



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



Annual Report
2005
(Stock Code : 27)

THE COMPANY

Since our listing in 1991, Galaxy Entertainment Group Limited (Hong Kong listed stock code 0027) has built a solid business foundation in Hong Kong and mainland China. Through business acquisitions, we have been constantly expanding our investment portfolios on an enterprising yet prudent strategy aiming to provide shareholders with the best return on their investment.

Following our acquisition of the gaming and entertainment business in Macau in July 2005, our primary business objective is to be a leading operator of gaming and entertainment facilities in Macau. Our major subsidiary, Galaxy Casino, S.A. has a gaming concession from the Macau Government and is one of only three companies licensed by the Macau Government to operate casinos in Macau.

We also maintain our leading position as a major supplier of quality construction materials in Hong Kong and mainland China and driven by the strong economic growth of Macau, we have been expanding into the area to capitalize on our expertise.

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MAJOR EVENTS

2005



March

- 2004 Annual Results Announcement
- The Group signed the Agreement for acquisition of Galaxy Casino, S.A. at the price of HK\$18.4 billion

April

- 2005 Annual General Meeting
- The Company placed 146 million new shares raising HK\$1,136.8 million

October

- The Company changed its name to Galaxy Entertainment Group Limited
- Commencement of the foundation work of Cotai Mega Resort

November

- The Group celebrated its 50th Anniversary



MAJOR EVENTS



July

- The Group completed the acquisition of Galaxy Casino, S.A. and became the first Hong Kong listed company which holds a gaming concession in Macau
- Macau Galaxy Resort 2005 FIVB World Grand Prix

September

- 2005 Interim Results Announcement

December

- The Group issued US\$350 million fixed rate notes and US\$250 million floating rate notes raising US\$600 million
- Macau Galaxy International Marathon, Half Marathon and Mini Marathon

December

- Joint Recruitment Campaign of Rio Casino and Grand Waldo Casino
- Topping out of StarWorld Hotel



CORPORATE INFORMATION

CHAIRMAN

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

DEPUTY CHAIRMAN

Francis Lui Yiu Tung

EXECUTIVE DIRECTORS

Chan Kai Nang
Joseph Chee Ying Keung
William Lo Chi Chung
Paddy Tang Lui Wai Yu, *JP*

NON-EXECUTIVE DIRECTORS

Dr. Charles Cheung Wai Bun, *JP**
Moses Cheng Mo Chi, *GBS, OBE, JP*
James Ross Ancell*
Dr. William Yip Shue Lam, *LLD**

** Independent Non-executive Directors*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Kitty Chan Lai Kit

QUALIFIED ACCOUNTANT

Cheung Wing Hong

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

SOLICITORS

Richards Butler
Slaughter and May
Simmons & Simmons
Sa Carneiro & Pinheiro Torres
King & Wood
Guantao Law Firm

REGISTERED OFFICE

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

SHARE REGISTRARS

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

AMERICAN DEPOSITARY RECEIPTS ("ADR") DEPOSITARY

The Bank of New York
101 Barclay Street
New York, NY 10286
USA

WEBSITE ADDRESS

<http://www.galaxyentertainment.com>

SHARE LISTING

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

STOCK CODE

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2006 annual general meeting of shareholders of Galaxy Entertainment Group Limited will be held at Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 29th June 2006 at 11:00 a.m. for the following purposes:

1. To receive and consider the financial statements and reports of the directors and auditors for the year ended 31st December 2005;
2. To elect directors and fix the directors' remuneration;
3. To re-appoint auditors and authorise the directors to fix their remuneration;
4. As special business, to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

4.1 "THAT

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to purchase shares of the Company be and it is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution:
"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; or
 - (iii) the revocation or variation of the approval given by this Resolution by ordinary resolution of the shareholders in general meeting."

4.2 "THAT

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and it is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue, or (ii) the exercise of rights of subscription or conversion under the terms of any securities which are convertible into shares of the Company or (iii) any option scheme or similar arrangement for the time being adopted by the Company in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the grant or issue of shares or rights to acquire shares of the Company, or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed the aggregate of:

(aa) 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution; and

(bb) (if the directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the share capital of the Company in issue at the date of passing the Resolution set out as resolution 4.1 in the notice of the meeting of which this Resolution forms a part),

and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance to be held; or

(iii) the revocation or variation of the approval given by this Resolution by ordinary resolution of the shareholders in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

4.3 “THAT the directors of the Company be and they are hereby authorised to exercise the powers of the Company referred to in paragraph (a) of the resolution set out as resolution 4.2 in the notice of the meeting of which this Resolution forms a part in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution.”

NOTICE OF ANNUAL GENERAL MEETING

4.4 “THAT subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the shares of the Company (“Shares”) which may be issued under the share option scheme adopted by the Company on 30th May 2002 (“Share Option Scheme”), the existing scheme mandate limit in respect of the granting of options to subscribe for Shares be refreshed and renewed provided that the total number of Shares which may be allotted and issued pursuant to the grant or exercise of the options under the Share Option Scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme) shall not exceed 10% of the Shares in issue as at the date of passing this resolution (“Refreshed Limit”) and that the directors of the Company be and are hereby authorised, subject to compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to grant options under the Share Option Scheme up to the Refreshed Limit and to exercise all the powers of the Company to allot, issue and deal with the Shares pursuant to the exercise of such options.”

By Order of the Board

Kitty Chan Lai Kit

Company Secretary

Hong Kong, 28th April 2006

Notes:

1. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote, on a poll, on his behalf. A proxy need not be a member of the Company.
2. A form of proxy for use in connection with the meeting is enclosed. The form of proxy shall be deposited at the registered office of the Company not less than 48 hours before the time for holding the meeting.
3. Concerning agenda item 2 above, Mr. Joseph Chee Ying Keung, Ms. Paddy Tang Lui Wai Yu and Mr. Moses Cheng Mo Chi will retire by rotation at the meeting and, being eligible, offer themselves for re-election. Details of the above directors are set out in the circular enclosed with this Annual Report.
4. Concerning agenda item 4.1 above, approval is being sought from members for increasing flexibility and providing discretion to the directors in the event that it becomes desirable to repurchase shares representing up to a maximum of 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing the resolution on The Stock Exchange of Hong Kong Limited. An explanatory statement to provide relevant information in respect of the proposed granting of the repurchase mandate to the directors is set out in the circular enclosed with this Annual Report.
5. Concerning agenda item 4.2 above, approval is being sought from members for a general mandate to the directors to allot, issue and deal in additional shares in the capital of the Company.
6. Concerning agenda item 4.4 above, approval is being sought from members for a refreshment of the scheme mandate limit under the share option scheme adopted by the members on 30th May 2002. Information in respect of the refreshment which is required to be disclosed to the members under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited is set out in the circular enclosed with this Annual Report.

GROWTH STRATEGY



As part of Galaxy's growth strategy, Galaxy plans to open additional casinos that will cater to both VIP and mass market plays.



CHAIRMAN'S STATEMENT



The Group sees its staff as its most valuable assets, as none of the Group's achievements would have been possible without the talents and contributions of each individual colleague.

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

Dear shareholders,

The Year 2005 marked an exciting year for the Group in terms of its groundbreaking development — the acquisition of the Macau-based Galaxy Casino, S.A. ("Galaxy"), a company holding one of only three gaming concessions issued by the Government of the Macau Special Administrative Region which permits operation of gaming business in the city — the only legal gaming venue in China. This strategic move, being unprecedented among Hong Kong-listed companies, has provided the Group with a direct participation in the fast-growing Macau entertainment and leisure market, and more importantly the potential to substantially enhance shareholder value through its over HK\$20 billion market capitalization. Galaxy's success in listing is largely due to its professional management team, competitive business model and positive development outlook.

As a reflection of the importance of the newly acquired business to the Group and our dedication to becoming a leading integrated leisure and entertainment operator in Macau, the Company name, K. Wah Construction Materials Limited, was subsequently changed to "Galaxy Entertainment Group Limited".

ENTERTAINMENT AND LEISURE DIVISION

A Beneficiary of China's Growing Interest in Leisure

Located strategically in the Pearl River Delta, Macau is a beneficiary of the continuously strong economic growth within Mainland China, which has led to a significant increase in disposable income for the Chinese people. The increasing demand by people in Mainland China for entertainment and leisure facilities, coupled with the Chinese Government's relaxation of outbound travel policies, has led to a huge increase in the number of tourists from Mainland China visiting Macau. With China's economy continuing to expand and soar to new heights, the future growth of Macau is also assured.

CHAIRMAN'S STATEMENT

To take advantage of these exciting changes, Galaxy now has two casinos in Macau, namely the Waldo Casino and the Rio Casino, in operation as at the date of this report. The Grand Waldo Casino will open in late April this year and in August the first Galaxy flagship hotel and casino, StarWorld Hotel ("StarWorld"), will open. By then, Galaxy's number of gaming tables will increase by four times to 600, expanding its market share of tables in Macau to 25%. The state-of-the-art complex of StarWorld will be a landmark building in the territory and being situated in the new gaming and entertainment hub of Macau, StarWorld will benefit significantly from its prime location.

Successful US Dollar Bond Issue

In December 2005, the Group's US\$600 million Bond Issue achieved considerable over-subscription from top-tier high-yield investors throughout the world, signifying investor recognition of Galaxy's business model as well as investor confidence in Galaxy's future. The bond offering is the first undertaken by a Macau gaming enterprise and in terms of size, it is the largest bond issue by a "pure" gaming enterprise in Asia excluding Japan. The bonds have been rated B+ by Standard & Poor's and B1 by Moody's, reflecting wide recognition in the international market as a competitive mainstream gaming industry player in Macau.

Valuable Land Bank

The Group has entered into what is possibly one of the fastest growing industry sectors in the world today. More excitingly, a significant land bank has been set aside by the Macau Government for Galaxy in the Cotai area of Macau. This land totaling 4.7 million square feet will provide the Group with a valuable asset enabling Galaxy to build new and better products as they are demanded by the market.

A Pool of Talent

The philosophy of the Group in relation to its new gaming and entertainment business is to build an exciting world class product focusing on the Asian market. Currently, 95% of visitors to Macau are Chinese speakers. A business plan has been carefully formulated, coupled with the Group's profound understanding of Asian culture and

an adoption of versatile approach, thus enables the Group to develop a two-pronged strategy targeting both high-end and mass markets.

In order to deliver on its business plan, the Group has assembled a team of high-calibre management professionals and operation staff composed of experts in entertainment, hospitality and construction industries. Through its effective policies in attracting, developing and retaining talent, we are confident that Galaxy is well equipped with all expertise necessary for its long-term development. On the technological front, Galaxy has installed a world class gaming and hospitality management information system to meet the demands of the Company's fast expansion.

Statutory Compliance up to International Standards

Management fully recognizes that compliance with statutory and regulatory requirements is of prime importance in our operations. While focusing on the implementation of Galaxy business plan, we will also ensure an international level of corporate governance that will meet the stringent requirements of Macau laws. Our corporate governance is constantly reviewed and its compliance monitored. This is very much in line with Galaxy's transparent management philosophy.

CONSTRUCTION MATERIALS DIVISION

Strategic Move to Enhance Competitiveness

The year 2005 saw a continued consolidation in the Hong Kong and Mainland China construction materials markets. Despite the sluggish demand for construction materials as a result of a contracted construction market, the Group had successfully sustained its continuing growth in market share by acquiring one of the major operators in the local market in early 2005. The expanded business volume in turn helped keeping the unit cost of production down and hence strengthening our competitive position. The Division also expanded into Macau during the year to supply high quality construction materials to the rapidly growing construction sector there. There is no doubt that the Division will continue to enjoy an edge in terms of branding, quality control and after-sale services.

CHAIRMAN'S STATEMENT

Synergies Created with Leading Enterprises

Although the decline of revenue in the ready-mixed concrete sector has continued, the decline has been offset by the new revenue streams generated from the new projects we invested in over the past few years, especially in slag products. Through an unrivalled connection with the steel industry in Mainland China, the Company has now established four joint ventures with some of the leading steel manufacturers for the production of slag product, namely Beijing Shougang Group, Yunnan Kunming Steel Group, Anhui Magang Group and Guangdong Shaogang Group. These slag plants became fully operational during the year and began to generate an income contribution to the Group. Another new initiative the Group has undertaken is the production of cement in the Southwestern Region by co-operating with Yunnan Kunming Steel Group, through which we could capitalize on their strong government relationship and the unique captive market characteristic.

With the world economic focus on Mainland China and its continued annual GDP growth in 7–10% range, a recovery in construction and infrastructure spending is on its way which will benefit the growth of the Group's Construction Materials business in the forthcoming year.

A VOTE OF THANKS

Finally, I would like to extend my heartfelt appreciation to all my fellow directors and staff for their professionalism, loyalty and dedication to the Group over the past year, and I also take this opportunity to welcome all our new employees who have joined us on our acquisition of Galaxy. I look forward to working with all of them in 2006 as, collectively, we build the Group and the name "Galaxy" into first a regional, and later a world class leader in the entertainment and leisure industry.

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

11th April 2006

CORPORATE GOVERNANCE REPORT

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 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 comprising 10 Directors, 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 4 and Further Corporate Information on pages 41 and 42.

Chairman, Deputy Chairman and Managing Director

The roles of the Chairman of the Board, the Deputy Chairman of the Board and the Managing Director 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, 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 six executive and four 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, 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, Mr. 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.

Non-executive Directors

The majority of the non-executive Directors of the Company are independent 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.

CORPORATE GOVERNANCE REPORT

Non-executive Directors are appointed for a specific term. Dr. Charles Cheung Wai Bun and Mr. Moses Cheng Mo Chi were appointed for a specific term of three years, subject to retirement by rotation and re-election pursuant to the Company's Articles of Association. Mr. James Ross Ancell and Dr. William Yip Shue Lam were appointed for a fixed term of three years pursuant to their service contracts, which may be extended by another three-year term.

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 competence and able to fulfill the fiduciary duties and duties of skill, care and diligence to a standard required of for listed companies' directors. A proposal for the appointment of a new Director together with detailed information on his/her educational and professional qualifications and the relevant working experience is submitted to the Board for decision in the appointment process. All new Directors will be subject to re-election by shareholders at the first general meeting after their appointment.

During the year, the Company has not appointed or removed any director.

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 on the Group's business and activities are provided to our Directors. 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 Board Meetings held on a quarterly basis.

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 to be observed by relevant employees in respect of their dealings in the securities of the Company.

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 Auditors and independent professional advisers, are provided to the Board Committees to enable them to discharge their duties.

CORPORATE GOVERNANCE REPORT

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, the management submits written proposals with detailed analysis (both financial and commercial) and recommendations to the Executive Board for consideration and approval. Where the subject matter exceeds the authority of the Executive Board or relates to any matters specifically reserved to the Board as aforesaid, it would be submitted to the Board for approval.

The Executive Board sub-delegates the day-to-day management, administration and operations functions to the 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, Mr. 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 Auditors and the management to ensure effective information exchange on all relevant financial and accounting matters. The written terms of reference of the Audit Committee were revised on 14th September 2005 to conform to the code provision requirements of the Code.

The Audit Committee meets at least twice a year, with the attendance of the Financial Controller and Qualified Accountant, the Company Secretary and the external Auditors. 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 Auditors' interim review and annual audit, 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;

CORPORATE GOVERNANCE REPORT

- (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 Auditors in the audit planning stage; and
- (vi) 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 was established on 27th January 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 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.

As the Remuneration Committee was established after year end, the principal work performed by the Board in respect of remuneration related matters during the year included the following:

- (i) Discussion on proposed Directors' fees (including Audit Committee members' fees) after taking into account the Directors' fees for previous years, the Company's performance and level of activities in the current year, and other listed companies' payments, and submitting to shareholders for approval at the annual general meeting; and
- (ii) Discussion on proposed grant of share options to Directors and eligible employees after taking into account the remuneration policy and structure, the contribution of and work performed by Directors and eligible employees, the valuation on the share options to be granted and the effect on the Company's profit and loss statement, and making recommendation to the independent non-executive Directors for approval in respect of the grant to Directors.

The Directors' remuneration for the year ended 31st December 2005 is set out in note 9(a) to the financial statements.

CORPORATE GOVERNANCE REPORT

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.

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)	Board Meetings* to discuss remuneration related matters (2)
<i>Executive Directors</i>			
Dr. Lui Che Woo	2/4		1/2
Mr. Francis Lui Yiu Tung	4/4		2/2
Mr. Chan Kai Nang	3/4		1/2
Mr. Joseph Chee Ying Keung	4/4		2/2
Mr. William Lo Chi Chung	4/4		2/2
Ms. Paddy Tang Lui Wai Yu	4/4		2/2
<i>Non-executive Director</i>			
Mr. Moses Cheng Mo Chi	2/4	1/2	1/2
<i>Independent non-executive Directors</i>			
Dr. Charles Cheung Wai Bun	4/4	2/2	2/2
Mr. James Ross Ancell	3/4	2/2	2/2
Dr. William Yip Shue Lam	4/4		2/2

* No Remuneration Committee Meeting was held during the year as it was established after year end. During the year, two Board Meetings were held to discuss remuneration related matters.

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.

CORPORATE GOVERNANCE REPORT

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 2005, 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 2005. Accordingly, the Directors have prepared the financial statements on a going concern basis.

The Company 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.

Auditors' Responsibility

The external Auditors of the Company are PricewaterhouseCoopers, Certified Public Accountants. A statement by the Auditors about their reporting responsibilities is included in the Report of the Auditors on the Company's financial statements on page 53.

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

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

Auditors' Remuneration

Fees for auditing services and non-auditing services provided by the external Auditors for the year ended 31st December 2005 are included in note 8 to the financial statements.

Fees for non-auditing services include HK\$3,800,000 for the services provided in respect of the acquisition of Galaxy Casino, S.A. ("Galaxy") and HK\$3,470,000 for the notes issue guaranteed by Galaxy.

COMMUNICATION WITH SHAREHOLDERS

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

The Company holds press conferences, analysts briefings and investor meetings after the announcement of its annual and interim results. 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.

CORPORATE GOVERNANCE REPORT

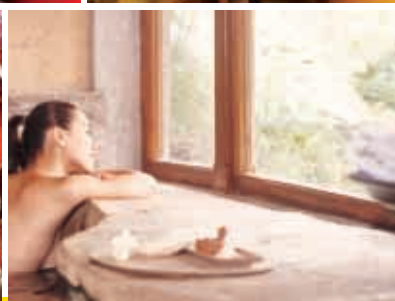
COMPLIANCE WITH THE CODE

Throughout the year under review, the Company has complied with the code provisions (other than code provision C.2 on internal controls which would be implemented for accounting periods commencing on or after 1st July 2005) in the Code, except code provisions A.4.2, B.1.1 and E.1.2. The Board considers that the spirit of code provision A.4.2 has been upheld, given that the other Directors do retire by rotation every three years as a matter of actual practice 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. The Remuneration Committee of the Company with appropriate composition and terms of reference was established on 27th January 2006. The Chairman did not attend the annual general meeting of the Company held on 28th April 2005 as he had other engagement.

GAMING AND ENTERTAINMENT



From a short leisure trip for the weekend, to a longer vacation with the entire family, Galaxy has the perfect destination for every visitor looking for fun and excitement in Macau.



MANAGEMENT DISCUSSION AND ANALYSIS

ACQUISITION OF GAMING AND ENTERTAINMENT BUSINESS

On 22nd July 2005, the acquisition ("Acquisition") of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy by Canton Treasure Group Ltd., a wholly owned subsidiary of the Company, pursuant to an acquisition agreement dated 14th March 2005 as amended by two supplemental agreements dated 1st April 2005 and 31st May 2005, was completed. As the Acquisition was completed in July 2005, the results of Galaxy and its subsidiaries for the period from the date of acquisition to 31st December 2005 were included in the annual results of the Group for the year ended 31st December 2005.

The purchase price was HK\$18,405,198,023, which was satisfied (i) as to about 80% by the allotment and issue of 1,840,519,798 new shares of the Company to the vendors credited as fully paid at HK\$8 each and (ii) as to about 20% by the issue to the vendors of HK\$2,544,239,603 principal amount of unsecured fixed rate notes and the payment in cash to the vendors of HK\$1,136,800,000. Such cash payment was funded by the cash proceeds of approximately HK\$1,136,800,000 raised from a top-up placement announced on 21st April 2005 in which

146,000,000 new shares of the Company were placed to independent investors at HK\$8 per share.

The Acquisition constituted a connected transaction and a very substantial acquisition for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and was duly approved by the independent shareholders of the Company at the extraordinary general meeting duly convened and held on 19th July 2005.

Further details of the Acquisition were included in the circular of the Company dated 30th June 2005 issued to the shareholders.

Galaxy holds one of the only three gaming concessions awarded by the Macau government to operate casinos in Macau. With Galaxy already operating the Waldo Casino and the development of its StarWorld Hotel, Cotai Mega Resort, and other new city club casinos all underway, Galaxy is well positioned to take advantage of the fast growing Macau gaming and tourism market. The Company, which is interested in 97.9% of the economic interest in Galaxy, is expected to benefit from Macau's growing tourism, hospitality and gaming industry.



MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

Turnover and profit attributable to shareholders for the year ended 31st December 2005 was HK\$1,292 million and HK\$2,395 million as compared to HK\$1,299 million and HK\$56 million respectively for the year ended 31st December 2004. The Group's turnover was slightly lower than that of last year but the profit attributable to shareholders increased significantly from last year. The profit attributable to shareholders for the year ended 31st December 2005 included an excess of fair value of net assets acquired over cost of acquisition of subsidiaries of HK\$3,039 million which arose from the Acquisition in July, 2005, and net of pre-opening expenses of HK\$14 million. Following the Acquisition, gaming and entertainment have become one of the major businesses of the Group and this division contributed a turnover of HK\$66 million to the Group for the period from the date of acquisition to December 2005.

Set out below is the segmental analysis of the Group's operating result for the year ended 31st December 2005:

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

	Gaming and entertainment <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	66,213	1,225,714	—	1,291,927
Other revenues	2,095	13,721	36,213	52,029
Operating profit	2,624,750	3,683	(38,343)	2,590,090
Finance costs				(116,423)
Share of profits less losses of				
Jointly controlled entities				
— operating profit	—	31,025	—	31,025
— impairment of assets and goodwill	—	(109,000)	—	(109,000)
	—	(77,975)	—	(77,975)
Associated companies	—	2,696	—	2,696
Profit before taxation				2,398,388
Taxation				(1,683)
Profit after taxation				2,396,705
Minority interests				(1,436)
Profit attributable to shareholders				2,395,269

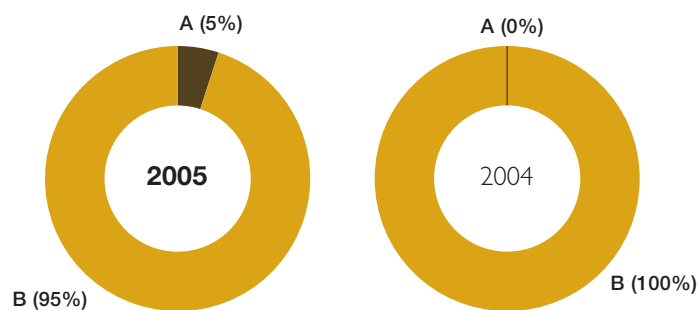
MANAGEMENT DISCUSSION AND ANALYSIS

EBITDA EXCLUDING NON-RECURRING ITEMS

	Gaming and entertainment HK\$'000	Construction materials HK\$'000	Corporate HK\$'000	Total HK\$'000
Company and subsidiaries				
Operating profit/(loss)	2,624,750	3,683	(38,343)	2,590,090
Non-recurring items	(3,025,019)	(9,184)	20,000	(3,014,203)
Depreciation and amortisation	419,609	116,459	—	536,068
	19,340	110,958	(18,343)	111,955
Jointly controlled entities and associates				
Share of profits less losses before tax	—	(73,913)	—	(73,913)
Non-recurring items	—	109,000	—	109,000
	—	35,087	—	35,087
Earnings before non-recurring items, depreciation and amortisation and tax	19,340	146,045	(18,343)	147,042

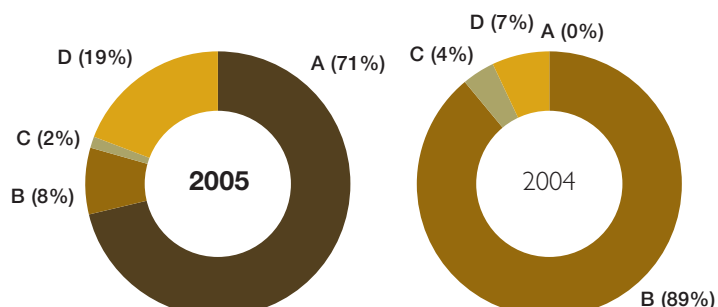
TURNOVER BY DIVISION

	2005 HK\$'000	2004 HK\$'000
A Gaming and entertainment	66,213	—
B Construction materials	1,225,714	1,299,143
	1,291,927	1,299,143



EMPLOYMENT OF GROSS ASSETS

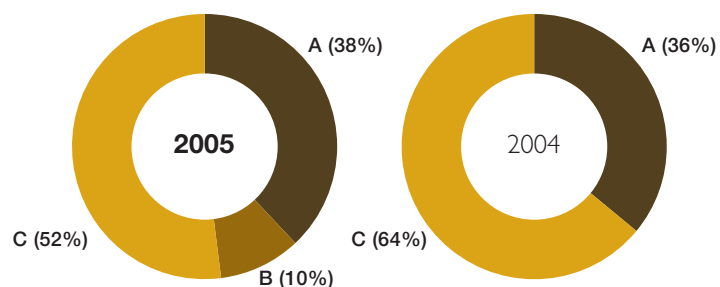
	2005 HK\$'000	2004 HK\$'000
A Gaming and entertainment	18,808,799	—
B Construction materials	2,143,535	2,136,967
C Corporate office	367,373	106,664
D Cash & bank balances	5,068,214	170,952
	26,387,921	2,414,583



MANAGEMENT DISCUSSION AND ANALYSIS

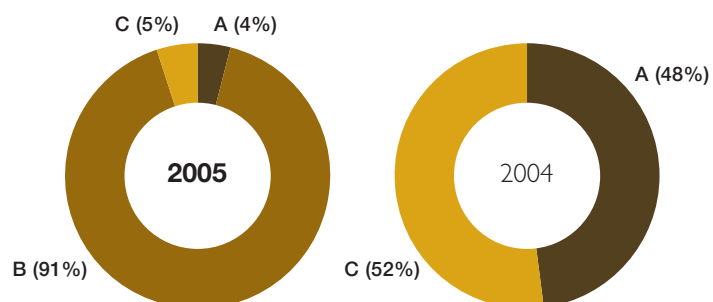
TURNOVER BY GEOGRAPHICAL SPREAD

	2005 HK\$'000	2004 HK\$'000
A Hong Kong	493,504	461,800
B Macau	126,936	—
C Mainland	671,487	837,343
	1,291,927	1,299,143



GROSS ASSETS BY GEOGRAPHICAL SPREAD

	2005 HK\$'000	2004 HK\$'000
A Hong Kong	1,078,696	1,156,580
B Macau	24,094,083	—
C Mainland	1,215,142	1,258,003
	26,387,921	2,414,583



MANAGEMENT DISCUSSION AND ANALYSIS

GAMING AND ENTERTAINMENT DIVISION

Overview

Galaxy operates in one of the fastest-growing gaming markets in the world. In 2005, this division had its first full year of casino operation at its first city club casino — Waldo Casino. Throughout the year, the casino operation continued to prosper and maintained a steady level of turnover. Revenue from gaming operation for the year was HK\$163 million as compared to HK\$124 million in the previous year which had six months of gaming operation. After deduction of operation, administrative, and other expenses in relation to the development of the StarWorld, the Cotai Mega Resort and two new city club casinos, this division recorded an EBITDA, excluding non-recurring items, of HK\$19 million for the year.

2005 marked another year of double digit growth for the Macau gaming market with the total gaming revenue soared to HK\$43 billion. The net gaming wins at the Waldo Casino reached HK\$3.8 billion for the full year of 2005 which represented a market share of 9% of the total market with only 43 VIP tables and 20 mass gaming tables and 74 slots machines.

StarWorld

StarWorld, the first flagship entertainment complex of Galaxy, is strategically located at the Avenida da Amizade in the downtown Macau gaming hub. It is a 34-storey premium hotel with two “Sky Suites” of 6,000 square feet with spectacular view of downtown Macau. The hotel is designed by Rocco Yim, Project Architect for Two International Finance Centre in Hong Kong and the interior is designed by LRF Designers Ltd. The double-layer exterior glass wall will deliver intriguing and marvelous effects from the resulting superimposed images. StarWorld will be the tallest hotel and a landmark in Macau upon completion.

The other facilities of StarWorld will include delightful restaurants serving Asian and Chinese cuisines, swimming pool in the air, spa and well-equipped health club, multimedia entertainment center and music lounge.

Construction of StarWorld, the first Galaxy-built, owned and operated casino hotel resort, is currently on schedule. The tower block was topped out in January 2006 and the casino is expected to commence operation in August 2006.

On the operation side, an international professional management team with significant gaming and hospitality industry experience is working on the casino layout designs to maximize the floor area with the right mix of table games, electronic machines and room configuration. The latest in casino and hotel management systems, surveillance and security systems, card and chip protection systems will be deployed in its operations. In addition, preparation is under way to recruit and train over 2,000 new employees into the industry.

StarWorld, with 290 gaming tables, 300 electronic machines and 500 hotel rooms, will greatly contribute to the success of the Group.

Cotai Mega Resort

At the same time, work is well under way to develop and build the luxurious Cotai Mega Resort. This resort will provide a one-stop destination for gaming, entertainment, shopping and cuisine and will feature in excess of 25,000m² of gaming space with over 450 gaming tables and 1,000 electronic machines. In the initial stage of the development, 1,500 hotel rooms have been planned. Pilings have started on the site and design layouts are being refined.

Cotai Mega Resort is well positioned in the newly developed Cotai district with convenient transportation, near the Sai Wan Bridge connecting to Macau town centre, Lotus Bridge to Henquin and Macau International Airport to the rest of the world. It will be Galaxy’s flagship gaming and resort centre in Macau.

The other facilities of Cotai Mega Resort include huge shopping malls, health club and spa, music lounges, children’s amusement arcade, theater and a wide variety of food and beverage services.

Cotai Mega Resort is targeted to commence operation in 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Galaxy City Clubs

In addition to our owned properties at StarWorld and Cotai Mega Resort, we have added two new city club casinos: the Rio Casino and the Grand Waldo Casino.

Rio Casino, with 75 gaming tables and 150 electronic machines on the main gaming floor and 15 VIP gaming tables in luxurious VIP rooms on the top floor of the Rio hotel has commenced operation in March 2006.

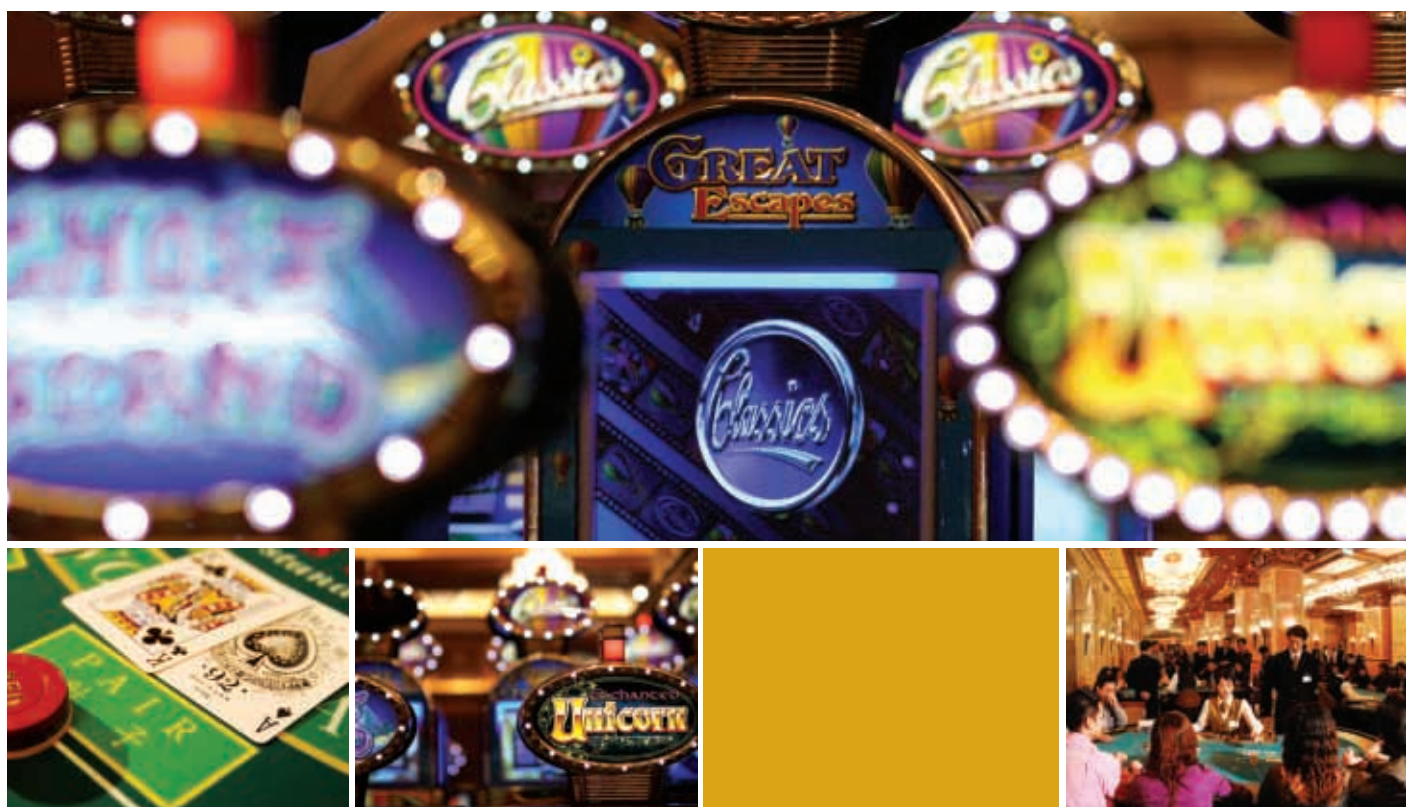
Grand Waldo Casino, with 100 gaming tables and 350 electronic machines on the main gaming floor and 46 VIP gaming tables in 16 VIP rooms is scheduled to commence operation shortly.

Bond Issue

In December 2005, we successfully raised US\$600 million comprising of US\$350 million 9.875% guaranteed senior notes maturing on 15th December 2012 and US\$250 million guaranteed senior floating rate notes, at six month LIBOR plus 5%, maturing on 15th December 2010.

We have repaid the loan of HK\$242 million to Hang Seng Bank from the bond proceeds.

With the bond issue and the projected cash flows from operations of our properties: StarWorld, Waldo, Rio and Grand Waldo, we have sufficient funds to complete the construction and development of StarWorld and the Cotai Mega Resort.



SOLID FOUNDATION



A leading company in the manufacture, sale and distribution of quality construction materials to markets in Hong Kong, Macau and the Mainland.



MANAGEMENT DISCUSSION AND ANALYSIS

CONSTRUCTION MATERIALS DIVISION

The businesses of the construction materials division continued to expand into the Mainland during the year. This division now has established operations in most of the major cities across the Mainland.

The business environment of the division's Hong Kong construction materials operation continues to improve although sales volume remains at a low level owing to the reduced number of construction projects taken place during the year. On the other hand, the persistent macroeconomic measures in the Mainland have slightly affected the sales growth in our Mainland operations. As a result, turnover for the year could only be maintained at a similar level as that of last year. The division has incurred a loss this year as compared to a profit last year. The net loss for the year included impairments of assets and goodwill. In addition, the adoption of new accounting standards has given rise to a special prior year gain on property revaluation being included in the profit and loss account of 2004. Had these non-recurring items been excluded, the net profit for the year was in fact similar to that of last year.

Construction Materials Business in Hong Kong and Macau

The economy of Hong Kong continued to enjoy a remarkable growth during the year. Consumer spending increased and asset prices were creeping up gradually. However the suspension of regular land auctions and the halt of mega development projects in both West Kowloon and East Kowloon as well as some other sizeable infrastructure projects curtailed the amount of construction works in the territories, thus affecting the demand for construction materials during the year. It is envisaged that, once these projects are released together with the improving property development market led by the growth in economy, the demand for construction materials will restore to its normal level. Leveraged on such a business environment, this division through business acquisition has expanded further its construction materials business in Hong Kong.

The acquisition not only provides this division with a broader customer base and good synergy effect, but also enables us to be well positioned to capture a larger market

share from the upturn of construction materials market in the years ahead.

The rehabilitation work of KWP Quarry Co. Limited at Anderson Road Quarry in which we have a 63.5% interest continues to progress in accordance with the planned schedule.

In Macau, driven by the rapid growth of tourism, hospitality and gaming industry, the construction works in the area have been extremely active during the year. The prevailing economic growth and the corresponding local government policy to further develop the city will generate a substantial and continuous demand for quality construction materials for the construction works in the area. Seizing such a valuable opportunity, we have established operations in the area to supply quality construction material products to the market. The operations have good profit contribution during the year. We will further expand its business in Macau to cope with the increasing demand for quality construction materials in the area.

Construction Materials Business in the Mainland

The persistent macroeconomic measures upheld by the Central Government have successfully rectified the rampant economic growth experienced in prior years. Raw materials prices become much more stabilized during the year. Although the macroeconomic measures have some effects in lowering the construction activities in the Mainland, it has laid down a solid foundation for a sustainable growth in the future, in which, we will benefit in the long term.

Although the sales volume and profit contribution of our Mainland operations, in particular our ready-mixed concrete operation in Shanghai, are lower than that of last year, the stabilised raw materials costs have enabled us to maintain a similar profit margin as that of last year.

Our strategy of investing in high entry barrier products has marked a success this year. Our joint venture projects with Beijing Shougang Group, Yunnan Kunming Steel Group, Anhui Magang Group and Guangdong Shaogang Group for manufacture and sale of slag have all made good profit contribution to us. The slag products supplied through these joint ventures are well received in the local markets. In view of increasing demand for slag, we will consider

MANAGEMENT DISCUSSION AND ANALYSIS

further expansion of production facilities in meeting those demand. We will also continue to develop and promote slag products to new markets.

The initial phase of our joint venture with Kunming Steel Group in Kunming, Yunnan for the manufacture and sale of cement has begun making profit contribution to us during the year. The local market demand for cement is high and it is envisaged that with the commencement of additional production facilities currently under construction, the joint venture will provide us with good profit contribution in the future.

Owing to a sluggish demand for cement in the Guangzhou market resulting from the macroeconomic measures, the performance of our cement joint venture in Guangzhou for the year was less satisfactory. Active measures have been undertaken to improve the cost efficiency and enhance our competitiveness in the market.

LIQUIDITY AND FINANCIAL RESOURCES

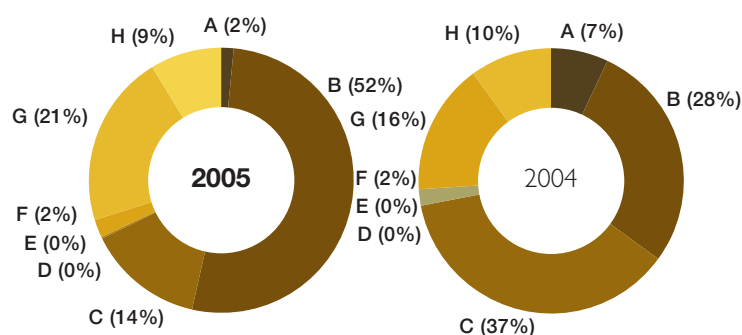
The financial position of the Group has remained strong during the year. The shareholders' funds as at 31st December 2005 was HK\$14,932 million, an increase of approximately 948% over that as at 31st December 2004 of HK\$1,425 million (as restated) and the Group's total assets employed also increased to HK\$26,388 million as compared to HK\$2,415 million (as restated) as at 31st December 2004.

In April 2005, the Company, through a top-up placement of shares, has issued 146 million new shares at HK\$8 per share and has generated cash proceeds of approximately HK\$1,137 million. Such cash proceeds were applied to fund the Acquisition in July 2005.

The Group continues to maintain a strong cash position. As at 31st December 2005, total cash and bank balances were HK\$5,068 million as compared to HK\$171 million as at 31st December 2004.

SOURCES OF FUNDING

	2005 HK\$'000	2004 HK\$'000
A Share capital	329,058	129,648
B Capital reserve	11,439,469	558,552
C Revenue reserve	3,118,363	735,930
D Share option reserve	37,561	—
E Other reserves	8,003	1,134
F Minority interests	491,910	39,025
G Long-term borrowings	4,643,355	311,580
H Other non-current liabilities	1,922,891	194,893
	21,990,610	1,970,762



As at 31st December 2005, the Group's total indebtedness was HK\$7,587 million as compared to HK\$322 million as at 31st December 2004. The total indebtedness of the Group mainly comprises bank loans, fixed rate notes, guaranteed notes and other obligations which are largely denominated in Hong Kong Dollars and United States Dollars. 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.

GEARING RATIO

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets (excludes cash balances), was maintained at a satisfactory level of 12% as at 31st December 2005 as compared to 7% as at 31st December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

TREASURY POLICY

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollars, United States Dollars 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 Dollars, United States Dollars 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 not engaged in the use of other derivative products, which are considered not necessary for the Group's treasury management activities.

CHARGES ON GROUP ASSETS

Details of charges on group assets are set out in notes 17 and 23 to the financial statements.

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 41 to the financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2005, the Group, excluding associated companies and jointly controlled entities, employed around 3,944 employees in Hong Kong, Macau and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$232 million.

The Group recruits and promotes individuals based on their competencies, merit and development potential and ensures remuneration packages are competitive, fair and subject to regular review. The Group has implemented a share option scheme for employees from 1991 following approval by its shareholders for the purpose of providing competitive package and long term retention of management talents. Likewise in Macau and Mainland China, employees' remuneration is commensurate with market levels with emphasis on provision of training and development opportunities.

GAMING AND ENTERTAINMENT EXPERTISE

Galaxy Casino, S.A. ("Galaxy") has always recognised the need to build and develop an international team of highly experienced specialists from the world of gaming. To achieve this we have recruited an elite team of management executives from throughout the world to move Galaxy forward and to develop the knowledge base and skills of our comprehensive management team.

One thing that all of our executives have in common is a specialist, hands on, knowledge of the Asian gaming and hospitality sector built over many years of experience in the region. This also holds true for our mid level and management, the vast majority of whom have gained their experience either in the Asian market or dealing with the Asian market in countries like Australia.

Each of our existing casinos, and each one currently under development, is run by a highly experienced team of casino professionals with an underlying theme of Asian based experience. Each property has a management team that comprises casino specialists in the fields of table gaming operations, slot operations, surveillance, security, cage, marketing and VIP services. These casino specialists are ably supported by professionals in the fields of Human Resources, Finance and Administration.

The senior gaming executives that have so successfully built our comprehensive team and who will continue to develop and grow this team is made up of the following key members. This list is by no means exhaustive but is indicative of the depth of our experience and knowledge.

Thuy Trinh, aged 56, Chief Operating Officer of Galaxy Casino, S.A. He holds a Bachelor of Arts Degree. He has over 30 years' extensive experience in large international resort and casino operations.

Kwa Yew Seng, aged 54, 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 Accountants in Australia and a Fellow of the Australian Institute of Company Directors. He has over 30 years experience in the field of Finance and Accounting, 18 of which were in the casino industry.

Ciarán Pearse Carruthers, aged 37, Senior Vice President of City Clubs. He has 18 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 specialised in the Asia Pacific gaming industry for the past 14 years.

Bernard Francis Millman, aged 52, Group Financial Controller (City Clubs). Bernard holds a Bachelor Business (Hospitality Management) Degree from Royal Melbourne Institute of Technology. He has had 30 years experience in the financial management of and has held various senior management positions, including general manager and financial controller, in international hotels and casinos in Australia. He has represented the hotel and gaming industry in Australia in a review of tax legislation.

Gary Woollard, aged 51, Casino Manager of the Waldo Casino between February 2004 and June 2005, and currently the Casino Manager of the Grand Waldo Casino. Gary has 21 years' experience in the gaming industry in Australia and various other countries, including considerable time in Asia, before joining Galaxy.

Working alongside our experienced expatriate management staff are the equally experienced local staff. The fusion of international management techniques and in-depth knowledge of local culture helps Galaxy to stay ahead of our competitors.

All of this experience and the continued development of our management skills results in highly efficient and effective casino operations. These international standard casinos are then able to provide a safe, secure and hospitable customer service experience for our guests. Combined with a detailed knowledge of the preferences of the local market, we believe we have built management teams that will drive the growth of Galaxy for many years to come.

GAMING AND ENTERTAINMENT EXPERTISE

Galaxy understands that our people are our greatest assets and we regularly research the human resource practices of our competitors and benchmark our remuneration packages to ensure our competitiveness.

We are also committed to the practice of career path development for our staff and continually provide training in new skills and concepts so that our dealers of today have the opportunity to be our managers of tomorrow. Refresher courses are also held on a regular basis to ensure that the high standards we set for ourselves are achieved by all of our staff.

Our rapid expansion provides many different opportunities for internal growth. Since inception, Galaxy has a firm policy to reward those hard workers who show both dedication and ability with promotion opportunities. This policy of internal promotion, coupled with the many opportunities available as a result of our phenomenal expansion and growth, is both an effective recruitment and staff retention tool.

GOOD CORPORATE CITIZENSHIP

Good corporate citizenship is a key value for the Group and its people. We recognize our social responsibilities as a member of the communities in which we operate and encourage our staff to engage with the local communities.

We are committed to making a sustainable and positive difference in the communities where we live, work and serve. During the year, we sponsored and participated in various community activities.

IN HONG KONG

Aiming to fulfill one of our corporate missions of caring for the community, our Construction Materials Division has established a “KWCM Social Club” since 2001, which has been working hand in hand with various charitable organizations. During the year, we participated in a wide range of community welfare services including:

- Blood Donation Event organized by Hong Kong Red Cross
- Heart to Heart Company organized by The Hong Kong Federation of Youth Groups
- Uncle Long Leg Mail Box organized by Evangelical Lutheran Church of Hong Kong
- Challenging 12 hours Charity Marathon organized by Sowers Action
- Learning English Fun Fun Fun 2005 jointly organized by KWCM Social Club and Evangelical Lutheran Church of Hong Kong

IN MACAU

Our Gaming and Entertainment Division has practised good corporate citizenship through active participation in community activities including:

- **Sports**

During the year, we sponsored and/or participated in major sports events organized by Macau SAR Government in support of the SAR Government's policy objective to promote sports tourism.

- East Asian Games Unification Flame Torch Relay
- Title sponsor of Macau Galaxy Resort 2005 FIVB World Grand Prix
- The 52nd Macau Grand Prix
- Title sponsor of 2005 Macau Galaxy Resort International Marathon, Half Marathon and Mini Marathon

- **Participation in charity event**

During the year, we made contributions to the tsunami relief efforts in South Asia, Tung Sin Tong and Macao Daily News Readers' Fund. We believe that commitment involves not merely charitable contributions to our communities, but also through participation in these charity events.

- Walk For A Million

GOOD CORPORATE CITIZENSHIP

- **Development of tourism**

We actively participate 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.

The key tourism event held in Macau last year was the 54th Pacific Asia Travel Association (PATA) Annual Conference. About 1,200 delegates and guests and more than 230 members of the media attended the event. We sponsored one luncheon to welcome the delegates attending the event.

- Luncheon for delegates of the 54th Pacific Asia Travel Association (PATA) Annual Conference

INVESTOR RELATIONS

The Group recognizes the significance of communicating important information to shareholders, bondholders and the investor community in a professional and timely manner. It is the Group's management philosophy to maintain a high degree of transparency and to provide appropriate and prompt disclosure of the Group's corporate strategies and new business development.

The Group's financial and operational information will be disseminated in the annual and interim reports. Annual general meetings will provide a communication channel between the Board and the shareholders.

Immediately after the results are announced, press conferences, analysts briefings and investor meetings will be held with directors and senior management present to answer questions.

Other communication channels include press releases, investor news updates and the Group's website "www.galaxyentertainment.com" together with annual and interim reports.

Senior management intends to regularly meet with research analysts and institutional investors, attend major investors' conferences and participate in non-deal roadshows in Hong Kong and overseas. The Group will also host tours for research analysts to visit operations in Macau and casual functions for the stock broker community.

FINANCIAL CALENDAR

DATES	EVENTS
14th September 2005	Announcement of results for the six months ended 30th June 2005
11th April 2006	Announcement of results for the year ended 31st December 2005
29th June 2006	2006 Annual General Meeting

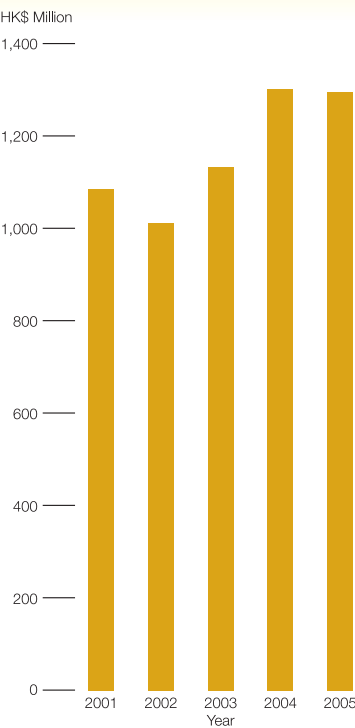
FIVE-YEAR SUMMARY

	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	Restated 2004 HK\$'000	2005 HK\$'000
CONSOLIDATED PROFIT AND LOSS STATEMENT					
Turnover	1,082,615	1,010,999	1,130,894	1,299,143	1,291,927
Profit attributable to shareholders	112,801	62,328	40,205	55,886	2,395,269
Dividends	48,330	24,829	25,168	25,805	—
Earnings per share (cents)	9.6	5.1	3.2	4.4	110.7
Dividend per share (cents)	4.0	2.0	2.0	2.0	—
CONSOLIDATED BALANCE SHEET					
Property, plant and equipment, investment properties and leasehold land and land use rights	675,498	740,946	802,153	787,028	2,926,125
Intangible assets	—	—	—	—	16,494,369
Jointly controlled entities and associated companies	263,851	211,571	253,547	266,893	300,778
Other non-current assets	141,709	240,974	240,727	408,883	514,502
Net current assets	423,790	362,758	481,179	507,958	1,754,836
Employment of capital	1,504,848	1,556,249	1,777,606	1,970,762	21,990,610
Represented by:					
Share capital	121,674	124,321	125,893	129,648	329,058
Reserves	1,235,958	1,268,249	1,288,370	1,295,616	14,603,396
Shareholders' funds	1,357,632	1,392,570	1,414,263	1,425,264	14,932,454
Minority interests	125,547	145,334	147,891	39,025	491,910
Long term borrowings	—	—	200,800	311,580	4,643,355
Other non-current liabilities	21,669	18,345	14,652	14,020	1,778,531
Provisions	—	—	—	180,873	144,360
Capital employed	1,504,848	1,556,249	1,777,606	1,970,762	21,990,610
Net assets per share (dollars)	1.12	1.12	1.12	1.10	4.54

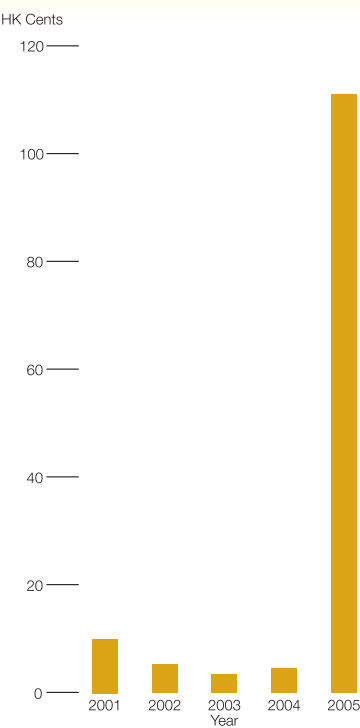
The summary of 2001, 2002 and 2003 have not been restated following the adoption of the new and revised Hong Kong Financial Reporting Standards in 2005.

FIVE-YEAR SUMMARY

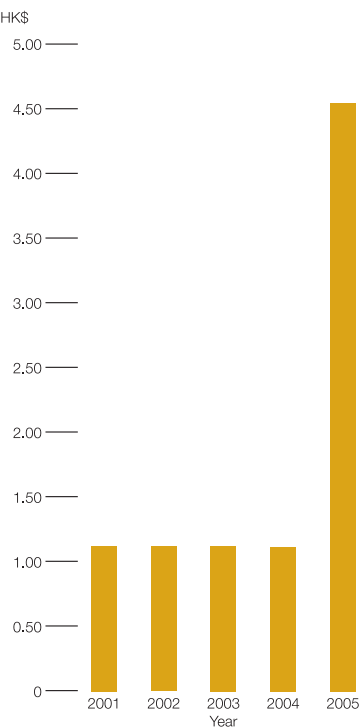
TURNOVER



EARNINGS PER SHARE



NET ASSETS VALUE PER SHARE



NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS



FURTHER CORPORATE INFORMATION

BIOGRAPHICAL INFORMATION OF DIRECTORS

Executive Directors

Dr. Lui Che Woo, GBS, MBE, JP, LLD, DSSc, aged 76, 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, a substantial shareholder of the Company. He has over 47 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. He is presently a member of the Tung Wah Group of Hospitals Advisory Board. 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 on 1st July 2005. Dr. Lui is the father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

Mr. Francis Lui Yiu Tung, aged 50, 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 and the Managing Director of K. Wah International Holdings Limited, a substantial shareholder of the Company. 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 Member of the Shanghai Committee of the 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 60, 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 a fellow member of The Chartered Association of Certified Accountants in the UK and an associate member of the Hong Kong Institute of Certified Public Accountants and The Chartered Institute of Management Accountants in the UK. 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 48, 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 24 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 a member of the Working Group on Construction Waste of the Provisional Construction Industry Co-ordination Board. He was the Chairman of The Institute of Quarrying in the UK (Hong Kong Branch) from 1998 to 2000.

Mr. William Lo Chi Chung, aged 45, joined the Group in 2003 and is the Group Finance Director. He has been an executive director of the Company since April 2004. Mr. Lo is also an executive director of K. Wah International Holdings Limited, a substantial shareholder of the Company. Mr. Lo holds a master's degree in Business Administration from the University of Warwick in the UK and a Professional Diploma in Accountancy from the Hong Kong Polytechnic. He is a fellow member of Hong Kong Institute of Certified Public Accountants and a fellow member of Chartered Association of Certified Accountants in the UK. He has over 23 years of broad experience in auditing, accounting, financial management, corporate finance, strategic planning and investor relations.

FURTHER CORPORATE INFORMATION

Ms. Paddy Tang Lui Wai Yu, *JP*, aged 52, 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, a substantial shareholder of the Company. 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 is a member of the Election Committee of the HKSAR. She is also a member of the Hong Kong Arts Development Council and a member of the Hong Kong Antiquities Advisory Board. Ms. Tang was appointed the Justice of Peace by the Government of the HKSAR on 1st July 2005. Ms. Tang is a daughter of Dr. Lui Che Woo and the elder sister of Mr. Francis Lui Yiu Tung.

Non-executive Directors

Dr. Charles Cheung Wai Bun, *JP*, aged 69, 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 and a bachelor of science degree in business administration. He has been in the banking business for over twenty-two years and held senior management positions. He is the Group Chief Executive and Executive Deputy Chairman of Mission Hills Group. He is also an independent non-executive director of K. Wah International Holdings Limited (a substantial shareholder of the Company), Pioneer Global Group Limited, Prime Investments Holdings Limited and Shanghai Electric Group Company Limited. Dr. Cheung was a 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 and was re-appointed by the HKSAR Government as a member of Estate Agents Authority in November 2004.

Mr. Moses Cheng Mo Chi, *GBS, OBE, JP*, aged 56, has been a non-executive director of the Company since August 1996. Mr. 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. Mr. Cheng was appointed a non-official member of the Executive Committee of the Commission on Strategic Development in November 2005. He had served as a member of the Legislative Council of Hong Kong.

Mr. James Ross Ancell, aged 52, 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.

Dr. William Yip Shue Lam, *LLD*, aged 68, 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 and also a Member of The Chinese People's Political Consultative Conference in Muizhou City, Guangzhou City and Li Wan District of Guangzhou.

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.

PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

The directors have pleasure in presenting to the shareholders their annual report together with the audited financial statements of the Company and the Group for the year ended 31st December 2005.

ACQUISITION OF GAMING AND ENTERTAINMENT BUSINESS AND CHANGE OF COMPANY NAME

On 22nd July 2005, the acquisition (the "Acquisition") of 88.1% of the voting shares carrying 97.9% of the economic interest (the "Galaxy Shares") in Galaxy Casino, S.A. ("Galaxy") by Canton Treasure Group Ltd. ("Canton Treasure"), a wholly owned subsidiary of the Company, at the purchase price of HK\$18,405,198,023, was completed. Galaxy is a company incorporated in Macau holding one of only three gaming concessions awarded by the Macau government to operate casinos in Macau.

Following the Acquisition, gaming and entertainment have become the major business of the Group. To better reflect this new business focus, the shareholders of the Company approved at the extraordinary general meeting duly convened and held on 12th October 2005 the change of name of the Company to "Galaxy Entertainment Group Limited 銀河娛樂集團有限公司" which became effective on 26th October 2005.

PRINCIPAL ACTIVITIES

During the year, the Company acted as an investment holding company. The principal activities of its principal subsidiaries, jointly controlled entities and associated companies prior to 22nd July 2005 were the manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China. Following the completion of the Acquisition on 22nd July 2005, the principal activities of the Company's principal subsidiaries also included gaming and entertainment in Macau.

The principal activities and other particulars of the principal subsidiaries, jointly controlled entities and associated companies of the Company as at 31st December 2005 are set out in note 43 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2005 are set out in the consolidated profit and loss statement on page 54 of the annual report.

No interim dividend (2004: scrip dividend with cash option of 1 cent per share) was paid during the year. The directors have resolved not to recommend any final dividend for the year ended 31st December 2005 (2004: 1 cent per share).

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

On 19th July 2005, the authorised share capital of the Company was increased from HK\$388,800,000 to HK\$688,800,000 divided into 6,888,000,000 shares of HK\$0.10 each by the creation of an additional 3,000,000,000 shares of HK\$0.10 each, which new shares rank pari passu in all respects with the then existing shares in the capital of the Company.

On 4th May 2005, 146,000,000 new shares of HK\$0.10 each were issued at a price of HK\$8.00 per share for cash to Sutimar Enterprises Limited, a wholly-owned subsidiary of K. Wah International Holdings Limited ("KWIH") and the then controlling shareholder of the Company, pursuant to a top-up placement and subscription arrangement as stipulated in the Placing Agreement and Subscription Agreement both dated 21st April 2005 (the "Placing and Subscription"). The purpose of the Placing and Subscription was to raise capital for funding the Acquisition. The issue price of HK\$8.00 represents a discount of approximately 6.4% to the closing price of HK\$8.55 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20th April 2005. The net proceeds of approximately HK\$1,136.8 million (after deducting fees and expenses) was used to fund the Acquisition completed on 22nd July 2005. Details of the Placing and Subscription were included in the announcement dated 21st April 2005 issued by the Company.

On 22nd July 2005, 1,840,519,798 new shares of HK\$0.10 each were allotted at HK\$8.00 per share to the vendors as part consideration for the Acquisition. Details of the shares issued as consideration were included in the announcement dated 19th July 2005 issued by the Company.

REPORT OF THE DIRECTORS

SHARE CAPITAL (CONT'D)

During the year, 1,802,000 new shares, 2,216,000 new shares and 3,566,000 new shares were issued at the prices of HK\$0.5333, HK\$0.5216 and HK\$0.514 per share respectively pursuant to share option schemes of the Company as a result of the exercise of share options by option holders.

The stock short name of the Company for trading in the shares on the Stock Exchange was changed to “GALAXY ENT 銀河娛樂” with effect from 1st November 2005 following the change of name of the Company. The board lot of the Company's shares for trading on the Stock Exchange was changed to 1,000 shares with effect from 9th November 2005.

The Company has not redeemed any of its shares during the year ended 31st December 2005. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares during the year.

DEBENTURES

On 22nd July 2005, Series 'A' unsecured fixed rate notes in the aggregate amount of HK\$172,434,536 which will mature on 21st August 2006 and Series 'B' unsecured fixed rate notes in the aggregate amount of HK\$2,371,805,067 which will mature (as amended) on 30th September 2008 were issued by the Company as part consideration for the Acquisition.

On 14th December 2005, notes with principal amount of US\$600,000,000, comprising US\$350,000,000 9.875% Guaranteed Senior Notes due 2012 and US\$250,000,000 Guaranteed Senior Floating Rate Notes due 2010, were issued by Galaxy Entertainment Finance Company Limited, a wholly owned subsidiary of Galaxy. These notes are guaranteed by Galaxy and listed on the Singapore Stock Exchange.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 30 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, Ms. Paddy Tang Lui Wai Yu, Dr. Charles Cheung Wai Bun, Mr. Moses Cheng Mo Chi, Mr. James Ross Ancell and Dr. William Yip Shue Lam.

The respective names and biographical details of the directors are set out on pages 41 and 42 of the annual report.

In accordance with Article 106(A), Mr. Joseph Chee Ying Keung, Ms. Paddy Tang Lui Wai Yu and Mr. Moses Cheng Mo Chi will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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 of the Company at the forthcoming annual general meeting, the directors' fee for the year ended 31st December 2005 would be HK\$100,000 for the Chairman of the Board and HK\$80,000 for each other director. As regards the Audit Committee members, the chairman would receive an additional HK\$100,000 and each member would receive an additional HK\$80,000 as audit committee members' fee.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed herein, 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 2005 or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS

As at 31st December 2005, 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 of the Company and of the exercise of such rights, as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

(a) Ordinary Shares (including underlying shares)

Name	Number of Shares				Total	Percentage of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	17,187,632	2,181,518	80,693,238 ⁽¹⁾	1,905,118,394 ⁽²⁾	2,005,180,782	60.94
Francis Lui Yiu Tung	11,498,896	—	436,753,661 ⁽³⁾	1,905,118,394 ⁽²⁾	2,353,370,951	71.52
Chan Kai Nang	380,000	—	—	—	380,000	0.01
Joseph Chee Ying Keung	2,720,000	—	—	—	2,720,000	0.08
William Lo Chi Chung	1,926,000	—	—	—	1,926,000	0.06
Paddy Tang Lui Wai Yu	8,939,722	—	—	1,905,118,394 ⁽²⁾	1,914,058,116	58.17
Charles Cheung Wai Bun	582,533	—	—	—	582,533	0.02
Moses Cheng Mo Chi	500,000	—	—	—	500,000	0.02
James Ross Ancell	250,000	—	—	—	250,000	0.01
William Yip Shue Lam	250,000	—	—	—	250,000	0.01

(b) Share Options

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

(c) Debentures

Name	Amount of Debentures		
	Corporate Interests	Other Interests	Total Interests
	HK\$	HK\$	HK\$
Lui Che Woo	—	2,320,898,413 ⁽⁴⁾	2,320,898,413
Francis Lui Yiu Tung	50,906,654	2,320,898,413 ⁽⁴⁾	2,371,805,067
Paddy Tang Lui Wai Yu	—	2,320,898,413 ⁽⁴⁾	2,320,898,413

Notes:

- (1) 80,387,837 shares and 305,401 shares in the Company were respectively held by Best Chance Investments Ltd. and Po Kay Securities & Shares Company Limited, both controlled by Dr. Lui Che Woo.
- (2) Two discretionary family trusts both established by Dr. Lui Che Woo as founder were respectively interested in 1,267,165,313 shares and 22,969,034 shares in the Company. KWIH, a substantial shareholder of the Company listed on the Stock Exchange, was interested in 614,984,047 shares in the Company held by a wholly owned subsidiary of KWIH. KWIH was controlled by one of the said discretionary family trusts.

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 trusts, are deemed to be interested in those shares in the Company held by the trusts and in those shares in the Company in which KWIH was interested as aforesaid.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SECURITIES AND SHARE OPTIONS (CONT'D)

- (3) 111,138,039 shares in the Company were held by Recurrent Profits Limited controlled by Mr. Francis Lui Yiu Tung. 231,615,731 shares and 93,999,891 shares in the Company were respectively interested by Top Notch Opportunities Limited and Kentlake International Investments Limited for the purpose of the SFO, both of which were controlled by Mr. Francis Lui Yiu Tung.
- (4) A discretionary family trust established by Dr. Lui Che Woo as founder was interested in debentures of the Company in the amount of HK\$2,320,898,413. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries, are deemed to be interested in these debentures.

All the interests stated above represent long positions.

Save as disclosed above, as at 31st December 2005, 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

As at 31st December 2005, the interests 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	325,615,622	9.90	325,615,622	9.90
City Lion Profits Corp.	1,160,449,206	35.27	—	—
Davos Investment Holdings Private Limited	325,615,622	9.90	325,615,622	9.90
Guoco Group Limited	325,615,622	9.90	325,615,622	9.90
Guoline Capital Assets Limited	325,615,622	9.90	325,615,622	9.90
Guoline Overseas Limited	325,615,622	9.90	325,615,622	9.90
HL Holdings Sdn Bhd	325,615,622	9.90	325,615,622	9.90
Hong Leong Company (Malaysia) Berhad	325,615,622	9.90	325,615,622	9.90
Hong Leong Investment Holdings Pte. Ltd.	325,615,622	9.90	325,615,622	9.90
HSBC International Trustee Limited	1,905,132,394 ^(Note)	57.90	—	—
Kwek Holdings Pte Ltd	325,615,622	9.90	325,615,622	9.90
Kwek Leng Kee	325,615,622	9.90	325,615,622	9.90
K. Wah International Holdings Limited	614,984,047	18.69	—	—
Pedro Ho On Chun	176,250,301	5.36	—	—
Quek Leng Chan	325,615,622	9.90	325,615,622	9.90
Top Notch Opportunities Limited	231,615,731	7.04	—	—

Note: HSBC International Trustee Limited is the trustee of the discretionary family trusts established by Dr. Lui Che Woo as founder, which are interested in 1,905,118,394 shares in the Company.

There was duplication of interest of:

- (i) 1,905,118,394 shares and debentures in the amount of HK\$2,320,898,413 in the Company between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu. Among these shares,
- 614,984,047 shares in the Company were also interested by KWIH;
 - 1,160,449,206 shares in the Company were also interested by City Lion Profits Corp.;

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONT'D)

- (ii) 231,615,731 shares in the Company between Mr. Francis Lui Yiu Tung and Top Notch Opportunities Limited;
- (iii) 93,999,891 shares in the Company between Mr. Francis Lui Yiu Tung and Mr. Pedro Ho On Chun;
- (iv) 325,615,622 shares in the Company (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. The interests in (ii) and (iii) above are derivative interests in these 325,615,622 shares.

Save as disclosed above, as at 31st December 2005, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the SFO.

SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") was approved and adopted by the shareholders of the Company on 30th May 2002 (the "Adoption Date"). The Share Option Scheme was also approved by the shareholders of KWIH, the then holding company of the Company, on the Adoption Date. 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (CONT'D)

(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 10% of the shares in issue as at the Adoption Date, being 121,787,040 shares.

Overriding Limit — The Company may by ordinary resolution of the shareholders refresh the Mandate Limit as referred to in the above paragraph provided 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 the annual report, the total number of shares available for issue under the Share Option Scheme was 61,833,040 shares, which represented approximately 1.88% 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 the Adoption Date and will expire on 29th May 2012.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (CONT'D)

As at 31st December 2005, the particulars of 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, were as follows:

Name	Date of grant	Number of Options				At 31st December 2005	Exercise price (HK\$)	Exercise period
		At 1st January 2005	Granted during the year	Exercised during the year	Lapsed during the year			
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	28th Feb 2003	1,000,000	—	1,000,000 ^(a)	—	—	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	270,000	—	—	270,000	4.5900	22nd Oct 2006–21st Oct 2011
William Lo Chi Chung	21st Oct 2005	—	1,500,000	—	—	1,500,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	—	230,000	—	—	230,000	4.5900	22nd Oct 2006–21st Oct 2011
Paddy Tang Lui Wai Yu	20th May 1998	600,000	—	600,000 ^(a)	—	—	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,070,000	—	1,070,000 ^(a)	—	—	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	1,270,000	—	1,270,000 ^(b)	—	—	0.5140	1st Mar 2004–28th Feb 2013
	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	28th Feb 2003	300,000	—	300,000 ^(c)	—	—	0.5140	1st Mar 2004–28th Feb 2013
	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	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	200,000	—	—	200,000	4.5900	22nd Oct 2006–21st Oct 2011
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
Employees	20th May 1998	1,602,000	—	1,202,000 ^(d)	—	400,000	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,374,000	—	1,146,000 ^(e)	—	228,000	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	1,276,000	—	996,000 ^(f)	—	280,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	15,900,000	—	—	15,900,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	—	5,062,000	—	104,000	4,958,000	4.5900	22nd Oct 2006–21st Oct 2011
Others	20th May 1998	300,000	—	—	—	300,000	0.5333	20th May 1999–19th May 2008
	30th Dec 1999	1,070,000	—	—	—	1,070,000	0.5216	30th Dec 2000–29th Dec 2009
	28th Feb 2003	300,000	—	—	—	300,000	0.5140	1st Mar 2004–28th Feb 2013
	21st Oct 2005	—	3,500,000	—	—	3,500,000	4.5900	22nd Oct 2005–21st Oct 2011
	21st Oct 2005	—	302,000	—	—	302,000	4.5900	22nd Oct 2006–21st Oct 2011

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (CONT'D)

Notes:

- a. The options were exercised on the same date and the closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$4.55.
- b. The closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$5.20.
- c. The closing price of the Company's shares immediately before the date on which the options were exercised during the year was HK\$5.40.
- d. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$5.92.
- e. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$6.99.
- f. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$6.11.

Except for the 32,600,000 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 cancelled during the year.

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

The fair value of the options granted during the year with no vesting period and one-year vesting period are estimated at HK\$1.03 and HK\$0.94 per option respectively, based on the Black-Scholes valuation model. The significant inputs into the model were share price of HK\$4.425 at the date of grant, exercise price of HK\$4.59, standard deviation of expected share price returns of 35%, expected life of options of 2.5 to 3 years, expected dividend paid out rate of 2% and annual risk-free interest rate of 4.075%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of comparable companies over the past 260 trading days. Changes in the subjective input assumptions could materially affect the fair value estimate.

The closing price of the Company's shares immediately before the date on which the share options were granted during the year was HK\$4.40.

Except for the Share Option Scheme, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies 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 14th March 2005, Canton Treasure entered into an acquisition agreement (as amended by supplemental agreements dated 1st April 2005 and 31st May 2005 respectively) with, inter alia, City Lion Profits Corp. and Recurrent Profits Limited by which Canton Treasure conditionally agreed to acquire the Galaxy Shares at an aggregate price of HK\$18,405,198,023. The acquisition was completed on 22nd July 2005 and the purchase price was satisfied as to about 80% by the issue of 1,840,519,798 new shares at HK\$8.00 per share and as to about 20% by the issue of HK\$2,544,239,603 principal amount of unsecured fixed rate notes and the payment in cash of HK\$1,136,800,000. The Acquisition constituted a connected transaction for the Company by virtue of the connected relationship in that:

- (1) 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 as either direct or indirect discretionary beneficiaries; and
- (2) Recurrent Profits Limited is wholly owned by Mr. Francis Lui Yiu Tung.

The Acquisition was duly approved by independent shareholders of the Company at the extraordinary general meeting convened on 19th July 2005.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

1. On 2nd June 2005, each of the Company's three subsidiaries, namely Shanghai Jiajian Concrete Co. Ltd. (上海嘉建混凝土有限公司) (60% owned), Shanghai Jia Shen Concrete Co. Ltd. (上海嘉申混凝土有限公司) (100% owned) and Shanghai Xin Cai Concrete Co. Ltd. (上海信財混凝土有限公司) (99% owned) respectively entered into a tenancy agreement (collectively the "Tenancy Agreements") as tenant (collectively the "Tenants") with 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) as landlord (the "Landlord"). Pursuant to the Tenancy Agreements, the Tenants agreed to lease the properties located at Units 1802-1804, Shanghai K. Wah Centre, No. 1010, Huaihai Zhong Road, Xuhui District, Shanghai, the PRC for a term of three years from 1st June 2005 to 31st May 2008 at an aggregate monthly rental of US\$21,528 (equivalent to approximately HK\$167,920) for office uses. The Landlord is an indirect non wholly-owned subsidiary of KWIH, a substantial shareholder of the Company, and accordingly the Tenancy Agreements constituted continuing connected transactions for the Company. Details of the Tenancy Agreements were included in the announcement dated 23rd August 2005 issued by the Company.

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 Auditors of the Company, PricewaterhouseCoopers, have also confirmed in writing to the Board of Directors of the Company that the transactions:

- (1) have received the approval of the Company's Board of Directors;
- (2) have been entered into in accordance with the Tenancy Agreements governing the transactions; and
- (3) have not exceeded the aggregate annual rental (i.e. the annual cap) of HK\$1,175,430 for the year ended 31st December 2005.

2. On 22nd July 2002, a wholly owned subsidiary of the Company, Brighten Lion Limited, entered into a loan agreement (the "Loan Agreement") for the granting of a guaranteed unsecured revolving loan facility in the maximum amount of HK\$330 million (the "Facility") to Great Place Developments Limited (the "Borrower") and KWIH provided a guarantee and indemnity in respect of the obligations of the Borrower under the Facility. The Facility bears interest at 2.38% per annum over three-month HIBOR with a final maturity date of 12th September 2007.

The Borrower is a wholly owned subsidiary of KWIH, and the Facility is guaranteed by KWIH. The Facility constituted a continuing connected transaction for the Company. Details of the transactions are included in the joint announcement of the Company and KWIH dated 22nd July 2002 and the circular of the Company dated 5th August 2002.

No annual cap is involved in the Facility and no amount has been drawn on the Facility by the Borrower during the year 2005.

Each of the independent non-executive directors of the Company has reviewed the transaction under the Facility and confirms that the transaction has been entered into:

- (1) on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties, and
- (2) in accordance with the relevant agreement governing them, i.e. the Loan Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (CONT'D)

The Auditors of the Company, PricewaterhouseCoopers, have also confirmed in writing to the Board of Directors of the Company that:

- (1) the transactions have received the respective approvals of the Board of Directors and independent shareholders of the Company; and
- (2) no loan was outstanding under the Loan Agreement during the year ended 31st December 2005 and there was no interest received and receivable during the year 2005.

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 accounts and adjusted as appropriate, is shown on pages 39 and 40 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2005, 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\$3,194,000 (2004: nil).

AUDITORS

The financial statements of the Company for the year under review 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

Francis Lui Yiu Tung

Deputy Chairman

Hong Kong, 11th April 2006

REPORT OF THE AUDITORS



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
(formerly K. WAH CONSTRUCTION MATERIALS LIMITED)

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 54 to 116 which have been prepared in accordance with Hong Kong Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 11th April 2006

CONSOLIDATED PROFIT AND LOSS STATEMENT

For the year ended 31st December 2005

		2005	Restated 2004
	Notes	HK\$'000	HK\$'000
Turnover	7	1,291,927	1,299,143
Cost of sales		(1,181,342)	(1,244,337)
Gross profit		110,585	54,806
Other revenues	7	52,029	21,355
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries	38(a)	3,039,019	—
Other operating income		56,247	49,448
Administrative expenses		(196,662)	(54,376)
Other operating expenses		(471,128)	(15,084)
Operating profit	8	2,590,090	56,149
Finance costs	10	(116,423)	(7,794)
Share of profits less losses of			
Jointly controlled entities		(77,975)	13,866
Associated companies		2,696	2,561
Profit before taxation		2,398,388	64,782
Taxation	11	(1,683)	(2,295)
Profit for the year		2,396,705	62,487
Attributable to:			
Shareholders of the Company	30	2,395,269	55,886
Minority interests		1,436	6,601
		2,396,705	62,487
Dividends	14	—	25,805
Earnings per share	13	HK cents	HK cents
Basic		110.7	4.4
Diluted		109.4	4.3

CONSOLIDATED BALANCE SHEET

At 31st December 2005

	Notes	2005 HK\$'000	Restated 2004 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	1,224,505	466,883
Investment properties	16	63,000	65,500
Leasehold land and land use rights	17	1,638,620	254,645
Intangible assets	18	16,494,369	—
Jointly controlled entities	20	279,432	248,243
Associated companies	21	21,346	18,650
Available-for-sale financial assets	22	35,483	152,375
Other non-current assets	23	479,019	256,508
		20,235,774	1,462,804
Current assets			
Inventories	24	86,971	93,175
Debtors and prepayments	25	926,428	681,497
Tax recoverable		1,039	1,938
Other investments	26	69,495	4,217
Cash and bank balances	27	5,068,214	170,952
		6,152,147	951,779
Total assets		26,387,921	2,414,583
EQUITY			
Share capital	28	329,058	129,648
Reserves	30	14,603,396	1,295,616
Shareholders' funds		14,932,454	1,425,264
Minority interests		491,910	39,025
Total equity		15,424,364	1,464,289
LIABILITIES			
Non-Current liabilities			
Borrowings	31	4,643,355	311,580
Deferred taxation liabilities	32	1,778,531	13,884
Negative goodwill		—	136
Provisions	33	144,360	180,873
		6,566,246	506,473
Current liabilities			
Creditors and accruals	34	1,452,047	432,425
Current portion of borrowings	31	2,943,806	10,000
Taxation payable		1,458	1,396
		4,397,311	443,821
Total liabilities		10,963,557	950,294
Total equity and liabilities		26,387,921	2,414,583

Francis Lui Yiu Tung
Director

Chan Kai Nang
Director

COMPANY BALANCE SHEET

At 31st December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
ASSETS			
Non-current assets			
Subsidiaries	19	1	1
Current assets			
Amounts due from subsidiaries	19	15,715,425	2,103,854
Loans receivable from subsidiaries	19	338,629	284,164
Debtors and prepayments	25	361	4
Tax recoverable		339	339
Cash and bank balances	27	2,253	21,179
		16,057,007	2,409,540
Total assets		16,057,008	2,409,541
EQUITY			
Share capital	28	329,058	129,648
Reserves	30	12,038,414	1,282,172
Shareholders' funds		12,367,472	1,411,820
LIABILITIES			
Non-current liabilities			
Borrowings	31	117,000	311,580
Current liabilities			
Amounts due to subsidiaries	19	723,287	673,952
Creditors and accruals	34	30,661	2,189
Current portion of borrowings	31	2,818,588	10,000
		3,572,536	686,141
Total liabilities		3,689,536	997,721
Total equity and liabilities		16,057,008	2,409,541

Francis Lui Yiu Tung

Director

Chan Kai Nang

Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2005

		2005	Restated 2004
	Notes	HK\$'000	HK\$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	35(a)	(13,261)	21,229
Hong Kong profits tax refunded		881	6,731
Mainland China income tax paid		(1,603)	(1,996)
Interest paid		(55,204)	(3,864)
Net cash (used in)/from operating activities		(69,187)	22,100
Cash flows from investing activities			
Purchase of property, plant and equipment		(411,061)	(65,496)
Purchase of leasehold land and land use rights		—	(3,398)
Addition of intangible assets		(141)	—
Proceeds from sale of property, plant and equipment		1,091	5,883
Acquisition of subsidiaries, net of cash acquired	35(c)	(97,374)	—
Investments in jointly controlled entities		(108,704)	(95,883)
Advances to jointly controlled entities		(56,373)	(37,376)
Advances from a jointly controlled entity		14,397	—
Deferred expenditure		(724)	(4,145)
Decrease in deferred receivable		4,150	1,440
Acquisition of long-term investments		—	(51,864)
Decrease in long-term investments		7,137	1,402
Acquisition of listed investments		—	(18,456)
Proceeds from disposal of listed investments		49,031	15,563
Proceeds from disposal of unlisted investments		57,528	—
Repayment from a fellow subsidiary		—	70,000
Interest received		23,492	3,296
Increase in restricted bank deposits		(3,532)	—
Dividends received from jointly controlled entities		1,871	3,223
Net cash used in investing activities		(519,212)	(175,811)
Cash flows from financing activities			
Issue of new shares		1,141,520	13,842
New bank loans		334,400	271,580
Repayment of bank loans		(496,580)	(250,800)
Issue of long-term guaranteed notes		4,680,000	—
Issue cost of long-term guaranteed notes		(154,624)	—
Capital element of finance lease payments		(83)	—
Repayment of loans from minority interests		(9,046)	—
Dividends paid to shareholders		(12,972)	(17,205)
Dividends paid to minority interests		—	(851)
Net cash from financing activities		5,482,615	16,566
Net increase/(decrease) in cash and bank balances		4,894,216	(137,145)
Changes in exchange rates		3,046	1,743
Cash and bank balances at beginning of year		170,952	306,354
Cash and bank balances at end of year		5,068,214	170,952

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2005

	Share capital HK\$'000	Reserves HK\$'000	Shareholders' fund HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 31st December 2004, as previously reported	129,648	1,315,885	1,445,533	50,676	1,496,209
Prior year adjustments					
Reversal of revaluation reserve for leasehold land (HKAS 17)	—	(27,363)	(27,363)	—	(27,363)
Decrease in amortisation of leasehold land (HKAS 17)	—	5,133	5,133	—	5,133
Transfer of leasehold land to investment properties (HKAS 40)	—	22,230	22,230	—	22,230
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int 1)	—	(20,269)	(20,269)	(11,651)	(31,920)
As restated, before opening adjustment	129,648	1,295,616	1,425,264	39,025	1,464,289
Opening adjustment					
Negative goodwill written off (HKFRS 3)	—	136	136	—	136
At 1st January 2005, as restated	129,648	1,295,752	1,425,400	39,025	1,464,425
Changes in fair value of available-for-sale financial assets	—	(3,871)	(3,871)	—	(3,871)
Exchange differences	—	10,740	10,740	1,259	11,999
Net income recognised directly in equity	—	6,869	6,869	1,259	8,128
Acquisition of subsidiaries (note 38a)	184,052	9,754,755	9,938,807	450,190	10,388,997
Issue of new shares for cash	14,600	1,122,971	1,137,571	—	1,137,571
Issue of shares upon exercise of share options	758	3,191	3,949	—	3,949
Fair value of share options	—	37,561	37,561	—	37,561
Profit for the year	—	2,395,269	2,395,269	1,436	2,396,705
2004 final dividend	—	(12,972)	(12,972)	—	(12,972)
	199,410	13,300,775	13,500,185	451,626	13,951,811
At 31st December 2005	329,058	14,603,396	14,932,454	491,910	15,424,364
At 31st December 2003, as previously reported	125,893	1,288,370	1,414,263	44,580	1,458,843
Prior year adjustments					
Reversal of revaluation reserve for leasehold land (HKAS 17)	—	(27,363)	(27,363)	—	(27,363)
Decrease in amortisation of leasehold land (HKAS 17)	—	4,830	4,830	—	4,830
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int 1)	—	(20,199)	(20,199)	(11,610)	(31,809)
At 1st January 2004, as restated	125,893	1,245,638	1,371,531	32,970	1,404,501
Exchange differences	—	1,210	1,210	305	1,515
Net income recognised directly in equity	—	1,210	1,210	305	1,515
Issue of shares upon exercise of share options	2,695	11,147	13,842	—	13,842
Shares issued as scrip dividends	1,060	(1,060)	—	—	—
Reserves arising on scrip dividends	—	8,318	8,318	—	8,318
Profit for the year	—	55,886	55,886	6,601	62,487
2003 final dividend	—	(12,690)	(12,690)	—	(12,690)
2004 interim dividend	—	(12,833)	(12,833)	—	(12,833)
Dividends paid to minority interest	—	—	—	(851)	(851)
	3,755	48,768	52,523	5,750	58,273
At 31st December 2004	129,648	1,295,616	1,425,264	39,025	1,464,289

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The principal activities of Galaxy Entertainment Group Limited (the “Company”) (formerly known as K. Wah Construction Materials Limited) and its subsidiaries (together the “Group”) are to operate in casino games of chance or games of other forms in Macau, manufacture, sale and distribution of construction materials in Hong Kong, Macau and Mainland China.

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 its principal place of business is Room 1606, 16th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

On 22nd July 2005, the Group completed the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. (“Galaxy”). Further details of the acquisition are included in note 38(a) below. Following the acquisition, gaming and entertainment have become one of the major businesses of the Group. To better reflect this new business focus, the shareholders of the Company approved at the extraordinary general meeting duly convened and held on 12th October 2005 the change of name of the Company to “Galaxy Entertainment Group Limited” which became effective on 26th October 2005.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention as modified by the revaluation of investment properties, available-for-sale financial assets, derivative financial instruments and other investments, which are carried at fair values.

The preparation of 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 Company. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5 below.

(a) Changes in accounting policies

In 2005, the Group adopted the following new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and interpretations (collectively the “new HKFRSs”), which are effective for accounting periods commencing on or after 1st January 2005 and relevant to the operations of the Group:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (CONT'D)

(a) Changes in accounting policies (Cont'd)

HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HK(SIC)-Int 12	Consolidation — Special Purpose Entities
HK(SIC)-Int 13	Jointly Controlled Entities — Non Monetary Contributions by Venturers
HK(SIC)-Int 15	Operating Leases — Incentives
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets
HK(IFRIC)-Int 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associated companies and jointly controlled entities and other disclosures in the financial statements whereas HKAS 24 has affected the identification of related parties and some other related-party disclosures. The adoption of the new HKASs 2, 7, 8, 10, 21, 23, 27, 28, 31, 33 and HK(SIC)-Ints 12, 13, 15 and 21 does not have any material effect on the accounting policies of the Group. The major changes in the accounting policies are summarised as follows:

- (1) The adoption of the revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of prepayments of lease premiums from property, plant and equipment to leasehold land and land use rights. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss statement on a straight-line basis over the period of the lease unless the property is under development or when there is impairment, the impairment is expensed in the profit and loss statement. In previous years, the leasehold land classified under property, plant and equipment was accounted for at fair value or cost less accumulated depreciation and impairment.
- (2) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss (including other investments) and available-for-sale financial assets. It has also resulted in the change in the recognition and measurement of loans and receivables, borrowings and hedging activities. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using effective interest method.

In previous years, the Group classified its investments, other than subsidiaries, associated companies and jointly controlled entities, as long-term investments and short-term investments. Securities intended to be held for identified long-term purpose or strategic reason were included in the balance sheet under non-current assets and were carried at cost less provision for impairment. The carrying amounts of individual investments were reviewed at each balance sheet date to assess for impairment. Securities which were acquired principally for the purpose of generating a profit from short-term fluctuation in prices were included in the balance sheet under current assets and were carried at fair value. In addition, long-term borrowings were included under long term liabilities at face value.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The comparative amounts as at 31st December 2004 have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (CONT'D)

(a) Changes in accounting policies (Cont'd)

- (3) The adoption of the revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recognised in the profit and loss statement. In previous years, a deficit in valuation was charged to the profit and loss statement; an increase was first credited to the profit and loss statement to the extent of any valuation deficit previously charged and thereafter was credited to the investment properties revaluation reserve. As at 31st December 2004, the valuation of investment properties was less than their original costs and the revaluation deficits had already been charged to the profit and loss statement in previous years and there was no investment properties revaluation reserve. Consequently, no prior year adjustment on revenue reserve and investment properties revaluation reserve is required.

- (4) The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities, and contingent liabilities over the cost of business combination is recognised immediately in the profit and loss statement.

In previous years, goodwill arising on acquisitions was included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years. The carrying amount of goodwill was reviewed annually and provision was made when, in the opinion of the Directors, there was impairment in value other than temporary in nature. Where the fair values ascribed to the net assets exceeded the purchase consideration, such differences were recognised in the profit and loss statement in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired. As a result of this change, the Group has adopted the transitional provision to write off the negative goodwill of HK\$136,000 against the opening revenue reserve as at 1st January 2005 whereas the comparative amounts as at 31st December 2004 have not been restated.

- (5) The adoption of HKAS 16, HKAS 37 and HK(IFRIC)-Int 1 has resulted in a change in the accounting policy of provision for environmental restoration and its related asset. Any changes in the measurement of provision for environmental restoration are added to or deducted from its related assets. The periodic unwinding of the discounts of the provision is recognised in the profit and loss statement as a finance cost using the effective discount rate.

In previous years, cost of the asset related to the provision for environmental restoration was not adjusted by the changes in the provision.

- (6) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the profit and loss statement.

In previous years, the grant of share options to employees was not recognised as an expense in the profit and loss statement. The Group has applied the transitional provision under HKFRS 2. As all the outstanding share options at 31st December 2004 had vested on or before 1st January 2005, a prior year adjustment is not required.

All changes in the accounting policies require retrospective application, except HKAS 39 and HKFRS 2 for which transitional provisions are applied. As a result, the 2004 comparative figures have also been restated or amended in accordance with the relevant requirements. The effects of all the changes in accounting policies are summarised in notes (b) and (c) below.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (CONT'D)

(b) Impact to 2005 financial statements

The following tables set out the increase/(decrease) of the relevant headings in the consolidated profit and loss statement and consolidated balance sheet for the financial year ended 31st December 2005 following the adoption of new HKFRSs:

(i) Consolidated profit and loss statement

	HKASs 16, 37 and HKASs 32			HKAS 40	HKFRS 2	HKFRS 3	Total
	HKAS 1 HK\$'000	HK(IFRIC)-Int 1 HK\$'000	and 39 HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of sales		(3,840)					(3,840)
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries						3,039,019	3,039,019
Other operating income			10,012				10,012
Administrative expenses					37,561		37,561
Other operating expenses				2,500			2,500
Operating profit							3,012,810
Finance costs		1,650	387				2,037
Share of profits less losses of							
Jointly controlled entities	(645)						(645)
Associated companies	(721)						(721)
Profit before taxation							3,009,407
Taxation	(1,366)						(1,366)
Profit for the year	—	2,190	9,625	(2,500)	(37,561)	3,039,019	3,010,773
Attributable to:							
Shareholders of the Company	—	1,391	9,625	(2,500)	(37,561)	3,039,019	3,009,974
Minority interests	—	799	—	—	—	—	799
	—	2,190	9,625	(2,500)	(37,561)	3,039,019	3,010,773
Earnings per share (HK cents)							
Basic	—	0.1	0.4	(0.1)	(1.7)	140.4	139.1
Diluted	—	0.1	0.4	(0.1)	(1.7)	138.8	137.5

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (CONT'D)

(b) Impact to 2005 financial statements (Cont'd)

(ii) Consolidated balance sheet

	HKAS 17 HK\$'000	HKASs 16, 37 and HK(IFRIC)- Int 1 HK\$'000	HKASs 32 and 39 HK\$'000	HKFRS 2 HK\$'000	HKFRS 3 HK\$'000	Total HK\$'000
Non-current assets						
Property, plant and equipment	(1,638,620)					(1,638,620)
Leasehold land and land use rights	1,638,620					1,638,620
Jointly controlled entities			(190,266)			(190,266)
Available-for-sale financial assets			(3,871)			(3,871)
Other non-current assets		120,930				120,930
Current assets						
Debtors and prepayments			190,266			190,266
Other investments			10,012			10,012
Total assets	—	120,930	6,141	—	—	127,071
Equity						
Other reserves			(3,871)	37,561		33,690
Revenue reserve		(18,878)	10,399	(37,561)	3,039,155	2,993,115
Minority interests		(10,852)	(94,288)			(105,140)
Total equity						2,921,665
Non-current liabilities						
Borrowings			(312)			(312)
Negative goodwill					(3,039,155)	(3,039,155)
Provisions		144,360				144,360
Current liabilities						
Creditors and accruals		6,300	94,288			100,588
Current portion of borrowings			(75)			(75)
Total liabilities						(2,794,594)
Total equity and liabilities	—	120,930	6,141	—	—	127,071

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (CONT'D)

(c) Impact to 2004 financial statements

The following tables set out the impact made in accordance with the respective new HKFRSs as set out above to each of the relevant headings in the consolidated profit and loss statement and consolidated balance sheet as previously reported in the financial statements for the year ended 31st December 2004:

(i) Consolidated profit and loss statement

	As previously reported <i>HK\$'000</i>	HKAS 1 <i>HK\$'000</i>	HKAS 17 <i>HK\$'000</i>	HKAS 40 <i>HK\$'000</i>	HKASs 16, 37 and HK(IFRIC)-Int 1 <i>HK\$'000</i>	Restated <i>HK\$'000</i>
Turnover	1,299,143					1,299,143
Cost of sales	(1,248,459)		303		3,819	(1,244,337)
Gross profit	50,684					54,806
Other revenues	21,355					21,355
Other operating income	27,218			22,230		49,448
Administrative expenses	(54,376)					(54,376)
Other operating expenses	(15,084)					(15,084)
Operating profit	29,797					56,149
Finance costs	(3,864)				(3,930)	(7,794)
Share of profits less losses of						
Jointly controlled entities	14,622	(756)				13,866
Associated companies	3,371	(810)				2,561
Profit before taxation	43,926					64,782
Taxation	(3,861)	1,566				(2,295)
Profit for the year	40,065	—	303	22,230	(111)	62,487
Attributable to:						
Shareholders of the Company	33,423	—	303	22,230	(70)	55,886
Minority interests	6,642	—	—	—	(41)	6,601
	40,065	—	303	22,230	(111)	62,487
Earnings per share (HK cents)						
Basic	2.6	—	—	1.8	—	4.4
Diluted	2.6	—	—	1.7	—	4.3

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (CONT'D)

(c) Impact to 2004 financial statements (Cont'd)

(ii) Consolidated balance sheet

	As previously reported HK\$'000	HKASs 32 and 39 HK\$'000	HKASs 17 and 40 HK\$'000	HKASs 16, 37 and HK(IFRIC)-Int 1 HK\$'000	Restated HK\$'000
Non-current assets					
Property, plant and equipment	787,028		(320,145)		466,883
Investment properties	—		65,500		65,500
Leasehold land and land use rights	—		254,645		254,645
Jointly controlled entities	382,136	(133,893)			248,243
Associated companies	18,650				18,650
Available-for-sale financial assets	—	152,375			152,375
Other non-current assets	272,834	(152,375)		136,049	256,508
	1,460,648				1,462,804
Current assets					
Inventories	93,175				93,175
Debtors and prepayments	547,604	133,893			681,497
Tax recoverable	1,938				1,938
Other investments	4,217				4,217
Cash and bank balances	170,952				170,952
	817,886				951,779
Total assets	2,278,534	—	—	136,049	2,414,583
Equity					
Share capital	129,648				129,648
Other reserves	587,049		(27,363)		559,686
Revenue reserve	728,836		27,363	(20,269)	735,930
Shareholders' funds	1,445,533				1,425,264
Minority interests	154,010	(103,334)		(11,651)	39,025
Total equity	1,599,543				1,464,289
Non-current liabilities					
Borrowings	311,580				311,580
Deferred taxation liabilities	13,884				13,884
Negative goodwill	136				136
Provisions	—			180,873	180,873
	325,600				506,473
Current liabilities					
Creditors and accruals	341,995	103,334		(12,904)	432,425
Borrowings	10,000				10,000
Taxation payable	1,396				1,396
	353,391				443,821
Total liabilities	678,991				950,294
Total equity and liabilities	2,278,534	—	—	136,049	2,414,583

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (CONT'D)

(d) Standards, amendments and interpretations to published standards which are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not early adopted, as follows:

Effective for the year ending 31st December 2006

HKAS 19 (Amendment)	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waster Electrical and Electronic Equipment

Effective for the year ending 31st December 2007

HKFRS 7 and Amendment to HKAS 1	Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKFRS 4 (Amendment) and HKAS 39 (Amendment) requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Company regards its financial guarantees provided to its subsidiaries as insurance contracts.

The Group has already commenced an assessment of the impact of the other new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except for those stated in note 2(a) above.

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.

3.2 Subsidiaries

Subsidiaries are companies in which the Group has the power to exercise control governing the financial and operating policies of the company, generally accompanying a direct or indirect shareholding of more than half the voting power or holds more than half of the issued equity capital. 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. They 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 but considered an impairment indicator 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 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 Jointly controlled entities

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.

Jointly controlled entities are accounted for under the equity method whereby the share of results of the Group is included in the consolidated profit and loss statement and the share of net assets of the Group is included in the consolidated balance sheet.

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.

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, 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 receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the interest in the associated companies held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 annually for impairment and carried at cost less accumulated impairment losses.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 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. Buildings on leasehold land and improvements are depreciated over their respective lease periods using the straight-line method. Depreciation of other property, plant and equipment is calculated using the straight-line method over their estimated useful lives as follows:

Plant and machinery	5 to 25%
Gaming equipment	20 to 33.3%
Other assets	10 to 33.3%

Major costs incurred in restoring assets to their normal working condition are charged to the profit and loss statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

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.

Profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.9 Gaming licence

Gaming licence represents the fair value of licence acquired and is amortised over its estimated useful lives on a straight line basis.

3.10 Computer software

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

3.11 Impairment of assets

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

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 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss (including other investments), loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting 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 receivables*

Loans and receivables are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.13 Investments (Cont'd)

(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 non-current assets 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. Unrealised gains and losses arising from changes in fair value non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the profit and loss statement as gains or losses from investment securities.

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 securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset 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 equity instruments are not reversed through the profit and loss statement.

3.14 Derivative financial instruments

Derivative financial instruments mainly represent put option of shares, are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value. Changes in fair value are recognised 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. A provision for impairment of debtors and prepayments 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 receivables. 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 effective interest rate. The amount of the provision is recognised in the profit and loss statement.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Cost of playing cards is determined using the first-in, first-out 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 and advances from banks and financial institutions repayable within three months from the date of advance.

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. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. 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 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 in long-term 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.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating 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.

3.21 Provisions

Provisions, including environmental restoration and legal claims, are recognised when there is a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. The periodic unwinding of the discounts of the provision is recognised in the profit and loss statement as a finance cost using the effective discount rate. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.22 Deferred taxation

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 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.

3.23 Employee benefits

(a) *Employees entitlement, benefits and bonus*

Contributions to defined contribution retirement schemes are charged to the profit and loss statement in the financial period to which the contributions relate.

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

Provisions for bonus plans due wholly within twelve months after 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 Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options 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 share 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, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss statement with a corresponding adjustment to equity.

3.24 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 year in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.25 Revenue recognition

Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenues are recognised as follows:

(a) *Gaming operations*

Revenues 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) *Construction materials*

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

(c) *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.

(d) *Administrative fee*

Administrative fee is recognised when the services have been rendered.

(e) *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.

(f) *Dividend income*

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

3.26 Foreign currencies

(a) *Functional and presentation currency*

Transactions included in the 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 functional and presentation currency of the Company is Hong Kong dollars.

(b) *Transactions and balances*

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.26 Foreign currencies (Cont'd)

(c) *Group companies*

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 closing rate 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 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 closing rate.

3.27 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.

3.28 Dividend distribution

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

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group activities expose it to a variety of financial risks, including credit risk, liquidity risk, cash flow and fair value interest rate risk, foreign exchange risk and price risk. The overall risk management programme of the Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Financial risk management is carried out by the Finance Department under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of non-derivative financial instruments and investing excess liquidity.

(a) *Credit risk*

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. The Group has policies in place to ensure that sales of construction materials are made to customers with an appropriate credit history.

The Group does not currently provide credit to players of gaming.

NOTES TO THE FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.1 Financial risk factors (Cont'd)

(b) *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.

(c) *Cash flow and fair value interest rate risk*

Interest rate risk is the risk that the position of the Group may be adversely affected by the change in market interest rates.

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.

The interest rate risk of the Group arises from long-term 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.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps, when deemed necessary. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group generally raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed initially at fixed rates. Under the interest rate swaps, the Group agrees with counterparties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

(d) *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 Renminbi and Macau Patacas.

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the functional currency of the Group.

The Group has no significant foreign exchange risk due to limited foreign currency transactions. Translation exposure arising on consolidation of the net assets of entities denominated in foreign currencies is accounted for in the foreign exchange reserve.

(e) *Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified either as available-for-sale financial assets or other investments. The Group is not exposed to commodity price risk.

NOTES TO THE FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.2 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 and other financial assets, 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 and prepayments, creditors and accruals and current borrowings are assumed to approximate their fair values.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the 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 effect on the carrying amounts of assets and liabilities are discussed below:

(a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

(b) 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 currently seventeen years. 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.

(c) Useful lives of property, plant and equipment

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

(d) Fair value of investment properties

The fair values of investment properties are determined by independent valuers on an open market for existing use basis. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates based on an estimation of the rental income and related expenses. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

NOTES TO THE FINANCIAL STATEMENTS

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(e) 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 cashflows that could be expected from the ultimate sale after deducting the estimated expenses directly associated with the sale.

(f) Provisions

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

(g) Share-based payments

The fair value of option granted is estimated by independent professional valuers based on 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 date of grant.

(h) Income taxes

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

6. SEGMENT INFORMATION

The Group is principally engaged in the operation in casino games of chance or games of other forms, manufacture, sale and distribution of construction materials. 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, tax recoverable and cash and bank balances. Segment liabilities comprise mainly creditors, accruals and provisions. There are no sales or trading transaction between the business segments.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (CONT'D)

A summary of the business segments for the year ended 31st December 2005 is set out as follows:

	Gaming and entertainment	Construction materials	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	66,213	1,225,714	—	1,291,927
Other revenues	2,095	13,721	36,213	52,029
Operating profit	2,624,750	3,683	(38,343)	2,590,090
Finance costs				(116,423)
Share of profits less losses of				
Jointly controlled entities	—	(77,975)	—	(77,975)
Associated companies	—	2,696	—	2,696
Profit before taxation				2,398,388
Taxation				(1,683)
Profit for the year				2,396,705
Capital expenditure	(19,076,899)	(73,337)	—	(19,150,236)
Depreciation	(765)	(76,857)	—	(77,622)
Amortisation	(418,844)	(39,602)	—	(458,446)
Excess of fair value of net assets acquired over cost				
of acquisition of subsidiaries	3,039,019	—	—	3,039,019
Impairment of property, plant and equipment	—	(13,070)	—	(13,070)
Impairment of debtors and other receivables	—	(28,500)	—	(28,500)
Impairment of available-for-sale financial assets	—	—	(1,505)	(1,505)
Segment assets	18,808,799	1,842,757	5,435,587	26,087,143
Jointly controlled entities	—	279,432	—	279,432
Associated companies	—	21,346	—	21,346
Total assets				26,387,921
Segment liabilities	900,262	570,923	9,492,372	10,963,557

Since the Group acquired Galaxy, which carries out the gaming and entertainment business, in July 2005, there was only one business segment in 2004. Accordingly, the business segment for 2004 is not presented.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (CONT'D)

A summary of the geographical segments is set out as follows:

	Turnover <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
Year ended 31st December 2005			
Hong Kong	493,504	11,232	1,078,696
Macau	126,936	19,112,855	24,094,083
Mainland China	671,487	26,149	1,215,142
	1,291,927	19,150,236	26,387,921
Year ended 31st December 2004			
Hong Kong	461,800	10,303	1,156,580
Mainland China	837,343	62,736	1,258,003
	1,299,143	73,039	2,414,583

7. TURNOVER AND OTHER REVENUES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover		
Sales of construction materials	1,225,714	1,299,143
Revenues from gaming operations (<i>note a</i>)	66,213	—
	1,291,927	1,299,143
Other revenues		
Rental income	13,721	13,138
Interest income		
Loan to a fellow subsidiary	—	579
Loans to jointly controlled entities (<i>note 25b</i>)	2,532	981
Other receivables	—	3,940
Bank deposits	20,257	1,396
Deferred receivable (<i>note 23a</i>)	703	1,321
Administrative fee	2,095	—
Dividend income from unlisted investments	12,721	—
	52,029	21,355
	1,343,956	1,320,498

NOTES TO THE FINANCIAL STATEMENTS

7. TURNOVER AND OTHER REVENUES (CONT'D)

- (a) The Group currently operates its first city club casino, Waldo Casino, for which the Group has entered into agreements (the "Waldo Agreements") with certain parties (the "Service Providers") 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 Waldo Agreements, the Service Providers undertake for the provision of a steady flow of customers to the Waldo Casino and for procuring and or introducing customers to the Waldo Casino. The Service Providers also agree to indemnify the Group against substantially all risks arising under the lease with Waldo Hotel Limited; and to guarantee payments by Galaxy of certain operating and administrative expenses. In addition, the Service Providers have guaranteed a minimum return to the Group regardless of the operating results of the gaming activities of the Waldo Casino. Revenues attributable to the Group are determined by reference to various rates on the net gaming wins. After the special gaming tax and funds payment to the Macau Government, the remaining net gaming wins and revenues from gaming operations less all the relevant operating and administrative expenses of Waldo Casino belong to the Service Providers.

The revenues and expenses related to the gaming operations of Waldo Casino in 2005 since the acquisition of Galaxy, are summarised as follows:

	<i>HK\$'000</i>
Net gaming wins	1,570,687
Tips and other income	12,207
Interest income	5,510
	1,588,404
Operating expenses	
Special gaming tax and funds to the Macau Government	(628,882)
Commission and allowances to promoters	(611,322)
Depreciation and amortisation	(3,044)
Staff costs	(108,304)
Operating lease rental	(12,500)
Other operating and administrative	(17,326)
	(1,381,378)
Contribution from gaming operations	207,026
Net entitlements of the Service Providers	(140,813)
Revenues from gaming operations attributable to the Group	66,213

NOTES TO THE FINANCIAL STATEMENTS

8. OPERATING PROFIT

	2005 HK\$'000	2004 HK\$'000
Operating profit is stated after crediting:		
Gain on disposal of available-for-sale financial assets	36,554	—
Change in fair value of derivative financial instrument	2,074	—
Change in fair value of listed investments	6,522	—
Change in fair value of investment properties	—	22,230
Foreign exchange gain	—	823
Amortisation of negative goodwill	—	632

and after charging:

Depreciation	77,622	70,825
Amortisation		
Quarry site development	1,905	1,780
Overburden removal costs	16,192	16,400
Gaming licence	418,762	—
Computer software	82	—
Quarry site improvements	15,120	15,120
Leasehold land and land use rights (note a)	6,385	6,305
Operating lease rental		
Land and buildings	9,049	13,067
Plant and machinery	3,607	—
Royalty	5,906	5,003
Loss on disposal of property, plant and equipment	107	1,109
Cost of inventories sold	1,062,157	1,141,258
Staff costs, including Directors' remuneration (note b)	254,802	163,353
Impairment of available-for-sale financial assets	1,505	2,880
Impairment of property, plant and equipment	13,070	—
Impairment of debtors and other receivables	28,500	—
Loss on disposal of listed investments	—	2,893
Unrealised loss of listed investments	—	933
Change in fair value of investment properties	2,500	—
Foreign exchange loss	1,681	—
Outgoings in respect of investment properties	652	270
Auditors' remuneration		
Audit services	1,847	1,038
Non-audit services (note c)	262	190

(a) Amortisation of leasehold land and land use rights is stated after amount capitalised in assets under construction of HK\$52,636,000 (2004: nil).

(b) Staff costs include share option expenses of HK\$37,561,000 (2004: nil).

(c) Non-audit services is stated after amount capitalised in cost of acquisitions and included as amortised cost of notes payable in the aggregate of HK\$7,322,000 (2004: nil).

NOTES TO THE FINANCIAL STATEMENTS

9. MANAGEMENT REMUNERATION

(a) Directors' remuneration

	Fees <i>HK\$'000</i>	Salary, allowance and benefit in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Share options (note d) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive Directors						
Dr. Lui Che Woo	80	—	—	—	3,058	3,138
Mr. Francis Lui Yiu Tung	80	2,082	156	196	6,453	8,967
Mr. Chan Kai Nang	80	2,103	—	80	127	2,390
Mr. Joseph Chee Ying Keung	57	1,874	125	163	127	2,346
Mr. William Lo Chi Chung	57	—	500	—	1,653	2,210
Ms. Paddy Tang Lui Wai Yu	80	—	—	—	3,278	3,358
	434	6,059	781	439	14,696	22,409
Non-executive Directors						
Dr. Charles Cheung Wai Bun	160	—	—	—	118	278
Mr. Moses Cheng Mo Chi	160	—	—	—	94	254
Mr. James Ross Ancell	114	—	—	—	118	232
Dr. William Yip Shue Lam	1	—	—	—	118	119
Mr. Yip Hing Chung	33	—	—	—	—	33
	468	—	—	—	448	916
Total 2005	902	6,059	781	439	15,144	23,325
Total 2004	390	5,655	—	408	181	6,634

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: three) Directors whose emoluments are reflected in note (a) above. The emoluments of the remaining two individuals (2004: two) are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Salaries and other emoluments	3,129	5,040
Discretionary bonuses	500	—
Retirement benefits	142	186
Share options (note d)	5,459	—
	9,230	5,226

NOTES TO THE FINANCIAL STATEMENTS

9. MANAGEMENT REMUNERATION (CONT'D)

(b) Five highest paid individuals (Cont'd)

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	2005	2004
HK\$2,000,001 – HK\$2,500,000	—	1
HK\$3,000,001 – HK\$3,500,000	—	1
HK\$3,500,001 – HK\$4,000,000	1	—
HK\$5,000,001 – HK\$5,500,000	1	—
	2	2

(c) Retirement benefit schemes

In Hong Kong, the Group makes monthly contributions to the Mandatory Provident Fund (MPF) Scheme equal to 5% of the employee's relevant income 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 for eligible employees in Macau. The Galaxy Staff Pension Fund Scheme is established and managed by an independent management company appointed by the Group. The scheme is a unitised scheme. Both the Group and the employees make equal share of monthly contributions to the scheme. The employee's standard contribution is deducted from the employee's monthly salary by the Group and paid to the management company.

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 6% to 22.5%, 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\$15,443,000 (2004: HK\$12,307,000), after deducting forfeitures of HK\$434,000 (2004: HK\$419,000), leaving HK\$171,000 (2004: HK\$47,000) 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 in accordance with HKFRS 2. The remuneration for 2004 does not include any value for the share options granted since HKFRS 2 becomes effective for 2005 but does not require retrospective application for share options vested on or before 1st January 2005.

NOTES TO THE FINANCIAL STATEMENTS

10. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest expenses		
Bank loans and overdrafts	18,910	3,864
Fixed rate notes wholly repayable within five years	78,425	—
Guaranteed floating rate notes wholly repayable within five years	9,283	—
Guaranteed fixed rate notes not wholly repayable within five years	12,996	—
Obligations under finance leases wholly repayable within five years	24	—
Other borrowing costs	1,650	3,930
	121,288	7,794
Amount capitalised in assets under construction	(4,865)	—
	116,423	7,794

11. TAXATION

	2005 HK\$'000	2004 HK\$'000
Hong Kong profits tax	1,049	78
Mainland China income tax	634	2,217
	1,683	2,295

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

NOTES TO THE FINANCIAL STATEMENTS

11. TAXATION (CONT'D)

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

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	2,398,388	64,782
Share of profits less losses of		
Jointly controlled entities	77,975	(13,866)
Associated companies	(2,696)	(2,561)
	2,473,667	48,355
Tax calculated at applicable tax rate	(288,893)	(2,694)
Income under tax relief	4,292	10,281
Income not subject to tax	372,607	111
Expenses not deductible for tax purpose	(87,888)	(2,028)
Utilisation of previously unrecognised tax losses	5,393	662
Tax losses not recognised	(7,111)	(8,950)
(Under)/over provision of tax	(83)	323
Taxation charge	(1,683)	(2,295)

12. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$147,264,000 (2004: profit of HK\$31,573,000).

NOTES TO THE FINANCIAL STATEMENTS

13. EARNINGS PER SHARE

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit for calculation of basic and diluted earnings per share	2,395,269	55,886

	Number of shares	
	2005	2004
Weighted average number of shares for calculating basic earnings per share	2,164,208,891	1,276,188,991
Effect of dilutive potential shares:		
Share options	25,507,219	23,183,947
Weighted average number of shares for calculating diluted earnings per share	2,189,716,110	1,299,372,938

14. DIVIDENDS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim (2004: scrip with a cash option)	—	12,833
Final (2004: 1 cent per share)	—	12,972
	—	25,805

The Board of Directors has resolved not to recommend any final dividend for the year ended 31st December 2005 (2004: 1 cent per share).

NOTES TO THE FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Gaming equipment HK\$'000	Other assets HK\$'000	Assets under construction HK\$'000	Total HK\$'000
Cost							
At 31st December 2004, as restated	40,295	32,546	700,383	—	256,681	—	1,029,905
Exchange differences	900	61	5,168	—	3,702	—	9,831
Acquisition of subsidiaries	—	1,962	—	30,873	11,318	333,085	377,238
Additions	578	1,271	24,465	91	22,936	419,221	468,562
Disposals	—	(1,062)	(3,872)	—	(11,699)	—	(16,633)
At 31st December 2005	41,773	34,778	726,144	30,964	282,938	752,306	1,868,903
Accumulated depreciation and impairment							
At 31st December 2004, as restated	4,668	24,153	396,713	—	137,488	—	563,022
Exchange differences	97	12	1,792	—	1,310	—	3,211
Charge for the year	1,273	2,113	49,530	1,950	25,664	—	80,530
Disposals	—	(176)	(3,560)	—	(11,699)	—	(15,435)
Impairment	1,698	—	10,702	—	670	—	13,070
At 31st December 2005	7,736	26,102	455,177	1,950	153,433	—	644,398
Net book value							
At 31st December 2005	34,037	8,676	270,967	29,014	129,505	752,306	1,224,505
Cost							
At 31st December 2003, as restated	24,068	31,983	668,523	—	262,314	—	986,888
Additions	16,227	563	42,448	—	6,258	—	65,496
Disposals	—	—	(10,588)	—	(11,891)	—	(22,479)
At 31st December 2004	40,295	32,546	700,383	—	256,681	—	1,029,905
Accumulated depreciation							
At 31st December 2003, as restated	2,399	22,299	360,423	—	122,563	—	507,684
Charge for the year	2,269	1,854	42,782	—	23,920	—	70,825
Disposals	—	—	(6,492)	—	(8,995)	—	(15,487)
At 31st December 2004	4,668	24,153	396,713	—	137,488	—	563,022
Net book value							
At 31st December 2004	35,627	8,393	303,670	—	119,193	—	466,883

- (a) Other assets comprise barges, furniture and equipment and motor vehicles.
- (b) The net book amount of gaming equipment held under finance leases amounts to HK\$382,000 (2004: nil).
- (c) During the year, borrowing costs of HK\$4,865,000 (2004: nil) arising on financing specifically entered into for the construction of a building, as well as amortisation of prepayments of lease premium of HK\$52,636,000 (2004: nil), have been capitalised and included in assets under construction. A capitalisation rate of 4.8% was used, representing the borrowing cost of the loan used to finance the project.

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENT PROPERTIES

	Group 2005 HK\$'000	2004 HK\$'000
At valuation		
Beginning of the year	65,500	42,000
Transfer from leasehold land and land use rights	—	1,270
Change in fair value	(2,500)	22,230
End of the year	63,000	65,500

Investment properties are held under leases of 10 to 50 years in Hong Kong and were valued at 31st December 2005 on an open market value basis by Vigers Appraisal & Consulting Limited, independent professional valuers.

17. LEASEHOLD LAND AND LAND USE RIGHTS

	Group 2005 HK\$'000	2004 HK\$'000
Net book value at beginning of the year, as restated	254,645	258,416
Additions	47,215	3,804
Acquisition of subsidiaries (note 38a)	1,395,781	—
Transfer to investment properties	—	(1,270)
Amortisation	(59,021)	(6,305)
Net book value at end of the year	1,638,620	254,645
Cost	1,743,328	300,332
Accumulated amortisation	(104,708)	(45,687)
Net book value	1,638,620	254,645
Leases of between 10 to 50 years		
In Hong Kong	245,369	251,302
Outside Hong Kong	1,393,251	3,343
	1,638,620	254,645

Leasehold land in Hong Kong with net book values of HK\$221,290,000 (2004: HK\$226,628,000) has been pledged as securities for the bank borrowings (note 31).

NOTES TO THE FINANCIAL STATEMENTS

18. INTANGIBLE ASSETS

Group

	Goodwill	Gaming licence	Computer software	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost				
At 31st December 2004	—	—	—	—
Acquisition of subsidiaries	24,259	16,887,329	1,620	16,913,208
Additions	—	—	141	141
At 31st December 2005	24,259	16,887,329	1,761	16,913,349
Accumulated amortisation				
At 31st December 2004	—	—	—	—
Charge for the year	—	418,762	218	418,980
At 31st December 2005	—	418,762	218	418,980
Net book value				
At 31st December 2005	24,259	16,468,567	1,543	16,494,369
At 31st December 2004	—	—	—	—

Goodwill is allocated to the Group's cash-generating units identified according to country of operation and business segment. At 31st December 2005, the goodwill is allocated to the construction materials segment in Macau. The recoverable amount of the business unit is determined based on value-in-use calculations. The key assumption used in the value-in-use calculations are based on the best estimates of growth rates and discount rates.

19. SUBSIDIARIES

	Company 2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	1	1

The loans receivable are unsecured, carry interest at prevailing market interest rate and have no fixed terms of repayment.

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

Details of the subsidiaries which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 43(a).

NOTES TO THE FINANCIAL STATEMENTS

20. JOINTLY CONTROLLED ENTITIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Beginning of the year	248,243	141,913
New investments	108,704	95,883
Share of results		
(Loss)/profit before taxation (<i>note b</i>)	(77,330)	14,622
Taxation	(645)	(756)
	(77,975)	13,866
Dividends	(1,871)	(3,223)
Share of exchange reserve	2,331	(196)
End of the year	279,432	248,243

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

	2005	2004
	HK\$'000	HK\$'000
Non-current assets	391,750	285,386
Current assets	238,846	144,797
Current liabilities	(132,598)	(101,564)
Non-current liabilities	(218,566)	(80,376)
	279,432	248,243
Income	400,621	183,204
Expenses (<i>note b</i>)	(477,951)	(168,582)
(Loss)/profit before taxation	(77,330)	14,622

- (b) Share of results of jointly controlled entities includes share of impairment of property, plant and equipment and inventories of HK\$66,000,000 (2004: nil) and share of impairment of goodwill of HK\$43,000,000 (2004: nil).
- (c) Details of jointly controlled entities which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 43(b).

NOTES TO THE FINANCIAL STATEMENTS

21. ASSOCIATED COMPANIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Beginning of the year	18,650	16,098
Share of results		
Profit before taxation	3,417	3,371
Taxation	(721)	(810)
	2,696	2,561
Share of exchange reserve	—	(9)
End of the year	21,346	18,650

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

	2005	2004
	HK\$'000	HK\$'000
Non-current assets	6,303	6,265
Current assets	32,388	24,118
Current liabilities	(4,519)	(4,116)
Non-current liabilities	(12,826)	(7,617)
	21,346	18,650
Income	44,995	39,528
Expenses	(41,578)	(36,157)
Profit before taxation	3,417	3,371

- (b) Details of associated companies which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 43(c).

NOTES TO THE FINANCIAL STATEMENTS

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Beginning of the year	152,375	104,793
Additions	—	51,864
Disposals	(51,864)	—
Return of investment	(59,652)	(1,402)
Change in fair value	(3,871)	—
Impairment loss	(1,505)	(2,880)
End of the year	35,483	152,375

23. OTHER NON-CURRENT ASSETS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Deferred expenditure		
Overburden removal costs	83,920	99,679
Quarry site development	12,459	14,073
	96,379	113,752
Quarry site improvements	120,930	136,049
Deferred receivable (note a)	2,557	6,707
Restricted bank deposits (note b)	259,153	—
	479,019	256,508

(a) 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 2009. The current portion of the receivable is included under other receivables.

(b) Restricted bank deposits are pledged to secure banking facilities extended to the Group. The banking facilities comprise a guarantee amounting to HK\$485 million for the period up to 31st March 2007 and then reduced 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 Macau Government against the legal and contractual liabilities of the Group under the concession agreement and two revolving term loans amounting to HK\$75 million.

The effective interest rate on restricted bank deposits, which have an average maturity of 34 days (2004: nil), was 3.80% (2004: nil).

NOTES TO THE FINANCIAL STATEMENTS

24. INVENTORIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Construction materials		
Aggregates and sand	34,326	36,959
Concrete pipes and blocks	15,944	16,762
Cement	7,177	8,750
Spare parts	21,050	22,620
Consumables	6,285	8,084
	84,782	93,175
Gaming and entertainment		
Playing cards	2,189	—
	86,971	93,175

25. DEBTORS AND PREPAYMENTS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors, net of provision (<i>note a</i>)	497,406	455,380	—	—
Amounts due from jointly controlled entities (<i>note b</i>)	190,266	133,893	—	—
Other receivables, net of provision	150,425	32,973	5	4
Prepayments	88,331	59,251	356	—
	926,428	681,497	361	4

NOTES TO THE FINANCIAL STATEMENTS

25. DEBTORS AND PREPAYMENTS (CONT'D)

- (a) 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 120 to 180 days for customers in Mainland China. These are subject to periodic reviews by management.

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one month	130,362	124,282
Two to three months	152,782	153,943
Four to six months	98,995	88,658
Over six months	115,267	88,497
	497,406	455,380

About 76% of the carrying amounts of the Group's trade debtors are denominated in Renminbi.

There is no concentration of credit risk with respect to trade debtors, as the Group has a large number of customers.

- (b) Amounts receivable of HK\$51,091,000 (2004: HK\$42,705,000), of which HK\$5,648,000 (2004: HK\$5,645,000) are secured, carry interest at prevailing market rate and repayable in accordance with agreed terms of repayment. The remaining amounts receivable are unsecured, interest free and repayable in accordance with agreed term.
- (c) The Group has recognised an impairment loss of HK\$28,500,000 for its trade debtors and other receivables for the year ended 31st December 2005. The loss has been included in other operating expenses in the profit and loss statement.

26. OTHER INVESTMENTS

	Group 2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Equity securities listed in Hong Kong, at market value	59,483	4,217
Derivative financial instruments, options on listed equity securities	10,012	—
	69,495	4,217

NOTES TO THE FINANCIAL STATEMENTS

27. CASH AND BANK BALANCES

	Group 2005 HK\$'000	2004 HK\$'000	Company 2005 HK\$'000	2004 HK\$'000
Cash at bank and on hand	476,292	145,219	2,253	3,201
Short-term bank deposits	4,591,922	25,733	—	17,978
	5,068,214	170,952	2,253	21,179

Cash and bank balances of the Group include approximately HK\$4,283 million (2004: nil) which are restricted to specified uses in accordance with the note offering agreement as set out in note 31(b) below.

The effective interest rate on cash and bank balances was 3.7% (2004: 2.1%).

28. SHARE CAPITAL

	Ordinary shares of HK\$0.10 each	HK\$'000
Authorised:		
At 31st December 2004	3,888,000,000	388,800
Addition (note a)	3,000,000,000	300,000
At 31st December 2005	6,888,000,000	688,800
Issued and fully paid:		
At 31st December 2003	1,258,934,651	125,893
Issue of shares upon exercise of share options	26,936,000	2,695
Shares issued as scrip dividends	10,604,912	1,060
At 31st December 2004	1,296,475,563	129,648
Issue of new shares (note b)	146,000,000	14,600
Issue of new shares for acquisition of subsidiaries (note c)	1,840,519,798	184,052
Issue of shares upon exercise of share options	7,584,000	758
At 31st December 2005	3,290,579,361	329,058

- (a) On 19th July 2005, the authorised share capital of the Company was increased from HK\$388,800,000 to HK\$688,800,000, divided into 6,888,000,000 shares of HK\$0.10 each, by the creation of an additional 3,000,000,000 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 4th May 2005, the Company issued 146,000,000 new shares of HK\$0.10 each at the issue price of HK\$8.0 per share for cash. Net proceeds from the issue of shares were used to fund obligations of the Company for the acquisition of Galaxy (note 38a).
- (c) On 22nd July 2005, the Company issued 1,840,519,798 new shares of HK\$0.10 each at the issue price of HK\$8.0 per share as part of the consideration for the acquisition of Galaxy (note 38a).

NOTES TO THE FINANCIAL STATEMENTS

29. 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 executives. At the Annual General Meeting of the Company held on 30th May 2002, the shareholders approved the adoption of a new share option scheme and termination of the then existing share option scheme (which was adopted on 23rd June 2000), whereas options granted under the old scheme remain effective. Under the new scheme, share options may be granted to Directors, senior executives or employees of the Company or its affiliates. Consideration to be paid on each grant of option is HK\$1.00. The period within which the shares to be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than 10 years from the date of grant of the option.

Movements in the number of share options outstanding during the year are as follows:

	2005	2004
At beginning of year	20,342,000	58,746,000
Granted (<i>note a</i>)	41,254,000	—
Exercised (<i>note b</i>)	(7,584,000)	(26,936,000)
Lapsed (<i>note c</i>)	(104,000)	(11,468,000)
At end of year (<i>note d</i>)	53,908,000	20,342,000

(a) Options granted

Share options were granted on 21st October 2005 at the exercise price of HK\$4.59 per share which will expire on 21st October 2011. Consideration received was HK\$97 in respect of the share options granted during the year.

(b) Options exercised

Exercise period	Exercise price HK\$	Number of shares issued
January 2005	0.5333	200,000
January 2005	0.5216	416,000
March 2005	0.5140	100,000
May 2005	0.5333	270,000
May 2005	0.5140	404,000
July 2005	0.5333	1,272,000
July 2005	0.5216	1,800,000
July 2005	0.5140	1,476,000
August 2005	0.5140	1,270,000
October 2005	0.5333	60,000
October 2005	0.5140	316,000
		7,584,000

NOTES TO THE FINANCIAL STATEMENTS

29. SHARE OPTION SCHEME (CONT'D)

(c) Options lapsed

Exercise period	Exercise price HK\$	Number of share options	
		2005	2004
20th May 1999 to 19th May 2008	0.5333	—	3,876,000
30th December 2000 to 29th December 2009	0.5216	—	6,314,000
1st March 2004 to 28th February 2013	0.5140	—	1,278,000
22nd October 2006 to 21st October 2011	4.5900	104,000	—
		104,000	11,468,000

(d) Outstanding options

Exercise period	Exercise price	Number of share options	
	HK\$	2005	2004
Directors			
20th May 1999 to 19th May 2008	0.5333	2,500,000	3,100,000
30th December 2000 to 29th December 2009	0.5216	3,400,000	4,470,000
1st March 2004 to 28th February 2013	0.5140	4,280,000	6,850,000
22nd October 2005 to 21st October 2011	4.5900	13,200,000	—
22nd October 2006 to 21st October 2011	4.5900	3,290,000	—
Employees and others			
20th May 1999 to 19th May 2008	0.5333	700,000	1,902,000
30th December 2000 to 29th December 2009	0.5216	1,298,000	2,444,000
1st March 2004 to 28th February 2013	0.5140	580,000	1,576,000
22nd October 2005 to 21st October 2011	4.5900	19,400,000	—
22nd October 2006 to 21st October 2011	4.5900	5,260,000	—
		53,908,000	20,342,000

(e) Fair value of options and assumptions

The fair value of options granted during the year determined using the Black-Scholes valuation model was HK\$41,713,000. The significant inputs into the model were share price of HK\$4.425 at the grant date, exercise price of HK\$4.59, standard deviation of expected share price returns of 35%, expected life of options of 2.5 to 3 years, expected dividend paid out rate of 2% and annual risk-free interest rate of 4.075%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of comparable companies over the past 260 trading days.

NOTES TO THE FINANCIAL STATEMENTS

30. RESERVES

Group	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Land and building revaluation reserve HK\$'000	Investment reserve HK\$'000	Share option reserve HK\$'000	Foreign exchange reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
At 31st December 2004, as previously reported	554,087	4,395	70	27,363	—	—	1,134	728,836	1,315,885
Prior year adjustments									
Reversal of revaluation reserve for leasehold land (HKAS 17)	—	—	—	(27,363)	—	—	—	—	(27,363)
Decrease in amortisation of leasehold land (HKAS 17)	—	—	—	—	—	—	—	5,133	5,133
Transfer of leasehold land to investment properties (HKAS 40)	—	—	—	—	—	—	—	22,230	22,230
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int 1)	—	—	—	—	—	—	—	(20,269)	(20,269)
As restated, before opening adjustment	554,087	4,395	70	—	—	—	1,134	735,930	1,295,616
Opening adjustment									
Negative goodwill written off (HKFRS 3)	—	—	—	—	—	—	—	136	136
At 1st January 2005, as restated	554,087	4,395	70	—	—	—	1,134	736,066	1,295,752
Exchange differences	—	—	—	—	—	—	10,740	—	10,740
Issue of shares for acquisition of subsidiaries (note 38a)	9,754,755	—	—	—	—	—	—	—	9,754,755
Issue of new shares for cash	1,122,971	—	—	—	—	—	—	—	1,122,971
Issue of shares upon exercise of share options	3,191	—	—	—	—	—	—	—	3,191
Fair value of share options	—	—	—	—	—	37,561	—	—	37,561
Changes in fair value of available-for-sale financial assets	—	—	—	—	(3,871)	—	—	—	(3,871)
Profit for the year	—	—	—	—	—	—	—	2,395,269	2,395,269
2004 final dividend	—	—	—	—	—	—	—	(12,972)	(12,972)
At 31st December 2005	11,435,004	4,395	70	—	(3,871)	37,561	11,874	3,118,363	14,603,396
At 31st December 2003, as previously reported	544,000	4,395	70	27,363	—	—	(76)	712,618	1,288,370
Prior year adjustments									
Reversal of revaluation reserve for leasehold land (HKAS 17)	—	—	—	(27,363)	—	—	—	—	(27,363)
Decrease in amortisation of leasehold land (HKAS 17)	—	—	—	—	—	—	—	4,830	4,830
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int 1)	—	—	—	—	—	—	—	(20,199)	(20,199)
At 1 January 2004, as restated	544,000	4,395	70	—	—	—	(76)	697,249	1,245,638
Exchange differences	—	—	—	—	—	—	1,210	—	1,210
Issue of shares upon exercise of share options	11,147	—	—	—	—	—	—	—	11,147
Shares issued as scrip dividends	(1,060)	—	—	—	—	—	—	—	(1,060)
Reserves arising on scrip dividends	—	—	—	—	—	—	—	8,318	8,318
Profit for the year	—	—	—	—	—	—	—	55,886	55,886
2003 final dividend	—	—	—	—	—	—	—	(12,690)	(12,690)
2004 interim dividend	—	—	—	—	—	—	—	(12,833)	(12,833)
At 31st December 2004	554,087	4,395	70	—	—	—	1,134	735,930	1,295,616

NOTES TO THE FINANCIAL STATEMENTS

30. RESERVES (CONT'D)

Company

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Revenue reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December 2004	554,087	235,239	70	—	492,776	1,282,172
Issue of new shares for cash	1,122,971	—	—	—	—	1,122,971
Issue of shares for acquisition of subsidiaries	9,754,755	—	—	—	—	9,754,755
Issue of shares upon exercise of share options	3,191	—	—	—	—	3,191
Fair value of share options	—	—	—	35,561	—	35,561
Loss for the year	—	—	—	—	(147,264)	(147,264)
2004 final dividend	—	—	—	—	(12,972)	(12,972)
At 31st December 2005	11,435,004	235,239	70	35,561	332,540	12,038,414
At 31st December 2003	544,000	235,239	70	—	478,408	1,257,717
Issue of shares upon exercise of share options	11,147	—	—	—	—	11,147
Shares issued as scrip dividends	(1,060)	—	—	—	—	(1,060)
Reserves arising on scrip dividends	—	—	—	—	8,318	8,318
Profit for the year	—	—	—	—	31,573	31,573
2003 final dividend	—	—	—	—	(12,690)	(12,690)
2004 interim dividend	—	—	—	—	(12,833)	(12,833)
At 31st December 2004	554,087	235,239	70	—	492,776	1,282,172

Reserves of the Company available for distribution to shareholders amount to HK\$332,540,000 (2004: HK\$492,776,000).

NOTES TO THE FINANCIAL STATEMENTS

31. BORROWINGS

	Group 2005 HK\$'000	2004 HK\$'000	Company 2005 HK\$'000	2004 HK\$'000
Bank loans				
Secured	232,400	—	157,400	—
Unsecured	244,000	321,580	194,000	321,580
	476,400	321,580	351,400	321,580
Other borrowings				
Short term fixed rate notes (note a)	2,584,188	—	2,584,188	—
Long term guaranteed notes (note b)	4,526,265	—	—	—
Bank loans and other borrowings	7,586,853	321,580	2,935,588	321,580
Obligations under finance leases (note c)	308	—	—	—
Total borrowings	7,587,161	321,580	2,935,588	321,580
Current portion included in current liabilities	(2,943,806)	(10,000)	(2,818,588)	(10,000)
	4,643,355	311,580	117,000	311,580

- (a) On 22nd July 2005, the Company issued HK\$2,544,240,000 fixed rate notes with variable rates as part of consideration for the acquisition of Galaxy. The fixed rate notes are repayable on 21st August 2006. On 14th January 2006, holders for HK\$2,371,805,000 of the fixed rate notes have 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.
- (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\$600,000,000 (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 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 notes payable, financing the construction and development of assets under construction, and for general corporate purpose (note 27).

NOTES TO THE FINANCIAL STATEMENTS

31. BORROWINGS (CONT'D)

(c) Obligations under finance leases:

The finance lease obligations are payable in the following years:

	Minimum payments		Present value	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	279	—	218	—
In the second year	114	—	90	—
	393	—	308	—

(d) The maturity of borrowings:

	Group					
	Bank loans		Fixed rate notes		Guaranteed notes	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	359,400	10,000	2,584,188	—	—	—
Between one to two years	117,000	40,000	—	—	—	—
Between two to five years	—	271,580	—	—	1,885,944	—
Over five years	—	—	—	—	2,640,321	—
	476,400	321,580	2,584,188	—	4,526,265	—

	Company			
	Bank loans		Fixed rate notes	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	234,400	10,000	2,584,188	—
Between one to two years	117,000	40,000	—	—
Between two to five years	—	271,580	—	—
	351,400	321,580	2,584,188	—

NOTES TO THE FINANCIAL STATEMENTS

31. BORROWINGS (CONT'D)

(e) Effective interest rates:

	2005		2004	
	HK\$	US\$	HK\$	US\$
Bank loans	4.7%	—	0.6%	—
Fixed rate notes	6.9%	—	—	—
Guaranteed notes	—	10.5%	—	—

(f) The carrying amounts of bank loans and other borrowings approximate their fair value and are denominated in the following currencies:

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollar	3,060,588	321,580	2,935,588	321,580
US dollar	4,526,573	—	—	—
	7,587,161	321,580	2,935,588	321,580

32. DEFERRED TAXATION LIABILITIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
At beginning of the year	13,884	13,884
Acquisition of subsidiaries (note 38a)	1,764,647	—
At end of the year	1,778,531	13,884

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.

NOTES TO THE FINANCIAL STATEMENTS

32. DEFERRED TAXATION LIABILITIES (CONT'D)

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	Others HK\$'000	Total HK\$'000
At 31st December 2003	44,130	(29,426)	—	(820)	13,884
(Credit)/charge to profit and loss statement	(4,667)	3,847	—	820	—
At 31st December 2004	39,463	(25,579)	—	—	13,884
Acquisition of subsidiaries (note 38a)	—	—	1,764,647	—	1,764,647
(Credit)/charge to profit and loss statement	(5,317)	5,317	—	—	—
At 31st December 2005	34,146	(20,262)	1,764,647	—	1,778,531

Deferred taxation assets of HK\$37,993,000 (2004: HK\$32,252,000) arising from unused tax losses and other temporary differences totalling of HK\$189,952,000 (2004: HK\$165,108,000) have not been recognised in the accounts. Unused tax losses of HK\$133,106,000 (2004: HK\$121,008,000) have no expiry date and the balance will expire at various dates up to and including 2011.

33. PROVISIONS

	Environmental restoration HK\$'000	Group Quarrying right HK\$'000	Total HK\$'000
At 31st December 2003, as restated	145,894	54,880	200,774
Charged to the profit and loss statement	11,580	12,820	24,400
Applied during the year	(18,502)	(8,710)	(27,212)
At 31st December 2004, as restated	138,972	58,990	197,962
Charged to the profit and loss statement	1,650	12,820	14,470
Applied during the year	(18,552)	(8,720)	(27,272)
At 31st December 2005	122,070	63,090	185,160

The current portion of the provisions amounting to HK\$40,800,000 (2004: HK\$17,089,000) is included under other creditors.

NOTES TO THE FINANCIAL STATEMENTS

34. CREDITORS AND ACCRUALS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors (<i>note a</i>)	423,667	193,859	—	—
Other creditors	348,778	55,773	12,500	—
Chips issued	345,924	—	—	—
Amount due to a jointly controlled entity (<i>note b</i>)	14,397	—	—	—
Loans from minority interests (<i>note b</i>)	94,288	103,334	—	—
Accrued operating expenses	219,671	74,174	18,161	2,189
Deposits received	5,322	5,285	—	—
	1,452,047	432,425	30,661	2,189

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

	2005	2004
	HK\$'000	HK\$'000
Within one month	275,848	80,834
Two to three months	49,207	62,659
Four to six months	41,135	26,502
Over six months	57,477	23,864
	423,667	193,859

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

	2005	2004
	HK\$'000	HK\$'000
Hong Kong dollar	19,032	18,778
Macau Patacas	227,898	—
Renminbi	176,737	175,081
	423,667	193,859

(b) Amount due to a jointly controlled entity and loans from minority interests are unsecured, interest free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK\$'000	2004 HK\$'000
Operating profit	2,590,090	56,149
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries	(3,039,019)	—
Depreciation	77,622	70,825
Change in fair value of investment properties	2,500	(22,230)
Loss on disposal of property, plant and equipment	107	1,109
Loss on disposal of listed investments	—	2,893
Gain on disposal of available-for-sale financial assets	(36,554)	—
Change in fair value of listed investments	(6,522)	—
Change in fair value of derivative financial instrument	(2,074)	—
Impairment of available-for-sale financial assets	1,505	2,880
Impairment of property, plant and equipment	13,070	—
Unrealised loss of listed investments	—	933
Interest income	(23,492)	(8,217)
Dividend income from unlisted investments	(12,721)	—
Amortisation of deferred expenditure	33,217	18,180
Amortisation of intangible assets	418,844	—
Amortisation of negative goodwill	—	(632)
Amortisation of leasehold land and land use rights	6,385	6,305
Fair value of share options granted	37,561	—
Operating profit before working capital changes	60,519	128,195
Decrease/(increase) in inventories	9,781	(24,459)
Increase in debtors and prepayments	(104,413)	(135,294)
Increase in creditors, accruals and provisions	20,852	52,787
Cash (used in)/generated from operations	(13,261)	21,229

NOTES TO THE FINANCIAL STATEMENTS

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(b) Analysis of changes in financing

	Share capital and premium <i>HK\$'000</i>	Borrowings <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Loans from minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
As 31st December 2004	683,735	321,580	39,025	103,334	1,147,674
Changes in exchange rates	—	—	1,259	—	1,259
Minority share of profits for the year	—	—	1,436	—	1,436
Acquisition of subsidiaries	9,938,807	2,861,633	450,190	—	13,250,630
Effective interest	—	40,835	—	—	40,835
Cash inflow/(outflow) from financing	1,141,520	4,363,113	—	(9,046)	5,495,587
At 31st December 2005	11,764,062	7,587,161	491,910	94,288	19,937,421
As 31st December 2003, as restated	669,893	300,800	32,970	103,334	1,106,997
Changes in exchange rates	—	—	305	—	305
Minority share of profits for the year	—	—	6,601	—	6,601
Cash inflow/(outflow) from financing	13,842	20,780	(851)	—	33,771
At 31st December 2004	683,735	321,580	39,025	103,334	1,147,674

(c) Analysis of net cash outflow in respect of business combinations

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Purchase consideration settled in cash		
Galaxy (<i>note 38a</i>)	(1,155,543)	—
Concrete company in Macau (<i>note 38b</i>)	(24,394)	—
Cash and cash equivalents in subsidiaries acquired (<i>note 38a</i>)	1,082,563	—
Net cash outflow on acquisitions	(97,374)	—

NOTES TO THE FINANCIAL STATEMENTS

36. CAPITAL COMMITMENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Contracted but not provided for	740,444	75,198
Authorised but not contracted for	2,741,982	—

The Group is obliged to invest at least HK\$4.3 billion in various development projects in Macau by 2009 under the concession agreement of which HK\$1.6 billion has been utilised.

37. 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	
	2005	2004
	HK\$'000	HK\$'000
First year	16,921	7,497
Second to fifth years inclusive	46,311	24,843
After the fifth year	115,978	22,696
	179,210	55,036

NOTES TO THE FINANCIAL STATEMENTS

38. BUSINESS COMBINATIONS

(a) Acquisition of Galaxy

	<i>HK\$'000</i>
Purchase consideration	
Issue of new shares (<i>note 28c</i>)	14,724,158
Issue of fixed rate notes (<i>note 31a</i>)	2,544,240
Cash	1,136,800
	18,405,198
Shortfall in market price of shares issued	(4,785,351)
Fair value of consideration	13,619,847
Direct costs relating to the acquisition settled in cash	18,743
Total acquisition cost	13,638,590
Fair value of net assets acquired, as detailed below	16,677,609
Excess of fair value of net assets acquired over cost of acquisition of subsidiaries	3,039,019

On 22nd July 2005, the Group completed the acquisition of Galaxy with part of the consideration being settled by the allotment and issue of 1,840,519,798 new shares of HK\$0.10 each by the Company at an issue price of HK\$8.00 each. HKFRS 3 “Business Combinations” requires the fair value of the share consideration for accounting purposes to be determined at the date that control over the net assets attributable to the acquisition becomes effective. At the completion date of the acquisition, the mid-market price of the shares of the Company was HK\$5.40. Accordingly, the fair value of the consideration shares for this purpose was HK\$9,938,807,000.

NOTES TO THE FINANCIAL STATEMENTS

38. BUSINESS COMBINATIONS (CONT'D)

(a) Acquisition of Galaxy (Cont'd)

Since the date of acquisition, the acquired business contributed revenues and net profit of HK\$66,213,000 and HK\$2,612,244,000 respectively. If the acquisition had occurred on 1st January 2005, the acquired business would have contributed revenue and net profit of HK\$162,540,000 and HK\$2,626,460,000 respectively.

The assets and liabilities arising from the acquisition are as follows:

	Carrying amount of acquiree HK\$'000	Fair value HK\$'000
Property, plant and equipment	377,073	377,073
Intangible assets	1,620	16,888,949
Leasehold land and land use rights	232,450	1,395,781
Other non-current assets	255,621	255,621
Inventories	3,577	3,577
Debtors and prepayments	84,145	84,145
Cash and bank balances	1,082,563	1,082,563
Borrowings	(317,393)	(317,393)
Creditors and accruals	(877,900)	(877,900)
Deferred taxation liabilities	—	(1,764,647)
Net assets	841,756	17,127,769
Minority interests		(450,160)
Net assets acquired		16,677,609

(b) Acquisition of a concrete company in Macau

	HK\$'000
Purchase consideration paid by cash	24,394
Fair value of net assets acquired, as detailed below	(135)
Goodwill	24,259

In May 2005, the Group acquired 51% of the interest in a subsidiary carrying on construction materials business in Macau. In August 2005, the Group further acquired 31% of the interest in the subsidiary.

The contribution to the Group's revenue and profit for the year from this subsidiary since the date of acquisition is immaterial. If the acquisition had occurred on 1st January 2005, the effect on the Group's revenue and profit for the year from this acquisition would have been immaterial.

NOTES TO THE FINANCIAL STATEMENTS

38. BUSINESS COMBINATIONS (CONT'D)

(b) Acquisition of a concrete company in Macau (Cont'd)

The assets and liabilities arising from the acquisition are as follows:

	Carrying amount of acquiree HK\$'000	Fair value HK\$'000
Property, plant and equipment	165	165
Minority interests		(30)
Net assets acquired		135

39. 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 2005 HK\$'000	2004 HK\$'000
First year	13,524	13,444
Second to fifth years inclusive	43,584	47,952
After the fifth year	10,504	20,525
	67,612	81,921

40. 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:

- Sales of aggregates to an associated company amounted to HK\$18,230,000 (2004: HK\$18,640,000) and sales of ready mixed concrete and cement to a jointly controlled entity amounted to HK\$62,600,000 (2004: nil). These were made at prices and terms no less than those charged to other third party customers of the Group.
- In 2004, the Group received interest income of HK\$579,000 in respect of loan advanced to a fellow subsidiary.
- Rental income from an associated company amounted to HK\$9,603,000 (2004: HK\$9,737,000) based on the terms of rental agreement between the parties.
- Finance cost on fixed rate notes issued to City Lion Profits Corp. and Recurrent Profits Limited amounted to HK\$17,605,000 (2004: nil) and HK\$386,000 (2004: nil) respectively based on the terms of fixed rate note 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 being either direct or indirect discretionary beneficiaries; and Recurrent Profits Limited is wholly owned by Mr. Francis Lui Yiu Tung.

NOTES TO THE FINANCIAL STATEMENTS

40. RELATED PARTY TRANSACTIONS (CONT'D)

- (e) Rental expenses of HK\$1,172,000 (2004: nil) were paid to a subsidiary of K. Wah International Holdings Limited, a substantial shareholder of the Company, based on the terms of the rental agreement between the parties.
- (f) Key management personnel comprise the Chairman, Deputy Chairman, Managing Director, Deputy Managing Director and other Executive Directors. The total remuneration of the key management is shown below:

	2005 HK\$'000	2004 HK\$'000
Fees	434	200
Salaries and other allowances	6,059	5,655
Discretionary bonuses	781	—
Retirement benefits	439	408
Share options	14,696	181
	22,409	6,444

41. CONTINGENT LIABILITIES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$262,440,000 (2004: HK\$289,804,000), of which HK\$123,868,000 (2004: HK\$104,792,000) have been utilised.

42. APPROVAL OF ACCOUNTS

The financial statements were approved by the Board of Directors on 11th April 2006.

NOTES TO THE FINANCIAL STATEMENTS

43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

(a) Subsidiaries

Name of company	Principal place of operation	Number of ordinary shares	Issued share capital		Percentage of equity held by the Group	Principal activities
			Number of non-voting deferred shares	Par value per share HK\$		
Incorporated in Hong Kong						
Barichon Limited	Hong Kong	3,000,000	—	1	99.93	Sale and distribution of concrete pipes
Brighten Lion Limited	Hong Kong	2	—	1	100	Provision of finance
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 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	2	100,000	100	100	Sale of aggregates
K. Wah Stones (Zhu Hai) Company Limited	Zhuhai	2	1,000	10	100	Quarrying
K. Wah Trading and Development Limited	Hong Kong	2	2	10	100	Trading
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
Rainbow States Limited	Hong Kong	2	—	1	100	Investment holding
Star Home Limited	Hong Kong	2	—	1	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (CONT'D)

(a) Subsidiaries (Cont'd)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
<i>Wholly-owned foreign enterprise</i>				
Doran Construction Products (Shenzhen) Co., Ltd.	Shenzhen	HK\$10,000,000	100	Manufacture, sale and distribution of concrete pipes
K. Wah Construction Products (Shenzhen) Co., Ltd.	Shenzhen	US\$1,290,000	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
K. Wah Quarry (Huzhou) Co., Ltd.	Huzhou	US\$4,250,000	100	Quarrying
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
<i>Cooperative joint venture</i>				
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
Shanghai K. Wah Concrete Piles Co., Ltd.	Shanghai	US\$2,500,000	100	Manufacture, sale and distribution of concrete piles
<i>Equity joint venture</i>				
Shanghai Ganghui Concrete Co., Ltd.	Shanghai	US\$4,000,000	60	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jiafu Concrete Co., Ltd.	Shanghai	US\$1,400,000	55	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Xin Cai Concrete Co., Ltd.	Shanghai	US\$2,100,000	99	Manufacture, sale and distribution of ready-mixed concrete

NOTES TO THE FINANCIAL STATEMENTS

43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (CONT'D)

(a) Subsidiaries (Cont'd)

Name of company	Principal place of operation	Number of ordinary shares	Issued share capital		Principal activities
			Par value per share	Percentage of equity held by the Group	
Incorporated in the British Virgin Islands					
Canton Treasure Group Ltd.	Macau	10	US\$1	100*	Investment holding
Eternal Profits International Limited	Hong Kong	10	US\$1	100	Property investment
Galaxy Entertainment Finance Company Limited	Macau	10	US\$1	100	Financing
K. Wah Construction Materials Limited (formerly known as Fairlight Investments Limited)	Hong Kong	10	US\$1	100*	Investment holding
High Regard Investments Limited	Hong Kong	10	US\$1	100	Investment holding
Latent Developments Limited	Hong Kong	10	US\$1	100	Investment holding
Profit Access Investments Limited	Hong Kong	10	US\$1	100	Investment holding
Prosperous Fields Limited	Hong Kong	10	US\$1	100	Investment holding
Taksin Profits Limited	Hong Kong	17	US\$1	100	Investment holding
Woodland Assets Limited	Hong Kong	10	US\$1	100	Investment holding
Incorporated in Macau					
Galaxy Casino, S.A.	Macau	951,900	MOP100,000	88.1	Casino games of chance
Majesty (International) Hotel Investment Company Limited	Macau	N/A	N/A	88.1	Property Holding
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

NOTES TO THE FINANCIAL STATEMENTS

43. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (CONT'D)

(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
Guangzhou K. Wah Nanfang Cement Limited	Guangzhou	RMB100,000,000	50	Manufacture, sale and distribution of cement
Shanghai Bao Jia Concrete Co., Ltd.	Shanghai	US\$4,000,000	50	Manufacture, sale and distribution of ready-mixed concrete
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 Materials Co. Ltd.	Kunming	RMB660,000,000	31	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

(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					
Tarmac Asphalt Hong Kong Limited	Hong Kong	1,100,000	10	20	Manufacture, sale and distribution and laying of asphalt