**	16,660	**—**	—	**—**	2,642,133	**—**	—
	611,297	713,280	**—**	2,521,982	**4,565,617**	4,532,106	**1,320,525**	1,205,377

	Company					
	Bank loans		Fixed rate notes		Convertible notes	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Within one year	**397,600**	405,700	**—**	—	**—**	—
Between one to two years	**—**	155,200	**—**	2,521,982	**—**	—
Between two to five years	**—**	—	**—**	—	**1,320,525**	1,205,377
	397,600	560,900	**—**	2,521,982	**1,320,525**	1,205,377

(f) Effective interest rates:

	2007			2006		
	HK$	**RMB**	**US$**	HK$	RMB	US$
Bank loans	**3.8%**	**5.8%**	**—**	4.4%	5.0%	—
Fixed rate notes	**5.7%**	**—**	**—**	5.7%	—	—
Guaranteed Notes	**—**	**—**	**10.9%**	—	—	10.9%
Convertible Notes	**—**	**—**	**9.23%**	—	—	9.23%

32. Borrowings (Continued)

(g) 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	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
6 months or less	**2,513,637**	2,603,361	**397,600**	560,900
6 to 12 months	**—**	—	**—**	—
1 to 5 years	**3,992,181**	3,727,359	**1,320,525**	3,727,359
Over 5 years	**—**	2,642,133	**—**	—
	6,505,818	8,972,853	**1,718,125**	4,288,259

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

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Bank loans	**611,297**	713,280	**611,297**	713,280	**397,600**	560,900	**397,600**	560,900
Fixed rate notes	**—**	2,521,982	**—**	2,281,206	**—**	2,521,982	**—**	2,281,206
Guaranteed notes	**4,565,617**	4,532,106	**4,661,763**	4,552,934	**—**	—	**—**	—
Convertible notes	**1,320,525**	1,205,377	**1,183,827**	1,139,685	**1,320,525**	1,205,377	**1,183,827**	1,139,685
Other borrowings	**8,379**	108	**8,425**	108	**—**	—	**—**	—
	6,505,818	8,972,853	**6,465,312**	8,687,213	**1,718,125**	4,288,259	**1,581,427**	3,981,791

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.

32. Borrowings (Continued)

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

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Hong Kong dollar	**539,800**	3,185,342	**397,600**	3,082,882
US dollar	**5,886,142**	5,737,591	**1,320,525**	1,205,377
Renminbi	**71,497**	49,920	**—**	—
Macau Patacas	**8,379**	—	**—**	—
	6,505,818	8,972,853	**1,718,125**	4,288,259

33. Deferred Taxation Liabilities

	Group	
	2007 HK$'000	2006 HK$'000
At beginning of the year	**1,778,588**	1,778,531
Acquisition of subsidiaries	**—**	878
Debit/(credit) to profit and loss statement	**2,912**	(821)
At end of the year	**1,781,500**	1,778,588

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.

33. Deferred Taxation Liabilities (Continued)

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 HK$'000	Tax losses HK$'000	Fair value adjustments HK$'000	Total HK$'000
At 31st December 2005	34,146	(20,262)	1,764,647	1,778,531
Acquisition of subsidiaries	878	—	—	878
(Credit)/charge to profit and loss statement	4,101	(4,105)	(817)	(821)
At 31st December 2006	39,125	(24,367)	1,763,830	1,778,588
(Credit)/charge to profit and loss statement	(6,317)	12,611	(3,382)	2,912
At 31st December 2007	**32,808**	**(11,756)**	**1,760,448**	**1,781,500**

Deferred taxation assets of HK$63,862,000 (2006: HK$67,883,000) arising from unused tax losses and other temporary differences totalling of HK$460,394,000 (2006: HK$403,086,000) have not been recognised in the consolidated financial statements. Unused tax losses of HK$138,352,000 (2006: HK$171,174,000) have no expiry date and the remaining balance will expire at various dates up to and including 2013.

34. Provisions

	Group		
	Environment restoration HK$'000	Quarrying right HK$'000	Total HK$'000
At 1st January 2006	122,070	63,090	185,160
Additional provision	5,500	—	5,500
Charged to the profit and loss statement	1,460	12,820	14,280
Applied during the year	(9,160)	(8,710)	(17,870)
At 31st 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	(16,807)	(15,258)	(32,065)
At 31st December 2007	**102,904**	**69,682**	**172,586**

The current portion of the provisions amounting to HK$36,964,000 (2006: HK$66,919,000) is included under other creditors.

35. Creditors and Accruals

	Group		Company	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
Trade creditors (note a)	**1,038,002**	975,230	—	—
Other creditors	**678,030**	668,863	—	—
Chips issued	**1,322,394**	1,065,413	—	—
Loans from minority interests (note b)	**89,672**	76,088	—	—
Accrued operating expenses	**765,649**	843,663	**30,198**	16,555
Deposits received	**7,883**	4,294	—	—
	3,901,630	3,633,551	**30,198**	16,555

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

	2007 **HK$'000**	2006 HK$'000
Within one month	**608,429**	816,005
Two to three months	**86,894**	65,820
Four to six months	**43,952**	55,560
Over six months	**298,727**	37,845
	1,038,002	975,230

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

	2007 **HK$'000**	2006 HK$'000
Macau Patacas	**206,157**	795,853
Renminbi	**204,646**	147,710
Hong Kong dollar	**617,369**	31,667
Other	**9,830**	—
	1,038,002	975,230

(b) The loans payable are unsecured, interest free and have no fixed terms of repayment.

36. Notes to Consolidated Cash Flow Statement

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

	2007 HK$'000	2006 HK$'000
Operating profit/(loss)	81,282	(1,032,447)
Depreciation	328,280	144,493
Change in fair value of investment properties	—	500
Loss on disposal of property, plant and equipment	1,229	119
Loss on disposal of intangible assets	—	42
Loss on disposal of a subsidiary	2,337	—
Gain on partial disposal of jointly controlled entities	(28,863)	—
Gain on disposal of non-current investments	(1,736)	—
Realised and unrealised gain on listed investments	(68,429)	(3,883)
Change in fair value of derivative financial instruments	—	407
Impairment of non-current investments	4,569	4,237
Impairment of property, plant and equipment	27,457	784
Impairment of inventories	943	—
Interest income	(225,409)	(162,819)
Gross earnings on finance lease	(14,514)	(11,441)
Dividend income from listed and unlisted investments	(13,196)	(9,578)
Amortisation of deferred expenditure	38,771	33,484
Amortisation of intangible assets	1,004,088	999,224
Amortisation of leasehold land and land use rights	41,484	12,938
Fair value of share options granted	—	3,661
Operating profit/(loss) before working capital changes	1,178,293	(20,279)
Increase in inventories	(716)	(600)
(Increase)/decrease in debtors and prepayments	(329,928)	110,976
Increase in creditors and accruals	423,411	2,142,421
Cash generated from operations	1,271,060	2,232,518

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

	2007 HK$'000	2006 HK$'000
Consideration settled in cash	49,217	—
Net cash inflow on disposal	49,217	—

37. Disposal of a Subsidiary

In October 2007, the Group disposed 100% of the equity interest in K. Wah Quarry (Huzhou) Co., Ltd. Details of net assets disposed are as follows:

	Carrying amount of assets disposed HK$'000
Property, plant and equipment	**45,717**
Quarry site development	**7,648**
Inventories	**3,846**
Exchange reserves	**(5,657)**
Net assets disposed	**51,554**
Cash consideration	**(49,217)**
Loss on disposal (note 8)	**2,337**

38. Capital Commitments

	Group	
	2007 HK$'000	2006 HK$'000
Contracted but not provided for	**2,519,750**	2,315,845
Authorised but not contracted for	**3,866,781**	1,206,054

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	
	2007	2006
	HK$'000	HK$'000
First year	**29,245**	22,258
Second to fifth years inclusive	**43,518**	47,846
After the fifth year	**108,742**	108,527
	181,505	178,631

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	
	2007	2006
	HK$'000	HK$'000
First year	**15,752**	20,992
Second to fifth years inclusive	**54,670**	73,257
After the fifth year	**35,098**	42,256
	105,520	136,505

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$5,409,000 (2006: HK$2,073,000) 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 (2006: HK$3,371,000).

(b) Management fee received from jointly controlled entities amounted to HK$3,286,000 (2006: HK$1,391,000).

(c) Rental expenses of HK$2,015,000 (2006: HK$2,015,000) were paid to a subsidiary of KWIH based on the terms of the rental agreement between the parties.

(d) Sales of property, plant and equipment to an associated company amounted to HK$3,122,000 (2006: nil).

(e) The balances with jointly controlled entities and an associated company are disclosed in note 26 and 25(c).

(f) Finance cost on fixed rate notes issued to City Lion Profits Corp. and Recurrent Profits Limited amounted to HK$133,157,000 (2006: HK$140,081,000) and HK$2,921,000 (2006: HK$3,073,000) respectively based on the terms of fixed rate notes between the parties. City Lion Profits Corp. is wholly owned by a discretionary trust established by Dr. Lui Che Woo as founder with Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, all being Directors of the Company, being either direct or indirect discretionary beneficiaries; and Recurrent Profits Limited is wholly owned by Mr. Francis Lui Yiu Tung.

(g) 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:

	2007 HK$'000	2006 HK$'000
Fees	**547**	500
Salaries and other allowances	**20,364**	19,406
Discretionary bonuses	**6,782**	304
Retirement benefits	**1,078**	1,017
Share options	**—**	1,100
	28,771	22,327

42. Guarantees

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK$627,109,000 (2006: HK$209,858,000), of which HK$307,087,000 (2006: HK$175,147,000) 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 (2006: HK$9,125,000). At 31st December 2007, facilities utilised amounted to HK$9,125,000 (2006: HK$9,125,000).

43. Approval of Consolidated Financial Statements

The consolidated financial statements were approved by the Board of Directors on 18th April 2008.

44. Principal Subsidiaries, Jointly Controlled Entities and Associated Companies

(a) Subsidiaries

Name of company	Principal place of operation	Issued share capital: Number of ordinary shares	Issued share capital: Number of non-voting deferred shares	Issued share capital: Par value per share HK$	Percentage of equity held by the Group	Principal activities
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
Galaxy Entertainment Management Services Limited	Hong Kong	1	—	1	100	Provision of management services
K. Wah Asphalt Limited (formerly known as Tarmac Asphalt Hong Kong 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
Rainbow Mark Limited	Hong Kong	100	—	1	95	Investment holding

44. Principal Subsidiaries, Jointly Controlled Entities and Associated Companies (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
Wholly-owned foreign enterprise				
Doran Construction Products (Shenzhen) Co., Ltd.	Shenzhen	HK$10,000,000	100	Manufacture, sale and distribution of concrete pipes
K. Wah Consultancy (Guangzhou) Co., Ltd.	Guangzhou	HK$1,560,000	100	Provision of management services
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	60	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

44. Principal Subsidiaries, Jointly Controlled Entities and Associated Companies (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Number of issued ordinary shares	Par value per share	Percentage of equity held by the Group	Principal activities
Incorporated in the 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	88.1	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	MOP100,000	88.1	Casino games of chance
StarWorld Hotel Company Limited	Macau	N/A	N/A	88.1	Property holding and hospitality
K. Wah (Macao Commercial Offshore) Company Limited	Macau	1	MOP10,000	100	Trading
Wise Concrete Limited	Macau	25,000	MOP25,000	75	Trading

* Wholly owned and directly held by the Company

44. Principal Subsidiaries, Jointly Controlled Entities and Associated Companies (Continued)

(b) Jointly controlled entities

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

(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

Hotel 酒店

Entertainment 娛樂

Hospitality 熱誠待客

Fine Dining 國際美食